



2019

**DALEKOVOD D.D.
CONSOLIDATED AND SEPARATE ANNUAL REPORT**

5/19/20

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



Business revenues, EBITDA and net profit Dalekovod Group

HRK 1,252.2 million

BUSINESS REVENUE

HRK 43.9 million

ADJUSTED EBITDA

HRK 3.3 million

NET PROFIT

Business income, EBITDA and net profit Dalekovod d.d.

HRK 981.6 million

BUSINESS REVENUE

HRK 62.4 million

ADJUSTED EBITDA

HRK 5.8 million

NET PROFIT

1949 1979 2004 2005 2006 2007 2009 2010 2011 2013 2016 2019

FOUNDATION OF DALEKOVOD

TL

CROATIA AND SLOVENIA 400 kV RING

ISLAND 420 kV, 230 km

ALBANIA 400 kV, 150 km

NORWAY 420 kV, 103 km

KAZAKHSTAN 500 kV, 390 km

GREENLAND 66 kV, 45 KM

UKRAINE 750 kV, 135 km

SLOVENIA 400 kV, 110 kV

NORWAY, SWEDEN, FINLAND 420 kV, 180 km

SS

BOSNIA AND HERZEGOVINA 400/220/110/35 kV

CROATIA 400/220/110 kV

NORTH MACEDONIA 400/110 kV

CROATIA 220/110/35/20 kV

CROATIA 110/35/20 kV

SWEDEN 400 kV

MONTE NEGRO 400/110 kV

NORTH MACEDONIA 400/110 kV

NORWAY 400 kV

INFRA

CROATIA RAILWAY

CROATIA HIGHWAY ZG-ST-DU

CROATIA HIGHWAY BM-OS-DA

CROATIA HIGHWAY RI-ZG

CROATIA RAILWAY DS-KŽ ROADS HIGHWAYS

SUCCESSFUL STORY CONTINUES

70 YEARS OF SUCCESSFUL HISTORY

1. MANAGEMENT REPORT

Key messages

Audited results for 2019 show the trend of business recovery after very challenging financial result in 2018. In addition to achieving main goals aimed at stabilizing revenues and profit, year has been marked with start of restructuring process and strong growth of new contracted jobs.

The beginning of the year has been marked by the sale of wind farms (Dalekovod Professio d.d.) which has provided Group with funds to reduce the debt and liquidity necessary to start restructuring process and to ensure growth of the Group. In context of the restructuring process, a plan aimed at operational and financial restructuring has been developed with the aim of improving the cash flows and business processes of the Group. Management obtained support for the overall restructuring process from Union and Workers' Council, resulting in lower restructuring costs compared to the first estimates. During the year, new organizational structure of Dalekovod d.d. (hereinafter referred to as the company or parent company) and other members of the Group was adopted. With the new organizational structure, a more cost-effective business process has been established that can adequately respond to the challenges and dynamics of the future development of the Group. Employee number structure has changed significantly so in comparison to the previous year, number of employees in business support was reduced, approximately by 20% , while the number of employees in the workplaces related to project activities increased by approximately 10%. Increase in employees number related to project activities is the result of strong contracting dynamics during 2019.

Company Cinčaonica usluge d.o.o., was founded In April 2019. and took over activities related to business segment of galvanizing and painting services. It was previously an integral part of company Proizvodnja MK and OSO d.o.o.

After aforementioned transaction, company Proizvodnja MK and OSO d.o.o. continued to operate within two business segments: production of metal structures and manufacture of jointing and suspension equipment. The extraction of galvanizing business segment resulted in clearer indicators of operations of each segment which is foundation for Group management for further strategy of development of both companies, Proizvodnja MK and OSO d.o.o. and Cinčaonica usluge d.o.o.

The activities focused on cost level and cost optimization were mostly implemented during the year, while the Group management intensively works on implementation of other activities foreseen in the restructuring plan. The most significant ones would be process improvement related to project activities, especially in contracting part, realization of projects and procurement process.

During the year there was strong dynamic of contracting and offering related to project activities or execution of works and designing. Parent company participated in over 60 tenders and similar activity was recorded in other Group members. In the production segment there was a decrease in contracting dynamics as a consequence of the financial position and competitiveness of production segment of the Group and company Proizvodnja MK and OSO d.o.o.

Despite a clear trend of recovery during 2019. The Group operated in limited liquidity conditions and, with the implementation of key internal activities, depended on the immediate support of key creditors, financial institutions. By virtue of financial indicators improvement

during the year the Group ensured a guarantee framework of EUR 14 million in the last quarter of 2019. This framework partially ensured the needs of the Group for projects obtained or contracted during 2019.

In the coming period, given clear indicators of recovery and perspective, i.e. activities in Group and company markets, the highest emphasis is on the need to ensure sufficient guarantee frameworks with commercial banks. In addition, Group Management continues with financial restructuring activities in order to improve Groups financial position.

Financial results for 2019

Trend of business recovery has also been reflected in the temporary unrevised financial indicators of the Group and Company. Business revenue of the Group amounts to HRK 1.3 billion, representing an increase of 3.1% and sales revenue rose by 5.4%. In the parent company (Dalekovod d.d.) revenue is higher by 6.4% and amounts to HRK 982 million and sales revenue is up by 9%. The growth of the Group's revenue comes mainly from the growth of the parent company as a consequence of strong contracting and project activities. During the year, company contracted or was selected as the best bidder on projects worth over 1.4 billion, which ranks 2019 as one of the most successful business years in that aspect. Current value of contracted works of the parent company is over HRK 1.6 billion.

In the reporting period, EBITDA margin of the Group was 5.4% and 5.9% of the parent company. The Group EBITDA amounts to HRK 67.6 million and is higher by HRK 121.9 million compared to the previous year, while in the parent company, it amounted to HRK 58 million and increased by HRK 247.1 million compared to the previous year. During the year, EBITDA margin was influenced by numerous one-off items that were mainly result of restructuring process in the Group and parent company. **One-off items of the Group amounted to HRK 23.6 million and adjusted Group EBITDA amounted to HRK 43.9 million. One-off items in parent company amounted to HRK 4.4 million and adapted EBITDA HRK 62.4 million.** Dalekovod Group made a profit of HRK 3.3 million and thus achieved significant growth compared to the previous year, while the profit of the parent company amounted to HRK 5.8 million and also recorded significant growth compared to the previous year.





OVERVIEW OF KEY BUSINESS SEGMENTS

Energy Sector (transmission line and substation construction) recorded a significant increase in revenue of 9% and amounted to HRK 803.5 million. Within the Sector, revenue growth was recorded in the TL department, while substation department recorded a decline in revenue due to a decrease in activity in that business segment. Energy sector has successfully completed six very important projects abroad during 2019. In particular, projects in Norway, 420kv TL Western Corridor worth 64 million, 420kv TL Namsos - Afjord worth EUR 49 million and 420kv TL Modalen - Mongstad worth EUR 33 million. The latter two projects were extremely demanding from the technical aspect and during three-year duration of implementation, parent company faced many difficulties, which ultimately negatively reflected on expected financial results of both projects and parent company. Transmission line division of Energy Sector is executing 22 large projects with a total value of EUR 251.9 million and 17 smaller projects totaling EUR 2.4 million and substation division, four major projects totaling EUR 47,3 million and 7 smaller projects totaling EUR 3.5 million.

Infrastructure Sector also noted growth of activities, especially in domestic market and mainly related to construction projects of railway infrastructure. Seven new projects totaling 57.5 million were contracted during 2019. In addition to those specified in contracting phase or selection decision, there are many more. During the year 18 projects were active and seven of them were completed, of which we would single out the antenna pillar of Ugljan worth HRK 7.4 million, noise protection Kutina, worth HRK 17 million and Podravski Y, worth HRK 31 million. Currently in Infrastructure Sector, parent company is actively working on 11 projects, the largest of which are activities in segment of the "Railway infrastructure".

Company and Group focus during the year was also on diversification of revenue in terms of geographical exposure, so with already traditional domestic and Scandinavian markets, focus is on tenders in German market. In that market, pre-qualification process in the segment of transmission lines construction is completed for main transmission system operators such as 50 Hertz, Tennet, and currently pre-qualification of substation division for the same transmission system operators is under way.



Main challenges of the aforementioned business segments are mainly the ability to follow strong contracting dynamics and the aspect of human potential needs. During 2019 and 2020 progress was made in this segment, by hiring foreign nationals from the region (approximately 50 workers) and stopping the negative trend of large oscillation in the context of workers' departures.

Production segment which is almost entirely related to the activities of the company Proizvodnja MK i OSO d.o.o. recorded fall in the dynamics of contracting, which is partially consequence of financial position and competitiveness of production segment of the Group or company Proizvodnja MK i OSO d.o.o. and challenging business during 2017 and 2018.

Total production achieved during 2019 amounted to 6.8 million tons while in the same reporting period the previous year amounted to 13.1 million tons. Of the total production achieved during 2019, 5.3 million tons were related to the segment of metal constructions and 1.2 million tons were related to the segment of jointing and suspension equipment. Decline in production was also negatively reflected in financial result of the production segment.

Business revenue of Proizvodnja MK i OSO d.o.o. amounted to HRK 206.4 million, representing a decline of 29 %. If the effect of separating the galvanizing segment in another company is excluded, decline in revenue amounted to 14%. Adapted EBITDA of Proizvodnja MK i OSO amounted to HRK -24.7 million. Effect of separating the galvanizing segment has negatively influenced the EBITDA of the company in the amount of HRK 0.5 million.

During the year, 100 employees left company Proizvodnja MK i OSO d.o.o., mainly as a consequence of restructuring process and the positive effect of savings from this segment is expected in the financial performance over the coming period.

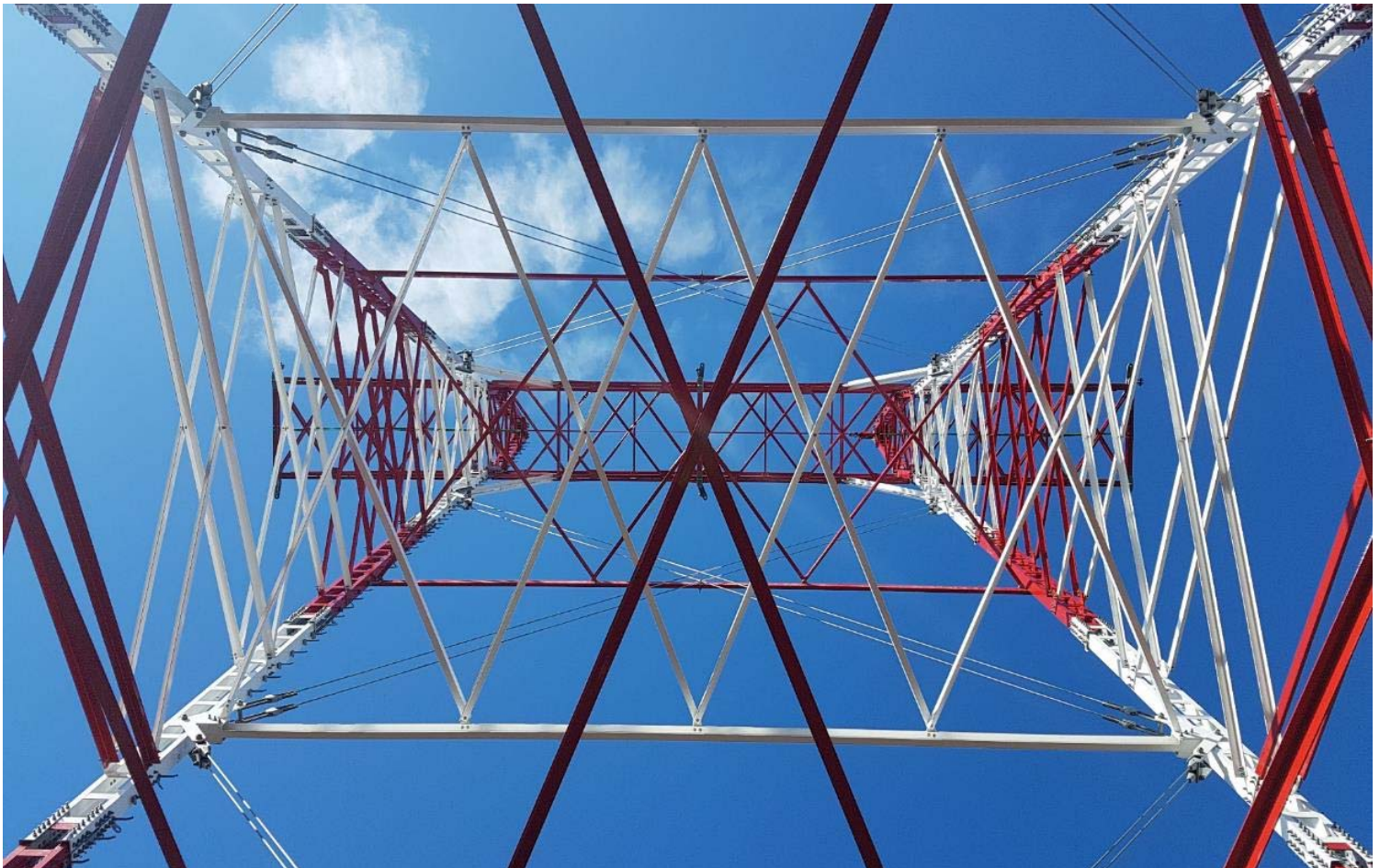
In the context of further restructuring process of Proizvodnja MK i OSO d.o.o., management has initiated the process of dividing society into two segments. The Plan is that in the coming weeks/months the existing company remains oriented to production of metal constructions, and new company to production of jointing and suspension equipment.

Design segment related to the activities of Dalekovod Projekt d.o.o. recorded a growth in business revenues of 24.3% when compared to the previous year, amounting to HRK 39.4 million. Adjusted EBITDA of the Dalekovod Projekt d.o.o. amounted to HRK 2.9 million and is higher by HRK 1.5 million compared to the same period of previous year. Due to the fact that the company generates revenue from design services, the contracting cycle or execution of individual projects is considerably shorter than, for example, in energy sector or infrastructure sector. Regardless of the aforementioned, dynamics of revenue depends largely on the dynamics of key investors, i.e. frequent changes in the plans and the postponement of tenders also significantly affect the company's income.

From **other segments** we would single out results of Cinčaonica usluge d.o.o., which is, as mentioned before, created by separation of galvanizing segment from Proizvodnja MK i OSO d.o.o. and Dalekovod EMU d.o.o., which focuses primarily on measurement of radiation and servicing of measuring devices and energy management systems.

Cinčaonica usluge d.o.o. has delivered 20.5 thousand ton of galvanized goods which represents a decline of 7% compared to the same period of the previous year. The fall in delivery of galvanized goods is due to less activity in the company Proizvodnja MK i OSO d.o.o. Since its founding (April 2019) to the end of 2019 the company has generated business revenue in the amount of HRK 43.8 million. Adjusted EBITDA in the same period amounted to HRK 0.5 million. Since the property (real estate and movable property) of the company concerned is related to financial leasing, the Group management is in the process of drafting a plan for financial debt concerned, i.e. the business segment of galvanizing and coloring.

Dalekovod EMU d.o.o. recorded an increase in business revenue of 8% when compared to the previous year and amounts to HRK 3.7 million. Adjusted EBITDA is greater for 0.7 million compared to the same period of the previous year and amounted to HRK 1.03 million.



Financial results for 2019

Key business indicators

Indicators (in HRK 000)	Dalekovod Group			Dalekovod d.d.		
	2019	2018	Index	2019	2018	Index
Total revenue	1,252,227	1,215,360	103	981,555	922,598	106
Sales revenue	1,226,803	1,163,956	105	950,734	873,419	109
Operating expenses	(1,220,822)	(1,312,148)	93	(951,782)	(1,144,654)	83
EBITDA	67,573	(54,316)	+121,889kn	57,999	(189,102)	+247,101kn
Adjusted EBITDA*	43,970	(43,100)	+87,070kn	62,424	(24,933)	+87,357kn
EBIT	31,405	(96,788)	+128,193kn	29,773	(222,056)	+251,829kn
Net profit	3,251	(119,571)	+122,822kn	5,801	(233,023)	+238,824kn
Adjusted EBITDA margin*	3.5%	-3.5%	+640bps	6.4%	-2.7%	+550bps

*EBITDA adjusted for one-off items: (i) restructuring costs, sale of Dalekovod Professio d.d., value adjustments, provisions for litigations, etc., in the total amount of HRK 23.6 million with the Group and HRK 4.4 million with the parent company



The Group achieved a higher net profit compared to the same period of the previous year as a result of revenue growth (3%), reductions in business expenditures (7%) and better financial result. Even more favorable trend of business revenue and business expenditure was recorded at the parent company where the business revenue are higher by 6% and operating expenditures decreased by 17% in relation to the previous year and a significantly better financial result was recorded.

Positive contribution to the growth of net profit was influenced by the sale of wind farms (Dalekovod Professio d.d.). Net profit during 2018 was significantly influenced by impairment of financial assets at the level of Dalekovod d.d. (mainly refers to the value of investment in affiliated companies). During 2019 the effect of impairment of financial assets in the Group amounted to HRK 32.9 million and at the parent HRK 21.9 million. Group net profit in 2019 amounts to HRK 3.3 million and the parent company HRK 5.8 million.

Dalekovod Group (in 000 HRK)	Dalekovod Group			Dalekovod d.d.		
	2019	2018	Index	2019	2018	Index
ASSETS	946,633	1,072,667	88	818,522	878,374	93
Non-current assets	395,850	425,155	93	421,034	415,297	101
Current assets	550,783	647,512	85	397,488	463,077	86
LIABILITIES	864,119	990,348	87	788,902	852,461	93
Provisions	36,270	29,036	125	31,468	23,548	134
Non-current liabilities	376,595	404,002	93	384,851	413,519	93
Current liabilities	451,254	557,310	81	372,583	415,394	90
EQUITY	82,514	82,319	100	29,620	25,913	114

The assets of the Group and the parent company reduced by 12% primarily as a result of the reduction of fixed tangible assets, financial assets and inventory. The Group's liabilities are lower than previous year by 13%,

mostly due to a 17% decrease in financial debt. The capital of the Group amounts to HRK 82.5 million and at the parent company HRK 29.6 million.

Type of financial debt (in 000 HRK)	Dalekovod Group			Dalekovod d.d.		
	2019	2018	Index	2019	2018	Index
Senior debt	212,875	222,276	96	212,875	222,276	96
Lease liabilities	101,324	102,477	99	100,985	101,867	99
Bonds	16,871	18,054	93	22,261	23,819	93
Mezzanine	29,516	83,807	35	33,721	91,444	37
Prebankruptcy liabilities	67,239	66,673	101	67,239	66,673	101
Other	10,756	27,038	40	14,722	13,852	106
Total financial debt	438,581	520,325	84	451,803	519,931	87
Cash	61,519	66,179	93	49,553	51,077	97
NET financial debt	377,062	454,146	83	402,250	468,854	86
Adjusted financial debt	341,826	369,845	92	350,843	361,814	97
Adjusted net financial debt	280,307	303,666	92	301,290	310,737	97
Adjusted net financial debt/adjusted EBITDA	6.4			4.8		

* Financial debt adjusted for debt that has no impact on the company's operating cash flows: (i) Mezzanine debt (ii) prebankruptcy liabilities

Financial debt of the Group as at 31 December 2019 reduced by 16% and HRK 81.7 million compared to the previous year. The adjusted financial debt of the Group, or the debt that has/will have an impact on the company's cash flows, reduced by 8% and HRK 28 million compared to the previous year. Similar trend was recorded in the parent company where the financial debt as at 31 December 2019 reduced by 13% and HRK 68.2 million compared to the previous year, while the financial debt of

the parent company reduced by 3% and HRK 10.9 million when compared to the previous year. In view of the aforementioned reduction in debt and profitability growth, the Group and the parent company also showed improvements in the gearing ratio, net financial debt and EBITDA ratios. The "Adjusted net financial debt/adjusted EBITDA" for the Group is 6.4x and at the parent company 4,8x, which represents a significant improvement over previous periods.

