

# MANAGEMENT REPORT FOR I – III 2018

## Unaudited and separate

1. MANAGEMENT REPORT .....	2
2. DECLARATION .....	5
3. SEPARATE STATEMENT OF FINANCIAL POSITION (unaudited) .....	6
4. SEPARATE INCOME STATEMENT (unaudited) .....	7
5. SEPARATE STATEMENT OF COMPREHENSIVE INCOME (unaudited) .....	7
6. SEPARATE CASH FLOW STATEMENT (unaudited) .....	8
7. SEPARATE STATEMENT OF CHANGES IN EQUITY (unaudited) .....	9
8. NOTES TO FINANCIAL STATEMENTS .....	10



## 1. MANAGEMENT REPORT

Industry in which Dalekovod Group (Group) and Dalekovod d.d. (The Company) operates, has traditionally been characterized by reduced activity during the first quarter. The business result for the q1/2019 continued to be largely influenced by cyclical trends in the industry during 2018, i.e. fall in number of contracts and realization, which have had a negative impact on realization and business result

The Group's sales revenue was at planned level. The higher sales revenue than planned was realized in foreign markets, mainly in Norway and Sweden, while the lower revenues than planned were realized on domestic market. Decline in profitability compared to the same period of the previous year is result of higher project costs in Norway, whose growth is primarily linked to lower utilization due to poor weather conditions. Subject to the result of business segments, the largest part of revenues was achieved in Transmission line segment and the smaller part in Substations and Infrastructure segments.

Despite postponement of many tenders in 2018, the Company entered in 2019 with "high level" of order book in the amount of **HRK 843 million**. The beginning of 2019 was marked a strong positive trend in contracting. In the first four months of 2019, the Company contracted or was selected as the most successful bidder in the total amount of **more than HRK 1,100 million**. Given that a large number of tenders were contracted at the beginning of the year, start of their realization is expected in 2019 as well.

During the first quarter, Company received funds from the sale of the company Dalekovod Profesio d.d. (Wind farms). The proceeds of the sale were used to reduce financial debt towards Mezzanine creditors in the amount of HRK 60.3 million and financing of working capital.

### **Operational and financial restructuring**

The process of operational restructuring has begun with the main goal of identifying activities that negatively affect cash flows and value of the company.

Dalekovod Group has initiated a reorganization program envisaging a reduction in total labor costs, primarily through a new organizational structure, i.e. a change in jobs systematization, which is expected to reduce number of employees by about 15%, mostly in middle management and support services segment. During April, Management Board held meetings with the Workers' Council and Unions, which resulted in mutual understanding of circumstances the Group is in, Meetings resulted with decisions regarding financial framework and timeline implementation of the restructuring program.

As part of the operational restructuring process, a business segment of anticorrosion protection (galvanizing plant) was “spinned off” from the company Proizvodnja MK and OSO d.o.o. (old name: Dalekovod proizvodnja). As a result, new company Cinčaonica Usluge d.o.o. operates separately from 1

April 2019. We expect that this decision will affect even stronger revenue growth and profitability of Cinčaonica usluge d.o.o. that have so far been constrained by aggravated operations of the company Proizvodnja MK and OSO d.o.o.

In addition to the above-mentioned activities, operational restructuring process is also focused at identifying the Group's non-performing assets.

The full impact of operational restructuring is expected in 2020 due to one-off effects over the same period in 2019.

As part of the financial restructuring, given large number of contracted or won tenders and significant growth of market activities in almost all business segments of the Group, the Group's management emphasizes the need to provide sufficient guarantee frameworks with commercial banks, which is the most important leverage for successful execution of business activities in following period.

#### **Key financial indicators for the period 1.1.-31.3.2019.**

Group's sales revenue amounted to HRK 215.5 million, down by 10.8% compared to same period of last year, and previously mentioned fall in sales of the Group was mainly due to the reduction of contracting and realization activities during 2018. Due to higher project costs caused by lower utilization, Group EBIT (-32.4 million) and EBITDA (-23.1 million kuna) dropped in the first quarter of 2019. Net income for the period amounted to HRK 11,980 thousand as a result of growth of other financial income, which was largely the result of Dalekovod Professio d.d. (Wind power) sale.

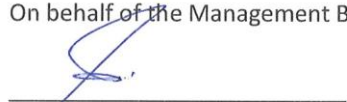
During the quarter, there was a further reduction in financial liabilities due to regular repayment of liabilities. Compared to the last day of the previous year, the Group's assets decreased, mainly because of sale of Dalekovod Professio d.d. (wind farms), shown in the item "Non-current assets intended for sale".

