INSTITUT IGH, d.d.

ANNUAL REPORT 2019

Zagreb, August 2019

INSTITUT IGH d.d.

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1. INTRODUCTION

Articles 250.a and 250.b of the Companies Act and Article 21.a of the Accounting Act establish an obligation to submit an Annual Report, a true and fair view of the Company's position and the annual consolidated financial statements.

Annual Report of the Company INSTITUT IGH, d.d. (hereinafter: Company) includes all information and data required by law.

Annual financial statements of the Company are consolidated since we own shares and business interests in affiliate companies and subsidiaries.

The phrase „IGH Group“ will be applied in this Report to the Company and its affiliates and subsidies, all with the aim to present complete, true and substantially accurate information to the shareholders and investment community.

The Annual Report also includes principal financial statements prepared in line with the Accounting Act and International Financial Reporting Standards. According to the Accounting Act, the principal financial statements are the statements on the financial status of the Company (balance sheet), profit and loss account, Statement on other comprehensive income, Statement on changes in equity, Cash flow statement and Notes to the Financial Statements. Apart from this, Annual Report also includes the non-financial report, i.e. additional information, pursuant to provisions of Article 21 of the Accounting Act.

2. INTRODUCTORY NOTE BY THE PRESIDENT OF THE MANAGEMENT BOARD

The year 2019 was another challenging year for our Company, with the introduction and a great effort on implementing the guidelines set by our Company as its priorities.

A company's greatest strength are its employees and their contribution, reliance on their professional skills and knowledge, which is the basis of any company's success. Therefore, Institut IGH values its employees, and constantly motivates them, fulfils their expectations and ensures a safe and collaborative working environment for everyone.

In addition, last year, a decision was made to digitalize all the internal documents available to the company, which is a feasible measure, decided upon to manage the company's data and resources efficiently.

Management has also decided to continue strengthening the company's team with new experts, so 22 new experts, who brought new knowledge, experience and approach, were employed last year. Compared to 2018, the number of employees rose to 572, including employees in branch offices in Georgia, Russia, Kosovo, and Bosnia and Herzegovina.

Providing high quality products and services to clients is one of the company's priorities. Institut IGH is dedicated to continuous improvement of the skills and competences of its employees, who had the opportunity to attend relevant technical training and courses in the Competence centre in 2019.

In order to maintain a leading market position, the company follows the trends and demands of the modern world when it comes to engineering solutions. As a response to that challenge, last year, the company decided to implement a new, revolutionary process - Building Information Modelling (BIM) for future projects.

The intelligent program is based on a 3D model which enables experts to develop a better and more sophisticated product to meet the demands of a modern world and fast growing digital technologies. This is why 34 Croatian engineers and 6 colleagues from the Georgian branch took part in BIM training and use this process today.

In order to briefly introduce the projects that were completed last year, activities of the Georgian branch are worth mentioning. Over the course of 2019, IGH's engineers completed and delivered to our Clients app. HRK 10 410 894 worth of design works and app. HRK 23 510 621 worth of supervision and construction works.

In addition, last year, the Georgian branch successfully completed a several years long project of supervision, construction, rehabilitation and maintenance of road infrastructure throughout Georgia, which started in 2016, valued at app. HRK 91 085 374.

Taking into account that activities on international markets are a priority for the company, the Institut IGH d.d Management has started and will continue planning and implementing all relevant measures with the aim of increasing competitiveness on international markets in the region and outside of it. So, out of 513 contracts signed in 2019, Contract on supervision of the TPP in Bosnia and Herzegovina is the most valuable (contracted value - **15.769.400 HRK**). It should also be emphasized that, in 2019, the company successfully concluded 43 contracts.

On behalf of the Management Board of Institut IGH, d.d.

Robert Petrosian, MEng CE.

President of the Management Board

Institut IGH, dioničko društvo za istraživanje i razvoj u graditeljstvu, Zagreb
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3. ACTIVITIES

INSTITUT IGH, d.d. is the leading consulting company for design and engineering services in civil engineering in Croatia and the region. Together with its 16 subsidiaries and 7 affiliates it provides comprehensive support in infrastructure and investment projects, delivering optimal, complete and innovative solutions in the civil engineering sector in Croatia and international markets.

The Company is registered at the Commercial Court in Zagreb under the number MBS: 080000959, with its head office in Zagreb, Janka Rakuše 1. The Company's share capital is HRK 116.604.710,00 divided into 613.709 ordinary shares mark IGH-R-A, ISIN:HRIGH0RA0006 nominal value HRK 190,00, listed on the official market of the Zagreb Stock Exchange.

INSTITUT IGH, d.d. provides the following services:

- **PLANNING AND MANAGEMENT OF DEVELOPMENT RESOURCES**
  - Urban development plans and Master plans
  - Detailed urban plans
  - Development plans for areas of special character
  - Analysis and planning of transport systems
  - Development of sustainable development projects

- **STUDY DEVELOPMENT**
  - Feasibility Studies
  - Documentation required for issuance of Location permit
  - Transport Studies
  - Environmental Impact Studies
  - Technical input, Environmental Protection Studies and Environmental Status Monitoring
  - Waste Management Programmes and Studies
  - Mathematical and Physical modelling of water engineering structures
  - Water supply, Drainage and Irrigation Studies
  - Development of Technical Reports for noise protection

- **DESIGN**
  - Design of concrete, steel and masonry structures and engineering facilities (bridges, tunnels)
  - Design of roads, geotechnical and water engineering structures
  - Pavement structure design, Traffic signs, road markings and road furniture design
  - Design of multipurpose water management infrastructure
  - Design of water supply and drainage systems
  - Designs for rehabilitation and repair of structures
  - Design of mining facilities and plants
  - Development of Technical studies in the field of building physics
  - Development of Technical solutions for thermal energy saving of buildings

- Design of sanitary waste disposal sites for municipal and other waste
- Development of Landscaping designs
- Design validation and audit

- **TECHNICAL SUPERVISION**
  - Technical supervision during construction of concrete, steel and masonry structures of buildings and engineering facilities
  - Technical supervision during construction of roads, geotechnical and water engineering structures and facilities

- **CONSULTANCY IN IMPLEMENTING EU FUNDED PROJECTS**
  - Consultancy in project preparation
  - Development of studies, business plans and analyses
  - Preparation of design applications
  - Consultancy in project implementation
  - Financial management
  - Public procurement
  - Management of contracts and building projects

- **WASTE MANAGEMENT**
  - Investigation works to determine the impact of waste disposal sites on the environment, primarily soil and ground waters
  - Development of Environmental Impact Studies and Environmental Protection Reports as part of the Environmental impact assessment screening
  - Environmental Protection Management Programmes for large cities with respective Action plans
  - Environmental Protection Management Plans for infrastructure facilities
  - Appropriate Assessment for nature
  - Integrated Environmental protection requirements for plants
  - Review – audit of designs with regard to environmental protection requirements
  - Documentation for the issuance of environmental permit
  - Waste Management plans and reports
  - Reports on the implementation of Waste Management Plans for local self-governing units
  - Feasibility Studies with Cost-benefit Analysis
  - Development of tender documentation – depending on the type of procurement, in accordance with provisions of the Public Procurement Act and related implementing legislation
  - Design development (preliminary, detailed and working designs) for the purpose of obtaining the Location and Building permits for waste disposal sites , i.e. Waste Management Centres
  - Development of studies and technological designs for mechanical – biological treatment of mixed municipal waste
  - Technical supervision during execution of all types of works in the field of waste management

- Technical assistance, advisory services and project management during different project implementation phases (preparation and implementation of public procurement procedure, contracting of works, design, work execution and during exploitation phase)

- **CONSULTING**
    - Consultancy services during design and construction
    - Consultancy services in the field of ecology, environmental protection and construction of all types of ecological structures
    - Technical advisory services for the Client
    - Technical project evaluation
    - Project management
    - Contract Management and supervision of contract implementation
    - Tender documentation and tender analysis
    - Study review

- **INVESTIGATION WORKS**
    - Determining the properties of building material
    - Investigation works, including construction, geotechnical, hydro-geologic and engineering-geological works
    - Investigation works for design purposes
    - Investigation works to determine the state of structure
    - Proving the serviceability of structure or part of structure

- **PROOF OF SERVICEABILITY / SYSTEM OF ASSESSMENT AND VERIFICATION OF CONSTANCY OF PERFORMANCE**

  Implementation of activities for assessment and verification of constancy of performance of construction materials in the sector regulated by law:
    - Issuance of certificates for the constancy of performance of construction products (for systems 1 and 1+)
    - Issuance of certificates for conformity of factory production control (for system 2+)
    - Preparation and issuance of Croatian documents for verification in the sector regulated by law for the purpose of issuing Croatian Technical Assessment
    - Preparation and issuance of Croatian Technical Assessment (CTA) in the sector regulated by law, that is, issuance of documents on the assessment of constancy of performance of construction products pertaining to its important properties, in accordance with the respective Croatian Document for Assessment.
    - Implementation of activities relating to assessment and verification of constancy of performance of construction products in the sector not regulated by law

- **LABORATORY TESTING / CALIBRATION**
    - Laboratory testing of materials and construction products
    - Control testing of materials and works during construction
    - Field testing and measurements
    - Testing the water tightness of water supply and drainage systems
    - Testing the noise level and impact sound insulation
    - Testing the Air Tightness and Thermographic survey of buildings
    - Calibration of force measuring and length instruments
    -
- **SCIENTIFIC AND RESEARCH WORK**
    - Scientific and technological development projects
    - Study of new building materials, building procedures and application technologies
    - Experimental research
    - Development of prototype equipment for civil engineering industry

- **OTHER ACTIVITIES**
    - Participating in the preparation of proposals for Building codes
    - Participating in technical committees for development of Standards
    - Professional training
    - Publishing

In compliance with the standards for sustainable development system, IGH has the following certificates:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- OHSAS 18001 Occupational Health and Safety Assessment Specification
- ISO 50001 Energy Management Systems

4. HISTORY

1949	• Establishment of INSTITUT IGH, d.d. as the Civil engineering laboratory Zagreb
1956	• Renamed to Civil Engineering Institute of Croatia
1961-1962	• Opening of Regional offices in Split, Rijeka and Osijek • Gains the status of a research institution
1967-1973	• Opening of permanent field laboratories in Sisak, Karlovac, Dubrovnik, Pula, Zadar and Varaždin
1977	• The Institute merges with the Faculty of Civil Engineering and obtains a new name: Civil Engineering Institute
1991	• The Institute separates from the Faculty of Civil Engineering and reverts to its former name: Civil Engineering Institute of Croatia
1994	• Transition and privatization
1995	• IGH – joint stock company • Establishment of first subsidiary: IGH Mostar d.o.o. with head office in Bosnia and Herzegovina
1997	• New office building opens in Rijeka and a new laboratory building is completed in Sisak
1999	• First accreditation according to HRN EN 45001 standard, later replaced by standard HRN EN ISO/IEC 17025 General requirements for the competence of testing and calibration laboratories
1999	• Establishment of IGH Cert – independent body within IGH for the Assessment and verification of the constancy of performance of construction products, by authorization of the Minister responsible
2000	• Department for Study and Design development established • New office building in Split completed and fully equipped
2003	• Establishment of IGH TD – independent body within IGH for assessment of properties of construction products by authorisation of the Minister responsible • Institute shares listed on the Zagreb Stock Exchange
2004	• IGH accredited according to HRN EN 45011 General requirements for bodies operating product certification systems • Over 400 testing standards for different construction products • IGH laboratory moves to new building in the IGH head office in Zagreb

2005	• IGH obtains approval for provision of the following conformity certification services: certification of products, certification of factory production control, supervision over factory production control and testing
2006	• IGH granted Certificate ISO 9001:2002 Quality Management System
2008	• Restructuring of the Company and new visual identity
2009	• Name change to INSTITUT IGH, joint stock company for research and development in civil engineering • New organization • New visual identity • Granted Certificate ISO 14001 Environmental Management System • Granted Certificate OHSAS 18001 Occupational Health and Safety Assessment Specification
2012	• New organization • Appointment of multi-member management • Increase of share capital by cash contribution, issue of new ordinary shares, individual nominal value of HRK 400,00 • Increase of share capital to HRK 105.668.000,00 by issuing 105.590 new shares, nominal value HRK 400,00 each for a price of HRK 760,00 per share • Issuing Convertible bonds mark IGH-O-176A, ISIN: HRIGH0O176A8 in the amount of EURO 10.000.000,00 Establishing IGH-ESOP d.o.o. as a new FORM OF Employee Share Ownership, with 173 member - founders, with the paid-up share capital of HRK 2.979.200,00 • Entry in the Register of Scientific Organizations in the technical sciences discipline, field of civil engineering
2013	• New organization • Pre-bankruptcy settlement • IGH – Notified Body for certification (assessment of properties of material) of products at the EU level for area of harmonized European standards • IGH – Approved Body and Croatian Body for technical assessment according to authorisation of the Minister responsible for the area of non-harmonized EU Standards • IGH – Technical Assessment Body – TAB for technical assessment of construction products at the EU level

2014	•	Increase of share capital through authorized share capital by investment of rights of conversion of part of claims of a part of creditors from the pre-bankruptcy settlement, from HRK 105.668.000,00 to HRK 123.483.600,00, issuing of new 44.539 non-materialized shares, issued in name, nominal value of HRK 400,00 each
	•	Decrease of share capital from HRK 123.483.600,00 to HRK 58.654.710,00 by decreasing the nominal value of shares by HRK 210, 00, from HRK 400,00 to HRK 190,00 to cover the loss realized in previous periods
	•	Increase of share capital from HRK 58.654.710,00 to HRK 116.604.710,00 by cash contribution, by issuing new 305.000 non-materialized shares, issued in name, nominal value HRK 190,00 each
	•	Change in the ownership structure, members of the Management, positions of the Management, power of representation of the Management members, Supervisory Board members, revocation and granting of general power of representation
2015	•	New organization
	•	Conversion of 349.539 shares mark IGH-R-C ISIN HRIGH0RC00004 nominal value HRK 190,00 each into 349.539 shares mark IGH-R-A ISIN HRIGH0RC00006 nominal value HRK 190,00 each
	•	Listing of 349.539 shares individual nominal value HRK 190,00, mark IGH-R-A, ISIN: HRIGH0RA00006 of the official market of the Zagreb stock exchange
2016	•	Operational restructuring
	•	Establishing regional market approach
	•	Opening of new markets
	•	Opening of Branch office in Georgia
	•	Operational indicators mark an increase owing to the change in business development trends
2017	•	Successful completion of large scale infrastructure projects in Georgia
	•	Acquisition of IGH Mostar and establishment of business unit in Bjelina
	•	Rebranding and new visual identity

2018

- Successful re-accreditation of IGH Laboratory by the Croatian Accreditation Agency (HAA), meeting all requirements set by the standard HRN EN ISO/IEC 17025. IGH Laboratory obtained a new, valid Certificate on Accreditation, valid until 2024.
- Accreditation for low strain impact integrity testing (PIT - ASTM D5882-16), High strain dynamic testing of deep foundations (PDA - ASTM D4945-17), Standard penetration testing (SPP/SPT - HRN EN ISO 22476-3:2008) and Energy transfer measurement during standard penetration testing (SPP/Er - ASTM D4633-16), which expanded our area of accreditation of geotechnical testing to IGH field investigations as well
- Signed the Contract for technical supervision of construction works on the Bridge Mainland – Island of Pelješac with access roads with Hrvatske ceste d.o.o., on the basis of public procurement procedure and our offer for HRK 49,4 million (VAT exclusive)
- Opening of new, foreign market in Romania by signing of the first contract

2019

- Obtaining a new certificate ISO 50001 Energy Management Systems
- Signed a Contract for supervision of works on the construction of TPP Banovići - BloCk 1-350 MW, for a net value of HRK 15.769.400,00.
- Signed a Contract for supervision of works on the construction of the Bypass of Ston (DC414), sub-sections Sparagovići / Zaradeže - Prapratno and Prapratno – Doli for a net value of HRK 12.750.697,00 as well as supervision on the Project Improvement of the water supply and utility infrastructure on the Rijeka agglomeration area, for a net value of HRK 12.522.863,00
- Design of ID12 Vrbovec 2 Interchange, (D10) –Bjelovar–Virovitica–BC T. Polje, section Bjelovar–Virovitica–BC T. Polje (Hungarian State Borderline, app. 60 km long, for a net value of HRK 12.407.600,00.

5. GROUP COMPOSITION

Parent company of the Issuer is the Issuer himself. IGH Group members are partly complementary to the parent company, founded or acquired with the aim to provide complete range of services.

First part of the provided expert services include testing, design and design validation, technical supervision and management in the field of architecture, civil engineering and scientific research. The second part of the services are provided by dedicated companies for the realization of real-estate projects.

IGH Group includes **16 subsidiaries and 7 affiliates** (situation on 31 December 2019) providing core and similar activities, while the INSTITUT IGH, d.d. also operates through branch offices and representative offices abroad.

Subsidiaries are companies in which the Company has more than 50% of voting rights and/or controls the adoption and implementation of financial and business policies of the company in which it has invested, with the aim to acquire benefits from its activities.

Affiliates are companies in which the Company has between 20% and 50% of voting rights and a significant influence but not control, through participation in decision making of financial and business policies.

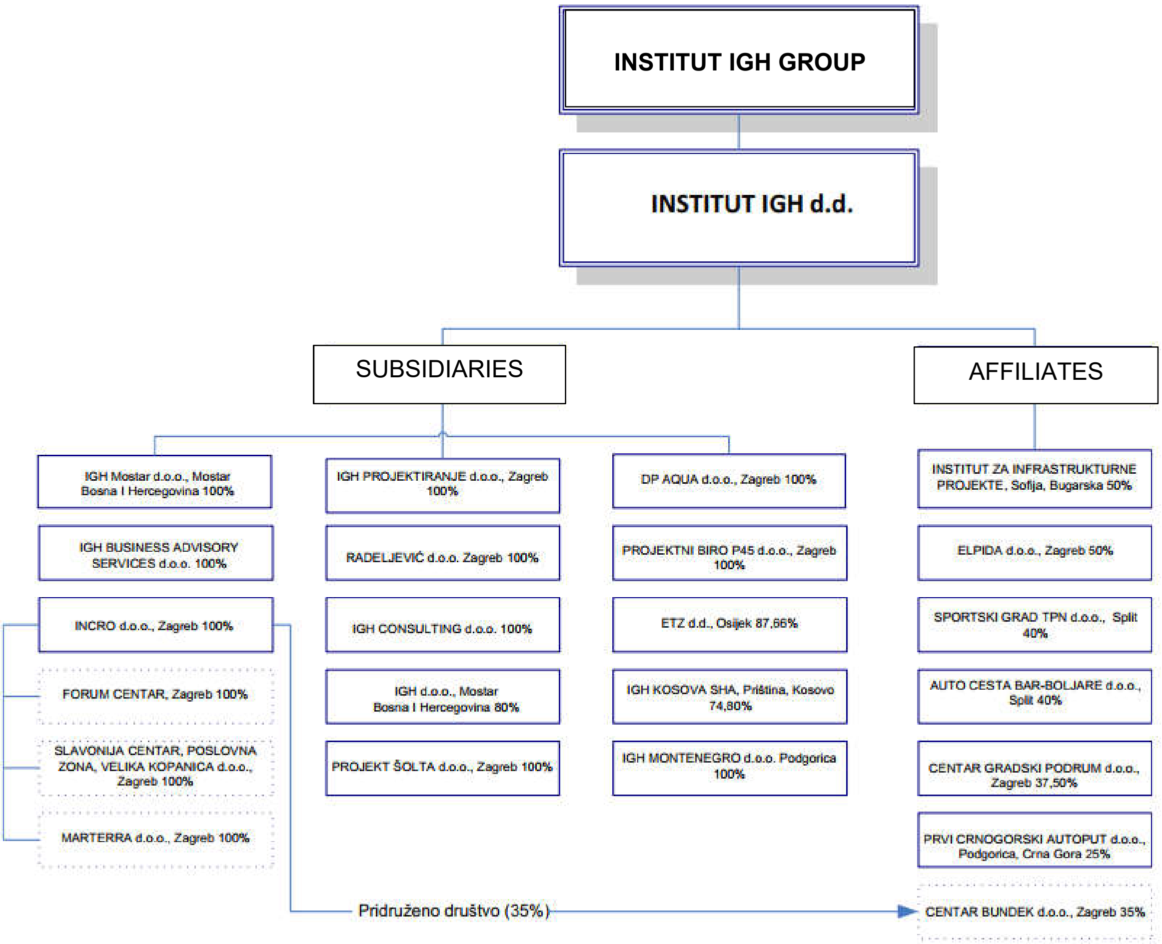

Chart 1.IGH Group on 31 Dec 2019

Consolidation included the following **subsidiaries**:

SUBSIDIARY	ADDRESS
PROJEKTNI BIRO P 45 d.o.o.	Palmotićeva 45, Zagreb, Croatia
EKONOMSKO TEHNIČKI ZAVOD d.d. (ETZ d.d.)	Drinska 18, Osijek, Croatia
DP AQUA d.o.o.	Janka Rakuše 1, Zagreb, Croatia
IGH PROJEKTIRANJE d.o.o.	Janka Rakuše 1, Zagreb, Croatia
RADELJEVIĆ d.o.o.	Janka Rakuše 1, Zagreb, Croatia
IGH CONSULTING d.o.o.	Janka Rakuše 1, Zagreb, Croatia
IGH BUSINESS ADVISORY SERVICES d.o.o.	Janka Rakuše 1, Zagreb, Croatia
INCRO d.o.o.	Janka Rakuše 1, Zagreb, Croatia
MARTERRA d.o.o.	Janka Rakuše 1, Zagreb, Croatia
FORUM CENTAR d.o.o.	Janka Rakuše 1, Zagreb, Croatia

SLAVONIJA CENTAR, BUSINESS ZONE VELIKA KOPANICA d.o.o.	Janka Rakuše 1, Zagreb, Croatia
PROJEKT ŠOLTA d.o.o.	Janka Rakuše 1, Zagreb, Croatia
IGH MOSTAR d.o.o.	Bišće Polje bb, Mostar, Bosnia and Herzegovina
IGH d.o.o. MOSTAR	Bišće Polje bb, Mostar, Bosnia and Herzegovina
IGH MONTENEGRO d.o.o.	Moskovska 2b, Podgorica, Montenegro
IGH KOSOVA Sha	Kosovo, Pristine

Table 1. Subsidiaries included in the consolidation

Affiliates are companies that have an impact on financial results by applying the equity method, as follows:

AFFILIATE	ADDRESS
INSTITUT ZA INFRASTRUKTURNE PROJEKTE	Bulgaria, Sofia
ELPIDA d.o.o.	Ventilatorska 24, Lučko, Croatia
SPORTSKI GRAD TPN d.o.o. in liquidation	Zrinsko-Frankopanska 211, Split, Croatia
AUTOCESTA BAR-BOLJARE d.o.o.	Svačićeva 4, Split, Croatia
CENTAR GRADSKI PODRUM d.o.o.	Augusta Cesarca 2, Zagreb, Croatia
CENTAR BUNDEK d.o.o.	Ede Murtića 11, Zagreb, Croatia
PRVI CRNOGORSKI AUTOPUT d.o.o.	Montenegro, Podgorica

Table 2. Affiliate companies included in the consolidation

The Company undertakes its business activities through its branch offices in Georgia, Republic of Kosovo and the Russian Federation as well as through its representative office in Bosnia and Herzegovina.

6. SIGNIFICANT PROJECTS AFTER THE BALANCE SHEET DATE

In the period after 31 December 2019 the Company contracted new projects valued at **HRK 96,4 million**.

Below given are some of the most significant projects contracted in 2020:

Ugovori u 2020						
Redni broj	Zemlja	Naručitelj	Naziv projekta	Opis usluge	Neto ugovorna vrijednost za IGH	Status
1	Bosna i Hercegovina	Javno preduzeće Autoceste FBiH d.o.o.	Izrada idejnog i glavnog projekta brze ceste Mostar - Široki Brijeg - granica RH, dionica Polog - granica RH (40,5 km)	projektiranje	24.788.788	ugovoreno
2	Hrvatska	Hrvatske ceste d.o.o.	Izgradnja dionice DC403, od čvora Škurinje do luke Rijeka	nadzor	8.419.784	ugovoreno
3	Hrvatska	Vodne usluge d.o.o. Križevci	Razvoj vodnokomunalne infrastrukture aglomeracije Križevci-nadzor radova	nadzor	6.624.115	ugovoreno
4	Hrvatska	HŽ Infrastruktura d.o.o.	Obnova pruge Zagreb Zapadni kolodvor - Savski Marof	nadzor	5.346.000	ugovoreno
5	Hrvatska	Hrvatske ceste d.o.o.	Izgradnja brze ceste kroz Karlovac, Splitski pravac dionica: Mostanje - Vukmanički Cerovac	nadzor	4.606.992	ugovoreno
6	Hrvatska	Hrvatske ceste d.o.o.	Rekonstrukcija državne ceste oznake DC2, između naselja Normanci i državne ceste oznake DC34, na dionici 010	nadzor	4.300.020	ugovoreno
7	Hrvatska	Hrvatske ceste d.o.o.	Izgradnja obilaznice Belog Manastira	nadzor	3.379.990	ugovoreno
8	Hrvatska	HŽ Infrastruktura d.o.o.	Modernizacija željezničke pruge M202 Zagreb GK – Rijeka, na dionici Oštarije – Škrljevo	studijska dokumentacija	2.521.246	ugovoreno
9	Hrvatska	Odvodnja d.o.o. Zadar	Izgradnja integralnog sustava odvodnje aglomeracije Zadar i Petrčane	nadzor	2.223.000	ugovoreno
10	Hrvatska	HŽ Infrastruktura d.o.o.	Projekt Povezivanje željeznicom unutar funkcionalne regije Središnje Hrvatske – Lepoglavska spojnica	studijska dokumentacija	2.086.476	ugovoreno
	Ukupno				64.296.411	

Table 3: List of projects contracted at the beginning of 2020

In January 2020, the Company sold its subsidiary company Projektni biro P 45 d.o.o..

