DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE ANNUAL REPORT FOR 2018

Ordinary share **DLKV-R-A** listed on the Zagreb Stock Exchange official market
Notice in accordance with the Capital Market Act

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1. MANAGEMENT REPORT

I BUSINESS REPORT ON RESULTS IN 2018

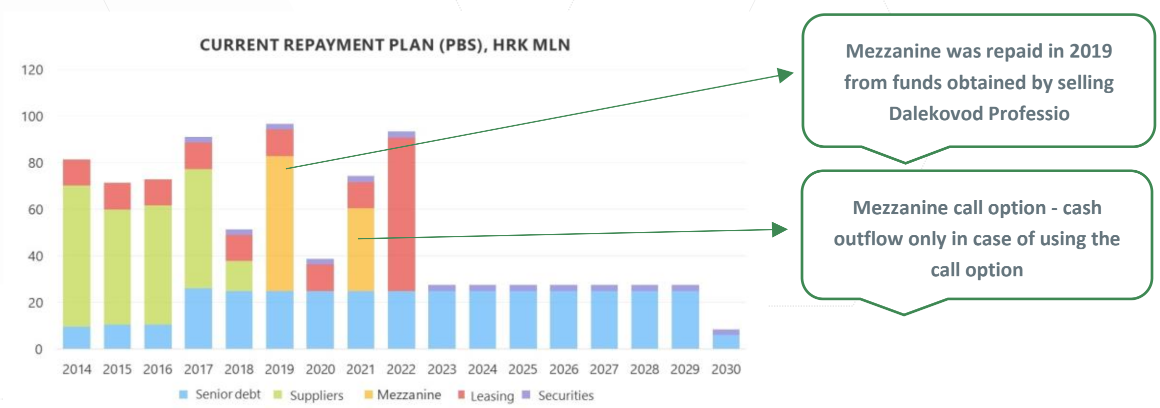
The business results achieved in 2018 were characterized by usual cyclical trends of the industry and business model of Dalekovod d.d. (Group) and Dalekovod Group (Group). By the end of 2017 and early 2018, number of new contracts and realization decreased and the key reason is postponement of tenders in 2018 to year 2019. Such circumstances have had a negative impact on business results in 2018.

Regardless of the negative cyclical trends in 2018, Dalekovod Group has continued to comply with financial obligations from pre bankruptcy settlement. In period January-December 2018, financial debt was reduced by HRK 50.8 million subject to repayments of Senior Debt, Leasing, Bonds and Suppliers.

The end of the year was marked by sale of the company Dalekovod Professio d.d. (wind farms). Transaction was realized during the first quarter of 2019, thus fulfilling another obligation from the pre bankruptcy settlement. Funds from the sale of Dalekovod Professio d.d. were paid to Company's account in the first two months of 2019. Since the beginning of 2019, the Company has further reduced its financial debt to Mezzanine creditors in the amount of HRK 60.3 million.

In the period from conclusion of pre bankruptcy settlement (2014) to April 30, 2019, the Company repaid 464.7 million kuna of principal and interest, representing 52% of the total debt as defined by the pre bankruptcy settlement.

In years to come, repayment plan based on pre bankruptcy settlement is considerably more favorable than in the previous years, which will enable future development and investment of available resources to reduce risk and improve business model.



On February 27th, 2019, Supervisory Board decided to appoint Mr. Tomislav Rosandić as the President of the Management Board as well as to appoint Mr. Đuro Tatalović as a member of the Management Board in charge of financial and operational restructuring. Along with the new members, current members of The Management Board Mr. Ivan Kurobasa and Mr. Tomislav Đurić will also be part of the Management Board.

The Dalekovod Group with the new Management enters the phase of financial and operational restructuring with an emphasis on operational and cost efficiency, with the goal of increasing the company's value and exiting the pre bankruptcy settlement process.

In the last quarter of 2018, Dalekovod Group began negotiations with all stakeholders and international financial institutions subject to financial restructuring plan. During the first quarter of 2019, the operational restructuring process has begun. Focus is on identifying segments / activities that negatively affect cash flows and value of the company. The first plans for cost savings have already been made and planned implementation will be conducted in the first half of 2019. The full impact of operational restructuring on cash flows and profitability will be visible in 2020 due to one-off effects over the same period in 2019.

The ultimate goal of financial and operational restructuring is to further increase income and profitability of Dalekovod Group, i.e. to realize full potential of investment in energy / infrastructure sector in domestic and foreign markets.

Overview of major events

- Postponement of numerous tenders during 2018 and strong growth in 2019
- Continuity in fulfillment of financial obligations from pre bankruptcy settlement
- beginning of financial and operational restructuring process
- changes in the Management Board
- sale of Dalekovod Professio d.d. (wind farms) for the amount of HRK 115 million

KEY FINANCIAL INDICATORS JANUARY – DECEMBER 2018

DALEKOVOD GROUP

The Group's business revenues decreased by 19.3% compared to 2017, amounting to HRK 1,222 million, and the Group's sales revenues declined by 21% to HRK 1,164 million. The decline in revenues was a consequence of the previously mentioned fall in number of new contracts and realizations. The fall in revenues within the Group is mostly linked to revenue decline of Dalekovod d.d., while other members of the Group recorded minor changes in revenues. Group operating expenses recorded a 12.4% decrease compared to 2017, amounting to HRK 1,306 million. Profit before interest and tax (EBIT) was negative, amounting to HRK -84,261 thousand, while the normalized profit before interest and depreciation (EBITDA) was also negative, amounting to HRK -43.1 million. Normalized EBITDA, i.e. the increase of reporting EBITDA on the basis of one-off items, amounted to HRK 11.2 million, primarily referring to: impairment of loans (increase of HRK 10.3 million); impairment of investments in joint ventures (an increase of HRK 5.6 million); impairment of long-term assets (increase HRK 3.6 million); fair valuation of liabilities to discretionary creditors and foreclosed assets (decrease of HRK 11.6 million); and other non-recurring items (an increase of HRK 3.3 million). In the accounting period, Dalekovod Group realized a loss of HRK 119.6 million.

IN HRK MILLION	SALES REVENUE		EBIT		EBITDA*		NET PROFIT	
	2018	2017	2018	2017	2018	2017	2018	2017
DALEKOVOD GROUP	**1,164**	**1,478**	**(96.8)**	**27.1**	**(43.1)**	**86.7**	**(119.6)**	**4.4**
DALEKOVOD D.D.	873	1,135	(222)	44.8	(24.9)	94.0	(233)	14
DALEKOVOD PROIZVODNJA D.O.O.	276	280	(35)	(14.8)	(25.6)	(1.3)	(36)	(15)
DALEKOVOD PROJEKT D.O.O.	31	31	1	1.0	1.4	1.7	1	1
OTHER GROUP MEMBERS	128	140	3	1.5	7.4	2.0	3	4
ELIMINATIONS	(145)	(108)	156.5	(5.3)	(1.4)	(9.6)	*145*	(0)

*normalized

IN HRK MILLION	DALEKOVOD GROUP		DALEKOVOD D.D.	
	2018	2017	2018	2017
LOANS AND MEZZANINE DEBT	520	565	520	558
CASH AND CASH EQUIVALENTS	66	107	51	89
NET DEBT	454	458	469	469
MEZZANINE DEBT	84	83	91	91
NET DEBT*	370	375	378	378
TOTAL ASSETS	1,073	1,317	878	1,275
TOTAL EQUITY	82	228	26	287
CURRENT ASSETS/CURRENT LIABILITIES	1.2	1.4	1.0	1.2
NET DEBT / EQUITY+NET DEBT	0.8	0.7	0.9	0.6
NET DEBT* / NORMLIZED EBITDA	(8.6)	4.3	(3.2)	85.8
NET DEBT / NORMALIZED EBITDA	(10.5)	5.3	(18.8)	5.0
INTEREST COVERAGE RATE	3.8	(1.8)	2.6	(2.0)
CASH FLOWS FROM OPERATING ACTIVITIES	1	17.1	4	1.1

* Net debt decreased by the amount of obligation towards Mezzanine debt

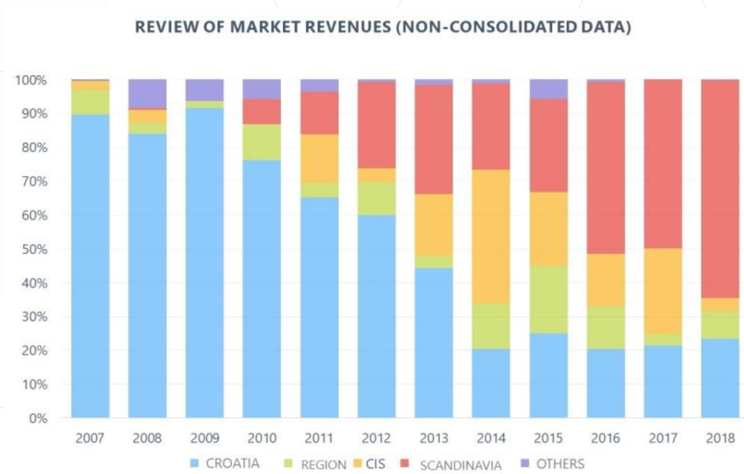
The Group's and Company's financial liabilities decreased during 2018 to HRK 520 million. Most of the financial liabilities relates to liabilities arising from pre bankruptcy settlement. Of total amount of financial liabilities (HRK 520 million), mezzanine debt (HRK 84 million) and debt (out of pre-bankruptcy) in amount of HRK 66 million have no impact on the operating cash flow. Mentioned debt in accordance with pre bankruptcy agreement will be repaid solely from the sale of assets or activation of call option (Mezzanine).

Net debt of the Group amounted to HRK 454 million and is almost unchanged in comparison with the previous year, as a result of decrease in cash and cash equivalents. Total assets of the Group decreased by HRK 244 million, mainly as a result of the decrease in tangible assets, receivables and cash. The total capital and reserves of both Group and Company decreased significantly, mainly as a result of the impairment costs and negative bottom line.

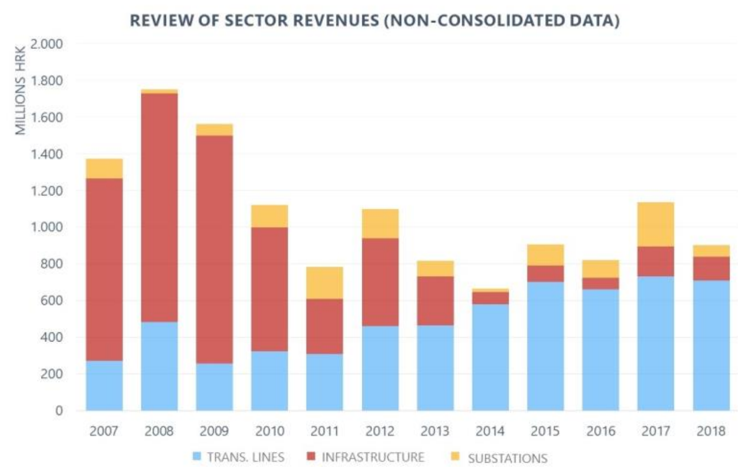
DALEKOVOD D.D.

Business revenues decreased by 21% compared to the same period of the previous year, amounting to HRK 873 million. In addition to the drop in revenues, the drop in profitability was noted, and the main reasons were: (i) the postponement of tenders and lower realization, (ii) difficulties during the execution of certain projects (repairs, weather, operational problems of human resources ...). The biggest contribution to the decline in revenues compared to 2017 came from substation segment while the transmission and infrastructure segments recorded approximately the same level of revenues.

Revenue structure by markets shows the change of Dalekovod Group's business model. From dominant orientation and exposure to the domestic market, despite all problems and challenges over the past decade, Dalekovod has transformed into an internationally competitive company, which have over 70% of sales revenues outside Croatia and the region. In 2018. there was a further increase of revenue from Scandinavian market, which was in line with the expectations regarding structure of the existing contracts and stages in the realization of the projects.



Current business strategy is also reflected in structure of revenue by sectors. Again, In 2018 the Transmission line sector have had largest share in sales revenues, followed by Infrastructure and Substation sector. Revenues from Transmission lines and Infrastructure sector were at approximately same level, while Substation sector recorded significant decline in revenues.



The Group's strategic goal in the forthcoming period is to diversify revenues subject to market in order to reduce risks , and to increase share of domestic market in total revenues. Subject to business sectors, we expect that energy sector (transmission lines) will keep its role as major sector.

DALEKOVOD PROIZVODNJA D.O.O.

Business revenues in 2018 were almost unchanged and amounted to HRK 276 million, a decrease of HRK 4 million compared to the same period of the previous year. Regardless of similar level of revenue, there was a significant drop in profitability primarily due to the suboptimal utilization caused by employees' strike. The normalized EBITDA amounted to HRK -25.6 million, EBIT HRK -35 million and company recorded net loss in amount of HRK 36 million.

DALEKOVOD PROJEKT D.O.O.

Business revenues were at the same level as in the previous year and amounted to HRK 31 million. Dalekovod Projekt d.o.o. recorded a positive result on EBITDA (HRK 1.4 million) EBIT (HRK 1 million) level and a positive net profit of HRK 1 million.

OTHER GROUP MEMBERS

Most of sales revenue in this segment comes from Dalekovod Ljubljana (HRK 19.8 million), Dalekovod Mostar (HRK 78.4 million) and Dalekovod Poland (HRK 20.6 million). In aggregate, other group members achieved a positive result at EBITDA level of HRK 3.8 million while the net profit of the other Group members amounted to HRK 3 million

STRATEGY - BUSINESS GUIDELINES FOR THE UPCOMING PERIOD

Along with the postponement of a large number of tenders in 2018, the beginning of 2019 has been marked with a strong positive trend. In the first four months of 2019, the Company signed contract or was selected as contractor in tenders worth **over HRK 1,100 million**. Continued positive trends are expected in the future.

Along with traditionally primary markets like Scandinavia, the region, middle and eastern Europe and domestic market, the positioning on German market (where until now Dalekovod Group was not present) is planned, where pre-qualification was successfully performed at the largest German transmission system operator. The prequalification process for other transmission system operators in Germany is ongoing. Such a breakthrough, regarding announced investments (30% of all investments in Europe by ENTSO) in renewal of transmission network, represents major potential for long-term presence in German market projects.

Industry in which Dalekovod Group is competing, expects a significant up-trend in the foreseeable future for two key reasons: (i) relatively old transmission network requiring renewal (ii) shift towards renewable energy sources and the general trend of transition from energy produced from traditional fossil sources to electricity produced from renewable sources.

The strategic focus of Dalekovod Group will be implementation of financial and operational restructuring and increase of activities in the domestic market. Dalekovod Group expects that domestic market activities will enable a significant increase in revenues and profitability in next few years. .

MANAGEMENT AND SUPERVISORY BOARD

As at 31 December 2018, Management Board of the Company consists of four members, President and three members of the Management Board. President of the Management Board is Alen Premužak, while the remaining three members are Tomislav Đurić, Ivica Kranjčić and Ivan Kurobasa.

Member of the Board Marko Jurković left the position on April 1, 2018, reducing the number of Board members from five to four, while on November 1, 2018, Tomislav Đurić replaced Helena Jurčić Šestan as a member of the Management Board.

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 Board is appointed and recalled by the Supervisory Board as of December 31, 2018, composed of the following members: Željko Perić, Chairman, and members of the Supervisory Board Hrvoje Habuš, Gordan Kuvek, Vladimir Maoduš, Hrvoje Markovinović, Dinko Novoselec and Rajko Pavelić.

By a decision of the Ordinary General Assembly held on June 20, 2018, there were changes in the Supervisory Board of the company.

It was established that on May 26, 2018, mandate expired for the following Supervisory Board Members: Marko Lesić, Ivan Peteržilnik, Vladi Čović and Krešimir Ružđak, and that on 20.6.2018. the mandate of the members of the Supervisory Board expired for Hrvoje Markovinović, Mirela Tomljanović Radović and Marko Makek, while the member of the Supervisory Board Milan Račić was dismissed.

Members of the Supervisory Board were elected with 4 years mandate: Vlado Čović, Hrvoje Markovinović, Hrvoje Habuš, Dinko Novoselec, Željko Perić and Vladimir Maoduš.

By the decision of the Extraordinary General Assembly held on September 5, 2018, there was a change in the Supervisory Board of the company.

It was determined that a member of the Supervisory Board Vlado Čović filed an irrevocable resignation on 17 July 2018 and Gordan Kuvek was elected as a member of the Supervisory Board.

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 acts solely as a single body for management and supervision, while sub-committees (commissions) with special responsibilities are appointed.

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

- Subcommittee for corporate management
- Subcommittee for audit
- Subcommittee for appointment and rewarding

OWN SHARES

In 2018, the Company has not acquired any of its own shares.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

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

SUBSEQUENT EVENTS

Subsequent events are detailed in Note 40 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 2 to Financial Statements.

