



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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Dalekovod d.d. ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Company and the Group, respectively, as at 31 December 2022, and their respective separate and consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereinafter "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2022, and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

REVENUE RECOGNITION UNDER LONG-TERM (CONSTRUCTION) CONTRACTS	
Revenue recognized from construction contracts recognized in profit or loss in 2022: the Group HRK 930,291 thousand; the Company: HRK 710,486 thousand (90 and 100 per cent, respectively, of the total revenue amount for 2022). Please refer to the Notes 2.20 of <i>Significant accounting policies</i> , Note 5 (a) of <i>Key accounting estimates and judgements</i> and Note 8 <i>Segment information</i> in the financial statements.	
Key audit matter	How our audit addressed the matter
<p>The Group's and the Company's principal activities include manufacturing of complex power-generating equipment, its installation and related construction services.</p> <p>Consequently, contracts with customers typically include one performance obligation which is satisfied over time.</p> <p>Under the applicable financial reporting standard governing the accounting for revenues, IFRS 15 <i>Revenue from Contracts with Customers</i>, if the requirements for recognition of revenue over time are met, entities measure 'progress to complete satisfaction' of the performance obligation using a method that best depicts the performance.</p> <p>Given the nature of contracts with customers, revenue from contracts with customers is recognised by reference to the 'progress to complete satisfaction' of the performance obligation which is typically calculated using the 'cost-to-cost' input method which measures the proportion of contract costs incurred for work performed up to the reporting date compared to the estimated total contract costs required to satisfy the performance obligation.</p> <p>The accounting for long-term construction contracts requires management to make reliable estimates with respect to future costs to completion of a contract and fulfilment of contractual obligations.</p> <p>This estimate directly impacts the amounts and timing of revenue recognition since it determines the stage of completion achieved under the contract. As a result, we considered this area to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> assessing the Group's and the Company's policy for recognizing revenue, including whether the policy is in accordance with the relevant accounting standards; testing the design, implementation and operating effectiveness of controls related to: <ul style="list-style-type: none"> accuracy of budgeting process including effectiveness of management review; approval of contract changes with particular focus on approval of relevant changes in budgeted cost to completion; assessing the accuracy of contract budgets by analysing historical accuracy of prior year budgets for completed contracts and contracts with significant change in the stage of completion in the current year; for a sample of contracts with key customers: <ul style="list-style-type: none"> challenging management's identification of performance obligations, particularly with respect to the evaluation of whether the contract relates to a single performance obligation; challenging management's assessment of whether the identified performance obligation meets the criteria for recognising revenue over time vs. at a point-in-time, by reference to the provisions of the contract and our understanding of the resulting pattern of satisfying the performance obligation; challenging the appropriateness of the method used to measure 'progress to complete satisfaction' (cost-to-cost vs. output based on surveys of work performed) by considering contractual terms and the nature of goods or services promised to customers; for a sample of contracts evaluating the appropriateness of the estimated 'progress to complete satisfaction' as at year-end by reference to the provisions of the contract and other supporting documents, such as budgets, progress reports and/or surveys of work performed; for significant subsequent changes in contracts inspecting their formal approvals by customers; assessing the adequacy of disclosures regarding estimation uncertainty involved in the accounting for construction contracts.



