Dalekovod group
Marijana Čavića 4
10 000 Zagreb

Management Board Report for the 2010

Audited

In Zagreb May 1st, 2011

CONTENTS:

I. MANAGEMENT BOARD REPORT ON THE STATE OF THE COMPANY AND DALEKOVOD GROUP / ANNUAL REPORT ON THE STATE OF THE COMPANY AND THE GROUP

Introduction

A year ago we reported best results in the history of our company. At the time, we also anticipated that the domestic market will continue to stagnate and therefore Dalekovod has set its strategy and focus on international markets and specific niches.

Dalekovod d.d. ("Company") recorded a total revenue of 1.579 million HRK in the year 2010, which represents a decline of 33.8% compared to the same period last year. Dalekovod Group ("The Group") recorded total revenue of 1.657 million HRK in 2010 which represents a decline of 32.4% compared to the same period last year. The decrease in revenue is primarily the result of lower business volumes on the domestic market, but still in line with planned. Despite the fact that our revenue share from international markets increased from 28% in 2009 to 33% in 2010, this increase was insufficient to cover and neutralise negative trends on the domestic market and covering of high fixed expenses.

The growth of direct expenses due to disproportion of realised revenue on the domestic and foreign market caused further decline of the Company's EBITDA (Income before interest, tax and depreciation) from 233 million in 2009 to 115 million in 2010, and realisation of minimal net profit in the amount of 2.86 million HRK. The Group's 2010 EBITDA amounted to 120.5 million, compared to 242.3 million in 2009, representing a decline of 50%. The Management of Dalekovod Group is fully aware that the company needs to undertake the process of business restructuring and streamlining of operations in order to secure long-term competitiveness and historical levels of profitability.

Primary reasons that negatively affected profitability indicators, in addition to the above-mentioned decline of total business volume and exceptionally negative business environment on the domestic market, include:

- Negative macro-economic trends including liquidity shocks and the prolongation of days receivable; the Company's aggravated liquidity caused higher prices of material and other inputs;
- Acceptance and realisation of projects with lower profit margins under conditions of high competition;
- Low utilisation of production facilities;
- Application of a more conservative accounting policies;

Due to the newly arisen situation of significant illiquidity within the sector and worsening of the macro-economic environment on the domicile market, the company took initiatives in redefining the Company's and the Group's strategy in order to deleverage operational costs and prepare the Group for even stronger internationalisation of business.

The Strategy / Expected future development of the Company and Group

By analysing the macro-economic and micro-economic situation, and further analysing situation on the market, the Company has decided to redefine its and the Group's business strategy bearing in mind the below-mentioned strategic guidelines:

- Further internationalisation of business operations
- Improving profitability (by reorganising and streamlining the Company's and the Group's business processes, and enhancing the business model through investments into renewable energy, deleveraging, and strengthening free cash flow etc.)
- Enhancing investor relations and considering new capital increase

Further internationalisation of business activities

The Group is planning to further internationalise its business model and achieve even stronger revenue growth from the foreign markets, primarily focusing on regional market, the Scandinavian market, the CIS market, and parts of the EU market where the company has already established its presence or aims to enter in the upcoming period. These markets are currently in high demand for new infrastructure investments - installing new transmission lines and restructuring of the present ones. As the Group possesses key references and significant know-how in this field, the trend presents an opportunity to capture a significant portion of this high demand and realisation of multiple international projects.

Despite the aggravated business conditions, in the last 7 months the Group managed to contract on a total of 125.6 million EUR of international projects that shall be realised during 2011 and 2012. The aforementioned contracted projects include execution in Ukraine, Norway, and Greenland, as well as the delivery of suspension and jointing equipment on various international markets. The awarded projects justify that the Group's quality, references, and know-how, as well as the continuous focus and ambition on foreign markets, has been recognised and that more profitable businesses are to be expected in the forthcoming period.

Currently, the Company rivals in biddings on the markets of:

- Albania
- Bosnia and Herzegovina
- Montenegro
- Kazakhstan
- Kosovo
- Macedonia
- Norway
- Slovenia
- Sweden
- Ukraine

In addition to the aforementioned markets, the Company is planning to expand its business activities into the certain targeted markets of Western Europe (Great Britain, France and Italy), where pre-qualifying processes for the performance of works is currently underway (with some already finished).

Increasing profitability

The Group is planning to ensure the increase of profitability through reorganisation and streamlining of the Company's and the Group's and business processes. The key objectives include:

1. Deleveraging and restricting of debt by putting more emphasis on LT sources
2. Selling of company's non-core assets for which the Group believes are not a part of newly presented strategy
3. Focus on stronger FCF generation through deleveraging of fixed expenses and investments into renewable energy sources.

Although the forthcoming period should bring moderate growth of business revenue, the Company is determined to intensify the business process restructuring in the course of 2011, the process which has started in Q4 of 2010. The restructuring costs will mostly affect business performance in 2011 which will in return put significant pressures on profitability indicators in the upcoming year. Restructuring includes reorganisation of business processes on the Group level, a significant decrease of fixed expenses, abandonment and disinvestment of non-core activities and projects, restructuring the balance sheet, and improving the LT vs. ST debt ratio, which should in return lower the cost of capital. Non-core assets which the Group is planning to disinvest have already been identified. The Group plans to disinvest these assets either by selling stakes or by finding a strategic partner. Employed capital in the identified non-core Group's assets currently amounts to 450 million HRK.

Savings and cost rationalisation should be carried out through all parts of the Company and the Group. The initiative not only relates to the segment of procurement (prices, deadlines, amounts, etc) but for all corporate spending in general. In order to rationalise expenses it is necessary to meet the standards when developing projects, including performing detailed calculations and profitability indicators, as well as tracking expenses per project in every stage of their performance. All other expenses, for which the company believes can be further deleveraged, have been put under control of responsible personnel.

Having in mind the above-mentioned measures, the beginning of May has been scheduled as the date for the reorganisation within the Company which would lead to the integration of Construction's and Engineering's activities into one business unit. This measure will enable the newly formed business unit to add commercial activities to its scope of business (as it currently is with Production) and thus, both of these business units will present true and independent profit centres.

All other affairs are an integral part of the Business Support Unit which is a strictly monitored centre. Furthermore, in the following period the Production's activities are to be removed from the parent Company, where those activities shall be terminated, and will become an independent limited liability company within the Group. This activity will be put in place once all necessary conditions are met, including, among other things, completion of new production facilities in Dugo Selo. In relation to this reorganisation process, Cinčaonica (Galvanising Plant) is to be renamed to Proizvodnja d.o.o.,(Production Ltd.). Furthermore, the Company identified workforce surplus in every business unit and thus the redundant amount of workers shall be put on hold due to insufficient amount of work. Further, the Company has begun talks on ensuring stimulative severance pays for people who either have the possibility of early retirement and those who are identified as surplus under current conditions. In that respect, beside the already implemented salary decrease of approx.1/3 and in order to ensure higher competitiveness of products and services rendered by the Company and the Group, the Management Board is in the process of restructuring plans to offer stimulating severance pay and the termination of employment with the Company (upon reorganisation and cancellation of technological process at the parent company) for the surplus of some 300 employees (approx. 15% of the overall number of employees) of the Dalekovod Group.

In case these measures are not put in place or carried out in due time, the competitive position of the Company and the Group as a whole would be permanently impaired, which would negatively affect the financial position of the Group and cause potential loss of all competitive advantages and future prospects.

Improving the Dalekovod Group's business model

With anticipated deceleration of the investment cycle on the domicile market (especially in road construction and other infrastructure related projects), the Group has duly undertaken activities in order to enhance the existing business model which is almost entirely (save the production of suspension and jointing equipment) based on the tendering process, i.e. on contracting and performing projects by participating in public biddings. Thus, the Company decided to diversify its activities to investments which have a stable and continuous firm cash flow generation and which do not rely on economic cycles.

In respect to the mentioned diversification, the Group decided to invest funds into renewable energy sources as this business is complementary to Groups activities. As Croatia (and the countries in the region) should join EU in the forthcoming period, the Croatian government has set its renewable energy strategy and share of electricity produced from renewable energy sources in line with the EU, and thus offered simulative terms for companies entering this line of business. In this respect, the Company formed its first JV, and put in place first 9.2 MW wind power plant in Velika Popina, and is in the final stage of adding another 36MW wind power plant in Bruška. With additional 100 MW pipelines of wind farms planned by the Group, the Dalekovod Group will become the regional market leader in renewable energy and wind power plant business with approximately 1/3 of total market share in Croatia. Apart from the wind investments, the Group is considering investing in other renewable energy sources (biomass, communal waste, geothermal energy etc.) for the purpose of generating at least 25% of EBITDA from stable and continuous sources. The Management Board believes that such income and profit structure would significantly decrease the business risk and advance the financial perspective of the Group's business activities.

Enhancing investor relations with the option of increasing equity

Apart from additionally enhancing investor relations, the Group is considering the possibility of equity increase in the upcoming years by offering shares mainly to institutional investors at both Croatian and international capital markets, contracting an Equity Credit Line with a specialised international institutional fund, which all may result in parallel share listing of the Group's shares on one of the international stock markets. The new capital would primarily be used to finance investment cycle in renewable energy sources. Due to currently high level of indebtedness, the new capital is also planned to be used for all necessary capital expenditures.

Other expectations

In 2011, the Company and the Group expect to see the first signs of revitalisation of the domestic market by gradual continuation of realisation of postponed projects as well as recently announced infrastructural projects by the Croatian Government, which should in return enable the Company to use its own production capacities more efficiently and to enhance its operating profitability. However, the Company business plan for 2011 includes solely the already contracted works on the domestic market.

Other important business events following the end of the business year

The Company has contracted a HRK 240 million LT arrangement with Croatian Bank for Reconstruction and Development. Further, the Company has repaid the 11th and the 12th tranche of commercial bills in Q1 of 2011, thereby decreasing debt in the amount of 121.8 million HRK. At the moment the Company has three tranches of commercial bills in circulation, in the overall amount of 36.2 million HRK.

Prospects for 2011

The plan for 2011 includes moderate growth and in line with the Company's historical CAGR with majority of the growth coming from international markets. In terms of expenses, due to the implemented restructuring process and associated costs (severance pays, reorganisation, production relocation) profitability will be put under significant pressures and thus bottom line is expected to be in line with 2010.

Our 2011 business plan clearly shows that this year will be used for strengthening of the Company's and Group's competitive and capital base, thus sacrificing profitability, in order to prepare the Company and the Group for a significant upside on international markets and positioning for the strong economic and investment cycle in the reconstruction and expansion of power capacities across Europe. In line with a very intensive demand for design services, as well as power transfer services which the Company and the Group foresee in international markets, it is the Management Board's belief that 2012 is the year in which it would be reasonable to expect the profitability recovery. However, the Company and the Group are not planning on significant revival and recovery of the domestic market – instead they are basing their projections regarding business growth mostly on the business activities on international markets.

In order to achieve the projected revenue growth and return historical profitability levels, the Company, its management and employees are fully determined in undertaking all necessary measures indicated in the restructuring process.

The Company's and Group's Research and Development Activities

The company has put significant efforts into R&D on international markets in order to ensure profitable operations and capture a portion of rising demand. Significant efforts are put into improving the quality of our own production and construction utilisation rates, meeting high standards of working conditions, and implementing and sustaining international business standards in order to achieve business excellence which suits company such as Dalekovod and the Dalekovod Group.

Financial Risk Management

The Company is exposed to foreign currency risk, cash flow interest rate risk, and liquidity risk. Although the Company does not have a formal risk management programme, financial risk management is closely monitored by the Company's Financial Department.

International sales revenue have been realised in Euros and US Dollars while all domestic sales revenue are accounted for in Croatian kunas. Most of the long-term and short-term loans have been FX denominated and FX movement of Euros and USD in relation to HRK affect the Group's and the Company's business results. Since the Group does not own any significant assets generating financial income, the Group's income and cash flow from business activities are not significantly dependent on interest rates changes.

The Group's and Company's interest risk is a result of FX denominated long-term loans and commercial bills. FX denominated loans with variable rates may have a negative impact on Group's cash flow position. However, the Group and the Company are continuously monitoring changes in interest rates. In order to tackle possible negative effect from FX, the company continuously examines refinancing of such exposure, renewing current contracts, as well as alternative financing. Based on these effects, the Group and the Company determine the influence of change of interest rate on profit and loss account, which over the years have not been a major burden due to fairly stable EUR-HRK and USD-HRK exchange rates.

The Group's asset bearing financial risks include Groups cash position, accounts receivables, and other receivables. The Group's sales policies are oriented on ensuring that the buyer of goods or services has stable credit history within the frames of pre-defined loan limits. High quality of accounts payable structure coupled with obtaining bank payment guarantees, bills of exchange, credentials and other forms of insurance, almost entirely decrease the risks related to the accounts payable.

Prudent liquidity risk management implies having a sufficient amount of cash and cash equivalents, as well as having financial resources available through adequate amount of contracted credit lines. The Group's goal is to keep financing flexible with open but unused credit lines.

More detailed descriptions of managing individual financial risks, as well as information on financial instruments, and all other data which is important for the assessment of the Company's state, can be found in reports contained in the following chapters as well as in the auditor's report.

The Company's Subsidiaries

In accordance with business internationalisation, the Company has subsidiaries in Albania, Montenegro, Macedonia, Norway, Sweden, Kazakhstan, and a branch office in Ukraine. The number and location of subsidiaries and branch offices could additionally be increased in order to follow market trends and rising international demands.

Acquiring Treasury Shares

On December 31st 2010 the Company owned 43,934 treasury shares, which accounts for 1.9 % of all shares. In 2010 the Company did not acquire additional treasury shares.

On behalf of the Company's Management Board:

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

Statement on the Implementation of the Code of Corporate Governance

According to Article 272.p., in accordance with Art. 250.a., paragraph 4 of the Corporations Act (hereinafter: CA), the Management Board of Dalekovod d.d., Zagreb, Marijana Čavića 4 (hereinafter 'The Company'), on March 28th 2011 is issuing the following

STATEMENT

On the Implementation of the Code of Corporate Governance

The Company is voluntarily implementing the Code of Corporate Governance as prescribed by HANFA (Croatian Financial Services Supervisory Agency) and the Zagreb Stock Exchange.

In 2010 the Company followed and applied most of the important recommendations set out by the Code, releasing all information that were foreseen to be published by positive regulations, and information that are in the best interest of the Company's shareholders. The Company states explanations in connection with significant deviations, provided that there are any, from individual recommendations from the Code, in a questionnaire delivered to the Zagreb Stock Exchange.