In June 2020, Institut IGH became the only private institution in the Republic of Croatia to provide vocational education and training for all persons with a state licence exam, who in compliance with the Regulation on vocational training of persons performing physical planning and construction tasks, must obtain at least 20 school classes of education within a two year period. Ten of these classes relates to the knowledge of technical regulations and ten on their field of expertise. Until now, this kind of vocational training was performed by the respective Chambers and the Faculty of Civil Engineering.

7. VISION AND MISSION

VISION: Be a leading engineering company in the region and beyond, whose employees are the best experts and satisfied co-owners, improving the every-day quality of life and of the environment through their innovative engineering solutions.

MISSION: Tackle engineering challenges to our client's satisfaction, with a timely, professional and responsible approach, knowledge and innovation.

8. IGH's STRATEGY 2020 - 2030

The new decade marks a new strategic step forward for Institut IGH, based on our key values. Our course in the next ten year period is to keep the leading position on the traditional Croatian and East European markets, providing services in the field of design, construction supervision, project management, laboratory services in sectors in which we have so far demonstrated our superior expertise, such as road and railway infrastructure. IGH bases its corporate advantage on the comprehensive services it provides in civil engineering, which is an exceptional efficiency in project implementation for the client, along with maintaining a high level of quality of services.

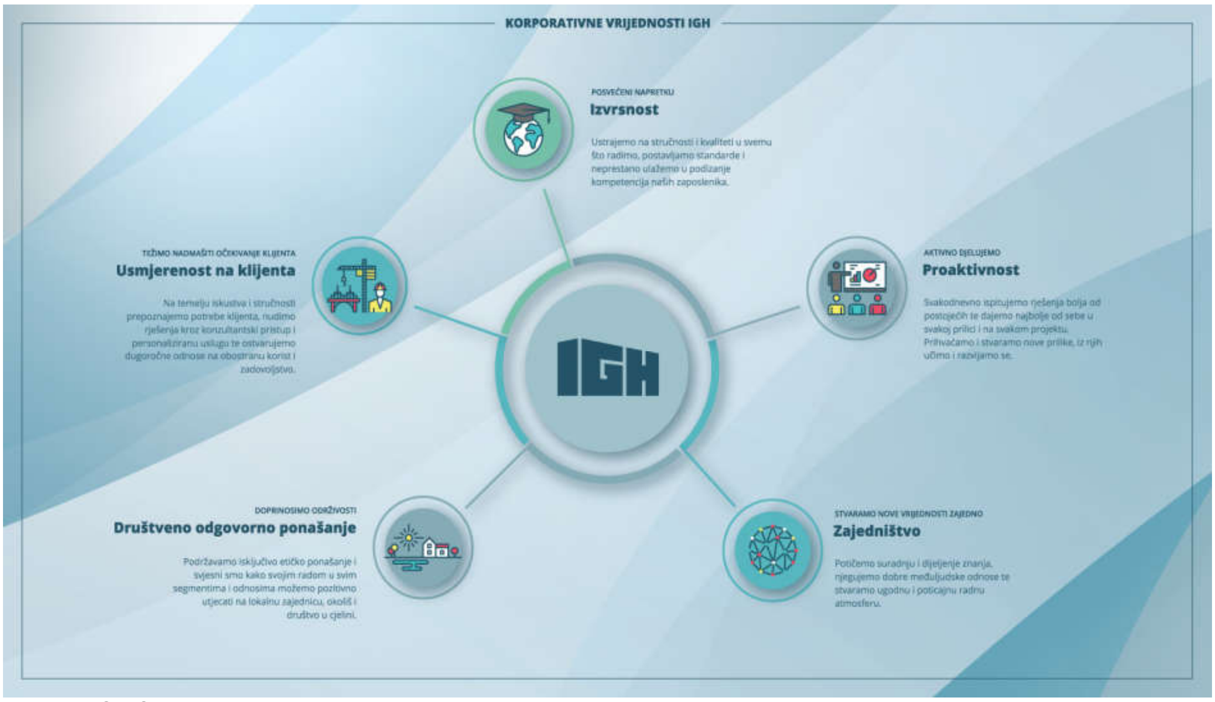

Figure 1: IGH Corporate values

Employees as our greatest asset

The experience gained on large and demanding projects and experts who are capable of managing all complex activities, must be kept in IGH. An invaluable pool of expertise and experience of IGH's experts is thus created, forming the basis for long-term sustainability of our business operations. Empowering expert staff by developing and training of presently employed and bringing new team leaders and key experts to work on projects, as well as attract junior engineers is still in our focus. In addition, through the implementation of the Quality Management System we would like to establish a system of mentoring whereby junior engineers and designers can work together with more experienced experts in all phases of designs. This will surely provide a faster transfer of knowledge and ultimately a higher quality level of our work and services and an added value for our partners. A systematic program of vocational education and training will enable our employees to develop their expertise and managerial skills, foreign languages and soft skills as well as application of new technologies as a part of the comprehensive digital transformation of the Company.

Client orientation

IGH's view is to be a partner to his clients and not only a contractor, to achieve this by focusing on the timely achievement of their requirements and a proactive approach.

Scientific and research activities

IGH was once recognisable by his contribution to the profession through research and development. We would like to return to these roots in the next period and become once more the centre of excellence in the field of scientific and research activities and implementation of education programmes.

Focus on new sectors and modernization of services

Energy, in the classic sense and especially energy from renewable sources such as wind, water and biomass is a great opportunity to expand our experience to this sector and additionally diversify our service portfolio and sectors in which we operate.

Buildings for industrial and civil purposes as well as Data Centres will in the future require state or the art design, technical supervision and strategic consultancy services. This is precisely where IGH wants to remain and be recognized as a top leading company.

We wish to be the leading company when it comes to improving services according to world standards, and be the leader of the trend towards the modernization of services in civil engineering for all stakeholders. This primarily means promoting BIM processes and tools and establish them as the standard in the industry.

Financial stability

Ensuring cash flow stability and financial restructuring are the key activities for IGH development in the next period, while complete fulfilment of commitments from the pre-bankruptcy settlement and its closure are a pre-requirement for easier business operation.
Increased involvement of all IGH assets on present and new foreign markets will achieve financial stability of the Company

New markets

Our strategic goal in the next period is to turn towards the West. This primarily means to the West European markets such as Austria and Germany. Our long-term plan is to open branch offices in these countries. We will also boldly step onto the markets of the Near East, Asia, North America and Australia.

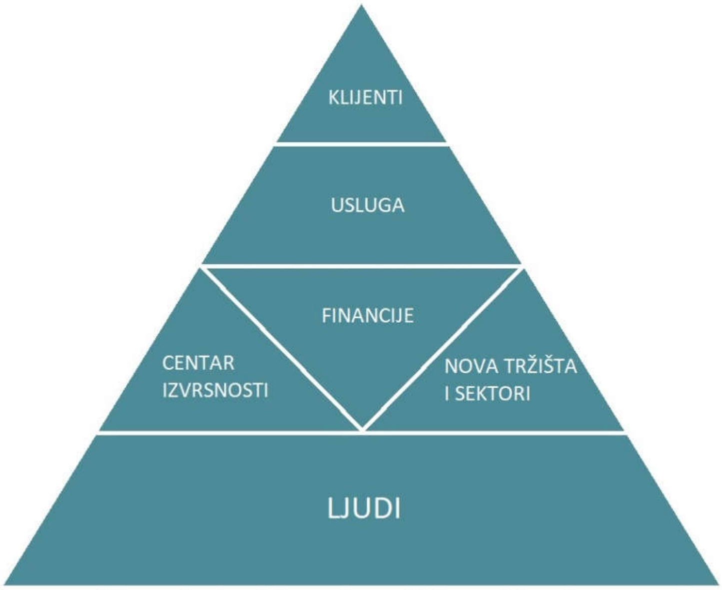

Figure 2: Symbolic presentation of IGH's strategic areas

9. ORGANIZATIONAL STRUCTURE OF THE COMPANY

On 31 December 2019, the Company was organized as follows:

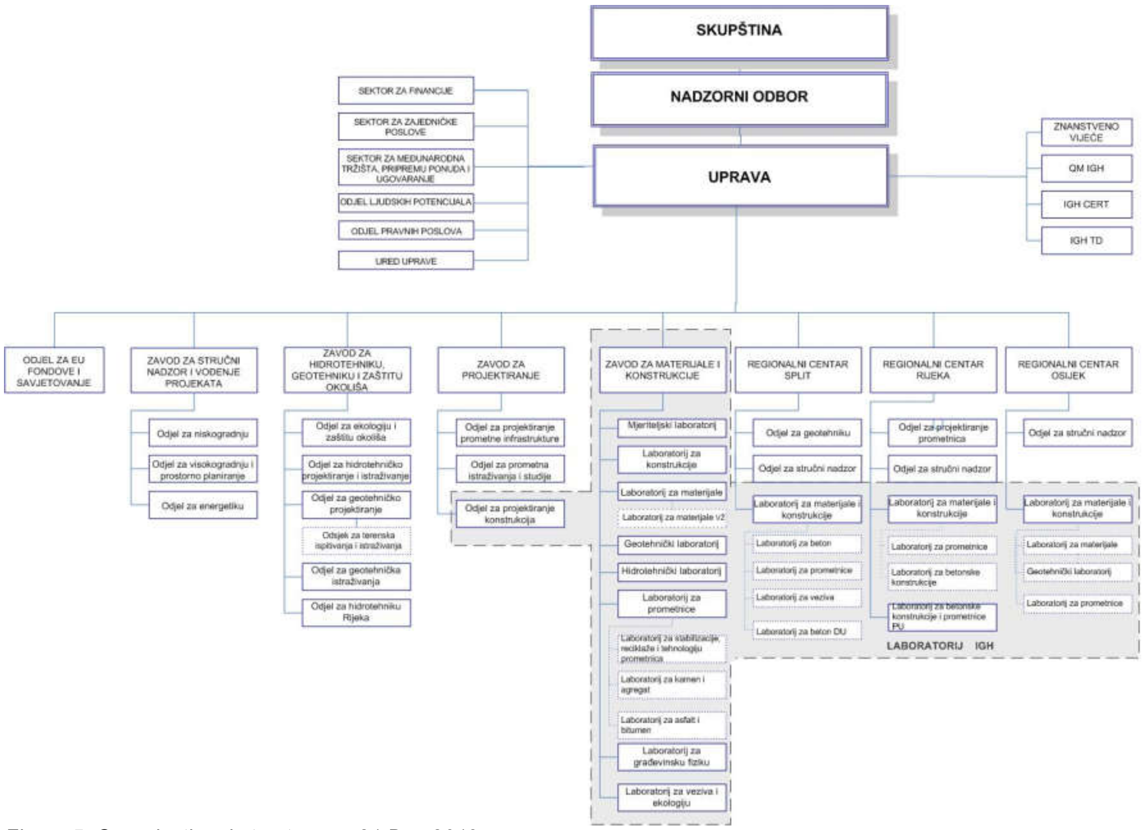

Figure 5: Organizational structure on 31 Dec 2019

10. NON-FINANCIAL REPORTING

Pursuant to provisions of Article 21.a of the Accounting Act (OG 78/15, 120/16), EU Directive 2013/34/EU and the 2017/C 215/01 EU Commission Guidelines on non-financial reporting (methodology for reporting non-financial information), the Company included in its Annual Report all relevant information on business activities which are expected to be included in the non-financial report.

Quality Management System Policy

INSTITUT IGH d.d. Quality Management System Policy, is the basic document defining the principles on which all systematic attempts are based to maintain and improve the quality of our services. It is adopted by the Management Board, thus expressing its commitment and dedication to the quality systems. It is mandatory for all employees.

Documentation regarding business processes as well as the daily working practice must reflect the principles set down by the Quality Management System Policy.

Quality Management Policy is available to all interested parties on our site: www.igh.hr.

Basic principles of the Quality Management System Policy

Principles of the Quality Management System Policy are dedicated to:

1. Improvement of our products and services,
2. Legal, ethical and impartial business management,
3. Correct attitude towards clients and subcontractors,
4. Sustainable development and environmental protection,
5. Occupational health and safety at work.

Ad 1. Improvement of our products and services

All employees shall continuously be aware to raise the overall level of technical and professional expertise and the application, maintenance and improvement of the applicable company management systems in accordance with the Management guidelines.
Expertise is reflected and improved by continuous education and monitoring of the professional competence of employees.

Ad 2. Legal, ethical and impartial business management

The employees shall strictly apply all valid laws and regulation of the Republic of Croatia in all aspects of business, as well as the laws and regulations of the country for which a particular service or task is undertaken.

The employees shall act in accordance with responsible corporate behaviour, respecting the interest of society as a whole, the local community as well as the interests of the Company.

Any form of corruption or action that can be interpreted as such must be avoided in all business operations. Employees shall report to the Management any form of corruption that they may have come across in their work.

Ad 3. Correct attitude towards the clients and subcontractors

Our clients expect a high level of expertise, reliability, impartiality, efficiency and fair prices. The Company and its employees shall undertake all possible measures to satisfy these expectations to the fullest extent possible.

All employees shall continuously work on obtaining and maintaining the Client's trust.

The principle of impartiality is emphasized in our relationships with Clients. INSTITUT IGH, d.d. employees shall not be subjected to any business, financial or any other form of pressure that could influence their expert opinion.

Ad 4. Sustainable development and environmental protection

Institut IGH d.d. undertakes to continuously improve the Management system and decrease its negative impact on the environment. Permanent monitoring of environmental aspects and risks in its business processes exposes the critical points of the Environmental Management System. The Company implements its Environmental Management System in line with the Standard ISO 14001:2015.

In order to achieve the set values, IGH d.d undertakes the following:

- foster procurement and our suppliers to develop environmentally and energy efficient goods and services
- develop a high level of awareness and conduct of its employees with regard to environmental protection and energy efficiency
- permanently decrease negative impact on the environment and continuously improves energy efficiency (keeps energy losses under control) through activities about management of energy, water, waste and hazardous substances
- permanently align with legislative requirements on environmental protection and energy efficiency
- apply and permanently upgrade the efficiency of Management System based on the requirements of standard ISO 14001:2015.

Sustainable development strategy of INSTITUT IGH, d.d. is dedicated to sustainable design of buildings, protection of health, safety of employees, responsible corporate behaviour and responsible behaviour towards the environment and the local community

All INSTITUT IGH, d.d. employees are expected to participate in implementing and improving the Management system and enhancing the quality of work.

As already mentioned, INSTITUT IGH, d.d. in 2009 established and successfully certified the Environmental Management System in accordance with the standard HRN EN ISO:14001.

The Waste Management Regulation and Guidelines on the management of environmental goals and aspects were adopted for environmental protection purposes. Recycling yards were set up at all locations, for separate collection of waste until final collection. Waste Management Programmes were made for every location, as well as instructions and plan for waste disposal. Contract with authorized companies are signed for waste treatment and disposal.

In line with laws and regulations, respective Forms for waste are filled in and Logbooks on the creation of waste are kept, and registration in the Hazardous waste Register is made according to need.

Likewise, a Register of Environmental Aspects and Risk Assessment is made, which is regularly kept up-to-date.

ZAGREB	
TYPE OF WASTE	**QUANTITY (t)**
(*) hazardous waste	3,25
paer	0,71
mixed construction waste	14,08

RC RIJEKA	
TYPE OF WASTE	**QUANTITY (t)**
(*) hazardous waste	0,00
paer	0,44
mixed construction waste	7,34

A total of 1,15 tonnes of paper, 3,25 tonnes of hazardous waste and 21,42 tonnes of construction waste was managed during 2019.

ZAGREB

NASTANAK OTPADA									Podaci za 2017.			Obrazac NO		
					Stanje privremenog skladišta na dan (t)		Postupanje s otpadom na mjestu nastanka		Predano				Izvoz/Iznos	
Ključni broj otpada	Naziv otpada	Osnova određivanja količine: 1 - vaganje, 2 - izračun, 3 - prosudba	Za slučaj da je otpad nastao postupkom obrade na lokaciji i upisati oznaku UO	Nastalo u izvještajnoj godini (t)	1.1.	31.12.	Količina (t)	D/R postupak	Namijeneno za postupak oporabe (R) ili zbrinjavanja (D)	Količina (t)	Naziv i adresa tvrtke/obrta koji preuzima otpad	OIB tvrtke/obrta koji preuzima otpad	Količina (t)	Država uvoznica
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
37271	plastična ambalaža	1 - vaganje		0,487	0,00	0,218	0		R	0,269	D.N.T. STIRO-GRUPA d.o.o., Ulica Ivana Brkanovića 1, 10360 Sesvete	49623249725		
37637	otpadne gume	1 - vaganje		0,18	0,00	0	0		R	0,18	GUMIMPEX-GRP d.d., Pavleka Miškine 64c, 42000 Varaždin	82298562620		
16 02 13*	odbačena oprema koja sadrži opasne komponente[3], a koja nije navedena pod 16 02 09* do 16 02 12*	1 - vaganje		2,18	0,00	0	0		D	2,18	M SAN EKO d.o.o., SLUNJSKI 32, 10000 Zagreb	84559695511		
16 05 06*	laboratorijske kemikalije koje se sastoje od opasnih tvari ili ih sadrže, uključujući mješavine laboratorijskih kemikalija	1 - vaganje		0,597	0,00	0,344	0		D	0,253	C.I.A.K. d.o.o., Stupničke šipkovine 1, 10255 Gornji Stupnik	47428597158		
17 03 03*	ugljeni katran i proizvodi koji sadrže katran	1 - vaganje		0,47	0,00	0,34	0		D	0,13	M SAN EKO d.o.o., SLUNJSKI 32, 10000 Zagreb	84559695511		
38247	miješani građevinski otpad i otpad od rušenja objekata, koji nije naveden pod 17 09 01*, 17 09 02* i 17 09 03*	1 - vaganje		0,705	0,00	0,705	0			0				
36911	papir i karton	1 - vaganje		14,08	0,00	0	0		R	14,08	DS SMITH UNIJAPAPIR CROATIA d.o.o., Lastovska 5, 10000 Zagreb	99467758764		
39161	glomazni otpad	1 - vaganje		15,28	0,00	0	0		D	15,28	e-KOLEKTOR d.o.o., Slavonska avenija 58, 10000 Zagreb	50538578553		

RC RIJEKA

NASTANAK OTPADA									Podaci za 2017.			Obrazac NO		
					Stanje privremenog skladišta na dan (t)		Postupanje s otpadom na mjestu nastanka		Predano				Izvoz/Iznos	
Ključni broj otpada	Naziv otpada	Osnova određivanja količine: 1 - vaganje, 2 - izračun, 3 - prosudba	Za slučaj da je otpad nastao postupkom obrade na lokaciji i upisati oznaku UO	Nastalo u izvještajnoj godini (t)	1.1.	31.12.	Količina (t)	D/R postupak	Namijeneno za postupak oporabe (R) ili zbrinjavanja (D)	Količina (t)	Naziv i adresa tvrtke/obrta koji preuzima otpad	OIB tvrtke/obrta koji preuzima otpad	Količina (t)	Država uvoznica
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
36908	beton	1 - vaganje		20	1,00	1			D	20	METIS d.d. , Industrijska zona Kukuljanovo 414, 51223 Škrljevo	19158233033		
38247	miješani građevinski otpad i otpad od rušenja objekata, koji nije naveden pod 17 09 01*, 17 09 02* i 17 09 03*	1 - vaganje		7,34	0,50	0,5			D	7,34	METIS d.d. , Industrijska zona Kukuljanovo 414, 51223 Škrljevo	19158233033		
36911	papir i karton	3 - prosudba		0,47	0,05	0,08			D	0,44	METIS d.d. , Industrijska zona Kukuljanovo 414, 51223 Škrljevo	19158233033		

Furthermore, consumption of energy sources is constantly monitored and analysed in accordance with the requirements of ISO 50001, for which we have been certified:

	INSTITUT IGH, d.d. ZAGREB , 2019					
	HEATING	ELECTRICITY			WATER	GAS
MONTH	kWh	kWh/NT	kWh/VT	TOTAL kWh	m3	m3
1	401.000,00	22.297,00	53.916,00	76.213,00	254,00	169,00
2	297.000,00	20.137,00	48.197,00	68.334,00	289,00	192,00
3	220.000,00	21.628,00	51.176,00	72.804,00	507,00	189,00
4	150.000,00	28.936,00	59.254,00	88.189,00	332,00	183,00
5	147.000,00	31.544,00	64.565,00	96.109,00	427,00	179,00
6	23.000,00	40.174,00	80.857,00	121.031,00	387,00	103,00
7	17.000,00	43.055,00	88.683,00	131.738,00	310,00	92,00
8	16.000,00	41.562,00	81.025,00	122.587,00	372,00	7,00
9	50.000,00	36.384,00	70.659,00	107.043,00	399,00	115,00
10	140.000,00	33.985,00	68.078,00	102.063,00	385,00	123,00
11	234.000,00	25.991,00	58.893,00	84.884,00	375,00	134,00
12	300.000,00	20.084,00	45.362,00	65.446,00	418,00	90,00
	1.995.000,00	**365.777,00**	**770.664,00**	**1.136.441,00**	**4.455,00**	**1.576,00**

	INSTITUT IGH, d.d. RIJEKA, 2019				
	ELECTRICITY			WATER	GAS
MONTH	kWh/NT	kWh/VT	TOTAL kWh	m3	HRK
1	887,00	1.785,00	2.672,00	80,00	3.044,91
2	704,00	1.471,00	2.175,00	56,00	2.367,39
3	1.327,00	2.156,00	3.483,00	45,00	2.243.06
4	652,00	1.228,00	1.880,00	118,00	1.050,92
5	870,00	1.509,00	2.379,00	61,00	313,58
6	548,00	1.146,00	1.694,00	58,00	313,58
7	744,00	1.513,00	2.257,00	86,00	306,72
8	378,00	794,00	1.172,00	79,00	-
9	569,00	991,00	1.560,00	85,00	599,05
10	898,00	1.482,00	2.380,00	136,00	379,05
11	779,00	1.599,00	2.378,00	119,00	791,82
12	734,00	1.180,00	1.914,00	67,00	2.705,75
	9.090,00	**16.854,00**	**25.944,00**	**990,00**	**13.809,11**

	INSTITUT IGH, d.d. SPLIT, 2019			
	ELECTRICITY			WATER
MONTH	kWh/NT	kWh/VT	TOTAL kWh	m3
1	6.838,00	18.304,00	25.142,00	137,00
2	6.811,00	16.683,00	23-494,00	256,00
3	5.638,00	14.707,00	20.345,00	170,00
4	5.312,00	13.742,00	19.054,00	87,00
5	5.466,00	13.973,00	19.439,00	98,00
6	10.256,00	20.256,00	30.512,00	94,00
7	13.825,00	28.131,00	41.956,00	15,00
8	13.145,00	25.888,00	39.033,00	498,00
9	12.164,00	24.330,00	36.494,00	222,00
10	11.065,00	22.600,00	33.665,00	504,00
11	5.347,00	15.653,00	21.000,00	229,00
12	6.177,00	15.035,00	21.212,00	172,00
	102.044,00	**229.302,00**	**331.346,00**	**2.482,00**

	INSTITUT IGH, d.d. OSIJEK, 2019				
	HEATING	ELECTRICITY			WATER
MONTH	kWh	kWh/NT	kWh/VT	TOTAL kWh	m3
1	75.000,00	3.098,00	6.875,00	9.973,00	21,00
2	60.000,00	2.913,00	6.137,00	9.050,00	26,00
3	45.000,00	2.935,00	6.348,00	9.283,00	31,00
4	26.000,00	2.939,00	5.295,00	8.234,00	31,00
5	18.000,00	2.819,00	5.368,00	8.187,00	40,00
6	288,25	2.969,00	6.317,00	9.286,00	31,00
7	288,25	3.115,00	6.708,00	9.823,00	34,00
8	288,25	3.312,00	6.449,00	9.761,00	65,00
9	288,25	2.687,00	5.266,00	7.953,00	55,00
10	25.000,00	2.946,00	5.696,00	8.642,00	41,00
11	35.000,00	2.802,00	5.923,00	8.725,00	30,00
12	65.000,00	2.711,00	5.479,00	8.190,00	28,00
	350.153,00	**32.151,09**	**71.861,00**	**109.584,00**	**433,00**

Ad 5. Occupational Health and Safety at Work

Institut IGH d.d. is permanently committed to the development and implementation of the Occupational health and safety at work principle, in line with the risks present in work processes.