SHAREHOLDER STRUCTURE (as at 31 December 2018)

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

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

SUBJECT	NUMBER OF SHARES
Konsolidator d.o.o.	15,000,000
Individuals	5,143,059
Financial Institutions	3,821,608
Others	655,797
Own Shares	98,841
TOTAL	**24,719,305**

AFFILIATES AND SUBSIDIARIES

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 (Municipality 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

ABROAD

8. DALCOM GmbH Freilassing Munchener Str. 67, 83395 Freilassing, Germany, MBS: HRB7585
9. DALEKOVOD Plt, Namibia
10. DALEKOVOD TKS a.d., Doboj, BiH (in liquidation)
11. CINDAL d.o.o. Doboj; BiH, Rudanka 27, 74000 Doboj, BIH JIB: 41028864540002
12. DALEKOVOD MOSTAR d.o.o., BiH, Ante Starčevića bb, Mostar, BIHJIB: 4227105910001
13. DALEKOVOD LJUBLJANA d.o.o., Zavetiška ul. 1, 10000 Ljubljana, SLO, Porezni broj: SI 28940024
14. DALEKOVOD UKRAJINA d.o.o., Ukrajina, 4 Lunacharskogo str. 02002 Kiev, Ukraine, MBS: 36683014
15. DALEKOVOD LIBYA for engineering, joint company, Libya
16. DALEKOVOD NORGE AS, Norway, Sandviksveien 26, 1363 Høvik, Norway, MBS: 998628253
17. DALEKOVOD POLSKA S.A., Poland, Płocka 15, 01-231 Warszawa, Poland, NIP: 9512112646

BRANCH OFFICES

24. DALEKOVOD NUF, Norway, Sandviksveien 26, 1363 Høvik, Norway
25. DALEKOVOD Skopje, 50te Divizije br. 36, Skopje-Centar, Skopje, North Macedonia
26. DALEKOVOD CRNA GORA, Ul. IV Proleterske br. 34, Podgorica, Montenegro
27. DALEKOVOD UKRAJINA – branch in Ukraine, 4 Lunacharskogo str. 02002 Kiev, Ukraine
28. DALEKOVOD – Branch Of Kosova, Kosovo, St. Garibaldi 3/7, 10000 Prishtine, Kosovo
29. DALEKOVOD d.d. – branch in Finland, c/o Talenom Töölönlahdenkatu 3 B, 00100 Helsinki, Finland
30. DALEKOVOD D.D. – branch in Sweden c/o Amesto Accounthouse AB, Roselundsgatan 54, 118 63 Stockholm, Sweden

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

II 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 2018 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 2018 (for the 2017 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 our vendors in the past year are from Europe, which is understandable given that all our projects last year were carried out in Europe.

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

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

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

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

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

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

MEMBERSHIP IN ASSOCIATIONS

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

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

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

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

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

IDENTIFIED MATERIAL ASPECTS AND LIMITS

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

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

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

RESEARCH & DEVELOPMENT ACTIVITIES

Focus on investors and partners and ongoing innovation are the Group values governing its market research and new product development activities. We regularly undertake market research activities to better understand the market needs and provide services and products to meet any challenges. At the same time, we monitor trends and developments on highly developed markets with 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	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. 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. took place in 2018.

Full commercialization of new products and services 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 investors 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 as a party ordering a product and as business conditions regulator) may be recognized as key participants.

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

Within corporate social responsibility activities, communication with a wide range of representatives of civil society and individuals is maintained. To achieve full implementation of the organization and implementation of corporate social responsibility activities communication with the above stakeholders took place in several manners: 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.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.

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

BUSINESS ETHICS

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

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

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

SPECIFIC STANDARD INFORMATION

ENVIRONMENTAL DIMENSION

Environmental management

The Dalekovod Group has opted for sustainable development by achieving a balance between the environment, society and our activities, to meet the requirements for 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:

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

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

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

Reporting period

• This report refers to the results of the activities from 1.1.2018-31.12.2018., 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 2017 was published in Annual Management Report on 27 April 2018 on http://www.zse.hr/userdocsimages/financ/DLKV-fin2017-1Y-NotREV-K-EN.pdf

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 2019. It is published on the web page of the Dalekovod Group Management system policy

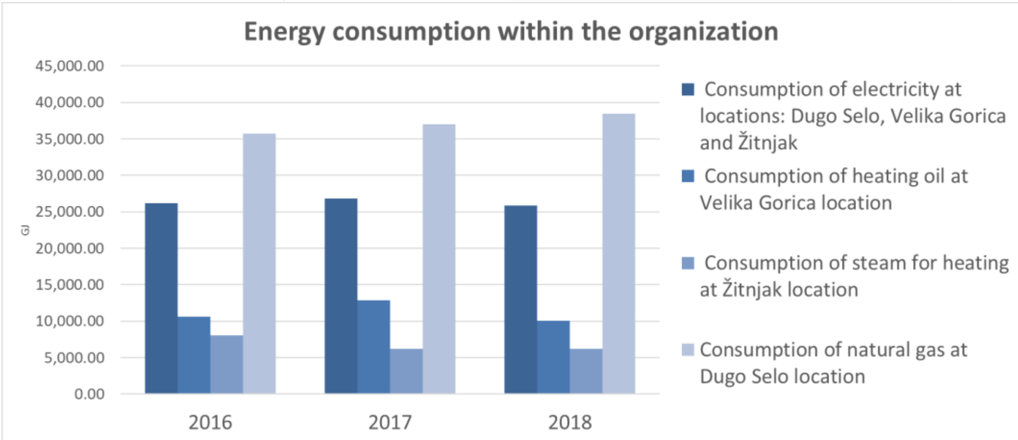
• Dalekovod group companies are certified by ISO 14001:2015 in 2018.

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

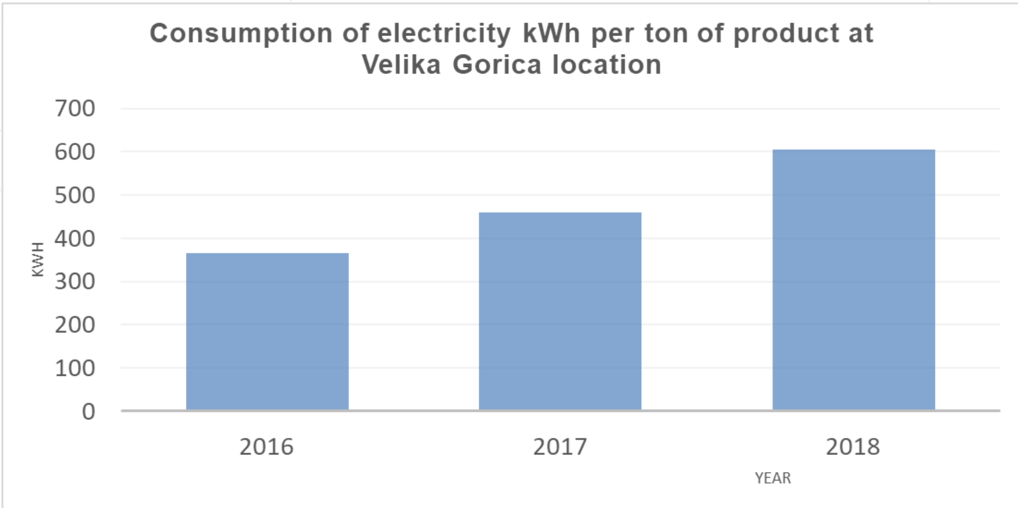
Energy

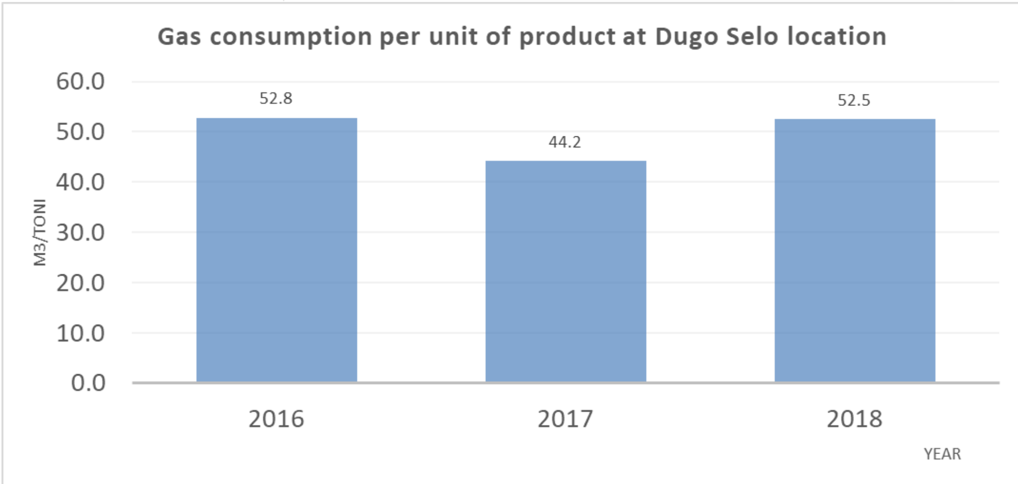
The energy used within the organization refers to the consumption of electric energy, natural gas, steam, fuel oil and fuel (fuel is used for transport within the organization and transport of people and products outside the organization). The energy used comes from non-renewable sources.



Energy intensity

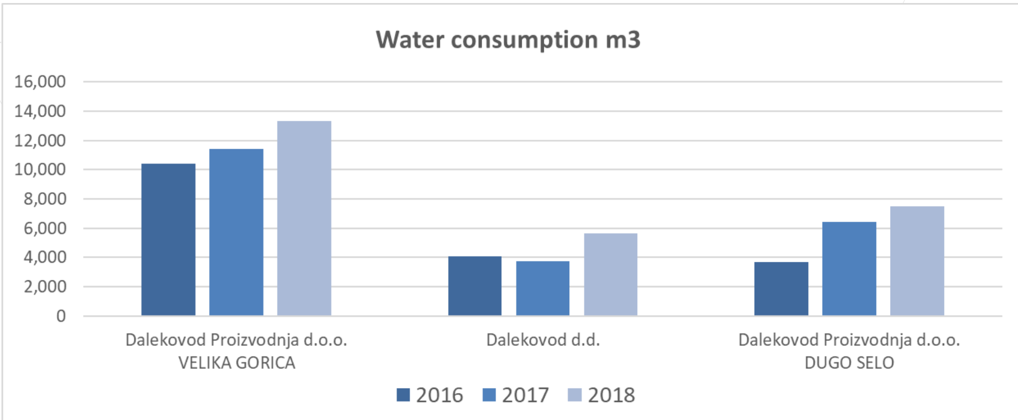
Electric energy consumption per unit of product is the most significant for the Velika Gorica location. Natural gas consumption per unit of product defines the energy intensity for the Dugo Selo location.





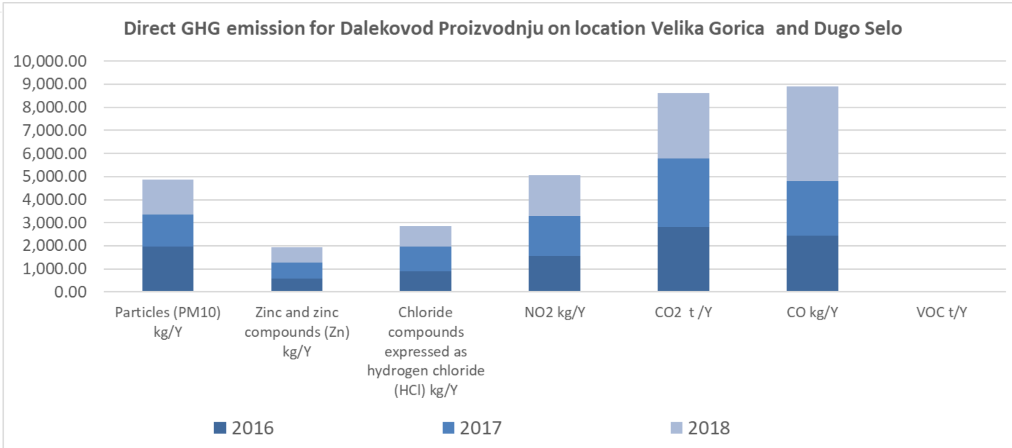
Water consumption

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 2018, water consumption at Žitnjak location increased due to a pipeline burst.

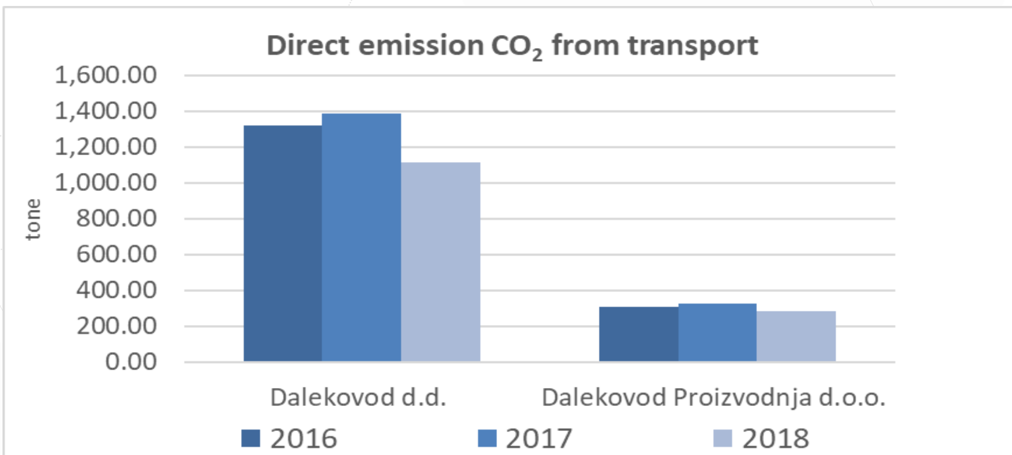


Emissions

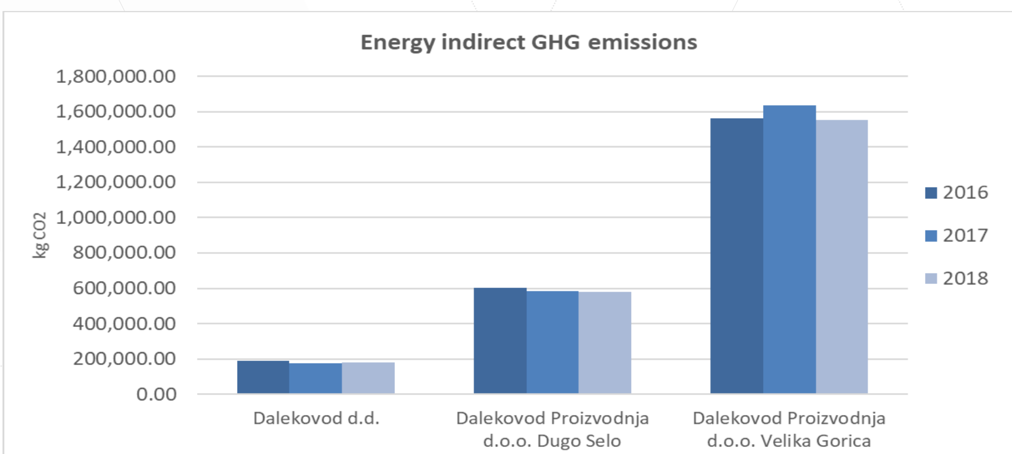
Direct greenhouse gas emissions in Dalekovod Proizvodnja d.o.o. occur at the Velika Gorica location from fuel oil combustion during the mechanical room operation, and at the Dugo Selo location from gas combustion during the mechanical room operation and from combustion for the needs of process technology. 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 environmental protection conditions from 2013 as well as in Decision on amendments to the decision from 2017.



Direct emissions calculated on basis of fuel consumption for materials and employees transport.

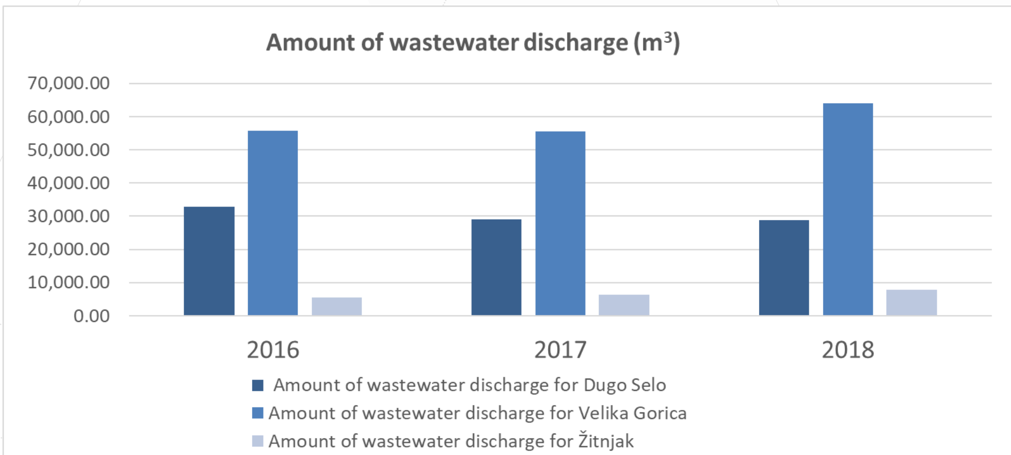


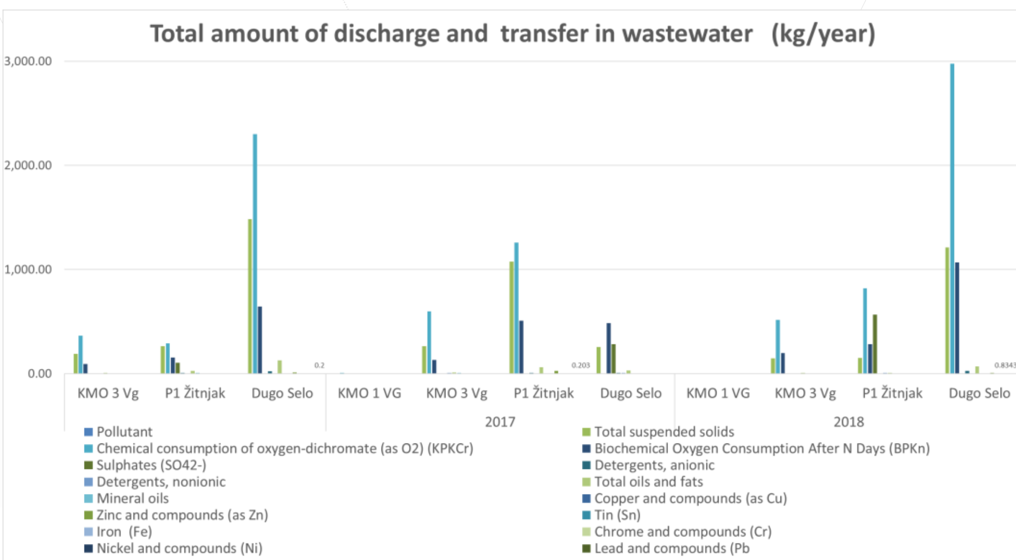
Indirect emissions refer to the consumption of electricity for machines and air conditioners.