In accordance with CA's rules the Supervisory Board oversees the Company's business managing by holding regular sessions at which the Management Board presents adequate reports. The Supervisory Board's sessions host discussions and decision are made regarding all questions that have to do with the authority of that body as prescribed by CA and the Company's Articles of Association. The Supervisory Board's Report on the performed supervision of business managing is part of the Company's Annual Report that is submitted to the Shareholders' Meeting. Additionally, the Supervisory Board carries out an internal control and supervision through the Auditing Subcommittee giving professional support to the Supervisory Board and the Management Board on the effective performance of duties and obligations of corporate governance, risk management, financial reporting and Company control. Besides the Auditing Subcommittee, the Supervisory Board consists of two more bodies – the Appointing and Awarding Subcommittee and the Strategy Subcommittee. The Management Board is bound to make sure that the Company keeps it business and other records as well as business documentation, that it draws up book-keeping documents, realistically assesses its assets and obligations, draws up financial as well as other reports in conformity with accountancy regulations, standards and applicable laws and regulations.

Ten of the largest shareholders and the state on December 31st 2010

CURATUS D.O.O.	9,97%
SOCIETE GENERALE-SPLITSKA BANKA D.D.	5,95%
PBZ D.D.	3,11%
HRVATSKA POŠTANSKA BANKA	1,92%
DALEKOVOD D.D.	1,92%
ERSTE & STEIERMARKISCHE BANK D.D.	1,74%
SOCIETE GENERALE-SPLITSKA BANKA D.D.	1,09%
MILIČIĆ LUKA	0,98%
ERSTE & STEIERMARKISCHE BANK D.D.	0,91%
RAIFFEISENBANK AUSTRIA D.D.	0,86%

In accordance with the Company's Articles of Association the shareholders' right to vote is not limited to a specific percentage or number of votes, nor are there any time constraints regarding one's right to vote. Every ordinary share gives the right of one vote at the General Shareholders' Meeting.

The Company's rights and obligations stemming from acquiring of own shares are realised in accordance with the CA's regulations and the Company's Articles of Associations.

The Company's Management Board consists of three members – the President of the Board and two Members of the Board. The office of the President of the Board is officiated by Luka Miličić, M. Sc., while the two other Members of the Board are Krešo Kraljević, MEE, and Tomislav Belamarić, MEE.

The Management Board conducts the Company's business in accordance with the Company's positive regulations and the Articles of Association.

The Management Board is appointed and impeached by the Supervisory Board which consists of the following members:

- Petar Đukan (President)
- Marijan Pavlović (Vice President)
- Velimir Đurđević
- Ivo Marfat
- Ilija Barišić
- Viktor Miletić
- Ivan Radotić

In accordance with the regulations of Article 250.a., paragraph 4 and Art. 272.p. of CA this statement is a distinct section and an integral part of the Annual Report on the State of the Company for 2010.

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 set of financial statements of the Company and the Group prepared by using suitable financial reporting standards, gives a full and a fair presentation of assets and liabilities and operating result of the Company and the Group with a short review of causes of disclosed data. Financial statements are consolidated and audited.

On behalf of the Management Board:

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

III. BALANCE SHEET

ASSETS

Currency: HRK

Item	AOP	Previous period	Current period	Previous period	Current period
1	2	4	5	6	7
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
ASSETS					
A) SUBSCRIBED CAPITAL UNPAID	**001**	0	0	**0**	**0**
B) NON CURRENT ASSETS (003+010+020+029+033)	**002**	678.111.938	799.555.170	**808.471.436**	**910.723.132**
I. INTANGIBLE ASSETS (004 do 009)	**003**	**18.150.158**	**19.935.669**	**22.709.667**	**26.308.486**
1. Research & Development expenditure	**004**	0	0	0	0
2. Patents, licences, royalties, trade marks, software&similar rights	**005**	16.197.111	10.704.401	16.197.620	20.077.541
3. Goodwill	**006**	0	0	4.559.000	4.559.000
4. Prepayments for intangible assets	**007**	0	0	0	118.510
5. Intangible assets under construction	**008**	1.953.047	9.231.268	1.953.047	1.483.399
6. Other intangible assets	**009**	0	0	0	70.036
II. TANGIBLE ASSETS (011 do 019)	**010**	**468.458.748**	**482.882.260**	**708.864.076**	**716.357.193**
1. Land	**011**	13.521.765	13.521.765	25.843.365	59.984.791
2. Property	**012**	118.319.745	122.237.664	173.445.871	151.586.298
3. Plants and equipment	**013**	181.376.004	168.936.051	211.542.820	204.527.446
4. Tools, plants&vehicles	**014**	31.133.001	25.267.540	32.969.874	2.034.294
5. Biological asset	**015**	0	0	0	0
6. Prepayments for tangible assets	**016**	0	0	126.683	98.532
7. Assets under construction	**017**	17.267.527	46.718.248	158.094.757	191.924.841
8. Other tangible assets	**018**	0	0	0	0
9. Investments property	**019**	106.840.706	106.200.992	106.840.706	106.200.992
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	**020**	**191.503.032**	**296.737.241**	**76.897.693**	**168.057.454**
1. Share in related parties	**021**	119.100.800	205.418.497	5.439.653	23.458.799
2. Loans to related parties	**022**	11.858.508	11.382.208	0	0
3. Participating interests (stakes)	**023**	33.665.538	18.889.640	33.665.538	49.822.016
4. Loans to participating interest	**024**	0	8.551.101	0	0
5. Investments in securities	**025**	23.109.846	29.698.444	23.109.846	38.498.444
6. Loans & deposits	**026**	3.768.340	22.797.351	14.682.656	44.938.195
7. Other non-current financial assets	**027**	0	0	0	11.340.000
8. Investment accounted by equity method	**028**	0	0	0	0
IV. TRADE RECEIVABLES (030 do 032)	**029**	**0**	**0**	**0**	**0**
1. Receivables from related parties	**030**	0	0	0	0
2. Receivables from credit sales	**031**	0	0	0	0
3. Other receivables	**032**	0	0	0	0
V. DEFERRED TAX ASSETS	**033**	**0**	**0**	**0**	**0**
C) CURENT ASSETS (035+043+050+058)	**034**	1.456.096.953	1.411.333.432	**1.510.276.109**	**1.494.715.217**
I. INVENTORIES (036 do 042)	**035**	444.713.689	314.767.447	**482.712.214**	**354.294.804**
1. Raw materials & consumables	**036**	100.001.544	84.950.755	126.182.683	106.457.315

Item	AOP	Previous period	Current period	Previous period	Current period
1	2	4	5	6	7
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
2. Work in progress	037	344.712.145	134.421.350	21.810.976	240.758.848
3. Products	038	0	95.395.341	331.924.941	4.809.957
4. Merchandise	039	0	0	1.790.407	1.990.659
5. Prepayments for inventories	040	0	0	1.003.207	160.355
6. Other available-for-sale assets	041	0	0	0	117.671
7. Biological asset	042	0	0	0	0
II. RECEIVABLES (044 do 049)	**043**	**908.076.263**	**880.721.122**	**918.742.794**	**954.444.600**
1. Receivables from related parties	044	7.456.038	46.887.177	0	0
2. Trade receivables	045	865.742.878	744.424.644	879.971.690	631.099.027
3. Receivables from participating parties	046	0	0	0	0
4. Amounts receivable from employees	047	966.184	1.150.392	2.471.127	2.607.272
5. Receivables from government agencies	048	557.850	30.657.572	1.316.481	35.224.717
6. Other receivables	049	33.353.313	57.601.337	34.983.496	285.513.584
III. CURRENT FINANCIAL ASSETS (051 do 057)	**050**	**63.014.840**	**129.753.577**	**60.383.596**	**86.562.668**
1. Share in related parties	051	0	0	0	0
2. Loans to related parties	052	17.617.282	30.862.219	0	0
3. Participating interests (stakes)	053	0	0	276.992	0
4. Loans to participating interest	054	0	855.000	0	0
5. Investments in securities	055	26.023	26.629	26.023	1.000
6. Loans & deposits	056	45.371.535	98.009.729	59.850.036	86.534.401
7. Other financial assets	057		0	230.545	27.267
IV. CASH ON HAND AND IN THE BANK	**058**	**40.292.161**	**86.091.287**	**48.437.505**	**99.413.145**
D) PREPAYMENTS AND ACCRUED INCOME	**059**	**12.052.995**	**10.261.859**	**13.861.910**	**10.306.542**
E) TOTAL ASSETS (001+002+034+059)	**060**	**2.146.261.886**	**2.221.150.461**	**2.332.609.455**	**2.415.744.891**
F) OFF-BALANCE SHEET ITEMS	**061**	**406.320.335**	**613.050.041**	**406.320.335**	**613.050.041**

LIABILITIES

Currency: HRK

Item	AOP	Previous period	Current period	Previous period	Current period
1	2	4	5	6	7
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
EQUITY AND LIABILITIES					
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**668.191.261**	**678.864.499**	**686.999.363**	**704.096.337**
I. SHARE CAPITAL	**063**	**229.381.200**	**229.381.200**	**229.381.200**	**229.381.200**
II. CAPITAL RESERVES	**064**	**0**	**0**	**0**	**37.768**
III. RESERVES FROM PROFIT (066+067-068+069+070)	**065**	**342.650.517**	**431.585.358**	**345.632.495**	**436.803.556**
1. Legal reserves	**066**	11.486.600	11.486.600	12.522.134	12.846.059
2. Reserves for own shares	**067**	0	0	0	0
3. Own shares and stakes (less)	**068**	0	0	0	0
4. Statutory reserves	**069**	218.400.504	307.335.345	218.400.504	307.335.345
5. Other reserves	**070**	112.763.413	112.763.413	114.709.857	116.622.151
IV. REVALUATION RESERVES	**071**	**7.224.706**	**15.037.718**	**7.224.760**	**15.037.772**
V. RETAINED EARNINGS OR LOSS BROUGHT FORWARD (073-074)	**072**	**0**	**0**	**2.324.459**	**18.947.385**
1. Retained earnings	**073**	0	0	2.324.459	18.947.385
2. Loss brought forward	**074**	0	0		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	**075**	**88.934.838**	**2.860.224**	**91.573.397**	**1.190.869**
1. Profit for the financial year	**076**	88.934.838	2.860.224	91.573.397	1.190.869
2. Loss for the financial year	**077**	0	0	0	
VII. MINORITY INTEREST	**078**	**0**	**0**	**10.863.052**	**2.697.789**
B) PROVISIONS (080 do 082)	**079**	**6.876.000**	**6.282.000**	**8.475.988**	**8.280.918**
1. Provisions for pensions, severance pay and similar libabilities	**080**	6.876.000	6.282.000	8.475.988	7.672.388
2. Provisions for tax obligations	**081**	0	0	0	0
3. Other provisions	**082**	0	0	0	608.529
C) NON-CURRENT LIBILITIES (084 do 092)	**083**	**155.044.094**	**336.485.580**	**279.185.838**	**426.852.298**
1. Liabilites to related parties	**084**	0	0	0	1.477.778
2. Liabilities for loans, deposits and other	**085**	0	0	0	85.229.967
3. Liabilities towards banks and other financial institutions	**086**	1.665.000	243.298.205	125.806.744	246.079.363
4. Amounts payable for prepayment	**087**	0	0	0	0
5. Trade payables	**088**	153.379.094	93.187.375	153.379.094	94.065.190
6. Amounts payable for securities	**089**	0	0	0	0
7. Liabilities toward participating interests	**090**	0	0	0	0
8. Other non-current liabilities	**091**	0	0	0	0
9. Deffered tax	**092**	0	0	0	0
D) CURRENT LIABILITIES (094 do 105)	**093**	**1.244.995.504**	**1.199.518.381**	**1.280.098.888**	**1.276.477.298**
1. Liabilites to related parties	**094**	9.778.074	20.086.020	7.325.986	0
2. Liabilities for loans, deposits and other	**095**	8.907.329	12.819.870	8.907.329	1.729.042
3. Liabilities towards banks and other financial institutions	**096**	335.385.720	429.766.197	343.896.704	470.642.918
4. Amounts payable for prepayment	**097**	27.490.675	135.030.287	27.894.232	116.574.785
5. Trade payables	**098**	578.507.453	365.331.524	595.998.921	436.023.492

Item	AOP	Previous period	Current period	Previous period	Current period
1	2	4	5	6	7
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
6. Amounts payable for securities	099	232.836.403	210.105.783	232.836.403	210.105.783
7. Liabilities toward participating interests	100	0	0	0	0
8. Liabilities to emloyees	101	11.231.149	4.227.713	14.636.826	9.148.493
9. Taxes, contributions and similar liabilities	102	13.355.958	6.663.521	19.059.407	13.834.950
10. Liabilities arising from share in the result	103	1.899.762	1.899.762	1.899.762	2.900.422
11. Liabilities arising from non-current assets held for sale	104	0	0	0	0
12. Other current liabilities	105	25.602.981	13.587.705	27.643.318	15.517.414
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**71.155.027**	**0**	**77.849.378**	**38.041**
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	**2.146.261.886**	**2.221.150.460**	**2.332.609.455**	**2.415.744.891**
G) OFF-BALANCE SHEET ITEMS	**108**	**406.320.335**	**613.050.041**	**406.320.335**	**613.050.041**
ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)					
A) CAPITAL AND RESERVES					
1. Attributable to equity holders of the parent company's capital	109			676.136.312	701.398.549
2. Attributable to non-controlling interests	110			10.863.052	2.697.789