Comparing Group members, the Company contributed most to the lower Group sales revenue. Sales revenues of Dalekovod d.d. compared to the same period of the previous year are 23% lower, while the other members of the Group generally recorded a growth in sales revenues. At EBITDA level, the biggest contribution to the negative result came from companies Dalekovod d.d. and company Proizvodnja MK i OSO d.o.o.

IN HRK MILLION	SALES REVENUE		EBITDA	
	Q1/2019	Q1/2018	Q1/2019	Q1/2018
<b>DALEKOVOD GROUP</b>	<b>215,5</b>	<b>241,5</b>	<b>(23,1)</b>	<b>(6,6)</b>
DALEKOVOD D.D.	151,8	198,1	(11,5)	2,1
DALEKOVOD PROIZVODNJA D.O.O.	54,3	43,3	(8,7)	(6,7)
DALEKOVOD PROJEKT D.O.O.	7,0	5,5	(1,7)	(1,6)
OTHER GROUP MEMBERS	22,1	17,1	(0,9)	0,1
<i>ELIMINATIONS</i>	<i>(19,7)</i>	<i>(22,4)</i>	<i>(0,2)</i>	<i>(0,4)</i>

Despite the reduction of sales during the first quarter and a very challenging period for the Group in the context of the operational and financial restructuring process we are expecting positive trends in the following period, with regard to the won / contracted tenders during 2019 and a significant industry up-trend in which the Group operates.

On behalf of the Management Board:



\_\_\_\_\_  
 Tomislav Rosandić  
 President of the Management Board  
 Dalekovod d.d.

*Talabović*

## 2. DECLARATION

Pursuant to Article 410 Paragraph 1 and Article 407 Paragraph 2 Subparagraph 3 and Paragraph 3 of the Capital Market Act, the authorized persons for drawing up the report: Tomislav Rosandić – President of the Board, Tomislav Đurić – Member of the Board, Ivan Kurobasa – Member of the Board, Đuro Tatalović – Member of the Board, issue the following

### DECLARATION

According to our best knowledge, the financial Reports for the reporting period were drawn up in compliance with the appropriate financial reporting standards; they provide a complete and honest representation of assets and obligations, and the result of Dalekovod's business activities, as well as of other companies included in the consolidation, with a brief overview of the causes for data provided. Financial reports are not revised.

On behalf of the Management Board:



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Tomislav Rosandić  
President of the Management Board  
Dalekovod d.d.

*Tatalović*

### 3. SEPARATE STATEMENT OF FINANCIAL POSITION (unaudited)

<i>Separate Statement of financial position</i>	<i>31 December 2018</i>	<i>31 March 2019</i>
<b>ASSETS</b>	<b>878.374.309</b>	<b>803.105.264</b>
<b>Non current assets</b>	<b>415.295.707</b>	<b>425.983.838</b>
Intangible assets	7.575.844	6.466.476
Tangible assets	293.500.000	296.377.266
Non current financial assets	86.145.883	92.562.602
Trade receivables	28.073.980	30.577.494
<b>Current assets</b>	<b>463.078.602</b>	<b>377.121.426</b>
Inventories	11.642.356	10.161.775
Other available-for-sale assets	73.375.145	-
Receivables	291.009.356	308.131.292
Current financial assets	33.151.080	23.448.528
Cash on hand and in the Bank	51.076.527	32.431.929
Prepayments and accrued income	2.824.138	2.947.902
<b>Off-Balance sheet items</b>	<b>475.674.346</b>	<b>494.424.962</b>
<b>EQUITY AND LIABILITES</b>	<b>878.374.309</b>	<b>803.105.264</b>
<b>Capital and reserves</b>	<b>25.913.115</b>	<b>42.597.931</b>
Share capital	247.193.050	247.193.050
Capital reserves	88.235.980	88.235.980
Reserves from profit	43.675.007	43.675.007
Revaluation reserves	40.706.979	40.706.979
Retained earnings or loss brought forward	(160.874.981)	(393.897.901)
Profit or (loss) for the financial year	(233.022.920)	16.684.816
<b>Provisions</b>	<b>23.548.349</b>	<b>23.517.219</b>
<b>Non-current liabilities</b>	<b>413.517.418</b>	<b>406.812.124</b>
Liabilites to related parties	9.817.413	9.769.587
Liabilities towards banks and other financial institutions	350.111.986	342.437.977
Amounts payable for securities	43.797.127	44.984.709
Trade payables	855.214	684.173
Deffered tax	8.935.678	8.935.678
<b>Current liabilities</b>	<b>415.395.427</b>	<b>330.177.990</b>
Liabilites to related parties	21.917.078	22.711.267
Liabilities toward participating interests	19.209	19.209
Liabilities towards banks and other financial institutions	48.442.592	64.939.398
Amounts payable for securities	58.695.787	-
Trade payables	254.710.111	221.175.904
Accrued expenses and deferred income	31.610.650	21.332.212
<b>Off-Balance sheet items</b>	<b>475.674.346</b>	<b>494.424.962</b>