Basic indicators of the group member

Company name (in 000 HRK)	Business revenue			Adjusted EBITDA		
	2019	2018	Index	2019	2018	Index
Dalekovod d.d.	981,555	922,598	106	62,424	-24,933	+87,357
Proizvodnja MK i OSO d.o.o.	206,433	292,390	71	-24,725	-26,949	+2,224
Dalekovod Mostar d.o.o.	76,929	78,399	98	3,634	4,419	-785
Dalekovod Projekt d.o.o.	39,382	31,679	124	2,861	1,391	+1,470
Cinčaonica usluge d.o.o.	43,765	-	-	461	-	+461
Dalekovod EMU d.o.o.	3,726	3,459	108	1,034	378	+656
Other affiliates	56,238	46,219	122	-26,799	-1,009	-25,790
Elimination	(155,801)	(159,384)	98	25,080	3,603	+21,477
Total Group	1,252,227	1,215,360	103	43,970	-43,100	+87,070

Company	Number of employees		Index
	2019	2018	
Dalekovod d.d.	778	795	98
Proizvodnja MK i OSO d.o.o.	319	558	57
Dalekovod Projekt d.o.o.	93	91	102
Cinčaonica usluge d.o.o.	120	-	
Dalekovod EMU d.o.o.	11	11	100
Other members of the Group	24	29	83
Total	1,345	1,484	90

With the new organization structure, a more cost-effective business process has been established that can adequately respond to the challenges and dynamics of the Group's future development. Number of employees structure has changed significantly in comparison to the previous year, in a way that the number of employees in business support jobs, was reduced by approximately 20%, while the number of employees in employment related to project activities has increased, approximately 10%. The increase in the number of employees related to project activities is the result of strong contracting dynamics during 2019.

STRATEGY - BUSINESS GUIDELINES FOR THE UPCOMING PERIOD

With the achievement of main goals aimed at stabilizing revenue and profit, the year was marked by the beginning of restructuring process and strong growth of newly contracted businesses. During the year, the new organizational structure of Dalekovod d.d. (hereinafter: Company or the parent company) and other members of Group was adopted. With the new organizational structure, a more cost-effective business process has been put in place that can more adequately respond to the challenges and dynamics of the Group's future development. During the year, there was a strong dynamic of contracting and tendering related to project activities, i.e. contracting and designing. The Parent Company participated in over 60 tenders, while similar activity was observed in other Group members. In the manufacturing segment, contracting dynamics have fallen, which is to some extent a consequence of the financial position and competitiveness of the production segment of the Group and / or company Proizvodnja MK i OSO d.o.o.

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 and abroad. Dalekovod Group expects such activities will enable a significant increase in revenue and profitability in next mid-term period.

MANAGEMENT AND SUPERVISORY BOARD

As at 31 December, the Dalekovod Group ("Group") comprises the parent company Dalekovod d.d. Zagreb and fifteen subsidiaries owned by the parent company and one joint venture (2018: seventeen subsidiaries owned by the parent company and one company managed as joint venture) — please see note 22. Dalekovod d.d. Zagreb (hereinafter referred to as the Company) was founded in accordance with laws and regulations of Republic of Croatia. The Company's registered office is in Zagreb at Marijana Čavića 4. The Company's shares are listed on the ZSE (Zagreb Stock Exchange).

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

Board

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

The Management Board of the Company as at 31 December 2019 consists of 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).

At February 28, 2019, Mr. Alen Premužak (President of the Management Board) and Mr. Ivica Kranjčić (Member of the Management Board) ceased to be members of the Management Board.

At March 1, 2019, Mr. Tomislav Rosandić (President of the Management Board) and Mr. Đuro Tatalović (Member of the Management Board) became members of the Management Board.

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

Supervisory Board

The Supervisory Board of the Company as at 31 December 2019 consists of: Mr. Željko Perić (Chairman of the Supervisory Board), Mr. Dinko Novoselec (Deputy Chairman of the Supervisory Board), Mr. Hrvoje Markovinović (Member of the Supervisory Board), Vladimir Maoduš (Member of the Supervisory Board), Toni Đikić (Member of the Supervisory Board) and Gordan Kuvek (Member of the Supervisory Board).

At January 14, 2019, Mr. Hrvoje Habuš ceased to be a member of the Supervisory Board

At March 21, 2019, Mr. Toni Đikić became a member of the Supervisory Board instead of Mr. Hrvoje Habuš.

At December 31, 2019, Mr. Rajko Pavelić ceased to be a member of the Supervisory Board.

At December 20, 2019, Mr. Dražen Buljić was appointed a member of the Supervisory Board with a term of office starting from January 1, 2020.

At April 22, 2020, Mr. Željko Perić and Mr. Vladimir Maoduš ceased to be a Members of the Supervisory Board and new members became Mr. Damir Sertić and Mr. Mladen Gregović with the beginning their term in office from April 23, 2020. At April 30, 2020 Mr. Dinko Novoselec became President 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 and sub-committees (commissions) are appointed with specific responsibilities.

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

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

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

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

OWN SHARES

In 2019, the Company has not acquired any of its own shares.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

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

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

SUBSEQUENT EVENTS

Subsequent events are detailed in Note 41 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 4 to Financial Statements.

SHAREHOLDER STRUCTURE (as at 31 December 2019)

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	5,231,183
Financial Institutions	3,776,068
Others	613,213
Own shares	98,841
TOTAL	24,719,305

AFFILIATES AND SUBSIDIARIES

REPUBLIC OF CROATIA

- | | |
|---|------------------------|
| 1. PROIZVODNJA MK I OSO d.o.o., Trnošćica 17, Dugo Selo | 79970472123/ 080437239 |
| 2. DALEKOVOD EMU d.o.o., 43.ulica br. 36., Vela Luka | 52516402606/ 090027780 |
| 3. DALEKOVOD-PROJEKT d.o.o., Marijana Čavića 4, Zagreb | 30467839701/ 080445749 |
| 4. DALEKOVOD ADRIA d.o.o., Marijana Čavića 4, Zagreb | 37315161677/ 080703108 |
| 5. EL-RA d.o.o., Vela Luka (Općina Vela Luka) | 30113948970/ 060033055 |
| 6. CINČAONICA USLUGE d.o.o., Trnošćica 17, Zagreb | 90304389514/ 081231295 |

ABROAD

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

BRANCH OFFICES

16. DALEKOVOD NUF, Norway, Sandviksveien 26, 1363 Høvik, Norway
17. DALEKOVOD Skopje, 50te Divizije br. 36, Skopje-Centar, Skopje, North Macedonia
18. DALEKOVOD CRNA GORA, Ul. IV Proleterske br. 34, Podgorica, Montenegro
19. DALEKOVOD UKRAJINA - branch in Ukraine, 4 Lunacharskogo str. 02002 Kiev, Ukraine
20. DALEKOVOD — Branch Of Kosova, Kosovo, St. Garibaldi 3/7, 10000 Prishtine, Kosovo
21. DALEKOVOD d.d. — branch in Finland, c/o Talenom Töölönlahdenkatu 3 B, 00100 Helsinki, Finland
22. DALEKOVOD D.D. — branch in Sweden c/o Amesto Accounthouse AB, Roselundsgatan 54, 118 63 Stockholm, Sweden
23. DALEKOVOD DD Zagreb — podružnica Mostar, Ante Starčevića bb, 88000 Mostar

DESCRIPTION OF PRODUCTS AND SERVICES

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

- electrical facilities, especially transmission lines between 0.4 and 750 kV
- transformer stations of all levels and voltages up to 500 kV
- air, underground and underwater cables up to 110 kV
- telecommunication facilities, all types of networks and antennas
- production of suspension and joining equipment for 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 d.d. prepares at the annual level has been prepared for the 1 January – 31 December 2019 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 2019 (for the 2018 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. (later in 2019, Production MK i OSO d.o.o.) and Dalekovod Projekt d.o.o. must not be ignored, because, together, they form a whole, and this in the design, production and construction of transmission lines, and with their financial reports and environmental indicators have a significant impact on the sustainable operations of the Dalekovod Group.

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

SUPPLY CHAIN

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

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

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

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

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

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

MEMBERSHIP IN ASSOCIATIONS

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

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

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

- Croatian Exporters
- Croatian Chamber of Economy
- CIGRE (International Council on Large Electric Systems)
- HO CIRED (Croatian National Committee)
- MIPRO (Croatian Society for Information and Communication Technology, Electronics and Microelectronics)
- IEEE (Institute of Electrical and Electronics Engineers)
- PMI (project Management Institute)
- Croatian Standards Institute
- Croatian Welding Society
- Croatian Society for Quality, Croatian Public Relations Association (HUOJ)

- Croatian Employers' Association
- Croatian Chamber of Architects and Civil Engineers
- Association of Production of Metals and Metal Products
- Association of Production of Electric and Optic Equipment
- Association of Power Supply – Community of Renewable Energy Sources
- HED (Member of World Energy Council)

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

IDENTIFIED MATERIAL ASPECTS AND LIMITS

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

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

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

RESEARCH & DEVELOPMENT ACTIVITIES

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

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



STAKEHOLDERS

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

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

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

Dalekovod's key stakeholders are customers, suppliers, employees and shareholders. Communication is conducted with all of them depending on key issues and interests. In addition to the usual reporting system, for all relevant business activities (mail newsletter, website, announcements on the Stock Exchange and in the media), communication is conducted in other ways as deemed necessary: 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

At 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 January 2019 – 31 December 2019, 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 2018 was published in Annual consolidated and separate Management Report for 2018.

REFERENCE GUIDELINES

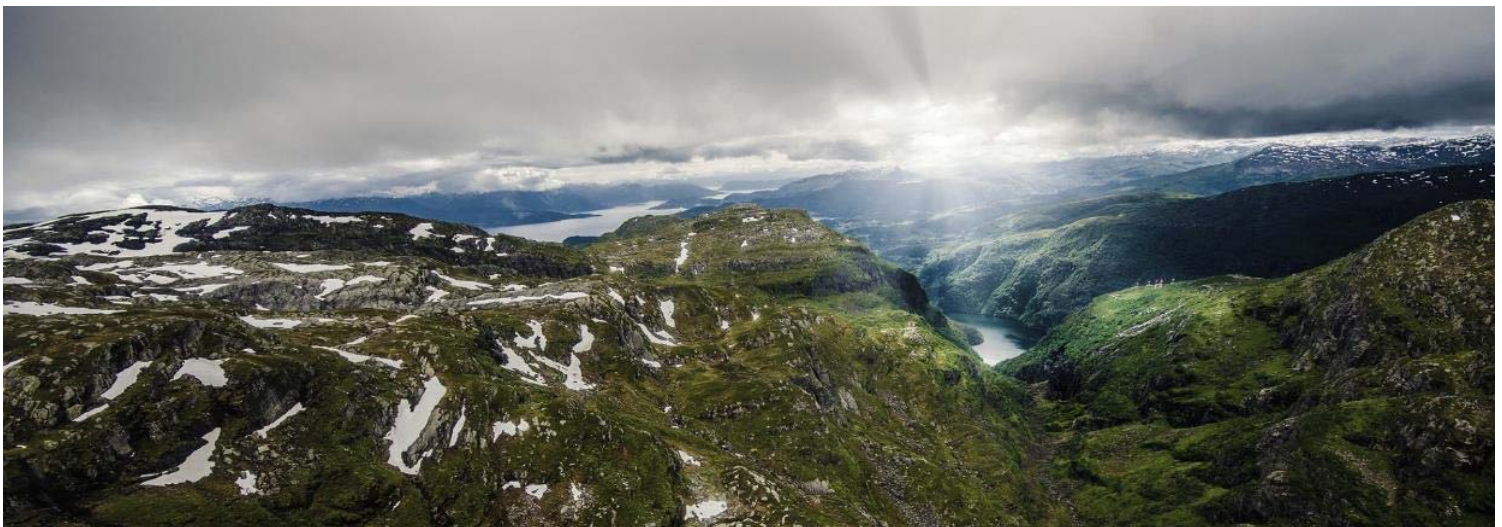
- GRI (Global Reporting Initiative)

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

- Environmental management system policies for Group Companies have been reviewed, approved and posted on the website
- Internal audits are conducted according to a predefined plan.
- Environmental risk management: In order to protect the environment and reduce the impact on the environment, we place special emphasis on assessing the environmental risks associated with our activities.

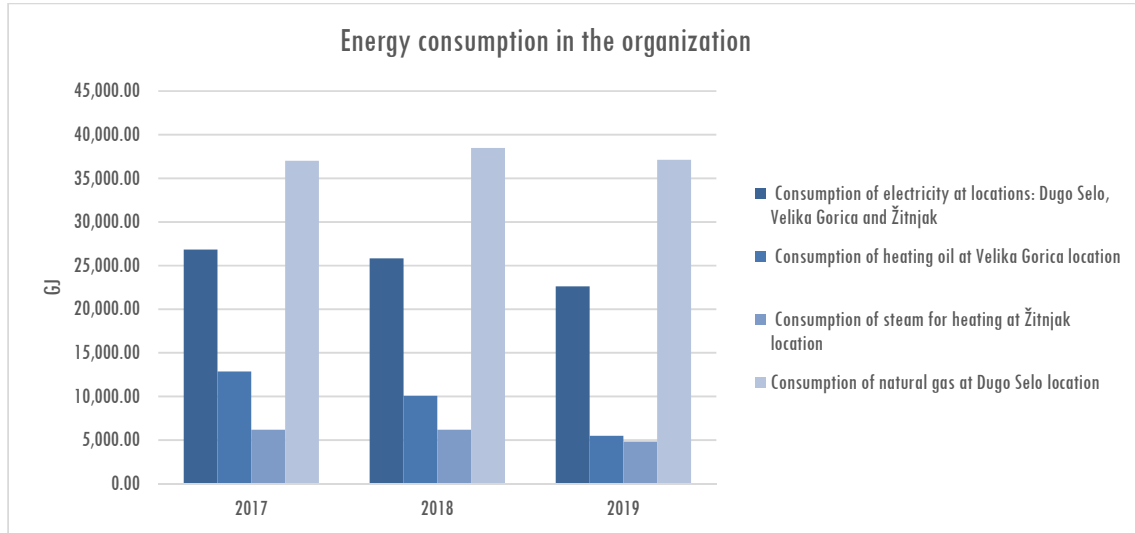
MATERIALS

Strategic materials used in the manufacture of metal structures, suspension and jointing equipment, anti-corrosion steel protection are iron, zinc, aluminum, bronze, hydrochloric acid, paints and varnishes. Countries of origin for metal materials are Czech Republic, Italy, Poland and Spain. Chemicals used in production processes are purchased from suppliers from Hungary, Sweden and Croatia. Product lifetime is 50-70 years. Total 85 % of products are exported to over 80 countries around the world. 80% of the revenue of Dalekovod d.d. is generated from foreign projects. For the realization of construction projects of transmission lines and substations on foreign construction sites, products of suppliers chosen by the investor are installed. For projects in the Republic of Croatia, metal structures and suspension and jointing equipment produced inside Group are used.



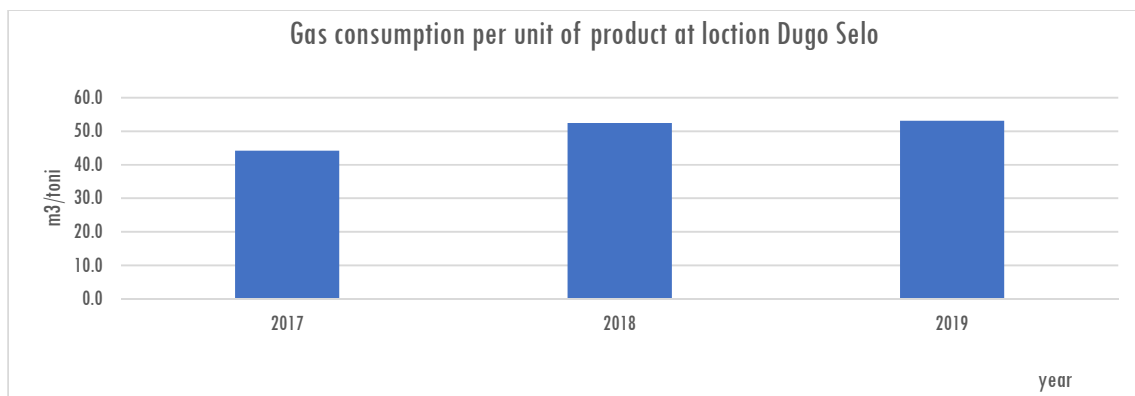
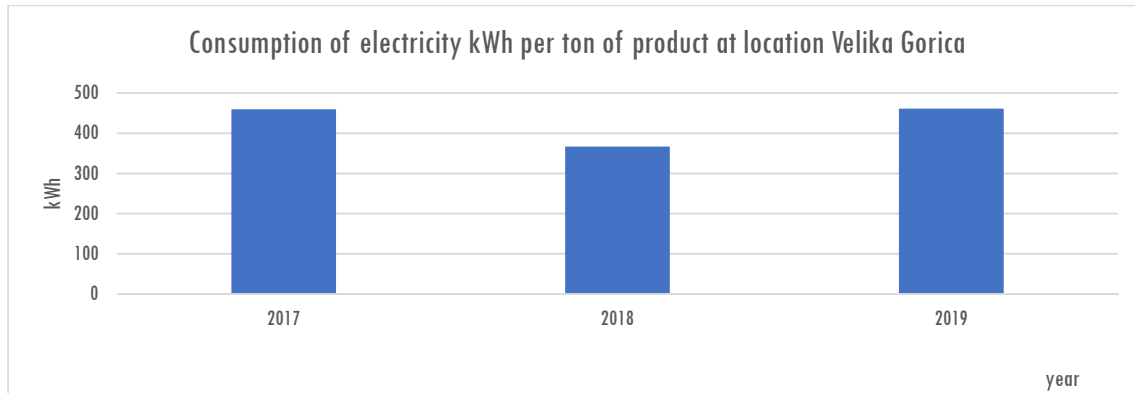
ENERGY

