



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 subsidiaries, 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.

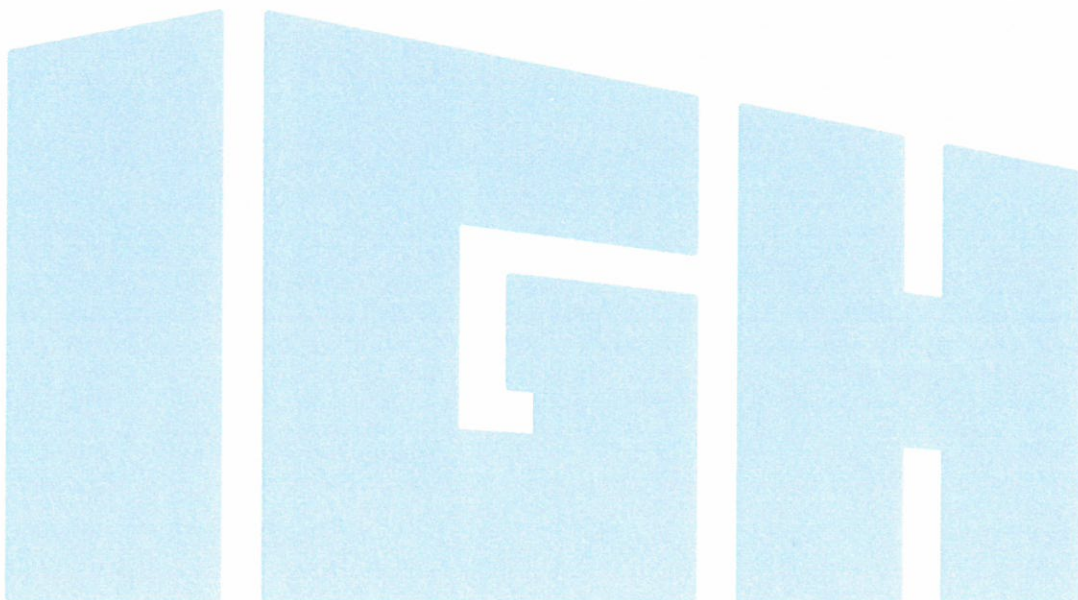
Taking into account that activities on international markets are a priority for the company, the Institut IGH d.d Management has started and will continue planning and implementing all

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

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

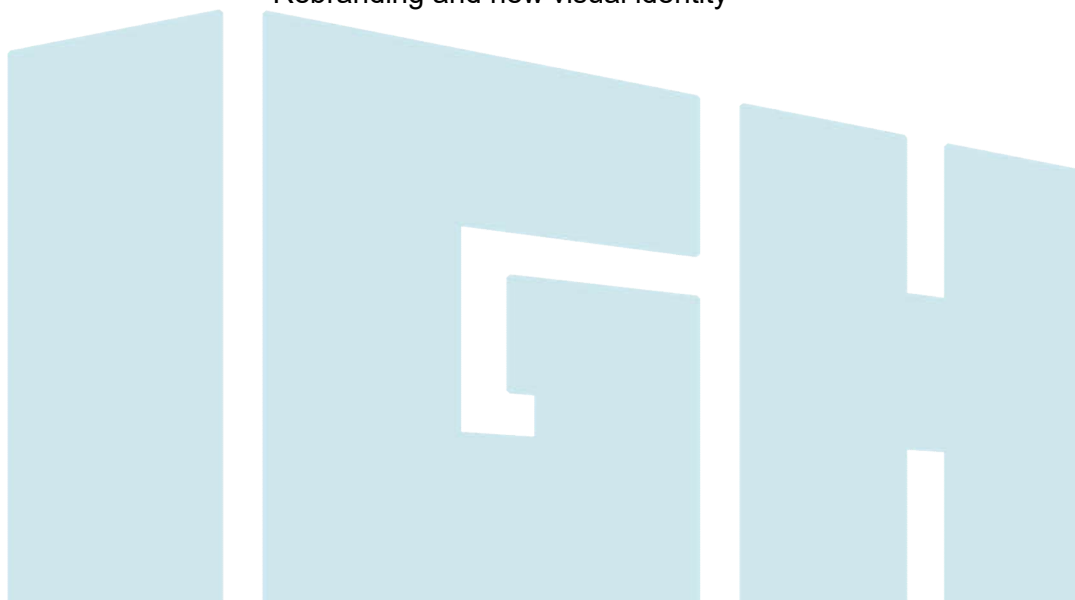


4. HISTORY

- 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: HRIGH00176A8 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.



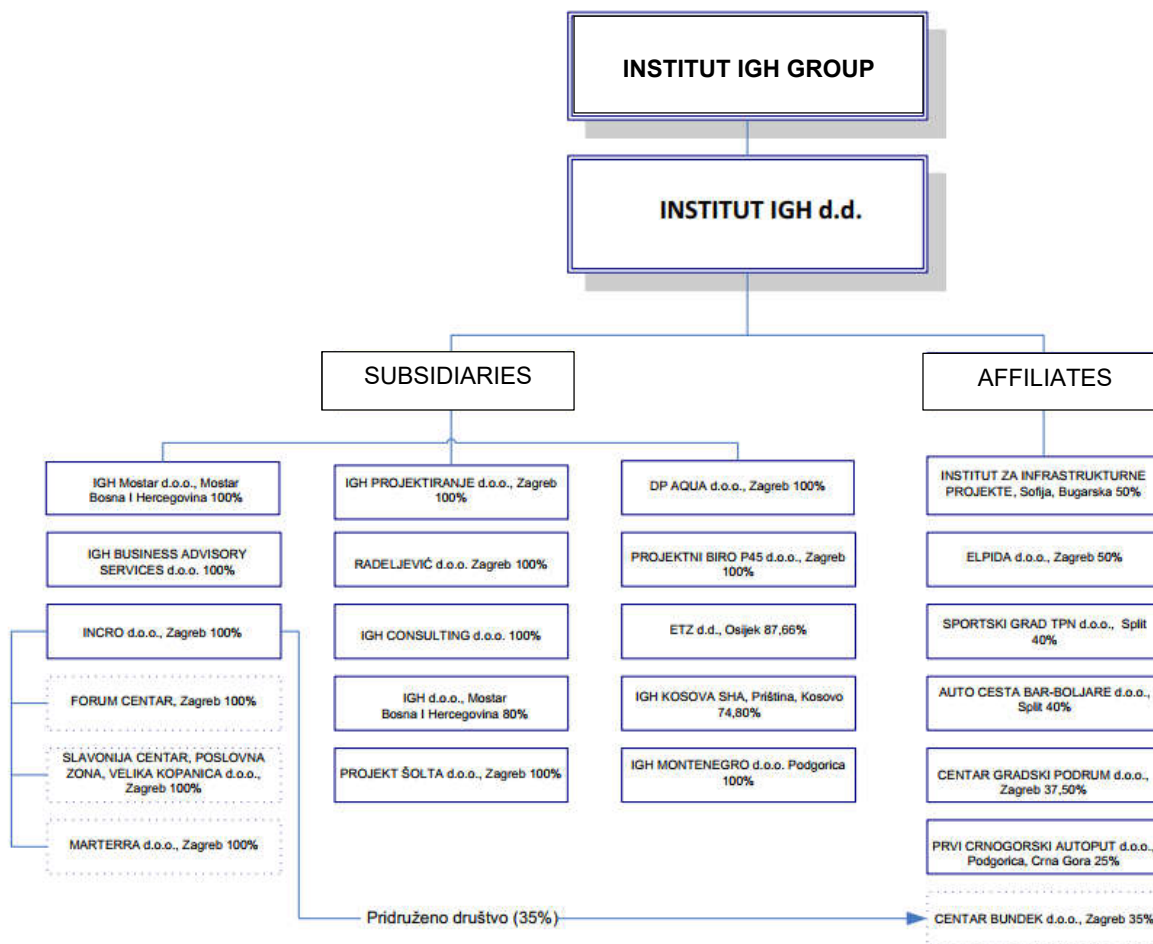


Chart 1. IGH Group on 31 Dec 2019

Consolidation included the following **subsidiaries**:

SUBSIDIARY	ADDRESS
PROJEKтни BИRO P 45 d.o.o.	Palmostićeva 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 - Škrjjevo	studijska dokumentacija	2.521.246	ugovoreno
9	Hrvatska	Odvodnja d.o.o. Zadar	Izgradnja integralnog sustava odvodnje aglomeracije Zadar i Petričane	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 everyday 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 of 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.

