Dalekovod Group
Marijana Čavića 4
10 000 Zagreb

Management Board Report/Annual Report on the State of the Company and the Group for 2011

Audited, non consolidated

In Zagreb, 30 April 2012

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

Given below is a presentation of audited financial statements of the Dalekovod Group (hereinafter "the Group) and Dalekovod d.d. (hereinafter "Company ") for 2011. All data are expressed in HRK unless otherwise stated.

The Group recorded total operating revenue of HRK 1,164 million in the year 2011, which represents a decline of 29.7% compared to the same period last year. The significant decrease of realized revenue is mainly due to decrease of business volume on the domestic market. The larger share of revenue on the foreign markets compared to 2010 was not sufficient enough for neutralising the negative tendencies on the domestic market and covering high fixed operation costs and high financial expenditure. Subsequently, loss from regular activities recorded in 2011 amounted to HRK 105 million, while the total loss of the Group including one-off restructuring costs and the loss of discontinuous production activities amounted to HRK 278 million.

The year 2011 shall, within the Dalekovod Group, be marked as a year of big changes, primarily with regard to initiated restructuring and reorganizing with a view of providing more efficient operation and maintaining long-term competitiveness of the Group. The initial effects of restructuring measures taken by the Group can be already noticed, while the overall effects of saving and cost structure optimization should be noticeable in 2012. It is important to note that the Group remained globally competitive even during the exceptionally demanding 2011 and that it also managed to ensure, or contract, international projects worth almost HRK 1,193 million, and domestic projects worth over HRK 468 million in the past 18 month-period, in other words a total of HRK 1,328 million (domestic projects worth HRK 367 million and foreign projects worth HRK 961 million) in the past 12 months. In order to enhance competitiveness and make better use of great opportunities that arise in foreign markets, the Group will have to continue implementing internal restructuring measures, optimizing the cost structure in line with further internationalization strategy and further optimizing its balance sheet.

Due to implementation of restructuring measures and associated costs, the financial result of the Group in 2011 was sacrificed in terms of profitability. The above costs refer primarily to one-off restructuring costs and to the loss incurred by separating discontinuous production activities (HRK 172 million) and to a smaller extent to costs from Group's regular and continuous activities (HRK 105 million).

One-off restructuring costs refer for the most part to wages, salaries and redundancy payments of workers covered by the restructuring process. During the above process the number of employees was reduced by 284 at the Group level. Further, one-off costs related to spinning off the production business unit are due to writing off expired debts, revaluating and writing off the inventory and high costs incurred by spinning off the production unit into a stand-alone company. The negative result of continuous activity is a result of significant reduction in total revenue by 29,7%, high level of financing costs, continuation of negative economic conditions in the domestic market and postponement of realization of already agreed works.

The Group is aware of the belated reduction in the costs structure, as the infrastructure projects in the domestic market were expected to revitalize. As the negative macro-economic conditions in the domestic market continued throughout the year 2011, the Group was compelled, although with a certain delay, to optimize the costs structure and conduct a comprehensive restructuring process, which includes:

1 Reorganizing the Group and spinning off the production business unit into a stand-alone company (discontinuous activity);
2 Reducing personnel costs (by decreasing the number of employees by 284 and wage and salary costs by additional 27% for the management and 13% for the remaining personnel);
3 Decreasing sub-supplier costs and overhead expenses;
4 Implementing the secondary public offering procedure and changing the corporate governance policy;
5 Investing in projects that generate continuous revenue and profitability in order to reduce the dependency on tenders;
6 Initiating a procedure for sales of the identified non-core assets.

1 Group's Reorganization

With a view of focusing on the Group's core activity underpinning a significant comparative advantage, the Parent company decided in 2011 to merge the Engineering and Construction business units in order to eliminate fixed costs. Further, the Parent company spun off the Production unit into a stand-alone company. By taking this measure the Parent company managed to ensure a more efficient production process management and increase the responsibility for results achieved by the Production entity and make it easier for the Parent company to sell or find a strategic partner for the Production entity.