IV. REPORT OF OVERALL PROFIT

Currency: HRK

ITEM	AOP	Previous period	Current period	Previous period	Current period
1	2	3	4	5	6
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
I. OPERATING INCOME (112+113)	111	2.384.177.626	1.576.758.056	2.451.423.294	1.657.494.942
1. Sales revenue	112	2.336.839.775	1.478.616.371	2.394.605.008	1.553.940.595
2. Other operating income	113	47.337.851	98.141.685	56.818.286	103.554.346
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	2.203.543.518	1.513.147.477	2.268.309.019	1.592.917.897
1. Changes in inventories of finished products and work in progress	115	120.784.589	114.292.612	127.017.905	105.787.322
2. Material costs (117 do 119)	116	1.547.600.091	982.969.205	1.509.563.316	980.056.329
a) Cost of raw materials & consumables	117	352.610.080	170.623.725	323.474.299	171.842.384
b) Cost of goods sold	118	104.766.649	114.480.157	122.068.551	155.924.766
c) Other costs	119	1.090.223.362	697.865.323	1.064.020.466	652.289.178
3. Staff costs (121 do 123)	120	294.329.380	225.385.558	367.236.862	285.414.230
a) Net salaries	121	178.184.301	143.298.826	220.854.198	179.164.247
b) Employee income tax	122	78.213.640	55.783.324	95.516.314	72.796.492
c) Tax on payroll	123	37.931.439	26.303.408	50.866.350	33.453.491
4. Depreciation and amortisation	124	51.930.614	51.497.854	59.272.335	56.017.582
5. Other expenditures	125	179.474.159	117.487.305	197.212.753	141.739.652
6. Value adjustment (127+128)	126	415.673	5.243.134	2.809.141	5.243.134
a) non-current assets (without financial assets)	127	0	0	208.128	0
b) current assets (without financial assets)	128	415.673	5.243.134	2.601.013	5.243.134
7. Provisions	129	0	0	3.725.919	238.327
8. Other operating expenses	130	9.009.012	16.271.809	1.470.788	18.421.321
III. FINANCIAL INCOME (132 do 136)	131	1.569.917	2.230.814	2.009.932	1.833.943
1. Interest income, foreign exhange differences, dividends and other financial income related to subsidiaries	132	0	0	0	0
2. Interest income, foreign exchange differences, dividends and other financial income related to third parties	133	63.278	2.230.814	503.293	1.672.833
3. Part of income from associates and participating interests	134	0	0	0	94.045
4. Unrealized gains (income) from the financial assets	135	0	0	0	0
5. Other financial income	136	1.506.639	0	1.506.639	67.064
IV. FINANCIAL COSTS (138 do 141)	137	70.691.295	60.429.983	74.270.337	61.733.354
1. Interest, foreign exchange differences and other expenses related to subsidiaries	138	134.534	248.775	0	0
2. Interest, foreign exchange differences and other expenses related to third parties	139	70.556.761	60.181.208	74.270.337	61.504.598
3. Unrealized loss (expenses) from the financial assets	140	0	0	0	23.815
4. Other financial expenses	141	0	0	0	204.941
V. SHARE OF INCOME OF ASSOCIATES	142	0	0	0	0
VI. SHARE OF LOSS OF ASSOCIATES	143	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0	0	0

ITEM	AOP	Previous period	Current period	Previous period	Current period
1	2	3	4	5	6
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0	0	0
IX. TOTAL INCOME (111+131+142 + 144)	146	2.385.747.543	1.578.988.870	2.453.433.226	1.659.328.884
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.274.234.813	1.573.577.460	2.342.579.356	1.654.651.251
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	111.512.730	5.411.410	110.853.870	4.677.633
1. Profit before tax (146-147)	149	111.512.730	5.411.410	110.853.870	4.677.633
2. Loss before tax (147-146)	150	0	0		
XII. INCOME TAX EXPENSE	151	22.577.892	2.551.186	23.455.636	3.760.160
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	88.934.838	2.860.224	87.398.234	917.473
1. Profit for the period (149-151)	153	88.934.838	2.860.224	87.398.234	917.473
2. Loss for the period (151-148)	154	0	0		0
ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to owners of the company	155			91.573.400	1.190.883
2. Attributable to non-controlling interests	156			-4.175.166	-273.411
STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)					
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	88.934.838	2.860.224	87.398.234	917.472
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)	158		7.813.011		7.813.011
1. Exchange differences arising from foreign operations	159		0		
2. Revaluation of non-current assets and intangible assets	160		7.813.011		
3. Gains or loss available for sale investments	161		0		7.813.011
4. Gains or loss on net movement on cash flow hedges	162		0		
5. Gains or loss on net investments hedge	163		0		
6. Share of the other comprehensive income/loss of associates	164		0		
7. Acturial gain / loss on post employment benefit obligations	165		0		
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	166		1.562.602		1.562.602
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)	167		6.250.409	0	6.250.409
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)	168	88.934.838	9.110.633	87.398.234	7.167.881
APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)					
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD					
1. Attributable to owners of the company	169			91.573.400	7.441.292
2. Attributable to non-controlling interests	170			-4.175.166	-273.411

V. REPORT OF CASH FLOW

Currency: HRK

ITEM	AOP	Previous period	Current period	Previous period	Current period
	2	4	5	4	5
1		DALEKOVOD j.s.c.		DALEKOVOD GROUP	
CASH FLOW FROM OPERATING ACTIVITIES					
1. Pre-tax profit	001	111.512.733	5.411.410	110.853.870	4.677.635
2. Depreciation	002	51.930.614	51.497.854	59.272.118	56.017.582
3. Increase in short-term liabilities	003	0	0	107.806.837	16.556.059
4. Decrease in short-term receivables	004	154.172.471	22.491.883	189.994.519	43.179.010
5. Reduction of stocks	005	246.949.519	129.946.241	263.905.621	135.001.789
6. Other increase in cash flow	006	15.364.385	0	23.324.610	2.235.713
I. Total increase in cash flow from operating activities (001 to 006)	**007**	**579.929.722**	**209.347.388**	**755.157.575**	**257.667.788**
1. Decrease in short-term liabilities	008	343.889.180	83.848.020	387.656.642	135.174.072
2. Increase in short-term receivables	009	0	0	27.058.237	37.404.792
3. Increase in stocks	010	0	0	1.872.803	7.873.933
4. Other decrease in cash flow	011	0	25.211.786	3.880.918	36.270.754
II Total decrease in cash flow from operating activities (008 to 011)	**012**	**343.889.180**	**109.059.806**	**420.468.600**	**216.723.551**
A1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (007-012)	**013**	**236.040.542**	**100.287.582**	**334.688.975**	**100.287.580**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	**014**	**0**	**0**	**0**	**59.343.343**
CASH FLOW FROM INVESTMENT ACTIVITIES					
1. Cash receipts from sale of fixed tangible and intangible assets	015	20.730.045	32.518.041	20.741.252	32.577.571
2. Cash receipts from sale of treasury and debt financial instruments	016	90.543.029	154.012.560	90.543.029	175.810.910
3. Cash receipts from interests	017	1.046.045	1.510.117	1.095.334	1.533.844
4. Cash receipts from dividends	018	0		0	0
5. Other cash receipts from investment activities	019	0		800.307	378.134
III. Total cash receipts from investment activities (015 do 019)	**020**	**112.319.119**	**188.040.718**	**113.179.922**	**210.300.459**
1. Expenditures for buying fixed assets and intangible assets	021	55.665.105	171.354.575	192.948.891	179.512.877
2. Expenditures for purchasing treasury and debt financial instruments	022	145.712.894	320.882.497	146.415.831	343.843.341
3. Other expenditures from investment activities	023	0		462.169	48.193.115
IV. Total expenditures **from investment activities (021 to 023)**	**024**	**201.377.999**	**492.237.072**	**339.826.891**	**571.549.333**
B1) NET INCREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	**025**	**0**	**0**	**0**	**0**
b2) NET DECREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	**026**	**89.058.880**	**304.196.354**	**226.646.969**	**361.248.874**
CASH FLOW FROM FINANCIAL ACTIVITIES					
1. Cash receipts from issuance of treasury and debt financial instruments	027	151.181.774	162.871.623	151.181.774	162.871.623
2. Cash receipts from loan principal, bonds, borrowings and other loans	028	735.696.692	965.868.104	742.765.533	979.067.310
3. Total cash receipts from financial activities	029	0		42.972.928	119.996.333
V. Total cash receipts from financial activities (027 To 029)	**030**	**886.878.466**	**1.128.739.727**	**936.920.235**	**1.261.935.266**

ITEM	AOP	Previous period	Current period	Previous period	Current period
1	2	4	5	4	5
		DALEKOVOD j.s.c.		DALEKOVOD GROUP	
1. Expenditures for repayment of loan principal and bonds	031	1.066.843.268	692.612.234	1.080.446.859	703.677.945
2. Expenditures for payment of dividends	032	0	0	0	578.476
3. Expenditures for financial leasing	033	29.046.404	186.449.596	29.046.404	187.046.702
4. Expenditures for redemption of treasury shares	034	2.398.700	0	2.398.700	0
5. Other expenditures from financial activities	035	0		56.503	638
VI. Total expenditures **from financial activities (031 to 035)**	036	**1.098.288.372**	**879.061.830**	**1.111.948.466**	**891.303.761**
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	**0**	**249.677.897**	**0**	**370.631.505**
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	**211.409.906**	**0**	**175.028.231**	**0**
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	45.769.125	0	50.326.868
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	64.428.244	0	66.986.225	0
Cash and cash equivalents at the beginning of the period	041	104.720.406	40.322.162	115.423.730	49.086.275
Increase in cash and cash equivalents	042	0	45.769.125	0	50.326.868
Decrease in cash and cash equivalents	043	64.428.244	0	66.986.225	0
Cash and cash equivalents at the end of the period	044	**40.292.162**	**86.091.287**	**48.437.505**	**99.413.143**

VI. REPORT ON CHANGES TO CAPITAL

Currency: HRK

Item	AOP	Previous period	Current period	Previous period	Current period
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
1. Share capital	117	229.381.200	229.381.200	229.381.200	229.381.200
2. Capital reserves	118	0	0	0	0
3. Profit reserves	119	342.650.517	431.585.358	345.632.495	436.803.555
4. Retained earnings or loss carried forward	120	0	0	2.324.459	18.947.385
5. Profit or loss of the current year	121	88.934.838	2.860.224	91.573.397	1.190.869
6. Revaluation of fixed tangible assets	122				
7. Revaluation of intangible assets	123				0
8. Revaluation of financial financial property available for sale	124	7.224.706	15.037.718	7.224.760	15.037.772
9. Other revaluation	125				0
10. Foreign exchange differences from net investments in foreign operations	126				0
11. Foreign exchange differences from net investments in foreign operations	127				0
12. Cash flow hedge	128				0
13. Changes in accounting policies	129				0
14. Correction of significant mistakes from the previous period	130				0
15. Other equity changes	131				
Total equity increase or decrease	**132**	**668.191.261**	**678.864.499**	**676.136.311**	**701.360.781**
1. Ascribed to capital holders of the principal office	133			**676.136.311**	**701.398.549**
2. Ascribed to minority interest	134			**10.863.052**	**2.697.789**

VII. DECISION OF THE COMPETENT BODY (PROPOSAL) ON AFFIRMING THE GROUP'S ANNUAL FINANCIAL REPORTS

On April 29th 2011, pursuant to Article 240 of the Corporations Act and Article 20 paragraph 3 of the Accountancy Act, DALEKOVOD d.d. Management Board from Zagreb, Marijana Čavića 4, reached the following:

DECISION

on affirming Consolidated Annual Financial Reports for 2010

Item 1

Pursuant to relevant regulations, the following Consolidated Annual Financial Reports and Tax Reports have been drawn up for year 2010:

II. Consolidated balance sheet
III. Consolidated profit and loss account
IV. Consolidated cash flow report
V. Consolidated changes to capital report
VI. Notes to basic financial reports
VII. Consolidated annual report (from Art 18 of the Accountancy Act; "Annual Report on the State of the Company" Article 250.a. from the Corporations Act; "Management Board's Report" from Art 403 of the Capital Market Act)

Item 2

The Consolidated Profit and Loss Account for 2010 has been established, stating the amount of earnings after tax totalling 917.473,08 HRK of which shareholders' equity of the parent company totals 1.190.882,79 HRK, while the loss due to minority interest amounts to 273.409,71 HRK.

Income tax has been established in the annual income tax return of the parent company and subsidiaries for 2010 in the amount of 3.760.159,56 HRK.

On December 31st 2010 the consolidated balance sheet states the total of assets and liabilities in the amount of 2.415.744.891,40 HRK.

President of the Company Management Board

M.Sc. Luka Miličić, M.E.

VIII. DECISION OF THE COMPETENT BODY (PROPOSAL) ON AFFIRMING THE COMPANY'S ANNUAL FINANCIAL REPORTS

On April 29th 2011, pursuant to Article 240 of the Corporations Act and Article 20 paragraph 3 of the Accountancy Act, DALEKOVOD d.d. Management Board from Zagreb, Marijana Čavića 4, reached the following:

DECISION

on affirming Consolidated Annual Financial Reports for 2010

Item 1

Pursuant to relevant regulations, the following Consolidated Annual Financial Reports and Tax Reports have been drawn up for year 2010:

I. Balance Sheet
II. Profit and Loss Account
III. Cash Flow Report
IV. Report on Changes to Capital
V. Notes to basic financial reports
VI. Tax Return for 2010 (PD form)
VII. Annual report (from Art 18 of the Accountancy Act; "Annual Report on the State of the Company" Article 250.a. from the Corporations Act; "Management Board's Report" from Art 403 of the Capital Market Act)

Item 2

Profit and loss account for 2010 stating the amount of earnings after tax totalling 2.860.220,05 HRK has been established.

Income tax has been established in the annual income tax return for 2010 (PD form) in the amount of 2.551.185,95 HRK.

On December 31st 2010 the balance sheet states the total of assets and liabilities in the amount of 2.221.150.461,41 HRK.

President of the Company Management Board

M.Sc. Luka Miličić, M.E.

IX. DECISION ON THE PROFIT ALLOCATION OR LOSS COVER PROPOSAL

On April 29th 2011, pursuant to Article 275 of the Corporations Act and Article 20 paragraph 3 of the Accountancy Act, DALEKOVOD d.d. Management Board and Supervisory Board from Zagreb, Marijana Čavića 4, reached the following:

DECISION

On the profit allocation proposal for 2010

Item 1

It has been established that gross earnings for 2010 total 5.411.406,00 HRK.

Item 2

It has been established that the net profit amounts to 2.286.220,05 HRK.

Item 3

For the payments to all Supervisory Board members and Supervisory Board Committee members, pursuant to Art 62 of the Company's Articles of Association, a sum of 660.000,00 is allocated to statutory reserves.

Item 4

The General Shareholders' Meeting gives authority to the Company Management Board so that in case of need it may make a change in the usage of funds from item 3 herein, so that the funds may be allocated to other reserves in accordance with limitations prescribed by law and the Company's Articles of Association.

Item 5

It has been established that the rest of the net profit after allocation for purposes established in item 3 herein amount to 1.626.220,05 HRK.

Item 6

The rest of the profit amounts to 1.626.220,05 HRK and is allocated to statutory reserves of the Company.

Explanation

By the proposed Decision the income earned from 2010 business activities remains as a reserve in the Company. In that way the Company strengthens its equity position ensuring further reinforcing grounds for firm and secure business activity.

President of the Supervisory Board

D.Sc. Petar Đukan, M.E.

President of the Company Management Board

M.Sc. Luka Miličić, M.E.

X. AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Independent auditor's report and audited financial statements for Dalekovod and Dalekovod group are attached below as a part of this document.