The Company undertakes its Occupational health and safety at work programmes by implementing the standard OHSAS 18001:2007 (Occupational Health and Safety Assessment Series).

All employees are actively applying preventive measures, to avoid injuries and work related illness, and if the need arises, report any occurrence in the working environment that could be potentially dangerous for health.

The system aims to ensure a healthy and safe working environment, reduce risk for employees, subcontractors, visitors and other interested parties which could be influenced by the Company's activities.

Obligation of Institut IGH d.d. is to provide a healthy and safe working environment, respecting the following health protection and safety principles:

- environment where health and safety risks are checked, prevent work related illness and injuries
- respect all laws and regulations, and all applicable international standards
- implement Occupational Health and safety management programmes

Internal audit of the Occupational Safety Measures noted some faults, which were reported in the Internal Audit Reports and sent to the and Non-Commissioned officers and Representatives in the field of Occupational Safety. By eliminating these deficiencies given in the Reports, the Occupational Safety System is constantly being upgraded.

With respect to the increased fluctuation of employees, the number of trainings in the field of Occupational Safety and Fire Protection has also increased.

Quality Management Systems are documented, implemented and certified in accordance with standards ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 and ISO 50001:2018.

Table below shows the analysis of work related injuries between 2013 - 2019 (note: the table is divided in two parts for transparency purposes).

YEAR	NO.OF INJURIES	LOST WORK DAYS	FREQUENCY*	SEVERITY OF INJURY*
2013	4	100	0,029427171	0,735679267
2014	3	50	0,023438525	0,390642091
2015	2	59	0,016571876	0,488870328
2016	3	26	0,027007173	0,234062167
2017	4	22	0,020579526	0,110657697
2018	1	62	0,011375943	0,705308470
2019	5	99	0,050000000	1,010000000

No. of employees	Hours of work per employee	Total hours	Lost hours	days
651	2.088	1.359.288	800	100
613	2.088	1.279.944	400	50
578	2.088	1.206.864	472	59
532	2.088	1.110.816	208	26
473	2.088	987.624	176	22
421	2.088	879.048	496	62
469	2.088	979.272	792	99

The tables show that in 2018 and 2019 the number of lost work days is increasing, caused by minor work related injuries (mentioned in the above given texts) with recovery lasting longer than expected, and one major work related injury that occurred outside the premises controlled by the employer. Except these injuries, it can be concluded that the number of injuries, and subsequently the number of lost work days related to injuries is stagnating at a significantly low level.

INSTITUT IGH, d.d. employees working under special conditions have the respective medical care with a contracted occupational safety doctor, with regular pre and periodic medical check-ups, to determine their medical fitness (psychological, physical etc.).

There are 232 INSTITUT IGH d.d. employees in the regular medical check-ups system.

11. RELATIONS WITH EMPLOYEES

Employee rights in the Company in 2019 are regulated by:

- The Labour Act
- Employment Regulation of 18 Feb 2012, which entered into force on 1 Jan 2013 and its Amendments, with respective Price list of services and Catalogue of Job Descriptions, and the Employment Regulation of 23 March 2017, which came into force on 1 April 2017, repealing the previously mentioned Employment Regulation and its Amendments,
- Regulation on the use of Company cars, number 2014/59-2 of 6 June 2014,
- Regulation on business trips and field work, number 2017/127-2 which is in force since 1 Jan 2017.

Personnel structure

On 31 December 2019, INSTITUT IGH, d.d. had 469 employees, 103 of which were employed in foreign branch offices. This is an increase of 22 employees compared to 31 December 2018, when the Company had 555 employees.

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AGE	LOW SKILLED	SKILLED WORKER	SECONDARY SCHOOL	HIGHER EDUCATION	UNIVERSITY DEGREE	MASTER'S DEGREE	DOCTORAL DEGREE	Total	Percentage
20-29			9	3	44			56	12%
30-39			9	10	71			90	19%
40-49	1		38	18	92	9	4	162	35%
50-59		1	27	11	45	9	5	98	21%
60-69	1	1	15	7	30	5	2	61	13%
70-75			1		1			2	0%
TOTAL	**2**	**2**	**99**	**49**	**283**	**23**	**11**	**469**	**100%**
Percentage	**0%**	**0%**	**21%**	**11%**	**61%**	**5%**	**2%**	**100%**	**-**

Table 3: Age and educational structure of INSTITUT IGH, d.d. employees in the Republic of Croatia on 31 December.2019

12. BUSINESS OPERATIONS WITH SHARES

Company shares are listed on the official market of the Zagreb Stock Exchange d.d., mark IGH-R-A, ISIN: HRIGH0RA0006, and the Book of Shares is kept by the Central Depository and Clearing Company

No.	SHAREOWNER	IGH-R-A	% Percentage
1	AGRAM BANKA D.D. / AVENUE ENGINEERING AND CONSTRUCTION LIMITED (1/1)	239.500	39,03
2	AGRAM BANKA D.D./ AVENUE ENGINEERING AND CONSTRUCTION LIMITED (1/1)	75.500	12,30
3	MARUS ANNA	44.900	7,33
4	AKCIONAR D.O.O.	20.086	3,27
5	Vlastite dionice	13.359	2,18
6	CAPTURIS D.O.O.	7.895	1,29
7	Mihaljević Branko	5.630	0,92
9	IPRO - INŽENJERING D.O.O.	4.512	0,74
10	Ostali	202.327	32,94
	TOTAL	**613.709**	**100**

Table 4: Situation regarding the IGH-R-A shares in the Book of Shares on 31 December 2019 (Source: Central Depository and Clearing Company)

In 2019, the Zagreb Stock Exchange traded with 29.884 shares IGH-R-A in the amount of HRK 3.904.757 with the daily concluded prices ranging between HRK 105 and 169 (Source: ZSE, Trade information and statistics, Periodic Trade Reports, Review of Trade in 2019).

13. DECLARATION ON CORPORATE GOVERNANCE CODE

The Company applies the Corporate Governance Code of the Zagreb Stock Exchange and once a year submits to the Zagreb Stock Exchange a Declaration on its implementation, and announces it on its site: www.igh.hr.

The largest shareholders are Avenue Engineering and Construction Limited, with 51,33% and Marus Anna with 6,51 %, while all other shareholders hold less than 4% share in the Company.
There are no holders of securities (shares) in the Company with specific control rights. There are no restrictions regarding voting rights in the Company. Each share carries one vote. There are no time limits for execution of voting rights in the Company, and there are no instances where, in cooperation with the Company, the financial rights pertaining from securities are separated from holding of these securities.

Rules on appointment and revocation of appointment of Management Board members are laid down in Articles 31-34 of the Articles of Association of the Company. Rules on the powers of the Board members are laid down in Article 33 of the Articles of Association. The Articles do not contain special rules on the powers of the Board members to issue Company shares or acquire own shares. Rules on appointment and revocation of appointment of Supervisory Board members and the powers of the Company Supervisory Board are given in Articles 23-30 of the Company's Articles of Association.

Company Management

Between 01 January 2019 and 31 December 2019 , the INSTITUT IGH, d.d. Management Board consisted of the following members:

1. Oliver Kumrić – Managing Director
2. From 07 May 2019 - a two member Management Board: Oliver Kumrić, President of the Management Board and Robert Petrosian, Member of the Management Board

The Company Management acts in accordance with the Law and provisions of the Articles of Association of the Company.

Supervisory Board

During 2019, the INSTITUT IGH, d.d. Supervisory Board had seven members:

1. Žarko Dešković – Chairman of the Supervisory Board
2. Veniamin Mezhibovskiy – Deputy Chairman of the Supervisory Board
3. Sergej Gljadelkin (10 Aug 1970) – Supervisory Board Member
4. Sergej Gljadelkin (16 June 1989) – Supervisory Board Member
5. Igor Tkach – Supervisory Board Member
6. Mariyan Tkach – Supervisory Board Member since 26 August 2019
7. Dušica Kerhač – Supervisory Board Member, member nominated as representative of employees

14. INTERNAL CONTROLS

IN line with the Corporate Governance principles, Management of the Company and its subsidiaries have established respective internal controls and risk management systems. An efficient internal control system contributes to the safeguard of Company assets.

The Company Management is responsible for the implementation and execution of the internal control and internal audit systems, as an independent and autonomous task which contributes to the definition of risks and assesses the efficiency of controls.

Management of the Company and its subsidiaries are responsible for the implementation and execution of internal control of financial reporting. The internal control system is organized to ensure reasonable assurance to the Management regarding the preparation and fair presentation of separate and consolidated financial statements. Management of the Company and its subsidiaries have assessed the efficiency of internal control over financial reporting for 2018 and concluded that the internal control of financial reporting has fulfilled all set criteria.

15. RISK MANAGEMENT

Along with the risks already mentioned in the notes of the comprehensive financial statements, the Company Management also reports on the following risks:

The Company concluded a pre-bankruptcy settlement on 5 Dec 2013 before the Commercial Court in Zagreb, Ref.no. 72. Stpn-305/2013. The subject settlement became valid and final on 28 Dec 2013. The Company received the Clause on law binding enforceability on 15 April 2014. Based on the fact that the pre-bankruptcy settlement is valid and final, the Company sees the pre-bankruptcy settlement risk as a potentially long-term risk, since settlement of commitments towards category a) financial institutions, is due within a period of 6,5 years with a grace period of 3,5 years. In terms of the long-term risk, the Company states that this is a risk over a longer time period in which adequate EBITDA might not be achieved to settle all commitments undertaken by the pre-bankruptcy settlement.

In the pre-bankruptcy settlement procedure, the Company upheld the claim of the City of Split amounting up to HRK 474,1 million. This claim was defined only for the pre-bankruptcy settlement purposes, as a hypothetical claim and a possible debt which has not been determined in fact. For it to become a factual claim, arbitration litigation would be required to prove its actual existence. Litigation on the subject has not been initiated until now, and if it is instituted, the Company Management has strong arguments to entirely deny the claim. We believe that there is no possibility of this becoming a claim, a commitment which the Company must settle.

Furthermore, in the final and valid pre-bankruptcy settlement, the Company as the co-borrower (co-signer) in loans of the companies GEOTEHNIKA - INŽENJERING d.o.o. and INCRO d.o.o. undertook the commitment to repay the loans according to provisions of the pre-bankruptcy settlement, in case these companies were unable to settle their debts.

As co-borrower (co-signer) in loans of the company GEOTEHNIKA - INŽENJERING d.o.o., for which the Commercial Court in Zagreb on 9 Sept 2015 initiated bankruptcy proceedings, Decision no. St-417/15, as of 31 Dec 2017, the Company must settle HRK 14,565 million. The risk of the subject co-borrower relationship is evident in the context of all above given.

Co-borrower (co-signer) status in the company INCRO d.o.o., 100% owned by INSTITUT IGH, d.d., amounting to HRK 15,680 million, arises from loans given to the company INCRO d.o.o. for acquisition of shares in the company FORUM CENTAR d.o.o., which is in nature a real estate project in Zadar.

The Company is aware of potential long-term risks, and thus actively undertakes actions to streamline and rationalize business operations and strengthen its market position. In accordance with the achieved improvements in business operations, the Company Management considers that the above stated risks shall not have a significant impact on the long-term viability of business operations.

16. FINANCIAL OVERVIEW

u 000 HRK	GRUPA IGH			INSTITUT IGH, d.d.		
	2019	2018	Indeks	2019	2018	Indeks
Operating revenue	188 862	196 961	96%	177 069	185 645	95%
Operating costs	158 935	177 176	90%	147 085	167 318	88%
EBITDA	**29.927**	**19.785**	**151%**	**29.985**	**18.327**	**164%**
EBITDA margin	16%	10%		17%	10%	
Short term assets except inventories	92 782	94 159	99%	89 810	90 637	99%
Short term liabilities except liabilities for loans and borrowings	75 450	95 975	79%	60 897	79 579	77%
Current ratio	1,2	1,0		1,5	1,1	

Table 5. Key financial indicators

INSTITUT IGH, d.d. in 2019 achieved an EBITDA amounting to HRK 29,9 million compared HRK 18,3 million in 2018. The EBITDA trend reflects an increase in income of 2%, with simultaneous reduction of expenses by 4%.

Results of the IGH Group are primarily determined by activities of the parent company, which positively impacted the results of the whole Group.

A detailed financial overview is given as part of the annual financial statements given in Attachment.

17. SIGNATURE OF THE COMPANY's MANAGEMENT BOARD

The Company's Management Board hereby gives the following statement and signs this Report:

„In accordance with our beliefs, knowledge and information at our disposal, we hereby state that all information set forth in this Report represents a complete and accurate view, and facts that could alter the completeness and accuracy of this Report have not been omitted.

Director of Institut IGH d.d. :

Robert Petrosian, President of the Management Board

Vedrana Tudor, Member of the Management Board

Miroslav Pauzar, Member of the Management Board

18. ATTACHMENTS

1. **FINANCIAL STATEMENTS**
    1.1. Non-consolidated financial statements of the Company INSTITUT IGH, d.d. for the year ending 31 December 2019, with the Independent Auditor's Report
2. **CORPORATE GOVERNANCE CODE – YEARLY QUESTIONNAIRE**
3. **SCIENTIFIC COUNCIL OF INSTITUT IGH, d.d.**

Attachment 3

SCIENTIFIC COUNCIL OF INSTITUT IGH, d.d.

In order to receive a Certificate for performing scientific activity, Institut IGH, d.d. underwent an extensive and comprehensive review by the Agency for Science and Higher Education.

Based on a successful reaccreditation procedure, an Accreditation recommendation was issued in 2015, and on 20 January 2016, a Certificate was issued by the Ministry of Science, Education and Sports, confirming that Institut IGH, d.d. fulfils the conditions necessary to perform Scientific Activities.

These requirements are outlined in the Act on Quality Assurance in Science and Higher Education (OG 45/09), Ordinance on Conditions for Issuing Licence for Scientific Activity, Conditions for Re-accreditation of Scientific Organisations and Content of Licence (OG 83/10) and Evaluation Criteria for Scientific Organisations outside the system of higher education and public scientific institutes.

INSTITUT IGH, d.d. is listed in the Register of Scientific institutions as one of 184 institutions, i.e. as one of few private scientific institutions. In order to meet the demanding criteria needed to be listed in the Register, Institut IGH, d.d. developed a five-year strategy for research and scientific work providing a framework for encouraging research to complement the professional work done in the company.

The 2015-2020 Research and scientific strategy of INSTITUT IGH, d.d. is a mid-term strategy proposed by the Scientific Council of INSTITUT IGH, d.d., and verified by Management in order to improve the research work of INSTITUT IGH, d.d. and to guide Management, members of the Scientific Council and employees when planning their own and the long-term development of the Company.

The evaluation of research and scientific quality and potential of the employees of INSTITUT IGH, d.d. should serve as basis to encourage excellence in research. The research and scientific strategy of INSTITUT IGH, d.d. refers mainly to research in the field of civil engineering.

INSTITUT IGH, d.d. has significant human resources, certain equipment and high quality references at its disposal, enabling them to conduct research in the field of civil engineering. Currently, 8 company employees hold a Ph.D. At the beginning of 2019, two more employees acquired the degree, which will significantly contribute to further development of research and scientific work in IGH.

pwc

Izvješće neovisnog revizora

Dioničarima društva Institut IGH d.d.

Izvješće o reviziji konsolidiranih financijskih izvještaja

Naše mišljenje

Prema našem mišljenju, konsolidirani financijski izvještaji fer prezentiraju, u svim značajnim odrednicama, konsolidirani financijski položaj društva Institut IGH d.d. („Društvo") i njegovih ovisnih društava (zajedno - „Grupa") na dan 31. prosinca 2019. i njihovu konsolidiranu financijsku uspješnost i njihove konsolidirane novčane tokove za tada završenu godinu u skladu s Međunarodnim standardima financijskog izvještavanja koji su usvojeni u Europskoj uniji.

Naše mišljenje je usklađeno s našim dodatnim izvještajem Revizijskom odboru od 24. kolovoza 2020. godine.

Što smo revidirali

Konsolidirani financijski izvještaji Grupe obuhvaćaju:

- Konsolidirani izvještaj o sveobuhvatnoj dobiti za godinu koja je završila 31. prosinca 2019.;
- Konsolidirani izvještaj o financijskom položaju na dan 31. prosinca 2019.;
- Konsolidirani izvještaj o promjenama glavnice za tada završenu godinu;
- Konsolidirani izvještaj o novčanom toku za tada završenu godinu; i
- Bilješke uz konsolidirane financijske izvještaje, uključujući značajne računovodstvene politike i ostale objašnjavajuće informacije.

Osnova za mišljenje

Obavili smo našu reviziju u skladu s Međunarodnim revizijskim standardima (MRevS-ima). Naše odgovornosti prema tim standardima su podrobnije opisane u našem izvješću u odjeljku o Odgovornosti revizora za reviziju konsolidiranih financijskih izvještaja.

Vjerujemo da su revizijski dokazi koje smo dobili dostatni i primjereni te da čine odgovarajuću osnovu za naše mišljenje.

Neovisnost

Neovisni smo od Grupe u skladu s Kodeksom etike za profesionalne računovođe Odbora za međunarodne standarde etike za računovođe (IESBA Kodeksom), te smo ispunili naše ostale etičke odgovornosti u skladu s IESBA Kodeksom.

Prema našim najboljim saznanjima i uvjerenju, izjavljujemo da nismo pružili nerevizijske usluge koje su zabranjene člankom 5(1) Uredbe (EU) br. 537/2014. te, nadalje, da nismo pružili ostale dozvoljene nerevizijske usluge Grupi u razdoblju od 1. siječnja 2019. do 31. prosinca 2019. godine.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Hrvatska
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

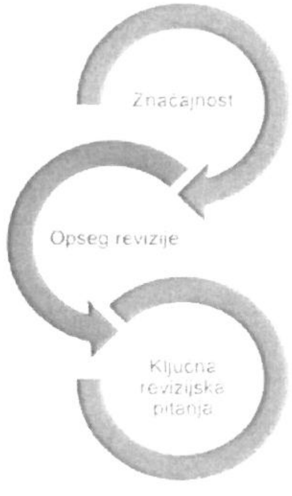
Značajna neizvjesnost u svezi vremenske neograničenosti poslovanja

Skrećemo pozornost na bilješku 2(v) Vremenska neograničenost poslovanja i bilješku 40 Utjecaji predstečajne nagodbe uz ove konsolidirane financijske izvještaje u kojima se opisuje da je matično Društvo u procesu ispunjenja predstečajne nagodbe odobrene od strane Trgovačkog suda u Zagrebu 5. prosinca 2013. godine. Kao što je navedeno u bilješci 2(v), Grupa nije podmirila svoje obveze u iznosu od 334.630 tisuća kuna koje su temeljem predstečajne nagodbe dospjele na dan 31. prosinca 2019. godine i Grupa kasni s otplatom Senior duga u iznosu od 53.217 tisuća kuna. Kao što je navedeno u bilješci 40, vjerovnici po Senior dugu imaju pravo pokrenuti postupak prisilne naplate što se nije dogodilo do datuma ovog izvještaja. Otplata tih obveza i ispunjenje predstečajne nagodbe ovisi o mogućnosti Grupe da generira dovoljno novca iz poslovanja i prodaje imovine. Grupa trenutno pregovara s vjerovnicima po Senior dugu oko uvjeta otplate međutim ishod tih pregovora i mogućnost Grupe da generira dovoljno novčanih tokova je neizvjesna. Ukoliko pregovori budu neuspješni, vjerovnici Senior duga mogu pokrenuti postupak prisilne naplate.

Uz to, na dan 31. prosinca 2019. Grupa ima negativan kapital u iznosu od 41.826 tisuća kuna i kratkoročne obveze su veće od kratkotrajne imovine za iznos od 177.708 tisuća kuna na taj dan. Kao što je navedeno u bilješci 2(v), ti događaji ili uvjeti, uz ostale okolnosti opisane u bilješkama 2(v) i 40, ukazuju postojanje značajne neizvjesnost koja može izazvati značajnu sumnju u sposobnost Društva da nastavi poslovanje po načelu vremenske neograničenosti poslovanja. Naše mišljenje nije modificirano po ovom pitanju.

Naš pristup reviziji

Pregled



- Značajnost za financijske izvještaje Grupe kao cjelina: 1.834 tisuće kuna, što predstavlja 1% prihoda od prodaje.

- Obavili smo reviziju jednog pravna subjekta: Institut IGH d.d. u Republici Hrvatskoj s podružnicom u Gruziji.
- Za preostala izvještajna društva (ukupno 14) proveli smo sljedeće: specifične revizijske procedure za 3 društva te analitičke procedure za ostala društva.
- Naš revizijski opseg je obuhvatio 98% prihoda od prodaje Grupe i 100% apsolutne vrijednosti pripadajuće dobiti Grupe.

- Priznavanje prihoda

Oblikovali smo našu reviziju utvrđujući značajnost i procjenjujući rizike značajnog pogrešnog prikazivanja u konsolidiranim financijskim izvještajima. Konkretno, razmatrali smo područja subjektivnih procjena uprave; na primjer, značajne računovodstvene procjene koje uključuju pretpostavke i uzimaju u obzir buduće događaje koji su inherentno neizvjesni. Kao i u svim našim revizijama, također smo obavili postupke vezane uz zaobilaženje internih kontrola od strane uprave, uključujući između ostalog i analizu o tome postoje li dokazi koji bi upućivali na pristranost koja predstavlja rizik materijalne pogreške kao posljedicu prijevare.

Značajnost

Na opseg naše revizije utjecala je naša primjena značajnosti. Revizija je oblikovana kako bi se moglo steći razumno uvjerenje o tome jesu li konsolidirani financijski izvještaji bez značajnog pogrešnog prikaza. Pogrešni prikazi mogu nastati kao posljedica prijevare ili pogreške. Smatraju se značajnim ako se razumno može očekivati da, pojedinačno ili u zbroju, utječu na ekonomske odluke korisnika donesene na osnovi tih konsolidiranih financijskih izvještaja.

Na temelju naše profesionalne prosudbe utvrdili smo određene kvantitativne pragove značajnosti, uključujući značajnost za konsolidirane financijske izvještaje kao cjelina, kako je prikazano u tabeli niže. Oni su nam, zajedno s kvalitativnim razmatranjima, pomogli u određivanju opsega revizije, vrste, vremenskog rasporeda i obujma naših revizijskih postupaka, kao i utvrđivanju utjecaja pogrešnog prikazivanja, ako postoji, pojedinačno i u zbroju na konsolidirane financijske izvještaje kao cjelinu.

Značajnost za financijske izvještaje kao cjelina	1.834 tisuće kuna
Kako smo je utvrdili	1% prihoda od prodaje
Obrazloženje za korišteno odabrano mjerilo	Za mjerilo smo odabrali prihode od prodaje jer smatramo da su prihodi od prodaje prikladno mjerilo jer je to pokazatelj prema kojem se mjeri uspješnost poslovanja Grupe u smislu tržišnog udjela i kupaca. Nadalje, neto rezultat za prethodne godine bio je nepostojan, a prihodi predstavljaju konzistentnije mjerilo uspješnosti poslovanja.

Ključna revizijska pitanja

Ključna revizijska pitanja su ona pitanja koja su, po našoj profesionalnoj prosudbi, bila od najveće važnosti za našu reviziju konsolidiranih financijskih izvještaja tekućeg razdoblja. Tim pitanjima smo se bavili u kontekstu naše revizije konsolidiranih financijskih izvještaja kao cjeline i pri formiranju našeg mišljenja o njima te ne dajemo zasebno mišljenje o tim pitanjima. Dodatno na pitanje opisano u odjeljku Značajna neizvjesnost u svezi vremenske neograničenosti poslovanja, identificirali smo sljedeća pitanja kao ključna revizijska pitanja u našem izvješću.

