

Dalekovod d.d.
Marijana Čavića 4
10 000 Zagreb



Preliminary report by the Management Board for the year 2010

*** IMPORTANT NOTE ACCOMPANIED BY THE MANAGEMENT REPORT:**

The above financial statements as integral part of the reports by the Management are preliminary, unaudited and non-consolidated reports and have not been considered by the Supervisory Board.

Some differences may occur between preliminary and audited financial statements of the Company that will not have a great impact on the operating result of the Company.

Annual, audited, financial statements of the Company that will be subject to consideration by the Supervisory Board will be publicized within legal deadline on 30th April 2011.

Non-audited, non-consolidated

In Zagreb 15th February 2010



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I. REPORT BY THE MANAGEMENT BOARD

Dalekovod d.d. („Company“) recorded a total revenue of 1,563 million kuna in the year 2010, which represents a decline of 31% compared to the same period last year. Decrease of revenue is primarily due to decrease of business volume on the domestic market; however, it is still in line with the anticipated Company's revenue. Despite the Company's realized growth of revenue participation in foreign markets compared to the total ones, the above was not sufficient for neutralizing the negative tendencies on the domestic market and for covering high fiscal expenses.

Growth of direct expenses due to disproportion of realized revenue on the domestic and foreign market caused further decline of Company's EBITDA (Income before interest, tax and depreciation) from 204 million in 2009 to 114 million in 2010 and realization of minimum net profit to the amount of 4.3 million kuna. Compared to 2009 direct expenses increased from 64% to 65% in relation to the realized revenue. The Company is aware of the fact that in order to enhance further continuation of positive business results, as well as growth and realization of profitability, it is necessary to carry out business process restructuring and optimizing. Primary reasons that brought about decrease of profitability, along with decline of total business volume and exceptionally negative business environment on the domestic market, include:

- Negative macro-economic tendencies as e.g. decrease of liquidity and prolongation of the period for collection of claims;
- Consequences of the Company's aggravated liquidity exerted also influence on higher prices of material and other inputs;
- Acceptance and realization of projects with lower profit margins under conditions of keen competition;
- Significant Company's unused production and installation capacity;
- Application of a more conservative policy related to calculation of charges.

It was in the fourth quarter of 2010 that the Company and its management started business optimization and it is in the forthcoming period that they intend to restructure the Company in order to ensure its long-term competitive position and business stability. The Company is dedicated and determined to increase the productivity and profitability through this restructuring process and at the same time to strengthen the balance sheet by decreasing the dependence on short-term financing sources and to start investing in projects with stable cash flows with a view of decreasing future dependence of results on tender awards and project cycles both on the domestic and international markets.



Despite the aggravated business conditions in the last 6 months the Company managed to contract on foreign markets projects valued at 125.3 million euro that shall be realized in the course of 2011 and 2012. The above contracted projects include performance of projects in Ukraine, Norway and Greenland, as well as delivery of line hardware on various international markets. Besides the international contracts, The Company contracted in 2010 construction of a shopping centre Supernova in Zagreb valued at 73.3 million euro. The awarded projects imply that the Company's quality as well as its continuous focus on foreign markets has been recognized and that more profitable businesses are to be expected in the forthcoming period.

Further, in 2011 the Company expects the first signs of resurgence of the domestic market by gradual continuation of realization of postponed projects as well as recently announced infrastructural project by the Croatian government which should enable the Company to use its own production capacities more efficiently and to enhance its operating profitability as well.

Although the forthcoming period should bring about a moderate growth of business revenue, the Company is determined to intensify the business process restructuring in 2011 that already started in 2010. The restructuring costs would for the most part encumber the year 2011 which shall in turn put the business profitability under great pressure during the entire year. Restructuring includes reorganization of business processes on the Group level, significant decrease of fixed expenses, abandonment and disinvestment of non-core activities and projects, restructuring of the balance sheet with a view of realizing a significant increase of long-term sources, and decrease of costs of debt capital. In case these interventions into the Company's business would fail or would not be carried out in due time, then the competitive position of the company and the Group, as a whole, would be permanently impaired, which again would bring about losses in business management throughout a long period of time.