DALEKOVOD d.d.

INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2010

This version of the accompanying documents 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 our report takes precedence over this translation.

Independent auditor's report

To the Shareholders of DALEKOVOD d.d. Zagreb

We have audited the accompanying financial statements of DALEKOVOD d.d. Zagreb and its subsidiary (the 'Group') and the company DALEKOVOD d.d. Zagreb (the 'Company'), which comprise the balance sheet as of 31 December 2010 and the income statement, statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated and non-consolidated financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2010 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 12 May 2011

This version of our 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 our report takes precedence over this translation.

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DALEKOVOD d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Sales	5	1,556,285	2,421,717	1,478,616	2,336,839
Other income	5, 6	92,862	29,706	91,651	46,119
Change in work in progress and finished goods		(105,791)	(127,018)	(114,293)	(120,785)
Cost of goods sold		(155,925)	(122,069)	(114,480)	(104,767)
Cost of materials and services	7	(827,707)	(1,387,495)	(868,489)	(1,442,833)
Staff costs	8	(300,185)	(384,220)	(235,486)	(304,387)
Depreciation and amortisation	15,16,17	(56,017)	(59,272)	(51,498)	(51,930)
Other operating expenses	9	(141,771)	(186,766)	(125,105)	(177,244)
Other gains/(losses) – net	10	2,231	38	1,994	(88)
Operating profit		**63,982**	**184,621**	**62,910**	**180,924**
Finance income	11	2,293	503	2,932	1,281
Finance costs	11	(61,597)	(74,270)	(60,430)	(70,692)
		(59,304)	(73,767)	(57,498)	(69,411)
Profit before tax		**4,678**	**110,854**	**5,412**	**111,513**
Income tax expense	12	(3,760)	(23,456)	(2,552)	(22,578)
Net profit		**918**	**87,398**	**2,860**	**88,935**
Attributable to:					
Equity holders of the Company		1,191	91,573	2,860	88,935
Non-controlling interest		(273)	(4,175)	-	-
Net profit		**918**	**87,398**	**2,860**	**88,935**
Earnings per share – basic and diluted (in HRK)	13	**0,52**	**40,62**	**1,27**	**39,45**

The financial statements set out on pages 2 to 64 were approved by the Management Board on 29 April 2011.

President of the Board/General Manager:

Luka Miličić M. Sc. C. E

The accompanying notes form an integral part of these consolidated and non-consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Net profit		**918**	**87,398**	**2,860**	**88,935**
Other comprehensive income:					
Foreign exchange differences		(2,087)	(2,886)	-	-
Assets at fair value	26	7,813	3,634	7,813	3,634
Total other comprehensive income		5,726	748	7,813	3,634
Total other comprehensive income		**6,644**	**88,146**	**10,673**	**92,569**
Attributable to:					
Equity holders of the Company		6,843	92,727	10,673	92,569
Non-controlling interest		(199)	(4,581)	-	-
Total comprehensive income		**6,644**	**88,146**	**10,673**	**92,569**

The accompanying notes form an integral part of these consolidated and non-consolidated financial statements.

DALEKOVOD d.d.

BALANCE SHEET

AS AT 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
ASSETS					
Non-current assets					
Intangible assets	15	26,308	22,709	19,936	18,150
Property, plant and equipment	16	716,253	713,928	376,681	361,618
Prepayments for property, plant and equipment		99	127	-	-
Investment property	17	-	-	106,201	106,841
Investments in subsidiaries	18	971	248	165,706	119,101
Investments in associates	19a	20,241	16,007	20,241	16,007
Investments in joint ventures	19b	19,478	-	-	-
Available-for-sale financial assets	19c	82,150	40,768	68,059	40,768
Loans and receivables	21	56,135	46,037	53,928	46,981
		921,635	839,824	810,752	709,466
Current assets					
Inventories	22	354,287	482,712	314,767	444,714
Trade and other receivables	23	1,026,175	960,592	991,615	951,734
Financial assets at fair value through profit or loss	24	627	534	27	26
Cash and cash equivalents	25	99,413	48,947	86,091	40,322
Income tax receivable	12	17,786	-	17,898	-
		1,498,288	1,492,785	1,410,398	1,436,796
Total assets		**2,419,923**	**2,332,609**	**2,221,150**	**2,146,262**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	26	229,381	229,381	229,381	229,381
Legal reserves	26	12,838	12,522	11,487	11,487
Treasury shares	26	(7,773)	(7,773)	(7,773)	(7,773)
Statutory reserves	26	453,854	344,224	307,335	218,400
Revaluation reserves	26	15,038	7,225	15,038	7,225
Cumulative exchange differences		(3,177)	(1,016)	120,536	120,536
Retained earnings		1,191	91,573	2,860	88,935
		701,352	676,136	678,864	668,191
Non- controlling interest		2,697	10,863	-	-
Total equity		**704,049**	**686,999**	**678,864**	**668,191**
Non-current liabilities					
Borrowings	27	426,657	156,742	336,486	155,044
Provisions	30	7,781	7,929	5,883	6,429
Deferred income	28	-	71,155	-	71,155
		434,438	235,826	342,369	232,628
Current liabilities					
Provisions	30	499	547	399	447
Borrowings	27	611,243	563,730	599,092	496,780
Trade and other payables	29	669,694	843,328	600,426	745,985
Income tax payable	12	-	2,179	-	2,231
		1,281,436	1,409,784	1,199,917	1,245,443
Total liabilities		**1,715,874**	**1,645,610**	**1,542,286**	**1,478,071**
Total shareholders' equity and liabilities		**2,419,923**	**2,332,609**	**2,221,150**	**2,146,262**

The accompanying notes form an integral part of these consolidated and non-consolidated financial statements.

DALEKOVOD d.d.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

Dalekovod Group

(all amounts are expressed in thousands of HRK)	**Note**	**Share capital**	**Legal reserves**	**Treasury shares**	**Statutory and other reserves**	**Revaluation reserves**	**Cumulative exchange differences**	**Retained earnings**	**Non-controlling interest**	**Total**
Year ended 31 December 2009										
At 1 January 2009		229,381	12,236	(5,374)	255,695	3,591	1,464	88,815	16,375	602,183
Net profit for the year		-	-	-				91,573	(4,175)	87,398
Other comprehensive income						3,634	(2,480)	-	(406)	748
Total comprehensive income		-	-	-	-	3,634	(2,480)	91,573	(4,581)	88,146
Transactions with owners:										
Purchase of treasury shares	26	-	-	(2,399)	-	-	-	-	-	(2,399)
Non-controlling interests – additional acquisition of TIM d.d.	18		-	-	-	-			(931)	(931)
Transfers within reserves		-	286	-	88,529	-	-	(88,815)		-
At 31 December 2009		**229,381**	**12,522**	**(7,773)**	**344,224**	**7,225**	**(1,016)**	**91,573**	**10,863**	**686,999**
Net profit for the year		-	-	-	-	-		1,191	(273)	918
Other comprehensive income		-	-	-	-	7,813	(2,161)	-	74	5,726
Total comprehensive income		-	-	-	-	7,813	(2,161)	1,191	(199)	6,644
Transactions with owners:										-
Effect of merger within subsidiary	26	-	-	-	9,162	-	-	-	-	9,162
Effect of loss of control – Unidal	18	-	-	-	9,211	-	-	-	(7,037)	2,174
Non-controlling interests – additional acquisition of TIM d.d.	18	-	-	-	-	-	-	-	(930)	(930)
Transfers within reserves	26	-	316	-	91,257	-	-	(91,573)	-	-
At 31 December 2010		**229,381**	**12,838**	**(7,773)**	**453,854**	**15,038**	**(3,177)**	**1,191**	**2,697**	**704,049**

Dalekovod d.d.

(all amounts are expressed in thousands of HRK)	Note	Share capital	Legal reserves	Treasury shares	Revaluation reserves	Statutory reserves	Other reserves	Retained earnings	Total
At 1 January 2009		229,381	11,487	(5,374)	3,591	219,999	36,422	82,515	578,021
Net profit for the year		-	-	-	-	-	-	88,935	88,935
Other comprehensive income		-	-	-	3,634	-	-	-	3,634
Total comprehensive income					3,634			88,935	92,569
Transactions with owners:									
Purchase of treasury shares		-	-	(2,399)	-	-	-	-	(2,399)
Transfer to statutory reserves		-	-	-	-	800	-	(800)	-
Transfer to other reserves		-	-	-	-	(2,399)	84,114	(81,715)	-
At 31 December 2009		**229,381**	**11,487**	**(7,773)**	**7,225**	**218,400**	**120,536**	**88,935**	**668,191**
Net profit for the year		-	-	-	-	-	-	2,860	2,860
Other comprehensive income		-	-	-	7,813	-	-	-	7,813
Total comprehensive income		-	-	-	7,813	-	-	2,860	10,673
Transactions with owners:									
Transfer to statutory reserves		-	-	-	-	88,935	-	(88,935)	-
At 31 December 2010		**229,381**	**11,487**	**(7,773)**	**15,038**	**307,335**	**120,536**	**2,860**	**678,864**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Cash flows from operating activities					
Cash generated from operations	32	33,016	450,998	24,059	327,512
Interest paid		(62,953)	(77,626)	(61,643)	(73,716)
Income tax paid		(23,837)	(26,297)	(22,680)	(25,017)
Net cash (outflow)/inflow from operating activities		**(53,774)**	**347,075**	**(60,265)**	**228,779**
Cash flows from investing activities					
Purchase of intangible assets	15	(8,577)	(5,023)	(6,764)	(5,023)
Purchase of property, plant and equipment	16	(109,730)	(166,659)	(61,077)	(27,402)
Proceeds from sale of property, plant and equipment	32	834	850	597	848
Deposits and loans given	23	(138,630)	(35,378)	(115,329)	(37,216)
Loan repayments received		46,660	14,815	8,178	16,789
Investment in subsidiaries		(953)	-	(1,883)	-
Investments in financial assets	24	(92)	(115)	-	-
Investment in available-for-sale financial assets	19	-	(9,462)	-	(9,462)
Acquisition of subsidiary	31	(624)	(6,203)	-	(6,213)
Sale of/investment in financial assets		-	1,507	-	1,507
Interest received		2,919	22,626	3,533	22,334
Net cash used in investing activities		**(208,193)**	**(183,042)**	**(172,745)**	**(43,838)**
Cash flows from financing activities					
Proceeds from borrowings	27	741,338	178,805	704,139	152,240
Repayment of commercial papers – net	27	(164,638)	(106,757)	(164,638)	(106,757)
Issue of commercial papers	27	156,500	34,295	156,500	34,295
Purchase of treasury shares	26	-	(2,399)	-	(2,399)
Repayments of borrowings	27	(420,767)	(337,184)	(417,242)	(326,671)
Dividends paid		-	(47)	-	(47)
Net cash (used in)/from financing activities		**312,433**	**(233,287)**	**278,759**	**(249,339)**
Net increase/(decrease) in cash and cash equivalents		**50,466**	**(69,254)**	**45,769**	**(64,398)**
Cash and cash equivalents at beginning of year		48,947	118,201	40,322	104,720
Cash and cash equivalents at end of year	25	99,413	48,947	86,091	40,322
Net increase/(decrease) in cash and cash equivalents		**50,466**	**(69,254)**	**45,769**	**(64,398)**

The accompanying notes form an integral part of these consolidated and non-consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and 17 subsidiaries (2009: 16) – Note 18.

Dalekovod d.d., Zagreb (the Company) is privately owned and was incorporated in compliance with the laws and regulations of the Republic of Croatia. The registered office of the Company is in Zagreb, Marijana Čavića 4. The Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

The Company's principal activity is the engineering, production, construction and installation of electric power facilities, facilities for road, railroad and mass transit and telecommunication infrastructure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated and non-consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. All policies applicable to the Group are also applicable to the Company, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the non-consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group and the Company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised), Business combinations, and consequential amendments to IAS 27, Consolidated and separate financial statements, IAS 28, Investments in associates, and IAS 31, Interests in joint ventures, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group and the Company (continued)

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the statement of comprehensive income.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Group and the Company have not early adopted them:

- *IFRIC 17, Distribution of non-cash assets to owners* (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- *IFRIC 18, Transfers of assets from customers*, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- *IFRIC 9, Reassessment of embedded derivatives* and *IAS 39, Financial instruments: Recognition and measurement*, effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through the statement of comprehensive income' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the Group or the Company are unable to make this assessment, the hybrid instrument must remains classified as at fair value through the statement of comprehensive income in its entirety.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) (continued)

- *IFRIC 16, Hedges of a net investment in a foreign operation* effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- *IAS 38 (amendment), Intangible assets*, effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- *IAS 1 (amendment), Presentation of financial statements*. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- *IAS 36 (amendment), Impairment of assets*, effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of *IFRS 8, Operating segments* (that is, before the aggregation of segments with similar economic characteristics).

- *IFRS 2 (amendments), Group cash-settled share-based payment transactions*, effective form 1 January 2010. In addition to incorporating *IFRIC 8, Scope of IFRS 2*, and *IFRIC 11, IFRS 2 – Group and treasury share transactions*, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- *IFRS 5 (amendment), Non-current assets held for sale and discontinued operations*. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) (continued)

- *Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12* sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment supersedes SIC 21 and shall be applied for annual periods beginning on or after 1 January 2012. Earlier application is permitted. As the Group does not have investment properties or non-depreciable asset measured using the revaluation model in IAS 16, the amended standard will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standard. The amendment did not have a material impact on these financial statements.

- *Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement* (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

- *IFRS 1, First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these financial statements.

- *Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS* (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

- *IFRS 9, Financial instruments*, issued in November 2009. This standard is the first step in the process to replace *IAS 39, Financial instruments: recognition and measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's and the Company's accounting for their financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income. The standard is not applicable until 1 January 2013 but is available for early adoption.
- *Revised IAS 24 (revised*), *Related party disclosures*, issued in November 2009. It supersedes IAS 24, Related party disclosures, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.
- *Classification of rights issues (amendment to IAS 32)*, issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment applies retrospectively in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors.*
- *IFRIC 19, Extinguishing financial liabilities with equity instruments*, effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap).
- *Prepayments of a minimum funding requirement* (amendments to IFRIC 14). The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.
- *Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1* (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.The Group does not expect the amendments to have any impact on the financial statements.
- *Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).* The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendments to have any impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (continued)

- *Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

In the non-consolidated financial statements, the Company carries investments in subsidiaries at acquisition cost.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group (acquisition date). They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Unrealised losses are also eliminated, unless there is evidence of impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group or the Company have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group accounts for investments in associates using the equity method and the Company accounts for them at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Mergers

The predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated. Any difference between the carrying value of net assets merged and net assets given up is recorded as equity.