Ključno revizijsko pitanje	Kako smo revidirali ključno revizijsko pitanje
Priznavanje prihoda *Vidjeti bilješku 3.3 uz konsolidirane financijske izvještaje pod naslovom "Prihodi", bilješku 5 pod nazivom "Ključne računovodstvene prosudbe i procjene", bilješku 8 "Informacija o segmentima", bilješku 9 "Prihodi od prodaje" i bilješku 29 "Imovina i obveze po ugovorima s kupcima" za više informacija* Priznavanje prihoda je kompleksno zbog značajnih prosudi uključenih u mjerenje napretka za priznavanje prihoda tijekom vremena i to je razlog zbog koje je bilo od posebne važnosti za našu reviziju. Za ugovore za koje se prihodi priznaju tijekom vremena (140.736 tisuća kuna ili 77% prihoda Grupe) ugovorni prihodi i rashodi priznati su prema stupnju dovršenosti projekta na kraju izvještajnog razdoblja; očekivani gubitak je priznat kao rashod odmah, bez obzira na stupanj dovršenosti. Plaćanja kupaca definirana ugovorima ne poklapaju se nužno s kriterijima za priznavanje prihoda po MSFI-u 15. Kao rezultat, Grupa u konsolidiranim financijskim izvještajima iskazuje ugovornu imovinu i ugovorne obveze za sve aktivne projekte na izvještajni datum. Vezano uz te ugovore na dan bilance Grupa je iskazala ugovornu obvezu u iznosu od 7.552 tisuće kuna, te ugovornu imovinu u iznosu od 12.850 tisuća kuna.	Stekli smo razumijevanje i pregledali ključne procjene Uprave vezano za priznavanje prihoda. Za značajne projekte koji nisu dovršeni na dan 31. prosinca 2019. i koji su započeli u tekućoj godini, detaljno smo pročitali vezane ugovore i usporedili knjiženje tih ugovora s odgovarajućim podlogama (odobrene procjene ukupnih troškova projekta, sažetke realiziranih troškova, uzorke faktura i preglede utrošenih sati, analitika i slično). Testirajući uzorak transakcija pregledali smo primjenu modela 5 koraka utvrđenih u standardu koju je Grupa pripremila kako bi utvrdila može li se prihod priznati u određenom trenutku ili tijekom vremena. Za ugovore sklopljene u 2019. godini, za koje je zaključeno da se prihodi priznaju tijekom vremena, usporedili smo vrijeme priznavanja prihoda sa stupnjem dovršenosti na temelju metode inputa (mjerene kao postotak nastalih troškova u ukupnim troškovima). Osim gore opisanih postupaka, uputili smo upite Upravi kako bi preispitali procjene vezane uz ukupne troškove projekata i procijenjene marže po projektu. Procijenili smo točnost i potpunost prezentacije i objavljivanja prihoda od prodaje u konsolidiranim financijskim izvještajima Grupe.

Kako smo odredili opseg revizije Grupe

Prilagodili smo opseg revizije kako bismo obavili dostatnu razinu posla koja nam omogućava izražavanje mišljenja o konsolidiranim financijskim izvještajima kao cjelini, uzimajući u obzir strukturu Grupe, računovodstvene procese i kontrole te industriju u kojoj Grupa posluje.

Izvještavanje o ostalim informacijama uključujući Izvješće poslovodstva

Uprava je odgovorna za ostale informacije. Ostale informacije uključuju Izvješće poslovodstva i Izjavu o primjeni kodeksa korporativnog upravljanja, ali ne uključuju konsolidirane financijske izvještaje i naše izvješće revizora o njima.

Naše mišljenje o konsolidiranim financijskim izvještajima ne obuhvaća ostale informacije.

U vezi s našom revizijom konsolidiranih financijskih izvještaja, naša je odgovornost pročitati ostale informacije gore navedene, te pri tome razmotriti jesu li ostale informacije značajno proturječne konsolidiranim financijskim izvještajima ili našim saznanjima stečenim u reviziji ili se na neki drugi način čini da su značajno pogrešno prikazane.

U pogledu Izvješća poslovodstva i Izjave o primjeni kodeksa korporativnog upravljanja, obavili smo također postupke propisane odredbama Zakona o računovodstvu Republike Hrvatske. Ti postupci obuhvaćaju provjeru da li je Izvješće poslovodstva sastavljeno u skladu s člankom 21. i 24. Zakona o računovodstvu, te uključuje li Izjava o primjeni kodeksa korporativnog upravljanja informacije definirane u članku 22. Zakona o računovodstvu.

Na temelju posla koji smo obavili tijekom revizije, prema našem mišljenju:

- Informacije u Izvješću poslovodstva i Izjavi o primjeni kodeksa korporativnog upravljanja za financijsku godinu za koju su sastavljeni konsolidirani financijski izvještaji usklađene su, u svim značajnim odrednicama, s konsolidiranim financijskim izvještajima;
- Izvješće poslovodstva sastavljeno je u skladu s člankom 21. i 24. Zakona o računovodstvu; te
- Izjava o primjeni kodeksa korporativnog upravljanja uključuje informacije definirane u članku 22. Zakona o računovodstvu.

Ako temeljeno na poslu kojeg smo obavili na ostalim informacijama dobivenim prije datuma ovog izvješća revizora i u svjetlu poznavanja i razumijevanja poslovanja Grupe i njezinog okruženja stečenog u okviru revizije, zaključimo da postoji značajni pogrešni prikaz tih ostalih informacija, od nas se zahtijeva da izvijestimo tu činjenicu. U tom smislu nemamo ništa za izvijestiti.

Odgovornost uprave i onih koji su zaduženi za nadzor za konsolidirane financijske izvještaje

Uprava je odgovorna za sastavljanje i fer prikaz konsolidiranih financijskih izvještaja u skladu s Međunarodnim standardima financijskog izvještavanja koji su usvojeni u Europskoj uniji i za one interne kontrole za koje uprava odredi da su potrebne za omogućavanje sastavljanja konsolidiranih financijskih izvještaja koji su bez značajnog pogrešnog prikaza uslijed prijevare ili pogreške.

U sastavljanju konsolidiranih financijskih izvještaja, uprava je odgovorna za procjenjivanje sposobnosti Grupe da nastavi s vremenski neograničenim poslovanjem, za objavljivanje okolnosti vezanih uz vremensku neograničenost poslovanja ako je to primjenjivo te za korištenje računovodstvene osnove utemeljene na vremenskoj neograničenosti poslovanja, osim ako uprava namjerava likvidirati Grupu ili prekinuti poslovanje ili nema realne alternative nego da to učini.

Oni koji su zaduženi za nadzor su odgovorni za nadziranje procesa financijskog izvještavanja Grupe.

Odgovornost revizora za reviziju konsolidiranih financijskih izvještaja

Naši ciljevi su steći razumno uvjerenje o tome jesu li konsolidirani financijski izvještaji kao cjelina bez značajnog pogrešnog prikaza uslijed prijevare ili pogreške i izdati izvješće neovisnog revizora koje uključuje naše mišljenje. Razumno uvjerenje je visoka razina uvjerenja, ali nije garancija da će revizija obavljena u skladu s MRevS-ima uvijek otkriti značajno pogrešno prikazivanje kad ono postoji. Pogrešni prikazi mogu nastati uslijed prijevare ili pogreške i smatraju se značajnima ako se razumno može očekivati da, pojedinačno ili u zbroju, utječu na ekonomske odluke korisnika donijete na osnovi tih konsolidiranih financijskih izvještaja.

Kao sastavni dio revizije u skladu s MRevS-ima, stvaramo profesionalne prosudbe i održavamo profesionalni skepticizam tijekom revizije. Mi također:

- Prepoznajemo i procjenjujemo rizike značajnog pogrešnog prikaza konsolidiranih financijskih izvještaja, zbog prijevare ili pogreške, oblikujemo i obavljamo revizijske postupke kao reakciju na te rizike i pribavljamo revizijske dokaze koji su dostatni i primjereni da osiguraju osnovu za naše mišljenje. Rizik neotkrivanja značajnog pogrešnog prikaza nastalog uslijed prijevare je veći od rizika nastalog uslijed pogreške, jer prijevara može uključiti tajne sporazume, krivotvorenje, namjerno ispuštanje, pogrešno prikazivanje ili zaobilaženje internih kontrola.
- Stječemo razumijevanje internih kontrola relevantnih za reviziju kako bismo osmislili revizijske postupke koji su primjereni u danim okolnostima, ali ne i za svrhu izražavanja mišljenja o učinkovitosti internih kontrola Grupe.
- Ocjenjujemo primjerenost korištenih računovodstvenih politika i razumnost računovodstvenih procjena i povezanih objava koje je stvorila uprava.
- Zaključujemo o primjerenosti korištene računovodstvene osnove utemeljene na vremenskoj neograničenosti poslovanja koju koristi uprava i, na temelju pribavljenih revizijskih dokaza, zaključujemo o tome postoji li značajna neizvjesnost u vezi s događajima ili okolnostima koji mogu stvarati značajnu sumnju u sposobnost Grupe da nastavi s vremenski neograničenim poslovanjem. Ako zaključimo da postoji značajna neizvjesnost, od nas se zahtijeva da skrenemo pozornost u našem izvješću neovisnog revizora na povezane objave u konsolidiranim financijskim izvještajima ili, ako takve objave nisu odgovarajuće, da modificiramo naše mišljenje. Naši zaključci temelje se na revizijskim dokazima pribavljenim sve do datuma našeg izvješća neovisnog revizora. Međutim, budući događaji ili uvjeti mogu uzrokovati da Grupa prekine s vremenski neograničenim poslovanjem.
- Ocjenjujemo cjelokupnu prezentaciju, strukturu i sadržaj konsolidiranih financijskih izvještaja, uključujući i objave, kao i odražavaju li konsolidirani financijski izvještaji transakcije i događaje na kojima su zasnovani na način kojim se postiže fer prezentacija.
- Prikupljamo dostatne primjerene revizijske dokaze vezano uz financijske informacije subjekata ili poslovne aktivnosti unutar Grupe kako bismo mogli izraziti mišljenje o konsolidiranim financijskim izvještajima. Odgovorni smo za usmjeravanje, nadzor i provedbu grupne revizije. Samostalno smo odgovorni za naše izvješće neovisnog revizora.

Komuniciramo s onima koji su zaduženi za nadzor, između ostalih pitanja, planirani djelokrug i vremenski raspored revizije i važne revizijske nalaze, uključujući značajne nedostatke u internim kontrolama ako su otkriveni tijekom naše revizije.

Također dajemo izjavu onima koji su zaduženi za nadzor da smo postupili u skladu s relevantnim etičkim zahtjevima u vezi s neovisnošću i da ćemo komunicirati s njima o svim odnosima i drugim pitanjima za koja se može razumno smatrati da utječu na našu neovisnost, kao i, gdje je primjenjivo, o povezanim mjerama zaštite.

Među pitanjima o kojima se komunicira s onima koji su zaduženi za nadzor, određujemo ona pitanja koja su od najveće važnosti u reviziji konsolidiranih financijskih izvještaja tekućeg razdoblja i stoga predstavljaju ključna revizijska pitanja. Navedena pitanja opisujemo u našem izvješću neovisnog revizora, osim ako zakon ili regulativa sprječava javno objavljivanje pitanja ili kada odlučimo, u iznimno rijetkim okolnostima, da pitanje ne treba priopćiti u našem izvješću neovisnog revizora jer se razumno može očekivati da bi negativne posljedice priopćavanja nadmašile dobrobiti javnog interesa od takve objave.

Izvješće o ostalim zakonskim i regulatornim zahtjevima

Imenovanje

Prvi put smo imenovani za revizore Grupe 28. kolovoza 2014. godine. Naše imenovanje obnavlja se jednom godišnje odlukom skupštine s najnovijim ponovnim imenovanjem od 26. kolovoza 2019. i predstavlja ukupno neprekinuto razdoblje angažmana od 6 godina.

Ovlašteni revizor angažiran kao partner za ovo izvješće neovisnog revizora je Michaela Tomičić.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
25. kolovoza 2020.

John M. Gasparac
Predsjednik Uprave

Tomičić
Michaela Tomičić
Ovlašteni revizor

pwc
PricewaterhouseCoopers d.o.o.
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INSTITUT IGH d.d.

INSTITUT IGH, d.d., Zagreb

Consolidated Annual Report
for the year ended 31 December 2019
together with the Independent Auditor's Report

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Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that Consolidated statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), in order to give a true and fair view of the consolidated financial position and financial performance of the Company Institut IGH, d.d. and its associated companies (hereinafter: Group) for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing consolidated financial statements.

In preparing consolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also, ensure that the financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the submission to the Supervisory Board of its annual report together with consolidated and separate financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements and the Management Report. The Management Report was prepared in line with the requirements of Articles 21 and 24 of the Accounting Act.

The separate financial statements of the Company are published separately and issued simultaneously with these consolidated financial statements.

The Annual Report is authorised by the Management for issue to the Supervisory Board and are signed below to signify this on 25 August 2020.

Institut IGH, dioničko društvo za istraživanje i razvoj u graditeljstvu, Zagreb

Robert Petrosian
President of the Management Board

Miroslav Pauzar
Member of the Management Board

Vedrana Tudor
Member of the Management Board

Institut IGH, d.d.
Janka Rakuše 1
10 000 Zagreb
Republic of Croatia

(In thousands HRK)	**Note**	**2019**	**2018**
Revenues	9	183.357	185.897
Other operating income	10	5.505	11.064
Total revenue and income		**188.862**	**196.961**
Raw materials, consumables and services used	11	(60.851)	(66.100)
Staff costs	12	(94.628)	(95.826)
Impairments of short term assets	13	8.927	(5.430)
Other operating expenses	14	(12.383)	(9.820)
Total operating expenses		**(158.935)**	**(177.176)**
Profit from operating activities before depreciation and value adjustment/impairments of long term assets (EBITDA		**29.927**	**19.785**
Depreciation	18, 19	(10.001)	(9.578)
Impairments/value adjustment of long term assets	13	(54)	(6.304)
Total expenses		**(168.990)**	**(193.058)**
Operating profit/(loss)		**19.872**	**3.903**
Financial revenue	15	5.950	10.812
Financial expenditure	15	(14.889)	(19.351)
Net financial expenditure		**(8.939)**	**(8.539)**
Share in loss/profit of associated companies	21	**(14)**	**(20)**
Pre-tax profit/loss		**10.919**	**(4.656)**
Corporate tax	16	5.657	505
Current year Profit/Loss		**16.576**	**(4.151)**
Non-controlling interest		**63**	**(10)**
Profit/Loss of shareholders		**16.639**	**(4.161)**
Basic profit/loss per share (u HRK)	17	27,87	(6,84)
Other comprehensive income			
Revaluation of long term assets, net of taxes		(6)	686
Foreign exchange differences		41	(54)
Adjustments through retained earnings		(13)	-
Other		(590)	-
Other comprehensive (loss)/profit for the year		**(568)**	**632**
Comprehensive profit for the year		**16.008**	**(3.519)**
Attributed to shareholders		**16.071**	**(3.526)**
Attributed to non-consolidated interest		**(63)**	**6**

The bellow given Accounting Policies and Notes for an integral part of these Consolidated Financial Statements.

(In thousands HRK)		2019.	2018.
ASSETS			
Intangible assets	18	2.916	2.939
Property, plants and equipment	19	189.730	190.489
Investment in property	20	348	348
Investments in related parties and other investments	21	14.558	14.572
Loans given	22	644	559
Trade receivables and other receivables	24	1.062	1.225
Deferred tax assets	16	7	-
NON-CURRENT ASSETS		209.265	210.132
Inventories	23	76.297	76.297
Trade receivables and other receivables	24	45.430	47.264
Loans given and deposits	25	18.785	18.797
Prepaid expenses	28	3.770	6.922
Contract assets	29	12.850	16.655
Cash and cash equivalents	26	11.947	4.521
CURRENT ASSETS		169.079	170.456
Long term assets held for sale	27	80.912	107.329
TOTAL ASSETS		**459.256**	**487.917**
EQUITY AND LIABILITIES			
Share capital	30	116.605	116.605
Own shares	31	(5.676)	(5.676)
Reserves for own shares	31	1.446	1.446
Other reserves		953	1.344
Capital reserves		(255)	(255)
Revaluation reserves	32	102.232	125.403
Accumulated losses		(256.434)	(295.676)
Capital attributed to Company shareholders		(41.129)	(56.809)
Non-controlling interest	33	(697)	(634)
TOTAL EQUITY		**(41.826)**	**(57.443)**
Loans and borrowings	34	48.963	231.231
Provisions	35	2.233	2.022
Deferred tax liabilities	16	21.989	27.694
Trade and other payables	36	198	198
LONG-TERM LIABILITIES		**73.383**	**261.145**
Loans and borrowings	34	352.249	188.240
Trade and other payables	36	63.694	81.008
Advances and deposits received		1.254	362
Provisions	35	2.950	2.819
Contract liabilities	29	7.552	10.692
Accrued expenses and deferred revenue		-	1.094
CURRENT LIABILITIES		**427.699**	**284.215**
TOTAL EQUITY AND LIABILITIES		**459.256**	**487.917**

The bellow given Accounting Policies and Notes for an integral part of these Consolidated Financial Statements.

(In thousands HRK)	Share capital	Capital reserves	Own shares	Reserves for own shares	Revaluation reserves	Other reserves	Accumulated loss	Capital attributed to shareholders	Non-controlling interest	Total capital
Situation on 31 December 2017	**116.605**	**(255)**	**(5.676)**	**1.446**	**127.968**	**3.497**	**(293.341)**	**(49.756)**	**(640)**	**(50.396)**
Adjustment of initial status for application of e IFRS 9	-	-	-	-	-	-	(866)	(866)	-	(866)
Adjustment of initial status for application of e IFRS 15	-	-	-	-	-	-	-	-	-	-
As at 1 January 2018 after adjustment	**116.605**	**(255)**	**(5.676)**	**1.446**	**127.968**	**3.497**	**(294.207)**	**(50.622)**	**(640)**	**(51.262)**
Transactions with owners										
Payment for retained earnings	-	-	-	-	-	-	-	-	-	-
Reserves for stock grants and stock options	-	-	-	-	-	(2.153)	-	(2.153)	-	(2.153)
Loss of control in subsidiaries (Note 7b)	-	-	-	-	-	-	(363)	(363)	-	(363)
Other	-	-	-	-	-	-	(145)	(145)	-	(145)
Total transactions with owners	-	-	-	-	-	(2.153)	(508)	(2.661)	-	(2.661)
Comprehensive income										
Transfer from revaluation reserves	-	-	-	-	(3.200)	-	3.200	-	-	-
Revaluation of fixed assets, net of tax	-	-	-	-	686	-	-	686	-	686
Foreign exchange differences	-	-	-	-	(51)	-	-	(51)	(4)	(55)
Current year profit	-	-	-	-	-	-	(4.161)	(4.161)	10	(4.151)
Total comprehensive income /loss)	-	-	-	-	(2.565)	-	(961)	(3.526)	6	(3.520)
As at 31 December 2018	**116.605**	**(255)**	**(5.676)**	**1.446**	**125.403**	**1.344**	**(295.676)**	**(56.809)**	**(634)**	**(57.443)**

The bellow given Accounting Policies and Notes for an integral part of these Consolidated Financial Statements.

(In thousands HRK)	Share capital	Capital reserves	Own shares	Reserves for own shares	Other reserves	Revaluation reserves	Accumulated loss	Capital attributed to shareholders	Non-controlling interest	Total capital
Situation on 31 December 2018	**116.605**	**(255)**	**(5.676)**	**1.446**	**1.344**	**125.403**	**(295.676)**	**(56.809)**	**(634)**	**(57.443)**
Transactions with owners										
Reserves for stock grants and stock options	-	-	-	-	(391)	-	-	(391)		(391)
Total transactions with owners	**-**	**-**	**-**	**-**	**(391)**	**-**	**-**	**(391)**		**(391)**
Comprehensive income										
Current year profit	-	-	-	-	-	-	16.639	16.639	(63)	16.576
Transfer from revaluation reserves	-	-	-	-	-	(23.206)	23.206	-		-
Revaluation of fixed assets, net of tax	-	-	-	-	-	(6)	-	(6)		(6)
Foreign exchange differences from foreign business	-	-	-	-	-	41	-	41		41
Adjustment through retained profit	-	-	-	-	-	-	(13)	(13)		(13)
Other							(590)	(590)		(590)
Total comprehensive income/	-	-	-	-	-	(23.171)	39.241	16.071	(63)	16.008
As at 31 December 2019	**116.605**	**(255)**	**(5.676)**	**1.446**	**953**	**102.232**	**(256.434)**	**(41.129)**	**(697)**	**(41.826)**

(In thousands HRK)	**Note**	**2019**	**2018**
Cash generated from operations			
Profit before taxation		10.919	(4.656)
Adjustments:			
Depreciation	15, 16	10.001	9.578
Value adjustments	11	(8.927)	11.734
Income from interest	13	(2.377)	(252)
Expenditure from interest	13	11.363	12.502
Net decreases in provisions	29	343	(1.071)
Unrealised exchange differences (net)	13	(123)	(2.829)
Loss/(profit) from sale of real estate, plants and equipment and intangible assets	12	1.570	(100)
(Profit) from sale of subsidiary	13	-	(2.580)
Unrealized losses through equity method		14	20
Unrealized losses from financial assets and other expenditure		-	1.727
Income from write-offs	13	-	(29)
Other financial expenditures	13	78	
Other Adjustments for non-cash transactions and non-realized profit and loss		27	
Result from operating activities before changes in working capital		**22.888**	**24.044**
Increase/(decrease) of short term receivables		11.463	(3.266)
Increase of contract assets		3.805	(8.631)
Decrease of short term liabilities		(16.501)	(14.751)
Decrease of contract liabilities		(3.140)	3.445
Net cash flow from operating activities before interests and tax		**18.515**	**841**
Expenditure for paid corporate tax		-	(197)
Net cash flow from operating activities		**18.515**	**644**
Cash flows from investment activities			
Proceeds from sale of financial instruments		1	2.580
Proceeds from sale of equity and debt instruments		-	996
Proceeds from given loans and deposits		12.796	-
Cash outflow for purchase of real-property, plants and equipment and non-tangible assets		(3.079)	(2.943)
Cash outflows for loans and deposits		(11.030)	(6.930)
Net cash flow from investment activities		**(1.312)**	**(6.297)**
Cash flows from financing activities			
Cash receipts from loans and other borrowings		1.987	10.475
Cash outflows for repayment of principal loans and bonds		(13.041)	(6.765)
Repayment of financial leases		(1.124)	(73)
Net cash flow from finance activities		**(12.178)**	**3.637**
Total cash flow increase		5.025	(2.016)
Cash and cash equivalents at beginning of the business year	22	**6.922**	**8.938**
Cash and cash equivalents at the end of business year	22	**11.947**	**6.922**

The bellow given Accounting Policies and Notes for an integral part of these Consolidated Financial Statements.

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NOTE 1 – GENERAL INFORMATION

Activity

The Group is engaged in professional and scientific research in the field of civil engineering which includes: design, elaboration of studies, technical supervision, consulting, investigation works, proof of serviceability, laboratory testing and calibration. The Group is certified for these activities in accordance with the Sustainable Development Standards: EN ISO 9001, EN ISO 14001, OHSAS 18001.

The Group consists of 9 subsidiaries dealing in the core activities and 5 subsidiaries - design companies founded for real-property projects. The parent company is Institut IGH d.d. (Company) with its head office is in Zagreb, Croatia, Janka Rakuše 1. Except business operations run from the registered office, the Company conducts its business in Georgia, Russia and Kosovo.

Management Bodies:

General Assembly

Chairman	Žarko Dešković

Members of the General Assembly are individual Company shareholders or their proxies.
Supervisory Board

In 2019, the Supervisory Board of Institut IGH d.d. consisted of 7 members, as follows:

- Žarko Dešković, Supervisory Board Chairman
- Veniamin Mezhibovskiy, Deputy-Chairman
- Sergej Gljadelkin (10.08.1970.), Member
- Sergej Gljadelkin (16.06.1989.), Member
- Igor Tkach, Member
- Mariyan Tkach, Member
- Dušica Kerhač, Member – as the nominated representative of employees

Management Board

The Management Board of Institut IGH, d.d. from 1 January 2018 until 7 May 2019 consisted of a single member:
– Oliver Kumrić – Managing Director

The Management Board of Institut IGH, d.d. from 7 May 2019 consisted of two members:

- Oliver Kumrić – President of the Management Board
- Robert Petrosian – Member of the Management Board

From 01 March 2020, the Management comprised one member:
- Robert Petrosian - Director

From 06 May 2020, Procurators representing the Company with two more Procurators are:
- Domagoj Šimunović,
- Dario Bašić, and
- Igor Džajić

NOTE 2 – BASIS FOR PREPARATION

(i) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).
Financial statements are presented for the Group. The Group includes the Company and its subsidiaries. Financial statements of the Group contain the consolidated financial statements of the Company and its subsidiaries. Separate financial statements, which the Company is under obligation to draw up in accordance with the IFRS are separately published on the same date as these consolidated financial statements. Items in the consolidated statements on the financial position are recorded as at 31 December 2019, except if otherwise stated.

These consolidated financial statements were authorised for issue by the Management Board on 25 August 2020.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- Revaluation of land and buildings as stated in Note 3.9 (i)
- Investment in property as stated in Note 3.11.
- Assets at fair value through other comprehensive income as stated in Note 3.18
- Long-term assets held for sale as stated in Note 3.22.
- Liabilities at fair-value through profit and loss accounts as stated in Note 3.18
- The methods used for fair value measurement are set out in Note 6.

These are the first Annual Consolidated Financial Statements of the Company in which the IFRS 16– Leases was applied. The effects of changes in these accounting policies are described in Note 3.

(iii) Functional and presentation currency

These Financial Statements are presented in Croatian Kuna (HRK), which is the functional currency, of the parent company rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis.

The impact of correction is recognised for the period in which the estimate has been corrected, if the correction impacts the current period, or for the current period

Judgements made by the Management Board in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

NOTE 2 – BASIS OF PREPARATION (Continued)

(v) Going concern

During 2013, the Company initiated pre-bankruptcy settlement proceedings. On the basis of this, the Company concluded an agreement with creditors on the restructuring of liabilities, and limited the exposure arising from co-debtor relationships with certain related companies. Regardless of the financial restructuring, the Company increased the capital (recapitalized) at that time by issuing new shares and is in the process of selling certain assets in order to ensure the necessary solvency.