By the anticipated process the Company has been trying to strengthen the balance sheet and to adjust the production capacities to the newly arisen situation both on the markets of Croatia and Bosnia and Herzegovina, and to create prerequisites for creating a business model in which further internalization of the business would play a significant role.

On behalf of the Management Board:

M.Sc. Luka Miličić,
President of the Board „Dalekovod“ d.d.



II. REPRESENTATION LETTER

According to Article 410, paragraph 2 and Article 407, paragraph 2, item 3 and paragraph 3 of the Capital Market Act, the persons in charge of the preparation of the reports: Luka Miličić – President of the Management Board, Krešo Kraljević – Deputy President and Tomislav Belamarić – the member of the Management Board submit this

REPRESENTATION LETTER

According to our best knowledge, the short financial statements of the Company prepared by using suitable financial reporting standards, give a full and a fair presentation of assets and liabilities and operating result of the Company with a short review of causes of disclosed data. Financial statements are non-audited and non-consolidated.

On behalf of the Management Board:

M.Sc. Luka Miličić,
President of the Board „Dalekovod“ d.d.

III. BALANCE SHEET

Assets

Item	AOP label	Previous year (net)	Current year (net)
1	2	4	5
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001	0	0
B) FIXED ASSETS (003+010+020+028+032)	002	678.111.938	749.908.261
I INTANGIBLE ASSETS (004 to 009)	003	18.150.158	17.387.325
1 Development projects expenditures	004	0	0
2 Concessions, patents, licenses, trade marks, software and similar rights	005	16.197.111	10.704.468
3 Goodwill	006	0	0
4 Advance payments for intangible assets	007	0	0
5 Intangible assets in preparation	008	1.953.047	6.682.857
6 Other intangible assets	009	0	0
II TANGIBLE ASSETS (011 to 019)	010	468.458.748	478.659.480
1 Land	011	13.521.765	13.521.765
2 Construction facilities	012	118.319.745	119.314.112
3 Plant and machinery	013	181.376.004	166.029.343
4 Tools, plant inventory and means of transport	014	31.133.001	25.354.869
5 Biological property	015	0	0
6 Advance payments for tangible assets	016	0	0
7 Tangible assets in preparation	017	17.267.527	49.230.797
8 Other tangible assets	018	0	0
9 Investments in property	019	106.840.706	105.208.595
III FIXED FINANCIAL ASSETS (021 to 027)	020	191.503.032	253.861.455
1 Shares in affiliated undertakings	021	119.100.800	138.280.882
2 Loans to affiliated undertakings	022	11.858.508	19.879.309
3 Participating interests	023	33.665.538	38.889.640
4. Investments in securities	024	23.109.846	29.698.444
5. Loans, deposits, and similar	025	3.768.340	27.113.180
6 Own shares and interests	026	0	0
7 Other fixed financial assets	027	0	0
IV RECEIVABLES (029 to 031)	028	0	0
1 Receivables from affiliated undertakings	029	0	0
2 Receivables related to credit sale	030	0	0
3 Other receivables	031	0	0
DEFERRED TAX ASSETS	032	0	0
C) CURRENT ASSETS (034+042+049+057)	033	1.456.096.953	1.559.864.502
I STOCKS (035 To 041)	034	444.713.689	314.146.022
1 Raw material	035	100.001.544	84.922.456
2 Production in progress	036	15.080.785	133.698.289
3 In-process products and semi-products	037	0	0
4 Finished products	038	329.631.360	95.525.277
5 Goods for resale	039	0	0
6 Advance payments for inventories	040	0	0
7 Other assets intended for sale	041	0	0
II RECEIVABLES (043 To 048)	042	908.076.263	925.295.099
1 Receivables from affiliated undertakings	043	7.456.038	59.650.505
2 Receivables from customers	044	865.742.878	727.984.411
3 Receivables from participating undertakings	045	0	0
4 Receivables from employees and members of undertakings	046	966.184	1.150.392
5 Receivables from the state and other institutions	047	557.850	75.680.817
6 Other receivables	048	33.353.313	60.828.974
III CURRENT FINANCIAL ASSETS (050 To 056)	049	63.014.840	250.495.797
1 Shares in affiliated undertakings	050	0	0
2 Loans to affiliated undertakings	051	17.617.282	56.340.744
3 Participating interests	052	0	0
4. Investments in securities	053	26.023	26.629
5. Loans, deposits, and similar	054	45.371.535	194.128.424
6 Own shares and interests	055	0	0
7 Other long-term financial assets	056	0	0