(e) Joint ventures

The Group's interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. Under the equity method, the Group's share of post-acquisition profits or losses are recognised in the income statement, whereas its share of post-acquisition movements in reserves are recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(f) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised *IAS 27 Consolidated and separate financial statements became* effective. The revision to IAS 27 contained consequential amendments to *IAS 28, Investments in associates*, and *IAS 31, Interests in joint ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to 'Cumulative foreign exchange differences' within shareholders' equity. When a foreign operation is partially disposed of or sold and control over the subsidiary is lost, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Land and work in progress are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives in years
Buildings	20 – 40
Plant, machinery and equipment	8 – 10
Vehicles	5 – 8
Leasehold improvements	Over the period of the lease
Other	5 – 10

The residual value of an asset is the estimated amount that the Group would currently obtain from 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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the line item "other (losses)/gains – net" in the income statement.

2.6 Investment properties

Investment property, principally comprising office buildings and land, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Depreciation for buildings is calculated using the straight-line method to allocate cost over estimated useful life (20 to 40 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the carrying value of the Group's share of the net identifiable assets of the acquired business sector at the acquisition date. Goodwill on acquisition is included in intangible assets.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified by business segment. If a part of the whole cash generating unit is sold, the related goodwill is included in the carrying amount of net assets sold when determining gain or loss on the transaction.

(b) Computer software

Computer software is capitalised on the basis of the costs incurred to bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land or goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets

The Group and the Company classify their financial assets in the following categories: at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within the line item 'other (losses)/gains – net' in the period in which they arise.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in equity and the transaction costs are recorded in equity.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in line item 'other (losses)/gains – net'.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the right to receive payment is established.

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "other operating expenses". Subsequent recoveries of the provision for impairment of trade receivables are recorded in the income statement within "other operating expenses".

2.10 Leases

The Group and the Company are the lessee

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

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The Group and the Company are the lessor

Assets under an operating lease are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, even if the proceeds are not balanced, unless there is an alternative basis representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

Small inventory and tools are expensed when put into use.

2.12 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group and the Company use the ‘percentage of completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group and the Company present as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

2.15 Borrowings

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 income statement over the period of the borrowings using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan extent that it is probable that some or all of the facility will be drawn down.

Borrowings are classified as current liabilities unless the Group or the Company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Income tax

Income tax for the current year is calculated on the basis of the tax laws in effect at the balance sheet date in the countries in which the Company's subsidiaries and the Company operate and generate taxable income. The tax base represents the difference between income and expenses, as determined by the applicable law. Income tax is calculated at a rate of 20%. The Group companies' Managements periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity ir different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group and the Company make 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.

Furthermore, according to Collective bargaining agreement the Group and the Company have an obligation to make severance payments to employees at the time of the employees’ retirement. The liability recognised in the balance sheet is the present value of defined benefit obligation at the balance sheet date less past service costs with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of governmental bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement severance payment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employee’s expected average remaining working lives. Past-service costs are amortised on a straight-line basis over the employee’s expected average remaining working life. In addition, the Group is not obliged to provide any other post-employment benefits.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(c) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts. The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's and the Company's activities as described below.

(a) Revenue from construction contracts

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract (Note 2.13).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

(b) Sales of goods

Sales of goods are recognised when the Group and the Company have delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22 Dividend distribution

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 General Assembly of the Company’s shareholders.

2.23 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.24 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's and the Group's activities expose them to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest rate risk), price risk, credit risk and liquidity risk. The Group and the Company do not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's finance department.

(a) Market risk

(i) Foreign exchange risk

The majority of foreign sales revenue is denominated in EUROs and USD. Domestic sales revenue is denominated in HRK. The majority of long-term and short-term loans were agreed with a currency clause, i.e. they are linked to the EURO. Any movement in exchange rates between the EURO and USD against the Croatian kuna will have an impact on the Group's and the Company's operating results.

At 31 December 2010, if the EURO had weakened/strengthened by 1% against the HRK (2009: 0.5%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 7,592 thousand (2009: HRK 2,124 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

At 31 December 2010, if the USD had weakened/strengthened by 5% against the HRK (2009: 1.5%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 514 thousand (2009: HRK 577 thousand) (lower)/higher, mainly as a result of foreign exchange gains/(losses) on translation of USD-denominated trade receivables, prepayments, guarantee deposits, trade payables and foreign cash funds.

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk because of investments held by the Group classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss. Equity investments classified as available for sale are not listed, while those classified as fair value through profit or loss are publicly traded. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Cash flow interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's and the Company's interest rate risk arises from long-term borrowings and commercial papers. Borrowings issued at variable rates expose the Group and the Company to cash flow interest rate risk. Borrowings and commercial papers issued at fixed rates expose the Group to fair value interest rate risk (Note 27).

The Group and the Company analyse their interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group and the Company calculate the impact on profit and loss of a defined interest rate shift. As at 31 December 2010, if the effective interest rate on borrowings had increased/decreased by 1% on an annual level (2009: 1%), the profit after tax would have been lower/higher by HRK 2,334 thousand (2009: HRK 4,314 thousand) as a result of a higher/lower interest expense.

(b) Credit risk

The Group's and the Company's assets, which potentially subject them to concentrations of credit risk, primarily include cash, trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. A favourable structure of buyers (major buyers are mainly state-owned companies) and the fact that, if necessary, collection from buyers is regulated by bank payment guarantees, bills of exchange, letters of credit and other types of security, almost completely diminishes the risk arising from the collection of trade receivables. A detailed analysis and maximum exposure to credit risk are shown in Note 23.

The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 27.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
Dalekovod Group				
31 December 2010				
Finance lease	4,995	48,940	46,914	100,849
Borrowings	681,801	293,191	70,478	1,045,470
Trade and other payables	512,374	-	-	512,374
31 December 2009				
Finance lease	36,377	141,963	19,269	197,609
Borrowings	562,111	68,386	-	630,497
Trade and other payables	769,128	-	-	769,128

	Less than 1 year	**Between 1-5 years**	**Over 5 years**	**Total**
Dalekovod d.d.				
31 December 2010				
Finance lease	4,800	48,745	46,914	100,459
Borrowings	597,923	257,122	61,807	916,852
Trade and other payables	455,350	-	-	455,350
31 December 2009				
Finance lease	9,535	106,833	51,495	167,863
Borrowings	506,341	51,292	-	557,633
Trade and other payables	683,529	-	-	683,529

Financial liabilities do not include amounts due to employees, liabilities for contributions, taxes, advances received and deferred income.

3.2 Capital risk management

The Company and the Group monitor capital on the basis of laws and regulations of the countries in which they operate. Croatian laws and regulations require minimum paid in capital of HRK 200 thousand for joint stock companies. There are no specific objectives required by the owners in managing capital. The Company and the Group are not subject to externally imposed capital requirements. In addition, there are no internally monitored capital objectives.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The table below present the Group's and the Company's assets at fair value as at 31 December 2010 and 2009:

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
31 December 2010				
Listed companies	12,543	-	-	**12,543**
Unlisted companies	-	26,575	43,659	**70,234**
Total	12,543	26,575	43,659	**82,777**
31 December 2009				
Listed companies	11,097	-	-	**11,097**
Unlisted companies	-	19,986	10,219	**30,205**
Total	11,097	19,986	10,219	**41,302**
Company				
31 December 2010				
Listed companies	11,943	-	-	**11,943**
Unlisted companies	-	26,575	29,568	**56,143**
Total	11,943	26,575	29,568	**68,086**
31 December 2009				
Listed companies	10,590	-	-	**10,590**
Unlisted companies	-	19,986	10,218	**30,204**
Total	10,590	19,986	10,218	**40,794**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, 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 (for example, over-the-counter derivatives) 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 instrument is included in level 3.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its revenue from construction contracts to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. If the estimated stage of completion would differ by 10% from management's estimates, the amount of revenue recognized in the year would be increased by HRK 16,300 thousand if the percentage of completion were increased, or would be decreased by HRK 14,100 thousand if the percentage of completion were decreased.

(b) Useful life of property, plant and equipment

The Company's and the Group companies' managements determine and reassess the useful lives and related depreciation charge for tangible assets. This assessment is based on the estimated remaining useful life of assets and could significantly change as a result of technical innovation and activities of competitors. Management will increase the depreciation charge if it assesses that the useful life of assets is lower than prior to estimates, or it will write off obsolete and discarded property.

Were the actual useful lives of the tangible assets to differ by 10% from management's estimates, the carrying amount of the tangible assets would be an estimated HRK 5,825 thousand higher or HRK 3,697 lower.

(c) Recent volatility in global and Croatian financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

It is impossible to reliably estimate the effects of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

NOTE 5 – SEGMENT INFORMATION

Primary reporting format – business segments

The Group separately monitors and presents business results of basic business segments, Production and Construction, whose operating activities are interrelated for the purpose of realising profit for the Group.

1. The segment of Production includes the forging works, the casting plant and the laboratory for quality control and the production of metal frames/structures.
2. The segment of Construction includes the construction of power and distribution facilities, transformer stations, laying submarine, subterranean and telecommunication cables, posting public lighting, installing antenna, television and telecommunication posts as well as work relating to the construction of motorways.

As a new programme of the Group's business activities new investments have been initiated in renewable energy sources – wind farms, which are expected to start operations in 2011. The programme of investments in renewable energy sources was joined in the company Dalekovod Professio d.o.o., wholly owned by Dalekovod. A group of special purpose entities was formed for the purpose of performing investment activities in wind farms.

Management monitors the operating results of the business segments to make decisions on the allocation of resources and performance assessment. Segment performance assessment is based on the gross segment revenue and realised profit from regular operations, as explained in the following table. The Group manages finance income and costs, share of profit of joint ventures and income tax and they are not allocated by operating segments.

Operating results by business segments for the Group

(in thousands of HRK)	**Construction**	**Production**	**Total**
Year ended 31 December 2010			
Gross segment revenues	1,331,941	292,079	1,624,020
Inter-segment sales /i/	(52,422)	(102,465)	(154,887)
Total revenues	1,279,519	189,614	1,469,133
Operating profit before depreciation and amortisation	106,850	11,876	118,726
Depreciation and amortisation	(37,954)	(17,943)	(55,897)
Profit from regular operations	**68,896**	**(6,067)**	**62,829**
Capital expenditure /ii/	26,233	11,026	37,259
Total assets /iii/	**814,256**	**230,432**	**1,044,688**
Year ended 31 December 2009			
Gross segment revenues	1,890,864	602,001	2,492,865
Inter-segment sales /i/	(26,200)	(122,024)	(148,224)
Total revenues	1,864,664	479,977	2,344,641
Operating profit before depreciation and amortisation	109,669	95,588	205,257
Depreciation and amortisation	(11,966)	(20,606)	(32,572)
Profit from regular operations	**97,703**	**74,982**	**145,985**
Capital expenditure /ii/	2,651	4,207	6,858
Total assets /iii/	**910,288**	**412,317**	**1,322,605**

NOTE 5 – SEGMENT INFORMATION (continued)

/i/ Inter-segment sales are eliminated on consolidation.

/ii/ Capital expenditure comprises new purchases of property, plant and equipment (Note 16) and intangible assets (Note 15) excluding new purchases of the Company and assets acquired on acquisition of subsidiaries.

/iii/ Inter-segment receivables are eliminated on consolidation. Total assets disclosed by segments are reconciled to total consolidated assets as follows:

	2010	2009
	(in thousands of HRK)	
Total assets disclosed by segments	1,044,688	1,322,605
Inter-segment receivables	(82,106)	(72,716)
Unallocated:		
Property, plant and equipment	606,479	282,491
Intangible assets	26,308	22,709
Trade and other receivables	565,467	622,618
Available-for-sale financial assets	82,150	40,768
Short-term deposits given	77,524	65,187
Cash and cash equivalents	99,413	48,947
Total assets in balance sheet	**2,419,923**	**2,332,609**

Segment liabilities are not disclosed, since they are reported to the chief operating decision-maker only on the Group level.

/iv/ Inter-segment revenues are eliminated on consolidation. Operating profit by segment is reclassified to profit before tax as follows:

	2010	2009
	(in thousands of HRK)	
Operating profit – by segments	118,726	205,527
Depreciation	(56,017)	(59,272)
Gains on sale of financial assets held for sale	4,727	1,507
Gains/(losses) on sale of tangible assets	700	(887)
Financing costs	(59,304)	(73,767)
Other effect of unallocated transactions – net	(4,154)	37,746
Profit before tax	**4,678**	**110,854**

NOTE 5 – SEGMENT INFORMATION (continued)

Of total non-current assets, excluding financial instruments, in Croatia an amount of HRK 827,421 thousand is allocated (2009: HRK 691,689 thousand), and in other countries an amount of HRK 87,286 thousand (2009: HRK 16,663 thousand).

Sales are allocated based on the country in which the customer is located.

	2010		2009	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Croatia	1,038,818	66.75	1,737,643	71.76
Bosnia and Herzegovina	128,113	8.23	74,444	3.07
Norway	90,061	5.79	64,460	2.66
Albania	76,779	4.93	87,700	3.62
Slovenia	39,903	2.56	9,161	0.38
Kazakhstan	-	-	230,272	9.51
Macedonia	47,786	3.07	1,439	0.06
Montenegro	33,863	2.18	39,755	1.64
Sweden	14,711	0.95	-	-
Other foreign countries	86,251	5.54	176,843	7.30
Total	**1,556,285**	**100.00**	**2,421,717**	**100.00**

Customers in the electricity sector and the civil engineering and gas industry have the greatest impact on the revenues of the Group and the Company, since from them 46.19% of total revenues was realised in 2010 (2009: 54.14%).

NOTE 6 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Interest income	8,202	22,580	8,115	21,070
Proceeds from insurance claims	853	644	791	504
Rental income /i/	9	76	641	21,439
Income from reversal of provisions	1,163	725	594	26
Gain on change in loan terms /ii/	71,152	-	71,152	-
Other operating income	11,483	5,681	10,358	3,080
	92,862	**29,706**	**91,651**	**46,119**

/i/ Due to the financial crisis, in 2010 the Company reduced the rental fee for the related party Dalekovod Cinčaonica d.o.o.

/i/ For the purpose of securing regular liquidity, the Company performed a restructuring of the long-term debt with respect to the sale and leaseback transaction. More favourable repayment terms of the remaining debt were agreed with the lessor - the monthly annuity was reduced after reducing the contractual interest rate and determining the residual value of assets in the underlying transaction. The discounted value of the positive impact with respect to the new contract terms for the long-term debt repayment is above 10%. Based on the above stated, the Company recognised income in the amount of HRK 71,152 thousand by releasing deferred income from the previous leaseback transaction.