The pre-bankruptcy settlement proceedings were successfully completed by the Decision of the Commercial Court in Zagreb no. 72 Stpn-305/13 of 5 December 2013, approving the pre-bankruptcy settlement agreement between the debtor Institut IGH, d.d. and creditors. The pre-bankruptcy settlement became legally valid as of 28 December 2013. The effects and the completion of the pre-bankruptcy settlement plan are set out in detail in Note 38. The Company takes all measures necessary to settle any remaining obligations to suppliers under the Pre-Bankruptcy Settlement. These debts will be settled from current operations as soon as possible.

In order to improve the profitability of operations and core business, over the past two years the Group has implemented a number of operational restructuring measures and has had a more active market access.

The activities carried out resulted in an increase of revenue from sale, a positive operating result and improved solvency. Thus the Group marked a net profit of HRK 16.576 thousand (2018: loss of HRK 4.151 thousand), but still a negative capital in the amount of HRK 41.826 thousand, and at the end of the year the Company's current liabilities exceeded its current assets by HRK 177.708 thousand (2018: HRK 6.430 thousand).
As at 31 December 2019, the total obligations from the pre-bankruptcy settlement amount to HRK 378.192 thousand. According to the pre-bankruptcy settlement, obligations amounting to HRK 334.630 thousand were due in 2019 and must have been settled by 31 December 2019. However, owing to insufficient available cash flow, the obligations were not settled. According to the pre-bankruptcy settlement (see Note 40), obligations amounting to HRK 272.850 thousand can be settled only through sale of mortgaged assets or through acquisition of mortgaged assets, while obligations amounting to HRK 61.780 thousand must be settled in cash. From the end of the year 2019 until the date of these financial statements a total of HRK 9.200 thousand has been settled by sale of mortgaged property and HRK 24.008 thousand by takeover of mortgaged property of the subsidiary by creditors. Total short-term liabilities amount to HRK 427.699 thousand. As already explained HRK 272.850 thousand. can only be settled by sale of assets or acquisition of mortgaged assets. As a result, total short-term liabilities amounting to HRK 154.849 thousand must be settled in cash. Short-term assets that are not assets intended for sale amount to HRK 169.079 thousand, which results in surplus compared to short-term liabilities of HRK 14.230 thousand. The Company's Management prepared a three-year cash flow forecast which shows that the Group will be able to generate app. HRK 30 million free cash-flows on a yearly basis from business operations, which will be used to settle the short-term obligations. However, there is an uncertainty of whether the Group will be able to generate the forecasted cash flows due to unstable market conditions. Likewise, the most important part of the pre-bankruptcy settlement obligations is the due Senior debt. The Group is in negotiations with the creditors regarding the dates due. There is still an uncertainty regarding the outcome of these negotiations with the creditors who are the holders of the Senior debt.

The Group is also undertaking all activities regarding the sale of assets, which should generate additional cash flows to settle a part of the obligations in 2020. Based on the latest estimates these assets have a greater value that the assets currently presented in the financial statements owing to the market trends in the past two years.
These financial reports have been prepared under the assumption of a going concern. However a

significant uncertainty exists regarding the above stated which can raise doubt in the Group's ability to continue as a going concern.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Basis for consolidation

Consolidated Financial Statements of the Group include the Financial Statements of Institut IGH d.d. (Company) and companies controlled by Institut IGH d.d. (subsidiaries) as at and for the year ending 31 December 2019. Control is present if the Company has the power to govern the financial and operating policies of each company to obtain benefits from its business operations.

a) Subsidiaries

Subsidiaries are companies in which the Group has control over the financial and business policies, which, as a rule, includes over half of the voting rights. The existence and effects of potential right to vote which can be used or exchanged are considered when assessing if the Group has control over another entity. The subsidiaries are completely consolidated from the date when the control was actually transferred to the Group and excluded from consolidation from the day when such control ceases to exist.

The Group applies the accounting method of purchase for the accounting treatment of business combination. The compensation transferred for the acquisition of a subsidiary is the fair value of the transferred assets, incurred liabilities and ownership shares issued by the Group. The transferred compensation includes fair value of each property item or liabilities which are the result of a contract on potential compensation. Costs connected to the acquisition are shown in the statement on comprehensive income as they occur. The acquired recognisable assets, liabilities and potential liabilities in the business combination are initially measured according to fair value at the day of acquisition. The Group recognises minority interest in an acquired subsidiary according to fair value or according to proportional share of minority interest in the net assets of the acquired subsidiary.

The excess transferred compensation, amount of any minority share in the acquired subsidiary and fair value on the day of acquisition of any ownership part in the subsidiary which is above the fair value of the Group's share in the acquired recognisable net assets is expressed as goodwill. If it is less than the fair value of net assets of the acquired subsidiary in case of purchase at a price lower than the sale price, the difference is shown directly in the Comprehensive income report.

b) Affiliated companies

Affiliated companies are companies where the Company has between 20% and 50% voting rights, that is, where it has a significant influence but not control. In the Consolidated financial statements of the Company, these investments are shown using the equity method. According to this method, the Company's share in profit or loss of affiliated companies is recognized in the profit or loss from the date a significant influence was gained until the date such influence ceases to exist. Investment is initially valuated according to cost and adjusted according to the change in share owned by the investor in the net profit of the entity in which the investment was made.

In the separate financial statements, investments in affiliates are accounted for initially at cost and subsequently at cost less impairment.

c) Transactions eliminated in the consolidation

The balance and transactions among Group members and all unrealised profit from transactions among Group members are eliminated at consolidation of the financial statements. Unrealized profit from transactions with companies with shareholdings and mutual companies where the Company shares control with other owners is eliminated up to the Company share level in such companies. Unrealized profit from transactions with companies with shareholdings is eliminated by a decrease of investment into the company. Unrealized losses are eliminated in the same way as the unrealized profit but only up to the amount which does not represent permanent decrease of assets.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

d) Transactions with non-controlling interests

Non-controlling interests in subsidiaries are included in the comprehensive capital of the Group.
Losses from non-controlling interests in subsidiaries are added to the non-controlling interests in situations when the non-controlling interest can be shown with a negative value. Adjustment of non-controlling value is based on the proportional amount of net assets of the subsidiary without goodwill adjustment and recognition of profit or loss in the profit and loss statement.

Transactions with non-controlling interest which result in loss of control over the subsidiary are treated by the Group as transactions with majority owners of the Group When purchasing shares from non-controlling interest, the difference between the paid sum and the respective gained share of the carrying amount of the company's net assets is shown as capital. Gains and losses from sale of non-controlling interest are also shown as capital.

e) Loss of control

After the control over a subsidiary is lost, the Group ceases to recognize its assets and liabilities any minority interest or other components of capital and reserves. Any surplus or deficit resulting from loss of control is recognized in the profit and loss. If the Group retains a part in the subsidiary, such part is shown at fair value at the day the control ceases to exist. After that, it is shown as investment valued according to the equity method or as financial assets available for sale , depending on the level of retained influence.

3.2 Goodwill

Goodwill , created by business combination is recognized as cost at the date of acquisition, decreased by any loss owing to decreased value. For the purpose of testing for decrease, goodwill is distributed to every cash generating unit of the Group (or groups of such units) where benefits from synergy are expected. Cash.-generating units to which goodwill is distributed undergo annual check of the decreased value, or more often if there are indications of its possible decrease in value. If the reimbursable amount of the cash-generating unit is lower than its book amount, the loss created by decrease is distributed so as to decrease the book value of goodwill distributed to the unit, and after, that proportionally to other property of the cash-generating unit on the basis of the book value of every item in that unit. Loss due to decrease of goodwill value is directly recognized as profit or loss in the consolidated statements on comprehensive income. Once recognized loss from decrease of goodwill is not annulled in the next periods.
When disposing of the cash-generating unit, respective amount of goodwill becomes a part of the profit or loss from sale.

3.3 Revenue

Policies for revenues and enforcement obligations recognition

Revenue is measured based on the fee specified in the contract with the customer. A company recognizes revenue when it transfers control of a good or service to a customer. The transfer of control over the goods or services may take place either continuously (revenue recognition over time) or on a specific date (recognition at a point in time, upon completion). Before revenue is recognized, the Company identifies the contract as well as the various performance obligations contained in the contract. The number of performance obligations depends on the type of contract and activity. Most contracts of the Company involve only one performance obligation.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Construction contracts

The main revenue generated by the Group from construction contracts comes from design, study, supervision, advisory services, laboratory services, research works and scientific research work for the reconstruction and construction of roads and other civil engineering objects.

In accordance with the basic principles of IFRS 15, the Company's accounting policies for recognizing revenue from a contract with customers reflect:

- the dynamics by which fulfilment obligations are fulfilled, corresponding to the transfer of goods or services to the customer;
- the amount the seller expects to be entitled to receive as compensation for their activities.

The contractual terms and the way in which the Group manages construction contracts are mainly derived from projects that contain a single performance obligation. To measure progress towards completion of construction, the Group uses a cost-based method, i.e. Management has chosen to use the input method to calculate revenue (expenses incurred until a certain date) from the construction contract.

Changes to the contract (relating to the price and / or scope of the contract) are recognized when approved by the customer. If the changes relate to new products or services that are considered different and when the contract price increases by an amount reflecting the "standalone selling price" of the additional products or services, the changes are recognized as a consolidated contract. When a third party (such as a subcontractor) is involved in the delivery of a good or service, the Group determines if it assumes control of that product or service before it is transferred to the customer. If control is taken before the transfer to the customer, the Group recognizes as revenue the gross amount it expects to be entitled to receive on handover. In cases where control is not taken, the Group considers that it is not the originator in the transaction and recognizes as income only the amount corresponding to its remuneration as an intermediary.

The cost of obtaining a contract that would not have been incurred had the Group not obtained the contract is recognized as an asset if it is recoverable and is amortized over the estimated contract life.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of the contract costs incurred that are likely to be recoverable. The expected contract loss is recognized immediately in the income statement.

Contractual assets and contractual liabilities

Contractual liabilities are entered when the client has made payment for goods or services, and the Group did not fulfil its obligation by delivering these goods or services. If the Group delivered the goods or services to the client and the client did not pay for these, and the right to compensation is not conditioned by anything except by passing of time until maturity, receivables are recognized. Contractual assets are recognized if the right to compensation is conditioned by something else (e.g. by executing some other obligation).

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Financial revenues and costs

Financial revenue and costs comprise interest payable on loans and borrowings using the effective interest method, interest receivable on funds invested, dividend income, gains and losses from foreign exchange differences and gain and losses from sale of investment in subsidiaries. Income from the write-off of financial liabilities is also reported within Financial Income.
Income from interest is recognised in the income statement on an accrual basis using the effective interest rate method. Dividend income is recognised in the income statement at the date when the Company's right to receive payment is established.

Financial costs comprise interest on loans, changes in fair value of financial assets at fair value through profit or loss, impairment losses from financial assets and foreign exchange losses. Costs from borrowings are recognised in the Profit and Loss Account using the effective interest rate method.

(ii) Income from renting

Revenues from rental services are recognised when rental services are provided and are related to operating leases.

3.4 Leases

a) Impact of the new definition of Lease services

IFRS 16, in force from 1 January 2019, approved by the EU since 31 October 2017, changes the valid principles of international accounting standards and interpretations of lease, especially IAS 17.

The Company applies the definition of Lease and related guidelines contained in IFRS 16 to all Lease Contracts signed or amended on 1 January 2019 or after that date (irrespective of whether it is the lessee or lessor).

The Company applied IFRS 16 by using the cumulative approach and therefore did not change comparable information but expressed them in accordance with IFRS 17. Details of accounting policies in accordance with IFRS 17 and IFRS 16 are separately presented below.

b) Impact on the accounting of the Lessee

IFRS 16 introduced a new definition of lease and confirmed the current difference between the two types of leases (operating and finance) with respect to accounting to be applied by the Lessor. Accounting approach applied by Lessees includes an equal approach for all types of leases, i.e. recognition of assets and the right of use of the asset with a parallel obligation of future payment according to the Lease Contract. The Company estimates if it is a Lease Contract, i.e. does the contract include lease at the beginning of the contract. The Company recognises assets with the right of use and respective obligation per lease regarding all leases where the Company is the Lessee, except in short-term leases (defined as lease whose duration is 12 months or less) and lease of low value assets.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.4 Leases (continued)

b) Impact on the accounting of the Lessee (continued)

These assets are evaluated during the inception on the basis of Lease Contract cash flows. After the initial recognition, the right of use will be evaluated according to the international standards for assets, according to IFRS 16, IFRS 38 or IRS 40 and therefore, applying the cost model, decreased by accumulated depreciation and accumulated loss from depreciated value, also the revalorization, model or fair value model.

In order to calculate the rent and respective asset with the right of use, discounting of future lease payments according to an appropriate discount rate is done. Thus, future rent payments which are discounted are determined according to contractual provisions , without VAT, since the obligation to pay this tax occurs when the invoice is issued by the Lessor and not on the day of the start of Lease Contract.

In order to implement all this, the rent payment must be discounted per implicit contracted interest rate, and if not available, per incremental borrowing rate. Incremental interest rate is determined on the basis of finance costs for obligations of similar duration and similar security, such as those in a Lease Contract. When defining the duration of the lease, a period of irrevocability must be considered defined in the Contract, where the Lessee has the right to use the subject asset also considering the potential extension options, if the lessee is reasonably certain of the extension. In fact, when looking at the contracts which allow the Lessor to tacitly extend the Lease Contract after the first period, the period of lease is determined on the basis of facts such as the length of the first lease period, possible plans for the sale of the leased asset and any other circumstance indicating a reasonable safety of extension.
An exception to this are low value contracts up to 30 thousand HRK and short duration contracts which are recognized as costs in the period to which they refer.

c) Past business (operating) leases refer to the policy which was applicable until 31 December 2018

The Company leases certain plants and equipment. Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The interest element of finance costs is charged to profit or loss over the lease period. The property, plants and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.5 Foreign currencies

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the foreign exchange rate prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not converted.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost are converted into the functional currency at the foreign exchange rate prevailing at the date of the transaction

Official exchange rate HRK on 31 December 2019 was HRK 7,442580 for 1 EURO (31 December 2018: HRK 7,417575 for 1 EURO).

Official exchange rate of GEL on 31 December 2019 was HRK 2,2801 for 1 GEL (31 December 2018: HRK 2,4282 for 1 GEL).

Group members

Items included in the financial statements of every individual company in the Group are expressed in the currency of its respective primary economic environment (reporting currency). Consolidated financial statements are presented in Croatian Kuna, also the functional currency of the parent company.

Revenue and expenditures and cash flows from foreign undertakings are recalculated into the functional currency of the Company using the exchange rate which most accurately represents the exchange rate on the day of the transaction, and their assets and obligations are recalculated according to exchange rate value at the end of the year.

Exchange rate differences from recalculation, owing to the non-material amount of HRK 13 thousand (2018: HRK 54 thousand) are included in the accumulated loss item.

Net investment into Group members

Exchange rate differences from recalculation of the net investment into foreign undertakings are recognized as part of the principal amount. When selling the foreign undertaking, exchange rate differences are recognized in the profit and loss account as part of profit or loss from sale.

3.6 Borrowings and borrowing costs

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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings by creditors classified as "Secured Creditors" (described in Note 33) are carried at fair value of the property under mortgage for the borrowings in question, since the collection of the relevant borrowings is possible solely from the mortgaged property.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.7 Dividend

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

3.8 Taxation

Income tax

The income tax charge comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

(i) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit as well as differences relating to investments in subsidiaries when it is likely that the situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period when a decision is made.

Value added tax (VAT)

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where receivables have been impaired, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.9 Real-property, plants and equipment

(i) Land and buildings

Following initial recognition at cost, land and buildings are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any impairment.

Fair value is based on the market value, being the estimated amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

When the carrying amount is increased as a result of revaluation, this increase should be recognised directly in other comprehensive income under revaluation reserves. The revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When the carrying amount is decreased as a result of revaluation, this revaluation decrease should be recognised directly in revaluation reserves to the extent that the decrease does not exceed the amount held in the revaluation reserve for the same asset, while the remaining amount is charged to expenses for the period.

A valuation is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Certain land and buildings are derecognised upon disposal or when no future benefits are expected from its use or disposal. Gains or losses arising from derecognition of lands and buildings (calculated as the difference between the net disposal proceeds and the carrying amount of the item) are included in profit or loss when they are derecognised.

The relevant portion of the revaluation surplus, realised in the previous valuation, is released to profit or loss from the surplus of the valued assets upon the disposal of the revalued asset.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Based on the revaluation performed by independent valuers, the Group has revalued its properties and created revaluation reserves that are transferred to retained earnings/accumulated losses in accordance with the adopted depreciation policy.

Gains and losses on the disposal of land and buildings are recognised within other income or expenses in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

(ii) Plants and equipment

Plants and equipment are initially included in the statement of financial position at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Following initial recognition at cost, plant and equipment are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any impairment.

Fair value is based on the market value, being the estimated amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

When the carrying amount is increased as a result of revaluation, this increase should be recognised in equity under revaluation reserves. The revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When the carrying amount is decreased as a result of revaluation, this decrease is recognised as an expense. The revaluation decrease is recognised directly in the revaluation reserves to the extent that the decrease does not exceed the amount held in the revaluation reserve for the same asset.

A valuation is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Certain land and buildings are derecognised upon disposal or when no future benefits are expected from its use or disposal. Gains or losses arising from derecognition of lands and buildings (calculated as the difference between the net disposal proceeds and the carrying amount of the item) are included in profit or loss when they are derecognised.

The relevant portion of the revaluation surplus, realised in the previous valuation, is released to profit or loss from the surplus of the valued assets upon the disposal of the revalued asset and during its use.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Based on the revaluation performed by an independent valuer, the Company has revalued its equipment in depreciation categories 'Laboratory equipment' and 'Measuring and controlling instruments', and created revaluation reserves that are transferred to retained earnings/accumulated losses in accordance with the adopted depreciation policy.

Gains and losses on the disposal of equipment are recognised within other income or expenses in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

(iii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a consolidated 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 maintenance costs are charged to profit or loss during the financial period in which they are incurred.

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(iv) Depreciation

Land, advances and assets under construction are not depreciated. Depreciation of other items of property, plants and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives or to their residual values as follows:

Buildings	20 years
Plants and equipment	1 to 8 years
Other	10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the 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 assets' residual value and useful live are reviewed, and adjusted if appropriate, at each reporting date.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amount of the asset disposed, and are recognised in profit or loss within other income/expenses.

3.10 Intangible assets and goodwill

Patents, licenses and software

(i) Ownership of intangible assets
Patents, licenses and software are capitalised on the basis of the costs incurred to acquire and bring to use the specific asset.

(ii) Subsequent costs
Subsequent costs are capitalised only if they increase future economic benefits arising from the asset. All other costs are treated as costs in the income statement as incurred.

(iii) Depreciation
Intangible assets under construction are not depreciated. Depreciation of other intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful lives or to their residual values as follows:

Right to use property of third parties	1 to 2 years
Software, content and other assets	1 to 2 years

(iv) Goodwill
Goodwill is the difference between the cost of acquisition and fair value of the Group's share in the recognizable net assets of the acquired subsidiary, recognized sum of the non-controlling interest and fair value of previous share at the date of acquisition. Goodwill created by acquisition of the subsidiary is shown as part of intangible assets.

3.11 Investment into real-property

Investment into real-property is recognised as an asset when it is likely that future economic benefits will arise from the investment for the Group and when the cost of investment can be reliably measured.

Investment into property includes property held either to earn rental income or for capital appreciation or both. Investment into property is initially recognised at cost including transaction costs incurred. Subsequently, investment into property is measured at fair value reflecting market conditions at the balance sheet date. Profit or loss from changes in fair value of investment property is recognised in the profit and loss account of the period in which they are incurred.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.12 Impairment of real-property, plants, equipment, goodwill- and intangible assets

At every reporting date, the Group checks the carrying amounts of its real property, plants, equipment, goodwill and intangible assets to determine are there any indications of loss owing to impairment. If such indications exist the recoverable amount of assets is evaluated to determine any losses owing to impairment. If the recoverable amount of an asset cannot be evaluated, the Group estimates the recoverable amount of the cash-generating unit which owns the asset. If a realistic and assigned basis for distribution can be determined, the Group's property is also distributed to individual cash-generating units and if this is cannot be done, to the smallest group of cash-generating units for which a realistic and consistent distribution basis can be determined.

Estimate of the recoverable amount of goodwill is done at least once a year irrespective of whether there are indications of impairment or not.

Intangible assets of undefined useful life and intangible assets not yet available for use are tested for impairment once a year or if there are indications of possible impairment.
Recoverable amount is the higher amount when comparing fair value decreased by the cost of sale and value of assets in use. In order to assess the value of assets in use, the estimated future cash flows are discounted to the present value applying the discount rate before taxation, which shows the present market estimate of the time value of money and specific risks for the respective asset for which the future cash flow estimates were not adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated lower than its accounting or book value, the book value of that asset (cash-generating unit) is reduced to the recoverable amount . Loss due to impairment are recognized as expenditure, except with asset presented in its revaluated amount in which case impairment is shown as impairment resulting from asset revaluation in accordance with the applicable Standard defining the requirements for revalorization of the subject assets.

With subsequent annulment of loss resulting from impairment the carrying amount of asset (cash-generating unit) is increased up to the revaluated estimated recoverable amount of that asset so that the increased carrying value does not exceed the carrying amount which would be determined if there was no recognized losses in previous years from impairment on the asset (cash-generating unit).

3.13 Inventories

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

Trade goods are carried at the lower of purchase cost and sales price (less applicable taxes and margins).

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

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.14 Trade receivables

Trade receivables are amounts that relate to services sold in the ordinary course of business. If collection is expected within one year, the receivable is shown within current assets, and if not, then the receivable is shown within non-current assets. Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any expected credit loss. Business model for receivables management is an amortised cost model - a business model that is achieved by holding financial assets to collect contractual cash flows (principal and interest).

Impairment provisions for trade receivables and contractual assets are measured at an amount equal to the expected credit losses over the life of the loan, i.e. by applying a simplified approach to expected credit losses.

The Group uses historical observations (over a minimum of 2 years) to measure the expected credit losses of the Company on the days when the receivables are delayed, adjusted for estimated future expectations in the collection of receivables. Trade receivables are broken down by ageing structure.

Receivables are impaired and impairment losses for individual customers are incurred if there is objective evidence of impairment arising from one or more events after the initial recognition of the asset when that event affects the estimated future cash flows of the receivable that can be reliably determined. Objective evidence of impairment of financial assets for expected credit losses includes:

• significant financial difficulties with the issuer or debtor and / or

• breach of contract, such as late payment or non-payment of interest or principal and / or

• the likely initiation of bankruptcy or financial restructuring with the debtor.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to known amounts of money with original maturities of up to three months or less and which are subject to a slight risk of change in value. Cash and cash equivalents are measured at amortized cost because: (i) they are held for the purpose of collecting cash flows from contracts that represent an SPPI, and (ii) they are not reported as FVTPL.

3.16 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares or options are shown in equity as a deduction, net of income tax, from the proceeds. Any excess of the fair value of the consideration received over the nominal value of the shares issued is presented in the notes as a share premium.

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

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.17 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes 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. The Group is not obliged to provide any other post-employment benefits.

(ii) 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.

(iii) Regular retirement benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate equal to the rate of return on bonds issued by the Republic of Croatia. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

3.18 Provisions

Provisions are recognised when the Group has a current obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3.19 Financial instruments

Non-derivative financial instruments

(i) Recognition and initial measurement

Trade receivables and issued debt securities are initially recognized at the time they arise. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless the trade receivable has no significant financial component) or a financial liability is initially measured at fair value plus an item that is not carried at fair value through profit or loss, for transaction costs directly attributable to the acquisition or issue. Trade receivables without a significant financing component are initially measured at transaction cost.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.19 Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial Assets

Upon initial recognition, financial assets are carried at amortized cost; fair value through other comprehensive income - debt investment; fair value through other comprehensive income - investment in equity; or fair value through profit or loss.

Financial assets are not reclassified after initial recognition unless the Group changes its financial asset management business model, in which case all financial assets are reclassified on the first day of the first reporting period after the business model has been changed.

Financial assets are measured at amortized cost if they meet both of the following conditions and are not classified as assets at fair value through profit or loss:

- is held within a business model aimed at holding assets to collect contractual cash flows; and
- based on the contractual terms, on certain dates, it receives cash inflows that represent the sole payment of principal and interest on the outstanding principal amount.

All financial assets not classified as financial assets at amortized cost as described above are measured at fair value through profit or loss.
Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses including all interest or dividend income are recognized in the income statement.

Financial assets carried at amortized cost are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange differences and impairment losses are recognized in the income statement. Any gain or loss from derecognition is recognized in the income statement.