Effluents and waste

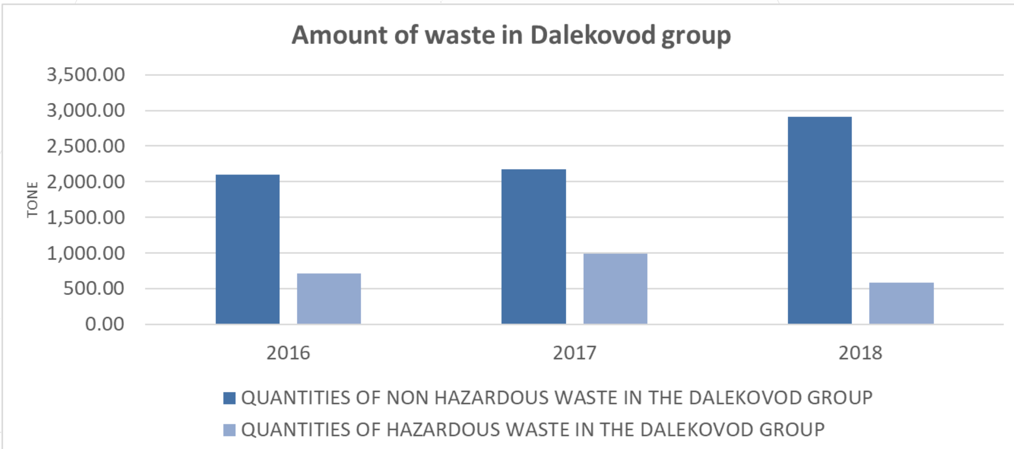
Water discharge includes all discharge water and rainwater from its own locations. At the location Dugo Selo, sanitary water and rainwater are discharged, technological water is not released into the recipient. At the Velika Gorica location all water from the manipulative surfaces as well as water from 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.





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 waste, the applicable legal documentation that accompanies waste is filled. 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 a year, 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 2018, A coordinated inspection was carried out in Dugo Selo as well as the State Water Inspection in Velika Gorica. There have been violations of regulations, irregularities have been removed.

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 necessary permits and in compliance with national ecological networks, which are adhered to already in the design phase. Avoided in this manner are any negative impacts on protected areas, including biodiversity. Works are performed in periods when they have the smallest impact on biodiversity. During work, it is forbidden to harass and hunt animals and feed wild animals. Seed forests are in accordance with the documentation of the investor or according to national laws. We always try to avoid or minimize any consequences on land use, surface and groundwater, cultural sites and biodiversity. For impacts that cannot be completely avoided, compensation measures are taken to reduce their impact. Participation and communication with the investor and the interested party (local community, legislative bodies) are important for increasing transparency and meeting the expectations of interested parties.

SOCIAL DIMENSION

HEALTH AND SAFETY AT WORK

Organization of the Safety at Work Committee at the Dalekovod Group

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. 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 Chairman 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 notifying workers about safety at work

To achieve these goals, the following activities are undertaken:

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

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

c) define priorities in undertaking necessary activities.

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

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

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

Minutes from sessions of the Committee are submitted to all members of the Committee and the Workers' Council. Suggestions for improvement measures and responsible decision-makers who are part of 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 2018, 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 25 improvement measures were adopted in 2018.

Supervision and communication within the activities of the Committee

A total of 232 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 548 employees, who work on domestic and foreign construction sites, communicate via selected delegates with the Coordinator of Workers' Commissions at central office.

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 2018 for Dalekovod Group

The total number of LTI that were recorded in 2018 was 25. The total number of TRIF that were recorded in 2018 was 28. 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	2018 1253600
Fatalities	0
HSE Total Recordable Injuries	13
Lost time Injuries	11
Loss of consciousness	1
Injuries requiring medical treatment (MTI)	1
Incident requiring first aid	8
Restriction of work	1
Cases of substitute work due to injury	0
Dangerous Occurrences	1
Near Hits/Misses	79
HSE/HSA or equivalent improvement notices	25
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	5

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 2018 = 2.07**

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

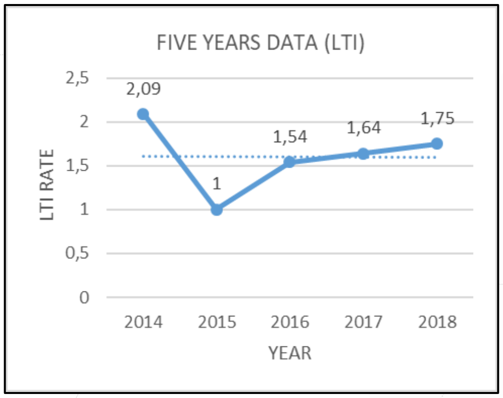
T = Number of hours worked during the year **LTIF - - Calculation for 2018 = 1.75**

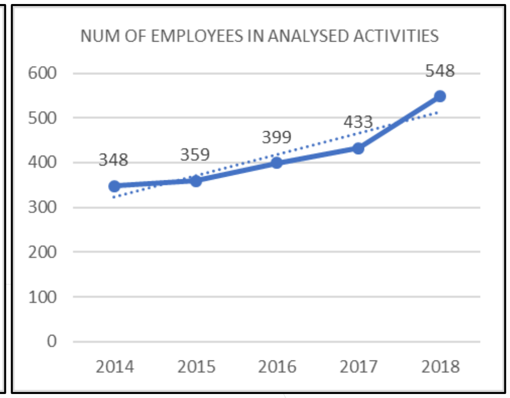
Severity Rate (SR)

SR – value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents **SR - - Calculation for 2018 H = 38**





During 2018 there has been an increase of injury rate (1.75) compared to 2017 (1.64). It is also slightly increased compared to last 5 years average (1.6). Considering the increase, an objective program for decrease of number of injuries in 2019 is developed with measures to be implemented.

Injury rate has increased for 7%. In 2018 the number of employees exposed to risks from injuries has increased for 10% compared to number of workers working in offices, now 70-30% (548/232). In 2017, that ratio has been 60-40% or 433/298.

As Dalekovod plans to minimize the number of injuries and resulting hours of sick leave (caused by injuries) these are set as goals for 2019.

Objective program for 2018 has long term character and especially since it’s linked to improvement of safety culture of involved in actives. Some objectives from this objective program are also continued in 2019 objective program.

Dalekovod proizvodnja d.o.o.

Working hours Injuries/Incidents/Cases	2018 1041000
Fatalities	0
HSE Total Recordable Injuries	15
Lost time Injuries	14
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	2
Cases of substitute work due to injury	1
Dangerous Occurrences	0
Near Hits/Misses	4
HSE/HSA or equivalent improvement notices	2
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 2018 = 2.88**

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 2018 = 2.69**

Severity Rate (SR)

SR – value = N / T

N = Total number of lost workdays

T = Total number of recordable incidents **SR Calculation for 2018 H = 25.7**

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

incidents of non-compliance with regulations resulting in a fine or penalty in 2018		
No	consequence	cause
0	termination of contract	violation of the rule of non-use of narcotic
incidents of non-compliance with regulations resulting in a warning notice in 2018		
No	consequence	cause
2	Warning notice	Working without PPE
4	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, DIGNITY OF WORK AND HUMAN RIGHTS

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

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

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

Employment and structure of employees

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

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

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

Collective agreements and employees' rights

The first collective agreement was concluded on 14 June 1996 with the Croatian Metalworkers' Labor Union – Velika Gorica Subsidiary, Croatian Construction Labor Union – Dalekovod subsidiary, Croatian Labor Union Association, Dalekovod Labor Subsidiary, and it is applied to all employees. The Collective Agreement has been revised several times. The recent changes and amendments were adopted in 2018. 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. 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. This important task that is conducted by Human Resources Department. Quality, frequency and right timing for the training and development have a significant impact on the sustainability and competitiveness of the companies.

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

Education program adapted to employee requirements is divided into several forms of education: acquisition of IT knowledge, foreign languages, certification exams, various training (professional seminars, program for managers, undergraduate and graduate study program, doctorate program). Human Resources Department encourage learning and improving of foreign languages, which is organized in accordance with the requirements of their jobs, languages are also learned depending on company needs in specific markets such as Norwegian or other 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.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 compiled for purposes of managing human resources and making other relevant business decisions.

Freedom of association and collective negotiation

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

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

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 programs 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.

Signed on behalf of the Management Board on 30 April 2019:

Tomislav Rosandić	T. Đurić
	Tomislav Đurić
President of the Management Board	Management Board Member
Ivan Kurobasa	Đuro Tatalović
Management Board Member	Management Board Member

2. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

MANAGEMENT BOARD – ON 31 DECEMBER 2018

Alen Premužak – President of the Management Board

Tomislav Đurić – Management Board Member

Ivica Kranjčić – Management Board Member

Ivan Kurobasa – Management Board Member

SUPERVISORY BOARD – ON 31 DECEMBER 2018

Željko Perić – President of the Supervisory Board

Hrvoje Markovinović – Supervisory Board Member

Dinko Novoselec – Supervisory Board Member

Gordan Kuvek – Supervisory Board Member

Vladimir Maoduš – Supervisory Board Member

Rajko Pavelić – Supervisory Board Member

AUDITING COMITTEE

Dinko Novoselec

Hrvoje Habuš

Gordan Kuvek

Ivana Matovina

Dalekovod Joint Stock Company for engineering, production and construction

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 2018, 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 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 regarding corporate governance, risk management, financial reporting and controlling duties.

In addition to the Audit Subcommittee, the Supervisory Board includes the Appointments and Rewards Subcommittee and the Corporate Management Subcommittee. The Management Board is required to ensure that the Company maintains its business accounts and other books and business records, prepares the relevant accounting documents, realistically values its assets and liabilities, and prepares financial statements and other reports in accordance with the applicable accounting regulations and standards and the applicable laws and regulations. The Ordinary General Meeting was held on 20 June 2018, and Extraordinary General Meeting on 5 September 2018.

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;

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 2018, the Company actively took measures to promote gender equality across the Company. The focus was on defining equal requirements irrespective of gender and age for new employment and internal reassignment of employees.

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

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

Signed on behalf of the Management Board on 30 April 2019:

Tomislav Rosandić

President of the Management Board

T. Đurić

Tomislav Đurić

Management Board Member

Ivan Kurobasa

Management Board Member

Đuro Tatalović

Management Board Member

3. RESPONSIBILITY FOR CONSOLIDATED AND SEPARATE ANNUAL REPORT

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 30, 2019 for submission to the Supervisory Board and signed below by:

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Dalekovod d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2018, and their respective separate and consolidated 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 2018, 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 our audit report is a translation from the original, which was prepared in the 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 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 WITH RESPECT TO CONSTRUCTION CONTRACTS

Revenue recognized from construction contracts recognized in profit or loss in 2018: HRK 988,986 thousand (85 per cent of the total revenue amount for 2018). Please refer to the Note 2.20 of *Significant accounting policies*, Note 5 (a) of *Key accounting estimates and judgements* and Note 8 *Segment information* in the financial statements.

Key audit matter	How our audit addressed the matter
The Group’s and the Company’s principal activities include manufacturing of complex power-generating equipment, its installation and related construction services. Consequently, contracts with customers typically include one performance obligation which is satisfied over time. As at 1 January 2018, the Group and Company adopted the new revenue standard, IFRS 15 *Revenue from Contracts with Customers.* Under the new standard, if the requirements for recognition of revenue over time are met, entities measure ‘progress to satisfaction’ of the performance obligation using a method that best depicts the performance. Given the nature of contracts with customers, revenue from contracts with customers is recognised by reference to the ‘progress to satisfaction’ of the performance obligation which is typically calculated using the ‘cost-to-cost’ input method which measures the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation. The accounting for long-term construction contracts requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations. This estimate directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract. As a result, we considered this area to be a key audit matter.	Our audit procedures in this area included, among others: • Assessing the Group’s and the Company’s policy for recognizing revenue, including considering whether the policy is in accordance with the five-step approach required by the new revenue standard; • For a sample of contracts with key customers: o challenging the Group’s and the Company’s identification of performance obligations, particularly with respect to the evaluation of whether the contract relates to a single performance obligation; o challenging the Group’s and the Company’s assessment of whether the identified performance obligation meets the criteria for recognising revenue over time vs at a point-in-time, by reference to the provisions of the contract and our understanding of the resulting pattern of satisfying the performance obligation; o challenging the appropriateness of the method used to measure ‘progress to satisfaction’ (cost-to-cost vs output based on surveys of work performed) by considering contract terms and the nature of goods or services promised to customers; • testing the design, implementation and operating effectiveness of controls related to: o segregation of duties over revenue and cost budgeting processes; o management assessment of forecasts and budget to actual variances; o segregation of duties over subsequent revenue/costs update in case of any changes in the scope of contract work; • recalculating the ‘progress to satisfaction’ for a sample of contracts through using actual costs incurred and estimated costs to complete and critically evaluating the revenue amounts recognized by the Group and the Company by inspecting contracts and supporting documents, such as invoices, progress reports and/or surveys of work performed; • for variations from original contracts with customers, inspecting a sample of contracts to assess whether contract variations are supported by formal agreements with customers; • analysis of the historical accuracy of the estimation of planned costs and revenue amounts; • considering the adequacy of disclosures regarding estimation uncertainty involved in the accounting for construction contracts.

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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 2018, investments in subsidiaries in the separate financial statements amounted to HRK 132,629 thousand while loans and receivables to subsidiaries amounted to HRK 59,722 thousand. During the year the Company recognised impairment loss on investments in subsidiaries in the amount of HRK 148,125 thousand and impairment loss on loans given to subsidiaries in the amount of HRK 7,731 thousand.

Please refer to notes 2.2 (a) and 2.9 of *Significant accounting policies*, note 21 *Investments in subsidiaries*, note 26 *Loans and receivables,* note 28 *Trade and other receivables* and note 12 *Other operating expenses* 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) supplemented, where available, by techniques based on comparable valuation multiples or prices achieved in actual market transactions for comparable entities. 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 and external appraisers 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: o evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; o evaluating the key assumptions applied (such as discount rates and growth rates) for reasonableness compared to both externally derived data and historical financial performance; o where applicable, evaluating the appropriateness of used valuation multiples or comparable transactions; o 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 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.

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 20 June 2018 to audit the financial statements of the Company and the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is two years, covering the years ended 31 December 2017 and 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services, hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG

KPMG Croatia d.o.o. za reviziju **30 April 2019**

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

This version of our audit report is a translation from the original, which was prepared in the 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 report takes precedence over this translation.

CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2018	Dalekovod Group Restated * 2017	Dalekovod d.d. 2018	Dalekovod d.d. Restated * 2017
Sales revenue	8	1,163,956	1,477,894	873,419	1,134,701
Other income	8, 9	51,404	34,637	49,179	38,366
Change in work in progress and finished goods		(2,657)	(6,092)	(21)	(16)
Cost of trade goods sold		(115,868)	(211,334)	(71,554)	(150,815)
Cost of materials and services	10	(658,569)	(787,667)	(527,554)	(643,819)
Staff costs	11	(349,821)	(325,021)	(235,251)	(216,176)
Depreciation and amortisation	18, 19, 20	(42,472)	(43,642)	(32,954)	(34,382)
Other operating expenses	12	(142,694)	(108,894)	(276,369)	(82,591)
Other gains/(losses) – net	13	(67)	(2,796)	(951)	(10,015)
Operating gain/(loss)		(96,788)	27,085	(222,056)	35,253
Finance income	14	45,680	34,921	53,998	32,334
Finance costs	14	(62,321)	(40,573)	(59,691)	(38,196)
		(16,641)	(5,652)	(5,693)	(5,862)
Share in profit/(loss) of associates and joint ventures	22, 23	-	(1,330)	-	-
Profit / (loss) before tax		**(113,429)**	**20,103**	**(227,749)**	**29,391**
Income tax	15	(6,142)	(15,701)	(5,274)	(15,043)
Net profit / (loss)		**(119,571)**	**4,402**	**(233,023)**	**14,348**
Net profit / (loss) attributable to:					
Equity holders of the Company		(119,571)	4,402	(233,023)	14,348
Non-controlling interests		-	-	-	-
Net profit / (loss)		**(119,571)**	**4,402**	**(233,023)**	**14,348**
Basic and diluted profit / (loss) per share (in HRK)	16	**(4.86)**	**0.18**		

* For the effects of restatements please see note 7.

CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Dalekovod Group		Dalekovod d.d.	
			Restated *		Restated *
(all amounts are expressed in thousands of HRK)	Note	2018	2017	2018	2017
Net profit / (loss)		**(119,571)**	**4,402**	**(233,023)**	**14,348**
Other comprehensive income / (loss):					
Foreign exchange differences		1,225	(720)	-	-
Gain / (loss) on revaluation of assets	19, 32	(28,695)	5	(28,695)	5
Total other comprehensive income / (loss)		**(27,470)**	**(715)**	**(28,695)**	**5**
Total comprehensive income / (loss)		**(147,041)**	**3,687**	**(261,718)**	**14,353**
Comprehensive income / (loss) attributable to:					
Equity holders of the Company		(147,035)	3,686	(261,718)	14,353
Non-controlling interests		(6)	1	-	-
Total comprehensive income / (loss)		**(147,041)**	**3,687**	**(261,718)**	**14,353**

* For the effects of restatements please see note 7.

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2018	Dalekovod Group Restated * 2017	Dalekovod d.d. 2018	Dalekovod d.d. Restated * 2017
ASSETS					
Intangible assets	18	10,697	11,003	7,576	6,785
Property, plant and equipment	19	361,329	416,048	144,473	173,472
Advances		20	-	-	-
Investment property	20	-	488	149,027	163,696
Investments in subsidiaries	21	-	-	59,254	280,799
Investments in associates	22	4	4	4	4
Investments in joint ventures	23	11,592	-	11,592	-
Equity investments	24	5	1,602	-	1,346
Loans and receivables	26	41,508	72,653	43,371	74,122
Non-current assets		425,155	501,798	415,297	700,224
Inventories	27	97,420	95,559	11,642	8,241
Trade and other receivables	28	417,102	544,512	325,516	475,162
Income tax receivable		1,773	2,194	1,467	1,460
Financial assets at fair value through profit or loss	29	-	497	-	497
Cash and cash equivalents	30	66,179	107,378	51,077	89,349
Assets held for sale	31	65,038	65,038	73,375	-
Current assets		647,512	815,178	463,077	574,709
Total assets		**1,072,667**	**1,316,976**	**878,374**	**1,274,933**

* For the effects of restatements please see note 7.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2018

		Dalekovod Group		Dalekovod d.d.	
			Restated *		Restated *
(all amounts are expressed in thousands of HRK)	**Note**	**2018**	**2017**	**2018**	**2017**
EQUITY AND LIABILITIES					
Share capital	32	247,193	247,193	247,193	247,193
Share premium	32	88,236	87,215	88,236	87,215
Legal reserves	32	11,652	11,652	11,487	11,487
Treasury shares	32	(8,466)	(8,466)	(8,466)	(8,466)
Statutory and other reserves	32	75,584	75,584	40,654	40,654
Revaluation reserves	32	40,707	69,402	40,707	69,402
Translation reserves		(2,678)	(3,909)	-	-
Accumulated loss		(369,209)	(249,638)	(393,898)	(160,875)
Shareholders' equity		83,019	229,033	25,913	286,610
Non-controlling interests		(700)	(694)	-	-
Total equity		**82,319**	**228,339**	**25,913**	**286,610**
Borrowings	33	367,354	416,468	372,346	426,015
Mezzanine debt	34	26,946	24,208	31,381	28,605
Provisions	36	24,902	22,476	20,753	19,600
Trade and other payables	35	766	1,437	856	1,526
Deferred tax liability	15	8,936	15,235	8,936	15,235
Non-current liabilities		428,904	479,824	434,272	490,981
Borrowings	33	69,164	66,292	56,141	41,825
Mezzanine debt	34	56,861	58,509	60,063	62,000
Provisions	36	4,134	2,660	2,795	2,205
Trade and other payables	35	407,087	460,850	275,194	370,842
Income tax payable		24,198	20,502	23,996	20,470
Current liabilities		561,444	608,813	418,189	497,342
Total liabilities		**990,348**	**1,088,637**	**852,461**	**988,323**
Total equity and liabilities		**1,072,667**	**1,316,976**	**878,374**	**1,274,933**

* For the effects of restatements please see note 7.

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Group

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Translation reserve	Accumulated loss	Total	Non-controlling interests	Total
At 1 January 2017		**247,193**	**86,142**	**11,652**	**(8,466)**	**75,584**	**69,397**	**(3,188)**	**(254,040)**	**224,274**	**(695)**	**223,579**
Net profit/(loss) - restated *		-	-	-	-	-	-	-	4,402	4,402	-	4,402
Other comprehensive income/(loss)		-	-	-	-	-	5	(721)	-	(716)	1	(715)
Total comprehensive income/(loss)		-	-	-	-	-	5	(721)	4,402	3,686	1	3,687
Transactions with owners												
Fair value of share based payments	32	-	1,073	-	-	-	-	-	-	1,073	-	1,073
At 31 December 2017. - restated *		**247,193**	**87,215**	**11,652**	**(8,466)**	**75,584**	**69,402**	**(3,909)**	**(249,638)**	**229,033**	**(694)**	**228,339**
Net profit/(loss)		-	-	-	-	-	-	-	(119,571)	(119,571)	-	(119,571)
Other comprehensive income/(loss)		-	-	-	-	-	(28,695)	1,231	-	(27,464)	(6)	(27,470)
Total comprehensive income/(loss)		-	-	-	-	-	(28,695)	1,231	(119,571)	(147,035)	(6)	(147,041)
Transactions with owners												
Fair value of share based payments	32	-	1,021	-	-	-	-	-	-	1,021	-	1,021
At 31 December 2018		**247,193**	**88,236**	**11,652**	**(8,466)**	**75,584**	**40,707**	**(2,678)**	**(369,209)**	**83,019**	**(700)**	**82,319**

* For the effects of restatements please see note 7.

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

Company

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Accumulated loss	Total
At 1 January 2017		**247,193**	**86,142**	**11,487**	**(8,466)**	**40,654**	**69,397**	**(175,223)**	**271,184**
Net profit/(loss) - restated *		-	-	-	-	-	-	14,348	14,348
Other comprehensive income/(loss)		-	-	-	-	-	5	-	5
Total comprehensive income/(loss)		-	-	-	-	-	5	14,348	14,353
Transactions with owners									
Fair value of share based payments	32	-	1,073	-	-	-	-	-	1,073
At 31 December 2017 - restated *		**247,193**	**87,215**	**11,487**	**(8,466)**	**40,654**	**69,402**	**(160,875)**	**286,610**
Net profit/(loss)		-	-	-	-	-	-	(233,023)	(233,023)
Other comprehensive income/(loss)		-	-	-	-	-	(28,695)	-	(28,695)
Total comprehensive income/(loss)		-	-	-	-	-	(28,695)	(233,023)	(261,718)
Transactions with owners									
Fair value of share based payments	32	-	1,021	-	-	-	-	-	1,021
At 31 December 2018		**247,193**	**88,236**	**11,487**	**(8,466)**	**40,654**	**40,707**	**(393,898)**	**25,913**

* For the effect of restatement please see note 7.

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Profit/(loss) before tax - restated		**(113,429)**	**52,612**	**(227,749)**	**29,391**
Adjustments:					
Depreciation and amortisation	18, 19, 20	42,472	43,642	32,954	34,382
Property, plant and equipment writte-off	12	500	831	8,658	642
Intangible assets write-off		2,129	128	-	-
Impairment of property, plant and equipment		11,910	-	-	-
Revaluation		-	-	-	-
Loss/(gain) on sale of property, plant and equipment	13	(738)	7,067	(320)	7,512
Loss of control over subsidiaries		(421)	-	-	-
Gain on change of financial assets available for sale	12	1,327	2,649	1,327	2,731
Gains from sale of financial assets available for sale	13	(101)	(1,673)	(101)	(1,673)
Gain on change in fair value of financial assets trough profit and loss	13	-	(12)	-	(12)
Fair value of pre bankrupty liabilities	9	(19,489)	-	(19,489)	-
Loss on sale of subsidiary	13	-	-	-	-
Impairment of trade receivables and loans receivable	13	6,997	(4,840)	16,128	(5,490)
Impairment of other financial assets	13	1,442	1,330	1,701	1,330
Receivables and fair value adjustment write - off		(3,103)	-	(476)	-
Liquidation of subsidiary	13	-	314	45	124
Impairment of investments in subsidiaries	12	-	-	148,125	-
Impairment of non-financial assets	13	-	198	-	198
Impairment of join ventures		5,645	-	5,645	-
Impairment of inventories	12	1,085	2,653	452	-
Write-off of assets held for sale	12	-	5	-	-
Net change in provisions	36	3,900	(720)	1,743	(849)
Dividend income	14	(4,528)	-	(15,630)	(3,185)
Share in loss/(gain) of associates and joint ventures	22, 23	-	1,330	-	-
Loss/(gain) from sale of associates	22	-	(5,544)	-	1,333
Unrealised foreign exchange differences		3,459	(4,649)	(2,596)	(3,924)
Interest income	14	(3,002)	(2,894)	(2,204)	(3,436)
Income from discount of deposit guarantees	14	(1,330)	(839)	(1,330)	(839)
Share based payment transactions	37	1,021	1,073	1,021	1,073
Interest expense	14	22,056	23,687	22,152	23,604
		(42,198)	116,348	(29,944)	82,912
Changes in working capital:					
Trade and other receivables		118,104	3,331	150,026	14,533
Inventories		(2,946)	22,186	(3,853)	2,819
Trade and other payables - restated *		(52,219)	(76,706)	(91,696)	(84,767)
Net cash generated from operating activities		**20,741**	**40,612**	**24,533**	**23,459**
Interest paid		(18,502)	(18,482)	(18,498)	(17,352)
Tax paid		(1,995)	(5,043)	(1,755)	(5,048)
Net cash flows from operating activities		**244**	**17,087**	**4,280**	**1,059**

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

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	**Note**	**2018**	**2017**	**2018**	**2017**
Cash flows from investing activities					
Acquisition of intangible assets	18	(5,892)	(641)	(5,414)	(300)
Acquisition of property, plant and equipment	19	(27,351)	(18,760)	(22,426)	(11,982)
Proceeds from sale of property, plant and equipment		238	5,092	320	4,014
Net change in deposits		3,096	5,771	(1,042)	7,203
Advances given		(20)	-	-	-
Loans given		(755)	-	(27,402)	(43,955)
Repayments of loans given		1,034	403	16,931	34,882
Proceeds from share in profits		8,909	-	15,630	5,353
Net investments in cash funds		497	-	497	-
Proceeds from sale of available-for-sale financial assets		371	1,993	120	1,673
Investments in joint ventures		-	-	-	-
Investments in cash funds		-	30,000	-	30,000
Interest received		1,979	3,731	1,079	3,642
Net cash flows used in investing		**(17,894)**	**27,589**	**(21,707)**	**30,530**
Cash flows from financing activities					
Proceeds from borrowings		23,456	29,764	11,512	3,600
Repayment of borrowings		(30,112)	(59,601)	(15,236)	(19,389)
Redemption of bonds		(1,214)	(973)	(1,584)	(1,526)
Repayment of finance lease liabilities		(15,679)	(11,916)	(15,537)	(11,774)
Net cash flows from / (used in) financing activities		**(23,549)**	**(42,726)**	**(20,845)**	**(29,089)**
Net increase / (decrease) in cash and cash equivalents		**(41,199)**	**1,950**	**(38,272)**	**2,500**
Cash and cash equivalents at beginning of year		107,378	105,428	89,349	86,849
Cash and cash equivalents at end of year	30	66,179	107,378	51,077	89,349
Net increase / (decrease) in cash and cash equivalents		**(41,199)**	**1,950**	**(38,272)**	**2,500**

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

NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and 17 subsidiaries owned by the parent company (2017: 23 subsidiaries owned by the parent company and additional one company owned by subsidiaries) – note 21.

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

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

Management Board

Management Board members of the Company during 2018 were: Mr. Alen Premužak (President of the Management Board), Mr. Marko Jurković (Member of the Management Board), Ms. Helena Jurčić Šestan (Member of the Management Board,), Mr. Ivica Kranjčić (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) and Mr. Tomislav Đurić (Member of the Management Board).

From 01.04.2018. Mr. Marko Jurković is no longer a Member of the Management Board.

From 31.10.2018. Ms. Helena Jurčić Šestan is no longer a Member of the Management Board.

01.11.2018. Mr. Tomislav Đurić becomes a Member of the Management Board.

From 28.02.2019. are no longer Members of the board: Mr. Alen Premužak (President of the Management Board), Mr. Ivica Kranjčić (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) and Mr. Tomislav Đurić (Member of the Management Board).

From 01.03.2019. Management Board members of the Company are: Mr. Tomislav Rosandić (President of the Management Board), Mr. Đuro Tatalović (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) and Mr. Tomislav Đurić (Member of the Management Board).

Supervisory Board

From 26.05.2018. are no longer Members of the Supervisory Board: Mr. Marko Lesić (President od the Supervisory Board), Mr. Ivan Peteržilnik (Vice president of the Supervisory Board), Mr. Vlado Čović (Member of the Supervisory Board) and Mr. Krešimir Ružđak (Member of the Supervisory Board).

From 20.06.2018. are no longer Members of the Supervisory Board: Mr. Hrvoje Markovinović (Member of the Supervisory Board), Ms. Mirela Tomljanović Radović (Member of the Supervisory Board), Mr. Marko Makek (Member of the Supervisory Board) and Mr. Milan Račić (Member of the Supervisory Board).

NOTE 1 – GENERAL INFORMATION (CONTINUED)

From 20.06.2018. Members of the Supervisory Board are: Mr. Vlado Čović (Member of the Supervisory Board), Mr. Hrvoje Markovinović (Member of the Supervisory Board),
Mr. Hrvoje Habuš (Member of the Supervisory Board), Mr. Dinko Novoselec (Vice president of the Supervisory Board), Mr. Željko Perić (President od the Supervisory Board) and Mr. Vladimir Maoduš (Member of the Supervisory Board).

05.09.2018. Mr. Gordan Kuvek becomes a Member of the Supervisory Board in place of Vlado Čović.

21.03.2019. Mr. Toni Đikić becomes a Member of the Supervisory Board in place of Hrvoje Habuš.

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 – SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

Certain new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2018 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

None of these is expected to have a significant effect on the Company's financial statements, except for the following standard:

IFRS 16 Leases

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.

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 or before the date of initial application of IFRS 16. The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Estimated potential effects include an increase in fixed assets and non-current liabilities of approximately HRK 7,736 thousand.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) Associates (continued)

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

(e) Mergers

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

(f) Joint ventures

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

2.3 Segment reporting

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

2.4 Foreign currencies

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

(c) Group companies

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

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

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

2.5 Property, plant and equipment

2.5.1 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

2.6 Investment property

2.6.1 Investment property

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment property (continued)

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 appraisers.

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

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

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

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

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(b) Rights of use and computer software

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

2.8 Impairment of non-financial assets

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

2.9 Financial instruments

2.9.1 Financial assets

Policy applicable from 1 January 2018

(a) Recognition and initial measurement

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

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

(b) Classification and subsequent measurement

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

Policy applicable before 1 January 2018 (continued)

(b) Classification and subsequent measurement (continued)

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

Policy applicable before 1 January 2018 (continued)

(b) Classification and subsequent measurement (continued)

Business model assessment

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

Policy applicable before 1 January 2018

(b) Classification and subsequent measurement (continued)

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

Policy applicable before 1 January 2018

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

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

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

(iii) Derecognition

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity financial assets;
- available for sale financial assets; and
- financial assets at FVTPL.

An overview of key features of the accounting policy that the Group applied before 1 January 2018 with respect to subsequent measurement of financial assets and recognition of gains and losses per each type of financial asset is provided in the table below:

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

2.9.2 Financial liabilities

(a) Recognition and initial measurement

Debt securities issued are initially recognised when they incurred. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.2 Financial liabilities (continued)

(b) Classification and subsequent measurement

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

(c) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Application of IFRS 9

Application of IFRS 9 didn’t have significant effects on accounting policies of the Group related to financial liabilities stated above.

2.9.3 Offsetting

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

2.9.4 Derivative financial instruments

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

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets

<u>Policy applicable from 1 January 2018</u>

Recognition of loss allowances

The Group recognises loss allowances for ECLs on:

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 12 months past due.

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Measurement of ECLs

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

Credit impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off of financial assets

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.6 Impairment of non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Non-derivative financial assets

Financial assets not classified as assets at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider in regular circumstances;
- indications that a debtor or issuer could enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.7 Impairment of non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

An overview of key feature of the policy which was applied prior to 1 January 2018 with respect to impairment of non-derivative financial assets is provided in the table below:

Financial assets measured at amortised cost	The Group considered evidence of impairment for these assets at both an individual level and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends. An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.11 Inventories

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

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

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

2.12 Cash and cash equivalents

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

2.15 Income tax

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Deferred income tax

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

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

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

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

2.17 Trade and other payables

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

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 Provisions

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer. The transfer of control of a good or service may take place continuously (revenue recognition on a progress towards completion basis) or on a specific date (recognition on completion). Before revenue is recognised, the Company identifies both the contract and the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activities. Most of the Company's contracts involve only one performance obligation. Revenue recognition policies under IFRS 15 (applicable from 1 January 2018) applicable to revenue streams are as follows:

(a) Revenue from construction contracts

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (continued)

(b) Sales of goods

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

(c) Interest income

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

(d) Dividend income

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

2.21 Dividend distributions

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

2.22 Earnings per share

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

2.23 Value added tax

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Mezzanine debt

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

Managements estimates in assessing the mezzanine debt were as follow:

i. 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 or 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 33) 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 cash flows in accordance with IAS 39.