NOTE 7 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Raw materials and supplies				
Raw materials and supplies	161,780	293,371	163,369	342,224
Energy	16,034	19,297	11,738	11,309
Spare parts and small inventory	5,918	10,806	7,254	10,386
	183,732	323,474	182,361	363,919
External services				
Subcontractor services	590,463	1,000,307	644,755	1,031,428
Transportation	13,423	16,051	12,546	15,200
Repairs and maintenance	14,023	19,256	12,256	12,941
Advertising and promotion	3,655	9,737	3,612	9,202
Rental expense	5,959	3,483	5,306	4,566
Other	16,452	15,187	7,653	5,577
	643,975	1,064,021	686,128	1,078,914
Total cost of materials and services	**827,707**	**1,387,495**	**868,489**	**1,442,833**

Rental expenses relate to the lease of vehicles and office premises based on one-year agreements.

NOTE 8 – STAFF COSTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Net salaries	180,016	220,854	143,299	178,184
Taxes and contributions on and from salaries	106,315	146,382	82,087	116,145
Severance costs	4,990	3,763	4,191	3,284
Other staff costs	7,899	11,447	5,110	5,732
Supervisory Board compensation	965	1,774	799	1,042
	300,185	**384,220**	**235,486**	**304,387**

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 53,703 thousand (2009: HRK 53,615 thousand) for the Group, and HRK 32,359 thousand for the Company (2009: HRK 43,731 thousand). Contributions are calculated as a percentage of the employees' gross salaries.

Other staff costs include gifts, jubilee awards and other benefits.

As at 31 December 2010, the Group had 1,998 employees (2009: 2,125 employees), and the Company had 1,406 employees (2009: 1,508 employees).

NOTE 9 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Intellectual services	66,295	93,209	57,299	95,969
Daily allowances and travel cost	22,572	25,822	20,135	23,222
Bank charges	10,204	10,588	9,832	9,864
Entertainment	5,092	6,996	4,747	6,367
Taxes and contributions	6,791	9,479	6,212	8,422
Insurance	4,236	8,249	3,704	7,383
Sponsorships, donations and other aids	2,692	10,422	2,642	10,061
Write-off of property, plant and equipment	106	208	78	81
Impairment of investment in subsidiary (Note 18)	-	-	-	2,597
Impairment of receivables and loans – net (Note 23)	4,881	5,109	4,881	3,060
Write-off of inventories	95	707	95	185
Interest from suppliers	10,001	4,247	9,563	4,173
Other operating expenses	8,806	11,730	5,917	5,860
	141,771	**186,766**	**125,105**	**177,244**

NOTE 10 – OTHER GAINS/(LOSSES) – NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Net foreign exchange (loss)/gain from operating activities	(3,197)	(584)	(3,197)	(583)
Gain on sale of available-for-sale financial assets	4,727	1,507	4,727	1,507
Fair value gains/(losses) (Note 24)	1	2	1	2
Net gain/(loss) on sale of tangible assets (Note 32)	700	(887)	463	(1,014)
	2,231	**38**	**1,994**	**(88)**

NOTE 11 – FINANCE INCOME AND COSTS - NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Interest income on bank deposits	40	60	701	1,218
Net foreign exchange differences (financing activities)	2,253	443	2,231	63
Finance income	2,293	503	2,932	1,281
Interest expense	(67,656)	(79,738)	(60,430)	(70,692)
Less capitalised interest (Note 16)	6,059	5,468	-	-
Finance costs	(61,597)	(74,270)	(60,430)	(70,692)
	(59,304)	**(73,767)**	**(57,498)**	**(69,411)**

NOTE 12 – INCOME TAX

The reconciliation of accounting income and taxable income is detailed in the table below:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Profit before tax	**4,678**	**110,854**	**5,412**	**111,513**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	945	22,176	1,082	22,303
Effect of income not subject to tax	(460)	(3,027)	(396)	(2,131)
Effect of expenses not deductible for tax purposes	3,275	4,307	1,866	2,406
Income tax charge	**3,760**	**23,456**	**2,552**	**22,578**
Effective tax rate	80.38%	21.60%	47.14%	20.25%
Income tax receivable/(payable) at 31 December	17,786	(2,179)	17,898	(2,231)

In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The same regulations apply to other subsidiaries of the Group in Croatia. Foreign subsidiaries abroad must comply with tax regulations of the country in which they operate. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 13 – BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated on the basis of the Company's net profit attributable to the Company shareholders and the weighted average number of ordinary shares in issue, excluding treasury shares. There are no dilutable potential ordinary shares.

	Dalekovod Group		Dalekovod d.d.	
	2010	**2009**	**2010**	**2009**
Net profit attributable to shareholders *(in thousands of HRK)*	1,191	91,573	2,860	88,935
Weighted average number of shares	2,249,878	2,254,112	2,249,878	2,254,112
Earnings per share *(in HRK)*	**0.52**	**40.62**	**1.27**	**39.45**

NOTE 14 – DIVIDEND PER SHARE

In 2010, the General Assembly did not approve the payment of dividend from retained earnings of earlier years.

Unpaid dividend in the amount of HRK 1,900 thousand (2009: HRK 1,900 thousand) is presented as dividend payable within "trade and other payables" (Note 29), and it relates to dividends for shareholders who did not submit the required data for payment.

NOTE 15 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	**Goodwill**	**Software**	**Total**
At 1 January 2009			
Cost	3,346	27,861	31,207
Accumulated amortisation	-	(9,519)	(9,519)
Net book amount	**3,346**	**18,342**	**21,688**
Year ended 31 December 2009			
Opening net book amount	3,346	18,342	21,688
Additions (Note 31)	1,213	5,023	6,236
Disposals	-	(186)	(186)
Amortisation	-	(5,029)	(5,029)
Closing net book amount	4,559	18,150	22,709
At 31 December 2009			
Cost	4,559	32,698	37,257
Accumulated amortisation	-	(14,548)	(14,548)
Net book amount	**4,559**	**18,150**	**22,709**
Year ended 31 December 2010			
Opening net book amount	4,559	18,150	22,709
Additions	-	8,577	8,577
Disposals	-	-	-
Amortisation	-	(4,978)	(4,978)
Closing net book amount	**4,559**	**21,749**	**26,308**
At 31 December 2010			
Cost	4,559	41,275	45,834
Accumulated amortisation	-	(19,526)	(19,526)
Net book amount	**4,559**	**21,749**	**26,308**

NOTE 15 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is tested annually for impairment as stated in Note 2.8.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The terminal growth rate used to extrapolate the cash flows beyond the five-year period is 4%, and the present value of future cash flows is calculated using a discount rate of 6.5%. The growth rate assumption was based on the historical data and the management's expectations for market development. The discount rate used is based on the Group's weighted average cost of capital.

At the balance sheet date the recoverable amount of cash generating units was higher than the carrying value and there were no impairment losses.

Goodwill is allocated entirely to the Group's production segment.

NOTE 15 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	**Software**
At 1 January 2009	
Cost	27,675
Accumulated amortisation	(9,519)
Net book amount	**18,156**
Year ended 31 December 2009	
Opening net book amount	18,156
Additions	5,023
Amortisation	(5,029)
Closing net book amount	18,150
At 31 December 2009	
Cost	32,698
Accumulated amortisation	(14,548)
Net book amount	**18,150**
Year ended 31 December 2010	
Opening net book amount	18,150
Additions	6,764
Amortisation	(4,978)
Closing net book amount	19,936
At 31 December 2010	
Cost	39,462
Accumulated amortisation	(19,526)
Net book amount	**19,936**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Equipment	Work in progress	Total
At 1 January 2009					
Cost	50,511	414,459	519,819	35,204	1,019,993
Accumulated depreciation	-	(171,728)	(255,824)	-	(427,552)
Net book amount	**50,511**	**242,731**	**263,995**	**35,204**	**592,441**
Year ended 31 December 2009					
At 1 January	50,511	242,731	263,995	40,395	597,632
Additions	637	13,573	27,013	122,891	164,114
Acquisition of subsidiary	4,332	2,603	823	-	7,758
Disposals	-	(12)	(1,725)	-	(1,737)
Exchange differences	(50)	128	326	-	404
Depreciation	-	(8,450)	(45,793)	-	(54,243)
At 31 December	55,430	250,573	244,639	163,286	713,928
At 31 December 2009					
Cost	55,430	431,712	536,743	163,286	1,187,171
Accumulated depreciation	-	(181,139)	(292,104)	-	(473,243)
Net book amount	**55,430**	**250,573**	**244,639**	**163,286**	**713,928**
Year ended 31 December 2010					
At 1 January	55,430	250,573	244,639	163,286	713,928
Additions	38,922	14,233	22,323	34,252	109,730
Impairment due to loss of control over subsidiary (Note 18)	(4,802)	(25,554)	(20,517)	(5,613)	(56,486)
Disposals	-	-	(134)	-	(134)
Exchange differences	21	233	-	-	254
Depreciation	-	(9,850)	(41,189)	-	(51,039)
At 31 December	89,571	229,635	205,122	191,925	716,253
At 31 December 2010					
Cost	89,571	412,172	522,509	191,925	1,216,177
Accumulated depreciation	-	(182,537)	(317,387)	-	(499,924)
Net book amount	**89,571**	**229,635**	**205,122**	**191,925**	**716,253**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Equipment	Work in progress	Total
At 1 January 2009					
Cost	13,521	239,300	442,338	28,081	723,240
Accumulated depreciation	-	(130,450)	(210,866)	-	(341,316)
Net book amount	**13,521**	**108,850**	**231,472**	**28,081**	**381,924**
Year ended 31 December 2009					
At 1 January	13,521	108,850	231,472	28,081	381,924
Additions	-	15,400	20,680	25,268	61,348
Disposals	-	-	(1,937)	(36,080)	(38,017)
Depreciation	-	(5,931)	(37,706)	-	(43,637)
At 31 December	13,521	118,319	212,509	17,269	361,618
At 31 December 2009					
Cost	13,521	254,700	454,513	17,269	740,003
Accumulated depreciation	-	(136,381)	(242,004)	-	(378,385)
Net book amount	**13,521**	**118,319**	**212,509**	**17,269**	**361,618**
Year ended 31 December 2010					
At 1 January	13,521	118,319	212,509	17,269	361,618
Additions	-	9,813	19,190	29,449	58,452
Disposals	-	-	(134)	-	(134)
Depreciation	-	(5,894)	(37,361)	-	(43,255)
At 31 December	13,521	122,238	194,204	46,718	376,681
At 31 December 2010					
Cost	13,521	264,378	470,298	46,718	794,915
Accumulated depreciation	-	(142,140)	(276,094)	-	(418,234)
Net book amount	**13,521**	**122,238**	**194,204**	**46,718**	**376,681**

At 31 December 2010, advances paid by the Group for property, plant and equipment amounted to HRK 99 thousand (2009: HRK 127 thousand), while in 2010 and 2009 the Company did not have any paid advances.

As at 31 December 2010, land, buildings and equipment of the Group and the Company with a net book value of HRK 207,245 thousand (2009: HRK 45,507 thousand) were pledged as security for borrowings received (Note 27).

As at 31 December 2010, assets leased under finance leases where the Group and the Company are the lessee amounted to HRK 75,015 thousand (2009: HRK 192,200 thousand) – see Note 27. In 2010, capitalised interest on assets under construction amounted to HRK 6,059 thousand (2009: HRK 5,468 thousand) using a capitalisation rate 6.95% (2009: 6.45%).

NOTE 17 – INVESTMENT PROPERTY

(in thousands of HRK)	**Land**	**Buildings**	**Total**
At 1 January 2009			
Cost	29,241	81,606	110,847
Accumulated depreciation	-	(1,089)	(1,089)
Net book amount	**29,241**	**80,517**	**109,758**
Year ended 31 December 2009			
At 1 January	29,241	80,517	109,758
Additions	347	-	347
Depreciation	-	(3,264)	(3,264)
At 31 December	29,588	77,253	106,841
As at 31 December 2009			
Cost	29,588	81,606	111,194
Accumulated depreciation		(4,353)	(4,353)
Net book amount	**29,588**	**77,253**	**106,841**
Year ended 31 December 2010			
At 1 January	29,588	77,253	106,841
Additions	-	2,625	2,625
Depreciation	-	(3,265)	(3,265)
At 31 December	29,588	76,613	106,201
As at 31 December 2010			
Cost	29,588	84,231	113,819
Accumulated depreciation	-	(7,618)	(7,618)
Net book amount	**29,588**	**76,613**	**106,201**

Based on the current market prices and location of the property, Management determined that the fair value of investment property approximates its net carrying amount.

All land and buildings have been pledged as security for borrowings received (Note 27).

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

	Dalekovod Group 2010	2009	Dalekovod d.d. 2010	2009
At 1 January	248	248	119,101	72,648
Decrease	(230)	(20)	-	(2,597)
Disposal /iii/	-	-	(16,185)	-
Additions /i/	953	20	62,790	49,050
At 31 December	**971**	**248**	**165,706**	**119,101**

The principal subsidiary undertakings at 31 December are as follows:

Name	Country of incorporation	2010	2009	2010	2009
		Holding in %		*(in thousands of HRK)*	
Dalekovod d.o.o., Ljubljana	Slovenia	100.00	100.00	2,075	2,075
Dalekovod d.o.o., Mostar	Bosnia and Herzegovina	100.00	100.00	210	210
Dalekovod-Cinčaonica d.o.o., Dugo Selo	Croatia	100.00	100.00	22,859	1,000
Dalekovod-projekt d.o.o., Zagreb	Croatia	100.00	100.00	4,614	25
Dalcom Engineering GmbH, Freilassing	Germany	100.00	100.00	372	372
Dalekovod-Polska S.A., Warsaw	Poland	87.18	87.18	2,597	2,597
Dalekovod TKS a.d., Doboj	Bosnia and Herzegovina	92.94	88.83	19,380	18,564
Unidal d.o.o., Vinkovci /iii/	Croatia	49.00	50.54	-	16,185
Dalekovod Professio d.o.o., Zagreb	Croatia	100.00	100.00	200	200
Denacco Namibia (PTY) Ltd /i/	Namibia	60.00	60.00	18	18
Dalekovod TIM Topusko d.d. /ii/	Croatia	95.74	92.51	28,041	27,111
Dalekovod – ulaganja d.o.o. Zagreb	Croatia	100.00	100.00	38,120	38,120
Dalekovod EKO d.o.o. Zagreb	Croatia	-	100.00	20	10
Cindal d.o.o. Doboj	Bosnia and Herzegovina	95.01	95.01	5,191	5,191
Dalekovod-Adria d.o.o. Zagreb	Croatia	100.00	100.00	32,098	20
Dalekovod EMU d.o.o. Zagreb	Croatia	100.00	100.00	11,555	10,000
Dalekovod Libya za inženjering, zajedničko poduzeće, Libya /i/	Libya	65	-	879	-
Dalekovod Ukrajina d.o.o. /i/	Ukraine	100.00	-	74	-
Impairment of investments				(2,597)	(2,597)
				165,706	**119,101**

During 2010, in a number of its subsidiaries the Company increased its investment by transforming its receivables into capital in the amount of HRK 60,907 thousand (2009: HRK 42,837 thousand).