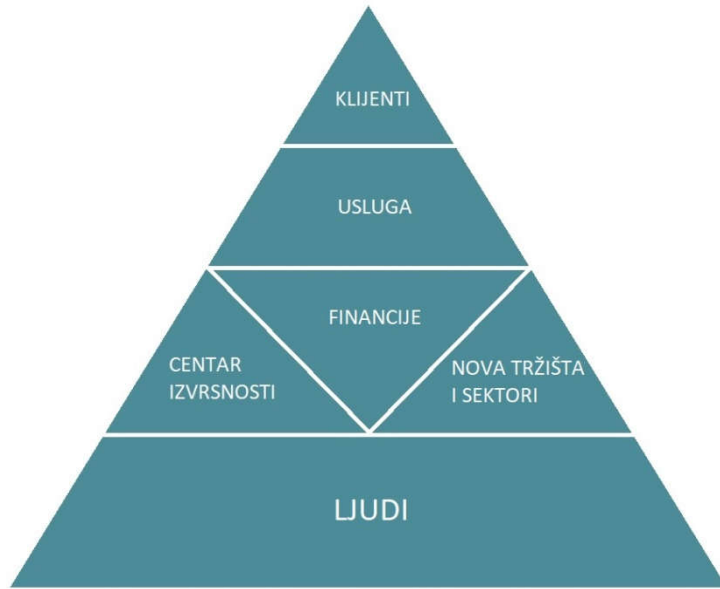


Figure 2: Symbolic presentation of IGH's strategic areas



9. ORGANIZATIONAL STRUCTURE OF THE COMPANY

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

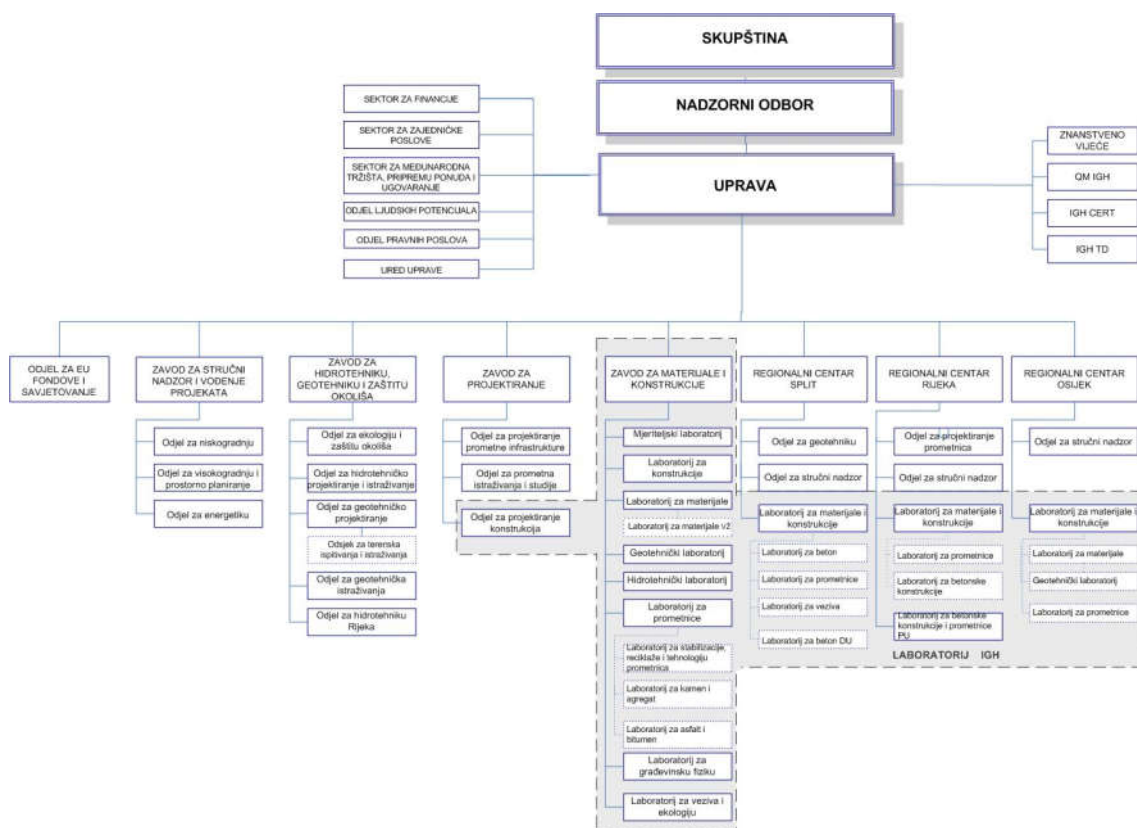


Figure 5: Organizational structure on 31 Dec 2019



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	
Ključni broj otpada	Naziv otpada	Osnovna 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)	Stanje privremenog skladišta na dan		Postupanje s otpadom na mjestu nastanka		Predano					Izv. oznica
					1.1.	31.12.	Količina (t)	D/R postupak	Namijeneno za postupak uporabe (R) ili zbrinjavanja (D)	Količina (t)	Naziv i adresa tvrtke/obrtara koji preuzima otpad	OIB tvrtke/obrtara koji preuzima otpad	Količina (t)	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
37271	plastična ambalaza	1 - vaganje		0,487	0,00	0,218	0		R	0,269	D.N.T. STIRO-GRUPA d.o.o., Ulica Ivana Bikanovića 1, 10360 Sesvete	49623249725		
37637	otpadne gume	1 - vaganje		0,18	0,00	0	0		R	0,18	QUINIMPEX-GRP d.d., Pavleka Mškinje 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	MSAN EKO d.o.o., SURLUNJSKI 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.J.A.K. d.o.o., Stupničke šipkove 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	MSAN EKO d.o.o., SURLUNJSKI 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 UNJAPAPIR CROATIA d.o.o., Lastovska 5, 10000 Zagreb	99467756764		
39161	glomazni otpad	1 - vaganje		15,28	0,00	0	0		D	15,28	e-KOLEKTOR d.o.o., Slavenska avenija 58, 10000 Zagreb	50538578553		

RC RIJEKA

NASTANAK OTPADA										Podaci za 2017.			Obrazac NO	
Ključni broj otpada	Naziv otpada	Osnovna 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)	Stanje privremenog skladišta na dan		Postupanje s otpadom na mjestu nastanka		Predano					Izv. oznica
					1.1.	31.12.	Količina (t)	D/R postupak	Namijeneno za postupak uporabe (R) ili zbrinjavanja (D)	Količina (t)	Naziv i adresa tvrtke/obrtara koji preuzima otpad	OIB tvrtke/obrtara koji preuzima otpad	Količina (t)	
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 Šteljevo	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 Šteljevo	19158233033		
36911	papir i karton	3 - prosudba		0,47	0,05	0,08			D	0,44	METIS d.d., Industrijska zona Kukuljanovo 414, 51223 Šteljevo	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

MONTH	HEATING	ELECTRICITY			WATER	GAS
	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

MONTH	ELECTRICITY			WATER	GAS
	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

MONTH	ELECTRICITY			WATER
	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

MONTH	HEATING	ELECTRICITY			WATER
	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).

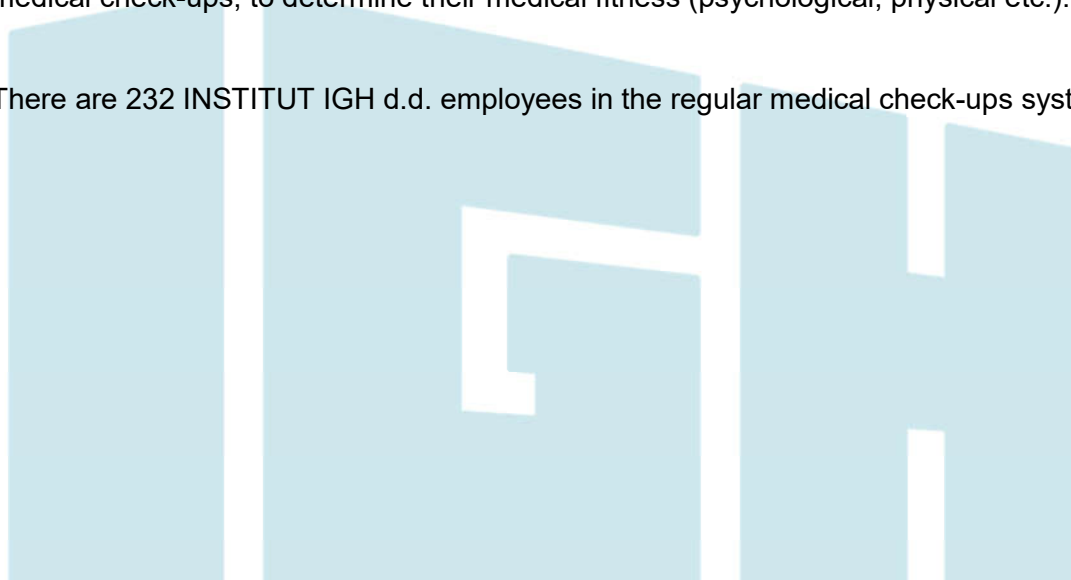
YEAR	NO.OF INJURIES	LOST WORK DAYS	FREQUENCY*	SEVERITY OF INJURY*
2013	4	100	0,029427171	0,735679267
2014	3	50	0,023438525	0,390642091
2015	2	59	0,016571876	0,488870328
2016	3	26	0,027007173	0,234062167
2017	4	22	0,020579526	0,110657697
2018	1	62	0,011375943	0,705308470
2019	5	99	0,050000000	1,010000000

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.

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	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

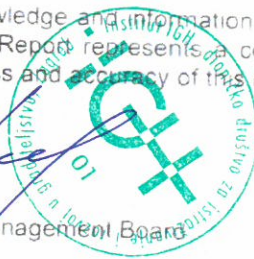
In accordance with our beliefs, knowledge and information at our disposal, we hereby state that all information set forth in this Report represents a complete and accurate view, and facts that could alter the completeness and accuracy of the Report have not been omitted.

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.

Izvešće neovisnog revizora

Dioničarima društva Institut IGH d.d.

Izvešće o reviziji nekonsolidiranih financijskih izvještaja

Naše mišljenje

Prema našem mišljenju, nekonsolidirani financijski izvještaji fer prezentiraju, u svim značajnim odrednicama, nekonsolidirani financijski položaj društva Institut IGH d.d. („Društvo“) na dan 31. prosinca 2019. i njegovu nekonsolidiranu financijsku uspješnost i njegove nekonsolidirane 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

Nekonsolidirani financijski izvještaji Društva obuhvaćaju:

- Nekonsolidirani izvještaj o sveobuhvatnoj dobiti za godinu koja je završila 31. prosinca 2019.;
- Nekonsolidirani izvještaj o financijskom položaju na dan 31. prosinca 2019.;
- Nekonsolidirani izvještaj o promjenama glavnice za tada završenu godinu;
- Nekonsolidirani izvještaj o novčanom toku za tada završenu godinu; i
- Bilješke uz nekonsolidirane 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 detaljnije opisane u našem izvješću u odjeljku o Odgovornosti revizora za reviziju nekonsolidiranih 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 Društva 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 Društvu i društvima pod njegovom kontrolom u razdoblju od 1. siječnja 2019. do 31. prosinca 2019. godine.