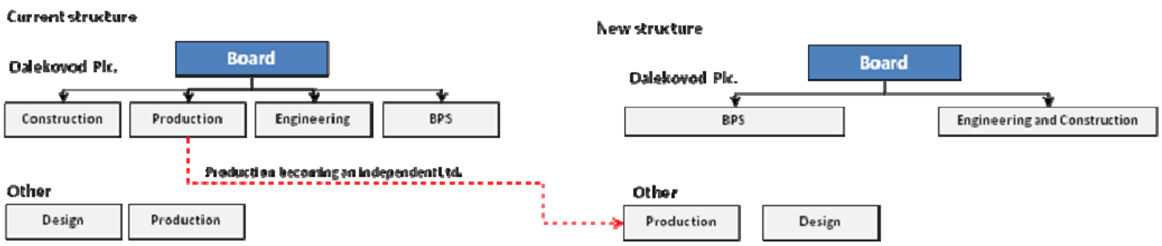
Merging the Engineering and Construction Business Units into a single Business Unit. In May 2011, the Parent Company merged the Engineering Business Unit and the Construction Business Unit into a single organizational entity (Engineering). The merger shall make possible a larger focus on management of market segments and make a foundation for better offers, contracting and realization of projects. Further, the above also opened a window of opportunities for implementing fixed cost saving measures, as some costs increased twofold before the merger.

Spinning off the Production Business Unit from the Parent Company into a stand-alone limited liability company. In November 2011, the Parent company spun off the Production Business Unit into a stand-alone legal company (renamed from Dalekovod Cinčaonica d.o.o. into Dalekovod Proizvodnja d.o.o.) and discontinued the production activities within the Parent company. This measure was taken in order to:

- monitor production operation;

- prove the profitability of each individual program within production segments;
- identify unprofitable production lines;
- enable the newly founded companies to act independently and in line with market principles;
- for the company Dalekovod Proizvodnja d.o.o. to put greater emphasis on offering its services and products to third parties.

Subsequently, the group's new structure is as follows:



2 Reduction in costs of employees - anticipated effect in 2012

In order to adapt to a very demanding situation, the Group has, in the past two years, significantly decreased the costs with a view of maintaining the competitive advantage in the long run and adapting the business model to an export-oriented strategy. By means of stimulating redundancy payments in 2011 the total number of employees was reduced by 284, and in addition, the wage and salary costs at the Group level for managers were reduced by 27% and for other employees by 13% (in March and November 2011). These effects shall exert positive influence on the EBITDA level in 2012.

Decrease of the number of employees by 13% at the Group level in 2011. The Group reduced the number of employees by 284 by the end of 2011. Reduction of employees was mainly due to consensual termination of work contracts, whereby all employees received corresponding redundancy payments.

Decrease of wage and salary costs by 11% in 2011. In addition to previous reductions by 11% in 2010, further reductions of salaries and wages followed in 2011; reductions by 27% for managers and 13% for other employees (except those employees engaged in international projects that are paid according to the standard and conditions of the country where a particular project is carried out), whereby fixed costs were significantly reduced and a lower level of participation of personnel costs in overall costs was attained. As the wages and salaries were reduced by the end of the year, and the surplus of employees was leaving throughout the year, the reduction effect was not noticeable so much in 2011 as it shall be in 2012. Thanks to the communication of the Management Board about the difficult position of the Company and the anticipated saving measures, the Group successfully avoided resignation of key personnel and high-grade top managers.

3 Reduction in overhead and subcontracting costs – anticipated savings effect totalling HRK 75 million in 2012

The Supervisory Board set a goal for the Management Board to decrease fixed costs to the amount of HRK 75 million in 2012. One of the measures shall also include further reduction of employee costs by reducing the number of employees, and all non-production costs that are not directly related to projects.