Financial liabilities - classification, subsequent measurement and gains and losses

Financial liabilities are classified as financial liabilities measured at amortized cost or at fair value through profit or loss. A financial liability is classified at fair value through profit or loss if it is held for trading, if it is a derivative or if it is classified as such at initial recognition. Financial liabilities measured at fair value through profit or losses are measured at fair value, and net gains and losses, including any interest expense, are recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in the income statement. Profit or loss on derecognition is also recognized in the profit and loss account.

(iii) Derecognition

Financial assets

The Group ceases to recognize financial assets when the contractual rights to cash flows from financial assets expire or if the Group transfers the rights to receive contractual cash flows in a transaction in which all key risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains all risks and rewards of ownership and does not retain control over financial assets.

The Group enters into transactions in which it transfers assets recognized in the statement of financial position but retains all or almost all of the risks and rewards of the transferred assets. In such cases, the transferred property is no longer recognized.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are fulfilled, cancelled or expired. The Group also derecognises a financial liability when its terms have changed and when the cash flows of the changed liability are materially different, in which case the new financial liability is recognized at fair value under the changed conditions.

Upon derecognition of a financial liability, the difference between the carrying amount and the consideration paid (including any transferred non-monetary assets or liabilities) is recognized in the profit and loss account.

(iv) Offset

Financial assets and financial liabilities are offset and the net amount is disclosed in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset amounts and intends to settle them on a net basis or to realize the assets and at the same time settle the liability.

Effective interest method

The effective interest method is a method that calculates the amortized cost of a financial asset and distributes interest income over the relevant period. Effective interest rate is the rate at which estimated future cash inflows, including any fees paid or received that are an integral part of the effective interest rate, then transaction costs and other premiums and discounts, are discounted over the expected life of the financial asset or a shorter period, if applicable.

Income from debt instruments other than financial assets designated at fair value through profit or loss is recognized on an effective interest basis, recognized on an effective interest basis.

3.20 Financial guarantee of contracted obligation and financial liabilities

Financial guarantee of contractual obligation

The financial guarantee of the contractual obligation is initially measured at fair value and subsequently measured at a higher value:

- the amount determined in accordance with the model of expected credit losses in accordance with IFRS 9 and
- the amount initially recognized, less, if necessary, the corresponding cumulative effect recognized in accordance with the revenue recognition policy.

Financial liabilities, classification and measurement

Financial liabilities, including loans, are initially measured at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over a specified period. The effective interest rate accurately discounts estimated future cash payments over the expected life of the financial instrument or, where appropriate, for a shorter period to the gross carrying amount of the financial asset or the amortized cost of the financial liability, with the exception of financial assets less credit losses.

Financial liabilities are classified as financial liabilities at fair value through profit or loss when held for trading or as defined by the Company.

They are measured at fair value, and any related gain or loss is recognized in the income statement, except for changes in the fair value of the liabilities resulting from changes in the entity's own credit risk that are recognized through other comprehensive income. The net gain or loss recognized in the income statement also includes interest paid on a financial liability.

3.21 Operating segment reporting

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which is identified by Management Board) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in Note 8 to the Financial Statements.

3.22 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic and diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

3.23 Long term assets held for sale

Long-term assets held for sale are intended to settle the secured debt to financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. The estimated market value was determined by the Group based on the independent valuers' report that was based on the cost method, the comparative method and/or the income method depending on the type of property. Additional information on valuation methods are set out in Notes 27 and 19.

3.24 Standards, interpretations and amendments to published standards which are effective and mandatory as at 1 January 2019

The following standards, amendments to published standards and interpretations published by the International Accounting Standards Committee (IASC) and adopted by the EU are valid in the current period:

- IFRS 16 *„Leases", adopted by the European Union on 31 October* 2017 (in force for annual periods starting on 1 January 2019 or after that date),

IFRS 16 introduces a unique balance sheet model for lease accounting. The lessee recognizes the right to use the property which represents the right-of-use assets in question and the lease obligation which represents the obligation to pay the lease. Exemptions are possible for short-term and low-value property leases. The lessor's accounting records remain similar to the current standard, i.e. the lessor continues to

classify leases as financial or operating leases.
The standard is effective for annual periods beginning on or after 1 January 2019.
The Company initially applied IFRS 16 as of 1 January 2019, using a modified retrospective approach. The cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative information.

The new standard introduces several limited scope exemptions for tenants that include:
• leases with a lease term of 12 months or less and which do not include purchase options, and
• leases where the underlying property has the original purchase value of HRK 30.000,00.

The new standard also introduces a practical exception for leases for which the lease term expires within 12 months of the date of initial application, which the Company has decided to use. The Company has identified the impact of applying the new policy and standards in such a way that it will recognize new assets and liabilities under operating leases.
Impact of IFRS 16 application resulted in the increased right to use the asset and lease obligations in the amount of HRK 6.176 thousand.
These assets are stated within the non-current tangible assets as a separate item, and in fact these are personal vehicles, IT equipment and geodetic unit with a 5 year service life: The discount rate used is 4.5%.

Overview of the first application of IFRS 16 in 2019.

Explanation of the difference between operating lease commitments shown on 31 December 2018 with the application of IFRS 17 on the lease commitments recognized on 1 January 2019 is given below:

(in thousand HRK))	**Note**	**Impact of IFRS 16**
Adjustment as at 1 January 2019		
Increase of assets with the right of use		1.917
Decrease of property, plants and equipment	16	(862)
		1.055
Increased lease commitments	28	1.740
Decreased finance lease commitments	28	(672)
		1.068
Total commitments for lease recognized on 01 January 2019		
Short-term		651
Long-term		1.089

3.24 Standards, interpretations and amendments to published standards which are effective and mandatory as at 1 January 2019 (continued)

- Amendments to IFRS 9 “Financial Instruments” – Prepayment features with negative compensation– adopted by the EU on 22 March 2018 (in force for annual periods starting on, or after 1 January 2019),

- Amendments to IAS 19 „Employee benefits“ - „Amendment, Curtailment or Settlement from a Settlement Fund“, adopted by the EU on 13 March 2019. (in force for annual periods starting on, or after 1 January 2019),

- Amendments to IAS 28 „Investments in Associates and Joint Ventures“ –„Long-term interest in Associates and Joint Ventures“ - adopted by the EU on 8 February 2019. (in force for annual periods starting on, or after 1 January 2019),

- Amendments to various standards owing to „Improvements to IFRS cycle 2015-2017”, resulting from the Annual Improvements to IFRS Standards (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to clarify inconsistencies and text clarification purposes – adopted by the EU on 14 March 2019 (in force for annual periods starting on, or after 1 January 2019),

- IFRIC 23 „Uncertainty over Income Tax Treatments” – adopted by the EU on 23 October 2018 (in force for annual periods starting on, or after 1 January 2019).

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED OR IN FORCE

4.1. Standards and interpretations issued by FASB not jet adopted by the EU

IFRS currently adopted in the EU do not significantly differ from the regulations passed by the FASB, except for the below given standards, amendments to the current standards and interpretations for the adoption of which the EU until 30 April 2020 has not made a decision (dates given below refer to the IFRS as a whole):

- Amendment to IFRS 10 *„Consolidated Financial Statements“* and IAS 28 „Investments in Associates and Joint Ventures*“ – „Sale or contribution of assets between an investor and its associate or joint venture“* and further amendments (initially specified date of coming into force postponed until the completion of the research project on the application of the equity method),

- IFRS 14 *„Regulatory Deferral Accounts “* (in force for the annual period starting on, or after 1 January 2016) – European Commission decided to postpone the adoption of this transitional standard until its final version is completed,

- IFRS 17 „*Insurance Contracts*“ (in force for annual periods starting on, or after 1 January 2021).

4.2. Standards and interpretations passed by IASC and adopted by the EU but not yet in force

The following new standards and amendments of the existing standards passed by the IASC and adopted by the EU were passed on the date of approval of financial statements but not yet in force:

- Amendments to IFRS 3 *“Business combinations”* – definition of business (in force for business combinations for which the acquisition date is on or after the start of the first annual reporting period , which starts on, or after 1 January 2020, and for acquisition of assets on or after the start of that period),

- Amendments to IAS 1 *“Presentation of financial statements”* and IAS 8 *“Accounting Policies Changes in Accounting Estimates and Errors”* – Definition of Material (effective for the annual period starting on, or after 1 January 2020),
- Amendments to IFRS 9 *“Financial instruments”*, IAS 39 *“Financial instruments: Recognition and measurement”* and IFRS 7 *“Financial instruments*: Disclosures” – Interest rate benchmark reform (in force for the annual periods starting on, or after 1 January 2021),

- Amendments to References to the Conceptual Framework in IFRS (in force for the annual periods starting on, or after 1 January 2020).

The Company anticipates that the adoption of the above stated standards, amendments to existing standards and new interpretations will not have a substantive, i.e. significant impact on the Company's Financial Statements in the period of their first application.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Revenue recognition

The Group recognises revenues and expenses on design contracts on the basis of the estimated stage of completion of contracted work at the balance sheet date, which requires a certain degree of judgement. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected losses are recognised as an expense immediately.

(ii) Useful lives of property, plants and equipment

The Group reviews the estimated useful lives of property, plants and equipment at the end of each annual reporting period. During the year, there were no changes in estimated useful lives of non-current assets.

(iii) Impairment of assets

The Group regularly reviews the recoverability of each asset individually and if there is any indication of impairment, it shall be impaired to the estimated recoverable amount.

(iv) Pre-bankruptcy settlement and going concern

The Group considers all relevant information on all the key risk factors, assumptions and uncertainties that it is aware of and that are essential to the ability of the Company to continue as a going concern.

The Group continues to record growth in operating operations, while on the other side it is actively working to restructure debts to financial institutions through the sale of non-operating real estate and refinancing the operating part of the debt. Considering the stable base contracts, the successful deleveraging to nonfinancial institutions and all the information on the ongoing restructuring of debts to financial institutions, the Group believes that it meets all business requirements to continue as a going concern.

(v) Valuation of liabilities from pre-bankruptcy settlement

In accordance with the pre-bankruptcy settlement arrangement, the Group has recorded the liabilities relating to loan commitments that will be settled from the Group's property at the fair value of the corresponding property. The Management Board has taken the estimated value of the property as the reference value of the liabilities.

NOTE 6 – DETERMINATION OF FAIR VALUE

The Group has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and the Finance Department in relation to monitoring all significant fair value measurements, consultation with external experts and the responsibility to report, with respect to the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Management Board and the Finance Department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board.

Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – 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 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The fair value of financial instruments that are not traded in an active market 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 fair value estimate is included in level 3.

In preparing these financial statements, the Group has made the following significant fair value estimates while preparing the financial statements as further explained in detail in the following notes:

- Note 19: Property, plant and equipment
- Note 20: Investment into property
- Note 21: Investments in related parties and other investments
- Note 27: Non-current assets held for sale

NOTE 7 – SUBSIDIARIES

The consolidation includes the Company and subsidiaries as follows:

(in thousand HRK)	**2019** Share of ownership and voting rights (%)	**2019** Cost of acquisition	**2018** Share of ownership and voting rights (%)	**2018** Cost of acquisition
IGH Mostar d.o.o., Mostar	100	6.005	100	6.005
IGH Business advisory d.o.o. Zagreb	100	222	100	222
Incro d.o.o. , Zagreb	100	20	100	20
Forum centar d.o.o., Zagreb	100	30.748	100	30.748
IGH Projektiranje d.o.o., Zagreb	100	6.103	100	6.103
Radeljević d.o.o., Zagreb	100	116.827	100	116.827
IGH Consulting d.o.o., Zagreb	100	100	100	100
Marterra d.o.o., Zagreb	100	20	100	20
DP AQUA d.o.o., Zagreb	100	452	100	452
Slavonija centar, poslovna zona, Velika Kopanica	100	20	100	20
Projektni biro Palmotićeva 45 d.o.o., Zagreb	100	18.564	100	18.564
ETZ Ekonomsko tehnički zavod d.d., Osijek	88	6.684	88	6.684
IGH d.o.o., Mostar	80	1.130	80	1.130
IGH Kosova Sha Priština	75	40	75	40
		186.935		**186.935**

NOTE 8 – SEGMENT INFORMATION

The Group is organised into business units according to the fields of activity in civil engineering and team (design) principles where individuals from different sectors form a design team in order to complete a certain project. Business units are engaged in designing, performing studies, supervising, advisory services, laboratory testing, research work and scientific research. The stated activities represent reporting segments of the Group.

Reporting segments are an integral part of the internal financial statements. The internal reports are regularly reviewed by the Management that is also the chief operating decision maker, and that assesses the effectiveness of operations and makes business decisions.

Internal reporting of segment results is adjusted to business organisation and key indicators for each segment separately, and accordingly disclosure of this information is adjusted for the current year and previous period.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reporting segments, presented in accordance with IFRS 8, and also a reconciliation of segment financial performance with the profit or loss before tax. The revenue presented below relates to third-party sales, Inter-segment revenues are eliminated when reporting. The Company's management reports net income in its internal reports, i.e. sales revenue less the cost of co-operation. Accordingly, segment revenues are presented at this level.

	Segment revenue		Segment EBIDTA	
(in thousand HRK)	**2019**	**2018**	**2019**	**2018**
Design Department	31.826	25.629	7.375	6.215
Water Engineering, Geotechnical and Environmental Protection Department	21.360	18.513	4.379	2.402
Expert Supervision and Project Management Department	36.618	21.707	14.681	7.598
Department for Materials and Structures	39.914	21.195	15.543	6.295
RC Split	-	13.497	(657)	4.441
RC Osijek	-	9.118	(665)	2.924
RC Rijeka	79	8.675	(428)	2.915
Branch offices	21.469	27.591	6.968	11.138
Management and Administration	214	1.076	(17.269)	(24.143)
Segments total	**151.480**	**147.001**	**29.927**	**19.785**

The Design Department's basic activity is the development of design and study documentation for transport infrastructure – roads, railways and airports, including all structures on the roads.

The Geotechnical Department covers all activities required to solve engineering problems at the contact between soil (rocks) and building structures.

Water Engineering and Environmental Protection Department is engaged in design and studies, demonstrating serviceability, investigations and measurement, modelling, planning, in all hydro technical fields.

NOTE 8 – SEGMENT INFORMATION (continued)

Technical Supervision and Project Management Department carries out expert supervision of construction works in civil engineering, building construction and energy. In addition, the activity includes advisory services, conducting professional spatial planning, urban planning, design, feasibility studies, expert opinion and expert assessment, property valuation and construction costs.

The Department of Materials and Structures deals with tests and certification of building materials. With about 600 test methods accredited according to HRN EN ISO / IEC 17025, our laboratories meet the qualification requirements and make approximately 60% of all laboratories in Croatia accredited in the field of civil engineering.

Regional centres Split, Rijeka and Osijek participate in almost all major and significant projects in their areas of service from study development, design (roads with all related facilities, water engineering structures, building construction etc.), conducting expert supervision and providing consultancy services, conducting investigation works, laboratory testing and proof of serviceability, and scientific research work in the field of civil engineering.

The accounting policies of the reportable segments are the same accounting policies of the Group as described in Note 3.20. Segment profit represents the profit earned by each segment without allocating central administration costs, depreciation, provisions, value adjustments, other income and other finance income and costs.

The Group does not allocate assets and liabilities by segments.

NOTE 9 – INCOME FROM SALE

(In thousands HRK)	**2019**	**2018**
Income from sale of services	183.357	185.897
	183.357	**185.897**

Income – according to geographical area

(In thousands HRK)	**2019**	**2018**
Republic Croatia	137.745	128.334
Rest of the World	45.612	57.563
	183.357	**185.897**

Income according to category

(In thousands HRK)	**2019**	**2018**
Income recognized over time	140.736	147.622
Income recognized at a certain moment	42.621	38.275
	183.357	**185.897**

NOTE 10 – OTHER OPERATING INCOME

	2019.	2018.
		(In thousands HRK)
Income from reversal of provisions	231	-
Rental income	3.650	3.069
Insurance reimbursements	7	6.358
Income from compensation and subsidies	74	100
Income from write off of liabilities	591	206
Income from reimbursement of court costs	426	262
Other income	526	1.069
	5.505	**11.064**

NOTE 11 – COST OF RAW MATERIALS, CONSUMABLES AND SERVICES

	2019	2018
		(In thousands HRK)
Raw material	2.197	1.714
Energy	6.586	5.943
Small inventory and spare parts	699	931
Transportation, telephone and postal services	1.292	1.569
Subcontractors	31.877	38.896
Production services	2.294	1.743
Utilities	1.228	1.230
Maintenance	1.391	1.735
Rental expenses	7.152	7.712
Other external expenses	6.135	4.627
	60.851	**66.100**

During 2019, the Group used several short – term loans for personal and cargo vehicles taking into consideration their dispersion to a large number of projects throughout Croatia and the Region. A smaller portion of the amount covers low value loans

NOTE 12 – **STAFF COSTS**

	2019	**2018**
		(In thousands HRK)
Net salaries and wages	57.709	78.285
Taxes, contribution and other charges	29.588	10.912
Reimbursement of employee expenses (travel expenses, daily allowances, transportation)	6.333	5.182
Severance payments and other employee benefits	995	1.446
Benefits above tax deductible amounts	3	1
	94.628	**95.826**

As at 31 December 2019, the Group had 597 employees (*2018: 599 employees*). In 2019, non-taxable termination benefits were paid in the amount of HRK 619 thousand for 26 employees (*2018: for 22 employees in the amount of HRK 652 thousand*).

During the period, the Group accounted for contributions for the compulsory pension fund for 597 employees amounting to HRK 12.950 thousand *(2018: for 599 employees amounting to HRK 12.248 thousand*).

NOTE 13 – VALUE ADJUSTMENTS

	2019	**2018**
		(In thousands HRK)
Value adjustment of fixed assets		
Value adjustment real property	-	6.304
Value adjustment of loans and other financial assets	54	-
	54	**6.304**
Value adjustment of short-term assets		
Value adjustment of trade receivables-net	(7.156)	2.341
Value adjustment of loans given and other financial assets	(1.839)	3.089
Value adjustment of other receivables	68	-
	(8.927)	**5.430**

NOTE 14 – OTHER OPERATING EXPENSES

	2019	2018
	(In thousands HRK)	
Legal, consultancy and audit services	2.140	1.964
Bank fee and charges	1.456	1.605
Other expenses	904	521
Penalties	837	236
Insurance premiums	1.016	1.845
Contributions to public services	2.043	1.362
Entertainment	640	1.312
Education and training expenses	419	668
Taxes not dependent on result	916	220
Provisions for severance pay and service awards	-	87
Provisions for costs of lawsuits	442	-
Loss on sale of non-current assets	1.570	-
	12.383	**9.820**

NOTE 15 – NET FINANCIAL EXPENDITURE

	2019	2018
	(In thousands HRK)	
Financial revenue		
Revenue from foreign exchange	3.573	7.951
Revenue from interests	2.377	252
Revenue from sale of shares	-	2.580
Other financial revenue	-	29
	5.950	**10.812**
Financial expenditure		
Expenditure due to foreign exchange losses	3.448	5.122
Interest expenditures	11.363	12.502
Unrealised losses from financial assets	-	9
Other financial expenditure	78	1.718
	14.889	**19.351**
Net financial (expenditure) revenue	**(8.939)**	**(8.539)**

The profit from the sale of investments in subsidiary in 2018 refers to the sale of a 30% stake in IGH Lux energija d.o.o.

NOTE 16 – CORPORATE TAX

Tax income includes:

(In thousands HRK)	**2019**	**2018**
Current income tax	(48)	(197)
Deferred tax	5.705	702
	5.657	**505**

Adjustment of effective tax rate

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2019 *(In thousands HRK)*	**2018**
Profit / Loss before taxation	**10.919**	**(4.656)**
Tax rate of 18%	1.965	(838)
Effects of non-taxable income and other decreases in tax base	(2.400)	(4.445)
Effects of unrecognized expenses and other increases in tax base	7.710	4.502
Used tax losses from previous years not recognised as tax assets -	-	1.479
Effects of tax losses not recognised as deferred tax assets	(7.323)	(895)
Previously recognized deferred tax liabilities	5.705	702
Corporate tax	**5.657**	**505**
Effective tax rate	**52%**	**-11%**

The Group in 2019 had HRK 117.034 thousand tax losses available for use, facing the tax liability of the current period. In 2019 the Group used HRK 40.096 thousand loss, which resulted in decreased corporate tax. Furthermore, at the Group level, new tax losses of the current period occurred amounting to HRK 61 thousand. Including the tax losses from previous periods, the Group carries over tax losses to the next tax period , amounting to HRK 75.709 thousand.

The deferred tax liability arises from the following:

2019 *(in thousands HRK)*	**Opening balance**	**Through profit and loss**	**Through equity**	**Closing balance**
Temporary difference:				
Revaluation of long-term assets	27.694	(5.705)	-	21.989
	27.694	**(5.705)**	**-**	**21.989**

NOTE 16 – CORPORATE TAX (continued)

(in thousands HRK)	Opening balance	Through profit and loss	Through equity	Closing balance
2018				
Temporary differences:				
Revaluation of long-term assets	28.335	(85)	(556)	27.694
	28.335	**(85)**	**(556)**	**27.694**

2019 *(in thousands HRK)*	Opening balance	Through profit and loss	Closing balance
Deferred tax assets		7	7
		7	**7**

NOTE 17 – EARNINGS PER SHARE

(in thousands HRK)		**2019**	**2018**
Profit/(loss) assigned to Company shareholders	(in thousand HRK)	16.639	(4.161)
Weighted average number of shares		596.980	607.957
Profit per share (in HRK)		**27,87**	**(6,84)**

NOTE 18 – INTANGIBLE ASSETS AND GOODWILL

(in thousands HRK)	**Right of usage of property of third parties**	**Assets under preparation**	**Goodwill**	**Total**
For the year ending 31 December 2018				
As at 1 January	**1.846**	**135**	**1.155**	**3.136**
Net acquisition	7	1.362		1.369
Current year depreciation	(1.522)	-		(1.522)
Reduction	-	(29)	(15)	(44)
Adjustment value	-	-		-
Transfer to use	1.390	(1.390)		-
As at 31 December 2018	**1.721**	**78**	**1.140**	**2.939**
As at 31 December 2018				
Acquisition cost	38.116	5.358	12.083	55.557
Accumulated depreciation and impairment	(37.785)	(3.890)	(10.943)	(52.618)
Net book value	**331**	**1.468**	**1.140**	**2.939**
For the year ending 31 December 2019				
As at 1 January	**331**	**1.468**	**1.140**	**2.939**
New purchases	1.444	-	-	1.444
Current year depreciation	(1.314)	-	-	(1.314)
Reduction	(1)	(149)	-	(150)
Value adjustment	-		(4)	(4)
Transfer to use	1.235	(1.235)		-
As at 31 December 2019	**1.696**	**84**	**1.136**	**2.916**
As at 31 December 2019				
Acquisition cost	**40.795**	**3.974**	**12.083**	**56.852**
Accumulated depreciation and impairment	(39.099)	(3.890)	(10.947)	(53.936)
Net book value	**1.696**	**84**	**1.136**	**2.916**

Assets to use refer to investment into access road owned by third party.

NOTE 18 – INTANGIBLE ASSETS AND GOODWILL (continued)

The Group checks goodwill on an annual basis for impairment, in accordance with the accounting policies. Recoverable amounts of cash-generating units are determined on the basis of calculation of value in use. All calculations use the cash-flow projections before taxation, based on financial plans, which cover a period of five years.

When calculating and testing impairment, a discount rate of 6% is used. If all other assumptions stay unchanged, if the discount rate before taxation increased by 1 %, there would be any impact on the value of presented goodwill, and if the discount rate decreased by 1 %, the value of goodwill would also not change. If the rate of the remaining growth increased by 1 %, the value of presented goodwill would not change and if the rate of the remaining growth decreased by 1 % the value of presented goodwill would also not change.