Značajna neizvjesnost u svezi vremenske neograničenosti poslovanja

Skrećemo pozornost na bilješku 2(v) Vremenska neograničenost poslovanja i bilješku 36 Utjecaji predstečajne nagodbe uz ove nekonsolidirane financijske izvještaje u kojima se opisuje da je 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), Društvo nije podmirilo svoje obveze u iznosu od 334.630 tisuća kuna koje su temeljem predstečajne nagodbe dospjele na dan 31. prosinca 2019. godine i Društvo kasni s otplatom Senior duga u iznosu od 53.217 tisuća kuna.

Kao što je navedeno u bilješci 36, 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 Društva da generira dovoljno novca iz poslovanja i prodaje imovine. Društvo trenutno pregovara s vjerovnicima po Senior dugu oko uvjeta otplate međutim ishod tih pregovora i mogućnost Društva 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. Društvo ima negativan kapital u iznosu od 42.307 tisuća kuna i kratkoročne obveze su veće od kratkotrajne imovine za iznos od 225.125 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 36, 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 | • Značajnost za financijske izvještaje Društva kao cjelina: 1,735 tisuća kuna, što predstavlja 1% od prihoda od prodaje. |
| Ključna revizijska pitanja | • Priznavanje prihoda |

Oblikovali smo našu reviziju utvrđujući značajnost i procjenjujući rizike značajnog pogrešnog prikazivanja u nekonsolidiranim 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.

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

Značajnost

Na opseg naše revizije utjecala je naša primjena značajnosti. Revizija je oblikovana kako bi se moglo steći razumno uvjerenje o tome jesu li nekonsolidirani 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 nekonsolidiranih financijskih izvještaja.

Na temelju naše profesionalne prosudbe utvrdili smo određene kvantitativne pragove značajnosti, uključujući značajnost za nekonsolidirane 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 nekonsolidirane financijske izvještaje kao cjelinu.

Značajnost za financijske izvještaje kao cjelina

1,735 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 Društva 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 nekonsolidiranih izvještaja tekućeg razdoblja. Tim pitanjima smo se bavili u kontekstu naše revizije nekonsolidiranih 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 nekonsolidirane financijske izvještaje pod naslovom "Prihodi", bilješku 5 pod nazivom "Ključne računovodstvene prosudbe i procjene", bilješku 7 "Informacija o segmentima" i bilješku 24.1 "Ugovorna imovina i ugovorne obveze" 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 81% prihoda Društva) 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, Društvo u nekonsolidiranim financijskim izvještajima iskazuje ugovornu imovinu i ugovorne obveze za sve aktivne projekte na izvještajni datum. Vezano uz te ugovore na dan bilance Društvo je iskazalo ugovornu obvezu u iznosu od 7.548 tisuća 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 Društvo pripremlilo kako bi utvrdilo 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 nekonsolidiranim financijskim izvještajima Društva.

Izveštavanje o ostalim informacijama uključujući Izvešće posloводства

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

Naše mišljenje o nekonsolidiranim financijskim izvještajima ne obuhvaća ostale informacije.

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

U pogledu Izvešća posloводства 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 Izvešće posloводства sastavljeno u skladu s člankom 21. 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 Izvešću posloводства i Izjavi o primjeni kodeksa korporativnog upravljanja za financijsku godinu za koju su sastavljeni nekonsolidirani financijski izvještaji usklađene su, u svim značajnim odrednicama, s nekonsolidiranim financijskim izvještajima;
- Izvešće posloводства sastavljeno je u skladu s člankom 21. 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 Društva i njegovog 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 nekonsolidirane financijske izvještaje

Uprava je odgovorna za sastavljanje i fer prikaz nekonsolidiranih 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 nekonsolidiranih financijskih izvještaja koji su bez značajnog pogrešnog prikaza uslijed prijevare ili pogreške.

U sastavljanju nekonsolidiranih financijskih izvještaja, uprava je odgovorna za procjenjivanje sposobnosti Društva 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 Društvo ili prekinuti poslovanje ili nema realne alternative nego da to učini.

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

Odgovornost revizora za reviziju nekonsolidiranih financijskih izvještaja

Naši ciljevi su steći razumno uvjerenje o tome jesu li nekonsolidirani 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 nekonsolidiranih financijskih izvještaja.

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

- Prepoznavamo i procjenjujemo rizike značajnog pogrešnog prikaza nekonsolidiranih 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 prijevare 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 Društva.
- 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 Društva 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 nekonsolidiranim 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 Društvo prekine s vremenski neograničenim poslovanjem.
- Ocjenjujemo cjelokupnu prezentaciju, strukturu i sadržaj nekonsolidiranih financijskih izvještaja, uključujući i objave, kao i odražavaju li nekonsolidirani financijski izvještaji transakcije i događaje na kojima su zasnovani na način kojim se postiže fer prezentacija.

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 nekonsolidiranih 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.



Izvešće o ostalim zakonskim i regulatornim zahtjevima

Imenovanje

Prvi put smo imenovani za revizore Društva 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


PricewaterhouseCoopers d.o.o.⁴
za reviziju i konzalting
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Tomičić
Michaela Tomičić
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INSTITUT IGH d.d.

INSTITUT IGH d.d., Zagreb

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

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MANAGEMENT BOARD'S RESPONSIBILITY FOR THE ANNUAL REPORT

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that separate financial 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 financial position and financial performance of the company Institut KGH, d.d. for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company 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 separate financial statements.

In preparing separate 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 separate financial statements; and
- separate financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company 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 Company 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 Company 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 separate and consolidated 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 Article 21 of the Accounting Act.

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

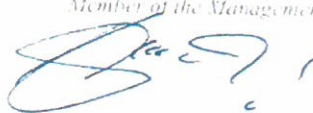
Robert Petrošian

President of the Management Board



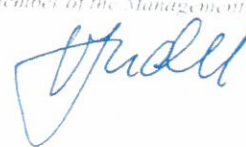
Miroslav Pauzar

Member of the Management Board



Vedrana Luder

Member of the Management Board



Institut KGH, d.d., Zagreb

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED ON 31 DECEMBER 2019

<i>(In thousands HRK)</i>	Note	2019	2018
Revenues	7	173.492	176.508
Other operating income	8	3.577	9.137
Total revenue and income		177.069	185.645
Raw materials, consumables and services used	9	(57.258)	(64.435)
Staff costs	10	(88.516)	(89.365)
Impairments of short term assets	11	8.927	(5.018)
Other operating expenses	12	(10.238)	(8.500)
Total operating expenses		(147.085)	(167.318)
Profit from operating activities before depreciation and value adjustment/impairments of long term assets (EBITDA)		29.985	18.327
Depreciation		(8.754)	(8.478)
Impairments/value adjustment of long term assets	11	(92)	(918)
Provisions		(443)	-
Total expenses		(156.374)	(176.714)
Operating profit/(loss)		20.695	8.931
Financial revenue		5.247	10.269
Financial expenditure		(14.982)	(18.582)
Net financial expenditure	13	(9.735)	(8.313)
Pre – tax profit		10.960	618
Corporate tax	14	5.704	702
Current year profit		16.665	1.320
Other comprehensive income			
Revaluation of long term assets, net of taxes		(6)	(385)
Foreign exchange differences		18	(334)
Adjustments through retained earnings		(13)	
Other comprehensive profit (loss)for the year		(1)	(719)
Comprehensive profit for the year		16.664	601
Gain per share (in HRK)	35	27,76	2,16

The below given Accounting Policies and Notes form an integral part of these Separate Financial Statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED ON 31 DECEMBER 2019

<i>(In thousands HRK)</i>	Note	2019	2018
ASSETS			
Intangible assets	15	1.691	1.733
Property, plants and equipment	16	138.783	138.617
Investment in property	17	348	348
Investments in related parties and other investments	18	108.504	108.433
Loans given	21	3.167	3.406
Trade receivables and other receivables	20	1.062	1.208
NON-CURRENT ASSETS		253.555	253.745
Inventories	19	816	816
Trade receivables and other receivables	20	42.504	44.706
Loans given and deposits	21	19.004	19.052
Prepaid expenses	24	4.308	4.662
Contract assets	24.1	12.850	16.344
Cash and cash equivalents	22	11.144	5.873
CURRENT ASSETS		90.626	91.453
Long term assets held for sale	23	81.609	108.025
TOTAL ASSETS		425.790	453.223
EQUITY AND LIABILITIES			
Share capital	25	116.605	116.605
Own shares	26	(3.196)	(3.196)
Reserves for own shares		1.446	1.446
Other reserves		954	1.344
Capital reserves		(255)	(255)
Revaluation reserves	27	91.445	114.639
Accumulated losses		(249.306)	(289.162)
TOTAL EQUITY		(42.307)	(58.579)
Loans and borrowings	28	48.707	231.230
Provisions	29	2.233	2.022
Deferred tax liabilities	14	19.599	25.304
Trade and other payables	30	198	198
LONG-TERM LIABILITIES		70.737	258.754
Loans and borrowings	28	336.463	173.469
Trade and other payables	30	49.951	64.683
Advances and deposits received	31	330	323
Provisions	29	2.950	2.818
Contract liabilities	24.1	7.548	10.631
Accrued expenses and deferred revenue		118	1.124
CURRENT LIABILITIES		397.360	253.048
TOTAL EQUITY AND LIABILITIES		425.790	453.223

The below given Accounting Policies and Notes form an integral part of these Separate Financial Statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED ON 31 DECEMBER 2019

(In thousands HRK)