2.25 Assets held for sale

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

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

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

NOTE 3 – CHANGES IN ACCOUNTING ESTIMATES

The Company has initially applied IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments from 1 January 2018. Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2017.

Due to the transition methods chosen in applying these standards, comparative information in these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations.

Under IFRS 15, revenue is recognized in a manner that depicts the pattern of transfer of goods and services to customers. The amount recognized should reflect the amount to which the entity expects to be entitled in exchange for those goods and services. Given the Group's and the Company's business model, the above is consistent with the accounting policies that the Group and the Company previously applied in relation to revenue recognition. Consequently, adoption of IFRS 15 did not have a significant impact on the Group's or the Company's current and previous financial statements, nor did it have a significant impact on the Group's and the Company's accounting policies for revenue recognition. Also, although insignificant, in accordance with the requirements of IFRS 15, the Group and the Company expanded the level of disclosures related to revenue from contracts with customers in this year's financial statements.

IFRS 15 has been adopted by using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated. There was no material impact on statement of comprehensive income or statement of cash flows for the year ended 31 December 2018.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. This standard replaces IAS 39 Financial instruments: Recognition and measurement.

The details of the new significant accounting policies and the nature and effects of the changes to previous period are set out below.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

NOTE 3 – CHANGES IN ACCOUNTING ESTIMATES (continued)

IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

In accordance with the new requirements of the standard relating to the classification of financial assets, the Company's financial assets that was until 1 January 2018 classified as "loans and receivables" in the amount of HRK 573,584 thousand for the Group and HRK 498,155 thousand for the Company and "cash and cash equivalents" in the amount of HRK 107,378 thousand for the Group and HRK 89,349 thousand for the Company reclassified is in financial assets at amortised cost. The reclassification did not have any effect on the amounts in the financial statements. Financial asset that was until 1 January 2018 classified as financial asset available for sale is classified as financial investments at FVOCI in amount of HRK 1,599 thousands for the Group and HRK 1,343 thousands for the Company.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The application of the ‘expected credit loss’ model did not have significant impact on the financial statements of the Group and the Company. Under IFRS 9, credit losses are recognised earlier than under IAS 39. Additional information about how the Company measures the allowance for impairment is described in Note 2.9.5.

iii. Transition

The Company applied retrospective approach for the adoption of IFRS 9, however, as there is no significant impact on the Company resulting from the adoption, the comparative information has not been restated. As a result, the information presented for 31 December 2017 does generally reflect the requirements of IFRS 9 and therefore is comparable to the information presented for period ended 31 December 2018.

Given the simplicity of the structure of financial assets and financial liabilities, the application of the standard did not require complex estimates by management.

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

The majority of foreign sales revenue is denominated in EUROs. Domestic sales revenue is denominated in HRK. The majority of long-term and short-term loans were agreed with a currency clause, i.e. they are linked to the EURO. Along EUR, the Company is exposed to the movement in exchange rates between NOK, 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 2018, if the EURO had weakened/strengthened by 1.00% against the HRK (2017: 1.00%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 701 thousand (2017: HRK 278 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

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

(ii) Price risk

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

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(iii) Cash flow interest rate risk

The Group has no significant interest-bearing assets, therefore the Group's income and operating cash flows are 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 2018, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2017: 0.82%), the loss after tax would have been higher/lower by HRK 315 thousand (2017: HRK 92 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 33. 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 32), part is converted into mezzanine debt (note 6) and part is reclassified into long-term liabilities in accordance with the adopted plan. Borrowings are also partly converted into mezzanine debt, and partly reprogrammed. The maturity of borrowings is presented in note 33.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital risk management

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

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

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

The Company's gearing ratio was as follows:

(in thousands of HRK)	**31 December 2018**	**31 December 2017**
Borrowings (note 33)	428,487	467,840
Cash and cash equivalents (note 30)	(51,077)	(89,349)
Net debt	377,410	378,491
Equity	25,913	286,610
Total equity and net debt	**403,323**	**665,101**
Gearing ratio - Company	**93.6%**	**56.9%**

The Group's gearing ratio was as follows:

(in thousands of HRK)	**31 December 2018**	**31 December 2017**
Borrowings (note 33)	436,518	482,760
Cash and cash equivalents (note 30)	(66,179)	(107,378)
Net debt	370,339	375,382
Equity	82,319	228,339
Total equity and net debt	**452,658**	**603,721**
Gearing ratio - Group	**81.8%**	**62.2%**

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

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

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

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

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2018				
Property, plant and equipment				
Assets under foreclosure	-	-	114,451	114,451
Investment property				
Assets under foreclosure	-	-	23,630	23,630
Equity investments				
Listed entities	-	-	5	5
Total	**-**	**-**	**138,086**	**138,086**
31 December 2017				
Property, plant and equipment				
Assets under foreclosure	-	-	159,337	159,337
Investment property				
Assets under foreclosure	-	-	23,630	23,630
Equity investments				
Listed entities	274	-	5	279
Unlisted entities	-	1,323	-	1,323
Financial asstes at fair value through profit and loss				
Investments in cash funds	497	-	-	497
Total	**771**	**1,323**	**182,972**	**185,066**

There were no transfers between level 1 and level 2 during 2018 and 2017.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

The table below present the Company's assets at fair value as at 31 December 2018 and 2017:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2018				
Property, plant and equipment				
Assets under foreclosure	-	-	90,819	90,819
Total	**-**	**-**	**90,819**	**90,819**
31 December 2017				
Property, plant and equipment				
Assets under foreclosure	-	-	135,707	135,707
Investment property				
Assets under foreclosure			488	488
Equity investments				
Listed entities	23	-	-	23
Unlisted entities	-	1,323	-	1,323
Financial asstes at fair value through profit and loss				
Investments in cash funds	497	-	-	497
Total	**520**	**1,323**	**136,195**	**138,038**

There were no transfers between level 1 and level 2 during 2018 and 2017.

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

The tables below present the fair value liabilities of the Group and Company as at 31 December 2018 and 2017:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2018				
Finance lease	-	-	97,737	97,737
Mezzanine debt	-	-	83,807	83,807
Trade payables	-	-	19,997	19,997
Total	-	-	**201,541**	**201,541**
31 December 2017				
Finance lease	-	-	103,739	103,739
Mezzanine debt	-	-	82,717	82,717
Trade payables	-	-	70,228	70,228
Total	-	-	**256,684**	**256,684**

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2018				
Finance lease	-	-	97,737	97,737
Mezzanine debt	-	-	91,444	91,444
Trade payables	-	-	20,154	20,154
Total	-	-	**209,335**	**209,335**
31 December 2017				
Finance lease	-	-	104,004	104,004
Mezzanine debt	-	-	90,605	90,605
Trade payables	-	-	70,228	70,228
Total	-	-	**264,837**	**264,837**

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 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 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 5 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Revenue recognition

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

(b) Impairment of loans and receivables

The Group and the Company review the portfolio of loans and receivables on an annual basis to assess impairment. While assessing the recognition of impairment in the statement of comprehensive income, the Group and the Company assess whether there is observable data indicating the existence of a measurable decrease in future cash flows of the portfolio of loans and receivables before establishing the impairment of certain loans and receivables in the stated portfolio (note 13).

(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 36).

(e) Sale of assets held for sale

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

NOTE 5 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(f) Mezzanine debt

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

NOTE 6 – 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, incorporates financial and operational measures with the objective of deleveraging the Company and thus improving profitability and EBITDA to achieve a long term sustainable business case.

Financial restructuring is focused on ensuring liquidity, through disposal of non-core assets and debt restructuring and reduction, with the objective of creating conditions for recapitalisation and achieving financial stability.

Following the date on which the Settlement became legally effective, the Company implemented the following measures with the accompanying effect on the financial position and financial performance of the entity for the year ended 31 December 2014:

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

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

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

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

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

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

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

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

  These financial liabilities are subsequently measured at amortised cost using the effective interest method, with the unwinding of the discount on the long-term payables in the amount of HRK 146 thousand (2017: HRK 1,583 thousand) accounted for as an interest expense in profit and loss.

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

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

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

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

- Furthermore, three creditors (banks) decided to settle their receivables outside the pre-bankruptcy settlement through future proceeds from the sale of assets under foreclosure (pledged as security for payment), as explained in note 33 of the financial statements.

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

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

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

Below is a pro-forma statement of financial position of Group as at December 31th 2018 and December 31th 2017 which shows the financial position excluding the liabilities to be settled by foreclosure of assets (i.e. they will not require engagement of additional cash resources).

	Dalekovod Group					
(all amounts are expressed in thousands of HRK)	2018 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2018 excluding pre-bankruptcy effects	2017 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2017 excluding pre-bankruptcy effects
ASSETS						
Intangible assets	10,697	-	10,697	11,003	-	11,003
Property, plant and equipment	361,329	(114,451)	246,878	416,048	(159,337)	256,711
Prepayments	20	-	20	-	-	-
Investment property	-	-	-	488	-	488
Investments in associates	4	-	4	4	-	4
Investments in joint ventures	11,592	-	11,592	-	-	-
Equity investments	5	-	5	1,602	-	1,602
Loans and receivables	41,508	47,778	89,286	72,653	73,525	146,178
Non-current assets	425,155	(66,673)	358,482	501,798	(85,812)	415,986
Inventories	97,420	-	97,420	95,559	-	95,559
Trade and other receivables	417,102	-	417,102	544,512	-	544,512
Income tax receivable	1,773	-	1,773	2,194	-	2,194
Financial assets at fair value through profit or loss	-	-	-	497	-	497
Cash and cash equivalents	66,179	-	66,179	107,378	-	107,378
Assets held for sale	65,038	-	65,038	65,038	-	65,038
Current assets	647,512	-	647,512	815,178	-	815,178
Total assets	**1,072,667**	**(66,673)**	**1,005,994**	**1,316,976**	**(85,812)**	**1,231,164**

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Dalekovod Group

(all amounts are expressed in thousands of HRK)	**2018 reported**	**The effects of assets under foreclosure and related pre-bankruptcy liabilities**	**2018 excluding pre-bankruptcy effects**	**2017 reported**	**The effects of assets under foreclosure and relating pre-bankruptcy creditors**	**2017 excluding pre-bankruptcy effects**
EQUITY AND LIABILITIES						
Share capital	247,193	-	247,193	247,193	-	247,193
Share premium	88,236	-	88,236	87,215	-	87,215
Legal reserves	11,652	-	11,652	11,652	-	11,652
Treasury shares	(8,466)	-	(8,466)	(8,466)	-	(8,466)
Statutory and other reserves	75,584	-	75,584	75,584	-	75,584
Revaluation reserves	40,707	(40,707)	-	69,402	(69,402)	-
Translation reserves	(2,678)	-	(2,678)	(3,909)	-	(3,909)
Accumulated loss	(369,209)	49,643	(319,566)	(249,638)	84,637	(165,001)
Shareholders' equity	83,019	8,936	91,955	229,033	15,235	244,268
Non-controlling interests	(700)	-	(700)	(694)	-	(694)
Total equity	**82,319**	**8,936**	**91,255**	**228,339**	**15,235**	**243,574**
Borrowings	367,354	(66,673)	300,681	416,468	(85,812)	330,656
Mezzanine debt	26,946	-	26,946	24,208	-	24,208
Provisions	24,902	-	24,902	22,476	-	22,476
Trade and other payables	766	-	766	1,437	-	1,437
Deferred tax liability	8,936	(8,936)	-	15,235	(15,235)	-
Non-current liabilities	428,904	(75,609)	353,295	479,824	(101,047)	378,777
Borrowings	69,164	-	69,164	66,292	-	66,292
Mezzanine debt	56,861	-	56,861	58,509	-	58,509
Provisions	4,134	-	4,134	2,660	-	2,660
Trade and other payables	407,087	-	407,087	460,850	-	460,850
Income tax payable	24,198	-	24,198	20,502	-	20,502
Current liabilities	561,444	-	561,444	608,813	-	608,813
Total liabilities	**990,348**	**(75,609)**	**914,739**	**1,088,637**	**(101,047)**	**987,590**
Total equity and liabilities	**1,072,667**	**(66,673)**	**1,005,994**	**1,316,976**	**(85,812)**	**1,231,164**

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Below is a pro-forma statement of financial position of Group as at December 31th 2018 and December 31th 2017 which shows the financial position excluding the liabilities to be settled by foreclosure of assets (i.e. they will not require engagement of additional cash resources).

	Dalekovod d.d.					
(all amounts are expressed in thousands of HRK)	**2018 reported**	**The effects of assets under foreclosure and related pre-bankruptcy liabilities**	**2018 excluding pre-bankruptcy effects**	**2017 reported**	**The effects of assets under foreclosure and relating pre-bankruptcy creditors**	**2017 excluding pre-bankruptcy effects**
ASSETS						
Intangible assets	7,576	-	7,576	6,785	-	6,785
Property, plant and equipment	144,473	(114,451)	30,022	173,472	(159,337)	14,135
Prepayments	-	-	-	-	-	-
Investment property	149,027	-	149,027	163,696	-	163,696
Investments in subsidiaries	59,254	-	59,254	280,799	-	280,799
Investments in associates	4	-	4	4	-	4
Investments in joint ventures	11,592	-	11,592	-	-	-
Equity investments	-	-	-	1,346	-	1,346
Loans and receivables	43,371	47,778	91,149	74,122	73,525	147,647
Non-current assets	415,297	(66,673)	348,624	700,224	(85,812)	614,412
Inventories	11,642	-	11,642	8,241	-	8,241
Trade and other receivables	325,516	-	325,516	475,162	-	475,162
Income tax receivable	1,467	-	1,467	1,460	-	1,460
Financial assets at fair value through profit or loss	-	-	-	497	-	497
Cash and cash equivalents	51,077	-	51,077	89,349	-	89,349
Assets held for sale	73,375	-	73,375	-	-	-
Current assets	463,077	-	463,077	574,709	-	574,709
Total assets	**878,374**	**(66,673)**	**811,701**	**1,274,933**	**(85,812)**	**1,189,121**

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Dalekovod d.d.

(all amounts are expressed in thousands of HRK)	2018 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2018 excluding pre-bankruptcy effects	2017 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2017 excluding pre-bankruptcy effects
EQUITY AND LIABILITIES						
Share capital	247,193		247,193	247,193		247,193
Share premium	88,236		88,236	87,215		87,215
Legal reserves	11,487		11,487	11,487		11,487
Treasury shares	(8,466)		(8,466)	(8,466)		(8,466)
Statutory and other reserves	40,654		40,654	40,654		40,654
Revaluation reserves	40,707	(40,707)	-	69,402	(69,402)	-
Translation reserves	-		-	-		-
Accumulated loss	(393,898)	49,643	(344,255)	(160,875)	84,637	(76,238)
Shareholders' equity	33,876		33,876	294,573		294,573
Non-controlling interests	-			-		
Total equity	**25,913**	**8,936**	**34,849**	**286,610**	**15,235**	**301,845**
Borrowings	372,346	(66,673)	305,673	426,015	(85,812)	340,203
Mezzanine debt	31,381		31,381	28,605		28,605
Provisions	20,753		20,753	19,600		19,600
Trade and other payables	856		856	1,526		1,526
Deferred tax liability	8,936	(8,936)	-	15,235	(15,235)	-
Non-current liabilities	434,272	(75,609)	358,663	490,981	(101,047)	389,934
Borrowings	56,141	-	56,141	41,825	-	41,825
Mezzanine debt	60,063	-	60,063	62,000	-	62,000
Provisions	2,795	-	2,795	2,205	-	2,205
Trade and other payables	275,194	-	275,194	370,842	-	370,842
Income tax payable	23,996	-	23,996	20,470	-	20,470
Current liabilities	418,189	-	418,189	497,342	-	497,342
Total liabilities	**844,498**		**753,678**	**980,361**		**844,655**
Total equity and liabilities	**878,374**	**(66,673)**	**811,701**	**1,274,933**	**(85,812)**	**1,189,121**

NOTE 7 – RESTATEMENT OF COMPARATIVE BALANCES

Correction of error

During the year 2018, the Company's Management Board identified an error with the respect to liabilities towards employees by identifying additional liabilities for which a legal basis was established in 2017, but which were not recognised in the year that ended on 31 December 2017.

Hence, above mentioned error as the result of oversight in 2017 was corrected based on the requirements of IAS 8 and resulted with adjustment of previously publishes balances.

Reclassification

The Company's Management Board reclassified certain balances for the purpose of comparability of financial statements data in 2017 and 2018:

1. Reclassification of prebankruptcy settlement liabilities which will be settled by the sale of long term assets under foreclosure from current to non-current liabilities.

2. Reclassification of Net foreign exchange gain/(loss) from operating activities from Other gains/(losses) – net to Financial income and expenses – net. Based on the decision of the Company's Management Board, exchange rate gains are recognised within Finance income and exchange rate losses are recognised within Finance costs.