NOTE 19 – REAL-PROPERTY, PLANTS AND EQUIPMENT

(In thousands HRK)	Property with right to use - vehicles	Property with right to use - equipment	Property with right to use - IT equipment	Land	Buildings	Plants and equipment	Assets under construction	Other	Advances for tangible assets	Total
For the year ending 31 December 2018										
As at 1 January 2018	**-**	**-**	**-**	**93.950**	**66.022**	**20.027**	**21.170**	**303**	**170**	**201.642**
Current year depreciation	-	-	-	-	(4.333)	(3.723)	-	-	-	(8.056)
Direct purchase	-	-	-	-	-	1.204	641	-	23	1.868
Transfer to use	-	-	-	-	-	625	(625)	-	-	-
Value adjustment	-	-	-		(5.387)	(178)	(60)	-	(43)	(5.668)
Exchange rate diff.					(129)					(129)
Revaluation	-	-	-	(268)	1.100	-	-	-	-	832
As at 31 December 2018	**-**	**-**	**-**	**93.682**	**57.273**	**17.955**	**21.126**	**303**	**150**	**190.489**
As at 31 December 2018										
Acquisition cost	-	-	-	108.488	112.568	77.194	28.072	650	252	327.174
Accumulated depreciation and impairment	-	-	-	(14.806)	(55.295)	(59.239)	(6.946)	(347)	(52)	(136.685)
Net book value	-	-	-	93.682	57.273	17.955	21.126	303	150	190.489

NOTE 19 – REAL-PROPERTY, PLANTS AND EQUIPMENT (continued)

	Property with right to use - vehicles	Property with right to use - equipment	Property with right to use - IT equipment	Land	Buildings	Plants and equipment	Assets under construction	Other	Advances for tangible assets	Total
For the year ending 31 December 2019										
As at 1 January 2019	**-**	**-**	**-**	**93.682**	**57.273**	**17.955**	**21.126**	**304**	**150**	**190.490**
Effect of first app. of IFRS 16	1.055	862		-	-	(862)	-	-	-	1.055
Current year depreciation	(708)	(249)	-	-	(4.174)	(3.556)	-	-	-	(8.687)
Direct purchase	4.138	253	826	-		32	1.337	1	265	6.852
Transfer to use	-			-	43	1.323	(1.366)	-	-	-
Value adjustment	-			-	-	-	-	-	(1)	(1)
Exchange rate diff.				15	6			-		21
As at 31 December 2019	**4.485**	**866**	**826**	**93.697**	**53.148**	**14.892**	**21.097**	**305**	**414**	**189.730**
As at 31 December 2019										
Acquisition cost	5.193	1.115	826	108.488	112.568	77.194	28.072	650	467	334.573
Accumulated depreciation and impairment	(708)	(249)	-	(14.791)	(59.420)	(62.302)	(6.975)	(345)	(53)	(144.843)
Net book value	**4.485**	**866**	**826**	**93.697**	**53.148**	**14.892**	**21.097**	**305**	**414**	**189.730**

Assets to use refer to investment into construction of a new office building at the address Janka Rakuše 1 in Zagreb. Buildings and land of the Group (including assets to use), net book value of HRK 167.942 thousand have been mortgaged as guarantee for credits with commercial banks (Note 28).

NOTE 19 – REAL-PROPERTY, PLANTS AND EQUIPMENT (continued)

The estimated market value for revaluation purposes was determined based on the independent valuers' report that was based on the cost method, the comparative method and/or the income method depending on the type of property.

The estimated market value of laboratory equipment and measuring instruments for revaluation purposes was determined by the Group based on the independent valuers' calculations who applied the cost method as the most appropriate method because it is based on the economic principle that the buyer of the property will not pay more than the price that the buyer would have paid for an asset of equal utility in case of a new purchase or construction. As at 31 December 2019, the net carrying amount of revalued assets before revaluation would have amounted to HRK 802 thousand (31 December 2018: HRK 879 thousand).

In prior years 2015 and 2016, the Group concluded a finance lease agreements used to purchase equipment – roadway recording system and a friction testing machine. The lease will be repaid in 60 instalments at an interest determined using variable interest rates. At the day of the conclusion of the agreement, the effective interest rate was 6.07% for friction testing machine and 6.01% for pavement recording device.

(In thousands HRK)	**2018**
Cost of capitalised finance leases	1.993
Accumulated depreciation	(1.132)
Net book value	**861**

NOTE 19 – REAL-PROPERTY, PLANTS AND EQUIPMENT (continued)

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation

Valuation methods and techniques	Significant unobservable inputs
Land and buildings	
Fair value measurement of land and buildings was performed by certified property valuers. Depending on the intended use of the assets the methods used were the market value method (by further developing the cost method), the income method and the residual method.	Correction factors used in calculating the market price. Average yield: 7-9%
The calculation of the market value by further developing the cost method is performed by calculating the value of a newly built property and its impairment due to the passage of time, construction, furnishing, etc. The resulting price is adjusted to the market price through a number of factors specific to the observed building or land.	Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property.
The income method considers the present value of net cash flows that the assets could generate from rent taking into account the expected net rent based on comparable transactions.	Specific expenses used in determining the net cash flow in the income method.
The residual method is based on an analysis of a specific investment and is focused on determining the value of land planned for development. The method is applied in the context of developing a project, if the investor wishes to determine the maximum price to pay for land in order to profitably realise a project	Specific costs of construction, periods of financing, interest rates, required profit margins and other expenses in calculating the residual method.

Valuation methods and techniques	Significant unobservable inputs
Equipment	
Fair value measurement of equipment was performed by certified property valuers. They used the cost method and the DCF method (capital contribution method) to measure fair value.	Correction factors used in calculating the market price.
The cost method for measuring the value of equipment involves determining the value of the physical, functional and economic obsolescence of the equipment. Cost value is determined on the basis of the carrying value of the fixed assets register. In the process of evaluating physical obsolescence, the current useful life of assets, their total useful life and remaining useful life is analysed for each assessed asset separately. Functional obsolescence takes into account the ability to function over the remaining useful life. When assessing economic obsolescence, the economic obsolescence model and the economic indicators model are used.	Among other factors, the estimated discount rate is the expected rate of return that the market requires in order to attract funds for a particular investment.
The DCF method is a variation of the income method according to which the market value of the asset is based on estimated future cash flows that are	Specific expenses used in determining the net cash flow in

NOTE 20 – INVESTMENT INTO REAL-PROPERTY

	2019	2018
	(In thousands HRK)	
As at 1 January	348	1.266
Value adjustment during the period	-	(918)
As at 31 December	**348**	**348**

Investment into real-property is mostly investment into land.

Investment into real-property with a cost of HRK 18,263 thousand (*2018: HRK 18,263 thousand*) has been pledged as security for a borrowing from a commercial bank. Since the property is encumbered by a lien on third-party borrowing liabilities, the Group recognised an impairment loss of the property at the acquisition cost

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	**Significant unobservable inputs**
Land and buildings	
Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in Note 19 (i).	Significant unobservable inputs are described in Note 19 (i).

NOTE 21 – INVESTMENTS IN ASSOCIATES

2019 (in thousand HRK)	Ownership	Investment	Assets	Liabilities	Net (asset-liabilities)	Income	Profit/Loss	Group's share in net assets/(liabilities)	Group's share in Profit/Loss
Centar Bundek d.o.o. Zagreb	35%	31.960	216	313.570	(313.355)	62	(9.809)	(109.674)	(3.433)
Centar Gradski Podrum d.o.o.	38%	21.533	197.023	197.024	(1)	1	(1)	-	-
Sportski grad TPN d.o.o. u stečaju	40%	8	-	-	-	-	-	-	-
Elpida d.o.o.	50%	31.300	37.148	884	36.264	-	(28)	18.132	(14)
Institut za infrastrukturne projekte d.o.o.	50%	8	-	-	-	-	-	-	-
Autocesta Bar-Boljare d.o.o.	40%	8	-	-	-	-	-	-	-
Prvi Crnogorski Autoput d.o.o. Podgorica	25%	-	-	-	-	-	-	-	-
Value adjustment		(70.259)			-				
		14.558	**234.386**	**511.478**	**(277.092)**	**63**	**(9.838)**	**(91.542)**	**(3.447)**

The Group's share in associate company Centar Gradski Podrum d.o.o. mortgaged as instrument for loan repayment given by commercial banks.

NOTE 21 – INVESTMENTS IN ASSOCIATES (continued)

2018 (in thousand HRK)	Ownership	Investment	Assets	Liabilities	Net (asset-liabilities)	Income	Profit/Loss	Group's share in net assets/(liabilities)	Group's share in Profit/Loss
Centar Bundek d.o.o. Zagreb	35%	31.960	15.844	302.637	(286.793)	16.076	(155.022)	(100.378)	(54.258)
Centar Gradski Podrum d.o.o.	38%	21.533	15.079	197.956	(182.877)	17.972	(22.031)	(69.493)	(8.372)
Sportski grad TPN d.o.o. u stečaju	40%	8	-	-	-	-	-	-	-
Elpida d.o.o.	50%	31.300	37.149	857	36.292	0	(41)	18.146	(20)
Institut za infrastrukturne projekte d.o.o.	50%	8	-	-	-	-	-	-	-
Autocesta Bar-Boljare d.o.o.	40%	8	-	-	-	-	-	-	-
Prvi Crnogorski Autoput d.o.o. Podgorica	25%	-	-	-	-	-	-	-	-
Value adjustment		(70.245)	-	-	-	-	-	-	-
		14.572	**68.072**	**501.450**	**(433.378)**	**34.048**	**(177.094)**	**(151.725)**	**(62.650)**
Unrecognized gain due to previously accumulated losses (relating to Centar gradski podrum d.o.o. and Centar Bundek d.o.o. over the share value)									-
									(62.650)

NOTE 21 – INVESTMENTS IN ASSOCIATES (continued)

(i) (i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	**Significant unobservable inputs**
The fair value of investments in related parties was estimated using methods applicable to each individual company, The following methods were used: • The valuation of property was carried out by authorised independent valuers (methods described in Note *19(i)* • The estimation of the recoverable amount of assets, liabilities and equity of the Company as at 31 December	• Significant unobservable inputs are described in Note 19 (i),

NOTE 22 – OTHER INVESTMENTS

(in thousand HRK)	**2019**	**2018**
Shares in investment funds	-	-
Participating interests	126	126
Deposits given	518	433
	644	**559**

Participating interest

(in thousand HRK)	**2019**	**2018**
Projektgradnja d.d., Slavonski Brod	126	126
	126	**126**
	126	**126**

NOTE 23 – INVENTORIES

	2019	2018
	(In thousands HRK)	
Work in progress	126.746	126.746
Value adjustment of work in progress	(51.017)	(51.017)
Goods for sale	568	568
Stocks of finished products	113	113
Value adjustment of stocks of finished products	(113)	(113)
	76.297	**76.297**

A lien was entered on the inventories with book value HRK 75.730 thousand (31 December 2018: HRK 75.493 thousand) by the commercial bank as credit repayment guarantee. Inventories of finished goods are the unsold office space. Work in progress refers to office and residential buildings under construction.

NOTE 24 – TRADE RECEIVABLES AND OTHER RECEIVABLES

	2019	2018
	(In thousands HRK)	
Long-term receivables		
Receivables from sale of apartments with deferred payments and other receivables	1.062	1.225
	1.062	**1.225**
Short-term receivables		
Trade receivables	82.598	89.004
Less: value adjustment of trade receivables	(42.919)	(50.875)
Receivables from government institutions	1.985	1.520
Receivables from employees	877	798
Receivables from advance payments	2.157	6.539
Other receivables	732	278
	45.430	**47.264**
	46.492	**48.489**

NOTE 24 – TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

The following tables explain the changes in the allowance for trade receivables by using simplified ECL model between the beginning and end of the annual period:

:

	2019
As at 31 December 2019	*(In thousands HRK)*
As at 1 January 2019	50.875
Newly created expected credit loss	963
Cancellation of previous credit loss	(800)
Unpaid previously value adjusted receivables	(8.119)
As at 31 December	**42.919**

	2018
	(In thousands HRK)
As at 31 December 2017	48.565
Effect of initial application of IFRS 9	295
As at 1 January 2018	**48.860**
Newly created expected credit loss	2.341
Cancellation of previous credit loss	(327)
As at 31 December	**50.874**

For calculation of impairment on trade receivables, the Group applies a model based on expected credit losses (Simplified Approach) in accordance with IFRS 9, and the amount of the impairment does not have a material effect on the financial statements. The Group continues to apply value adjustments based on proven losses when conditions arise.

The ageing structure of trade receivables and other receivables was as follows:

As at 31December 2019	*(In thousands HRK)* Gross amount	Value adjustment	Net amount
Not due	26.437	(193)	26.244
0-90 days	4.728	(241)	4.487
91-180 days	1.284	(250)	1.034
181-360 days	1.889	(279)	1.610
over 360 days	48.260	(41.956)	6.304
	82.598	**(42.919)**	**39.679**

NOTE 24 – TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

31 December 2018	*(In thousands HRK)* Gross amount	Value adjustment	Net amount
Not due	21.016	(269)	20.747
0-90 days	11.735	(397)	11.338
91-180 days	1.764	(576)	1.188
181-360 days	2.628	(1.114)	1.514
over 360 days	51.861	(48.518)	3.343
	89.004	**(50.874)**	**38.130**

NOTE 25 – LOANS AND DEPOSITS GIVEN

(In thousands HRK)	**2019**	**2018**
Short term loans *and deposits*		
Loans to subsidiaries	-	20
Loans to third parties	226	5.792
Deposits and guarantees	18.370	13.832
Interests receivables	303	69
Expected credit loss	(114)	(916)
	18.785	**18.797**

Loans to subsidiaries and third parties were given with an interest rate between 3% - 5,14% per annum

Overview of changes in provisions for impairment of loans and deposits given:

	(In thousands HRK)
As at 1 January 2018	**(156.521)**
New expected credit loss	(3.089)
Financial assets derecognized during the year	592
As at 31 December 2018	**(159.018)**
Newly created expected credit loss	(74)
Financial assets derecognized during the year	3.042
As at 31 December 2019	**(156.050)**

NOTE 26 – CASH AND CASH EQUIVALENTS

	2019	2018
	(In thousands HRK)	
Giro accounts	7.739	4.906
Cash in hand	15	77
Foreign currency accounts	4.193	1.939
	11.947	**6.922**

Cash and cash equivalents currency breakdown

	2019	2018
	(In thousands HRK)	
HRK	7.772	4.996
GEL	3.141	1.629
BAM	138	190
EUR	886	106
Other currencies	10	1
	11.947	**6.922**

NOTE 27 – LONG-TERM ASSETS HELD FOR SALE

(In thousands HRK)	**2019**	**2018**
As at 1 January	107.329	107.329
Sale	(26.417)	-
As at 31 December	**80.912**	**107.329**

Long-term assets held for sale are intended to settle the secured debt to financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. These assets refer to buildings and land.

During 2019 property in Osijek was sold *(there was no property sale in 2018).* The sale of property decreased the principal debt to creditors by HRK 23.600 thousand, interest is decreased by HRK 1.516 thousand and the difference refers to the loss from property sale in the amount of HRK 1.300 thousand.

Obligations towards secured creditors (Note 33) who have liens on property classified in the group of long term property intended for sale amount to HRK 104.478 thousand, i.e. with the respective interest of HRK 2.851 thousand, the obligations amount to a total of HRK 107.329 thousand (more details given in Note 42).

NOTE 27 – LONG-TERM ASSETS HELD FOR SALE (continued)

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	Significant unobservable inputs
The fair value was estimated using methods applicable to each individual asset. The following methods were used: • The valuation of property carried out by authorised independent valuers (methods described in Note *19 (i)* • Review of rights of secured creditors	Significant inputs are described in Note 19 (i), Amount of secured debt.

NOTE 28 – PREPAID EXPENSES

(In thousands HRK)	**2019**	**2018**
Prepaid expenses	3.495	4.268
VAT on advances	275	253
	3.770	**4.521**

NOTE 29 – CONTRACT ASSETS AND CONTRACT LIABILITIES

The following table shows information on trade receivables and payables based on the construction contracts, for which at the reporting date the Group reported contractual trade receivables or contractual obligations to customers:

	31 December 2019	**1 January 2019**
	(In thousands HRK)	
Contract assets	12.975	16.967
Expected credit loss	(125)	(312)
	12.850	**16.655**
Contract liabilities	7.552	10.692
	7.552	**10.692**

NOTE 29 – CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

Contract assets primarily relate to the Group's rights to compensation for works performed but not collected at the reporting date. Contract assets are transferred to trade receivables when the rights become unconditional. This usually happens when the Group invoices the customer. A description of the methodology for calculating expected credit losses on a contract asset is described in Note 33.

Contract liabilities primarily relate to deferred income for construction works, for which revenue is recognized over time.

The residual compensation under the contracts under which the contract assets were recognized as at 31 December 2019 amounted to HRK 133.969 thousand. During the year, revenue in the amount of HRK 2.254 thousand was recognized and relates to contracts under which a contract liability was recognized as of January 1,2019.

NOTE 30 – SHARE CAPITAL

	Number of shares 2019	Ownership share 2019	Number of shares 2018	Ownership share 2018
AVENUE ENGINEERING AND CONSTRUCTION LTD *	239.500	39,03%	239.500	39,03%
AVENUE ENGINEERING AND CONSTRUCTION LTD (1/1) *	75.500	12,30%	75.500	12,30%
MARUS ANNA *	44.990	7,33%	44.990	7,33%
AKCIONAR D.O.O.	20.086	3,27%	20.086	3,27%
Own shares	13.359	2,18%	13.359	2,18%
CAPTURIS D.O.O.	7.895	1,29%	7.895	1,29%
Mihaljević Branko	5.630	0,92%	4.465	0,73%
Mezhibovskiy Lev	4.512	0,74%	3.587	0,58%
IPRO - INŽENJERING D.O.O.	2.791	0,45%	2.512	0,41%
Other shareholders	199.446	32,50%	201.815	32,88%
	613.709	**100%**	**613.709**	**100%**

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NOTE 30 – SHARE CAPITAL (continued)

The Company's share capital comprises 613,709 shares, ticker IGH-R-A, ISIN: HRIGH0RA0006, with a nominal amount of HRK 190.00 per share, which amounts to HRK 116,605 thousand. The shares were listed on the Official Market of the Zagreb Stock Exchange. Each share holds voting and dividend rights.

Based on the final pre-bankruptcy settlement agreement of 28 December 2013, creditors transferred into the PIK and junior debt have the right, upon the maturity period of six years, to convert their remaining claims into share capital and thus become a part of the ownership structure of the Company, The PIK debt represents 63.6% of debt towards banks in the pre-bankruptcy settlement and is to be paid in one instalment after six years at a fixed interest rate of 4.5% per annum, which will also be paid upon maturity. After 6 years, creditors have the right to exercise an option to convert debt into equity up to a maximum of 20% of the share capital at the time of conversion. The details of the pre-bankruptcy settlement agreement are described in Note 42.

Given the above, the Group has an obligation to calculate the probability and amount of conversion of debt into equity. Due to the significant uncertainty of key variables in the calculation, the Group did not calculate and recognise the equity component as at 31 December 2019.

NOTE 31 – REZERVE

Under Croatian regulations, Group must place into reserves a twentieth part (5%) of the current year profit until total reserves together with the share premium reach 5% of the share capital. Both legal reserves and reserves for own shares are non-distributable.

The Company and its subsidiaries have 16.729 of own shares. Own shares are recorded at cost and are released using the weighted average price method.

	Number of own shares
As at 1 January 2019	16.729
Increase during the year	-
Awarding of granted shares	-
Aa at 31 December 2019	**16.729**

The Management Board of the parent Company has the right to receive stock grants and stock options, there was no award on this basis during the year 2019), while the remaining amount will be allocated in accordance with the Company's possibilities in the coming years. The Net Asset Value of stock grants and stock options is presented in Other Reserves.

NOTE 32 – REVALUATION RESERVES

(In thousands HRK)	**Revaluation reserves for long-term tangible assets**	**Foreign exchange differences from translation of foreign operations**	**Total**
As at 01 January 2018	**128.554**	**(586)**	**127.968**
Transfer to accumulated losses	(3.200)		(3.200)
Foreign exchange differences from translation of foreign operations	-	(51)	(51)
Decrease due to write-offs	686	-	686
As at 31 December 2018	**126.040**	**(637)**	**125.403**
Transfer to accumulated losses	(23.206)		(23.206)
Foreign exchange differences from translation of foreign operations		41	41
Decrease due to write-offs	(6)		(6)
As at 31 December 2019	**102.828**	**(596)**	**102.232**

Revaluation reserves are not distributable to shareholders.

NOTE 33 – NON-CONTROLLING INTEREST

(In thousands HRK)	**2019**	**2018**
As at 1 January	(634)	(640)
Sale and acquisition of shares in new companies	-	-
Exit from consolidation	-	-
Exchange rate differences	-	(3)
Part. of non-controlling interest in reval. reserves	-	-
Part. of non-controlling interest in own shares	-	-
Profit/(loss) of the year from non-controlling interest	(63)	9
31 December	(697)	(634)

NOTE 34 – LOANS AND BORROWINGS

	2019	2018
	(In thousands HRK)	
Long term borrowings		
Bank loans-PIK debt /ii/	-	129.158
Bank loans-junior debt /iv/	-	7.670
Bank loans-senior debt /iii/	43.065	58.137
Bank loans-other	256	-
Lease obligations	5.145	-
Accrued interest payable	-	36.201
Other borrowings	497	65
	48.963	**231.231**
Short term borrowings		
Bank loans-PIK debt /ii/	129.589	-
Issued bank bonds /vi/	70.973	70.973
Bank loans (separate creditors) /v/	25.622	49.221
Bank loans-junior debt /iv/	7.693	-
Bank loans -current portion of senior debt /iii/	53.217	45.449
Bank loans - other	16.629	21.086
Lease obligations	675	673
Other borrowings	1.185	838
Accrued interest payable	46.666	-
	352.249	**188.240**
Total loans and borrowings	**401.212**	**419.471**

NOTE 34 – LOANS AND BORROWINGS – (continued)

(In thousands HRK))	**Bank loans-PIK debt /ii/**	**Bank loans-Senior debt /iii/**	**Bank loans-Junior debt /iv/**	**Bank loans secured creditors /v/**	**Bank loans - other**	**Bonds issued /vi/**	**Lease obligations**	**Finance lease /vii/**	**Other borrowings**	**Accrued interest payable**	**Total**
Net book value											
As at 1 January 2019	129.158	103.585	7.670	49.221	21.087	70.973		672	904	36.201	419.471
Payments		(7.629)			(5.064)		(1.124)		(348)		(14.165)
First application of IFRS 16							1.740	(672)			1.068
Non-cash repayment				(23.599)							(23.599)
Loans taken					862				1.125		1.987
Loans taken –Increase of property with rights							5.217				5.217
Exchange rate difference	431	326	23				(13)				767
Cost of interest for the year										10.465	10.465
As at 31 Dec 2019	**129.589**	**96.282**	**7.693**	**25.622**	**16.885**	**70.973**	**5.820**	**-**	**1.681**	**46.666**	**401.211**

NOTE 34 – LOANS AND BORROWINGS – (continued)

(In thousands HRK))	Bank loans- PIK debt /ii/	Bank loans- Senior debt /iii/	Bank loans- Junior debt /iv/	Bank loans creditors /v/	Bank loans - other	Bonds issued /vi/	Finance lease /vii/	Other borrowings	Accrued interest payable	Total
Net book value										
As at 1 Jan 2018	153.228	104.873	7.760	49.221	16.913	70.973	1.016	2.035	26.428	432.447
Payment	-	(38)	-	-	(1.700)	-	(73)	(5.027)		(6.838)
Non-cash repayment	(22.541)	-	-	-	-	-	-	-		(22.541)
Loans taken	-	-	-	-	6.475	-	-	4.000		10.475
Liability write-off	-	-	-	-	-	-	(271)	271		-
Foreign exchange difference	(1.529)	(1.250)	(90)	-	(601)	-	-	(375)		(3.845)
Cost of interest									9.773	9.773
As at 31 Dec 2018	**129.158**	**103.585**	**7.670**	**49.221**	**21.087**	**70.973**	**672**	**904**	**36.201**	**419.471**

NOTE 34 – LOANS AND BORROWINGS – (continued)

Non-monetary repayment refers to the closing of a liability after the sale of property in Osijek (Note 27).

/i/ Bank borrowings in the amount of HRK 251.493 *thousand* (*2018.: HRK 287.029 thousand*) and liabilities arising from issued bonds in the amount of HRK 70,973 thousand are secured with the Group's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Group.

In accordance with the pre-bankruptcy settlement agreement, creditors are classified into the following categories:

/ii/ The 'PIK debt' represents claims that will be settled by selling pledged assets of the Company or its related parties. The final maturity of the PIK claims is 6 years from the day the pre-bankruptcy settlement became final at an interest rate of 4.5% per annum, which is also paid on final maturity

/iii/ The 'Senior debt' comprises a portion of creditor claims which will be settled by payment in semi-annual instalments in accordance with the provisions of the settlement and additional agreements with creditors of category a), which fall due on 30 June and 31 December with an interest rate set at 4.5% per annum and the first us due on 30 June 2017.

/iv/ The 'Junior debt' relates to part of creditor claims which will be settled in accordance with the provisions of the pre-bankruptcy settlement agreement. Final maturity of junior claims is 6 years from the day the pre-bankruptcy settlement becomes legally valid. Interest amounting to 4.5% is calculated annually and becomes due in one instalment upon final maturity of the junior debt.

/v/ Secured creditors have not waived their right for separate settlement in the pre-bankruptcy settlement proceedings, and have the right to initiate separate enforcement procedures to enforce property sales and settlement of their claims. If the sale of pledged assets does not generate sufficient funds to settle secured claims, secured creditors are not entitled to settlement of outstanding claims in full, but their claims are considered to be settled entirely through the sale of the pledged assets. Regarding these borrowings, the Company is not obligated to repay principal or interest from the ordinary course of business, but the settlement is made only from the sale of pledged property.

/vi/ Issued shares

On 6 June 2012 the Company issued convertible bonds in the amount of EUR 10 million for a partial rescheduling of liabilities arising from previously issued financial instruments and financing of the working capital.
On 10 June 2013, the Settlement Council of the Financial Agency (FINA) adopted the Decision on initiating pre-bankruptcy settlement proceedings over INSTITUT IGH, d.d. Owners of convertible bonds as secured creditors have not waived their right for separate settlement in the pre-bankruptcy settlement proceedings, and have the right to initiate separate enforcement procedures to enforce property sales and settlement of their claims. In the event that the funds obtained from the realisation of the pledge will not be sufficient to cover the claims secured, the bondholders are not entitled to settle up to the full amount of the secured claim but their claim is deemed to be fulfilled by the realisation of the pledge. Regarding these bonds, the Company is not obligated to repay principal or interest from the ordinary course of business, but the settlement is made only from the sale of pledged property.