Suppliers and Subcontracting. Due to delayed collection of receivables and low liquidity of the sector, the Group is aware of the fact that suppliers have incorporated a premium for long payment terms in their prices of material and services, so that with improvement of liquidity situation additional reduction in input prices could be bargained (cca HRK 60 mil.) . Further, the Company has already implemented reduction of all fixed overhead costs in the 2012 Plan, so that the effect in 2012 shall amount to HRK 15 million.

4 Implementation of the Secondary public offering (SPO) and change of the Corporate governance policy

In order to provide sufficient funds for implementation of the above mentioned restructuring measures, in June 2011, the Parent company collected fresh capital amounting to HRK 140.5 million by issuing 573,453 shares (25% of former capital) through a secondary public offering at the Zagreb Stock Exchange. The Offering is a result of the statutory right of the Management to issue up to 25% additional capital provided that pre-emption rights of the existing shareholders are excluded. The new issue of shares was carried out in two rounds: in the first round 17.8% share (408,700 shares) was mainly sold to the Croatian Pension Funds. In the second round 7.2% share (164.753) was sold to Telegra d.o.o., being one of the key suppliers of the Parent company. It is through this issue that the Croatian Pension Funds have become the largest key shareholders of Dalekovod and at the moment they have been holding three to seven seats in the Supervisory Board of the Company. The funds collected by recapitalization were used for settling liabilities towards the employees, such as redundancies, investments in wind power plants and settling liabilities towards suppliers.

Changes in the Management Board. In July 2011, the Parent company expanded the Management Board to a total of 5 members, by appointing Damir Skansi, MA (Econ), (former Director of the Business Process Support BU) and Mr. Krešimir Anušić, MEng (EE) (former Director of the Engineering BU) as new members of the Management Board for a five-year term. By expanding the Management Board, it was intended to put more emphasis on a foreign market-oriented strategy, since Mr. Anušić had been a key person in contracting majority of projects in Norway, Ukraine, Iceland, Slovenia and Kazakhstan. In December 2011, the Management Board was reduced to 3 members after resignation of Mr. Belamarić (to the function of the Advisor to the Management Board) and Mr. Kraljević (Retirement).

Establishing an independent Supervisory Board. At the General Shareholders' Meeting held on 8 Sep 2011 and after implementation of the SPO, four new members were elected, three of which represent new shareholders: Mrs. Nataša Ivanović (Erste Plavi Mandatory Pension Fund), Mr. Dubravko Štimac (PBZ CO Mandatory Pension Fund), Mr. Davor Doko (AZ Mandatory Pension Fund) and Mr. Ante Ćurković (independent member). The new Supervisory Board is determined to reach new corporate governance measures, such as better control system, in order to more efficiently implement the proposed restructuring measures.

Introducing monthly reporting to the Supervisory Board and improving the controlling system. With a view of maintaining and improving the Group's liquidity, both the Supervisory Board and the Management Board shall on a monthly basis be informed of Group's receipts and expenditure of money, its comparison to the plan, anticipated revenues for the upcoming period and financial debt repayment schedule (in line with focus and the need for debt reduction). The Group also intends to improve the controlling system in order to effectively monitor implementation of mentioned savings measures and influence of the above on the profitability of the Group.

Harmonization of interests with shareholders. Upon implementation of SPO throughout 2011 and establishment of a new Supervisory Board, including representatives of three pension funds, the Group is intending to institute measurement of profitability of all business units through a more vigorous controlling system and initiate monitoring of plan realization, business optimization and business results, adopting a strategy focused on assurance of return on equity of all shareholders. The Management shall be responsible for monitoring of individual business units and for their results.