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

(in thousands of HRK)	**Previously reported 31 December 2017**	**Correction of error**	**Reclasification of pre-bankruptcy liabilities**	**Restated 31 December 2017**
Retained earnings / (loss carried forward)	(241,676)	(7,962)	-	(249,638)
Long-term borrowings	330,656	-	85,812	416,468
Short-term borrowings	145,795	-	(79,503)	66,292
Trade and other payables	459,197	7,962	(6,309)	460,850

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

(in thousands of HRK)	**Previously reported 31 December 2017**	**Correction of error**	**Reclasification of pre-bankruptcy liabilities**	**Restated 31 December 2017**
Retained earnings / (loss carried forward)	(152,913)	(7,962)	-	(160,875)
Long-term borrowings	340,203	-	85,812	426,015
Short-term borrowings	121,328	-	(79,503)	41,825
Trade and other payables	369,189	7,962	(6,309)	370,842

NOTE 7 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in the Statement of income of the Group are as follows:

(in thousands of HRK)	**NOTE**	**Previously reported 2017**	**Correction of error**	**Recllasification of net foreign exchange differences**	**Restated 2017**
Sales revenue	8	1,477,894	-	-	1,477,894
Other income	9	34,637	-	-	34,637
Change in work in progress and finished goods		(6,092)	-	-	(6,092)
Cost of trade goods sold		(211,334)	-	-	(211,334)
Cost of materials and services	10	(787,667)	-	-	(787,667)
Staff costs	11	(317,059)	(7,962)	-	(325,021)
Depreciation and amortisation	18,19,20	(43,642)	-	-	(43,642)
Other operating expenses	12	(108,894)	-	-	(108,894)
Other gains/(losses) – net	13	6,169	-	(8,965)	(2,796)
Operating gain/(loss)		44,012	(7,962)	(8,965)	27,085
Finance income	14	8,650	-	26,271	34,921
Finance costs	14	(23,267)	-	(17,306)	(40,573)
		(14,617)	-	8,965	(5,652)
Share in profit/(loss) of associates and joint ventures		(1,330)	-	-	(1,330)
Profit / (loss) before tax		**28,065**	**(7,962)**	**-**	**20,103**
Income tax	15	(15,701)	-	-	(15,701)
Net profit / (loss)		**12,364**	**(7,962)**	**-**	**4,402**
Net profit / (loss) attributable to:					
Equity holders of the Company		12,364	(7,962)	-	4,402
Non-controlling interests		-	-	-	-
Net profit / (loss)		**12,364**	**(7,962)**	**-**	**4,402**
Basic and diluted profit / (loss) per share (in HRK)		**0.50**	**(0.32)**	**-**	**0.18**

NOTE 7 – RESTATEMENT OF COMPARATIVE BALANCES (continued)

Restatements and reclassifications in the Statement of income of the Company are as follows:

(in thousands of HRK)	NOTE	Previously reported 2017	Correction of error	Recllasification of net foreign exchange differences	Restated 2017
Sales revenue	8	1,134,701	-	-	1,134,701
Other income	9	38,366	-	-	38,366
Change in work in progress and finished goods		(16)	-	-	(16)
Cost of trade goods sold		(150,815)	-	-	(150,815)
Cost of materials and services	10	(643,819)	-	-	(643,819)
Staff costs	11	(208,214)	(7,962)	-	(216,176)
Depreciation and amortisation	18,19,20	(34,382)	-	-	(34,382)
Other operating expenses	12	(82,591)	-	-	(82,591)
Other gains/(losses) – net	13	(472)	-	(9,543)	(10,015)
Operating gain/(loss)		52,758	(7,962)	(9,543)	35,253
Finance income	14	8,008	-	24,326	32,334
Finance costs	14	(23,413)	-	(14,783)	(38,196)
		(15,405)	-	9,543	(5,862)
Share in profit/(loss) of associates and joint ventures		-	-	-	-
Profit / (loss) before tax		**37,353**	**(7,962)**	**-**	**29,391**
Income tax	15	(15,043)	-	-	(15,043)
Net profit / (loss)		**22,310**	**(7,962)**	**-**	**14,348**
Net profit / (loss) attributable to:					
Equity holders of the Company		22,310	(7,962)	-	14,348
Non-controlling interests		-	-	-	-
Net profit / (loss)		**22,310**	**(7,962)**	**-**	**14,348**

Correction of the errors and reclassifications has insignificant effect on Cash flow statements of the Group and the Company.

NOTE 8 – BUSINESS SEGMENT INFORMATION

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

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

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

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

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

Operating results by business segments for the Group

(in thousands of HRK)	Construction	Production	Other	Total
Year ended 31 December 2018				
Gross revenues	1,027,216	275,935	5,403	1,308,554
Inter-segment revenues /i/	(38,230)	(106,301)	(67)	(144,598)
Total revenues	**988,986**	**169,634**	**5,335**	**1,163,956**
Operating profit/(loss) before depreciation and amortisation	(25,532)	(26,808)	(1,976)	(54,316)
Depreciation and amortisation	(34,053)	(8,417)	(2)	(42,472)
Operating profit/(loss)	**(59,585)**	**(35,225)**	**(1,978)**	**(96,788)**
Total assets	**766,931**	**232,903**	**72,833**	**1,072,667**
Total liabilities	**786,604**	**197,823**	**5,921**	**990,348**
Year ended 31 December 2017				
Gross revenues	1,300,943	279,531	5,404	1,585,878
Inter-segment revenues /i/	(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	77,001	(6,854)	580	70,727
Depreciation and amortisation	(35,584)	(8,058)	-	(43,642)
Operating loss	**41,417**	**(14,912)**	**580**	**27,085**
Total assets	**1,015,535**	**219,582**	**81,859**	**1,316,976**
Total liabilities	**927,501**	**148,155**	**12,981**	**1,088,637**

Out of the total gross revenues within segment ‘Other’, amount of HRK 5,403 thousand refers to income from maintenance and management services (2017: HRK 5,404 thousand mainly income from maintenance and management services).

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

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

	Dalekovod Group	
	2018	**2017**
	(in thousands of HRK)	
Segment sales revenue	1,303,151	1,580,474
Inter-segment receivables	(144,531)	(107,984)
Unalocated:		
Other	5,403	5,404
Inter-segment receivables	(67)	-
Total revenues	**1,163,956**	**1,477,894**

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

	Dalekovod Group			
	2018		**2017**	
	thousands of	%	*thousands of*	%
Norway	522,671	44.90	577,723	39.09
Croatia	296,732	25.49	333,933	22.60
Bosnia and Herzegovina	128,560	11.05	84,894	17.07
Sweeden	79,183	6.80	14,294	5.74
Ukraine	34,555	2.97	252,258	4.72
Finland	25,148	2.16	69,730	3.14
Slovenia	22,822	1.96	46,465	1.57
Poland	20,933	1.80	11,991	1.30
Pakistan	11,653	1.00	19,261	1.22
Serbia	9,030	0.78	18,065	1.01
Slovakia	4,092	0.35	901	0.97
Montenegro	3,072	0.26	2,665	0.81
Cyprus	2,411	0.21	23,237	0.52
Saudi Arbia	916	0.08	7,652	0.18
Other abroad	2,178	0.19	14,825	0.06
Total	**1,163,956**	**100.00**	**1,477,894**	**100.00**

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	Dalekovod Group	
	2018	2017
	(in thousands of HRK)	
Energetics	823,163	1,063,252
Railroads	85,170	104,737
Sale of metal constructions	80,364	87,025
Sale of suspension and jointing equipment	58,743	93,293
Roads	41,538	55,431
Projects	27,573	26,255
Properties	4,426	2,507
Telecomunications	736	2,457
Other	42,243	42,937
Total	**1,163,956**	**1,477,894**

Revenue from construction contracts amounts to HRK 988,986 thousand (2017: HRK 1,262,226 thousand).

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2018	2017	2018	2017
Trade receivables	182,995	-	103,930	-
Retention	72,602	-	72,343	-
Contract assets	52,939	-	35,402	-
Contract liabilities	(38,237)	-	(35,614)	-
	270,299	**-**	**176,061**	**-**

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

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

Advances received for projects under construction that are active at the reporting date are presented within advances in note 35 and amount to HRK 26,333 thousand (2017: HRK 65,435 thousand) for Company and HRK 28,956 thousand (2017: HRK 70,872 thousand) for the Group.

NOTE 9 – OTHER INCOME

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
Fair valuation of libilities to secured creditors	19,489	303	19,489	303
Income from reversal of provisions	3,202	4,933	1,115	4,871
Income from penalty interest	1,942	1,209	1,771	1,148
Court settlement income	451	-	451	-
Insurance claims proceeds	331	255	295	248
Rental incomes	329	1,712	6,358	6,097
Inventory surpluses	290	367	47	80
Change in provision for impairment of trade receivables and loans - net	-	4,840	-	5,490
Other operating income	25,370	21,018	10,923	8,664
	51,404	**34,637**	**49,179**	**38,366**

Fair valuation of liabilities to creditors secured with foreclosure assets refers to decrease of these liabilities based on the change in fair value of assets under foreclosure (note 19).

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

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

NOTE 10 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Raw materials and supplies				
Raw materials and supplies	264,756	339,266	206,264	265,384
Energy	24,138	21,324	20,229	16,964
Spare parts and small inventory	17,031	14,771	12,862	10,676
	305,925	**375,361**	**239,355**	**293,024**
External services				
Subcontractor services	279,822	364,269	247,688	325,369
Transportation	26,536	21,478	8,575	7,029
Repairs and maintenance	25,227	12,791	23,308	11,112
Advertising and promotion	8,093	6,693	4,993	4,081
Rental expense	1,209	1,468	984	1,162
Other	11,757	5,607	2,651	2,042
	352,644	**412,306**	**288,199**	**350,795**
Total cost of materials and services	**658,569**	**787,667**	**527,554**	**643,819**

NOTE 11 – STAFF COSTS

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Net salaries	226,755	214,969	169,886	155,717
Taxes and contributions on and from salaries	76,735	76,489	42,991	41,261
Unused vacation days	10,384	6,910	5,914	4,534
Severance costs	3,139	896	2,811	498
Supervisory Board compensation	413	534	413	534
Other staff costs	32,395	25,223	13,236	13,632
	349,821	**325,021**	**235,251**	**216,176**

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

As at 31 December 2018, the Group had 1,484 employees (2017: 1,466 employees), and the Company had 795 employees (2017: 774 employees).

NOTE 12 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Impairment of investmets in subsidiaries	-	-	148,125	-
Daily allowances and travel cost	49,328	31,514	48,106	30,341
Impairment of trade receivables and loans – net	6,997	-	16,128	-
Intellectual and non-production services	22,424	28,575	13,318	15,647
Impairment and write-off of property, plant and equipment	14,039	831	8,658	642
Bank charges	7,930	9,314	6,384	7,483
Insurance	6,742	5,333	5,865	4,316
Impairment of investment in join ventures	5,645	-	5,645	-
Taxes and contributions	4,411	4,317	3,030	2,848
Impairment of other financial assets	1,442	1,330	1,701	1,330
Court cases	1,744	3,303	1,427	3,281
Entertainment	2,204	2,315	980	1,148
Impairment of inventories	1,085	2,653	452	-
Sponsorships, donations and other aids	693	1,076	358	706
Fines and penalties	833	3,230	195	2,116
Interest from suppliers	1,248	420	144	191
Court settlement agency cost	138	-	138	-
Inventory shortages	517	380	46	44
Impairment of non-financial assets	234	198	-	198
Other	15,040	14,105	15,669	12,300
	142,694	**108,894**	**128,244**	**82,591**

Impairment in investments in subsidiaries relates to the Dalekovod Proizvodnja Ltd (HRK 142,119 thousands), Dalekovod-Polska S.A. (HRK 3,351 thousands) and Liburana Ltd (HRK 2,655 thousands) (note 21).

Impairment and write-off of property, plant and equipment of the Group and the Company in 2018 in the amount of HRK 7,528 thousands is a result of fair valuation of assets under foreclosure (Note 19).

During 2018, Liburana d.o.o. recognised an impairment of investments in wind powerplants in the amount of HRK 3,599 thousands which additionally increased the impairment and write-off of property, plant and equipment.

NOTE 13 – OTHER GAINS/(LOSSES) – NET

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Net gain on sale of property, plant and equipment	738	(7,067)	320	(7,512)
Gains/(loss) on sale of equity investments	101	1,673	101	1,673
Liquidation of subsidiary	-	(314)	(45)	(124)
Write-off of equity instruments	(1,327)	(2,649)	(1,327)	(2,731)
Loss of control of subsidiary	421	-	-	-
Gain/(loss) from sale of associate	-	5,544	-	(1,333)
Gains from fair value changes of assets at fair value through profit and loss	-	12	-	12
Write-off of assets held for sale	-	5	-	-
	(67)	**(2,796)**	**(951)**	**(10,015)**

The loss of control over a subsidiary is related to the subsidiary company Cindal d.o.o., currently in bankruptcy and managed by a court appointed administrator.

NOTE 14 – FINANCIAL INCOME AND EXPENSES– NET

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Foreign exchange gains from financing activities - restated	36,769	28,547	34,830	25,672
Income from share in profit	4,528	3,500	15,630	3,185
Interest income	3,002	1,606	2,204	2,275
Income from unwinding of discount for guarantee deposits	1,330	839	1,330	839
Interest income on bank deposits	48	79	1	13
Other finance income	3	350	3	350
Finance income	45,680	34,921	53,998	32,334
Foreign exchange loss from financing activities - restated	(40,265)	(17,306)	(37,426)	(14,783)
Interest expense	(22,056)	(23,267)	(22,152)	(23,413)
Other financial expenses	-	-	(113)	-
Finance costs	(62,321)	(40,573)	(59,691)	(38,196)
	(16,641)	**(5,652)**	**(5,693)**	**(5,862)**

NOTE 15 – INCOME TAX

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

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Profit/(loss) before tax	**(113,429)**	**20,103**	**(227,749)**	**29,391**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	(41,686)	13,036	(36,377)	14,554
Effect of non-taxable income	(7,474)	(4,767)	(6,510)	(4,098)
Effect of non-deductible expenses	37,414	3,506	34,944	2,781
Effect of tax losses not recognised as deferred tax assets	18,046	4,050	13,217	1,806
Utilisation of tax losses for whic deferred tax assets was not recognised	(158)	(124)	-	-
Income tax expense	**6,142**	**15,701**	**5,274**	**15,043**
Effective tax rate	-	***78.1%***	-	***51.2%***

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:

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Unutilised tax losses				
Tax loss from 2013 - expires 2018	-	45,179	-	45,157
Tax loss from 2014 - expires 2019	20,361	21,238	-	-
Tax loss from 2015 - expires 2020	9,136	9,136	-	-
Tax loss from 2016 - expires 2021	61,905	61,905	61,851	61,851
Tax loss from 2017 - expires 2022	22,575	22,575	10,031	10,031
Tax loss from 2018 - expires 2023	100,305	-	73,429	-
	214,282	**160,033**	**145,311**	**117,039**

NOTE 15 – INCOME TAX (continued)

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

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

Movement in deferred tax liability

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
At beginning of year	15,235	15,233	15,235	15,233
Charged to revaluation reserves	(6,299)	2	(6,299)	2
At end of year	**8,936**	**15,235**	**8,936**	**15,235**

During 2018, the Group and the Company revaluated land and buildings under foreclosure based on a valuation report by an external certified appraiser (note 32).

NOTE 16 – 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 diluted potential ordinary shares.

	Dalekovod Group	
	2018	**2017**
Net loss attributable to shareholders *(in THRK)*	(119,571)	4,402
Weighted average number of shares	24,620,464	24,620,464
Basic/diluted loss per share *(in HRK)*	(4.86)	0.18

NOTE 17 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 101 thousand (2017: HRK 101 thousand) are presented as dividend payable within "liabilities to suppliers and other liabilities" (note 35), and relate to dividends payable to shareholders who did not submit the required payment data.

NOTE 18 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Goodwill	Rights of use	Software	Assets under construction	Total
At 1 January 2017					
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**
Year ended 31 December 2018					
At 1 January	1,213	5,171	2,040	2,579	11,003
Additions	-	-	1	5,891	5,892
Transfer	-	-	5,626	(5,626)	-
Disposals and write-offs	-	(1)	(6)	(2,122)	(2,129)
Foreign exchange differences	-	-	(2)	-	(2)
Amortisation	-	(3,102)	(965)	-	(4,067)
At 31 December	**1,213**	**2,068**	**6,694**	**722**	**10,697**
At 31 December 2018					
Cost	1,213	15,511	45,989	722	63,435
Accumulated amortisation and impairment losses	-	(13,443)	(39,295)	-	(52,738)
Net book value	**1,213**	**2,068**	**6,694**	**722**	**10,697**

NOTE 18 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Construction segment.