Pledged land and buildings amount to HRK 70,973 thousand and the value of bond payables was corrected to the stated amount.

NOTE 34 – LOANS AND BORROWINGS – (continued)

The analytical review of loans and borrowings is as follows:

	Currency	**Interest rate**	**2019**	**Up to 1year**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
Financial liabilities							
Commercial bank	EUR	4,50%	8.010	7.190	820		-
Commercial bank	HRK	6,50%	0	0	-	-	-
Non-related legal entities	EUR	4,50%	208.165	207.899	265		-
Non-related legal entities	EUR	4,50%	33.443	11.185	6.458	15.800	-
Liabilities for interest	HRK		46.666	46.666			
Non-interest bearing other liabilities							
Non-related legal entities	EUR	-	0	0	-	-	-
Non-related legal entities	EUR	-	14.333		14.333	-	-
Non-related legal entities	EUR	-	11.290	5.645	5.645	-	-
Loans from other financial institutions	HRK	-	836	836	-	-	-
Bonds	EUR	-	70.973	70.973	-	-	-
Other finance liabilities							
Loans from non-related parties	HRK	4,50%	864	864	0	0	-
Other borrowings	RUB	4%	811	314	497	-	-
Lease obligations	EUR	6,01-6,07%	33	33			-
Lease obligations	HRK	4,50%	5.787	642	2.280	2.865	
			401.211	**352.248**	**30.298**	**18.665**	**0**

NOTE 34 – LOANS AND BORROWINGS – (continued)

(In thousands HRK)	**Currency**	**Interest rate**	**2018**	**Up to 1year**	**1 – 2 years**	**2 – 5 years**	**Over 5 years**
Financial liabilities							
Commercial bank	EUR	4,50%	8.863	7.835	294	734	-
Commercial bank	HRK	6,50%	5.070	5.070	-	-	-
Non-related legal entities	EUR	4,50%	206.627	169.268	10.674	26.685	-
Non-related legal entities	EUR	4,50%	40.082	22.772	4.946	12.364	-
Liabilities for interest	HRK		36.201		36.201		
Non-interest bearing other liabilities							
Non-related legal entities	EUR	-	32.346	32.346	-	-	-
Non-related legal entities	EUR	-	14.333	14.333	-	-	-
Non related physical entities	EUR	-	2.542	2.542	-	-	-
Loans from other financial institutions	HRK	-	836	836	-	-	-
Bonds	EUR	-	70.973	70.973	-	-	-
Other finance liabilities							
Loans from non-related parties	HRK	4,50%	865	785	23	57	-
Other borrowings	RUB	4%	61	61	-	-	-
Lease obligations	EUR	6,01-6,07%	672	335	337	-	-
			419.471	**327.156**	**52.475**	**39.840**	**-**

NOTE 35 - PROVISIONS

(In thousands HRK)	**Unused holiday accrual**	**Retirement benefits**	**Legal cases**	**Total**
As at 31 Dec 2018				
Long-term	-	661	1.361	2.022
Short-term	2.796	-	22	2.818
	2.796	**661**	**1.383**	**4.840**
Increase in provisions	133		442	575
Terminated during the year		(155)	(77)	(232)
As at 31 Dec 2019	**2.929**	**506**	**1.748**	**5.183**
As at 31 Dec 2019				
Long-term	-	506	1.727	2.233
Short-term	2.929	-	21	2.950
	2.929	**506**	**1.748**	**5.183**

The Group recognized long-term provisions for retirement benefits of all employees in the non-taxable amount of HRK 8.000 per employee. Applying the rate of 1,9% present value of retirement benefits of all employees is HRK 506 thousand.

The amounts of provisions relate to a number of legal disputes initiated against the Group. Based on the expert opinion of a legal counsel, the Company's Management Board believes that the outcome of these legal disputes will not give rise to any significant loss beyond the amount provided for as at 31 December 2019.

NOTE 36 – TRADE AND OTHER PAYABLES

	2019	**2018**
		(In thousands HRK)
Long-term liabilities		
Trade payables	198	198
	198	**198**
Short-term liabilities		
Domestic trade payables	20.227	20.262
Trade payables per pre-bankruptcy settlement	913	3.807
Foreign trade payables	7.769	12.527
Other short term liabilities - rescheduled tax debt	-	2.443
Liabilities towards government institutions	8.526	7.678
Liabilities to employees	6.425	8.649
Interests payable	14.576	16.992
Municipal charges	2.930	3.119
Payables to associates	314	420
Other liabilities	2.014	5.111
	63.694	**81.008**
	63.892	**81.206**

As at 31 December 2019 the Group has no long term liabilities towards creditors based on the Pre-bankruptcy settlement Decision.

Short-term trade payables based on the pre-bankruptcy settlement decision are shown per fair value by discounting the cash flows, for suppliers which, according to pre-bankruptcy settlement should have been paid last two instalments without interest in 2018. This is described in more detail in Note 42. The discounting rate used was 7%.

Book value of all other short-term liabilities as at 31 December 2019 approximately corresponds to the fair value owing to the short-term nature of the stated liabilities.

Other liabilities relate to those other short-term liabilities.

NOTE 36 – TRADE AND OTHER PAYABLES (continued)

The ageing structure of trade payables is as follows:

(in thousand HRK)	**2019**	**2018**
Not due	9.061	4.452
0-90 days	5.565	16.360
91-180 days	3.032	3.773
181-360 days	1.567	7.151
over 360 days	9.684	5.058
	28.909	**36.794**

The Group's exposure to foreign exchange risk and liquidity risk is presented in Note 38.

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Group is exposed to various financial risks related to foreign exchange, interest rate, credit and liquidity risk. The Group monitors these risks and seeks to minimise their potential impact on the Group's financial exposure. The Group does not use derivative financial instruments to actively hedge its financial risk exposure.

Market risk

Market risk relates to financial instruments. IFRS defines market risk as the risk of fluctuation of fair value or future cash flows of financial instrument due to changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risks.

The Group operates on the Croatian and international markets. The Management Board determines the cost of its services based on the market price of the relevant market.

a) Price risk

The Group is engaged in the professional and scientific research in the field of civil engineering, the area where the financial crisis has had a significant impact causing relative market inactivity.

However, positive macroeconomic indicators in the last period have stimulated market recovery and corresponding prices.

b) Foreign exchange risk

The Company's official currency is the Croatian Kuna (HRK). However, the Group has invested in financial instruments and entered into transactions denominated in currencies that do not represent its functional currency. Accordingly, the Group is exposed to foreign exchange risk of its currency in relation to other currencies in a way that may adversely affect the result and value of the Group.

Transactions denominated in foreign currencies are translated into Croatian Kuna by applying the exchange rates in effect at the balance sheet date. The resulting foreign exchange differences are credited or charged to the income statement. Changes in exchange rates may affect the profits mainly as a result of foreign exchange gains or losses arising on translation of receivables in foreign currency (EUR) and borrowings and liabilities contracted with a foreign currency clause (EUR).

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Due to part of its income being earned in foreign markets and liabilities denominated in other currencies, the Group is exposed to foreign exchange risk primarily through EUR and therefore the expected changes are not significant.

The total exposure of the Group to changes in foreign exchange rates at the reporting date was as follows:

	Liabilities		**Assets**	
	2019	**2018**	**2019**	**2018**
European Union (EUR)	349.682	384.822	37.605	39.995
Bosnia and Hercegovina (BAM)	8.933	148	3.546	1.132
USA (USD)	1.538	1.538	602	215
Russian Federation (RUB)	1.139	2.975	2.568	9.268
Georgia (GEL)	8.562	7.397	18.033	26.857

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuations in the exchange rate of the Croatian Kuna to the Euro.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a percentage change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the Croatian Kuna changes against the relevant currency by the percentage specified above. In case of a reverse proportional change of the Croatian Kuna against the relevant currency, there would be an equal and opposite impact on the profit.

Exposure to fluctuations in the exchange rate of presented currencies by 1% is mostly connected to the situation of received loans, suppliers and receivables from associates shown in Euro (EUR).

EUR currency effect		**USD currency effect**		**GEL currency effect**	
2019	**2018**	**2019**	**2019**	**2018**	**2019**
(In thousands HRK)		*(In thousands HRK)*		*(In thousands HRK)*	
(3.121)	(3.448)	(9)	(13)	95	195

BAM currency effect		**RUB currency effect**	
2019	**2018**	**2019**	**2018**
(In thousands HRK)		*(In thousands HRK)*	
-54	9	14	2

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument.

Owing to the fact that the Group uses loans with a fixed, but also changeable interest rate, the Group is exposed to the risk of change of Interest rate.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause the other party financial losses due to default, in whole or in part, at the time of maturity. Failure to do so would endanger the liquidity of the Group and reduce the value of its assets. On December 31 2016 financial assets that could potentially expose the Group to credit risk consist mainly of loans given, trade receivables and other receivables.
The value of financial assets at the reporting date shows the maximum exposure to credit risk. The Group regularly monitors the risk that the other party will not fulfil its obligations.

Trade receivables, other receivables, and receivables from given loans are adjusted for the amount of provisions for doubtful and disputed receivables.

Liquidity risk

Liquidity risk is the risk that the Group could face difficulties in settling its liabilities. Liquidity risk arises in the general funding activities of the Group and the management of assets. It includes the risk of being unable to fund assets under appropriate maturities and prices and the risk of being unable to sell its assets at a reasonable price and in an appropriate time frame. Financial instruments include investments that may be illiquid and that the Group is not able to turn into cash to meet its liquidity requirements.

In order to secure necessary liquidity, Management actively monitors and manages the receivables collection process and planned outflows.

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Table analysis of liquidity risk

The tables have been drawn up based on the discounted cash inflows of financial assets at their due date. The tables include both principal and interest cash flows.

2019 (In thousands HRK)	**Net book value**	**Contracted cash flows**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
Non-derivate financial liabilities						
Borrowings and finance lease	401.211	424.188	364.208	39.614	20.365	-
Trade and other payables	63.892	63.892	63.694	198	-	-
	465.103	**488.080**	**427.902**	**39.812**	**20.365**	**-**

(In thousands HRK)	**Net book value**	**Contracted cash flows**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
2018						
Non-derivate financial liabilities						
Borrowings and finance lease	260.641	282.573	221.350	18.604	42.619	-
Trade and other payables	81.205	81.206	81.008	198	-	-
	341.846	**363.779**	**302.358**	**18.802**	**42.619**	**-**

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Non-interest bearing liabilities of the Group, payable up to one month mainly consist of trade payables and other current liabilities.

Interest bearing liabilities include short-term and long-term loans, and finance loans.

Table analysis of credit risk

The tables have been drawn up based on the discounted cash inflows of financial assets at their due date. The tables include both principal and interest cash flows.

(In thousands HRK)	**Net book value**	**Contracted cash flows**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 5 years**
2019					
Non-derivate financial assets					
Loans given	18.785	18.785	18.785	-	-
Trade and other receivables	45.430	45.430	44.368	53	1.009
	64.215	**64.215**	**63.153**	**53**	**1.009**

(In thousands HRK)	**Net book value**	**Contracted cash flows**	**Up to 1 year**	**From 1 to 2 years**	**From 2 to 5 years**
2018					
Non-derivate financial assets					
Loans given	18.797	18.827	18.827	-	-
Trade and other receivables	48.488	48.488	47.281	160	1.047
	67.285	**67.315**	**66.108**	**160**	**1.047**

NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities under standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices,
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

Financial instruments held to maturity in the ordinary course of business are recorded at the purchase cost or net amount less the portion repaid. Fair value represents the amount for which a financial instrument could be traded between knowledgeable, willing parties in an arm's length transaction, except in the event of a forced sale or for liquidation purposes. The fair value of a financial instrument is its quoted securities market price, or the amount obtained using the discounted cash flow method.

As at 31 December 2018, the reported amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of those assets and liabilities.

The Management Board believes that the carrying value of long-term deposits, receivables and borrowings as at 31 December 2018 approximates their fair value due to the application of variable interest rates on liabilities.

Capital risk management

The Company monitors capital in line with laws and regulations valid in the Republic of Croatia which require a minimum deposit of HRK 200.000 for joint stock companies. Owners do not require any special measures with regard to management of capital. There are no capital goals internally monitored.

NOTE 38 – TRANSACTIONS WITH RELATED PARTIES

The Group considers that its key shareholders are directly related parties and entities under their control or influence (subsidiaries and affiliates), key management, close family members of key management and legal entities that are controlled or significantly influenced by key management personnel and their close family members, in accordance with the provisions set out in International Accounting Standard 24"*Related Party Disclosures"* .

	2019	**2018**
	(in thousand HRK)	
Revenues from sale of services to associated companies	-	7
Revenues from sale of services to companies controlled by the same party	102	1.146
Revenue from previously value adjusted receivables from companies *under control of the same party*	1.449	
Revenue from previously value adjusted receivables from companies *under significant control of the same party*	4	188
Revenue from interest on loans to companies *under significant control of the same party*	0	25
Receivables for services rendered to companies controlled by the same party	18	1.739
Receivables for services rendered to companies under significant control of the same party	-	296
Loans and deposits to companies under *significant control of the same party*		5.590
Receivables from positive exchange rate differences related to companies controlled by the same party	332	-
Given loans and deposits to companies under control of the same party	111	-
Receivables from earlier value adjusted receivables from companies under *significant control of the same party*	769	-
Liabilities for advance payment related to companies under significant control of the same party	1	-

Compensation to Supervisory Board members and Management:

Total income of the Management and Supervisory Board members in 2019 amounted to HRK 1.898 thousand (*2018: HRK* 1.188 *thousand*).

NOTE 39 – POTENTIAL CONTINGENCIES

((In thousands HRK)	**2019**	**2018**
Guarantees - externally	42.495	48.944
	42.495	**48.944**

As at 31 December 2019, several legal disputes are in progress against the Group for which contingent liabilities have not been recorded in the statement of financial position as at 31 December, due to the Management Board's estimates as at 31 December 2019 that it is not probable that liabilities will arise for the Group. The total value of stated legal disputes is HRK 36 189 thousand.

Contracted payment according to operating lease for the use of vehicles, office equipment and software as at 31 December, as follows:

(In thousands HRK)	**2019**	**2018**
Up to 1 year	0	2.960
From 1 to 5 years	-	479
	-	**3.439**

NOTE 40 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT

On 17 May 2013 the Company submitted a Proposal to initiate pre-bankruptcy settlement proceedings. On 5 December 2013 the Commercial Court in Zagreb accepted the Proposal and approved the settlement. In April 2014, the Court ruled that the pre-bankruptcy settlement became legally valid as of 28 December 2013.

I. Settlement with suppliers

An agreement was reached according to which 30% of claims are converted into the Company's share capital. 20% of claims will be repaid in cash after the share capital increase or the sale of the Company's assets. The remaining 50% of claims will be repaid in 10 equal semi-annual instalments over the period of 5 years. During 2018, the Company settled trade payables totalling HRK 10.041 thousand as prescribed in the provisions of the pre-bankruptcy settlement. During2019 the Company also settled liabilities to related parties, natural persons for service contracts and royalties, non-financial institutions and the Ministry of Finance in the total amount of HRK 2.912 thousand. The Company takes all measures necessary to settle any remaining obligations to suppliers.in the amount of HRK 190 thousand, through cash flow generated through business operations during 2020, namely through contracting on new jobs on the local and international markets. These debts will be settled from current operations in cooperation and agreement with suppliers regarding due dates

II. Settlement with banks

Out of the total debt, 63.6% was converted into the PIK debt during the initiation of pre-bankruptcy settlement procedure. The PIK debt is to be repaid in one instalment 6 years after the pre-bankruptcy settlement became legally valid. Up to the maturity date, a fixed interest rate of 4.5% per annum is included in the calculation, which is also payable in one instalment 6 years after the pre-bankruptcy settlement became legally valid. The PIK debt will be settled through the sale of assets which are pledged as collateral

Six years after the settlement will have become legally valid, the Company is obliged to proportionally convert the PIK debt to the senior debt until the senior debt reaches the net indebtedness limit which is equal to 3.5 times of the prior year consolidated EBITDA. If the current Senior debt amount exceeds the default ratio, the PIK debt is not converted into the Senior debt. The Company did not make the conversion on 31 December 2019 because the pre-requirement stated in pre-bankruptcy settlement was not fulfilled.

Under the valid pre-bankruptcy settlement, EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and on-off items of income and expense.

Interest is considered to be the interest expense on the debtor's debts.

One-off income and expenses are those that do not relate to the operational business of the company and are not repetitive. One-off income and expenses relate specifically to, but are not limited to, income and expenses from the sale of fixed assets.

Six years after the settlement will have become legally valid and through the process of converting the PIK debt to the senior debt, the creditors had the right to convert their remaining claims into equity at a price of HRK 400 per share, but max. up to 20% of the share capital. If the General Assembly did not invite a creditor to subscribe for the shares, then the outstanding PIK debt is due upon the creditors' call. Creditors did not request the fulfilment of their rights, the deadline was 31 December 2019. Since the PIK debt was not transferred into shares or into Senior debt, the total amount of HRK 176.255 thousand will be returned or settled by income from sale of assets, or acquisition of the mortgaged assets.

NOTE 40 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (continued)

PIK debt (continued)

If the sale of pledged assets is realised, the PIK debt (including interest) is settled first and the remainder of receipts is used to settle parts of the senior debt which had liens on that particular asset. If the sales result in a surplus of cash over the creditors' claims, then the surplus belongs to the debtor i.e. the Company. After the balance sheet date and until the date of publication of financial statements, takeover of part of assets has started whose value amounts to HRK 63.109 thousand, which would settle a part of the PIK debt from the pre-bankruptcy settlement. Until the date of drawing up of these financial reports, the Company settled its debts in the amount of HRK 24.008 thousand through acquisition of assets by creditors. The creditors acquired company's assets with a book value amounting to HRK 24.008 thousand.

Senior debt

The first instalment of the Senior debt becomes due 24 months from the date the pre-bankruptcy settlement will have become legally valid. The payments fall due 30 June and 31 December of each year. Instalments are paid 2 times a year with a fixed interest rate of 4.5% per annum. Interest are accrued and paid over the entire repayment period a.
During 2016, the Company signed an agreement with banks from the creditor category a), whereby the grace period is extended by an additional 18 months, so that the total grace period is 42 months after the pre-bankruptcy settlement becomes legally valid, consequently reducing the repayment period to 6.5 years after the first instalment becomes due.
As a result of the above, the first instalment of the senior debt of creditors from category a) becomes due 42 months from the date the pre-bankruptcy settlement will have become legally valid. The payments fall due 30 June and 31 December of each year, and the first instalment becomes due on the first of the above dates 42 months after the settlement became legally valid, which is on 30 June 2017. Instalments are paid 2 times a year with a fixed interest rate of 4.5% per annum. Interest are accrued and paid over the entire repayment period. Liabilities for interests accrued on the senior debt for 2019 has been settled in the amount of HRK 3 thousand (2018: HRK 159 thousand) but the unsettled due amount of HRK 8.870 thousand remains as at 31 December 2019. The Company is late in paying the Senior debt but the creditors, until the date of this Report, have not made claims for payment in the sense of enforcement. Negotiations are ongoing with the creditors and a way to settle all debts is being sought. In case the negotiations are not successful, creditors can initiate a forced recovery procedure.
Until the day of drawing up of these financial statements, the Company settled its obligations towards creditors in the amount of HRK 9.200 thousand through acquisition of shares by creditors in the Company P 45 d.o.o.

Junior debt

The junior debt has the same repayment schedule as the PIK debt the only difference being that junior debt holders have no liens on the Company’s assets. Junior debt was due on 31 December 2019. A fixed interest rate of 4,5% p.a. is calculated on the principle amount. Until the date of this Report, creditors have not activated the rights they have come into on 28 December 2019. Because of this, there is a possibility of write-off in the future.

Secured creditors

The principal of the debt towards creditors who have not waived their right to separate settlement in the process of the pre-bankruptcy settlement agreement (secured creditors) is classified as short-term and is presented in Note 28 in the principal amount of HRK 97.432 thousand. Pledged assets are intended to cover the secured debt and are classified long-term assets held for sale as presented in Note 23 in the amount of HRK 81.609 thousand.

NOTE 40 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (continued)

Secured creditors

A lien was entered over a part of assets of a subsidiary in which the Company owns shares, proportionally to the amount of the claim of the secured creditor in the amount of HRK 16,875 thousand.

The value of long-term tangible assets held for sale for the purpose of settlement of liabilities to creditors who are not dependent on the pre-bankruptcy settlement (secured creditors) is reduced to the amount of liabilities to secured creditors. Since the ownership over these properties has not changed, their value as well as the related liabilities is recorded in the balance sheet.

It should be noted that the Company is not obliged to pay principal or interest from the ordinary course of business, and the settlement is realised solely through the takeover or sale of pledged property.

The effect on the Company's statement of financial position after the settlement of liabilities to secured creditors by transferring assets held for the settlement of these liabilities, is presented in the following table:

(In thousands HRK)	**Consolidated Balance as at 31 Dec 2019**	**Settlement of liabilities towards secured creditors**	**Balance sheet after settlement of liabilities**
Long-term assets	209.265	(16.875)	192.390
Long term assets held for sale	80.912	(81.609)	(697)
Short-term assets	169.079		169.078
TOTAL ASSETS	**459.256**	**(98.484)**	**360.771**
Total equity	(41.826)		(41.826)
Long-term liabilities	73.383		73.382
Short term liabilities	427.699	(97.432)	330.267
TOTAL CAPITAL AND LIABILITIES	**459.256**	**(97.432)**	**361.823**

Set out below is a short overview of the effects of the pre-bankruptcy settlement agreement on the statement of financial position (including interest).

	2019	**2018**
	(In thousands HRK)	
PIK debt (note 33)	165.017	158.760
Senior debt (note 33)	105.151	107.923
Junior debt (note 33)	9.791	9.426
	279.959	**276.109**
Secured creditors – principal (note 28)	97.432	121.031
	97.432	**121.031**

NOTE 40 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (continued)

Since the legally valid pre-bankruptcy settlement up to 31 December 2019, the Company settled an amount of HKR 154.429 thousand incurred before initiating the pre-bankruptcy settlement, by payments in cash, issuing registered shares, converting a part of receivables of a part of creditors into equity, payment of priority claims and other claims of employees with accompanying taxes and contributions, and write-off in accordance with the provisions of the pre-bankruptcy settlement.

On the Balance Sheet date, the PIK debt amounts to HRK 129.589 thousand, the Junior debt amounts to HRK 7.693 thousand and current Senior debt maturity is HRK 53.217 thousand.

After the Balance Sheet date the Company is continuing with activities to settle the debts towards creditors, partly from sale, partly from takeover of assets to reduce and settle all commitments from the pre-bankruptcy settlement.

After the Balance Sheet date and until the date of publishing the Financial Statements a process of takeover of a part of assets was initiated whose value is HRK 63.109 thousand, which would settle a part of the PIK debt from the pre-bankruptcy settlement.

NOTE 41 – EVENTS AFTER THE BALANCE SHEET DATE

Beginning of 2020 marked the spread of the virus SARS-CoV-2 global pandemic. Measures undertaken to protect the population and to decrease adverse effects of the pandemic had a significant impact on Croatia's economy and all its participants as well. The Company estimates that the effects of the pandemic will be felt on the business operations of the Company as well as on the assumptions and estimates used to determine the income and expenditures and to evaluate assets and liabilities. Under the present circumstances, the Company is unable to predict and reliably assess the effects on the Company's financial statements.

Until the moment of preparation of this Report, the Company had no significant effects on the income, although some projects have been postponed. The ongoing projects were not interrupted and they continue according to plan. The Company enabled all employees to work from home, all inventory and offices are regularly disinfected and additionally cleaned.

It is opinion of the Company that this event does not require impairment of financial statements for the year 2019.

On 10 January 2020, the Company sold its share in the Company Projektni biro P 45 d.o.o. The transaction amounted to HRK 9.000 thousand.

Net assets of the company Projektni biro P 45 d.o.o., at the moment of sale was HRK 3.435 thousand. By this sale, the Group acquired a profit of HRK 5.765 thousand at the consolidated level.

NOTE 41 – EVENTS AFTER THE BALANCE SHEET DATE (continued)

Balance sheet of the sold company at the moment of sale was as follows:

In thousands HRK	**Amount**
Long-term assets	**3.015**
Intangible assets	5
Tangible assets	3.010
Short-term assets	**1.487**
Trade receivables and other receivables	1.354
Loans and deposits	50
Cash and cash equivalents	83
Other accrued income and pre-payments	**6**
TOTAL ASSETS	**4.508**
Total capital	**3.435**
Short-term liabilities	**1.073**
Trade and other payables	1.073
TOTAL CAPITAL AND LIABILITIES	**4.508**

After the Balance Sheet Date there were no other significant instances that could have effect on the financial position of the Group.