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



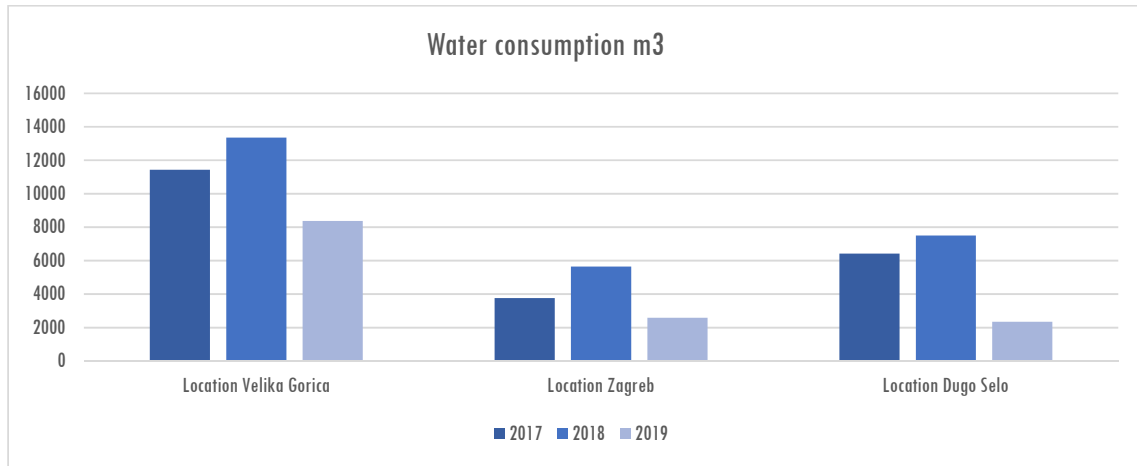
ENERGY INTENSITY

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



WATER CONSUMPTION

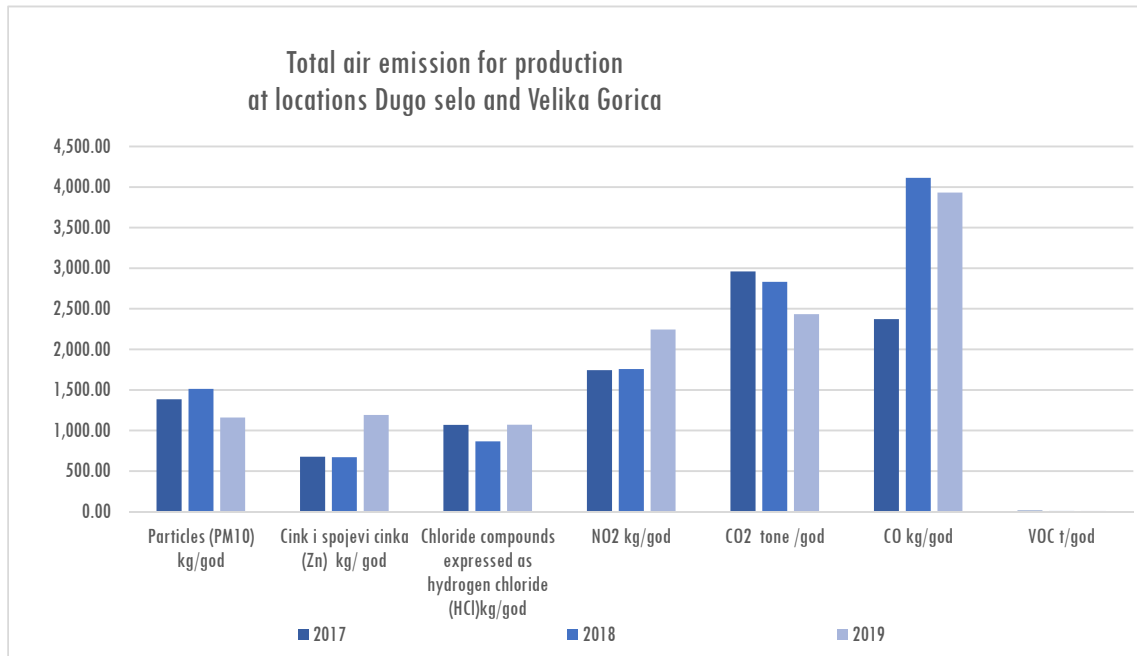
Water is supplied from local waterworks. Water consumption is monitored according to purpose: sanitary water, technological water, cooling water and reclaimed water. More than 65 % of the spent water refers to sanitary water consumption.

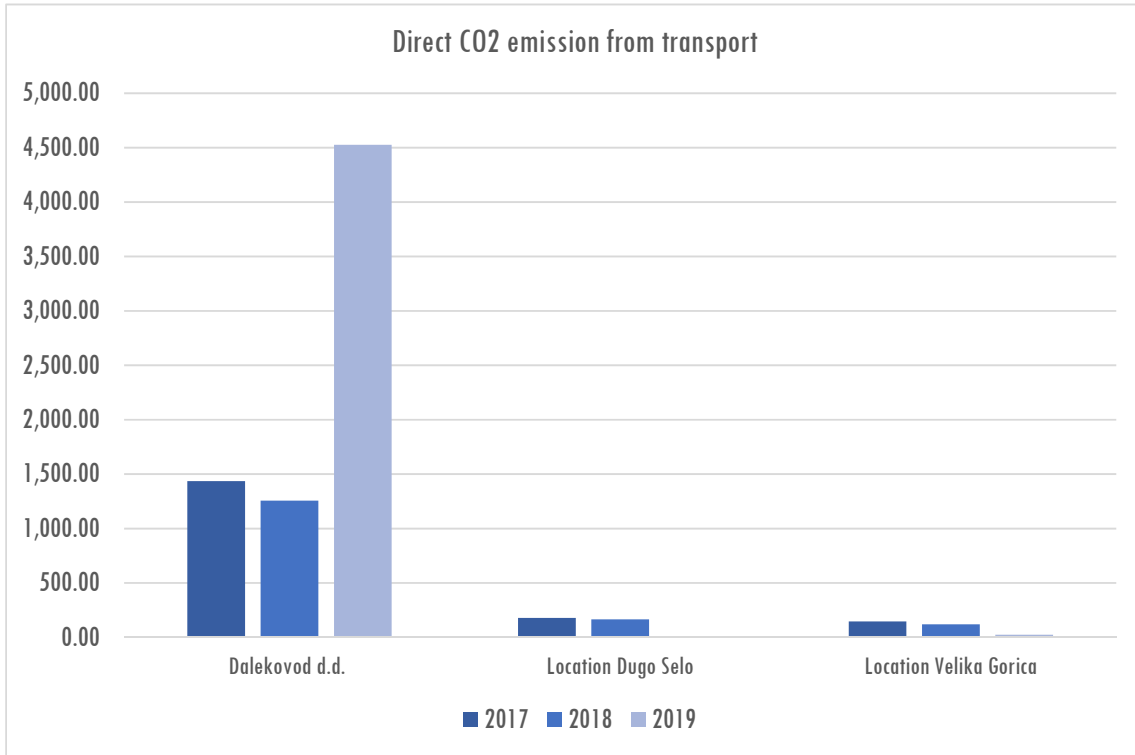


EMISSIONS

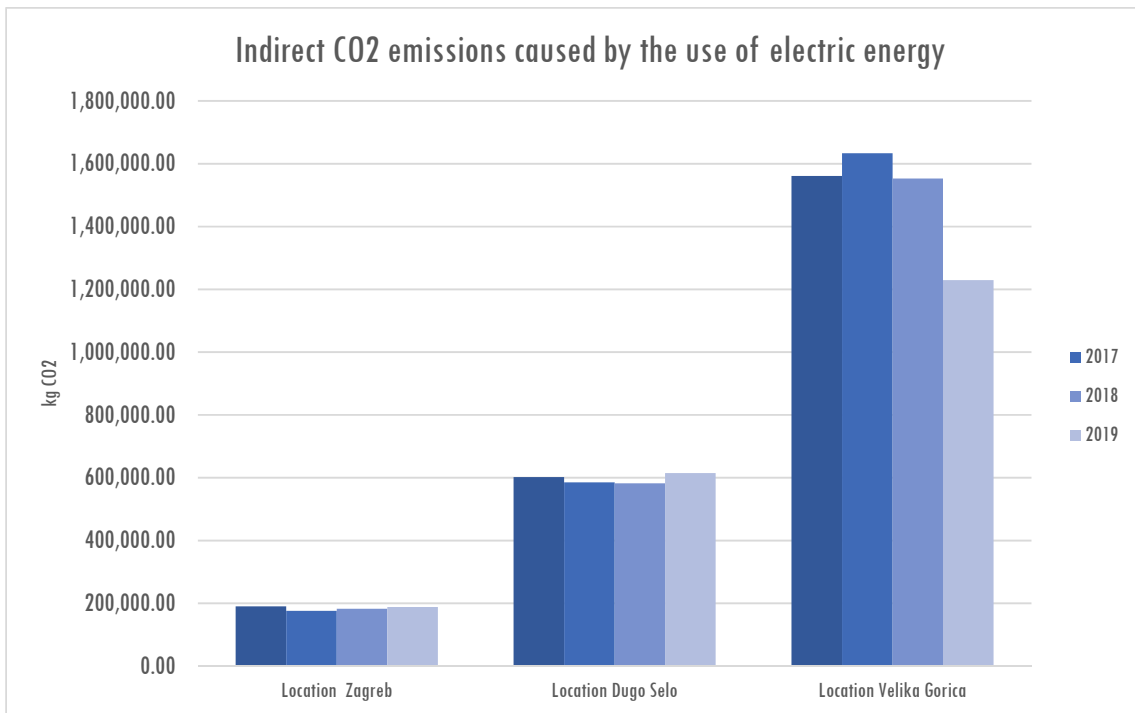
At Dugo Selo and Velika Gorica production sites, direct greenhouse gas emissions occur during the combustion of fuel oil - at Velika Gorica site for heating purposes and at Dugo Selo site by combustion of gas during boiler room operation and during combustion for process technology needs. In the production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

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



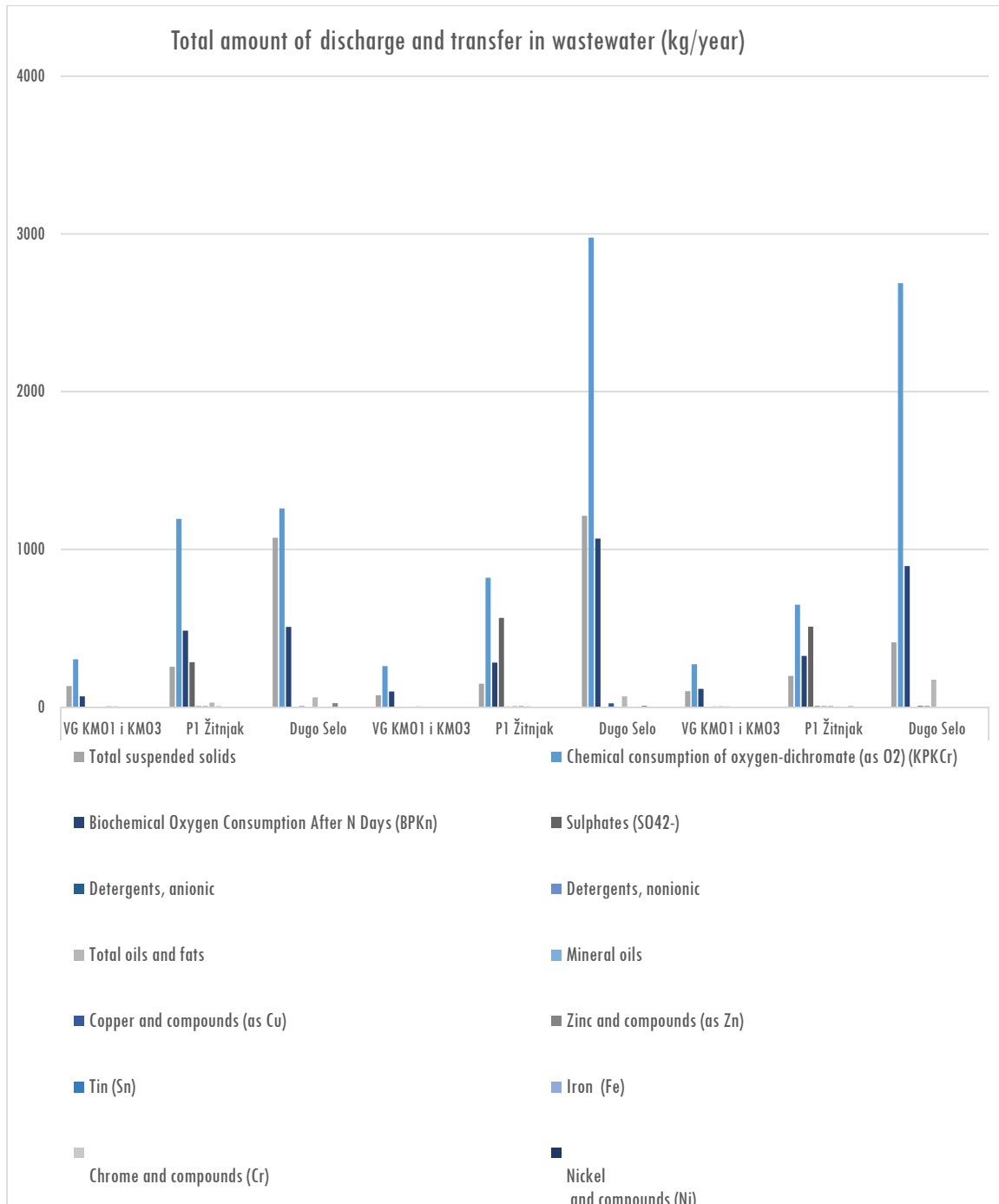


Indirect emissions refer to the consumption of electricity for machines and air conditioners.



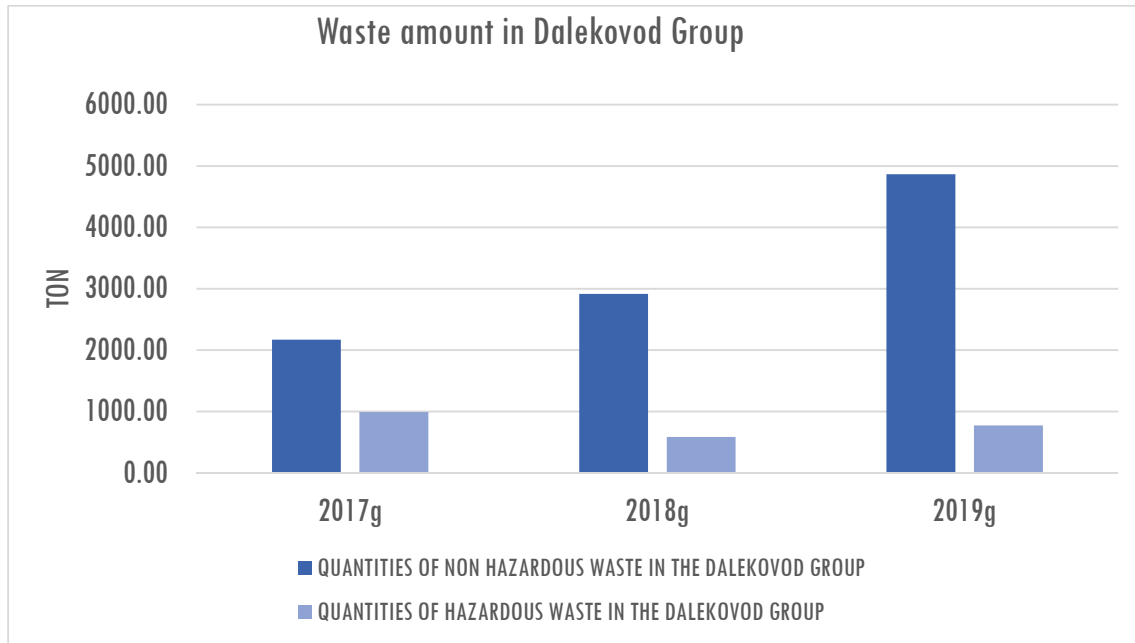
WASTE WATER AND OTHER WASTE

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



WASTE MANAGEMENT

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



REGULATORY COMPLIANCE

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

In 2019, there were no inspections by the competent institutions. The Company did not have to pay fines or non-monetary sanctions for non-compliance with environmental laws and regulations. So far, there have been no environmental disputes.

TOTAL ENVIRONMENTAL PROTECTION EXPENDITURES AND INVESTMENTS

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



VENDOR ASSESSMENT WITH RESPECT TO ENVIRONMENTAL IMPACT

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

BIODIVERSITY

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

SOCIAL DIMENSION

HEALTH AND SAFETY AT WORK



ORGANIZATION OF THE SAFETY AT WORK COMMITTEE AT THE DALEKOVOD GROUP

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.

Since April 1, 2019 company Dalekovod Proizvodnja d.o.o. is divided to Cinčaonica usluge d.o.o. and Proizvodnja MK i OSO d.o.o..

Director of Proizvodnja MK i OSO d.o.o. establishes the Committee and appoints Committee members on Velika Gorica location, and Director of Cinčaonica usluge d.o.o. establishes the Committee and appoints Committee members on Dugo Selo location.

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 union organization in Dalekovod d.d.

Workers delegates in Proizvodnja MK i OSO d.o.o. and Cinčaonica usluge d.o.o. were selected based on proposals by the workers, the Workers' Council and the trade union organization. Employee delegate in Dalekovod Projekt d.o.o. has been chosen on workers proposal. Members of the Safety at Work Committee:

- a) Chairman of the Board - Employer's Representative
- b) Deputy Chairman of the Committee - Occupational Safety Expert
- c) authorized representatives of Business Units
- d) Workers' delegates or their coordinator- elected representatives of workers
- e) competent occupational safety specialist

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

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

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

Goals and activities of the Committee

- by proposing preventive activities to influence the prevention of incident situations, work-related disorders, work injuries, and work-related illnesses
- proposing activities to strive for a constant improvement of working conditions and improvement of occupational safety
- Encourage risk reduction in all work processes and workplaces
- contribute to the achievement of permanent health protection of all employees
- planning and monitoring the training and 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., Proizvodnja MK i OSO d.o.o., Cinjaonica usluge d.o.o. and Dalekovod Projekt in 2019, total of 7 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 22 improvement measures were adopted in 2019.

Supervision and communication within the activities of the Committee

A total of 239 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 539 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 Proizvodnja MK i OSO d.o.o. and Cinčanonica usluge d.o.o. can communicate directly with their commissioners at the site.

All of 93 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 2019 FOR DALEKOVOD GROUP

In 2019, a total of 19 work-related injuries were recorded. The total number of recorded incidents that resulted in injury was 23. Types of injuries, injury rates, work-related illnesses, sick leave, absence from work, work-related fatalities were analyzed for each firm separately in the occupational injury analysis.