5 Investments in projects with sustainable revenues and profitability

The Group is focusing on decreasing the risk of the entire business model by diversifying business activities and investing in renewable energy projects that generate stable revenues and are not reliant on economic cycles. Wind power plants are just one way of investing and supplement the Group's business activities. Since Croatia (along with other countries in the Region) is about to join the EU, the Croatian Government has introduced a renewable energy strategy as well as quota that the renewable energy would have in the overall production of energy, compliant with EU rules and regulations, and is also offering stimulating conditions to companies producing electric power. The Parent Company has made two investments in the field of renewable energy:

ZD6 wind power plant – 9.2 MW. During 2010 the Parent Company has finished its first renewable energy project by investing in the construction of ZD6 wind power plant with the capacity of 9.2 MW. Total investment value amounted to EUR 15.8 million with Dalekovod d.d. having 50% of ownership in the project. Dalekovod d.d. and its partner are currently in the process of obtaining the final licence needed for the expansion of ZD6 wind power plant for additional 9.2 MW in the existing area. Once the licence has been obtained the expansion should be completed by the end of 2012. According to HEP's operative and financial data ZD6 power plant is the most productive wind power plant in Croatia.

ZD2 and ZD3 wind power plants – 36.8 MW. In 2011 the Company completed the construction of wind power plants with the capacity of 36.8 MW, which are now in commercial usage. Total investment value amounts to EUR 61 million with Dalekovod d.d. having 50% of ownership in the project. The wind power plant was financed through capital gained via SPO in June 2011 as well as through long term bank loan provided by the Company.

Dalekovod plans to keep investing in wind power plants. The preparation of the new wind power plant project Kamensko – Voštane wind power plant with the capacity of 63 MW is in its final stage, and is being planned as a joint venture project with former partners. Total value of this project is estimated to be worth more than EUR 100 million. Five additional power plant sites are currently in various stages of administrative proceedings for the procurement of building permit. The planned power created by new wind turbines will exceed 100 MW. The said activities have established Dalekovod as a leading company on the market of renewable energy resources in the field of exploiting the potentials of wind produced energy.

Due to significant expertise and historical references in the field of electrical engineering, Dalekovod is in search of new joint ventures and partnerships for the development of renewable energy resources projects in the Region (wind power plants, biomass, geothermal energy and so on). The primary focus is on Croatia, Bosnia and Herzegovina, and Serbia, which have so far invested minimum funds in renewable energy resources projects, but are expecting a new wave of investments upon joining the EU. Furthermore, Croatian investments in the field of renewable energy resources are quite poor at the moment, especially in the field of wind energy, with only 131 MW of installed capacities. The strategy of Croatia is to have up to 1.000 MW of installed capacities by 2020.

6 Selling non-core assets

The Parent Company has identified asset portfolio which is not crucial for core business activity, and is planning to divest as soon as possible in order to secure new funds for the decrease of liabilities and the development of core business. Current identified non-core employed assets amount to HRK 448 million (equity and amounts owned to banks), which is one of the main reasons for the increase of liabilities in the previous period. The largest portion of employed assets currently relate to the Sky Office Project (HRK 315 million of equity and amounts owed to banks). The overview of major identified non-core assets is as follows:

The Sky Office Project is planned to be put out for sale in its entirety. The project is in its final stage of building (end of works expected in June/July 2012). The Sky Office Project includes the construction of the largest business tower in Zagreb (approx. 70.000 m2 of GLA). Total investment value amounts to HRK 735 million with Dalekovod having 50% of share in the project. Upon completion of the project, gross employed capital by Dalekovod will amount to HRK 375 million (equity and amounts owed to banks).

Dalekovod Adria represents an SPV for investments in TLM company (Expanded Metals Factory). The Company has started talks for divestment of its own share in the company.

Companies within the Group for which a strategic partner is yet to be found that would lead to a decrease in ownership to 50%:
Dalekovod TKS Doboj – production of transmission lines, lighting pylons, antenna lattice pylons and polygonal pylons, and various metal structures.

Dalekovod Cindal, Doboj (construction under way) – is planned to become the largest galvanizing company in Bosnia and Herzegovina with a yearly capacity exceeding 24.000 tonnes. Overall planned investment in the company amounts to HRK 80.3 million. The reason for investment has been the synergy with the existing Dalekovod TKS Doboj factory as well as the offer of the most competitive price for the services.