/i/ In 2010, the Company founded subsidiaries in the Ukraine and Libya by investing HRK 953 thousand. However, these subsidiaries as well as the subsidiary in Namibia were not consolidated since they were not operational.

/ii/ During 2010, the Company purchased an additional 3.23% shares of Dalekovod TIM Topusko from small shareholders in the amount of HRK 930 thousand (2009: 3.23% shares with a total value of HRK 931 thousand).

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (continued)

/iii/ At the beginning of 2010, the Company agreed to surrender control over the subsidiary Unidal d.o.o. Vinkovci in which the second owner from Slovenia took control through a capital increase in a higher amount than the Company's. After the stated transaction, the investment is recorded in available-for-sale financial assets.

NOTE 19a – INVESTMENTS IN ASSOCIATES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
At beginning of year	16,007	7	16,007	7
Additional investments	20,234	16,000	20,234	16,000
Decrease	(16,000)	-	(16,000)	-
At end of year	**20,241**	**16,007**	**20,241**	**16,007**

As set out in Note 18 /iii/, the Company lost control over the subsidiary Unidal. However, in accordance with the agreement the Company made a capital contribution in kind of HRK 4,049 thousand. At 31 December 2010, the investment amounted to HRK 20,234 thousand and represents 49% of total equity.

During 2010, the Company transferred its investment in the associate to the newly established subsidiary Dalekovod Adria d.o.o. in the amount of HRK 16,000 thousand.

NOTE 19b – INVESTMENTS IN JOINT VENTURES

	Dalekovod Group	
(in thousands of HRK)	**2010**	**2009**
At beginning of year	-	-
Additional investments	19,478	-
Decrease	-	-
At end of year	**19,478**	**-**

During 2010, the Group made investments in joint ventures (special-purpose companies) in the amount of HRK 19,478 thousand whose principal activity is the production of renewable sources of energy.

NOTE 19c – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
At beginning of year	40,768	45,179	40,768	45,179
Additional investments	33,569	3,090	19,478	3,090
Decrease	-	(11,135)	-	(11,135)
Adjustment to fair value	7,813	3,634	7,813	3,634
At end of year	**82,150**	**40,768**	**68,059**	**40,768**

In 2010, the Group further increased the capital of these special-purpose companies by HRK 10,588 thousand, while HRK 22,981 thousand was invested in the companies whose principal activity is manufacturing aluminium products.

The Company owns 8.46% of shares in a closed-ended investment fund. On behalf of the Company, this fund acquires shares in domestic companies, with the purpose of developing such companies and improving their long-term market position, as well as realising future benefits for the investors.

As at 31 December 2010, the Company performed a valuation of its available-for-sale financial assets and adjusted them to fair value. The increase in the amount of HRK 7,813 thousand (2009: HRK 3,634 thousand) is recognised within revaluation reserves (Note 26).

NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
31 December 2010					
Financial assets					
Trade receivables	23	548,338			**548,338**
Receivables by construction contracts and guarantee deposits	23	221,498			**221,498**
Other receivables	23	55,948	-	-	**55,948**
Loans and deposits given	21,23	216,566	-	-	**216,566**
Available-for-sale financial assets (changes through capital)	19	-	-	82,150	**82,150**
Financial assets at fair value through profit or loss	24	-	627	-	**627**
Cash and cash equivalents	25	99,413	-	-	**99,413**
Total		**1,141,763**	**627**	**82,150**	**1,224,540**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2010		
Financial liabilities		
Borrowings	27	961,739
Finance lease	27	76,161
Trade payables	29	435,095
Other payables	29	75,379
Total		**1,548,374**

Financial instruments do not include business transactions with employees, receivables/payables for contributions, taxes and receivables/payables for advances received.

NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
31 December 2009					
Financial assets					
Trade receivables		634,535			**634,535**
Receivables by construction contracts and guarantee deposits		212,829			**212,829**
Other receivables	23	4,097	-	-	**4,097**
Loans and deposits given	21,23	124,596	-	-	**124,596**
Available-for-sale financial assets (changes through capital)	19	-	-	40,768	**40,768**
Financial assets at fair value through profit or loss	24	-	534	-	**534**
Cash and cash equivalents	25	48,947	-	-	**48,947**
Total		**1,025,004**	**534**	**40,748**	**1,066,306**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2009		
Financial liabilities		
Borrowings	27	560,590
Finance lease	27	159,882
Trade payables	29	660,357
Other payables	29	108,094
Total		**1,488,923**

NOTE 20 b – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

(in thousands of HRK)	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Trade receivables – neither past due nor impaired				
Existing customers – payments within maturity period	24,534	112,543	23,465	106,936
Existing customers – with some defaults in the past	160,810	163,007	153,793	187,026
	185,344	**275,550**	**177,258**	**293,962**

NOTE 20b – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

The Group mainly deposits its cash with local banks without credit ratings, whose majority ownership is held by large foreign banking groups.

Cash at bank and deposits

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
BBB -	32,714	13,387	14,652	12,233
Without rating	66,699	35,560	71,439	28,089
	99,413	**48,947**	**86,091**	**40,322**

NOTE 21 – LOANS AND RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Long-term deposits	41	67	41	41
Long-term guarantee deposits	11,197	31,354	11,197	31,354
Long-term loans receivable:				
- loans to subsidiaries	-	-	11,328	3,307
- consumer goods loans	1,127	1,422	1,127	1,422
- housing loans and other loans to employees	3,953	3,522	3,797	3,291
- loans to other companies	44,086	18,719	30,707	18,666
Total long-term loans and deposits	60,404	55,084	58,197	58,081
Current portion of long-term loans and deposits (Note 23)	(4,269)	(9,047)	(4,269)	(11,100)
Long-term loans and deposits	**56,135**	**46,037**	**53,928**	**46,981**

Deposits

Deposits are denominated in HRK with currency clauses (EURO).

Consumer goods loans

Consumer goods loans represent trade receivables denominated in EUR from customers in Bosnia and Herzegovina based on the sale of equipment and the provision of services, which were transformed into a loan repayable within a period of 2 years with an interest rate set at 4.5% p.a.

NOTE 21 – LOANS AND RECEIVABLES (continued)

Housing loans

Housing loans to employees carry an average effective interest rate of 6%, and are repayable over 2 to 25 years through deductions from employee salaries. Housing loans are denominated in HRK with currency clauses (EURO).

Loans to subsidiaries and related parties

Of the total amount of loans given, the majority relates to a loan granted to Velika Popina d.o.o. in June 2010 up to the maximum debt amount of EUR 11,400 thousand, which has been withdrawn in tranches in 2010. At 31 December 2010, the loan amounted to HRK 7,299 thousand. The loan was agreed in EUROs until year 2020 and is repayable in semi-annual instalments at a fixed interest rate of 7.39% p.a.

In October 2008, the Company granted a loan to Dalekovod TIM Topusko in the total amount of HRK 4,222 thousand over a period of 5 years with an interest rate of 1-month EURIBOR +2.5% p.a. The loan balance at 31 December 2010 amounted to HRK 2,674 thousand (2009: HRK 3,307 thousand).

Loans to other companies

During 2008, the Company concluded a Loan Agreement with TPN Sportski grad from Split, according to which a revolving loan facility was agreed in the total amount of HRK 9,000 thousand, and the debtor drew down HRK 8,551 thousand on this facility. The loan was granted with a discount rate which was 9% annually at the date of Agreement. The loan matures in one instalment in 2028, while interest is calculated over the entire period and will be repaid from 31 October 2010.

In March 2010, the Company concluded a loan agreement with the company Chemo Invest d.o.o. in the amount of HRK 21,773 thousand denominated in EUROs for a period of 2 years and an interest rate of 4.5% p.a. The loan balance at 31 December 2010 amounted to HRK 22,156 thousand.

As at 31 December 2010, the fair value of the Group's and the Company's fixed-interest long-term loans amounted to HRK 29,866 thousand (2009: HRK 13,944 thousand) with a discount rate of 5.81% (2009: 5.37%).

NOTE 22 – INVENTORIES

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Raw materials	100,739	120,310	79,572	94,978
Finished goods, semi-finished goods and work in progress	245,204	353,835	229,297	343,808
Spare parts and small inventories	5,716	5,873	5,378	5,025
Trade goods	2,628	2,694	520	903
	354,287	**482,712**	**314,767**	**444,714**

Total construction costs incurred and recognised profits (less recognised losses to date) for all active construction contracts amounted to HRK 4,496,014 thousand (2009: HRK 4,034,438 thousand). Costs of raw material and supplies are included in the income statement in Note 7.

NOTE 23 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Domestic trade receivables	338,653	540,254	316,931	524,349
Foreign trade receivables	226,253	106,774	222,248	113,258
Provisions for impairment	(16,568)	(12,493)	(14,737)	(9,856)
	548,338	634,535	524,442	627,751
Receivable from customers for contract work	221,498	212,829	221,498	212,829
Guarantee deposits – current portion	66,286	33,766	66,286	33,538
Current portion of long-term loans (Note 21)	4,269	9,047	4,269	11,100
Loans to subsidiary (Note 33)	-	-	30,685	3,307
Other short-term loans	89,876	35,746	89,876	35,746
Other receivables	58,890	6,927	30,327	3,874
Impairment of other receivables	(2,830)	(2,830)	(2,830)	(2,830)
Total financial assets	986,237	930,020	964,553	925,315
Advances	9,608	14,146	9,531	14,066
Receivable from employees	2,607	2,471	1,150	966
VAT receivable	17,326	759	12,016	-
Prepaid expenses	10,307	13,196	4,365	11,387
Total non-financial assets	**39,848**	**30,572**	**27,062**	**26,419**
	1,026,175	**960,592**	**991,615**	**951,734**

Other short-term loans and loans to subsidiaries represent primarily trade receivables converted to loans and loans given to sports organisations with annual interest rates from 3%-6%. The loans are generally granted for periods from 3 to 9 months and are secured by bills of exchange and promissory notes.

Advances were granted to suppliers for the purchase of material and equipment, as well as for project design services.

As at 31 December 2010, the Group recognised trade receivables in the amount of HRK 363,003 thousand (2009: HRK 358,985 thousand) that were past due, but not impaired. The Company has such receivables in the amount of HRK 306,206 thousand (2009: HRK 333,789 thousand). They mainly comprise receivables from customers owned by the state with delays in payment. The ageing of these receivables is based on the number of days outstanding after the maturity date:

(in thousands of HRK)	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Up to 90 days	168,389	166,526	98,373	150,697
From 91 to 180 days	94,170	93,126	41,219	88,904
Over 180 days	100,444	99,333	166,614	94,188
	363,003	**358,985**	**306,206**	**333,789**

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

Movements on the provision for impairment of trade and other receivables are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
At 1 January	15,323	10,503	12,686	9,915
Provision for receivables impairment (Note 9)	5,148	5,109	5,148	3,060
Collected amounts	(267)	-	(267)	-
Receivables eliminated during the year as uncollectible	(806)	(289)	-	(289)
At 31 December	19,398	15,323	17,567	12,686

The recorded provision for receivables relates to trade and other receivables with maturities greater than 365 days.

The carrying amounts of the Group's and the Company's financial assets are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
EUR	252,661	90,136	239,853	82,894
USD	10,852	33,420	10,852	15,440
HRK	722,724	806,464	713,848	826,981
Total	**986,237**	**930,020**	**964,553**	**925,315**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group or the Company hold collaterals as security.

The fair value of trade receivables approximates their carrying amount.

NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2010, the Group invested in domestic cash funds. As at 31 December 2010, the fair value of these assets in the Group amounted to HRK 627 thousand (2009: HRK 534 thousand), and in the Company to HRK 27 thousand (2009: HRK 26 thousand). The change in fair value of HRK 1 thousand is recognized in the income statement as a fair value gain (2009: gain of HRK 2 thousand - Note 10).

NOTE 25 – CASH AND CASH EQUIVALENTS

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Domestic currency	40,243	14,188	36,879	12,756
Foreign currency	41,570	34,250	31,612	27,536
Short-term deposits at bank	17,600	509	17,600	30
	99,413	**48,947**	**86,091**	**40,322**

Depending on the availability of cash, the Company places short-term deposits (with maturities of three months or less) with various banks for the purpose of realising additional interest income.

As at 31 December 2010, the average effective interest rate for short-term deposits with banks was 2.3% (2009: 2.7%).

Cash and cash equivalents are denominated in the following currencies:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
EUR	32,593	13,575	23,232	9,389
USD	551	17,519	551	17,519
Other foreign currencies	8,426	3,156	7,829	628
Total	**41,570**	**34,250**	**31,612**	**27,536**

NOTE 26 – SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2010, the share capital of the Company consisted of 2,293,812 ordinary shares, authorised and issued, with a nominal value of HRK 100 per share. All issued shares are fully paid.

As at 31 December 2010, the Company owns 43,934 treasury shares (2009: 43,934).

The structure of shareholders as at 31 December:

	2010	2009
Individuals	61.32%	65.29%
CTG d.o.o.	-	15.37%
Banks	11.88%	11.96%
Curatus d.o.o.	9.97%	-
Funds	9.52%	3.36%
Treasury shares	1.92%	1.92%
Other	5.39%	2.10%
	100.00%	100.00%

Legal, statutory and other reserves

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. Legal reserves are not distributable.

During 2010, according to the decision of the Annual General Meeting statutory reserves were increased by HRK 88,935 thousand (2009: decreased by HRK 1,598 thousand). Other reserves consist of profits from previous periods set aside by the decision of the General Meeting and treasury shares reserves. During 2010, reserves were additionally increased by HRK 9,162 thousand as a result of the merger of the company Dalekovod ESOP d.o.o. with the Dalekovod Professio d.o.o. Other and statutory reserves are distributable in accordance with the General Assembly's decision.