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES	
<p>As at 31 December 2022, investments in subsidiaries in the separate financial statements amounted to HRK 48,906 thousand. During the year the reversal of impairment loss on investments in subsidiaries of HRK 2,000 thousand was recognised. Please refer to notes 2.2 (a) and 2.9 of <i>Significant accounting policies</i> and note 22 <i>Investments in subsidiaries</i> in the financial statements.</p>	
Key audit matter	How our audit addressed the matter
<p>In accordance with the relevant financial reporting standards, the Company is required to perform an impairment test for assets for which impairment indicators were identified.</p> <p>Due to the magnitude of investments in subsidiaries (as well as total exposure toward these entities, calculated as the sum of the carrying amounts of the investments and related loans and receivables, net of related liabilities), identification of the impairment indicators for any such subsidiaries at the reporting date and testing for potential impairment requires significant management judgement.</p> <p>Where impairment indicators are identified for a certain exposure, the Company tests the impairment by determining the recoverable amount of the assets and comparing it with their carrying values.</p> <p>The recoverable amounts are determined, with the assistance from external and internal appraisers, as fair values of the underlying subsidiaries, measured using appropriate valuation techniques, e.g. discounted cash flow models of the underlying entity, supplemented, where available, by comparable valuation multiples or prices achieved in actual market transaction for comparable entities.</p> <p>The determination of the recoverable amount requires making a number of assumptions and judgements, in particular those relating to the selection and application of valuation models, future cash flow projections and the appropriateness of used valuation multiples, and comparable transactions. Future cash flow projections are subject to significant variability due to changing market conditions and environment. Key assumptions relate to discount rate used and cash flows growth rate in the residual period. A minor change in these assumptions may have a significant impact on the recoverable amount.</p> <p>As a result, this area required our significant judgment and increased attention in the course of our audit and consequently we considered it to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> evaluating, against the relevant requirements of the financial reporting standards, the process of management's identification of impairment indicators, considering factors such as unfavourable developments in the industry, negative or insufficient net assets, changing laws and regulations, declining financial performance, existence of any overdue loans and receivables and/or rolling of existing facilities, and changing business models; assessing the appropriateness of valuation methodology applied for impairment testing against the relevant requirements of financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of the said requirements; assessing competence, capabilities and objectivity of internal and external appraisers engaged by the Company; assisted by our own valuation specialists, challenging the key assumptions used by management in its impairment testing, which specifically involved: <ul style="list-style-type: none"> evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; challenging the key macroeconomic assumptions applied (such as discount rates and growth rates in the residual period) by reference to publicly available external sources and data on historical financial performance; analysing sensitivity of the impairment test results to changes in key assumptions and considering whether the level of key assumptions indicates management bias; evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing against the relevant requirements of the financial reporting standards.



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

Report on the Audit of the Financial Statements (*continued*)

Other Information

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

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

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

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

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

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

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

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



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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 30 June 2022 to audit the financial statements of the Company and the Group for the year ended 31 December 2022. Our total uninterrupted period of engagement is six years, covering the period from the year ended 31 December 2017 to the year ended 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 17 April 2023;
- for the period to which our statutory audit relates, we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Igor Gošek.



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

Report on Other Legal and Regulatory Requirements (continued)

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express a conclusion on compliance of the separate and consolidated financial statements of the Company and the Group, as included in the attached electronic file "*dalekovoddd-2022-12-31-en*", with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the separate and consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate and consolidated financial statements in the applicable xHTML format and their publication;
- the selection and application of appropriate iXBRL tags, using judgment where necessary;
- ensuring consistency between digitised information and the separate financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Company's and Group's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express a conclusion, based on evidence obtained, as to whether the separate and consolidated financial statements comply, in all material respects, with the RTS on ESEF. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

Work performed

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

In respect of the subject matter, we have performed the following procedures:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process
- tracing the tagged data to the separate and consolidated financial statements of the Company and the Group presented in human-readable format;
- evaluating the completeness of the Company's and the Group's tagging of the separate and consolidated financial statements;
- evaluating the appropriateness of the use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the separate and consolidated financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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



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

Report on Other Legal and Regulatory Requirements (*continued*)

Report on Compliance with the ESEF Regulation (*continued*)

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the separate and consolidated financial statements of the Company and the Group as at and for the year ended 31 December 2022 presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Our conclusion does not represent an opinion on the true and fair view of the financial statements as this is included in our Report on the Audit of the Financial Statements.

KPMG Croatia d.o.o. za reviziju

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19 April 2023