	Share capital	Capital reserves	Own shares	Reserves for own shares	Other reserves	Revaluation reserves	Accumulated loss	Total
Situation on 31 December 2017	116.605	(255)	(3.196)	1.446	3.497	118.558	(292.816)	(56.161)
Adjustment of initial status for MSFI 9, Note 3.23.							(866)	(866)
Adjustment of initial status for MSFI 15								
As at 1 January 2018 after adjustment	116.605	(255)	(3.196)	1.446	3.497	118.558	(293.682)	(57.027)
<i>Transactions with owners</i>								
Reserves for stock grants and stock options					(2.153)	-	-	(2.153)
<i>Total transactions with owners</i>	-	-	-	-	(2.153)	-	-	(2.153)
<i>Comprehensive income</i>								
Profit for the year	-	-	-	-	-	-	1.320	1.320
Transfer from revaluation reserves	-	-	-	-	-	(3.200)	3.200	-
Revaluation of fixed assets, net of tax	-	-	-	-	-	(385)	-	(385)
Foreign exchange differences from foreign business	-	-	-	-	-	(334)	-	(334)
<i>Total comprehensive income/</i>	-	-	-	-	-	(3.919)	4.520	601
As at 31 December 2018	116.605	(255)	(3.196)	1.446	1.344	114.639	(289.162)	(58.579)
<i>Transactions with owners</i>								
Reserves for stock grants and stock options	-	-	-	-	(391)	-	-	(391)
<i>Total transactions with owners</i>	-	-	-	-	(391)	-	-	(391)
<i>Comprehensive income</i>								
Current year profit	-	-	-	-	-	-	16.665	16.665
Transfer from revaluation reserves	-	-	-	-	-	(23.206)	23.206	-
Revaluation of fixed assets, net of tax	-	-	-	-	-	(6)	-	(6)
Foreign exchange differences from foreign business	-	-	-	-	-	18	-	18
Adjustment through retained profit	-	-	-	-	-	-	(13)	(13)
<i>Total comprehensive income</i>	-	-	-	-	-	(23.194)	39.858	16.664
As at 31 December 2019	116.605	(255)	(3.196)	1.446	954	91.445	(249.306)	(42.307)

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED ON 31 DECEMBER 2019

<i>(In thousands HRK)</i>	Note	2019	2018
Cash generated from operations			
Profit before taxation		10.961	618
Adjustments:			
Depreciation	15,16	8.754	8.479
Value adjustments	11	(8.927)	5.936
Income from interest	13	(2.368)	(192)
Expenditure from interest	13	11.274	11.763
Net decreases in provisions	29	343	(1.071)
Unrealised exchange differences (net)	13	751	(2.372)
Loss/(profit) from sale of real estate, plants and equipment and intangible assets	8	1.570	(176)
Other financial expenditures	13	78	1.694
Other Adjustments for non-cash transactions and non-realized profit and loss		(2)	
(Profit) loss from sale of subsidiary	13	-	(2.580)
Result from operating activities before changes in working capital		22.434	22.099
Decrease/(increase) of short term receivables		8.400	(2.916)
Decrease/(increase) of contract assets		3.494	(8.829)
Decrease of short term liabilities		(11.718)	(10.589)
(Decrease) increase of contract liabilities		(3.083)	381
Net cash flow from operating activities before interests and tax		19.527	146
Net cash flow from operating activities		19.527	146
Cash flows from investment activities			
Proceeds from sale of financial instruments		1	2.580
Proceeds from given loans and deposits		13.050	4.097
Outflow for purchase of tangible and intangible assets		(2.936)	(2.734)
Cash outflows for loans and deposits		(10.924)	(8.002)
Net cash flow from investment activities		(809)	(4.059)
Cash flows from financing activities			
Cash receipts from loans and other borrowings		811	11.296
Cash outflows for repayment of principal loans and bonds		(13.134)	(7.040)
Repayment of financial leases		(1.124)	(73)
Other cash outflows from financing activities		-	-
Net cash flow from finance activities		(13.447)	4.183
Total cash flow increase		5.271	270
Cash and cash equivalents at beginning of the business year	22	5.873	5.603
Cash and cash equivalents at the end of business year	22	11.144	5.873

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 1 – GENERAL INFORMATION

History and incorporation

Institut IGH, d.d., Zagreb, Janka Rakuše 1, (Company), VAT no. (OIB) 79766124714, is entered in the Register of the Commercial Court in Zagreb under registration number (MBS) 080000959.

Company shares, ticker IGH-R-A, ISIN: HRIGH0RA0006 are listed on the Zagreb Stock Exchange. The Company 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 Company is certified for these activities in accordance with the Sustainable Development Standards : EN ISO 9001, EN ISO 14001, OHSAS 18001.

The Company's registered office is in Zagreb, Croatia, Janka Rakuše 1. Except business operations run from the registered office, the Company conducts its business through subsidiaries 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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

From 06 May 2020, Procurators representing the Company with two more Procurators are:

- Domagoj Šimunović,
- Dario Bašić, and
- Igor Džajić

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 2 – BASIS FOR PREPARATION

(i) Statement of Compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The consolidated financial statements of the Company and its subsidiaries, which the Company prepares in accordance with IFRS and Croatian laws, are published separately and issued simultaneously with the separate financial statements. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2019 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The consolidated financial statements as at, and for the year ended 31 December 2019 are available together with these separate financial statements directly at the registered address of the Company stated above.

The Company maintains its accounting records in the Croatian language, in Croatian Kuna, in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

These separate financial statements were authorised for issue by the Management Board on 25 August 2020. Balance sheet items were recorded as at 31 December 2019 unless otherwise stated.

(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
- Non-term assets held for sale as stated in Note 3.22.
- The methods used for fair value measurement are set out in Note 6.

These are the first Annual Financial Statements of the Company in which the IFRS – 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 Company's functional currency, 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 and future periods, if the correction impacts both current and future accounting periods.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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 Company 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 Company marked a net profit of HRK 16.665 thousand (2018: profit of HRK 1.320 thousand), but still a negative capital in the amount of HRK 42.307 thousand, and at the end of the year the Company's current liabilities exceeded its current assets by HRK 225.125 thousand (2018: HRK 53.570 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 36), 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. Total short-term liabilities amount to HRK 397.360 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 124.510 thousand must be settled in cash. Short-term assets that are not assets intended for sale amount to HRK 90.626 thousand, which results in a shortage of cash in the amount of HRK 33.884. The Company's Management prepared a three-year cash flow forecast which shows that the Company 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 Company 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 Company 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 Company 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 than 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 Company's ability to continue as a going concern.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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 Investments in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to exercise control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment. Impairment testing for investments in subsidiaries is conducted on an annual basis.

3.2 Investments in affiliated companies

Affiliated companies are companies in which the Company has a significant influence, but not the control. Significant influence comprises the power of participating in making decisions on financial and operating policies of an associate, but does not represent control or joint control of these policies.

Investments in affiliates are accounted for initially at cost and subsequently at cost less impairment. Impairment testing for investments in subsidiaries is conducted on an annual basis.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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.

Revenue recognition in accordance with IFRS 15 (effective from 1 January 2018) is applicable to the following sources of revenue:

Construction contracts

The main revenue generated by the Company 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 Company manages construction contracts are mainly derived from projects that contain a single performance obligation. To measure progress towards completion of construction, the Company 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 separate contract. When a third party (such as a subcontractor) is involved in the delivery of a good or service, the Company 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 Company recognizes as revenue the gross amount it expects to be entitled to receive on handover. In cases where control is not taken, the Company 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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Contractual assets and contractual liabilities

Contractual liabilities are entered when the client has made payment for goods or services, and the Company did not fulfil its obligation by delivering these goods or services. If the Company 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).

(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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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.

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 IAS 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.

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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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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).

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 Company 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 28) 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.

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 and jointly controlled companies 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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 exposures

In determining the amount of current and deferred tax, the Company 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 Company 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.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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 Company 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.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(iii) *Subsequent costs*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company 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.

(iv) *Depreciation*

Land 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 Company 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 life are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.12).

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.11 Investment into property

Investment into property is recognised as an asset when it is likely that future economic benefits will arise from the investment 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 income statement of the period in which they are incurred.

3.12 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 expensed when put into use.

3.13 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 Company 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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.14 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.

3.15 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.

3.16 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.17 Provisions

Provisions are recognised when the Company 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.

3.18 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 Company 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.

(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 Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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 income statement.

(iii) Derecognition

Financial assets

The Company ceases to recognize financial assets when the contractual rights to cash flows from financial assets expire or if the Company 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 Company neither transfers nor retains all risks and rewards of ownership and does not retain control over financial assets.

The Company 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 Company derecognises a financial liability when its contractual obligations are fulfilled, cancelled or expired. The Company 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 income statement.

(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 Company 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.

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.19 Financial guarantee contractual obligations 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.

3.20 Operating segment reporting

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker (which was identified as being the Company's Management Board) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in Note 7 to the Financial Statements.

3.21 Earnings per share

The Company 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.

3.22 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 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 24 and 16.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

3.23 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 (IASB) 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:

<i>(in thousand HRK)</i>	Note	Impact of IFRS 16
<hr/>		
Adjustment on 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)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

	1.068
Total commitments for lease recognized on 01 January 2019	
Short-term	651
Long-term	1.089

- 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).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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

4.1. Standards and interpretations issued by FASB not yet 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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 Company 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 Company 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.

In the event of a +/- 10% change in useful life, with the remaining variables unchanged, the depreciation expense would change by HRK -/+ 713 thousand.

(iii) Impairment of assets

The Company 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 Company 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 Company 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 Company 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 Company has recorded the liabilities relating to loan commitments that will be settled from the Company'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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 6 – DETERMINATION OF FAIR VALUE

The Company 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 Company has made the following significant fair value estimates while preparing the financial statements as further explained in detail in the following notes:

- Note 16: Property, plant and equipment
- Note 17: Investment into property
- Note 18: Investments in related parties and other investments
- Note 23: Non-current assets held for sale

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 7 – SEGMENT INFORMATION

The Company is organised into business units according to their locations and sectors of construction industry. Business units are engaged in designing, performing studies, supervising, advisory services, laboratory testing, research work and scientific research.

Reportable segments are an integral part of the internal financial statements. The internal reports are regularly reviewed by the Company's Management Board 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 Company'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 (shown in note 9). Accordingly, segment revenues are presented at this level.