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

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

NOTE 18 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Rights of use	Software	Assets under construction	Total
At 1 January 2017				
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**
Year ended 31 December 2018				
At 1 January	5,170	798	817	6,785
Additions	-	-	5,414	5,414
Transfer	-	5,414	(5,414)	-
Disposals and write-offs	-	-	(817)	(817)
Amortisation	(3,102)	(704)	-	(3,806)
At 31 December	**2,068**	**5,508**	**-**	**7,576**
At 31 December 2018				
Cost	15,511	42,673	-	58,184
Accumulated amortisation	(13,443)	(37,165)	-	(50,608)
Net book value	**2,068**	**5,508**	**-**	**7,576**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2017						
Cost or revalued amount	21,793	345,757	387,750	219,343	8,927	983,570
Accumulated depreciation	-	(196,028)	(286,307)	(57,923)	-	(540,258)
Net book value	**21,793**	**149,729**	**101,443**	**161,420**	**8,927**	**443,312**
Year ended 31 December 2017						
At 1 January	21,793	149,729	101,443	161,420	8,927	443,312
Additions	-	771	7,806	-	12,788	21,365
Revaluation	-	-	-	7	-	7
Transfer	-	52	12,299	-	(12,351)	-
Transfer to investment property	-	(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**	**90,506**	**159,337**	**9,255**	**416,048**
At 31 December 2017						
Cost or revalued amount	20,612	341,011	405,844	219,350	9,255	996,072
Accumulated depreciation and impairment losses	-	(204,673)	(315,338)	(60,013)	-	(580,024)
Net book value	**20,612**	**136,338**	**90,506**	**159,337**	**9,255**	**416,048**
Year ended 31 December 2018						
At 1 January	20,612	136,338	90,506	159,337	9,255	416,048
Additions	-	-	-	-	33,503	33,503
Revaluation	-	-	-	(34,994)	-	(34,994)
Transfer	-	24	33,537	-	(33,561)	-
Transfer to equity investments	-	488	-	-	-	488
Disposals and write-offs	-	-	(500)	-	-	(500)
Loss of control over the subsidiary	-	-	(175)	-	(2,227)	(2,402)
Impairment loss	-	-	-	(7,825)	(3,599)	(11,424)
Foreign exchange differences	(51)	(227)	(447)		(260)	(985)
Depreciation	-	(8,698)	(27,640)	(2,067)	-	(38,405)
At 31 December	**20,561**	**127,925**	**95,281**	**114,451**	**3,111**	**361,329**
At 31 December 2018						
Cost or revalued amount	20,561	341,296	438,259	184,360	3,111	987,587
Accumulated depreciation and impairment losses	-	(213,371)	(342,978)	(69,909)	-	(626,258)
Net book value	**20,561**	**127,925**	**95,281**	**114,451**	**3,111**	**361,329**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
At 1 January 2017						
Cost or revalued amount	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 revalued amount	-	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**
Year ended 31 December 2018						
At 1 January	-	804	36,961	135,707	-	173,472
Additions	-	-	-	-	28,578	28,578
Revaluation	-	-	-	(34,994)	-	(34,994)
Transfer to investment property	-	-	(987)	-	-	(987)
Transfer from investment property	-	488	-	-	-	488
Transfer	-	-	28,578	-	(28,578)	-
Disposals and write-offs	-	-	(16)	-	-	(16)
Impairment loss	-	-	-	(7,825)	-	(7,825)
Foreign exchange differences	-	-	(263)	-	-	(263)
Depreciation	-	(153)	(11,758)	(2,069)	-	(13,980)
At 31 December	**-**	**1,139**	**52,515**	**90,819**	**-**	**144,473**
At 31 December 2018						
Cost or revalued amount	-	5,502	190,974	160,728	-	357,204
Accumulated depreciation	-	(4,363)	(138,459)	(69,909)	-	(212,731)
Net book value	**-**	**1,139**	**52,515**	**90,819**	**-**	**144,473**

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

On 31 December 2018, land and buildings of the Group and the Company with a net book value of HRK 38,269 thousand (2017: HRK 47,987 thousand) were pledged as collateral for loans (note 33).

On 31 December 2018, assets under foreclosure of the Group with a net book value of HRK 114,451 thousand (2017: HRK 159,342 thousand) were pledged as collaterals for loans (note 33).

On 31 December 2018, assets under foreclosure of the Company with a net book value of HRK 90,819 thousand (2017: HRK 135,706 thousand) were pledged as loan repayment insurance (note 33).

On 31 December 2018, assets under finance lease where the Company and the Group are the lessee amounted to HRK 14,517 thousand (2017: HRK 12,298 thousand).

In 2018 Company revalued assets under foreclosure resulting in a reduction of HRK 42,820 thousand. The current value of the assets under foreclosure amounts to HRK 114,449 thousand and liabilities for secured pre-bankruptcy creditors were revalued accordingly (note 6 and note 33).

NOTE 20 – INVESTMENT PROPERTY

Group

(in thousands of HRK)	Land	Buildings	Total
At 1 January 2017			
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
Additions	-	-	-
Transfer from property, plant and equipment	-	542	542
Disposals and write-offs	-	(6,140)	(6,140)
Depreciation	-	(286)	(286)
Impairment loss	-	-	-
At 31 December	-	**488**	**488**
At 31 December 2018			
Cost	-	9,462	9,462
Accumulated depreciation	-	(8,974)	(8,974)
Net book value	-	**488**	**488**
Year ended 31 December 2018			
At 1 January	-	488	488
Additions	-	-	-
Transfer from property, plant and equipment	-	(488)	(488)
Sale of subsidiary	-	-	-
Depreciation	-	-	-
Impairment loss	-	-	-
At 31 December	-	-	-
At 31 December 2018			
Cost	-	8,974	8,974
Accumulated depreciation and impairment losses	-	(8,974)	(8,974)
Net book value	-	-	-

NOTE 20 – INVESTMENT PROPERTY (continued)

Company

(in thousands of HRK)	Land	Buildings	Assets under foreclosure	Total
At 1 January 2017				
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
Additions	-	-	-	-
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 1 January 2018				
Cost	12,461	373,477	23,630	409,568
Accumulated depreciation	-	(245,872)	-	(245,872)
Net book value	**12,461**	**127,605**	**23,630**	**163,696**
Year ended 31 December 2018				
At 1 January	12,461	127,605	23,630	163,696
Additions	-	-	-	-
Revaluation		-	-	-
Transfer to property, plant and equipment	-	(488)	-	(488)
Transfer from property, plant and equipment	-	987	-	987
Disposals and write-offs	-	-	-	-
Depreciation	-	(15,168)	-	(15,168)
At 31 December	**12,461**	**112,936**	**23,630**	**149,027**
At 31 December 2018				
Cost	12,461	373,976	23,630	410,067
Accumulated depreciation and impairment losses	-	(261,040)	-	(261,040)
Net book value	**12,461**	**112,936**	**23,630**	**149,027**

Land and buildings with a net book value of HRK 78,596 thousand (2017: HRK 89,903 thousand) have been pledged as collateral for finance leases payable.

NOTE 20 – INVESTMENT PROPERTY (continued)

On 31 December 2018, land and buildings of the Company with a net book value of HRK 38,269 thousand (2017: HRK 47,987 thousand) were pledged as collateral for borrowings (note 33).

On 31 December 2018, assets under foreclosure of the Company with a net book value of HRK 23,630 thousand (2017: HRK 23,630 thousand) were pledged as collateral for borrowings (note 33).

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 7 and 35, three creditors (banks) decided to have their claims settled outside the scope of the pre-bankruptcy settlement, from proceeds of future sale of assets under foreclosure (pledged as security).

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

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

NOTE 21 – INVESTMENTS IN SUBSIDIARIES

(in thousands of HRK)	Dalekovod d.d. 2018	2017
At 1 January	280,799	276,892
Additions /i/	-	4,031
Decrease /ii/	(45)	(124)
Impairment /iii/	(148,125)	-
Transfer od shares /iv/	-	-
Merger /v/	-	-
Transfer to assets held for sale /vi/	(73,375)	-
At 31 December	**59,254**	**280,799**

/i/ During 2018 there were no additional investments in subsidiaries (2017: by transfer of loans receivable, investment in subsidiary Dalekovod Polska S.A was increased by HRK 4.031).

/ii/ The decrease in the amount of HRK 45 thousand in 2018 relates to liquidation of companies Poldal Energie S.A., Poldal Connect S.A., Poldal Towerds S.A., Poldal KV S.A., Poldal the Bridge S.A. (2017: decrease in investment relates to the liquidation of Dalekovod Grenland).

/iii/ During 2018, the following investments were impaired: Dalekovod Proizvodnja Ltd. by HRK 142,119 thousand; Dalekovod-Polska S.A. by HRK 3,351 thousand; and Liburana Ltd. by HRK 2,655 thousand. During previous years, the Company impaired investments in the following subsidiaries: Dalekovod TKS a.d., Cindal Ltd, Denacco Namibia (PTY) Ltd, Dalekovod Libija, Dalekovod-Adria Ltd and partially in subsidiaries Dalekovod-Polska S.A. and Dalekovod Proizvodnja Ltd. Impairment losses relating to Dalekovod Proizvodnja are the consequence of changes in restructuring plans related to the this company.

/iv/ During 2017, there was a demerger of a newly established company Liburana Ltd, from subsidiary Dalekovod Professio Ltd.

/v/ During 2018, the company Esco Ltd. was merged with the company Liburana Ltd.

/vi/ Based on General Assembly decision dated November 2nd 2018, Dalekovod Professio d.o.o. was transformed to Public Limited Company – Dalekovod Professio d.d.

/vii/ Shares in company Dalekovod Professio d.d. are reclassified to assets held for sale. The sale was realized in the period after the reporting date (note 40).

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 21 – INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of incorporation	Primary activity	2018	2017	2018	2017
			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	16,943
Dalekovod TKS a.d., Doboj /iii/	Bosnia and Herzegovina	Production	97.25	97.25	20,344	20,344
Dalekovod Professio d.o.o., Zagreb	Croatia	Other	100.00	100.00	-	73,375
Denacco Namibia (PTY) Ltd /iii/	Namibia	Construction	60.00	60.00	18	18
Liburana d.o.o., Zagreb /iv/ , /v/	Croatia	Production	100.00	0.00	3,674	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	Libya	Construction	65.00	65.00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	Construction	100.00	100.00	74	74
Dalekovod Norge AS /i/	Norway	Construction	100.00	100.00	2,072	2,072
Dalekovod ESCO d.o.o., Zagreb /iv/	Croatia	Other	-	100.00	-	20
POLDAL ENERGIE Sp. z o.o. /i/	Poland	Construction	-	100.00	-	9
POLDAL CONNECT Sp. z o.o. /i/	Poland	Construction	-	100.00	-	9
POLDAL TOWERS Sp. z o.o. /i/	Poland	Construction	-	100.00	-	9
POLDAL KV Sp. z o.o. /i/	Poland	Construction	-	100.00	-	9
POLDAL THE BRIDGE 7 Sp. z.o.o. /i/	Poland	Construction	-	100.00	-	9
Impairment of investments /iii/					(263,623)	(115,498)
					59,254	**280,799**

NOTE 22 – INVESTMENTS IN ASSOCIATES

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
At beginning of year	4	2,740	4	8,287
Share in profit/(loss)	-	(1,330)	-	-
Decrease /i/	-	(1,406)	-	(8,283)
At end of year	**4**	**4**	**4**	**4**

Associates are as follows:

(in thousands of HRK)	Dalekovod Group		Holding in %	
	2018	2017	2018	2017
TLM Group Members	4	4	25-47	25-47

/i/ During 2017 investment in Unidal with carrying value of HRK 8,283 thousand were sold to Unior Kovaška industrija d.d., Zreče Slovenia for the sale price of HRK 6,950 thousand. During 2017, until the disposal date, Unidal realised loss in the amount of HRK 2,979 thousand.

NOTE 23 – INVESTMENTS IN JOINT VENTURE

(in thousands of HRK)	Dalekovod Grupa		Dalekovod d.d.	
	2018.	2017.	2018.	2017.
At beginning of year	-	-	-	-
Additional investments	17,237	-	17,237	-
Impairment of investment in joint ventures	(5,645)	-	(5,645)	-
At end of year	**11,592**	**-**	**11,592**	**-**

(in thousands of HRK)	Dalekovod Group		Holding in %	
	2018	2017	2018	2017
Officium partner d.o.o.	11,592	-	50	-

During 2018, the Company acquired 50% stake in the company Officium partner Ltd as consideration for the payment of receivables resulting from the sale of the subsidiary Dalekovod Ulaganja realized in 2016. Based on the valuation, the value of the share was reduced to HRK 11,592 thousand.

NOTE 23 – INVESTMENTS IN JOINT VENTURE (CONTINUED)

Financial information on the joint venture can be summarized as follows:

	Asset	Liabilities	Revenues	Net profit/(loss)
Officium partner d.o.o.	679.148	638.711	64.802	8.583

NOTE 24 – EQUITY INVESTMENTS

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	**2017**	**2018**	**2017**
At beginning of year	1,602	4,571	1,346	4,077
Decrease	(270)	(320)	(19)	-
Adjustment to fair value	(1,327)	(2,649)	(1,327)	(2,731)
At end of year	**5**	**1,602**	-	**1,346**

/i/ Decrease refers to the sale of equity investments.

/ii/ The fair value decrease at the Group and Company level of HRK 1,327 thousand refers to loss from remeasurement of equity investments at fair value recognised in profit or loss (note 13) (2017: decrease of HRK 2,731 thousand at Company level and decrease of HRK 2,649 at Group level).

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

(in thousands of HRK)	Note	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Total
31 December 2018					
Financial assets					
Trade receivables	26 , 28	188,005	-	-	**188,005**
Receivables from construction contracts	28	52,939	-	-	**52,939**
Loans receivable and deposits	26 , 28	107,468	-	-	**107,468**
Interest receivable	28	(1,490)	-	-	**(1,490)**
Other receivables	28	71,098	-	-	**71,098**
Equity investments	24	-	-	5	**5**
Cash and cash equivalents	30	66,179	-	-	**66,179**
Total		**484,199**	**-**	**5**	**484,204**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2018		
Financial liabilities		
Loans	33	315,987
Commercial papers	33	16,871
Finance lease	33	102,477
Mezzanine debt	34	83,807
Trade payables	35	251,489
Other payables	35	31,481
Total		**802,112**

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

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

(in thousands of HRK)	Note	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Total
31 December 2017					
Financial assets					
Trade receivables	26 , 28	230,743	-	-	**230,743**
Receivables from construction contracts	28	88,721	-	-	**88,721**
Loans receivable and deposits	26 , 28	168,326	-	-	**168,326**
Interest receivable	28	84	-	-	**84**
Other receivables	28	85,710	-	-	**85,710**
Equity investments	24	-	-	1,602	**1,602**
Financial assets at fair value through profit or loss	29	-	497	-	**497**
Cash and cash equivalents	30	107,378	-	-	**107,378**
Total		**680,962**	**497**	**1,602**	**683,061**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2017		
Financial liabilities		
Loans	33	349,428
Commercial papers	33	18,132
Finance lease	33	114,039
Mezzanine debt	34	82,717
Trade payables	35	278,597
Other payables	35	16,765
Total		**859,678**

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

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Total
31 December 2018					
Financial assets					
Trade receivables	26 , 28	108,763	-	-	**108,763**
Receivables from construction contracts	28	35,402	-	-	**35,402**
Loans receivable and deposits	26 , 28	114,540	-	-	**114,540**
Interest receivable	28	986	-	-	**986**
Other receivables	28	68,509	-	-	**68,509**
Cash and cash equivalents	30	51,077	-	-	**51,077**
Total		**379,277**	**-**	**-**	**379,277**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2018		
Financial liabilities		
Loans	33	302,801
Bonds	33	22,234
Finance lease	33	101,867
Mezzanine debt	34	91,444
Trade payables	35	156,524
Other payables	35	25,801
Total		**700,671**

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

NOTE 25 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Total
31 December 2017					
Financial assets					
Trade receivables	26, 28	166,007	-	-	**166,007**
Receivables from construction contracts	28	75,396	-	-	**75,396**
Loans receivable and deposits	26, 28	169,778	-	-	**169,778**
Interest receivable	28	2,473	-	-	**2,473**
Other receivables	28	84,501	-	-	**84,501**
Equity investments	24	-	-	1,346	**1,346**
Financial assets at fair value through profit or loss	29	-	497	-	**497**
Cash and cash equivalents	30	89,349	-	-	**89,349**
Total		**587,504**	**497**	**1,346**	**589,347**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2017		
Financial liabilities		
Loans	33	329,096
Bonds	33	24,302
Finance lease	33	113,281
Mezzanine debt	34	90,605
Trade payables	35	226,048
Other payables	35	12,409
Total		**795,741**

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

NOTE 26 – LOANS AND RECEIVABLES

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Long-term deposits	11,975	12,473	8,322	8,333
Long-term guarantee deposits	29,625	49,581	29,490	49,252
Long-term trade receivables	5,010	6,455	4,833	6,127
Other long-term receivables	15	36	15	36
Long-term loans receivable:				
- loans to subsidiaries	-	-	6,758	7,127
- housing loans and other loans to employees	1,324	1,811	219	416
- loans to other companies	18,830	18,830	18,830	18,830
Impairment of long-term deposits and loans receivables	(20,272)	(9,883)	(20,274)	(9,883)
Impairment of other receivables	(4,999)	(6,650)	(4,822)	(6,116)
	41,508	**72,653**	**43,371**	**74,122**

Deposits

Deposits are mostly denominated in EUR and used as collateral for bank guarantees. Some deposits are not interest bearing and other had effective interest rates during 2012, 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 26 – LOANS AND RECEIVABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
At 1 January	9,883	9,390	9,883	9,390
Unwinding of discount on guarantee deposits	112	493	112	493
Provision for impairment of trade receivables and other financial assets (note 12)	10,277	-	10,279	-
At 31 December	**20,272**	**9,883**	**20,274**	**9,883**

NOTE 27 – INVENTORIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Raw materials	54,217	48,563	8,555	4,989
Finished and semi-finished goods and work in progress	29,279	32,995	531	218
Spare parts and small inventories	5,975	6,217	1,369	1,512
Trade goods	7,676	7,530	1,187	1,522
Advances for inventories	273	254	-	-
	97,420	**95,559**	**11,642**	**8,241**

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

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

NOTE 28 – TRADE AND OTHER RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2018	2017	2018	2017
Domestic trade receivables	148,403	152,803	115,281	132,607
Foreign trade receivables	124,643	164,557	78,974	119,348
Impairment of trade receivables	(90,051)	(93,072)	(90,325)	(92,075)
	182,995	224,288	103,930	159,880
Receivable from customers for contract work	52,939	88,721	35,402	75,396
Guarantee deposits – current portion	42,977	74,758	42,853	70,439
Short-term deposits /iii/	4,545	7,073	3,356	2,233
Loans to subsidiary	-	-	27,330	21,775
Other short-term loans /i/	24,673	26,585	24,556	24,022
Interest receivable	8,290	7,687	12,357	11,652
Other receivables	79,967	94,579	77,378	93,370
Impairment of other financial assets	(19,874)	(22,760)	(42,333)	(34,734)
Total financial assets	376,512	500,931	284,829	424,033
Advances /ii/	26,604	34,550	31,038	46,581
Receivable from employees	168	24	145	5
VAT receivable	14,653	10,215	12,773	7,320
Outstanding VAT receivable	1,133	1,934	154	887
Prepaid expenses	4,279	3,105	2,824	2,583
Impairment of non-financial assets	(6,247)	(6,247)	(6,247)	(6,247)
Total non-financial assets	40,590	43,581	40,687	51,129
	417,102	**544,512**	**325,516**	**475,162**

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

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

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

NOTE 28 – TRADE AND OTHER RECEIVABLES (continued)

/iv/ Other receivables include receivable from Ministry of finance in the amount of HRK 50,000 thousand (2017: HRK 50,000 thousand).