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

Working hours 2019	1239389
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	18
Lost Time Injuries	15
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	21
Incident requiring first aid	20
Restriction of work	3
Cases of substitute work due to injury	4
Dangerous occurrences	12
Near hits / misses	218
HSE/HSA or equivalent improvement notices	12
HSE/HSA or equivalent prohibition notices	4
HSE/HSA or equivalent prosecutions	

Total Recordable Injury Frequencies (TRIF)

$$LTI - \text{value} = (N \times 200.000) / T$$

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

$$T = \text{Number of hours worked during the year} \quad \text{TRIF} - \text{Calculation for 2019} = 2.90$$

Lost Time Injury Rate (LTIF)

$$LTI - \text{value} = (N \times 200,000) / T$$

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

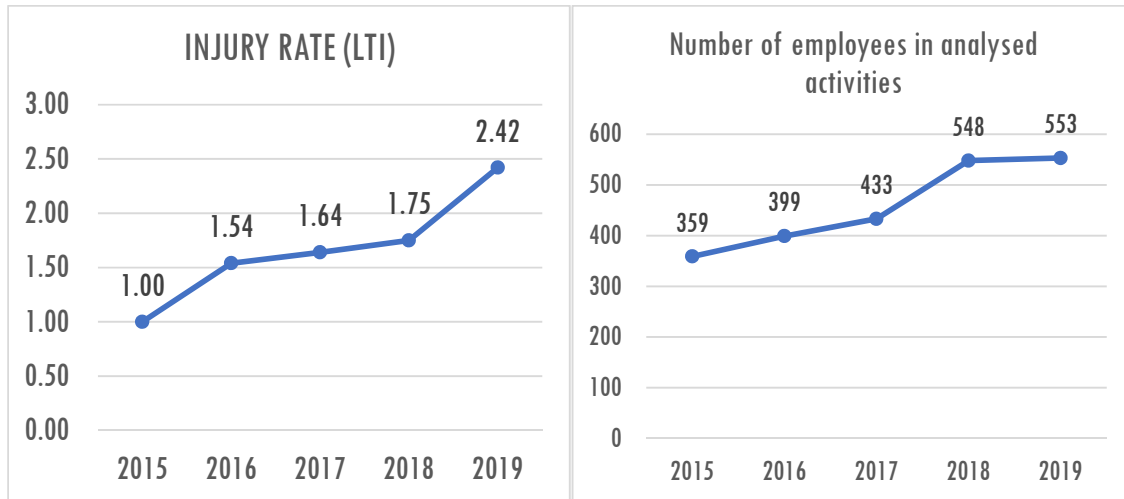
$$T = \text{Number of hours worked during the year} \quad \text{LTIF} - \text{Calculation for 2019} = 2.42$$

Severity Rate (SR)

$$SR - \text{value} = N / T$$

N = Total number of lost workdays

$$T = \text{Total number of recordable incidents} \quad \text{SR} - \text{Calculation for 2019} = 58,03$$



During 2019 there has been an increase of injury rate (2.42) compared to 2018 (1.75). It is also slightly increased compared to last 5 years average. Considering the increase, an objective program for decrease of number of injuries in 2020 is developed with measures to be implemented.

The upward trend in the specific rate in the last three years has been linked to activities at external construction sites, especially where weather conditions and demanding terrain, as well as an increase in the number of newly employed workers, contribute to the increase in the number of injuries.

Considering that Dalekovod plans to influence the reduction of the number of injuries and the loss of hours of sickness (caused by injuries at work), the goals for 2020 are set.

Objective program for 2019 has long term character and especially since it is linked to improvement of safety culture of involved in actives. Some objectives from this objective program are also continued in 2020 objective program.



Proizvodnja MK i OSO d.o.o.

Working hours 2019	904304
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	3
Lost Time Injuries	2
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	0
Cases of substitute work due to injury	0
Dangerous occurrences	1
Near hits / misses	2
HSE/HSA or equivalent improvement notices	16
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)

$$\text{TRIF - value} = (N \times 200,000) / T$$

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 2019 = 0.442

Lost Time Injury Rate (LTIF)

$$\text{LTI - value} = (N \times 200,000) / T$$

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 2019 = 0.663

Severity Rate (SR)

$$\text{SR - value} = N / T$$

N = Total number of lost workdays

T = Total number of recordable incidents

SR Calculation for 2019 H = 14

Cinčanonica usluge d.o.o.

Working hours 2019	146000
Injuries/Incidents/Cases	
Fatalities	0
HSE Total Recordable Injuries	2
Lost Time Injuries	2
Loss of consciousness	0
Injuries requiring medical treatment (MTI)	0
Incident requiring first aid	0
Restriction of work	0
Cases of substitute work due to injury	0
Dangerous occurrences	0
Near hits / misses	5
HSE/HSA or equivalent improvement notices	3
HSE/HSA or equivalent prohibition notices	0
HSE/HSA or equivalent prosecutions	0

Total Recordable Injury Frequencies (TRIF)

$$\text{TRIF - value} = (N \times 200,000) / T$$

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 2019 = 2.73

Lost Time Injury Rate (LTIF)

$$\text{LTI - value} = (N \times 200,000) / T$$

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 2019 = 2.73

Severity Rate (SR)

$$\text{SR - value} = N / T$$

N = Total number of lost workdays

T = Total number of recordable incidents

SR Calculation for 2019 H = 8

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

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

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

THE LUCKY 13

During work hours:

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

On the construction site:

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

In vicinity of electrical installations:

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

EMPLOYMENT, DIGNITY OF WORK AND HUMAN RIGHTS

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

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

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

EMPLOYMENT AND STRUCTURE OF EMPLOYEES

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

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

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

COLLECTIVE AGREEMENTS AND EMPLOYEES RIGHTS

The first collective agreement was concluded on 14 June 1996 with the Croatian Metalworkers' Labor Union — Velika Gorica Subsidiary, Croatian Construction Labor Union — Dalekovod subsidiary, Croatian Labor Union Association, Dalekovod Labor Subsidiary, and it is applied to all employees. The Collective Agreement has been revised several times. The recent changes and amendments were adopted in 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 Scandinavian 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 complied for purposes of managing human resources and making other relevant business decisions.

FREEDOM OF ASSOCIATION AND COLLECTIVE NEGOTIATION

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

COMMUNITY

The level of activity by which Dalekovod Group members are present at particular locations and in certain communities is not sufficient to systematically monitor the impact of business activities on the said communities.

CHILD LABOR, COMPULSORY AND FORCED LABOR

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

DONATIONS AND SPONSORSHIPS

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

Signed on behalf of the Management Board on 19 May 2020.



Tomislav Basandić

President of the Management Board



Ivan Kurobaso

Management Board Member



Hrvoje Išek

Management Board Member



Duro Tatalović

Management Board Member

2. STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

MANAGEMENT BOARD – AS AT 31 DECEMBER 2019

Tomislav Rosandić – President of the Management Board

Tomislav Đurić – Management Board Member

Ivan Kurobasa – Management Board Member

Đuro Tatalović – Management Board Member

SUPERVISORY BOARD – AS AT 31 DECEMBER 2019

Željko Perić – President of the Supervisory Board

Dinko Novoselec – Vice President of the Supervisory Board

Hrvoje Markovinović – Supervisory Board Member

Toni Đikić – Supervisory Board Member

Gordan Kuvek – Supervisory Board Member

Vladimir Maoduš – Supervisory Board Member

Rajko Pavelić – Supervisory Board Member

AUDITING COMMITTEE

Dinko Novoselec

Gordan Kuvek

Ivana Matovina

Dalekovod Joint Stock Company for engineering, production and construction

Marijana Čavića 4, 10 000 Zagreb, Hrvatska

10001 Zagreb, P.P. 128

URL: www.dalekovod.hr, www.dalekovod.com

E-mail: dalekovod@dalekovod.hr

Share capital: HRK 247,193,050.00; Number of shares: 24,719,305

IBAN: HR8323600001101226102, ZABA Zagreb

Reg. No. (MBS): 080010093, Commercial Court in Zagreb

Stat. No. (MB): 3275531

PIN (OIB): 47911242222

Activity code: 4222 (Construction of utility projects for electricity and telecommunications)

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

In 2019, 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 17 July 2019, and Extraordinary General Meetings on 21 March 2019 and 10 October 2019.

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 2019, 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 19 May 2020.



Tomislav Rosandić
President of the Management Board



Ivan Kurobasa
Management Board Member



Hrvoje Išek
Management Board Member



Đuro Tatalović
Management Board Member

3. RESPONSIBILITY FOR CONSOLIDATED AND SEPARATE ANNUAL STATEMENTS

The Management Board of Dalekovod d.d., Morijana 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 May 19, 2020 for submission to the Supervisory Board and signed below by:



Tomislav Rosandić

President of the Management Board



Ivan Kurobaso

Management Board Member



Hrvoje Išek

Management Board Member



Đuro Tatolović

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 2019, and their respective separate and consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2019, 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.



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

REVENUE RECOGNITION UNDER CONSTRUCTION CONTRACTS

Revenue recognized from construction contracts recognized in profit or loss in 2019 amounted to HRK 1,075,291 thousand (88 per cent of total revenue for 2019). Please refer to the Note 2.20 within *Significant accounting policies*, Note 5 (a) *Key accounting estimates and judgements* and Note 8 *Segment information* in the financial statements.

Key audit matter	How our audit addressed the matter
<p>The Group's and the Company's principal activities include manufacturing of complex power-generating equipment, its installation and related construction services.</p> <p>Consequently, contracts with customers typically include one performance obligation which is satisfied over time.</p> <p>Under the applicable financial reporting standard governing the accounting for revenues, IFRS 15 <i>Revenue from Contracts with Customers</i>, if the requirements for recognition of revenue over time are met, entities measure 'progress to complete satisfaction' of the performance obligation using a method that best depicts the performance.</p> <p>Given the nature of contracts with customers, revenue from contracts with customers is recognised by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method which measures the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the Group's and the Company's policy for recognizing revenue, including whether the policy is in accordance with the relevant accounting standards; • testing the design, implementation and operating effectiveness of controls related to: <ul style="list-style-type: none"> ○ accuracy of budgeting process including effectiveness of management review; ○ approval of contract changes with particular focus on approval of relevant changes in budgeted cost to completion; • assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for completed contracts and contracts with significant change in the stage of completion in the current year; • for a sample of contracts with key customers: <ul style="list-style-type: none"> ○ challenging management's identification of performance obligations, particularly with respect to the evaluation of whether the contract relates to a single performance obligation; ○ challenging management's assessment of whether the identified performance obligation meets the criteria for recognising revenue over time vs. at a point-in-time, by reference to the provisions of the contract and our understanding of the resulting pattern of satisfying the performance obligation; ○ challenging the appropriateness of the method used to measure 'progress to complete satisfaction' (cost-to-cost vs. output based on surveys of work performed) by considering contractual terms and the nature of goods or services promised to customers; • for a sample of contracts evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents, such, budgets, progress reports and/or surveys of work performed; • for significant subsequent changes in contracts inspecting their formal approvals by customers; • assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for construction contracts.



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 2019, investments in subsidiaries in the separate financial statements amounted to HRK 46,906 thousand while loans and receivables to subsidiaries amounted to HRK 69,639 thousand. During the year the Company recognised impairment loss on investments in subsidiaries in the amount of HRK 10,997 thousand.

Please refer to notes 2.2 (a) and 2.9 within *Significant accounting policies*, note 22 *Investments in subsidiaries*, note 27 *Loans and receivables*, note 29 *Trade and other receivables* and note 12 *Other operating expenses* in the financial statements.

Key audit matter	How our audit addressed the matter
<p>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.</p> <p>Where impairment indicators are identified for a certain exposure, the Company assesses the potential impairment loss by comparing the carrying amount of the exposure with the estimated value of the underlying subsidiary which is generally measured by using appropriate valuation techniques, such as present value techniques (based on a discounted cash flows models of the underlying entity) supplemented, where available, by techniques based on comparable valuation multiples or prices achieved in actual market transaction for comparable entities.</p> <p>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.</p> <p>As a result, we considered this area to be a key audit matter in our audit of the separate financial statements of the Company.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• assessing management'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 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;• with the assistance from our internal valuation specialists, challenging the key assumptions used by management in its impairment testing, which specifically involved:<ul style="list-style-type: none">○ evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes;○ evaluating the key assumptions applied (such as discount rates and growth rates) for reasonableness compared to both externally derived data and historical financial performance;○ where applicable, evaluating the appropriateness of used valuation multiples or comparable transactions;○ analysing sensitivity of the impairment test results to changes in key assumptions and considering whether the level of key assumptions indicates management bias;• evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

GOING CONCERN BASIS OF ACCOUNTING

Refer to note 7 *Going Concern* and note 41 *Subsequent Events*.

Key audit matter	How our audit addressed the matter
<p>The financial statements are prepared on a going concern basis. As described in note 7, at the reporting date, the Group and Company had overdue liabilities for borrowings and related interest in the amount of HRK 32,754 thousand. As part of a comprehensive restructuring process, the Management Board is negotiating with creditors and lenders on the refinancing of the current indebtedness which is still in progress as at the date of the this report.</p> <p>The going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group and Company will continue operating as a going concern.</p> <p>The preparation of these forecasts incorporates a number of assumptions and significant judgments including, but not limited to: expected project margins and project execution dynamics; expected outcome and terms of refinancing; timing and impact of planned restructuring measures etc. Apart from the above, additional estimates and judgements were required from management with respect to the outbreak of the COVID-19 pandemic and its estimated impact of current and future performance of the Group and Company and the economy as a whole.</p> <p>Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to a material uncertainty related to events or conditions that may cast significant doubt on the ability of the Group and Company to continue as a going concern. Note 7 to the financial statements further explains how this judgment was formed.</p> <p>The assessment on the use of the going concern basis of accounting required management to make significant estimates and judgments relating to uncertainties regarding the Group's and Company's plans for future actions and their financial impact and was consequently considered a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• reading minutes of meetings of the Management and Supervisory Board with an aim to identify measures that management intends to implement in order to secure adequate funding for its ongoing activities;• discussing with management their plans for future actions in relation to the going concern assessment as well as their feasibility in current circumstances;• considering whether any additional facts or information have become available since the date on which the Group and Company made its assessment;• evaluating the reliability of the cash flow forecasts used by management in its going concern assessment by, among others:<ul style="list-style-type: none">- comparing the forecast cash flows with historical data and with performance after the year end;- evaluating whether forecasts are adequately supported by existing project pipeline and reflect expected timing of project execution;- inspecting the correspondence or terms of contracts and agreements with relevant customers, creditors and lenders;- challenging the key assumptions (such as cash flows from operating activities and sources of financing and effects of planned restructuring measures) and related judgements;• evaluating whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about management's assessment on the use of the going concern assumption.

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



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

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

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

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

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

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



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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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 17 July 2019 to audit the financial statements of the Company and the Group for the year ended 31 December 2019. Our total uninterrupted period of engagement is three years, covering the period from the year ended 31 December 2017 to the year ended 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 19 May 2020;
- for the period to which our statutory audit relates, we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.


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

19 May 2020

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
Sales revenue	8	1,226,803	1,163,956	950,734	873,419
Other income	8, 9	25,424	51,404	30,821	49,179
Change in work in progress and finished goods		1,697	(2,657)	-	(21)
Cost of trade goods sold		(96,901)	(115,868)	(48,939)	(71,554)
Cost of materials and services	10	(677,526)	(658,569)	(554,149)	(527,554)
Staff costs	11	(333,724)	(349,821)	(228,165)	(235,251)
Depreciation and amortisation	18-21	(36,168)	(42,472)	(28,226)	(32,954)
Other operating expenses	12	(142,916)	(142,694)	(130,579)	(276,369)
Other gains/(losses) – net	13	64,716	(67)	38,276	(951)
Operating gain/(loss)		31,405	(96,788)	29,773	(222,056)
Finance income	14	12,999	45,680	15,606	53,998
Finance costs	14	(32,447)	(62,321)	(32,111)	(59,691)
		(19,448)	(16,641)	(16,505)	(5,693)
Profit / (loss) before tax		11,957	(113,429)	13,268	(227,749)
Income tax	15	(8,706)	(6,142)	(7,467)	(5,274)
Net profit / (loss)		3,251	(119,571)	5,801	(233,023)
Net profit / (loss) attributable to:					
Equity holders of the Company		3,251	(119,571)	5,801	(233,023)
Non-controlling interests		-	-	-	-
Net profit / (loss)		3,251	(119,571)	5,801	(233,023)
Basic profit / (loss) per share (in HRK)	16	0.13	(4.86)		
Diluted profit / (loss) per share (in HRK)	16	0.13	(4.86)		

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
Net profit / (loss)		3,251	(119,571)	5,801	(233,023)
Other comprehensive income / (loss):					
Foreign exchange differences		(1,662)	1,225	-	-
Gain on revaluation of assets	19,32	-	(28,695)	-	(28,695)
Other		700	-	-	-
Total other comprehensive income / (loss)		(962)	(27,470)	-	(28,695)
Total comprehensive income / (loss)		2,289	(147,041)	5,801	(261,718)
Comprehensive income / (loss) attributable to:					
Equity holders of the Company		1,589	(147,035)	5,801	(261,718)
Non-controlling interests		700	(6)	-	-
Total comprehensive income / (loss)		2,289	(147,041)	5,801	(261,718)

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
ASSETS					
Intangible assets	18	6,057	10,697	4,173	7,576
Property, plant and equipment	19,21	339,274	361,329	147,083	144,473
Prepayments		20	20	-	-
Investment property	20	-	-	166,260	149,027
Investments in subsidiaries	22	-	-	46,906	59,254
Investments in associates	23	4	4	4	4
Investments in joint ventures	24	-	11,592	-	11,592
Financial assets available-for-sale	25	-	5	-	-
Loans and receivables	27	50,495	41,508	56,608	43,371
Non-current assets		395,850	425,155	421,034	415,297
Inventories	28	85,249	97,420	6,347	11,642
Trade and other receivables	29	402,370	417,102	340,071	325,516
Income tax receivable		1,645	1,773	1,517	1,467
Cash and cash equivalents	30	61,519	66,179	49,553	51,077
Assets held for sale	31	-	65,038	-	73,375
Current assets		550,783	647,512	397,488	463,077
Total assets		946,633	1,072,667	818,522	878,374

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
EQUITY AND LIABILITIES					
Share capital	32	247,193	247,193	247,193	247,193
Share premium	32	86,142	88,236	86,142	88,236
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	40,707	40,707	40,707
Translation reserves		(4,340)	(2,678)	-	-
Accumulated loss		(365,958)	(369,209)	(388,097)	(393,898)
Shareholders' equity		82,514	83,019	29,620	25,913
Non-controlling interests		-	(700)	-	-
Total equity		82,514	82,319	29,620	25,913
Borrowings	33,21	337,903	367,354	342,023	372,346
Mezzanine debt	34	29,516	26,946	33,721	31,381
Provisions	36	35,135	24,902	30,935	20,753
Trade and other payables	35	240	766	171	856
Deferred tax liability	15	8,936	8,936	8,936	8,936
Non-current liabilities		411,730	428,904	415,786	434,272
Borrowings	33,21	71,162	69,164	76,059	56,141
Mezzanine debt	34	-	56,861	-	60,063
Provisions	36	1,135	4,134	533	2,795
Trade and other payables	35	348,438	407,087	265,332	275,194
Income tax payable		31,654	24,198	31,192	23,996
Current liabilities		452,389	561,444	373,116	418,189
Total liabilities		864,119	990,348	788,902	852,461
Total equity and liabilities		946,633	1,072,667	818,522	878,374

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Group

<i>(all amounts are expressed in thousands of HRK)</i>	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 2018		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
Net profit/(loss)		-	-	-	-	-	-	-	3,251	3,251	-	3,251
Other comprehensive income/(loss)		-	-	-	-	-	-	(1,662)	-	(1,662)	700	(962)
Total comprehensive income/(loss)		-	-	-	-	-	-	(1,662)	3,251	1,589	700	2,289
Transactions with owners												
Fair value of share based payments	32	-	(2,094)	-	-	-	-	-	-	(2,094)	-	(2,094)
At 31 December 2019		247,193	86,142	11,652	(8,466)	75,584	40,707	(4,340)	(365,958)	82,514	-	82,514