IV CASH IN HAND AND AT BANK	057	40.292.161	69.927.583
D) PREPAYMENTS AND ACCRUED INCOME	058	12.052.995	39.774.089
E) LOSS ABOVE CAPITAL	059	0	0
F) TOTAL ASSETS (001+002+033+058+059)	060	2.146.261.886	2.349.546.851
G) OFF-BALANCE SHEET ITEMS	061	406.320.335	613.105.218

Liabilities

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)	062	668.191.261	680.175.724
I INITIAL (SUBSCRIBED) CAPITAL	063	229.381.200	229.381.200
II CAPITAL RESERVES	064		0
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	342.650.517	431.436.260
1 Legal reserves	066	11.486.600	11.486.600
2 Reserves for own shares	067	0	0
3 Own shares and interests (deductible item)	068	0	0
4 Statutory reserves	069	218.400.504	307.186.247
5 Other reserves	070	112.763.413	112.763.413
IV REVALUATION RESERVES	071	7.224.706	15.037.718
V RETAINED PROFIT	072	0	0
VI LOSS BROUGHT FORWARD	073	0	0
VII PROFIT OF FINANCIAL YEAR	074	88.934.838	4.320.546
VIII LOSS OF FINANCIAL YEAR	075	0	0
IX MINORITY INTEREST	076	0	0
B) PROVISIONS (078 TO 080)	077	6.876.000	12.054.681
1 Provisions for rents, lay-off pays and similar liabilities	078	6.876.000	12.054.681
2 Provision for tax liabilities	079	0	0
3 Other provisions	080	0	0
C) LONG-TERM LIABILITIES (082 To 089)	081	155.044.094	387.915.032
1 Liabilities towards affiliated undertakings	082	0	0
2 Liabilities for loans, deposits and similar	083	0	0
3 Liabilities towards banks and other financial institutions	084	1.665.000	167.424.919
4 Liabilities for advance payments	085	0	0
5 Liabilities towards suppliers	086	153.379.094	220.490.113
6 Liabilities related to securities	087	0	0
7 Other long-term liabilities	088	0	0
8 Deferred tax liability	089	0	0
D) SHORT-TERM LIABILITIES (091 do 101)	090	1.244.995.504	1.269.401.415
1 Liabilities towards affiliated undertakings	091	9.778.074	19.722.939
2 Liabilities for loans, deposits and similar	092	8.907.329	13.285.125
3 Liabilities towards banks and other financial institutions	093	335.385.720	371.432.471
4 Liabilities for advance payments	094	27.490.675	136.208.231
5 Liabilities towards suppliers	095	578.507.453	445.617.636
6 Liabilities related to securities	096	232.836.403	210.105.783
7 Liabilities towards employees	097	11.231.149	4.199.039
8 Liabilities for taxes, contributions and similar levies	098	13.355.958	41.734.707
9 Liabilities related to the share in the result	099	1.899.762	1.899.762
10 Liabilities related to fixed assets intended for sale	100	0	0
11 Other short-term liabilities	101	25.602.981	25.195.723
E) ACCRUALS AND DEFERRED PAYMENT	102	71.155.027	0
F) TOTAL - LIABILITIES (062+077+081+090+102)	103	2.146.261.886	2.349.546.851
G) OFF-BALANCE SHEET ITEMS	104	406.320.335	613.105.218