TIM Topusko – expanded metals factory where Dalekovod has 95.74% of ownership share.

Plan for 2012

The Management believes that the measures which have been carried out and announced measures have confirmed its intention to synchronise the Group's interests with the interests of its shareholders and creditors. Influence of the measures carried through will become noticeable in 2012 via a significant decrease in fixed costs which will enable the Group to stay competitive in the long run, and successfully carry through the strategy of further internationalisation of its business activities. The Group's competitiveness is the result of decades and decades of successful execution of demanding projects, a very long international reference list, and significant human resources. Dalekovod is one of Croatia's major exporters, contracting profitable projects with high value added, and making great internal changes that will allow Dalekovod to raise revenues, regain profitability and decrease indebtedness to sustainable levels.

Dalekovod does business in the electric power supply sector which hasn't been hit hard by the recession, neither internationally nor domestically, and it is precisely the electric power supply sector that expects a significant increase in investments, both internationally and in Croatia. Even during this period of economic crisis Dalekovod gets awarded significant international tenders proving itself to be a competitive company on the international level, a true rarity among domestic industrial companies. In the last 18 months the Parent

Company has managed to contract projects worth more than HRK 1.661 million (amount of exclusive of VAT). In case Dalekovod is granted a few more international projects under on-going invitations to bid, increase in international revenues in 2012 could exceed the record-breaking 2009, and could amount to approx. HRK 700 – 800 million in 2012/2013. The most relevant contracts entered into in the past two years to be carried out in 2012 include (amounts exclusive of VAT):

 **HRK 812 mil.** **Norway** – construction of transmission line, Equipment delivery and electrical installation works	 **HRK 604 mil.** **Ukraine** – construction works	 **HRK 409 mil.** **Slovenia -** construction of transmission lines, supply of accessories and electrical installation works
 **HRK 167 mil.** **Croatia** – Sv. Ilija tunnel – electric power supply works, road lighting works, telecommunication works, signalling and tunnel equipping	 **HRK 75 mil.** **Croatia – S/S Srđ –** construction of substation	 **HRK 29 mil.** **Croatia** – Burilica tunnel – electric power supply works, road construction and tunnel lighting works, equipping and ventilation

In view of this, year 2012 should result in significant recovery of business activity in terms of revenue gain and profitability – expected business revenues on the Group level should surpass HRK 1.700 million, EBITDA in the amount of HRK 128.1 million. It is important to note that the value of the newly contracted projects to be realised in 2012 on the domestic market has already surpassed the planned values. The Group expects its 2012 net results at break even point due to high costs of financing.

Even though the Management feels that the existing restructuring measures will suffice for complete recovery of business activities, the Management plans to put in effort to find a strategic partner for the Parent Company, bearing in mind that a financially strong strategic partner may increase the Group's stability and trustworthiness, especially if the demand on foreign markets exceeds the Group's independent financing capacities. The Management believes that an adequate strategic partner could, with minor or greater part, make other positive changes within the Group, such as organisational expertise, accessing new markets and favourable financing. The Group would be of interest to a great number of strategic partners since it is an exceptional brand with numerous references coming from markets where strategic players are still not present, since it employs esteemed employees with technical expertise, and has low market capitalisation at the moment. Appetite for mergers and acquisitions is present in this sector, especially with small and medium sized companies due to extremely positive expectations for the said sector.

Although the Group is leaving behind one of the hardest years in its history, the Management believes that through efficient implementation of further cost-saving measures and support of key creditors as well as with successful realisation of contracted projects Dalekovod can stabilise its business activities in its entirety, and make record-setting financial results. Through successful and efficient financial restructuring Dalekovod will be able to significantly reduce financial liabilities and within a mean time provide adequate yield to all the owners of capital.

On behalf of the Company:

Luka Miličić, M.Sc.C.E.

President of Management Board “Dalekovod d.d.”