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018		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
Share capital increase		-	-	-	-	-	-	-	-
At 31 December 2018		247,193	88,236	11,487	(8,466)	40,654	40,707	(393,898)	25,913
Net profit/(loss)		-	-	-	-	-	-	5,801	5,801
Other comprehensive income/(loss)		-	-	-	-	-	-	-	-
Total comprehensive income/(loss)		-	-	-	-	-	-	5,801	5,801
Transactions with owners									
Fair value of share based payments	32	-	(2,094)	-	-	-	-	-	(2,094)
At 31 December 2019		247,193	86,142	11,487	(8,466)	40,654	40,707	(388,097)	29,620

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
Profit/(loss) before tax		11,957	(113,429)	13,268	(227,749)
Adjustments:					
Depreciation and amortisation	18-21	36,168	42,472	28,226	32,954
Property, plant and equipment write-off	12	-	500	-	8,658
Intangible assets write-off		-	2,129	-	-
Impairment of investment property		-	11,910	-	-
Loss/(gain) on sale of property, plant and equipment	13	(1,936)	(738)	(1,020)	(320)
Loss of control over subsidiaries	13	(18,079)	(421)	-	-
Change in fair value of financial assets through profit and loss	13	-	1,327	-	1,327
Gain on disposal of financial assets available for sale	13	-	(101)	-	(101)
Fair value of pre bankruptcy liabilities	9, 12	566	(19,489)	566	(19,489)
Impairment of trade receivables and loans receivable	12	10,782	6,997	9,507	16,128
Impairment of other financial assets	12	-	1,442	-	1,701
Receivables and fair value adjustment write-off		-	(3,103)	-	(476)
Liquidation of subsidiary	13	(197)	-	371	45
Impairment of investments in subsidiaries	12,22	-	-	10,997	148,125
Impairment of non-financial assets	12	6	-	-	-
Impairment of joint venture	12,24	11,592	5,645	11,592	5,645
Impairment of inventories and inventory shortages	12	2,722	1,085	33	452
Net change in provisions	36	7,374	3,900	7,920	1,743
Dividend income	14	-	(4,528)	(2,315)	(15,630)
Loss/(gain) on sale of subsidiaries and joint ventures	13	(44,504)	-	(37,627)	-
Unrealised foreign exchange differences	14	4,884	3,459	4,700	(2,596)
Interest income	14	(1,010)	(3,002)	(2,142)	(2,204)
Income from unwinding of discount	14	(1,442)	(1,330)	(1,442)	(1,330)
Share based payment transactions	35	(2,094)	1,021	(2,094)	1,021
Interest expenses	14	17,026	22,056	17,616	22,152
		33,815	(42,198)	58,156	(29,944)

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

DALEKOVOD d.d.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>		Dalekovod Group		Dalekovod d.d.	
	Note	2019	2018	2019	2018
Changes in working capital:					
Trade and other receivables		(17,221)	118,104	(14,893)	150,026
Inventories		8,628	(2,946)	5,262	(3,853)
Trade and other payables		(23,301)	(52,219)	(26,373)	(91,696)
Net cash generated from operating activities		1,921	20,741	22,152	24,533
Interest paid		(9,627)	(18,502)	(9,588)	(18,498)
Tax paid		(1,144)	(1,995)	(321)	(1,755)
Net cash flows from operating activities		(8,850)	244	12,243	4,280
Cash flows from investing activities					
Acquisition of intangible assets	18	(127)	(5,892)	-	(5,414)
Acquisition of property, plant and equipment	19	(17,991)	(27,351)	(9,568)	(22,426)
Acquisition of investment property	20	-	-	(26,599)	-
Proceeds from sale of property, plant and equipment		2,390	238	1,429	320
Net change in deposits		(1,452)	3,096	(5,513)	(1,042)
Advances given		-	(20)	-	-
Loans given		-	(755)	(7,828)	(27,402)
Repayments of loans given		367	1,034	12,096	16,931
Investments in subsidiary	22	-	-	(20)	-
Proceeds from sale of subsidiary	22,4	-	-	109,703	-
Proceeds from share in profits		-	8,909	2,315	15,630
Net investment in cash funds		-	497	-	497
Proceeds from the sale less disposal of cash		111,938	-	-	-
Cash lost due to liquidation		(5)	-	-	-
Proceeds from sale of available-for-sale financial assets		-	371	-	120
Interest received		754	1,979	398	1,079
Net cash flows used in investing activities		95,874	(17,894)	76,413	(21,707)
Cash flows from financing activities					
Proceeds from borrowings		21,375	23,456	24,800	11,512
Repayment of borrowings		(47,714)	(30,112)	(47,867)	(15,236)
Repayment of mezzanine		(54,203)	-	(55,859)	-
Redemption of bonds		(1,201)	(1,214)	(1,584)	(1,584)
Repayment of lease liabilities		(9,941)	(15,679)	(9,670)	(15,537)
Net cash flows from / (used in) financing activities		(91,684)	(23,549)	(90,180)	(20,845)
Net increase / (decrease) in cash		(4,660)	(41,199)	(1,524)	(38,272)
Cash at beginning of year		66,179	107,378	51,077	89,349
Cash at end of year	30	61,519	66,179	49,553	51,077
Net increase / (decrease) in cash		(4,660)	(41,199)	(1,524)	(38,272)

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 15 subsidiaries owned by the parent company and one entity run as joint venture (2018: 17 subsidiaries owned by the parent company and one entity run as joint venture) – note 22 and 24.

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

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

Management Board

Management Board members of the Company as at 31 December 2019 were: Mr. Tomislav Rosandić (President of the Management Board), Mr. Đuro Tatalović (Member of the Management Board), Mr. Ivan Kurobasa (Member of the Management Board) i Mr. Tomislav Đurić (Member of the Management Board).

At 28 February 2019, Mr. Alen Premužak ceased to be a President of the Management Board and Mr. Ivica Kranjčić ceased to be a Member of the Management Board.

At 1 March 2019, Mr. Tomislav Rosandić became a President of the Management Board and Mr. Đuro Tatalović became a Member of the Management Board.

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

Supervisory Board

Members of the Supervisory Board as at 31 December 2019 were: Mr. Željko Perić (President of the Supervisory Board), Mr. Dinko Novoselec (Vice president of the Supervisory Board), Mr. Hrvoje Markovinović (Member of the Supervisory Board), Vladimir Maoduš (Member of the Supervisory Board), Toni Đikić (Member of the Supervisory Board) and Gordan Kuvék (Member of the Supervisory Board).

At 14 January 2019, Mr. Hrvoje Habuš ceased to be a Member of the Supervisory Board. At 21 March 2019, Mr. Toni Đikić became a Member of the Supervisory Board in place of Mr. Hrvoje Habuš.

At 31 December 2019, Mr. Rajko Pavelić ceased to be a Member of the Supervisory Board.

At 20 December 2019, Mr. Dražen Buljić was appointed as a Member of the Supervisory Board with the beginning his term in office from 1 January 2020.

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

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

Certain new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2019 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements.

First application of new standards and amendments to existing standards

The Group and Company have applied the following standards and amendments for the first time for the annual period beginning January 1, 2019:

- IFRS 16 Leases
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

As a result of applying IFRS 16, the Group had to change its accounting policy for leases, which is explained in note 3.

The other amendments listed above did not have significant impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) *Subsidiaries*

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

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

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Disposal of subsidiaries

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

(d) Associates

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

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

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

(e) Mergers

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(f) Joint ventures

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

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

2.5.1 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

2.5.2 Assets under foreclosure

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

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

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

2.5.2 Assets under foreclosure (continued)

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

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

2.6 Investment property

2.6.1 Investment property

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment property (continued)

2.6.2 Assets under foreclosure

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

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

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

2.7 Intangible assets

(a) Goodwill

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

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

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

(b) Rights of use and computer software

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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)

(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)

(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)

(b) Classification and subsequent measurement (continued)

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.1 Financial assets (continued)

*(b) Classification and subsequent measurement (continued)**Subsequent measurement and recognition of gains and losses*

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

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are 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.

(c) Derecognition

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.2 Financial liabilities

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

(c) Derecognition

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

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

2.9.3 Offsetting

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

2.9.4 Derivative financial instruments

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets

Recognition of loss allowances

The Group recognises loss allowances for ECLs on:

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

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

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

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

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

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

2.9.5 Impairment of non-derivative financial assets (continued)

Measurement of ECLs

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

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

Credit impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off of financial assets

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Leases

The Group and Company have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

The Group and Company are Lessee

Policy applicable from 1 January 2019

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

This policy is applied to contracts entered into, on or after 1 January 2019.

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Lease (continued)

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Policy applicable before 1 January 2019

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Lease (continued)

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

The Group and Company are Lessor

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

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

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

2.11 Inventories

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

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 2019) 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 and Company delivers goods to the buyer, when buyer accept delivered services or goods and when payments of the receivables is fairly secure.

Revenues are recognised at fair value of received funds or receivables, deducted from tax, refunds and approvals, trade discounts and rebates.

(c) Interest income

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

(d) Dividend income

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

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 7th year and (b) option for early repayment of the mezzanine debt after 7th year for a maximum amount up to HRK 35.5 million. Option (b) is treated as derivative at fair value and is offset with total mezzanine debt, according to IAS 32, which defines net representation of financial liabilities taking into account that Company intends to settle net amount of the commitment.

Managements estimates in assessing the mezzanine debt were as follow:

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

Part of mezzanine debt for which there is an obligation to pay proceeds from the sale of the investment identified in the creditor agreement (to a maximum of HRK 62 million) was accounted for as a financial liability initially recognised at fair value until the end of 2018 and was classified as other financial liabilities and subsequently was measured at amortised cost using the effective interest method, taking into consideration changes in future expected cash flows in accordance with IAS 39.

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

2.25 Assets held for sale

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

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

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

NOTE 3 – CHANGES IN ACCOUNTING POLICIES

The Group and Company initially applied IFRS 16 Leases from 1 January 2019.

The Group and Company have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of the lease

Previously, the Group and Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group and Company now assess whether a contract is or contains a lease based on the definition of a lease, as explained in notes.

On transition to IFRS 16, the Group and Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group and Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Lessee

As a lessee, the Group and Company lease many assets including property, vehicles and other equipment. The Group and Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i. Leases classified as operating leases under IAS 17

Previously, the Group and Company classified leases of property, vehicles and other equipment as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's and Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments. The Group and Company applied this approach to all leases.

The Group and Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

NOTE 3 – CHANGES IN ACCOUNTING POLICIES (continued)

In particular, the Group and Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Group and Company lease a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset

and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impact on transition

On transition to IFRS 16, the Group and Company recognised right-of-use assets and lease liabilities. The impact on transition is summarised below. The Group and Company have used incremental borrowing rate of 4.5% to recognise liability at transition on 1 January 2019.

<i>(in thousands of HRK)</i>	Dalekovod Group 1.1.2019	Dalekovod d.d. 1.1.2019
Operating lease liabilities published as at 31. December 2018	10,167	8,686
Exemption from operating lease	(1,932)	(451)
Adjustment for discounting at initial recognition date	(35)	(35)
Lease liabilities recognized 1 January 2019	8,200	8,200

NOTE 4 – FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

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

At 31 December 2019, if the EURO had weakened/strengthened by 1.00% against the HRK (2018: 1.00%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 1,927 thousand (2018: HRK 1.815 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

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

(ii) Price risk

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

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(iii) Cash flow interest rate risk

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

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

The Group and the Company analyse their interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group and the Company calculate the impact on profit and loss of a defined interest rate shift. As at 31 December 2019, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2018: 0.82%), the loss after tax would have been higher/lower by HRK 71 thousand (2018: HRK 315 thousand) as a result of a higher/lower interest expense.

(b) Credit risk

The Group's and the Company's assets which potentially subject them to concentrations of credit risk primarily include cash, trade and other receivables. The Group and the Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. A favourable structure of buyers (major buyers are mainly state-owned companies) and the fact that, if necessary, collection from buyers is regulated by bank payment guarantees, bills of exchange, letters of credit and other types of security, almost completely diminishes the risk arising from the collection of trade receivables. A detailed analysis and maximum exposure to credit risk are shown in notes 29 and 27. Further, judgements and estimates in respect of credit risk exposure and related impairment provisions are described in more detail in note 2.9.5.

(c) Liquidity risk

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

With the legal validity of the pre-bankruptcy settlement on 14 February 2014 conditions for enforcement of financial restructuring were met which had significant affect over the Company's debt and their maturity. Part of trade payables is converted into share capital (note 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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:

<i>(in thousands of HRK)</i>	31 December 2019	31 December 2018
Borrowings (note 33)	418,082	428,487
Cash and cash equivalents (note 30)	(49,553)	(51,077)
Net debt	368,529	377,410
Equity	29,620	25,913
Total equity and net debt	398,149	403,323
Gearing ratio - Company	92.6%	93.6%

The Group's gearing ratio was as follows:

<i>(in thousands of HRK)</i>	31 December 2019	31 December 2018
Borrowings (note 33)	409,065	436,518
Cash and cash equivalents (note 30)	(61,519)	(66,179)
Net debt	347,546	370,339
Equity	82,514	82,319
Total equity and net debt	430,060	452,658
Gearing ratio - Group	80.8%	81.8%

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

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

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

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

<i>(in thousands of HRK)</i>	Level 1	Level 2	Level 3	Total
Group				
31 December 2019				
Property, plant and equipment				
Asset under foreclosure	-	-	112,388	112,388
Available for sale financial assets				
Listed entities	-	-	-	-
Unlisted entities	-	-	-	-
Total	-	-	112,388	112,388
31 December 2018				
Property, plant and equipment				
Asset under foreclosure	-	-	114,451	114,451
Available for sale financial assets				
Listed entities	-	-	5	5
Unlisted entities	-	-	-	-
Total	-	-	114,456	114,456

There were no transfers between level 1 and level 2 during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

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

<i>(in thousands of HRK)</i>	Level 1	Level 2	Level 3	Total
Company				
31 December 2019				
Property, plant and equipment				
Asset under foreclosure	-	-	88,757	88,757
Investment property				
Asset under foreclosure	-	-	23,630	23,630
Total	-	-	112,387	112,387
31 December 2018				
Property, plant and equipment				
Asset under foreclosure	-	-	90,819	90,819
Investment property				
Asset under foreclosure	-	-	23,630	23,630
Total	-	-	114,449	114,449

There were no transfers between level 1 and level 2 during 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

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

<i>(in thousands of HRK)</i>	Level 1	Level 2	Level 3	Total
Group				
31 December 2019				
Pre-bankruptcy liabilities	-	-	67,239	67,239
Lease liabilities	-	-	68,145	68,145
Mezzanine debt	-	-	29,516	29,516
Trade payables	-	-	3,720	3,720
Total	-	-	168,620	168,620
31 December 2018				
Pre-bankruptcy liabilities	-	-	66,673	66,673
Lease liabilities	-	-	68,145	68,145
Mezzanine debt	-	-	83,807	83,807
Trade payables	-	-	3,720	3,720
Total	-	-	222,345	222,345
Company				
31 December 2019				
Pre-bankruptcy liabilities	-	-	67,239	67,239
Lease liabilities	-	-	68,145	68,145
Mezzanine debt	-	-	33,721	33,721
Trade payables	-	-	3,720	3,720
Total	-	-	172,825	172,825
31 December 2018				
Pre-bankruptcy liabilities	-	-	66,673	66,673
Lease liabilities	-	-	77,390	77,390
Mezzanine debt	-	-	91,444	91,444
Trade payables	-	-	3,720	3,720
Total	-	-	239,227	239,227

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 12).

(c) Useful life of property, plant and equipment

The Company's and the Group companies' managements determine and reassess the useful lives and related depreciation charge for tangible assets. This assessment is based on the estimated remaining useful life of assets and could significantly change as a result of technical innovation and activities of competitors. Management will increase the depreciation charge if it assesses that the useful life of assets is lower than prior to estimates, or it will write off obsolete and discarded property (note 2.5).

(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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

NOTE 6 – PRE-BANKRUPTCY SETTLEMENT (continued)

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, there were no unwinding of the discount on the long-term payables in 2019 (2018: HRK 146 thousand) accounted for as an interest expense in profit and loss.

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

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

- Repayment terms of loans received, other than those transferred to mezzanine, did not change significantly so no fair value gains or losses have been recognised. The liabilities have been reclassified to reflect the loans repayment plans. All liabilities from the pre-bankruptcy settlement to financial institutions are regularly settled.
- Also, in compliance with the Settlement, the liabilities for interest and fees were written off and the Company realised income on release of liabilities for interest and fees in the amount of HRK 19,188 thousand. Income on release of liabilities from interest and fees has been recognised as finance income in the profit or loss.
- Furthermore, three creditors (banks) decided to settle their receivables outside the pre-bankruptcy settlement through future proceeds from the sale of assets under foreclosure (pledged as security for payment), as explained in note 33 of the financial statements.
- Additionally, the Company's debt on the basis of co-debtorships and guarantees or warranties was extinguished in full.
- In case the asset under foreclosure relating to Žitnjak and Dugo Selo locations are sold, these assets would cease to be recognised and the liabilities stated in Statement of financial position would be settled. The amount received that would exceed the liabilities toward pre-bankruptcy creditors related to liabilities toward banks secured by mortgage, and which participated in the pre-bankruptcy settlement are stated within long-term loans and receivables.

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Below is a pro-forma statement of financial position of Group as at 31 December 2019 and 31 December 2018 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).

<i>(all amounts are expressed in thousands of HRK)</i>	Dalekovod Group					
	2019 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2019 excluding pre-bankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2018 excluding pre-bankruptcy effects
ASSETS						
Intangible assets	6,057	-	6,057	10,697	-	10,697
Property, plant and equipment	339,274	(112,388)	226,886	361,329	(114,451)	246,878
Prepayments	20	-	20	20	-	20
Investments in associates	4	-	4	4	-	4
Investments in joint ventures	-	-	-	11,592	-	11,592
Equity investments	-	-	-	5	-	5
Loans and receivables	50,495	45,149	95,644	41,508	47,778	89,286
Non-current assets	395,850	(67,239)	328,611	425,155	(66,673)	358,482
Inventories	85,249	-	85,249	97,420	-	97,420
Trade and other receivables	402,370	-	402,370	417,102	-	417,102
Income tax receivable	1,645	-	1,645	1,773	-	1,773
Cash and cash equivalents	61,519	-	61,519	66,179	-	66,179
Assets held for sale	-	-	-	65,038	-	65,038
Current assets	550,783	-	550,783	647,512	-	647,512
Total assets	946,633	(67,239)	879,394	1,072,667	(66,673)	1,005,994

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

<i>(all amounts are expressed in thousands of HRK)</i>	Dalekovod Group					
	2019 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2019 excluding pre-bankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2018 excluding pre-bankruptcy effects
EQUITY						
Share capital	247,193	-	247,193	247,193	-	247,193
Share premium	86,142	-	86,142	88,236	-	88,236
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)	-	40,707	(40,707)	-
Translation reserves	(4,340)	-	(4,340)	(2,678)	-	(2,678)
Accumulated loss	(365,958)	49,643	(316,315)	(369,209)	49,643	(319,566)
Shareholders' equity	82,514	8,936	91,450	83,019	8,936	91,955
Non-controlling interests	-	-	-	(700)	-	(700)
Total equity	82,514	8,936	91,450	82,319	8,936	91,255

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

OTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

<i>(all amounts are expressed in thousands of HRK)</i>	Dalekovod Group					
	2019 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2019 excluding pre-bankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2018 excluding pre-bankruptcy effects
LIABILITIES						
Borrowings	337,903	(67,239)	270,664	367,354	(66,673)	300,681
Mezzanine debt	29,516	-	29,516	26,946	-	26,946
Provisions	35,135	-	35,135	24,902	-	24,902
Trade and other payables	240	-	240	766	-	766
Deferred tax liability	8,936	(8,936)	-	8,936	(8,936)	-
Non-current liabilities	411,730	(76,175)	335,555	428,904	(75,609)	353,295
Borrowings	71,162	-	71,162	69,164	-	69,164
Mezzanine debt	-	-	-	56,861	-	56,861
Provisions	1,135	-	1,135	4,134	-	4,134
Trade and other payables	348,438	-	348,438	407,087	-	407,087
Income tax payable	31,654	-	31,654	24,198	-	24,198
Current liabilities	452,389	-	452,389	561,444	-	561,444
Total liabilities	864,119	(76,175)	787,944	990,348	(75,609)	914,739
Total equity and liabilities	946,633	(67,239)	879,394	1,072,667	(66,673)	1,005,994

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Below is a pro-forma statement of financial position of Company as at 31 December 2019 and 31 December 2018 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.