#### 4. SEPARATE INCOME STATEMENT (unaudited)

<i>Separate Income statement</i>	<b>Q1 2018</b>	<b>Q1 2019</b>
<b>Operating income</b>	<b>205.772.902</b>	<b>157.531.708</b>
Sales revenue	198.068.259	151.790.896
Other operating income	7.704.643	5.740.812
<b>Operating expenses</b>	<b>212.112.850</b>	<b>176.053.349</b>
Changes in inventories of finished products and work in progres	10.464	-
Material costs	129.981.326	101.961.033
Staff costs	46.726.261	44.639.968
Depreciation and amortisation	8.462.649	6.999.198
Other expenditures	2.895.128	2.544.769
Value adjustments	-	-
Other operating expenses	24.037.022	19.908.381
<b>Financial income</b>	<b>14.619.126</b>	<b>40.972.308</b>
<b>Financial costs</b>	<b>20.119.113</b>	<b>5.765.851</b>
Share of income/(loss) of associates	-	-
<b>Total income</b>	<b>220.392.028</b>	<b>198.504.016</b>
<b>Total expenses</b>	<b>232.231.963</b>	<b>181.819.200</b>
<b>Profit or (loss) before tax</b>	<b>(11.839.935)</b>	<b>16.684.816</b>
Income tax expense	-	-
<b>Profit or (loss) for the period</b>	<b>(11.839.935)</b>	<b>16.684.816</b>

#### 5. SEPARATE STATEMENT OF COMPREHENSIVE INCOME (unaudited)

<i>Separate Statement of comprehensive income</i>	<b>Q1 2018</b>	<b>Q1 2019</b>
<b>Profit or (loss) of the current year</b>	<b>(11.839.935)</b>	<b>16.684.816</b>
Revaluation of non-current assets and intangible assets	-	-
<b>Tax on other comprehensive income of the period</b>	<b>-</b>	<b>-</b>
Net other comprehensive income/(loss) for the period	-	-
<b>Total comprehensive income/(loss) for the period</b>	<b>(11.839.935)</b>	<b>16.684.816</b>

## 6. SEPARATE CASH FLOW STATEMENT (unaudited)

<i>Separate Cash Flow Statement</i>	<i>Q1 2018</i>	<i>Q1 2019</i>
<b><i>Cash flow from operating activities</i></b>		
Profit before taxation	(11.839.935)	16.684.816
Depreciation and amortisation	8.462.649	6.999.198
Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	467.500	(37.627.619)
Interest and dividend income	(4.807.787)	(482.910)
Interest expenses	6.922.472	2.771.173
Provisions	-	(31.130)
Exchange rate differences (unrealised)	1.556.986	(1.108.084)
Cash flow increase or decrease before changes in working capital	761.885	(12.794.556)
Changes in the working capital	(20.288.469)	(53.292.284)
Increase or decrease in short-term liabilities	170.298	(21.932.663)
Increase or decrease in short-term receivables	(17.256.124)	(30.811.454)
Increase or decrease in inventories	(1.347.515)	1.480.581
Other increase or decrease in working capital	(1.855.128)	(2.028.748)
Cash from operations	(19.526.584)	(66.086.840)
Interest paid	(4.015.794)	(4.398.680)
Income tax paid	-	-
<b><i>NET CASH FLOW FROM OPERATING ACTIVITIES</i></b>	<b>(23.542.378)</b>	<b>(70.485.520)</b>
<b><i>Cash flow from investment activities</i></b>		
Cash receipts from sales of fixed tangible and intangible assets	152.880	-
Cash receipts from sales of financial instruments	-	108.702.713
Interest received	166.994	316.686
Dividends received	1.411.737	-
Cash receipts from repayment of loans and deposits	1.187.161	8.283.458
Cash payments for the purchase of fixed tangible and intangible assets	(7.481.918)	(8.767.096)
Cash payments for loans and deposits for the period	(3.005.000)	(7.627.947)
Acquisition of a subsidiary, net of cash acquired	-	(20.000)
<b><i>NET CASH FLOW FROM INVESTMENT ACTIVITIES</i></b>	<b>(7.568.146)</b>	<b>100.887.814</b>
<b><i>Cash flow from financial activities</i></b>		
Cash receipts from credit principals, loans and other borrowings	-	24.830.780
Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	(5.706.342)	(70.463.849)
Cash payments for finance lease	(4.386.911)	(3.413.823)
<b><i>NET CASH FLOW FROM FINANCING ACTIVITIES</i></b>	<b>(10.093.253)</b>	<b>(49.046.892)</b>
<b><i>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</i></b>	<b>89.349.072</b>	<b>51.076.527</b>
<b><i>Increase/(decrease) of cash and cash equivalents</i></b>	<b>(41.203.777)</b>	<b>(18.644.598)</b>
<b><i>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</i></b>	<b>48.145.295</b>	<b>32.431.929</b>