II STATEMENT ON APPLICATION OF THE CORPORATE GOVERNANCE CODE

In accordance with Article 272 p, in connection with Paragraph 4 of Article 250 a, of the Companies Act (hereinafter referred to as the Companies Act), the Management of the company Dalekovod d.d. Zagreb, Marijana Čavića 4 (hereinafter the Company) delivered the following statement on 27 April 2012.

STATEMENT

on application of the Corporate Governance Code

The Company exercises its free will by applying the Code of Corporate Governance as stipulated by the Croatian Agency for Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb).

In 2011 the Company for the most part followed and applied the recommendations laid down in the Code, by issuing all information, whose issuing is anticipated by applicable regulations, and information that is in the interest of the Company's shareholders. Clarifications of significant deviations from certain Code recommendations, if any, shall be incorporated in the Annual questionnaire to be submitted to the Zagreb Stock Exchange by the Company.

In accordance with the provisions of the Companies Act, the Supervisory Board supervises the management of the Company's operations by holding regular sessions at which the Management presents relevant reports. It is at the Supervisory Board's sessions that all matters, falling within the jurisdiction of that body, as laid down by the Companies Act and Articles of Association are discussed and decided on.

The Report of the Supervisory Board on the conducted supervision of the management of business operations is an integral part of the Company's Annual Report to be submitted to the General Shareholders' Meeting. In addition, The Supervisory Board shall conduct an internal control and supervision through an Audit Sub-Committee that provides expert support to the Supervisory Board and the Management Board with a view of facilitating effective execution of corporate governance, risk management, financial reporting and the control of the Company Management. In addition to the Audit Subcommittee, the Supervisory Board shall also include the Appointing and Awarding Subcommittee and the Strategy Subcommittee.

The Management is obliged to follow-up the Company's keeping of business books, other books and business documentation, its drawing up of book-keeping documents, its evaluating assets and liabilities in real terms, its composing financial and other statements in line with accounting regulations, standards, applicable laws and rules.

Ownership structure as of 31 December 2011

NATURAL PERSONS	1,356,503
PENSION FUNDS	641,120
BANKS	354,394
TELEGRA d.o.o.	164,868
OTHERS	300,446
OWN SHARES	49,934
TOTAL	2,867,265

In accordance with the Articles of Association, shareholder's voting right is neither limited to a certain percentage or number of votes, nor are there any time limits for exercising the right to vote. Each ordinary share entitles to one vote at the General Shareholder's Meeting.

The rights and liabilities of the Company arising from the acquisition of own shares are exercised in accordance with the provisions of the Companies Act and Articles of Association.

The Company Management is made up of three members; President and two members of the Management Board. President of the Management Board is Mr. Luka Miličić, while other two members of the Management Board are Mr. Krešimir Anušić and Mr. Damir Skansi.

The Management Board conducts the Company's operations in accordance with applicable rules, Articles of Association and Work Rules of Procedure.

The Management Board appoints and revokes the Supervisory Board that is made up of the following members:

- Petar Đukan (President)
- Marijan Pavlović (Deputy President)
- Viktor Miletić
- Nataša Ivanović
- Dubravko Štimac
- Davor Doko
- Ante Ćurković

In accordance with provisions of Paragraph 4 of Article 250 a and Article 272 p of the Companies Act, this Statement shall be deemed to be an integral part of the 2011 Annual Report on the State of the Company.

On behalf of the Company:

Luka Miličić, M.Sc.C.E.

President of Management Board "Dalekovod d.d."

III DECLARATION OF PERSONS RESPONSIBLE FOR MAKING ANNUAL REPORTS

In accordance with Paragraph 2 of Article 410 and Subparagraph 3 Paragraph 2 of Article 407 and Paragraph 3 of the Capital Market Act, persons responsible for drawing up financial statements shall be Luka Miličić – President of the Management Board, Krešimir Anušić – Member of the Management Board and Damir Skansi – Member of the Management Board, deliver the following

STATEMENT

To our best knowledge, the Group's Annual Financial Statements drawn up in accordance with the corresponding financial reporting standards give a true and integral view of assets and liabilities, and Group's business performance as well, with a brief reference to causes of presented data. The financial statements have been audited.