<i>(all amounts are expressed in thousands of HRK)</i>	2019 reported	The effects of assets under foreclosure and related pre- bankruptcy liabilities	2019 excluding prebankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre- bankruptcy creditors	2018 excluding prebankruptcy effects
ASSETS						
Intangible assets	4,173	-	4,173	7,576	-	7,576
Property, plant and equipment	147,083	(112,388)	34,695	144,473	(114,451)	30,022
Investment property	166,260	-	166,260	149,027	-	149,027
Investments in subsidiaries	46,906	-	46,906	59,254	-	59,254
Investments in associates	4	-	4	4	-	4
Investments in joint ventures	-	-	-	11,592	-	11,592
Loans and receivables	56,608	45,149	101,757	43,371	47,778	91,149
Non-current assets	421,034	(67,239)	353,795	415,297	(66,673)	348,624
Inventories	6,347	-	6,347	11,642	-	11,642
Trade and other receivables	340,071	-	340,071	325,516	-	325,516
Income tax receivable	1,517	-	1,517	1,467	-	1,467
Cash and cash equivalents	49,553	-	49,553	51,077	-	51,077
Assets held for sale	-	-	-	73,375	-	73,375
Current assets	397,488	-	397,488	463,077	-	463,077
	-	-	-	-	-	-
Total assets	818,522	(67,239)	751,283	878,374	(66,673)	811,701

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

Dalekovod d.d.

<i>(all amounts are expressed in thousands of HRK)</i>	2019 reported	The effects of assets under foreclosure and related pre- bankruptcy liabilities	2019 excluding pre-bankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre- bankruptcy creditors	2018 excluding pre-bankruptcy effects
EQUITY						
Share capital	247,193	-	247,193	247,193	-	247,193
Share premium	86,142	-	86,142	88,236	-	88,236
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)	-	40,707	(40,707)	-
Accumulated loss	(388,097)	49,643	(338,454)	(393,898)	49,643	(344,255)
Shareholders' equity	29,620	8,936	38,556	25,913	8,936	34,849
Non-controlling interests	-	-	-	-	-	-
Total equity	29,620	8,936	38,556	25,913	8,936	34,849

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 – PREBANKRUPTCY SETTLEMENT (continued)

<i>(all amounts are expressed in thousands of HRK)</i>	Dalekovod d.d.					
	2019 reported	The effects of assets under foreclosure and related pre-bankruptcy liabilities	2019 excluding pre-bankruptcy effects	2018 reported	The effects of assets under foreclosure and relating pre-bankruptcy creditors	2018 excluding pre-bankruptcy effects
LIABILITIES						
Borrowings	342,023	(67,239)	274,784	372,346	(66,673)	305,673
Mezzanine debt	33,721	-	33,721	31,381	-	31,381
Provisions	30,935	-	30,935	20,753	-	20,753
Trade and other payables	171	-	171	856	-	856
Deferred tax liability	8,936	(8,936)	-	8,936	(8,936)	-
Non-current liabilities	415,786	(76,175)	339,611	434,272	(75,609)	358,663
Borrowings	76,059	-	76,059	56,141	-	56,141
Mezzanine debt	-	-	-	60,063	-	60,063
Provisions	533	-	533	2,795	-	2,795
Trade and other payables	265,332	-	265,332	275,194	-	275,194
Income tax payable	31,192	-	31,192	23,996	-	23,996
Current liabilities	373,116	-	373,116	418,189	-	418,189
Total liabilities	788,902	(76,175)	712,727	852,461	(75,609)	776,852
Total equity and liabilities	818,522	(67,239)	751,283	878,374	(66,673)	811,701

NOTE 7 – GOING CONCERN

After the Group recorded HRK 1.5 billion in revenue in 2017, the loss of revenue in 2018 due to negative market trends and one-off losses on several projects, resulted in a significant loss in 2018. Such a financial result also had an impact on operations during 2019, during which the Group and the Company operated in conditions of stressed liquidity.

Consequently, in the second part of 2019, the Group and the Company initiated a comprehensive process of financial and operational restructuring. A restructuring plan was prepared with the aim of long-term sustainable cash flows and revenue growth, which assumed execution of certain measures to reduce debt, improve operational profitability and reduce costs.

As at 31 December 2019, the Group and the Company have unpaid and overdue liabilities for borrowings and related interest in the amount of HRK 32,754 thousand (April 30, 2020: HRK 46,961 thousand). In this context, the management is negotiating with creditors on the finalization of the debt refinancing process, which refers to the due financial debt. The key risk related to the going concern assessment relates to management's assessment of the current status of negotiations with creditors and their willingness to continue to support the liquidity of the Company and the Group until the end of the restructuring process. Key financial creditors have so far supported the Group's comprehensive restructuring process, as evidenced by the approval of a new EUR 14 million guarantee framework in the fourth quarter of 2019 and an additional EUR 8 million guarantee framework in the first quarter of 2020.

In the first quarter of 2020, the company was granted a loan in Norway in the amount of HRK 9,714 thousand for additional financing of project-related activities.

Based on this year's results and expected market trends, and the fact that creditors have actively supported the Group and Company in their restructuring efforts so far, the Management Board concluded that the use of the going concern assumption in the preparation of the financial statements for the year ended 31 December 2019 is appropriate.

In parallel with the financial restructuring, in 2019 the management began to implement certain measures aimed at reducing costs and optimizing operations. Key measures already executed include:

- optimization of the workforce and reduction of the number of employees by 139 employees at the Group level;
- salary reduction for 120 employees ranging from 5 to 25%;
- reduction of fleet costs through refinancing, optimization of the number and type of vehicles;
- savings on various operating costs.

Alongside financial and operational restructuring measures, operating profitability increased significantly in 2019 compared to 2018, and, more importantly, a significant increase in profitability was recorded in the first quarter of 2020. Furthermore, the Group contracted a significant number of projects during 2019 and currently has a significant order book of contracted projects, not taking into account a significant number of contracts that are either in the contracting phase or where the Group is the preferred bidder.

The Company and the Group have issued guarantees for all contracted and commenced projects, and the management is actively working on providing additional guarantee frameworks that would ensure seamless execution of new contracts in the future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 7 - GOING CONCERN (continued)

In the context of considering the appropriateness of the going concern assumption, management also considered all available information regarding the COVID 19 pandemic and considered its potential effects on the Group's and the Company's operations.

Given the specificity of the Group's and the Company's operations, the current circumstances do not indicate any changes that would significantly affect the assessment of the appropriateness of the going concern assumption. As of the date of this report, all ongoing projects are being carried out without delay, primarily as a result of the Group's involvement in strategic projects of renewal and replacement of energy infrastructure that have long been in the works. Such project are financed by public sector customers in wealthier countries (such as Norway and Sweden) which also significantly reduces the risk of customer insolvency and delays in execution. Furthermore, these countries represent the primary markets of the Group and currently have relatively less stringent measures against the COVID-19 pandemic which do not impair the operational functionality and execution dynamics of projects. This is visible in improved results of operations in the first quarter of 2020 and in line with the information available to management as at the date of this report regarding the current and expected completion of projects. See note 41 for more details.

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

<i>(in thousands of HRK)</i>	Construction	Production	Other	Total
Year ended 31 December 2019				
Gross revenues	1,125,937	236,227	456	1,362,620
Inter-segment revenues /i/	(50,646)	(85,171)	-	(135,817)
Total revenues	1,075,291	151,056	456	1,226,803
Operating profit/(loss) before depreciation and amortisation	73,878	(15,322)	9,017	67,573
Depreciation and amortisation	(28,816)	(7,352)	-	(36,168)
Operating profit/(loss)	45,062	(22,674)	9,017	31,405
Total assets	720,753	151,104	74,776	946,633
Total liabilities	733,418	128,412	2,289	864,119
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	5,336	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 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

Out of the total gross revenues within segment 'Other' refer to income from maintenance and management services (2018: HRK 5,403 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

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

	2019	2018
	<i>(in thousands of HRK)</i>	
Segment sales revenue	1,362,164	1,303,151
Inter-segment receivables	(135,817)	(144,531)
Unallocated:		
Other	456	5,403
Inter-segment receivables	-	(67)
Total revenues	1,226,803	1,163,956

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

	2019		2018	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Norway	509,681	41.55	522,671	44.90
Croatia	339,004	27.63	296,732	25.49
Sweedeen	145,014	11.82	79,183	6.80
Bosnia and Herzegovina	107,421	8.76	128,560	11.05
Slovenia	47,642	3.88	22,822	1.96
Poland	14,539	1.19	20,933	1.80
Ukraine	1,268	0.10	34,555	2.97
Pakistan	1,021	0.08	11,653	1.00
Finland	940	0.08	25,148	2.16
Other abroad	60,273	4.91	21,699	1.87
Total	1,226,803	100.00	1,163,956	100.00

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 8 – BUSINESS SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	2019	2018
	<i>(in thousands of HRK)</i>	
Energetics	918,900	823,163
Railroads	75,895	85,170
Sale of metal constructions	66,342	58,743
Sale of suspension and jointing equipment	47,944	80,364
Roads	44,604	41,538
Projects	33,542	27,573
Properties	7,740	736
Telecommunications	3,221	4,426
Other	28,615	42,243
Total	1,226,803	1,163,956

Revenue from construction contracts amounts to HRK 1,075,291 thousand (2018: HRK 988,986 thousand).

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Trade receivables	157,888	182,995	117,485	103,930
Guarantee deposits - retention	63,817	72,602	59,135	72,343
Contract assets	75,500	52,939	65,156	35,402
Contract liabilities	(40,073)	(38,237)	(37,309)	(35,614)
	257,132	270,299	204,467	176,061

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

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

Advances received for projects under construction that are active at the reporting date are presented within advances in note 35 and amount to HRK 28,145 thousand (2018: HRK 26,333 thousand) for Company and HRK 30,909 thousand (2018: HRK 28,956 thousand) for the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 9 – OTHER INCOME

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Income from reversal of provisions	5,919	3,202	4,924	1,115
Court settlement income	3,390	451	3,390	451
Rental income	373	329	11,155	6,358
Inventory surpluses	275	290	17	47
Insurance claims proceeds	101	331	19	295
Income from penalty interest	63	1,942	55	1,771
Fair valuation of liabilities to secured creditors	-	19,489	-	19,489
Other operating income	15,303	25,370	11,261	19,653
	25,424	51,404	30,821	49,179

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Raw materials and supplies				
Raw materials and supplies	289,075	264,756	234,830	206,264
Energy	15,007	17,031	10,769	12,862
Spare parts and small inventory	11,493	24,138	11,629	20,229
	315,575	305,925	257,228	239,355
External services				
Subcontractor services	290,345	279,822	246,889	247,688
Rental expense	34,896	25,227	31,948	23,308
Transportation	15,901	26,536	5,779	8,575
Repairs and maintenance	11,943	8,093	9,450	4,993
Advertising and promotion	564	1,209	433	984
Other	8,302	11,757	2,422	2,651
	361,951	352,644	296,921	288,199
Total cost of materials and services	677,526	658,569	554,149	527,554

NOTE 11 – STAFF COSTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Net salaries	227,295	226,755	172,679	169,886
Taxes and contributions on and from salaries	71,342	76,735	39,569	42,991
Severance costs	9,120	3,139	4,523	2,811
Supervisory Board compensation	306	413	306	413
Unused vacation days	116	10,384	-	5,914
Other staff costs	25,545	32,395	11,088	13,236
Total	333,724	349,821	228,165	235,251

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

As at 31 December 2019, the Group had 1,345 employees (2018: 1,484 employees), and the Company had 778 employees (2018: 795 employees).

One of the measures of the restructuring process included reducing the number of employees. The severance pay in the amount of HRK 4,436 thousand was paid to 42 employees of the Company and is a consequence of the restructuring process, for the Group this amount is HRK 8,807 thousand and relates to 113 employees.

NOTE 12 – OTHER OPERATING EXPENSES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Daily allowances and travel cost	52,930	49,328	52,005	48,106
Intellectual and non-production services	21,357	22,424	12,128	13,318
Impairment of joint venture (note 24)	11,592	5,645	11,592	5,645
Court cases	10,999	1,744	10,635	1,427
Impairment of trade receivables and loans – net	10,782	6,997	9,507	16,128
Bank charges	9,385	7,930	8,178	6,384
Insurance	6,176	6,742	5,112	5,865
Taxes and contributions	4,281	4,411	2,904	3,030
Entertainment	1,908	2,204	756	980
Impairment of inventories	1,929	1,085	-	452
Interest from suppliers	1,183	1,248	445	144
Inventory shortages	793	517	33	46
Sponsorships, donations and other aids	750	693	237	358
Fines and penalties	269	833	181	195
Impairment of non-financial assets	6	234	-	-
Impairment and write-off of property, plant and equipment	-	14,039	-	8,658
Impairment of other financial assets	-	1,442	-	1,701
Court settlement agency cost	-	138	-	138
Impairment of investments in subsidiaries (note 22)	-	-	10,997	148,125
Other	8,576	15,040	5,869	15,669
Total	142,916	142,694	130,579	276,369

NOTE 12 – OTHER OPERATING EXPENSES (continued)

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

Impairment of joint ventures in 2019 refers to the impairment of share in Officium Partner d.o.o., while impairment of investments in subsidiaries in 2019 relates to Dalekovod Polska S.A. Impairment of investments in subsidiaries in 2018 relates to the Dalekovod Proizvodnja d.o.o. (HRK 142,119 thousand), Dalekovod Polska S.A. (HRK 3,351 thousand) and Liburana d.o.o. (HRK 2,655 thousand).

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. There were no significant changes in fair value of these assets.

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 in 2018.

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

NOTE 13 – OTHER GAINS/(LOSSES) – NET

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Gain/(loss) from sale of subsidiary	44,504	-	37,627	-
Loss of control of subsidiary	18,079	421	-	-
Net gain on sale of property, plant and equipment	1,936	738	1,020	320
Liquidation of subsidiary	197	-	(371)	(45)
Gains/(loss) on sale of equity investments	-	101	-	101
Write-off of equity instruments	-	(1,327)	-	(1,327)
	64,716	(67)	38,276	(951)

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

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

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

For more details regarding subsidiaries write-off please see Note 40.

In 2018, 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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Net foreign exchange differences	10,537	36,769	9,707	34,830
Income from unwinding of discount	1,442	1,330	1,442	1,330
Interest income	853	3,002	2,058	2,204
Interest income on bank deposits	157	48	84	1
Income from shares in profit	-	4,528	2,315	15,630
Other finance income	10	3	-	3
Finance income	12,999	45,680	15,606	53,998
Net foreign exchange differences	(15,421)	(40,265)	(14,407)	(37,426)
Interest expense	(17,026)	(22,056)	(17,616)	(22,152)
Other financial expenses	-	-	(88)	(113)
Finance costs	(32,447)	(62,321)	(32,111)	(59,691)
	(19,448)	(16,641)	(16,505)	(5,693)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 15 – INCOME TAX

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Profit/(loss) before tax	11,957	(113,429)	13,268	(227,749)
Tax calculated at the domestic tax rate applicable to profits in the respective countries	3,890	(41,686)	10,018	(36,377)
Effect of non-taxable income	(1,673)	(7,474)	(1,673)	(6,510)
Effect of non-deductible expenses	9,853	37,414	8,781	34,944
Effect of tax losses not recognised as deferred tax assets	(3,299)	18,046	(9,659)	13,217
Utilisation of tax losses for which deferred tax assets was not recognised	-	(158)	-	-
Other	(65)	-	-	-
Income tax expense	8,706	6,142	7,467	5,274
Effective tax rate	72.8%	-	56.3%	-

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

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Unutilised tax losses				
Tax loss from 2014 - expires 2019	1,838	20,361	-	-
Tax loss from 2015 - expires 2020	9	9,136	-	-
Tax loss from 2016 - expires 2021	4,459	61,905	4,406	61,851
Tax loss from 2017 - expires 2022	22,515	22,575	10,031	10,031
Tax loss from 2018 - expires 2023	100,168	100,305	73,429	73,429
Tax loss from 2019 - expires 2024	36,824	-	-	-
	165,813	214,282	87,866	145,311

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 15 – INCOME TAX (continued)

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

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

Movement in deferred tax liability

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At beginning of the year	8,936	15,235	8,936	15,235
Charged to revaluation reserves	-	(6,299)	-	(6,299)
At end of year	8,936	8,936	8,936	8,936

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

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

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

	Dalekovod Group	
	2019	2018
Net loss attributable to shareholders <i>(in thousands of HRK)</i>	3,251	(119,571)
Weighted average number of shares	24,620,464	24,620,464
Basic/diluted loss per share <i>(in HRK)</i>	0.13	(4.86)

NOTE 17 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 101 thousand (2018: 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	Usage rights	Software	Assets under construction	Total
At 1 January 2018					
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	47,726	722	65,172
Accumulated amortisation and impairment losses	-	(13,443)	(41,932)	-	(54,475)
Net book value	1,213	2,068	6,694	722	10,697
Year ended 31 December 2019					
At 1 January	1,213	2,068	6,694	722	10,697
Additions	-	-	127	-	127
Transfer	-	-	48	(48)	-
Transfer to tangible assets	-	-	(769)	(394)	(1,163)
Amortisation	-	(2,068)	(1,536)	-	(3,604)
At 31 December	1,213	-	4,564	280	6,057
At 31 December 2019					
Cost	1,213	15,511	47,535	280	64,539
Accumulated amortisation and impairment losses	-	(15,511)	(42,971)	-	(58,482)
Net book value	1,213	-	4,564	280	6,057

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 18 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Construction segment.