IV. REPORT OF OVERALL PROFIT

Item	Previous year (net)	Current year (net)
1	4	5
I OPERATING INCOME (108 to 110)	2.384.177.626	1.559.727.538
1 Revenues from products and services	2.311.628.190	1.468.543.593
2 Revenues from usage of own products and services	25.211.585	0
3 Other operating income	47.337.851	91.183.945
II OPERATING EXPENSES (112-113+114+118+122+123+124+127+128)	2.203.543.518	1.496.192.950
1 Reduction in stocks of finished goods and in work in progress	120.784.589	114.885.737
2 Increase of stocks of finished goods and in work in progress	0	0
3 Material costs (115 to 117)	1.547.600.091	983.407.770
a) Raw material costs	352.610.080	170.513.358
b) Costs of goods for sale	104.766.649	150.215.699
c) Other external services costs	1.090.223.362	662.678.713
4 Staff costs (119 to 121)	294.329.380	223.031.420
a) Net wages and salaries	178.184.301	140.866.405
b) Taxes and contribution on salaries	78.213.640	55.630.036
c) Contribution surtax on salaries	37.931.439	26.534.979
5 Depreciation	51.930.614	43.812.068
6 Other operating expenses	179.474.159	112.208.997
7 Value adjustment (125+126)	415.673	6.705.374
a) fixed assets (except financial assets)	0	0
b) current assets (except financial assets)	415.673	6.705.374
8. Long-term reserves	0	0
9. Other expenses	9.009.012	12.141.584
III FINANCIAL INCOME (130 to 134)	1.569.917	3.325.114
1 Interest income, foreign exchange gains, dividends and other financial income related to affiliated undertakings	0	0
2 Interest income, foreign exchange gains, dividends and other financial income related to unaffiliated undertakings and other persons	63.278	2.230.814
3 Income from affiliated undertakings and participating interests	0	0
4 Unrealized income of the financial assets	0	0
5 Other financial income	1.506.639	1.094.300
IV FINANCIAL EXPENSES(136 to 139)	70.691.295	61.487.453
1. Interest income, foreign exchange gains, dividends and other expenses related to affiliated undertakings	134.534	0
2. Interest income, foreign exchange gains, dividends and other expenses related to unaffiliated undertakings and other persons	70.556.761	56.467.280
3. Unrealized losses (expenses) of the financial assets	0	5.020.173
4 Other financial expenses	0	0
V EXTRAORDINARY - OTHER INCOME	0	0
VI EXTRAORDINARY - OTHER EXPENSES	0	0
VII TOTAL INCOME (107+129+140)	2.385.747.543	1.563.052.652
VIII TOTAL EXPENSES (111+135+141)	2.274.234.813	1.557.680.403
IX PROFIT BEFORE TAX (142-143)	111.512.730	5.372.249
X LOSS BEFORE TAX (142-143)	0	0
XI TAX	22.577.892	1.051.703
XII PROFIT AFTER TAX	88.934.838	4.320.546
XIII LOSS AFTER TAX		