(in thousand HRK)	Segment revenue		Segment EBIDTA	
	2019	2018	2019	2018
Design Department	22.194	19.986	7.400	5.923
Water Engineering, Geotechnical and Environmental Protection Department	21.360	18.513	4.379	2.402
Expert Supervision and Project Management Department	36.618	21.218	14.681	7.487
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	21.484	24.752	6.983	11.072
Management and Administration	2.410	1.285	(17.251)	(25.132)
Segments total	144.059	138.239	29.985	18.327

Revenue – by geographical area

	2019	2018
	(in thousand HRK)	
Republic of Croatia	132.473	118.945
Rest of the World	41.019	57.563
	173.492	176.508

Revenue – by category

	2019	2018
	(in thousand HRK)	
Revenue recognised over time	140.736	141.379
Revenue recognised at a point in time	32.756	35.129
	173.492	176.508

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 7 – SEGMENT INFORMATION (continued)

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.

Water Engineering, Geotechnical and Environmental Protection Department is engaged in design and studies, demonstrating serviceability, investigations and measurement, modelling, planning, in all hydro technical fields as well as all other activities needed to solve engineering problems at the contact of soil (rocks) and structure.

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 construction.

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 construction.

The accounting policies of the reportable segments are the same accounting policies as described in Note 3.21. Segment profit represents the profit earned by each segment without allocating central administration costs, depreciation, provisions, impairment, other income and other finance income and costs.

The Company does not allocate assets and liabilities by segments.

NOTE 8 – OTHER OPERATING INCOME

	2019	2018
	<i>(In thousands HRK)</i>	
Income from reversal of provisions	231	6.355
Gain from sale of assets	-	176
Rental income	1.743	1.243
Insurance reimbursements	7	85
Grants received	54	13
Income from write off of liabilities	591	-
Income from reimbursement of court costs	426	262
Other income	525	1.003
	3.577	9.137

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 9 – COST OF RAW MATERIALS, CONSUMABLES AND SERVICES

	2019	2018
	<i>(In thousands HRK)</i>	
Raw material	2.077	1.373
Energy	6.119	5.627
Small inventory and spare parts	682	876
Transportation, telephone and postal services	1.224	1.381
Subcontractors	29.434	38.269
Production services	2.208	1.717
Utilities	1.196	1.160
Maintenance	1.301	1.488
Rental expenses	7.152	7.713
Other external expenses	5.865	4.831
	57.258	64.435

During 2019, the Company 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 10 – STAFF COSTS

	2019	2018
	<i>(In thousands HRK)</i>	
Net salaries and wages	53.111	52.529
Taxes, contribution and other charges	28.087	30.746
Reimbursement of employee expenses (travel expenses, daily allowances, transportation)	6.320	4.656
Severance payments and other employee benefits	995	1.433
Benefits above tax deductible amounts	3	1
Compensation to Supervisory Board members	-	-
	88.516	89.365

As at 31 December 2018, the Company had 469 employees (2018: 555 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 Company accounted for contributions for the compulsory pension fund for 503 employees amounting to HRK 12.123 thousand (2018: for 499 employees amounting to HRK 12.248 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 11 – VALUE ADJUSTMENTS

	2019	2018
		<i>(In thousands HRK)</i>
<i>Value adjustment of fixed assets</i>		
Value adjustment real property	-	918
Value adjustment of investment in subsidiaries	-	-
Value adjustment of investment in affiliates	38	-
Value adjustment of loans and other financial assets	54	-
	92	918
<i>Value adjustment of short-term assets</i>		
Value adjustment of trade receivables-net	(7.156)	1.929
Value adjustment of loans and other financial assets	(1.839)	3.089
Value adjustment of other receivables	68	-
	(8.927)	5.018

NOTE 12 – OTHER OPERATING EXPENSES

	2019	2018
		<i>(In thousands HRK)</i>
Legal, consultancy and audit services	1.769	1.739
Bank fee and charges	1.356	1.497
Other expenses	371	480
Penalties	837	208
Insurance premiums	998	1.331
Contributions to public services	1.540	1.278
Entertainment	513	1.185
Education and training expenses	382	618
Taxes not dependent on result	902	164
Loss on sale of non-current assets	1.570	-
	10.238	8.500

NOTE 13 – NET FINANCIAL (EXPENDITURE)

	2019	2018
		<i>(In thousands HRK)</i>
<i>Financial revenue</i>		
Revenue from foreign exchange	2.879	7.497
Revenue from interests	2.368	192
Revenue from sale of shares	-	2.580
	5.247	10.269

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

Financial expenditure

Expenditure due to foreign exchange losses	3.630	5.126
Interest expenditures	11.274	11.763
Unrealised losses from financial assets	-	9
Other financial expenditure	78	1.684
	14.982	18.582
Net financial (expenditure) revenue	(9.735)	(8.313)

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 14 – CORPORATE TAX

Tax income consists of:

	2019	2018
	<i>(In thousands HRK)</i>	
Deferred tax	5.704	702

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	2018
	<i>(In thousands HRK)</i>	
Profit before taxation	10.961	618
Tax rate of 18%	1.973	111
Effects of non-taxable income and other decreases in tax base	(2.400)	(4.451)
Effects of unrecognized expenses and other increases in tax base	7.519	4.393
Used tax losses from previous years not recognised as tax assets	-	-
Effects of tax losses not recognised as deferred tax assets	(7.092)	(53)
Previously recognized deferred tax liabilities	5.704	702
Corporate tax	5.704	702
Effective tax rate	52%	114%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 14 – CORPORATE TAX (continued)

Unused tax losses from previous periods amounting to HRK 94,635 thousand relate to the tax loss incurred in 2015 in amount HRK 18,272 thousand that can be used up to 2020, and to the tax loss incurred in 2017 in amount HRK 76,363 thousand that can be used up to 2022. In 2019, the Company used the tax loss to reduce the tax base in the amount of HRK 39.399 thousand. The total amount of transfer tax losses is HRK 55,236 thousand and can be used until 2023.

Unused tax losses are not recognised as deferred tax assets in the statement of financial position, as it is unlikely that there will be sufficient taxable profits realised for the utilisation of these deferred tax assets.

The Company did not recognise deferred tax assets in the total amount of HRK 88.027 thousand which is based on:

- unused tax losses generated up to 2019 in the amount of HRK 9.934 thousand, and temporary differences arising from impairment of long-term and short-term financial assets and receivables in the total amount of HRK 78,085 thousand.

The deferred tax liability arises from the following:

	Opening balance	Through equity	Through profit and loss	Closing balance
2019 (in thousands HRK)				
Temporary differences:				
Revaluation of long-term assets	25.304	(1)	(5.704)	19.599
	25.304	(1)	(5.704)	19.599
2018 (in thousands HRK)				
Temporary differences:				
Revaluation of long-term assets	26.091	(85)	(702)	25.304
	26.091	(85)	(702)	25.304
2017 (in thousands HRK)				
Temporary differences:				
Revaluation of long-term assets	30.274	(3.389)	(794)	26.091
	30.274	(3.389)	(794)	26.091

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 15 – INTANGIBLE ASSETS

<i>(in thousands HRK)</i>	Right of usage of property of third parties	Assets under preparation	Total
For the year ending 31 December 2018			
As at 1 January	1.796	78	1.874
Net acquisition	-	1.362	1.362
Current year depreciation	(1.474)	-	(1.474)
Reduction	-	(29)	(29)
Adjustment value	-	-	-
Transfer to use	1.390	(1.390)	-
As at 31 December 2018	1.712	21	1.733
As at 31 December 2018			
Acquisition cost	22.304	3.883	26.187
Accumulated depreciation	(20.592)	(3.862)	(24.454)
Net book value	1.712	21	1.733
For the year ending 31 December 2019			
As at 1 January	1.712	21	1.733
New purchases	-	1.253	1.253
Current year depreciation	(1.292)	-	(1.292)
Reduction	(1)	-	(1)
Value adjustment	-	(2)	(2)
Transfer to use	1.235	(1.235)	-
As at 31 December 2019	1.654	37	1.691
As at 31 December 2019			
Acquisition cost	23.537	3.901	27.438
Accumulated depreciation	(21.883)	(3.864)	(25.747)
Net book value	1.654	37	1.691

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 16 – REAL-PROPERTY, PLANTS AND EQUIPMENT

<i>(In thousands HRK)</i>	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	Total
For the year ending 31 December 2018										
As at 1 January 2018	-	-	-	52.469	51.466	18.513	21.767	304	170	144.689
Current year depreciation	-	-	-	-	(3.511)	(3.494)	-	-	-	(7.005)
Direct purchase	-	-	-	-	-	1.204	372	-	23	1.599
Transfer to use	-	-	-	-	-	356	(356)	-	-	-
Value adjustment	-	-	-	-	-	(178)	(60)	-	(43)	(281)
Revaluation	-	-	-	(268)	(117)	-	-	-	-	(385)
As at 31 December 2018	-	-	-	52.201	47.838	16.401	21.723	304	150	138.617
As at 31 December 2018										
Acquisition cost	-	-	-	55.215	69.941	62.150	28.669	479	252	216.706
Accumulated depreciation and impairment	-	-	-	(3.014)	(22.103)	(45.749)	(6.946)	(175)	(102)	(78.089)
Net book value	-	-	-	52.201	47.838	16.401	21.723	304	150	138.617

For the year ending 31 December 2019

As at 31 December 2019

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

	-			52.201	47.838	16.401	21.723	304		138.617
Effect of first app. of IFRS 16	1.055	862		-	-	(862)	-	-	-	1.055
Current year depreciation	(708)	(249)	-	-	(3.427)	(3.078)	-	-	-	(7.462)
Direct purchase	4.138	253	826	-	-	32	1.332	1	317	6.899
Transfer to use	-			-	43	1.323	(1.366)	-	-	-
Value adjustment	-			-	-	-	-	-	(1)	(1)
Reduction				-	-	(325)	-	-		(325)
As at 31 December 2019	4.485	866	826	52.201	44.454	13.491	21.689	305	466	138.783
As at 31 December 2019										
Acquisition cost	5.193	1.115	826	55.215	69.984	62.643	30.001	480	569	226.026
Accumulated depreciation and impairment	(708)	(249)	-	(3.014)	(25.530)	(49.152)	(8.312)	(175)	(103)	(87.243)
Net book value	4.485	866	826	52.201	44.454	13.491	21.689	305	466	138.783

Land and buildings of the Company (including assets under construction) with a net carrying amount of HRK 118.344 thousand (2018: HRK 122.210 thousand) have been pledged as security for borrowings from commercial banks (Note 28).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 16 – REAL-PROPERTY, PLANTS AND EQUIPMENT (continued)

Assets under construction relate to the investment in the construction of Office building at Janka Rakuše 1 in Zagreb.