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

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

NOTE 18 – INTANGIBLE ASSETS (continued)

Company

<i>(in thousands of HRK)</i>	Usage rights	Software	Assets under construction	Total
At 1 January 2018				
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	42,618	-	58,129
Accumulated amortisation	(13,443)	(37,110)	-	(50,553)
Net book value	2,068	5,508	-	7,576
Year ended 31 December 2019				
At 1 January	2,068	5,508	-	7,576
Amortisation	(2,068)	(1,335)	-	(3,403)
At 31 December	-	4,173	-	4,173
At 31 December 2019				
Cost	15,511	42,618	-	58,129
Accumulated amortisation	(15,511)	(38,445)	-	(53,956)
Net book value	-	4,173	-	4,173

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018						
Cost or deemed cost	20,612	341,011	405,844	219,350	9,255	996,072
Accumulated depreciation	-	(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 surplus	-	-	-	(34,994)	-	(34,994)
Transfer	-	24	33,537	-	(33,561)	-
Transfer to investment property	-	488	-	-	-	488
Disposals and write-offs	-	-	(500)	-	-	(500)
Disposal of 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 deemed cost	20,561	319,341	438,309	184,360	3,111	965,682
Accumulated depreciation and impairment losses	-	(191,416)	(343,028)	(69,909)	-	(604,353)
Net book value	20,561	127,925	95,281	114,451	3,111	361,329

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Assets under foreclosure	Assets under construction	Total
Year ended 31 December 2019						
At 1 January	20,561	127,925	95,281	114,451	3,111	361,329
Initial implementation of IFRS 16	-	-	8,200	-	-	8,200
Additions	-	76	14,490	-	4,022	18,588
Transfer	-	4,179	(152)	-	(4,027)	-
Transfer from intangible assets	-	-	1.163	-	-	1.163
Disposals and write-offs	-	(390)	(64)	-	-	(454)
Disposal of subsidiary	(1,874)	(12,053)	(1,146)	-	(45)	(15,118)
Sale of a subsidiary	-	-	-	-	(2,119)	(2,119)
Foreign exchange differences	12	111	115	-	11	249
Depreciation	-	(8,559)	(21,942)	(2,063)	-	(32,564)
At 31 December	18,699	111,289	95,945	112,388	953	339,274
At 31 December 2019						
Cost or deemed cost	18,699	309,414	416,197	184,360	953	929,623
Accumulated depreciation and impairment losses	-	(198,125)	(320,252)	(71,972)	-	(590,349)
Net book value	18,699	111,289	95,945	112,388	953	339,274

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018						
Cost or deemed cost	-	7,066	185,302	195,724	-	388,092
Accumulated depreciation	-	(6,262)	(148,341)	(60,017)	-	(214,620)
Net book value	-	804	36,961	135,707	-	173,472
Year ended 31 December 2018						
At 1 January	-	804	36,961	135,707	-	173,472
Additions	-	-	-	-	28,578	28,578
Revaluation surplus	-	-	-	(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)
FX changes	-	-	(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 deemed cost	-	5,502	190,974	160,728	-	357,204
Accumulated depreciation	-	(4,363)	(138,459)	(69,909)	-	(212,731)
Net book value	-	1,139	52,515	90,819	-	144,473

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

(in thousands of HRK)

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

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2019, land and buildings of the Group and the Company with a net book value of HRK 37,370 thousand (2018: HRK 38,269 thousand) were pledged as collateral for loans (note 33).

As at 31 December 2019, assets under foreclosure of the Group with a net book value of HRK 112,388 thousand (2018: HRK 114,451 thousand) were pledged as collaterals for loans (note 33).

As at 31 December 2019, assets under foreclosure of the Company with a net book value of HRK 88,757 thousand (2018: HRK 90,819 thousand) were pledged as loan repayment insurance (note 33).

As at 31 December 2019, the value of the assets under foreclosure amounts to HRK 112,388 thousand and liabilities for secured pre-bankruptcy creditors were revalued accordingly (note 6 and note 33).

In 2018 Company revalued assets under foreclosure resulting in a reduction of HRK 42,820 thousand. In 2019, there was no significant effect on changes in the value of assets under foreclosure.

As at 31 December 2019, assets under finance lease where the Group is the lessee amounted to HRK 16,400 thousand (2018: HRK 14,517 thousand).

As at 31 December 2019, assets under finance lease where the Company is the lessee amounted to HRK 16,103 thousand (2018: HRK 14,517 thousand).

NOTE 20 – INVESTMENT PROPERTY**Group***(in thousands of HRK)*

	Land	Buildings	Total
At 1 January 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 to property, plant and equipment	-	(488)	(488)
Disposals and write-offs	-	-	-
Depreciation	-	-	-
At 31 December	-	-	-
Year ended 31 December 2019			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book value	-	-	-

NOTE 20 – INVESTMENT PROPERTY (continued)

Company

<i>(in thousands of HRK)</i>	Land	Buildings	Plant and equipment	Assets under foreclosure	Total
At 1 January 2018					
Cost	12,461	273,838	103,465	23,630	413,394
Accumulated depreciation	-	(154,432)	(95,266)	-	(249,698)
Net book value	12,461	119,406	8,199	23,630	163,696
Year ended 31 December 2018					
At 1 January	12,461	119,406	8,199	23,630	163,696
Transfer to property, plant and equipment	-	(488)	-	-	(488)
Transfer from property, plant and equipment	-	-	987	-	987
Depreciation	-	(8,134)	(7,034)	-	(15,168)
At 31 December	12,461	110,784	2,152	23,630	149,027
At 31 December 2018					
Cost	12,461	273,367	104,455	23,630	413,912
Accumulated depreciation	-	(162,582)	(102,303)	-	(264,885)
Net book value	12,461	110,784	2,152	23,630	149,027
Year ended 31 December 2019					
At 1 January	12,461	110,784	2,152	23,630	149,027
Additions	-	4,428	22,171	-	26,599
Transfer from property, plant and equipment	-	-	8	-	8
Depreciation	-	(8,226)	(1,148)	-	(9,374)
At 31 December	12,461	106,986	23,183	23,630	166,260
At 31 December 2019					
Cost	12,461	277,795	126,614	23,630	440,500
Accumulated depreciation and impairment losses	-	(170,809)	(103,431)	-	(274,240)
Net book value	12,461	106,986	23,183	23,630	166,260

Land and buildings with a net book value of HRK 67,064 thousand (2018: HRK 78,596 thousand) have been pledged as collateral for finance leases payable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 20 – INVESTMENT PROPERTY (continued)

On 31 December 2019, land and buildings of the Company with a net book value of HRK 37.370 thousand (2018: HRK 38,269 thousand) were pledged as collateral for borrowings (note 33).

On 31 December 2019, assets under foreclosure of the Company with a net book value of HRK 23,630 thousand (2018: 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 6 and 33, 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 – INITIAL IMPLEMENTATION OF IFRS 16

The company leases vehicles under rental agreements.

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	1.1.2019.	2019	1.1.2019.
<i>Right of use assets:</i>				
Vehicles	6,001	8,200	6,001	8,200
	6,001	8,200	6,001	8,200
<i>Lease liabilities:</i>				
Non-current liabilities	2,527	2,199	2,527	2,199
Current liabilities	3,806	6,001	3,806	6,001
	6,333	8,200	6,333	8,200

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 21 – INITIAL IMPLEMENTATION OF IFRS 16 (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	1.1.2019.	2019	1.1.2019.
From 1 to 2 years	2,164	2,527	2,164	2,527
From 2 to 5 years	1,642	3,474	1,642	3,474
	3,806	6,001	3,806	6,001

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	1.1.2019.	2019	1.1.2019.
Depreciation	2,796	-	2,796	-
Interest expenses (note 14)	332	-	332	-
Lease cost related to short-term lease (note 10)	34,896	-	31,948	-
	38,024	-	35,076	-

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

<i>(in thousands of HRK)</i>	Dalekovod Group	Dalekovod d.d.
	2019	2019
	Vehicles	Vehicles
For the year ended 31. December 2019		
Opening net book value of lease recognized under IFRS 16	8,200	8,200
Opening net book value	8,200	8,200
Additions	597	597
Transfer form asset under constriction	-	-
Disposals and write-offs	-	-
Depreciation	(2,796)	(2,796)
Closing net book value	6,001	6,001
	-	-
At 31 December 2019		
Cost	8,797	8,797
Accumulated depreciation	(2,796)	(2,796)
Net book value	6,001	6,001

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

<i>(in thousands of HRK)</i>	Dalekovod d.d.	
	2019	2018
At 1 January	59,254	280,799
Additions /i/	20	-
Decrease /ii/	(371)	(45)
Impairment /iii/	(10,997)	(148,125)
Transfer of shares /iv/	(1,000)	-
Transfer to assets held for sale /v/	-	(73,375)
As at 31 December	46,906	59,254

/i/ During 2019 there was additional investment in subsidiary Cinčaonica usluge d.o.o. in amount HRK 20 thousand.

/ii/ The decrease in the amount of HRK 371 thousand in 2019 relates to liquidation of company Dalcom Engineering GmbH, Freilassing while in 2018 decrease of HRK 45 thousand was related 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.

/iii/ In 2019, Investment in Dalekovod-Polska S.A. was impaired by HRK 10,997 thousand. During previous years, the Company impaired investments in the following subsidiaries: Dalekovod TKS a.d., Cindal d.o.o., Denacco Namibia (PTY) d.o.o., Dalekovod Libija, Dalekovod-Adria d.o.o. and partially investments in subsidiaries Dalekovod-Polska S.A. and Proizvodnja MK i OSO d.o.o. During 2018, the following investments were impaired: Proizvodnja MK i OSO d.o.o. by HRK 142,119 thousand; Dalekovod-Polska S.A. by HRK 3,351 thousand and Liburana d.o.o. by HRK 2,655 thousand. Impairment losses relating to Dalekovod-Polska S.A. are the consequence of changes in business plans related to the this company.

/iv/ During 2019, there was sale of Liburana d.o.o. that resulted in a decrease of investment in subsidiary in the amount of HRK 1,000 thousand. In 2018, investment in Liburana d.o.o. was already impaired by HRK 2,674 thousand.

/v/ During 2019, the subsidiary Dalekovod Proizvodnja d.o.o. changes its name to Proizvodnja MK i OSO d.o.o. As of March 1, 2020 the production company Proizvodnja MK i OSO d.o.o. is partitioned from the economic unit related to the production of suspension and jointing equipment. The mentioned new economic entity is continuing its business as a separate business entity under the name Proizvodnja OSO d.o.o. (PIN: 55411035652). Company Proizvodnja MK i OSO d.o.o. continues operating under a new name Proizvodnja MK d.o.o. (Note 41).

/vi/ Shares in company Dalekovod Professio d.d. are reclassified to assets held for sale in 2018. The sale was realized in 2019.

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

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

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)**

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

Name	Country of incorporation	Primary activity	2019	2018	2019	2018
			<i> Holding in % </i>		<i> (in thousands of HRK) </i>	
Dalekovod d.o.o., Ljubljana	Slovenia	Construction	100.00	100.00	2,075	2,075
Dalekovod d.o.o., Mostar	Bosnia and Herzegovina	Construction	100.00	100.00	210	210
Proizvodnja MK i OSO d.o.o., Dugo Selo /vi/, /iii/	Croatia	Production	100.00	100.00	222,758	222,758
Dalekovod-projekt d.o.o., Zagreb	Croatia	Construction	100.00	100.00	4,614	4,614
Dalcom Engineering GmbH, Freilassing /ii/	Germany	Construction	0.00	100.00	-	371
Dalekovod-Polska S.A., Varšava /iii/	Poland	Construction	100.00	100.00	16,943	16,943
Dalekovod TKS a.d., Dobož	Bosnia and Herzegovina	Production	97.25	97.25	20,344	20,344
Denacco Namibia (PTY) Ltd	Namibia	Construction	60.00	60.00	18	18
Liburana d.o.o., Zagreb /iii/, /iv/, /v/	Croatia	Other	0.00	100.00	-	3,674
Cindal d.o.o. Dobož /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	Norway	Construction	100.00	100.00	2,072	2,072
Cinčaonica usluge d.o.o. /i/	Croatia	Other	100.00	-	20	-
Impairment of investments					(271,945)	(263,622)
					46,906	59,254

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 23 – INVESTMENTS IN ASSOCIATES**

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At beginning of year	4	4	4	4
Share in profit/(loss)	-	-	-	-
Decrease /i/	-	-	-	-
At end of year	4	4	4	4

Associates are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Holding in %	
	2019	2018	2019	2018
TLM Group Members	4	4	22-25	22-25
Total	4	4		

NOTE 24 – INVESTMENTS IN JOINT VENTURE

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At beginning of year	11,592	-	11,592	-
Additional investments	-	17,237	-	17,237
Impairment of investment in joint ventures	(11,592)	(5,645)	(11,592)	(5,645)
At end of year	-	11,592	-	11,592

During 2018, the Company acquired 50% stake in the company Officium partner d.o.o. 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 zero as at 31 December 2019. (2018: HRK 11,592 thousand).

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 24 – INVESTMENTS IN JOINT VENTURE (CONTINUED)**

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

<i>(in thousands of HRK)</i>	Asset	Liabilities	Revenue	Net income (loss)
Officium partner d.o.o.	670,038	648,866	40,836	(19,248)

NOTE 25 – EQUITY INVESTMENTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At beginning of year	5	1,602	-	1,346
Decrease /i/	(5)	(270)	-	(19)
Adjustment to fair value /ii/	-	(1,327)	-	(1,327)
At end of year	-	5	-	-

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

/ii/ The fair value decrease in 2018 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through P&L	Available for sale financial assets	Total
31 December 2019					
Financial assets					
Trade receivables	27,29	162,710	-	-	162,710
Receivables by construction contracts	29	75,500	-	-	75,500
Loans receivable and deposits	27,29	84,703	-	-	84,703
Other receivables	29	94,828	-	-	94,828
Cash and cash equivalents	30	61,519	-	-	61,519
Total		479,260	-	-	479,260

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
31 December 2019		
Financial liabilities		
Loans	33	290,870
Bonds	33	16,871
Lease liabilities	33	101,324
Mezzanine debt	34	29,516
Trade payables	35	221,835
Other payables	35	15,473
Total		675,889

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through P&L	Available for sale financial assets	Total
31 December 2018					
Financial assets					
Trade receivables	27,29	188,005	-	-	188,005
Receivables by construction contracts	29	52,939	-	-	52,939
Loans receivable and deposits	27,29	107,468	-	-	107,468
Other receivables	29	69,608	-	-	69,608
Available for sale financial assets	25	-	-	5	5
Cash and cash equivalents	30	66,179	-	-	66,179
Total		484,199	-	5	484,204

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
31 December 2018		
Financial liabilities		
Loans	33	315,987
Commercial papers	33	18,054
Lease liabilities	33	102,477
Mezzanine debt	34	83,807
Trade payables	35	251,489
Other payables	35	31,481
Total		803,295

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through P&L	Available for sale financial assets	Total
31 December 2019					
Financial assets					
Trade receivables	27,29	122,307	-	-	122,307
Receivables by construction contracts	29	65,156	-	-	65,156
Loans receivable and deposits	27,29	88,830	-	-	88,830
Interest receivable	29	364	-	-	364
Other receivables	29	85,419	-	-	85,419
Cash and cash equivalents	30	49,553	-	-	49,553
Total		411,629	-	-	411,629

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
31 December 2019		
Financial liabilities		
Loans	33	294,836
Bonds	33	21,793
Lease liabilities	33	100,985
Mezzanine debt	34	33,721
Trade payables	35	156,330
Other payables	35	14,493
Total		622,158

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 26 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through P&L	Available for sale financial assets	Total
31 December 2018					
Financial assets					
Trade receivables	27.29	108,763	-	-	108,763
Receivables by construction contracts	29	35,402	-	-	35,402
Loans receivable and deposits	27.29	114,540	-	-	114,540
Interest receivable	29	986	-	-	986
Other receivables	29	68,509	-	-	68,509
Cash and cash equivalents	30	51,077	-	-	51,077
Total		379,277	-	-	379,277

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
31 December 2018		
Financial liabilities		
Loans	33	302,801
Bonds	33	23,819
Lease liabilities	33	101,867
Mezzanine debt	34	91,444
Trade payables	35	156,524
Other payables	35	25,801
Total		702,256

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

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 27 – LOANS AND RECEIVABLES**

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Long-term deposits	12,773	11,975	12,967	8,322
Long-term guarantee deposits	39,336	29,625	39,201	29,490
Long-term trade receivables	4,822	5,010	4,822	4,833
Other long-term receivables	15	15	15	15
Long-term loans receivable:				
- housing loans and other loans to employees	957	1,324	177	219
- loans to other companies	13,504	18,830	13,504	18,830
- loans to subsidiaries	-	-	6,836	6,758
Impairment of long-term deposits and loans receivable	(16,090)	(20,272)	(16,092)	(20,274)
Impairment of long-term deposits and loans receivable	(4,822)	(4,999)	(4,822)	(4,822)
Total	50,495	41,508	56,608	43,371

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 2019, ranging from 0.04% to 0.57%. Long-term deposits mature in 2021 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 27 – LOANS AND RECEIVABLES (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At 1 January	20,272	9,883	20,274	9,883
Collection of impaired receivables (note 12)	(5,325)	-	(5,325)	-
Unwinding of discount og guarantee deposits	(1,442)	(1,330)	(1,442)	(1,330)
Discount of guarantee deposits	2,585	1,442	2,585	1,442
Provision for impairment of trade receivables and other financial assets (note 12)	-	10,277	-	10,279
At 31 December	16,090	20,272	16,092	20,274

NOTE 28 – INVENTORIES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Raw materials	44,496	54,217	4,707	8,555
Finished and semi-finished goods and work in progress	28,221	29,279	48	531
Spare parts and small inventories	5,074	5,975	1,152	1,369
Trade goods	7,083	7,676	440	1,187
Advances for inventories	375	273	-	-
	85,249	97,420	6,347	11,642

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.

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 29 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Domestic trade receivables	131,792	148,403	135,208	115,281
Foreign trade receivables	104,371	124,643	61,960	78,974
Impairment of trade receivables	(78,275)	(90,051)	(79,683)	(90,325)
	157,888	182,995	117,485	103,930
Receivable from customers for contract work	75,500	52,939	65,156	35,402
Guarantee deposits – current portion	24,481	42,977	19,934	42,853
Short-term deposits /iii/	5,199	4,545	4,224	3,356
Loans to subsidiary	-	-	13,174	27,330
Other short-term loans /i/	23,291	24,673	23,167	24,556
Interest receivable	8,546	8,290	11,642	12,357
Other receivables	104,045	79,967	94,288	77,378
Impairment of other financial assets	(31,704)	(19,874)	(43,602)	(42,333)
Total financial assets	367,246	376,512	305,468	284,829
Advances /ii/	23,581	26,604	29,008	31,038
Receivable from employees	323	168	259	145
VAT receivable	13,687	14,653	9,181	12,773
Outstanding VAT receivable	439	1,133	-	154
Prepaid expenses	3,341	4,279	2,402	2,824
Impairment of non-financial assets (note 11)	(6,247)	(6,247)	(6,247)	(6,247)
Total non-financial assets	35,124	40,590	34,603	40,687
	402,370	417,102	340,071	325,516

/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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 29 – TRADE AND OTHER RECEIVABLES (continued)

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

/iv/ Other receivables include receivable from Ministry of finance in the amount of HRK 50,000 thousand (2018: HRK 50,000 thousand).