At the end of 2009, the Company purchased on the stock exchange 5,191 treasury shares in the total amount of HRK 2,399 thousand for which, according to Croatian regulations, reserves were formed (in earlier years HRK 5,374 thousand).

Revaluation reserves

As at 31 December 2010, the Group and the Company performed a valuation of fair value of available-for-sale financial assets (shares and interests in an investment fund – Note 19) and, in accordance with the applicable accounting policy, an increase was performed in revaluation reserves in the amount of HRK 7,813 thousand (2009: HRK 3,634 thousand).

NOTE 27 – BORROWINGS

		Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	Average interest rates	2010	2009	2010	2009
Long-term					
Bank borrowings	5,11%	355,491	33,256	265,320	3,116
Finance lease /i/	6,80%	71,166	123,486	71,166	151,928
		426,657	**156,742**	**336,486**	**155,044**
Short-term					
Bank borrowings	7,40%	449,742	374,796	437,786	336,307
Commercial papers	8,17%	156,506	152,538	156,506	152,538
Finance lease	6,80%	4,995	36,396	4,800	7,935
		611,243	**563,730**	**599,092**	**496,780**
Total borrowings		**1,037,900**	**720,472**	**935,578**	**651,824**

For the purpose of securing regular liquidity, the Company performed a restructuring of the long-term debt with respect to the sale and leaseback transaction. More favourable repayment terms of the remaining debt were agreed with the lessor - the monthly annuity was reduced after reducing the contractual interest rate and determining the residual value of assets in the underlying transaction. The discounted value of the positive impact with respect to the new contract terms for the long-term debt repayment is above 10%. Therefore, the Group ceased to recognise the outstanding finance lease liability (including the related deferred income), and recognised a new finance lease liability in accordance with the net present value of future cash flows according to the amended lease agreement.

Gross liabilities under the finance lease – minimum lease payments:

	2010	2009
	(in thousands of HRK)	
Up to 1 year	4,995	36,377
1 to 5 years	48,940	141,963
Over 5 years	46,914	19,269
	100,849	197,609
Future finance costs under finance lease	(24,688)	(37,727)
Present value of liabilities under finance lease	**76,161**	**159,882**
Deferred income	-	77,388

During 2010, the Company issued commercial papers in the amount of HRK 156.5 million in denominations of HRK 1.00 for a period of 364 days from the day of issuance with an average nominal yield of 9.08% p.a. (2009: 9.46%). After the balance sheet date, i.e. in the first quarter of 2011, the Company redeemed commercial papers of HRK 121.8 million.

Bank borrowings are secured with bills of exchange and by mortgage over property, plant and equipment and investment property (Note 16).

NOTE 27 – BORROWINGS (continued)

As at 31 December 2010, the Company's interest payable on long-term and short-term borrowings amounted to HRK 3,644 thousand (2009: HRK 4,857 thousand).

The Group's borrowings in the amount of HRK 683,755 thousand (2009: HRK 339,976 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings have fixed interest rates and are exposed to interest rate changes upon maturity of the principal.

The exposure of the borrowings to interest rate changes at the balance sheet date is as follows (other borrowings are stated at fixed rates):

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
1 month	50,403	72,603	49,613	72,603
3 months	465,559	238,588	343,371	201,476
6 months	167,793	28,785	167,793	2,498
	683,755	**339,976**	**560,777**	**276,577**

As at 31 December 2010, the fair value of the Group's fixed-interest long-term borrowings amounted to HRK 151,175 thousand (2009: HRK 9,463 thousand) using a discount rate of 5.81% (2009: 5.37%), while the carrying value of short-term borrowings approximates fair value, since the recorded interest rates reflect current market rates.

The borrowings are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
	2010	**2009**	**2010**	**2009**
EUR	705,310	539,297	635,812	478,718
CHF	791	2,820	-	-
HRK	331,799	178,355	299,766	173,106
	1,037,900	**720,472**	**935,578**	**651,824**

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Up to 1 year (current portion)	611,948	562,111	599,092	506,341
Between 1 and 5 years	333,211	109,859	243,745	96,981
Over 5 years	92,741	48,502	92,741	48,502
	1,037,900	**720,472**	**935,578**	**651,824**

NOTE 28 – DEFERRED INCOME

As set out in Note 27, in 2010 the Company and the lessor agreed more favourable loan terms and released deferred income in the income statement in the amount of HRK 71,152 thousand (Note 6).

NOTE 29 – TRADE AND OTHER PAYABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Domestic suppliers	371,635	582,384	320,701	513,429
Foreign suppliers	63,460	77,973	60,946	62,677
	435,095	**660,357**	**381,647**	**576,106**
Interest payable	3,655	5,011	3,644	4,857
Bills of exchange (i)	53,600	80,299	53,600	80,299
Dividend payable (Note 14)	1,900	1,900	1,900	1,900
Contracted liabilities from acquisition (Note 31)	3,163	3,787	3,163	3,787
Other accruals and liabilities	14,961	17,774	11,396	16,580
Financial liabilities	512,374	769,128	455,350	683,529
Advances received for construction work	130,331	23,488	130,331	23,488
Advances	4,933	11,783	4,699	11,379
Salaries	6,600	13,661	3,388	10,256
Taxes and contributions	15,456	16,625	6,658	10,013
VAT payable	-	2,410	-	1,087
Deferred income (Note 28)	-	6,233	-	6,233
Non-financial liabilities	157,320	74,200	145,076	62,456
	669,694	**843,328**	**600,426**	**745,985**

(i) Bills of exchange relate to financing with a discount of 5% (2009: 6%) with maturity at the beginning of 2011 when the liability was settled.

The Group's and the Company's trade and other payables are denominated as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
EUR	91,372	126,804	82,913	83,159
USD	1,450	23,640	1,450	17,660
Other foreign currencies	5,534	654	3,244	654
HRK	571,338	692,230	512,820	644,512
Total	**669,694**	**843,328**	**600,427**	**745,985**

NOTE 30 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Retirement severance payment	Total
At 1 January 2010	**5,396**	**3,080**	**8,476**
Additional provisions	651	190	841
Reversal of provision	-	(230)	(230)
Used during the period	(767)	(40)	(807)
At 31 December 2010	**5,280**	**3,000**	**8,280**
Non-current portion	4,912	2,869	7,781
Current portion	368	131	499

Company

(in thousands of HRK)	Jubilee awards	Retirement severance payment	Total
At 1 January 2010	**4,323**	**2,553**	**6,876**
Additional provisions	291	-	291
Reversal of provision	-	(230)	(230)
Used during the period	(647)	(8)	(655)
At 31 December 2010	**3,967**	**2,315**	**6,282**
Non-current portion	3,676	2,207	5,883
Current portion	291	108	399

Retirement severance payment

According to the Collective bargaining agreement, the Group has an obligation to make severance payments to employees at the time of the employees' retirement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 5.33% for the Group, and 2.01% for the Company (2009: Group 4.81%, Company 1.31%), an annual discount rate of 6.6% p.a. (2009: 6.2%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service (the average age of retirement used in the calculation is 62 years for men and 58 years for women).

NOTE 30 – PROVISIONS (continued)

Jubilee awards

This provision relates to estimated long-term employee benefits (jubilee awards) as defined in the Collective bargaining agreement.

NOTE 31 – ACQUISITIONS AND DISPOSALS

a) Acquisitions

In October 2009, the Company acquired the 100% share in the company ELRA d.o.o. Vela Luka. The acquired company contributed revenues of HRK 2,471 thousand and a loss for the year of HRK 734 thousand to the consolidated result for the year ended 31 December 2009. If the acquisition had occurred on 1 January 2009, the consolidated revenues for the year ended 31 December 2009 would have been HRK 9,460 thousand higher, while the profit before tax would have been HRK 1.548 thousand lower than the one realised. The acquired company was renamed Dalekovod EMU specialising in the sale of measuring devices for medium and high voltage.

Details of net assets and goodwill are as follows:

Purchase consideration	10,000
Fair value of net assets acquired	(8,787)
Goodwill	1,213

The assets and liabilities as at 30 September 2009 arising from the acquisition are as follows:

(in thousands of HRK)	**Carrying amount**	**Fair value**
Cash	10	10
Tangible assets	1,121	7,758
Inventories	5,800	5,800
Trade and other receivables	7,036	7,036
Trade and other payables	(3,944)	(3,944)
Borrowings	(7,873)	(7,873)
Net assets acquired	**2,150**	**8,787**
Goodwill		1,213
Purchase consideration settled in cash		10,000
Cash and cash equivalents acquired		(10)
		(3,787)
Cash outflow on acquisition		6,203

NOTE 31 – ACQUISITIONS AND DISPOSALS

a) Acquisitions (continued)

The fair value of net assets acquired was determined on the final valuation of acquired assets and liabilities. The Company did not pay the entire contract price of HRK 10,000 thousand, but retained an amount of HRK 3,163 thousand (2009: HRK 3,787 thousand - Note 29) as security until the former owner resolves the legal status of the properties. The deadline for the resolution of the legal status of the properties is 2011. The goodwill is attributable to the synergies expected from the acquired entity’s distribution channels.

b) Disposals

At the beginning of 2010, the Company agreed to surrender the control over the subsidiary Unidal d.o.o. Vinkovci, in which the second owner from Slovenia took control through a capital increase in a higher amount than the Company's. After the stated transaction, the investment is recorded as an investment in the associate.

Up to the moment of loss of control, the subsidiary contributed to the consolidated result with revenues in the amount of HRK 11,695 thousand and a loss in the amount of HRK 741 thousand.

After the loss of control, the balance of assets and liabilities was as follows:

(in thousands of HRK)	**Carrying amount**
Cash	246
Tangible assets	56,486
Trade and other receivables	12,585
Trade and other payables	(48,269)
Minority interest	(7,037)
Fair value of investment	(16,185)
Effect of loss of control	(2,174)

NOTE 32 – CASH GENERATED FROM OPERATIONS

(in thousands of HRK)	Note	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Profit before tax		4,678	110,854	5,412	111,513
Adjustments for:					
Depreciation and amortisation	15,16,17	56,017	59,272	51,498	51,930
Unrealised foreign exchange differences		2,655	(2,044)	4,995	438
Property, plant and equipment written off	16	-	1,737	-	1,862
Impairment of trade receivables and loans	9	5,148	5,109	5,148	3,060
Impairment of inventories	9	95	707	95	185
Impairment of investments in subsidiaries	18	-	-	-	2,597
Provision for long-term employee benefits – net	30	(196)	1,287	(594)	(313)
Loss/(gain) on sale of property, plant and equipment		(700)	887	(463)	1,014
Fair value gains	10	(1)	(2)	(1)	(2)
Interest income	6	(8,202)	(22,580)	(8,816)	(22,288)
Interest expense	11	61,597	74,270	60,430	70,692
Release of deferred income	10	(71,152)	-	(71,152)	-
Other		(2,174)	-	-	-
		43,087	118,643	41,140	109,175
Changes in working capital:					
Trade and other receivables		(41,007)	149,966	(8,022)	138,693
Inventories		128,330	267,750	129,852	246,763
Trade and other payables		(102,072)	(196,215)	(144,323)	(278,632)
Net cash (used in)/generated from operations		**33,016**	**450,998**	**24,059**	**327,512**

In the cash flow statement, proceeds from the sale of property, plant and equipment comprises:

(in thousands of HRK)	Dalekovod Group 2010	Dalekovod Group 2009	Dalekovod d.d. 2010	Dalekovod d.d. 2009
Net book amount	134	1,737	134	1,862
Net (gain)/loss on sale of property, plant and equipment (Note 10)	700	(887)	463	(1,014)
Proceeds from sale of property, plant and equipment	**834**	**850**	**597**	**848**

NOTE 33 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party, is under common control or if it has significant influence over the other party's operations.

In the ordinary course of business operations, the Company enters into related party transactions, which include the purchase of goods and services and loans. The nature of services with related parties is based on arm's length terms. In addition to the subsidiaries presented in Note 18, the Company's related parties include its Management Board and executive directors. The Company has no ultimate owner.

Year-end balances resulting from transactions with subsidiaries are as follows:

Revenues and expenses

	2010	2009
	(in thousands of HRK)	
Sales	95,853	234,779
Rental income	641	24,692
	96,494	259,471
Cost of materials and services	51,902	129,485
Service	12,525	65,539
Other operating expenses	3,722	13,434
	68,149	208,458

Year-end balances resulting from transactions with subsidiaries are as follows:

Receivables, payables and loans

	2010	2009
	(in thousands of HRK)	
Trade receivables	70,695	72,716
Other receivables	-	96
Short-term loans given	30,685	3,307
	101,380	76,119
Trade payables	20,086	72,812

Year-end balances resulting from transactions with associates are a s follows:

	2010	2009
	(in thousands of HRK)	
Interest income	659	570
Service costs	7,868	10,733
Receivables	3,380	6,540
Liabilities	2,325	1,038

NOTE 33 – RELATED PARTY TRANSACTIONS (continued)

Year-end balances resulting from transactions with key management are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Revenues and expenses				
Salaries	7,780	10,634	6,641	8,417
Contributions	2,357	5,581	2,013	4,310
Other contributions	1,650	2,256	1,409	1,786
	11,787	18,471	10,063	14,513
Interest income	55	42	44	31
Loans				
Housing loans	1,355	1,025	1,090	725

Housing loans were granted for a period from 10 – 25 years at interest rates from 3 – 4% p.a.

NOTE 34 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2010, the Group has numerous contracts for the provision of construction services which have commenced, but have not been completed. Costs to be incurred in the future arising from these contracts are estimated in the amount of HRK 2,516,167 thousand (2009: HRK 3,430,790 thousand). The Group guarantees adhering to deadlines and ensures quality for all work performed.

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Management and legal counsel believe that these legal disputes will not result in significant losses.

NOTE 35 – SUBSEQUENT EVENTS

In 2010, the Company began the process of restructuring to ensure long-term business stability and profitability growth. Restructuring costs are to be mainly charged to year 2011, but with a potential impact on year 2012.

In the process of restructuring and with the aim of recovering the Company's financial position, Management intends to take the following measures in the coming period:

- reorganise business processes at the Group level
- significantly reduce fixed costs and production unit costs
- abandon and disinvest in secondary activities and projects
- restructure balance sheet in order to significantly increase long-term sources and reduce the cost of debt capital
- invest in projects with stable cash flow, including wind farms and other projects related to renewable energy sources
- review the Company's share capital increase through a combination of a private offering of shares on the Zagreb Stock Exchange, concluding an Equity Credit Line (ECL) with leading global funds as well as a potential issue of new shares on the foreign capital market
- after the balance sheet, in the first quarter of 2011 the Company redeemed commercial papers of HRK 121.8 million.