The ageing of trade receivables is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Not due	100,284	153,882	53,439	126,769
Up to 90 days	54,340	41,321	31,870	13,321
From 91 to 180 days	15,239	5,321	13,897	4,589
Over 180 days	13,132	23,764	4,724	15,201
	182,995	**224,288**	**103,930**	**159,880**

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)	**2018**	**2017**	**2018**	**2017**
At 1 January	115,832	126,420	126,809	136,737
Impairment of trade receivables and other financial assets	3,429	922	10,365	-
Collected amounts	(6,709)	(5,762)	(4,516)	(5,490)
Transfer to impairment of equity investments	-	(1,729)	-	(1,729)
Transfer from impairment of equity investments	-	(1,294)	-	(1,294)
Receivables written-off during the year as uncollectible	(2,627)	(2,725)	-	(1,415)
At 31 December	**109,925**	**115,832**	**132,658**	**126,809**

NOTE 28 – TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	**2017**	**2018**	**2017**
HRK	159,000	213,440	126,394	176,942
EUR	107,808	142,711	56,824	112,290
NOK	73,458	44,270	73,208	44,270
UAH	15,061	83,446	15,051	83,437
Other currencies	21,185	17,064	13,352	7,094
Total	**376,512**	**500,931**	**284,829**	**424,033**

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 29 – 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 2018, the Company sold its investments in domestic cash funds.

As at 31 December 2018, the fair value of these assets in the Group and the Company amounted to HRK zero (2017: HRK 497 thousand).

NOTE 30 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
Cash at bank and petty cash in domestic currency	7,387	30,236	4,803	23,988
Cash at bank and petty cash in foreign currency	58,792	77,142	46,274	65,361
	66,179	**107,378**	**51,077**	**89,349**

Cash and cash equivalents are denominated in the following currencies:

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
EUR	12,365	33,756	7,704	31,492
NOK	32,912	32,146	32,704	30,241
UAH	5,051	294	4,886	190
Other currencies	8,464	10,946	980	3,438
Total	**58,792**	**77,142**	**46,274**	**65,361**

NOTE 31 – ASSETS HELD FOR SALE

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
Velika Popina d.o.o.	16,298	16,298	-	-
Eko d.o.o.	48,740	48,740	-	-
Dalekovod Professio d.d.	-	-	73,375	-
Total	**65,038**	**65,038**	**73,375**	-

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.

Shares in subsidiary Dalekovod Professio have been reclassified as held for sale with respect to the decision to sell and at the end of the year the initiated sales process.

NOTE 32 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2018 amounts to HRK 247,193 thousand (2017: HRK 247,193 thousand) and consists of 24,719,305 shares (2017: 24,719,305 shares). Nominal value of a share amounts to HRK 10 (31 December 2017: HRK 10).

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

	Number of shares		Holding	
	2018.	2017.	2018.	2017.
Konsolidator d.o.o.	15,000,000	15,000,000	60.68%	60.68%
Individuals	5,143,059	4,680,685	20.81%	18.94%
Financial institutions	3,821,608	4,149,466	15.46%	16.79%
Others	655,797	790,313	2.65%	3.20%
Treasury shares	98,841	98,841	0.40%	0.40%
	24,719,305	**24,719,305**	**100.00%**	**100.00%**

During Q1 2018, a new management company was appointed to manage the fund which owns the majority owner of Dalekovod d.d. The new management company is Inspire investments d.o.o.

Share premium

Share premium as at 31 December 2018 amounts to HRK 88.236 thousand (2017: HRK 87.215 thousand).

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

During 2018 there was an increase of share premium by HRK 1,021 thousand (2017: 1.073 THRK) which increase relates to share-based payments (note 37).

Legal reserves

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

NOTE 32 – SHAREHOLDERS' EQUITY (continued)

Treasury shares

As at 31 December 2018, the Company owns 98,841 treasury shares (2017: 98,841 treasury shares).

Statutory and other reserves

Statutory and other reserves consist of statutory reserves in the amount of HRK 40,654 thousands (2017: HRK 40,654 thousands) and reserves for own shares in the amount of HRK 8,466 thousand (2017: HRK 8,466 thousand).

Revaluation reserves

During 2018, the Group and the Company performed a revaluation of land and buildings on the sites in Žitnjak and Dugo Selo based on the assessment of an certified external appraiser.

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

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

NOTE 33 – BORROWINGS

(in thousands of HRK)	Average interest rate	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Non-current					
Loans from banks and subsidiaries - restated	4.00%	264,795	300,450	264,791	304,260
Bonds	4.00%	16,871	18,132	22,234	24,302
Finance lease /i/	4.66%	85,688	97,886	85,321	97,453
		367,354	**416,468**	**372,346**	**426,015**
Current					
Loans from banks and subsidiaries - restated	4.00%	51,192	48,978	38,010	24,837
Bonds	4.00%	1,183	1,161	1,585	1,160
Finance lease /i/	4.69%	16,789	16,153	16,546	15,828
		69,164	**66,292**	**56,141**	**41,825**
Total borrowings		**436,518**	**482,760**	**428,487**	**467,840**

Gross liabilities under the finance lease – minimum lease payments:

(in thousands of HRK)	Dalekovod Group 2018	Dalekovod Group 2017	Dalekovod d.d. 2018	Dalekovod d.d. 2017
Up to 1 year	18,684	18,517	18,392	18,180
Between 1 to 5 years	87,882	101,503	87,536	101,059
Over 5 years	-	-	-	-
	106,566	120,020	105,928	119,239
Future finance costs under finance lease	(4,089)	(5,981)	(4,061)	(5,958)
Present value of liabilities under finance lease	**102,477**	**114,039**	**101,867**	**113,281**

In the total amount of loans received form banks and subsidiaries disclosed by the Company and the Group on 31 December 2018, part of the debt in the amount of 60.364 thousand (2017.: HRK 79,503 thousand) relates to three banks holding first-rank pledges over the Company's assets which refinance their claims until such assets are transferred to them by activation of their enforceable pledges and foreclosure. Furthermore, the Company also owes a debt to one of those banks based on unpaid guarantees in the amount of HRK 6,309 thousand as at 31 December 2018 (2017: HRK 6,309 thousands).

NOTE 33 – BORROWINGS (continued)

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

The Company and the Group as at 31 December 2018 and 31 December 2017, according to the accounting policy for assets under foreclosure, have fair valued the corresponding loan obligation and other liabilities (guarantees) which relate to assets under foreclosure (notes 6, 19 and 20).

The Group's borrowings totalling HRK 26,903 thousand (2017: HRK 22,577 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 316,037 thousand (2017: HRK 398,435 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%, according to pre-bankruptcy settlement, while interest rate on other finance leases 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)	**2018**	**2017**	**2018**	**2017**
EUR	224,212	213,325	208,693	198,297
HRK	211,923	259,366	218,197	267,897
Other	383	10,069	1,597	1,646
Total	**436,518**	**482,760**	**428,487**	**467,840**

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Between 1 to 5 years	96,654	97,682	96,650	101,492
Over 5 years	168,141	202,768	168,141	202,768
	264,795	**300,450**	**264,791**	**304,260**

NOTE 34 – MEZZANINE DEBT

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Long-term	26,946	24,208	31,381	28,605
Short-term	56,861	58,509	60,063	62,000
	83,807	**82,717**	**91,444**	**90,605**

Movements in Mezzanine debt are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
At 1 January	82,717	81,675	90,605	89,373
Increase	1,090	1,042	839	1,232
At 31 December	**83,807**	**82,717**	**91,444**	**90,605**

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
HRK	58,496	49,630	66,133	57,652
EUR	25,311	33,087	25,311	32,953
	83,807	**82,717**	**91,444**	**90,605**

NOTE 35 – TRADE AND OTHER PAYABLES

Long-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Trade payables	766	1,437	856	1,526
	766	**1,437**	**856**	**1,526**

Short-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Domestic trade payables	121,534	102,561	94,338	77,324
Foreign trade payables	129,189	174,599	61,330	147,198
	250,723	277,160	155,668	224,522
Interest payable	4,925	4,437	5,090	4,747
Dividends payable (note 17)	101	101	101	101
Contractual liabilities from acquisition	10	1,672	10	1,672
Other accruals and liabilities - restated	26,445	10,555	20,600	5,889
Financial liabilities	**282,204**	**293,925**	**181,469**	**236,931**
Advances	28,956	70,872	26,333	65,435
Deferred income	14,688	13,308	14,688	13,308
Due to employees - restated	48,039	55,813	27,865	35,915
VAT payable	18,956	11,872	17,277	10,374
Taxes and contributions	7,305	8,194	3,298	4,345
Unused vacation days	6,939	6,866	4,264	4,534
Non-financial liabilities	**124,883**	**166,925**	**93,725**	**133,911**
	407,087	**460,850**	**275,194**	**370,842**

NOTE 35 – TRADE AND OTHER PAYABLES (continued)

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
HRK	699	1,437	856	1,526
EUR	67	-	-	-
Total	**766**	**1,437**	**856**	**1,526**

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2018	2017	2018	2017
HRK	162,895	123,257	121,528	87,583
EUR	43,927	14,893	11,625	8,416
NOK	19,233	22,737	19,434	22,737
UAH	13,601	113,413	13,601	113,413
Other currencies	42,548	19,625	15,281	4,782
Total	**282,204**	**293,925**	**181,469**	**236,931**

NOTE 36 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Retirement benefits	Other provisions	Total
At 1 January 2018	3,119	3,051	18,965	25,136
Increase	187	3,599	1,752	5,537
Decrease	(482)	(213)	(942)	(1,637)
At 31 December 2018	**2,824**	**6,437**	**19,775**	**29,036**

Analysis:	**2018**	**2017**
Non-current portion	24,902	22,476
Current portion	4,134	2,660
Total	**29,036**	**25,136**

Company

(in thousands of HRK)	Jubilee awards	Retirement benefits	Other provisions	Total
At 1 January 2018	1,608	1,547	18,650	21,805
Increase	177	1,473	1,427	3,077
Decrease	(354)	(213)	(767)	(1,334)
At 31 December 2018	**1,431**	**2,807**	**19,310**	**23,548**

Analysis:	**2018**	**2017**
Non-current portion	20,753	19,600
Current portion	2,795	2,205
Total	**23,548**	**21,805**

Provisions for jubilee awards and retirement benefits

These provisions relate to estimated long-term employee benefits for jubilee awards and regular retirement benefit at the time of retirement according to the Collective Labour agreement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 5.71% for the Group, and 4.0% for the Company (2017: Group 5,36%, Company 3.00%); 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 62 years for men and 62 years for women).

NOTE 36 – PROVISIONS (continued)

Other provisions

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

NOTE 37 – 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
Options granted to key management of the Group			
As at 31 December 2017	295,844	Service during the contracted vesting period	31.12.2020
As at 31 December 2018	288,700	Service during the contracted vesting period	31.12.2020

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 37 – SHARE BASED PAYMENTS (continued)

Fair value measurement (continued)

Share option programme for key management	2018.	2017.
Fair value at grant date (weighted average)	7.25	7.25
Share price at grant date (weighted average)	18.90	18.90
Exercise price (weighted average)	14.07	14.07
Expected volatility (weighted average)	35.04%	35.04%
Expected life (weighted average in years)	2.0	2.0
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.97%	5.97%

Expense recognised in profit or loss	2018.	2017.
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,021	1,073

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

	2018.		2017.	
	Number of options	Weighted average excercise price	Number of options	Weighted average excercise price
Outstanding at 1 January	295,844	14.07	-	-
Forfeited	(7,144)	14.07	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Granted	-	-	295,844	14.07
Outstanding at 31 December	**288,700**	**14.07**	**295,844**	**14.07**
Exercisable at 31 December	**288,700**	**14.07**	**-**	**-**

As at 31 December 2018, there are 288,700 of outstanding options (2017: 295,844).
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 2 years at year end.

NOTE 38 – RELATED PARTY TRANSACTIONS

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

In the ordinary course of business operations, the Company enters into related party transactions, which include the purchase of goods and services and loans. The nature of services with related parties is based on arm's length terms. In addition to the subsidiaries presented in note 21, associates presented in note 22 and joint ventures presented in note 23, the Company's related parties include its Management Board, Executive Directors, owners and ultimate owner Inspire Investments d.o.o.

The Company has no transactions with the ultimate owner.

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

Revenues and expenses

(in thousands of HRK)	**2018**	**2017**
Sales revenue	7,276	33,861
Rental income	6,163	4,975
Interest income	500	798
Dividend income	15,406	3,185
Other incomes	8,597	11,155
	37,942	**53,974**
Cost of goods sold	13,897	3,232
Cost of raw materials and supplies	86,377	34,377
Subcontractor services	19,926	2,140
Other operating expenses	104	1,105
Interest expense and foreign exchange losses	344	960
	120,648	**41,814**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	2018	2017
Trade receivables	21,826	23,476
Interest income	4,165	4,206
Advances	7,244	9,679
Loans receivable	26,487	70,948
	59,722	**108,309**
Trade payables	19,634	8,419
Mezzanine debt	6,092	8,091
Interest payable	426	441
Bonds	5,766	6,170
Advances	867	-
Loans payable	6,152	5,246
	38,937	**28,367**

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

Revenues and expenses

(in thousands of HRK)	2018	2017
Interest income	511	-
	511	**-**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	**2018**	**2017**
Trade receivables	55	-
Interest receivable	592	-
Loans receivable	10,279	-
	10,926	**-**

Receivables relating to interest and loans receivable are fully impaired. In addition to the Company, other Group members have dealings with joint ventures 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)	**2018**	**2017**
Sales revenue	5,400	5,400
	5,400	**5,400**

Receivables, payables and loans

(in thousands of HRK)	**2018**	**2017**
Trade receivables	1,375	1,813
	1,375	**1,813**
Loans payable	2,000	2,000
	2,000	**2,000**

Transactions with key management

Key management consists of Management Board and Executive Directors, 20 people in total. Remuneration to key management at Group's level amounted to HRK 17,658 thousand (2017: HRK 21,801 thousand), while remuneration at the level of the Company amounted to HRK 13,907 thousand (2017: 16,986 thousand).

Remuneration to Supervisory Board amounted to HRK 413 thousand (2017.: 534 thousand).

NOTE 39 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2018, 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 1,095,053 thousand (2017: HRK 1,273,655 thousand).

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
Up to 1 year	3,612	2,098	3,145	2,023
Between 1 to 5 years	6,555	888	5,541	718
Over 5 years	-	-	-	-
	10,167	**2,986**	**8,686**	**2,741**

As at 31 December 2018, 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 408.183 thousand and HRK 358.819 thousand (2017: HRK 533.826 thousand Group and HRK 483.471 thousand Company). The Company is additionally exposed as a co-debtor for borrowings of subsidiaries in the total amount of HRK 81.230 thousand (2017: HRK 19.040 thousand).

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on the opinion of the Management Board and its legal counsel, provision have been created for those court cases that will result in losses and were those losses can be estimated (note 36). In addition to those court cases for which provision have been made, there are legal disputes for which Management Board and legal counsel believe will not result in significant losses.

NOTE 40 – EVENTS AFTER THE REPORTING DATE

After 31 December 2018, Dalekovod Professio d.d. was sold for HRK 115,003 thousands and by doing that the Company fulfilled one more obligation conditioned in pre-bankruptcy settlement. The Company payed HRK 60,250 thousand to Mezzanin lenders through this transaction.

On 5th of February 2019 Dalcom Engineering Außenhandelsgesellschaft GmbH was liquidated.