V. REPORT OF CASH FLOW

Name of position: 1	AOP designation	Previous year	Current year
	2	4	5
CASH FLOW FROM OPERATING ACTIVITIES			
1. Pre-tax profit	1	111.512.733	5.372.244
2. Depreciation	2	51.930.614	43.812.068
3. Increase in short-term liabilities	3	0	6.844.278
4. Decrease in short-term receivables	4	154.172.471	14.170.804
5. Reduction of stocks	5	246.949.519	130.567.667
6. Other increase in cash flow	6	15.364.385	0
I. Total increase in cash flow from operating activities (001 to 006)	7	579.929.722	200.767.061
1. Decrease in short-term liabilities	8	343.889.180	0
2. Increase in short-term receivables	9	0	0
3. Increase in stocks	10	0	0
4. Other decrease in cash flow	11	0	50.462.445
II Total decrease in cash flow from operating activities (008 to 011)	12	343.889.180	50.462.445
A1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (007-012)	13	236.040.542	150.304.616
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	14	0	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash receipts from sale of fixed tangible and intangible assets	15	20.730.045	57.976.325
2. Cash receipts from sale of treasury and debt financial instruments	16	90.543.029	16.367.599
3. Cash receipts from interests	17	1.046.045	1.510.117
4. Cash receipts from dividends	18	0	0
5. Other cash receipts from investment activities	19	0	0
III. Total cash receipts from investment activities (015 do 019)	20	112.319.119	75.854.041
1. Expenditures for buying fixed assets and intangible assets	21	55.665.105	182.355.949
2. Expenditures for purchasing treasury and debt financial instruments	22	145.712.894	261.073.967
3. Other expenditures from investment activities	23	0	0
IV. Total expenditures from investment activities (021 to 023)	24	201.377.999	443.429.916
B1) NET INCREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	25	0	0
b2) NET DECREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	26	89.058.880	367.575.875
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash receipts from issuance of treasury and debt financial instruments	27	151.181.774	162.871.623
2. Cash receipts from loan principal, bonds, borrowings and other loans	28	735.696.692	774.485.816
3. Total cash receipts from financial activities	29	0	0
V. Total cash receipts from financial activities (027 To 029)	30	886.878.466	937.357.439
1. Expenditures for repayment of loan principal and bonds	31	1.066.843.268	666.552.813
2. Expenditures for payment of dividends	32	0	0
3. Expenditures for financial leasing	33	29.046.404	23.748.847
4. Expenditures for redemption of treasury shares	34	2.398.700	149.098
5. Other expenditures from financial activities	35	0	0
VI. Total expenditures from financial activities (031 to 035)	36	1.098.288.372	690.450.758
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	37	0	246.906.681
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	38	211.409.906	0
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	39	0	29.635.422
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	40	64.428.244	0
Cash and cash equivalents at the beginning of the period	41	104.720.406	40.292.162
Increase in cash and cash equivalents	42	0	29.635.422
Decrease in cash and cash equivalents	43	64.428.244	0
Cash and cash equivalents at the end of the period	44	40.292.162	69.927.584

VI. REPORT OF CHANGES TO CAPITAL

Item		Previous year	Increase	Decrease	Current year
Subscribed capital	117	229.381.200			229.381.200
Capital reserves	118				0
Reserves from profit	119	342.650.517	88.934.838	149.095	431.436.260
Retained profit or loss carried forward	120				0
Profit or loss of the current period	121	88.934.838	4.320.546	88.934.838	4.320.546
Revaluation of long-term tangible assets	122	7.224.706	7.813.011		15.037.717
Revaluation of intangible assets	123				
Revaluation of available-fo-sale financial assets	124				
Other revaluations	125				
Exchange rate differentials related to net investments in a foreign entity	126				
Current and deferred tax	127				
Protect cash flow	128				
Change in accounting policy	129				
Correction of fundamental mistakes	130				
Other changes in capital statements	131				
Total increase / decrease in capital statements	132	668.191.261			680.175.723

VII. BUSINESS PLAN FOR 2011

Financial incomes are not included in business plan.

Plan refers to Dalekovod d.d. (other members of Dalekovod group are not included in business plan).

All amounts are in HRK.