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 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 Company 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

	2018.
<i>(In thousands HRK)</i>	
Cost of capitalised finance leases	1.993
Accumulated depreciation	(1.132)
Net book value	861

(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
<p><i>Land and buildings</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Correction factors used in calculating the market price.</p> <p>Average yield: 7-9%</p> <p>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.</p> <p>Specific expenses used in determining the net cash flow in the income method.</p> <p>Specific costs of construction, periods of financing, interest rates, required profit margins and other expenses in calculating the residual method.</p>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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Valuation methods and techniques	Significant unobservable inputs
<p><i>Equipment</i></p> <p>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.</p> <p>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.</p> <p>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 expected to be generated by functioning machinery and equipment</p>	<p>Correction factors used in calculating the market price.</p> <p>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.</p> <p>Specific expenses used in determining the net cash flow in the DCF method.</p>

NOTE 17 – INVESTMENT INTO REAL-PROPERTY

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

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 Company recognised an impairment loss of the property at the acquisition cost.

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
<p><i>and and buildings</i></p> <p>Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in Note 16 (i).</p>	<p>Significant unobservable inputs are described in Note 16 (i).</p>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS

	2019	2018
	<i>(In thousands HRK)</i>	
Investments in subsidiaries	92.968	92.968
Investments in affiliates	15.000	15.000
Shares in investment funds	-	-
Deposits and guarantees given	536	465
	108.504	108.433

Investments in subsidiaries

<i>(In thousands HRK)</i>	2019		2018	
	Share in ownership and voting rights (%)	Book value	Share in ownership and voting rights (%)	Book value
IGH Mostar d.o.o., Mostar	100,00	6.005	100,00	6.005
IGH Business advisory d.o.o., Zagreb	100,00	222	100,00	222
Incro d.o.o., Zagreb	100,00	20	100,00	20
Projekt Šolta d.o.o., Zagreb	-	-	-	-
IGH Projektiranje d.o.o., Zagreb	100,00	6.103	100,00	6.103
Radeljević d.o.o., Zagreb	100,00	116.827	100,00	116.827
IGH Consulting d.o.o., Zagreb	100,00	100	100,00	100
DP AQUA d.o.o., Zagreb	100,00	452	100,00	452
Projektni biro P 45 d.o.o., Zagreb	100,00	18.564	100,00	18.564
ETZ Ekonomsko tehnički zavod d.d., Osijek	87,70	6.684	87,70	6.684
IGH d.o.o. Mostar, Mostar	80,00	1.131	80,00	1.131
IGH Kosova Sha Priština	74,80	39	74,80	39
MBM Termoprojekt d.o.o., Zagreb	-	-	-	-
IGH Montenegro d.o.o., Podgorica	100,00	-	100,00	-
Value adjustment of investments in subsidiaries		(63.179)		(63.179)
		92.968		92.968

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS (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
<p>The fair value of investments in related parties was estimated using methods applicable to each individual company, The following methods were used:</p> <ul style="list-style-type: none"> The valuation of property was carried out by authorised independent valuers (methods described in Note 16 (i)) The estimation of the recoverable amount of assets, liabilities and equity of the Company as at 31 December <p>Future cash flow projections</p>	<ul style="list-style-type: none"> Significant unobservable inputs are described in Note 16 (i), Future cash flow projections with a growth rate of 5%

Investments in associates

(In thousands HRK)

	2019		2018	
	Share in ownership and voting rights (%)	Book value	Share in ownership and voting rights (%)	Book value
Elpida d.o.o. Zagreb	50,00	31.300	50,00	31.300
Institut za infrastrukturne projekte, Sofia	50,00	9	50,00	9
Sportski grad TPN d.o.o. u stečaju, Split	40,00	8	40,00	8
Auto cesta Bar Boljare d.o.o., Split	40,00	8	40,00	8
Centar Gradski podrum d.o.o., Zagreb	37,50	21.533	37,50	21.533
IGH Lux energija d.o.o. (ex Lux energija d.o.o.) , Zagreb	-	-	-	-
Prvi crnogorski autoput d.o.o., Podgorica	25,00	-	25,00	-
Value adjustment of investments in associates		(37.859)		(37.859)
		14.999		14.999

Investments in affiliates relate to companies in which the Institut IGH d.d. has no independent control over management, regardless of ownership.

	2019	2018
	(In thousands HRK)	
Investment in shares in investment funds	2.297	2.297
Less: Fair value adjustment of investment funds' holdings	(2.297)	(2.297)
	-	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS (Continued)

Participating interests

	2019	2018
	<i>(In thousands HRK)</i>	
Geotehnika-inženjering d.o.o., Zagreb	62.790	62.790
Konstruktor-inženjering d.d.	759	759
Viktor Lenac d.d. Rijeka	47	47
GP Dubrovnik d.d. u stečaju, Dubrovnik	2.694	2.694
Međimurje beton d.d., Čakovec	383	383
Industrogradnja Grupa d.d.	372	372
Elektrometal d.d. Bjelovar	17	17
Value adjustment of participating interest	(67.062)	(67.062)
	<u>-</u>	<u>-</u>

The Company has participating interests in several companies whose value has been impaired, and their carrying amount has been reduced to zero.

NOTE 19 – INVENTORIES

	2019	2018
	<i>(In thousands HRK)</i>	
Work in progress	247	247
Good for sale	569	569
Stocks of finished products	113	113
Less: value adjustment of stocks of finished products	(113)	(113)
	<u>816</u>	<u>816</u>

Stocks of finished products include unsold business premises that are pledged as security for the repayment of borrowings (Note 28) whose carrying amount is reduced to zero as a result of impairment. Their reduction was caused by the sale of part of the business premises, which resulted in the closure of related credit obligations.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 20 – TRADE RECEIVABLES AND OTHER RECEIVABLES

	2019	2018
	<i>(In thousands HRK)</i>	
Long-term receivables		
Receivables from sale of apartments with deferred payments and other receivables	1.062	1.208
Short-term receivables		
Trade receivables	79.621	85.629
Less: value adjustment of trade receivables	(42.920)	(50.119)
Receivables from government institutions	1.019	759
Receivables from employees	865	785
Receivables from related parties	3.757	4.312
Less: value adjustment of receivables from related parties	(2.347)	(3.144)
Advanced receivables	2.157	6.096
Other receivables	352	388
	42.504	44.706

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
	<i>(In thousands HRK)</i>
As at 31 December 2019	
As at 1 January 2019	53.263
Newly created expected credit loss	963
Cancellation of previous credit loss	(840)
Unpaid previously value adjusted receivables	(8.119)
As at 31 December	45.267

	2018
	<i>(In thousands HRK)</i>
As at 31 December 2017	
Effect of initial application of IFRS 9	51.207
	295
As at 1 January 2018	51.502
Newly created expected credit loss	1.929
Cancellation of previous credit loss	(168)
As at 31 December	53.263

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 20 – TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

For calculation of impairment on trade receivables, the Company 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 Company 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 31 December 2019	<i>(In thousands HRK)</i>		
	Gross amount	Value adjustment	Net amount
Not due	25.632	(125)	25.507
0-60 dana	3.925	(155)	3.770
60-120 days	1.699	(174)	1.525
120-180 days	871	(193)	678
180-360 days	1.419	(322)	1.097
over 360 days	49.832	(44.298)	5.534
	83.378	(45.267)	38.111

31 December 2018	<i>(In thousands HRK)</i>		
	Gross amount	Value adjustment	Net amount
Not due	19.415	(246)	19.169
0-60 dana	10.734	(377)	10.357
60-120 days	1.156	(182)	974
120-180 days	1.100	(332)	768
180-360 days	2.551	(1.070)	1.481
over 360 days	54.985	(51.056)	3.929
	89.941	(53.263)	36.678

NOTE 21 – LOANS AND DEPOSITS GIVEN

	2019	2018
	<i>(In thousands HRK)</i>	
Long term loans		
Loans to subsidiaries	3.167	3.406
	3.167	3.406
Short term loans		
Loans to subsidiaries	361	390
Loans to third parties	226	5.677
Deposits and guarantees	18.228	13.832
Interests receivables	303	69
Expected credit loss	(114)	(916)
	19.004	19.052
	22.171	22.458

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 21 – LOANS AND DEPOSITS GIVEN (continued)

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

	<i>(In thousands HRK)</i>
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)

Loans to related parties were granted interest free or at a certain interest rate, whereby for determining the profit tax base, the interest rates prescribed in Art. 14, par. 3 of the Corporate Income Tax Act are taken into account

NOTE 22 – CASH AND CASH EQUIVALENTS

	2019	2018
	<i>(In thousands HRK)</i>	
Giro accounts	6.959	3.879
Cash in hand	13	75
Foreign currency accounts	4.172	1.919
	11.144	5.873

Cash and cash equivalents currency breakdown

	2019	2018
	<i>(In thousands HRK)</i>	
HRK	6.969	3.947
GEL	3.141	1.629
BAM	138	190
EUR	886	106
Other currencies	10	1
	11.144	5.873

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 23 – LONG-TERM ASSETS HELD FOR SALE

	2019	2018
	<i>(In thousands HRK)</i>	
Acquisition cost		
As at 1 January	108.025	108.025
Sale	(26.416)	-
As at 31 December	81.609	108.025

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.

Liabilities to secured creditors in 2019 (Note 28) with liens on property classified as long-term assets held for sale, amount to HRK 81.609 thousand (further explained in Note 36). Property is decreased by HRK 26.416 thousand which is a result of property sale in Osijek. 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.