## 7. SEPARATE STATEMENT OF CHANGES IN EQUITY (unaudited)

Separate Statement of changes in equity	31 December 2018	31 march 2019
<i>Share capital</i>	247.193.050	247.193.050
<i>Capital reserves</i>	88.235.980	88.235.980
<i>Profit reserves</i>	43.675.007	43.675.007
<i>Retained earnings or loss carried forward</i>	(160.874.981)	(393.897.901)
<i>Profit or (loss) of the current year</i>	(233.022.920)	16.684.816
<i>Revaluation of fixed tangible assets</i>	40.706.979	40.706.979
<b>Total capital and reserves</b>	<b>25.913.115</b>	<b>42.597.931</b>
<i>Other equity changes</i>	(260.697.188)	16.684.816
<b>Total equity increase or decrease</b>	<b>(260.697.188)</b>	<b>16.684.816</b>

## 8. NOTES TO FINANCIAL STATEMENTS

### I. BASIC INFORMATION

#### MANAGEMENT BOARD

Tomislav Rosandić – President of the Management Board

Tomislav Đurić – Member of the Board

Ivan Kurobasa – Member of the Board

Đuro Tatalović – Member of the Board

#### SUPERVISORY BOARD

UNTIL 21 March 2019

Željko Perić – President

Hrvoje Markovinović – Member

Hrvoje Habuš – Member

Dinko Novoselec – Member

Gordan Kuvék – Member

Vladimir Maoduš – Member

Rajko Pavelić – Member

FROM 21 March 2019

Željko Perić - President

Hrvoje Markovinović - Member

Toni Đikić - Member

Dinko Novoselec - Member

Gordan Kuvék - Member

Vladimir Maoduš - Member

Rajko Pavelić - Member

Dalekovod JSC for engineering, production and construction

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10001 Zagreb, P.P. 128

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E-mail: [dalekovod@dalekovod.hr](mailto:dalekovod@dalekovod.hr)

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

IBAN: HR8323600001101226102 ZABA Zagreb

Reg. No.: 080010093, Commercial Court in Zagreb

Stat. No.: 3275531

PIN: 47911242222

Activity code: 4222 (Construction of electricity and telecommunications lines)

## II. SHAREHOLDERS STRUCTURE (on 31 March 2019):

<b>Konsolidator d.o.o.</b>	<b>15.000.000</b>
<b>Domestic natural persons</b>	5.105.726
<b>Financial institutions</b>	3.864.051
<b>Others</b>	650.687
<b>Own shares</b>	98.841
<b>TOTAL</b>	<b>24.719.305</b>

## III. ACQUISITIONS AND MERGERS

There were no acquisitions or mergers in the first quarter of 2019.

## IV. UNCERTAINTY

There were no identified suspicious or disputable claims in the first quarter 2019 which would affect the continuity of business.

## V. DESCRIPTION OF PRODUCTS AND SERVICES

Over time, Dalekovod d.d. specialized for the realization of “turn-key” contracts in the following fields:

- electricity facilities, especially transmission lines between 0.4 and 750 kV
- transformer substations of all levels and voltages up to 500 kV
- air, underground and underwater cables up to 100 kV
- telecommunications facilities, all types of networks and antennas
- production of suspension and jointing equipment for all types of transmission lines and substations between 0.4 and 750 kV
- manufacture and installation of all metal parts for roads, especially for road lighting, security barriers and traffic signals, tunnel lighting and traffic management
- electrification of railroads and tramways

## VI. CHANGES IN ACCOUNTING POLICIES

There are no new accounting policies.