The ageing of trade receivables is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Not due	99,178	100,284	70,102	53,439
Up to 90 days	46,337	54,340	25,590	31,870
From 91 to 180 days	9,419	15,239	5,164	13,897
Over 180 days	2,954	13,132	16,629	4,724
	157,888	182,995	117,485	103,930

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At 1 January	109,925	115,832	132,658	126,809
Impairment of trade receivables and other financial assets	17,344	3,429	15,893	10,365
Collected amounts	(1,237)	(6,709)	(1,061)	(4,516)
Receivables written-off during the year as uncollectible	(16,053)	(2,627)	(24,205)	-
At 31 December	109,979	109,925	123,285	132,658

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 29 – TRADE AND OTHER RECEIVABLES (continued)**

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
HRK	189,004	159,000	181,557	126,394
EUR	76,796	107,808	27,002	56,824
NOK	46,232	73,458	45,930	73,208
UAH	1,117	15,061	1,103	15,051
Other currencies	54,097	21,185	49,876	13,352
Total	367,246	376,512	305,468	284,829

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 30 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Cash at bank and petty cash in domestic currency	7,712	7,387	2,788	4,803
Cash at bank and petty cash in foreign currency	53,807	58,792	46,765	46,274
	61,519	66,179	49,553	51,077

Cash and cash equivalents are denominated in the following currencies:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
EUR	14,594	12,365	11,971	7,704
NOK	18,919	32,912	18,913	32,704
UAH	2,120	5,051	1,874	4,886
Other currencies	18,174	8,464	14,007	980
Total	53,807	58,792	46,765	46,274

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 31 – ASSETS HELD FOR SALE**

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Velika Popina d.o.o.	-	16,298	-	-
Eko d.o.o.	-	48,740	-	-
Dalekovod Professio d.d.			-	73,375
Total	-	65,038	-	73,375

Shares in subsidiary Dalekovod Professio d.d. 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 as of 31. December 2018. During 2019, the shares are sold (Notes 40, 22 and 13).

NOTE 32 – SHAREHOLDERS' EQUITY**Share capital**

The share capital as at 31 December 2019 amounts to HRK 247,193 thousand (31 December 2018: HRK 247,193 thousand) and consists of 24,719,305 shares (2018: 24,719,305 shares). Nominal value of a share amounts to HRK 10 (31 December 2018: HRK 10).

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

	Number of shares		Holding	
	2019	2018	2019	2018
Konsolidator d.o.o.	15,000,000	15,000,000	60.68%	60.68%
Individuals	5,231,183	5,143,059	21.16%	20.81%
Financial institutions	3,776,068	3,821,608	15.28%	15.46%
Others	613,213	655,797	2.48%	2.65%
Treasury shares	98,841	98,841	0.40%	0.40%
	24,719,305	24,719,305	100.00%	100.00%

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

NOTE 32 – SHAREHOLDERS' EQUITY (continued)

Share premium

Share premium as at 31 December 2019 amounts to HRK 86,142 thousand (2018: HRK 88,236 thousand).

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

During 2019 there was an decrease of share premium by HRK 2,094 thousand (2018: increase by HRK 1,021 thousand). This decrease relates to cancellation of the share based payment program.

Legal reserves

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

Treasury shares

As at 31 December 2019, the Company owns 98,841 treasury shares (2018: 98,841 treasury shares).

Statutory and other reserves

Statutory and other reserves consist of statutory reserves in the amount of HRK 40,654 thousands (2018: HRK 40,654 thousands) and reserves for own shares in the amount of HRK 8,466 thousand (2018: 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. In 2019, it was estimated that there were no significant deviations in market conditions that would indicate a significant change in the value of the aforementioned land and buildings.

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

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

NOTE 33 – BORROWINGS

<i>(in thousands of HRK)</i>	Average interest rate	Dalekovod Group		Dalekovod d.d.	
		2019	2018	2019	2018
Non-current					
Loans from banks and subsidiaries	4.00%	246,882	264,795	246,247	264,791
Bonds	4.00%	15,620	16,871	20,610	22,234
Lease liabilities /i/	4.07%	75,401	85,688	75,166	85,321
		337,903	367,354	342,023	372,346
Current					
Loans from banks and subsidiaries	4.00%	43,988	51,192	48,589	38,010
Commercial papers	4.00%	1,251	1,183	1,651	1,585
Lease liabilities /i/	4.07%	25,923	16,789	25,819	16,546
		71,162	69,164	76,059	56,141
Total borrowings		409,065	436,518	418,082	428,487

Gross liabilities under the Lease liabilities – minimum lease payments:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Up to 1 year	26,004	18,684	25,892	18,392
Between 1 to 5 years	79,785	87,882	79,541	87,536
Over 5 years	-	-	-	-
	105,789	106,566	105,433	105,928
Future finance costs under lease liabilities	(4,465)	(4,089)	(4,448)	(4,061)
Present value of liabilities under lease liabilities	101,324	102,477	100,985	101,867

In the total amount of loans received from banks and subsidiaries disclosed by the Company and the Group on 31 December 2019, part of the debt in the amount of 60,930 thousand (2018.: HRK 60,364 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 2019 (2018: HRK 6,309 thousands).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and 31 December 2018, 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 8,948 thousand (2018: HRK 23,012 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 325,979 thousand (2018: HRK 316,037 thousand), except for borrowings which will be discharged by selling assets under foreclosure, have fixed interest rates and relate to loans, bonds and lease liability according to pre-bankruptcy settlement.

Interest rate on senior debt, bonds and lease liabilities is fixed at 4%, according to pre-bankruptcy settlement, short-Term bank loan 4.75 while interest rate on other lease liabilities is variable and ranges from 4% to 7% .

Borrowings of the Group and the Company that matured by 31 December 2019 amount to HRK 24,003 thousand while matured liabilities for related interest amount to HRK 8,750 thousand.

Amount of HRK 24,033 thousand is related to borrowings from the Company and Group that is due at the date of these financial statements amount to HRK 33,871 thousand while matured liabilities for related interest amount to HRK 13,091 thousand.

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

The borrowings are denominated in the following currencies:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
EUR	212,335	224,212	214,660	208,693
HRK	196,440	211,923	201,519	218,197
Other	290	383	1,903	1,597
Total	409,065	436,518	418,082	428,487

NOTE 33 – BORROWINGS (continued)

The maturity of long-term borrowings is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Between 1 to 5 years	58,693	96,654	58,058	96,650
Over 5 years	188,189	168,141	188,189	168,141
	246,882	264,795	246,247	264,791

NOTE 34 – MEZZANINE DEBT

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Long-term	29,516	26,946	33,721	31,381
Short-term	-	56,861	-	60,063
	29,516	83,807	33,721	91,444

Movements in Mezzanine debt are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
At 1 January	83,807	82,717	91,444	90,605
Additions	865	1,090	1,333	839
Decrease	(55,156)	-	(59,056)	-
At 31 December	29,516	83,807	33,721	91,444

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

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
HRK	17,520	58,496	21,725	66,133
EUR	11,996	25,311	11,996	25,311
	29,516	83,807	33,721	91,444

NOTE 35 – TRADE AND OTHER PAYABLES

Long-term

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Trade payables	240	766	171	856
	240	766	171	856

Short-term

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
Domestic trade payables	128,681	121,534	102,830	94,338
Foreign trade payables	92,914	129,189	53,329	61,330
	221,595	250,723	156,159	155,668
Interest payable	9,395	4,925	9,721	5,090
Dividends payable (note 17)	101	101	101	101
Contracted liabilities from acquisition	10	10	10	10
Other accruals and liabilities	5,901	26,372	4,595	20,527
Due to banks arising from collected guarantees	66	73	66	73
Financial liabilities	237,068	282,204	170,652	181,469
Advances	30,909	28,956	28,145	26,333
Deferred income	13,548	14,688	13,548	14,688
Due to employees	31,953	48,039	24,619	27,865
VAT payable	23,896	18,956	22,382	17,277
Taxes and contributions	6,207	7,305	2,817	3,298
Unused vacation days	4,471	6,939	2,783	4,264
Other short-term liabilities	386	-	386	-
Non-financial liabilities	111,3710	124,883	94,680	93,725
	348,438	407,087	265,332	275,194

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019**

NOTE 35 – TRADE AND OTHER PAYABLES (continued)

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
HRK	173	699	171	856
EUR	67	67	-	-
Total	240	766	171	856

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2019	2018	2019	2018
HRK	140,444	162,895	112,060	121,528
EUR	53,342	43,927	26,487	11,625
NOK	10,687	19,233	10,941	19,434
UAH	1,139	13,601	1,139	13,601
Other currencies	31,456	42,548	20,025	15,281
Total	237,068	282,204	170,652	181,469

NOTE 36 – PROVISIONS

Group

<i>(in thousands of HRK)</i>	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2019	2,824	6,437	19,775	29,036
Increase	339	34	9,461	9,834
Decrease	(354)	(1,062)	(1,184)	(2,600)
At 31 December 2019	2,809	5,409	28,052	36,270
Analysis:			2019	2018
Non-current portion			35,135	24,902
Current portion			1,135	4,134
Total			36,270	29,036

Company

<i>(in thousands of HRK)</i>	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2019	1,431	2,807	19,310	23,548
Increase	167	-	9,096	9,263
Decrease	(174)	(125)	(1,044)	(1,343)
At 31 December 2019	1,424	2,682	27,362	31,468
Analysis:			2019	2018
Non-current portion			30,935	20,753
Current portion			533	2,795
Total			31,468	23,548

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 6.47% for the Group, and 6% for the Company (2018: Group 5.71%, Company 4.00%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service. The average age of retirement used in the calculation for the Company and the Group is 61 years for men and 61 years for women while previous years it was 62 for women and 62 for men both for the Company and the Group.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 37 – SHARE BASED PAYMENTS

Employee share options

In previous periods, key management of the Company was granted options to purchase shares in Dalekovod d.d. The exercise price of the approved option was equal to the weighted average share price of Dalekovod d.d. realized on the Zagreb Stock Exchange in the year in which the option was granted.

For 2018, the fair value of employee stock options was measured using the Black-Scholes formula. The number of instruments as of December 31, 2018 was 288,700.

During 2019, an optional purchase of shares granted to key personnel of the Company based on the Agreements with key management was cancelled.

Fair value measurement

Share option programme for key management	2019	2018
Fair value at grant date (weighted average)	-	7.25
Share price at grant date (weighted average)	-	18.90
Exercise price (weighted average)	-	14.07
Expected volatility (weighted average)	-	35.04%
Expected life (weighted average in years)	-	2.0
Expected dividends	-	0%
Risk-free interest rate (based on government bonds)	-	5.97%
Expense recognised in profit or loss	2019	2018
(in HRK thousands)		
Equity-settled share-based payment transactions	(2,094)	(1,021)

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

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	288,700	14.07	295,844	14.07
Forfeited	(288,700)	(14.07)	(7,144)	14.07
Exercised	-	-	-	-
Granted	-	-	-	-
Outstanding at 31 December	-	-	288,700	14.07
Exercisable at 31 December	-	-	288,700	14.07

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 22, associates presented in note 23 and joint ventures presented in note 24, the Company's related parties include its Management Board, Executive Directors, their related parties, owners and ultimate owner Inspire Investments d.o.o.

The Company has no transactions with the ultimate owner.

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

Revenues and expenses

(in thousands of HRK)

	2019.	2018.
Sales revenue	28,183	7,276
Rental income	10,915	6,163
Interest income	958	500
Dividend income	2,315	15,406
Interest income	7,178	8,597
	49,549	37,942
Cost of goods sold	3,003	13,897
Cost of raw materials and supplies	36,648	86,377
Subcontractor services	17,283	19,926
Other operating expenses	4	104
Interest expense and foreign exchange losses	545	344
	57,483	120,648

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)

	2019.	2018.
Trade receivables	37,345	21,826
Impairment of trade receivables	(4,982)	(5,051)
Interest receivable	3,112	4,165
Impairment of interest receivable	(2,383)	(3,994)
Advances	9,172	7,244
Loans receivable	20,010	26,487
Impairment of loans receivable	(9,514)	(18,463)
	52,760	32,214
Trade payables	21,539	19,634
Mezzanine debt	4,205	6,092
Interest payable	474	426
Bonds	5,390	5,766
Advances	-	867
Loans payable	4,227	6,152
	35,835	38,937

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

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

Revenues and expenses

(in thousands of HRK)

	2019	2018
Interest income	456	511
Other income	5,325	-
	5,781	511

Receivables, payables and loans

(in thousands of HRK)

	2019.	2018.
Trade receivables	-	55
Interest receivable	244	592
Loan receivables	4,954	10,279
	5,198	10,926

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

In addition to the Company, other Group members have dealings with joint ventures classified as assets held for sale as at 31 December 2018. During 2019, subsidiary Dalekovod Professio d.o.o. was sold. 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)*

	2019	2018
Sales revenue	450	5,400
	450	5,400

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

	2019	2018
Trade receivables	-	1,375
	-	1,375
Loans payable	-	2,000
	-	2,000

Transactions with key management

Key management consists of Management Board and Executive Directors, 23 people in total (2018: 20 people). Remuneration to key management at Group's level amounted to HRK 12,560 thousand (2018: HRK 17,658 thousand), while remuneration at the level of the Company amounted to HRK 9,114 thousand (2018: 13,907 thousand).

Remuneration to Supervisory Board in 2019 amounted to HRK 306 thousand (2018.: HRK 413 thousand).

NOTE 39 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2019, 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 1,431,724 thousand (2018: HRK 1,095,053 thousand).

As at 31 December 2019, 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 349,289 thousand and HRK 321,010 thousand (2018: HRK 408,183 thousand and HRK 358,819 thousand Company). The Company is additionally exposed as a co-debtor for borrowings of subsidiaries in the total amount of HRK 22,093 thousand (2018: HRK 81,230 thousand). The Group and the Company estimate that it is not certain that any contingent liabilities arising from bank guarantees will be collected, as the Group and the Company, as in previous periods, fulfil all contractual liabilities arising from the projects. On April 30, the Group and the Company issued all the necessary guarantees for contracted projects.

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on the opinion of the Management Board and its legal counsel, provision have been created for those legal dispute that will potentially result in losses (note 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.

DALEKOVOD d.d.**NOTES TO THE FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 DECEMBER 2019****NOTE 40 – SALES, LIQUIDATION AND LOSS OF CONTROL IN SUBSIDIARIES**

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

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

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

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

NOTE 40 – WRITE-OFF OF SUBSIDIARIES

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

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

Profit from sales in the amount of HRK 37,627 thousand was realized through the sale of subsidiary Dalekovod Professio d.d. which as at 31 December 2018 was stated as assets held for sale in the amount of HRK 73,375 thousand (Note 31). The sale of Liburana d.o.o. has no effect on the result because the share of the net book value of HRK 1,000 was sold at the same value (Note 22).

Loss of control over the subsidiary Dalekovod TKS a.d. had no impact on the Company's profit and loss statement as the shares in the subsidiary were fully impaired in previous years (Note 22).

NOTE 41 – EVENTS AFTER THE REPORTING DATE**Changes within the Group**

As of March 1, 2020 the production company Proizvodnja MK i OSO d.o.o. is partitioned from the economic unit related to the production of suspension and jointing equipment. The mentioned new economic entity is continuing its business as a separate business entity under the name Proizvodnja OSO d.o.o. (PIN: 55411035652). Company Proizvodnja MK i OSO d.o.o. continues operating under a new name Proizvodnja MK d.o.o.

Project financing

In the first quarter of 2020, the company was granted a loan in Norway in the amount of HRK 9,714 thousand for additional financing of project-related activities.

In the first quarter of 2020 an additional EUR 8 million guarantee framework has been approved.

NOTE 41 – EVENTS AFTER THE REPORTING DATE (continued)

COVID-19

Following the balance sheet date, on March 11, 2020 the World Health Organization declared a coronavirus outbreak (COVID-19) a pandemic. Responding to the potentially serious threat that COVID-19 poses to public health, pending further developments, the Croatian authorities have taken measures to combat the epidemic, including imposing restrictions on cross-border movement of people, restricting foreign visitors and 'locking' certain industries. In particular, airlines and railways have suspended international transport of people, also schools, universities, restaurants, cinemas, theatres and museums, and sports facilities, retail stores other than food stores, grocery stores and pharmacies have been closed. In addition, certain companies in Croatia also instructed employees to stay at home and reduce or suspend operations. The Government of the Republic of Croatia has adopted certain measures to preserve jobs and mitigate the consequences of special circumstances caused by the COVID 19 epidemic.

The Group closely monitors the situation regarding the impact of COVID-19 and its potential impacts on the operations of all Group companies. The occurrence of COVID-19 did not have a significant impact on Group companies' operations during the period from January to April 2020. The company has established a crisis headquarters to manage the situation caused by COVID-19 virus epidemic and to manage activities challenging for the company's operations. The headquarters, which is responsible for the entire Dalekovod Group, will regularly report on any changes related to business continuity. A detailed plan for the possible development of COVID-19 cases was made and distributed in accordance with the Notification Plan, which is available at all locations and construction sites.

All Group companies follow the recommendations of the Crisis Headquarters and the Croatian Institute of Public Health. All workers who are able to work from home are sent to work remotely, production is organized in shifts to allow for social distancing, and workers who have resided in vulnerable areas or been in contact with the sick carry out a measure of self-isolation. Out of a total of 1,345 employees until April 30, 2020, no case of COVID-19 was recorded.

Possible negative impacts depend primarily on the length of emergency measures and on several factors that can be described as:

- Downtime and reduction of sales activities due to the reduction of total activities in Group's main markets;
- Delayed deliveries from suppliers significantly exposed to COVID-19;
- Limited resources from other suppliers due to various restrictions and limited capacities;
- Disruption of road transport due to various restrictions affecting material procurement and the shipment of products to customers;
- Restriction of travel, which affects both the completion and the construction installation of contracted works with customers in the country and abroad; and
- Risk of production downtime due to epidemic infecting employees in the production process who cannot work remotely.

NOTE 41 - EVENTS AFTER THE REPORTING DATE (continued)

COVID-19 (continued)

The situation on key Dalekovod markets, in Scandinavia and domestically is stable, construction works are being performed without delays with parallel planning of actions in case of escalation.

The Group's market activity is exposed to disturbances in the supply chain of materials and in the delivery of services and products, and thus a negative impact on operations is possible if the situation worsens significantly. Given the uniqueness of the services provided by the Group, i.e. the performance of work on critical infrastructure, the occurrence of COVID-19 did not have a significant impact on the operations of the Group companies during the period from January to April 2020. The company is in constant contact with suppliers and customers in the context of minimizing potential negative impacts in the event of an escalating situation.

Given the pace of development of COVID-19 expansion, we do not consider making a quantitative assessment of the potential impact of COVID-19 on business. We believe that with appropriate measures being taken and with continuous communication with key suppliers and customers, even in these circumstances we can significantly reduce related business' risks.

Furthermore, on 11 May 2020, the Croatian authorities repealed or relaxed a number of measures introduced as part of the fight against the pandemic, primarily related to restrictions regarding movement within the borders of the Republic of Croatia, the possibility of foreign nationals entering the Republic of Croatia, opening up of a number of economic entities whose work was previously limited, and also relaxation or abolition of self-isolation measures under certain conditions. This indicates a gradual normalization of the current condition. In the context of all the above, the Group and the Company consider that the aforementioned events after the balance sheet date do not require adjustments in the financial statements and do not significantly affect the assessment of going concern assumption.