(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
<p>The fair value was estimated using methods applicable to each individual company, The following methods were used:</p> <ul style="list-style-type: none"> • The valuation of property carried out by authorised independent valuers (methods described in Note 16 (i)) • Review of rights of secured creditors 	<p>Significant inputs are described in Note 16 (i),</p> <p>Amount of secured debt</p>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 24 –PREPAID EXPENSES

	2019	2018
	<i>(In thousands HRK)</i>	
Prepaid expenses	4.033	4.409
VAT on advances	275	253
	4.308	4.662

NOTE 24.1 – 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 Company reported contractual trade receivables or contractual obligations to customers:

	December 31 2019.	December 31 2018
	<i>(In thousands HRK)</i>	
Contract assets	12.975	16.657
Expected credit loss	(125)	(313)
	12.850	16.344
Contract liabilities	7.548	10.631
	7.548	10.631

Contract assets primarily relate to the Company'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 Company 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 (2018: HRK 77.919 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 25 – SHARE CAPITAL

	Number of shares 2019	Ownership share 2019	Number of shares 2018	Ownership share 2018
AGRAM BANKA DD/AVENUE ENGINEERING AND CONSTRUCTION LTD	239.500	39,03%	239.500	39,03%
AGRAM BANKA DD/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%
I PRO - INŽENJERING D.O.O.	4.512	0,74%	3.587	0,58%
Knežević Dinko	2.791	0,45%	2.512	0,41%
Other shareholders	199.446	32,50%	201.815	32,88%
	613.709	100%	613.709	100%

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, up to 20% of the share capital. 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 37.

Given the above, the Company 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 Company did not calculate and recognise the equity component as at 31 December 2019.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 26 – RESERVES

Under Croatian regulations, companies 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 Company's share capital. Both legal reserves and reserves for own shares are non-distributable.

Based on the decision of the General Assembly, legal reserves and part of the reserves in excess of the value of own shares were used to cover losses generated in 2012.

The Company owns 13,359 own shares. Own shares are recorded at cost and are released using the weighted average price method.

	Number of own shares 31 Dec 2019	Number of own shares 31 Dec .2018
At 1 January	13.359	3.279
Increase during the year	-	10.080
Awarding of granted shares	-	-
As at 31 December	13.359	13.359

The Management Board of the 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 27 – REVALUATION RESERVES

<i>(In thousands HRK)</i>	Revaluation reserves for long- term tangible assets	Foreign exchange differences from translation of foreign operations	Total
As at 31 December 2017	118.860	(302)	118.558
Transfer to accumulated losses	(3.200)	-	(3.200)
Foreign exchange differences from translation of foreign operations	-	(334)	(334)
Decrease due to write-offs	(385)	-	(385)
As at 31 December 2018	115.275	(636)	114.639
Transfer to accumulated losses	(23.206)	-	(23.206)
Foreign exchange differences from translation of foreign operations	-	18	18
Decrease due to write-offs	(6)	-	(6)
As at 31 December 2019	92.063	(618)	91.445

Revaluation reserves are not distributable to shareholders.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 28 – LOANS AND BORROWINGS

	2019	2018
	<i>(In thousands HRK)</i>	
<i>Long term borrowings</i>		
Bank loans-PIK debt /ii/	-	129.158
Bank loans-junior debt /iv/	-	7.670
Bank loans-senior debt /iii/	43.065	58.136
Bank loans-other	-	-
Lease obligations	5.145	-
Accrued interest payable	-	36.201
Other borrowings	497	65
	48.707	231.230
<i>Short term borrowings</i>		
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	-	5.064
Borrowings from related parties	1.158	1.251
Finance lease /vii/	-	672
Lease obligations	675	
Other borrowings	870	839
Accrued interest payable	46.666	-
	336.463	173.469
Total loans and borrowings	385.170	404.699

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 28 – LOANS AND BORROWINGS – (continued)

<i>(In thousands HRK)</i>	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/	Borrowings from related parties	Other borrowings	Accrued interest payable	Total
Net book value												
As at 1 Jan 2019	129.158	103.585	7.670	49.221	5.064	70.973	-	672	1.251	904	36.201	404.699
Payments		(7.629)			(5.064)		(1.124)		(93)	(348)		(14.258)
First application of IFRS 16							1.740	(672)				1.068
Non-cash repayment				(23.599)								(23.599)
Loans taken										811		811
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	-	70.973	5.820	-	1.158	1.367	46.666	385.170

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

<i>(In thousands HRK)</i>	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/	Borrowings from related parties	Other borrowings	Accrued interest payable	Total
Net book value											
As at 1 Jan 2018	153.228	104.873	7.760	49.222	947	70.973	1.016	676	2.035	26.428	417.158
Payment	-	(38)	-	-	(1.700)	-	(73)	(276)	(5.027)		(7.114)
Non-cash repayment	(22.541)	-	-	-	-	-	-	-	-		(22.541)
Loans taken	-	-	-	-	6.475	-	-	821	4.000		11.296
Liability write-off	-	-	-	-	-	-	(271)	-	271		-
Foreign exchange difference	(1.529)	(1.250)	(90)	-	(658)	-	-	30	(376)		(3.873)
Cost of interest										9.773	9.773
As at 31 Dec 2018	129.158	103.585	7.670	49.222	5.064	70.973	672	1.251	903	36.201	404.699

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 28 – LOANS AND BORROWINGS (continued)

Non-monetary repayment refers to the closing of a liability after the sale of property in Osijek (Note 23).

/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 Company's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Company..

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.

/iv/ The 'Junior debt' relates to part of creditor claims which will be settled in accordance with the provisions of the 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 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 reduced to the stated amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 28 – LOANS AND BORROWINGS (continued)

/vii/ The finance lease liability is as follows:

<i>(In thousands HRK)</i>	Minimum lease payments	Finance costs	Present value of min. Lease payments
	2018	2018	2018
Up to 1 year	377	27	350
Between 1 and 5 years	330	8	322
Total	707	35	672

The analytical review of loans and borrowings is as follows:

	Currency	Interest rate	2019	Up to 1 year	1 – 2 years	2 – 5 years	More than 5 years
<i>Financial liabilities</i>							
Commercial bank	EUR	4,50%	8.010	7.190	820		-
Commercial bank	HRK	6,50%	0	0	-	-	-
Third parties	EUR	4,50%	191.280	191.280			-
Third parties	EUR	4,50%	33.442	11.175	6.467	15.800	-
Liabilities for interest	HRK		46.666	46.666			
<i>Non-interest bearing other liabilities</i>							
Third parties	EUR	-	0	0	-	-	-
Third parties	EUR	-	14.333		14.333	-	-
Third parties	EUR	-	11.290	5.645	5.645	-	-
Loans from other financial institutions	HRK	-	836	836	-	-	-
Bonds	EUR	-	70.973	70.973	-	-	-
<i>Other finance liabilities</i>							
Loans from related parties	HRK	3%	1.158	1.158	0	-	-
Loans from non-related parties	HRK	4,50%	864	835	29	0	-
Other borrowings	RUB	4%	497		497	-	-
Lease obligations	EUR	6,01-6,07%	33	33			-
Lease obligations	HRK	4,50%	5.787	642	2.280	2.865	
			385.170	336.463	30.042	18.665	0

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 29 – PROVISIONS

<i>(In thousands HRK)</i>	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

(i) Unused vacation days

In 2019, the provision for unused vacation days was accrued based on the expectations that unused vacation days from 2019 will be used in 2020.

(ii) Termination benefits

In 2018, the Company recognised a long-term provision for termination benefits for all employees in the non-taxable amount of HRK 8,000 per employee, amounting to HRK 661 thousand. In 2019 the Company cancelled HRK 155 thousand for termination benefits.

(iii) Legal disputes

The amounts of provisions relate to a number of legal disputes initiated against the Company. 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 30 – TRADE AND OTHER PAYABLES

	2019	2018
	<i>(In thousands HRK)</i>	
<i>Long-term liabilities</i>		
Trade payables	198	198
	198	198
<i>Short-term liabilities</i>		
Domestic trade payables	19.192	18.493
Trade payables per pre-bankruptcy settlement	913	3.807
Foreign trade payables	6.462	12.526
Other short term liabilities - rescheduled tax debt	-	2.443
Liabilities towards government institutions	7.832	6.851
Liabilities to employees	6.008	8.051
Interests payable	4.891	6.624
Municipal charges	2.756	2.949
Related party payables	627	1.548
Other liabilities	1.270	1.391
	49.951	64.683
	50.149	64.881

As at 31 December 2019 the Company has no long term liabilities towards creditors based on the Pre-bankruptcy settlement Decision. As at 31 December 2019, the carrying value of short-term liabilities approximates their fair value, due to the short-term nature of these liabilities.

Other liabilities relate to those other short-term liabilities.

The ageing structure of trade payables is as follows:

	2019	2018
	<i>(in thousand HRK)</i>	
Not due	7.592	4.170
0-90 days	5.404	15.947
91-180 days	2.967	3.550
181-360 days	1.394	6.661
over 360 days	9.210	4.498
	26.567	34.826

The Company's exposure to foreign exchange risk and liquidity risk is presented in Note 33.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 31 – ADVANCES AND DEPOSITS RECEIVED

	2019	2018
	<i>(In thousands HRK)</i>	
Received deposits and guarantees	330	323
	330	323

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various financial risks related to foreign exchange, interest rate, credit and liquidity risk. The Company monitors these risks and seeks to minimise their potential impact on the Company's financial exposure. The Company 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 instruments due to changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risks.

The Company 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 Company 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 Company has invested in financial instruments and entered into transactions denominated in currencies that do not represent its functional currency. Accordingly, the Company 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 Company.