	PLAN
	2011.
OPERATING INCOME	1.722.105.521
FINANCIAL INCOME	0
EXTRAORDINARY- OTHER INCOME	0
TOTAL INCOME	1.722.105.521
OPERATING EXPENSES	1.646.559.121
FINANCIAL EXPENSES	65.000.000
EXTRAORDINARY - OTHER EXPENSES	0
EXPENSES	1.711.559.121
REDUCTION / INCREASE IN STOCKS OF FINISHED GOODS AND IN WORK IN PROGRESS	0
TOTAL EXPENSES	1.711.559.121
PROFIT BEFORE TAX	10.546.400
TAX	2.109.280
PROFIT AFTER TAX	8.437.120

	PLAN
	2011.
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	0
INTANGIBLE ASSETS	715.924.525
TANGIBLE ASSETS	1.583.553.788
PREPAYMENTS AND ACCRUED INCOME	0
LOSS ABOVE CAPITAL	0
TOTAL ASSETS	2.299.478.313
CAPITAL AND RESERVES	839.785.369
MINORITY INTEREST	0
PROVISIONS FOR RENTS, LAY-OFF PAYS AND SIMILAR LIABILITIES	0
LONG-TERM LIABILITIES	480.000.000
SHORT-TERM LIABILITIES	979.692.944
ACCRUALS AND DEFERRED PAYMENT	
TOTAL LIABILITIES	2.299.478.313

VIII. ADDITIONAL NOTES

1. MEMBERS OF THE COMPANY MANAGEMENT BOARD

1. Board President: M.Sc. Luka Miličić, Master of Civil Eng.
2. Deputy President -Member: Krešo Kraljević, Master of Electrical Eng.
3. Member: Tomislav Belamarić, Master of Electrical Eng.

2. MEMBERS OF THE SUPERVISORY BOARD

1. Petar Đukan, President
2. Marijan Pavlović, Vice President
3. Velimir Đurđević, Member
4. Ivo Marfat, Member
5. Ilija Barišić, Member
6. Viktor Miletić, Member
7. Ivan Radotić, Member

3. LIST OF SHAREHOLDERS WITH A SHARE OF MORE THAN 1%:

NAME	ADDRESS:	NUMBER:	%
CURATUS D.O.O. (1/1)	Zg,Kraljevićeva 4	228.650	9,97%
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND (1/1)	Split, R. Boškovića 16	136.528	5,95%
PBZ D.D./STATE STREET CLIENT ACCOUNT	Zgb, Račkog 6	71.352	3,11%
HRVATSKA POŠTANSKA BANKA D.D./ KAPITALNI FOND D.D. (1/1)	Zgb, Jurišićeva 4	44.071	1,92%
ERSTE & STEIERMARKISCHE BANK D.D./CSC	Rijeka, Jadranski trg 3A	39.842	1,73%
SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OBVEZNI MIROVINSKI FOND (1/1)	Split, R. Boškovića 16	24.992	1,09%
DALEKOVOD D.D. treasury shares	Zagreb, M. Čavića 4	43.934	1,91%

4. DIVISION OF SHARES:

There was no new issue of shares.



5. EARNING PER SHARE

Earning per share for the first three quarter of 2010 amounted to HRK 1,92.

6. ACQUISITION AND MERGER

During the year 2010 there were no acquisitions or mergers.

7. UNCERTAINTY

During the year 2010 there were no identified bad and doubtful debts affecting the continuity of business.

8. DESCRIPTION OF PRODUCTS AND SERVICES

Dalekovod d.d with time has specialized for performance of contracts based on „turnkey“solution in the following areas:

- Electrical power facilities, especially transmission lines from 0.4 to 500 kV
- Substations of all levels and voltage levels up to 500 kV
- Air, underground and marine cables up to 110 kV
- Telecommunication facilities
- All types of networks and antennas
- Production of suspension and jointing equipment for all types of transmission lines and substations from 0.4 to 500 kV
- Production and installation of all metal parts for traffic roads, especially for road lighting, protective fencing and traffic signalization
- Tunnel lighting and traffic control
- Electrification of railway and trams

9. CHANGES TO ACCOUNTING POLICIES

There are no new accounting policies.

10. LEGAL ISSUES

There are no unresolved issues greatly affecting the Company's business.