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

(In thousands HRK)	Liabilities		Assets	
	2019	2018	2019	2018
European Union (EUR)	326.204	358.205	37.962	39.976
Bosnia and Hercegovina (BAM)	23	140	1.012	1.132
USA (USD)	1.553	1.538	608	215
Russian Federation (RUB)	1.151	2.975	2.594	9.268
Georgia (GEL)	8.648	7.397	18.213	26.857

Foreign currency sensitivity analysis

The Company is mainly exposed to fluctuations in the exchange rate of the Croatian Kuna to the Euro, in terms of received loans, suppliers and trade receivables. The Company is additionally exposed to changes in the Croatian Kuna exchange rate relative to the GEL due to the operations of the Georgia subsidiary.

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.

The depreciation of the Croatian Kuna against the exchange rate of the currencies shown by 1% would have the following effects on profit:

EUR currency effect		USD currency effect		GEL currency effect	
2019	2018	2019	2018	2019	2018
<i>(In thousands HRK)</i>		<i>(In thousands HRK)</i>		<i>(In thousands HRK)</i>	
(2.854)	(3.182)	(9)	(13)	95	195

BAM currency effect		RUB currency effect	
2019	2018	2019	2018
<i>In thousands HRK)</i>		<i>In thousands HRK)</i>	
10	10	14	63

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The mean exchange rates against the Croatian Kuna significant for the Company are as follows:

	31 Dec 2019	31 Dec 2018
EUR	7,44258	7,41758
BAM	3,805331	3,79255
USD	6,64991	6,46919
RUB	0,1053	0,098
GEL	2,2801	2,4282

c) *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.

The Company uses loans with predominantly fixed interest rates and is not exposed to interest rate risk, The Company does not use instruments to actively hedge interest rate risk exposure.

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 Company and reduce the value of its assets. On December 31 2019 financial assets that could potentially expose the Company 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 Company 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.

The Company applies a simplified approach to IFRS 9 to measure expected credit losses that uses expected value adjustments for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped on the basis of common credit risk characteristics and by maturity date. For the same types of contracts, contract assets are tied to the same risk characteristics as trade receivables. Therefore, the Company concluded that the expected loss rates for trade receivables could also be used to calculate losses on contract assets.

Expected loss rates are based on billing information for the 24 months prior to December 31, 2019 and historical credit losses during that period.

Furthermore, the Company is exposed to credit risk through cash deposits with banks. As at December 31, 2019, the Company cooperated with eleven banks while holding its own money and deposits at seven banks. Risk management is focused on doing business with the most respectable banks, both domestically and internationally, foreign and domestically owned, and on contact on a daily basis with banks. Deposits with banks are current account cash and deposits with a maturity of up to 3 months and are therefore classified as held to maturity in accordance with IFRS 9 and are measured at amortized cost. Credit risk is measured using a general approach. The Company uses the daily value of CDS to cover insurance for a period of 5 years. A 5-year CDS has the highest market liquidity and is therefore chosen as a benchmark. CDS is susceptible to increasing the risk of default - regardless of whether a security with a 3 or 5 year period is selected. Domestic banks do not have a CDS rating or indicator as a measure of risk.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

To measure the risk, the Company took the CDS for the Republic of Croatia, which at 31 December 2019 amounted to 0.63%. Credit risk amount calculated according to the formula: amount of deposits * number of days * 0.63% / 365. For demand deposits, the Company uses 2 days in calculating the amount of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company could face difficulties in settling its liabilities. Liquidity risk arises in the general funding activities of the Company 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 Company 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.

Table analysis of liquidity risk

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

<i>2019 (In thousands HRK)</i>	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	385.170	407.425	347.445	20.365	39.614	-
Trade and other payables	50.149	50.149	49.951	198	-	-
	<u>435.319</u>	<u>457.574</u>	<u>397.396</u>	<u>20.563</u>	<u>39.614</u>	<u>-</u>

<i>2018 (In thousands HRK)</i>	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	247.400	269.333	208.110	18.604	42.619	-
Trade and other payables	64.881	64.881	64.683	198	-	-
	<u>312.281</u>	<u>334.214</u>	<u>272.793</u>	<u>18.802</u>	<u>42.619</u>	<u>-</u>

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

Interest bearing liabilities include short-term and long-term loans, borrowings and bonds

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

<i>(In thousands HRK)</i>	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	22.821	22.821	22.821	-	-
Trade and other receivables	43.566	43.566	42.504	53	1.009
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	66.387	66.387	65.325	53	1.009
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

<i>(In thousands HRK)</i>	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	20.101	20.120	20.120	-	-
Trade and other receivables	45.914	45.914	44.707	160	1.047
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	66.015	66.034	64.827	160	1.047
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 with 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 2019, 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 32 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Management Board believes that the carrying value of long-term deposits, receivables and borrowings as at 31 December 2019 approximates their fair value due to the application of variable interest rates on liabilities.

Capital risk management

Net debt-to-equity ratio

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES

The Company considers that its key shareholders are directly related parties and entities under their control or influence (subsidiaries and affiliates), key management (see below), 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
	<i>(In thousands HRK)</i>	
<i>Revenues from sales of services to subsidiaries</i>	791	988
<i>Revenues from sale of services to affiliated companies</i>		7
<i>Revenues from sale of services to companies controlled by the same party</i>	102	1.146
<i>Revenue from previously value adjusted receivables from companies under significant control of the same party</i>	1.449	
<i>Revenues from service sales to companies under significant control of the same party</i>	4	188
<i>Revenue from previously value adjusted receivables from companies under significant control of the same party</i>	769	
<i>Interest income on loans given to subsidiaries</i>	17	
<i>Cost of received services from subsidiaries</i>	-	2.045
<i>Interest income on loans given to companies under significant control of the same party</i>	-	25
<i>Receivables for services provided to subsidiaries</i>	1.102	1.319
<i>Receivables for services rendered to companies controlled by the same party</i>	18	1.739
<i>Receivables for services rendered to companies under significant control of the same party</i>		296
<i>Given loans and deposits to companies under significant control of the same party</i>	1	5.590
<i>Liabilities to affiliated companies on the basis of received services</i>	1.472	1.233
<i>Receivables from positive exchange rate differences related to companies controlled by the same party</i>	332	-
<i>Given loans and deposits to companies under significant control of the same party</i>	111	-
<i>Liabilities for advance payment related to companies under significant control of the same party</i>	1	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

Loans given to subsidiaries

(In thousands HRK)

	2019		2018	
	Principal	Interest	Principal	Interest
IGH-Mostar d.o.o., Mostar	2.955	-	2.929	(3)
IGH d.o.o., Mostar	362	16	361	17
IGH Montenegro d.o.o.	-	2	-	-
Branch Office of Institut IGH d.d. - Russia	-	122	-	-
Radeljević d.o.o., Zagreb	212	-	486	-
Forum centar d.o.o.	-	-	5	-
INCRO d.o.o.	-	-	5	1
Slavonija centar, poslovna zona, Velika Kopanica d.o.o.	-	-	5	-
ETZ, Ekonomsko tehnički zavod d.d., Osijek	-	4	-	4
	3.529	144	3.791	19

Information on co-debtor relationships and guarantees issued to related parties is stated in Note 35.

Management Board and Supervisory Board compensation:

The total compensation of Management Board and the Supervisory Board members in 2019 amounted to HRK 1.898 thousand (in 2018: HRK 899 thousand).

NOTE 34 – POTENTIAL CONTINGENCIES

	2019	2018
	<i>(In thousands HRK)</i>	
Guarantees given to third parties-externally	42.495	48.944
Co-debtor in loans to related parties	30.245	30.245
Guarantees for related parties	797	797
	73.537	79.986

As at 31 December 2019, several legal disputes are in progress against the Company 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 Company. The total value of stated legal disputes is HRK 36 189 thousand.

The overview of co-debtor relationships in related party loans is as follows:

	2019	2018
	<i>(In thousands HRK)</i>	
Geotehnika Inženjering d.o.o. Zagreb	14.565	14.565
Incro d.o.o. Zagreb	15.680	15.680
	30.245	30.245

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 35 – EARNINGS PER SHARE

Basic earnings per share are calculated as follows:

	2019	2018
	<i>(In thousands HRK)</i>	
Profit for the year (in thousands of HRK)	16.665	1.320
Weighted average number of shares	600.350	611.327
Profit/(loss) per share in HRK	27,76	2,16

As stated in Note 25, as part of the pre-bankruptcy settlement a portion of the Company's debt cannot be converted into equity 6 years after the settlement will have become legally valid, up to 20% of the share capital at the time of conversion. Due to the uncertainty of significant variables in the calculation, the Company did not calculate diluted earnings per share in the event of conversion of the stated portion of debt into equity.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 36 - 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 is 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. During 2019 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.

I. Settlement with banks

PIK debt

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.

If the sale of pledged assets is realised, the PIK debt (including interest) is settled first and the remainder of

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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. The creditors have taken over Company's assets at book value of HRK 8.803 thousand.

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.

A lien was entered over a part of assets of a subsidiary in which the Company owns shares, proportionally to

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

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:

<i>(In thousands HRK)</i>	Balance sheet as at 31 Dec 2019	Settlement of liabilities towards secured creditors	Balance sheet after settlement of liabilities
Long-term assets	253.555	(16.875)	236.680
Long term assets held for sale	81.609	(81.609)	-
Short-term assets	90.626		90.626
TOTAL ASSETS	425.790	(98.484)	327.306
Total equity	(42.307)		(42.307)
Long-term liabilities	70.737		70.737
Short term liabilities	397.360	(97.432)	299.928
TOTAL CAPITAL AND LIABILITIES	425.790	(97.432)	328.358

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
	<i>(In thousands HRK)</i>	
PIK debt (note 28)	165.017	158.760
Senior debt (note 28)	105.151	107.923
Junior debt (note 28)	9.791	9.426
	279.959	276.109
Secured creditors – principal (note 28)	97.432	121.031
	97.432	121.031

Since the legally valid pre-bankruptcy settlement up to 31 December 2019, the Company settled an amount of HRK 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

NOTE 37 – 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 and the value of share amounted to HRK 8.803 thousand. The Company realized an income of HRK 396 thousand. A part of the Senior debt was settled from this sale.

There were no significant events after the Balance Sheet date which could have any effect on the financial position of the Company.