On behalf of the Company:

Luka Miličić, M.Sc.C.E.

President of Management Board "Dalekovod d.d."

Croatian quality

OHSAS 18000

DALEKOVOD

IV BALANCE SHEET

Assets

Currency: HRK

Name of position:	AOP	2010	2011	2010	2011
		DALEKOVOD jsc		DALEKOVOD GROUP	
1	2	3	4	5	6
ASSETS					
A) SUBSCRIBED CAPITAL UNPAID	**001**	0	0	0	0
B) NON CURRENT ASSETS (003+010+020+029+033)	**002**	799.555.170	1.127.395.180	910.723.134	1.222.229.586
I. INTANGIBLE ASSETS (004 do 009)	**003**	**19.935.669**	**18.148.117**	**26.308.486**	**27.482.563**
1. Research & Development expenditure	**004**	0	0	0	0
2. Patents, licences, royalties, trade marks, software&similar rights	**005**	10.704.401	16.914.361	20.077.541	21.669.580
3. Goodwill	**006**	0	0	4.559.000	4.559.000
4. Prepayments for intangible assets	**007**	0	0	118.510	0
5. Intangible assets under construction	**008**	9.231.268	1.233.756	1.483.399	1.253.983
6. Other intangible assets	**009**	0	0	70.036	0
II. TANGIBLE ASSETS (011 do 019)	**010**	**482.882.260**	**585.879.705**	**716.357.194**	**984.034.145**
1. Land	**011**	13.521.765	164.913.887	59.984.791	212.124.393
2. Property	**012**	122.237.664	71.460.820	151.586.298	114.871.611
3. Plants and equipment	**013**	168.936.051	97.775.867	204.527.446	154.560.883
4. Tools, plants&vehicles	**014**	25.267.540	14.050.127	2.034.294	22.851.301
5. Biological asset	**015**	0	0	0	0
6. Prepayments for tangible assets	**016**	0	0	98.532	44.595
7. Assets under construction	**017**	46.718.248	7.100.194	191.924.841	248.725.101
8. Other tangible assets	**018**	0	0	0	0
9. Investments property	**019**	106.200.992	230.578.810	106.200.992	230.856.261
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	**020**	**296.737.241**	**523.367.357**	**168.057.454**	**210.711.440**
1. Share in related parties	**021**	205.418.497	427.498.522	23.458.799	101.551.520
2. Loans to related parties	**022**	11.382.208	2.929.980	0	2.929.980
3. Participating interests (stakes)	**023**	18.889.640	30.277.334	49.822.016	30.324.677
4. Loans to participating interest	**024**	8.551.101	8.551.101	0	8.551.101
5. Investments in securities	**025**	29.698.444	28.053.190	38.498.444	29.876.847
6. Loans & deposits	**026**	22.797.351	26.057.230	44.938.195	26.137.315
7. Other non-current financial assets	**027**	0	0	11.340.000	0
8. Investment accounted by equity method	**028**	0	0	0	11.340.000
IV. TRADE RECEIVABLES (030 do 032)	**029**	**0**	**0**	**0**	**1.438**
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	1.438
V. DEFERRED TAX ASSETS	**033**	**0**	**0**	**0**	**0**
C) CURENT ASSETS (035+043+050+058)	**034**	1.411.333.433	1.024.699.655	1.494.715.232	1.253.962.988
I. INVENTORIES (036 do 042)	**035**	**314.767.447**	**20.144.725**	**354.294.819**	**189.960.872**
1. Raw materials & consumables	**036**	84.950.756	14.390.404	106.457.329	77.117.651
2. Work in progress	**037**	134.421.350	0	240.758.848	12.788.435
3. Products	**038**	95.395.341	5.724.889	4.809.957	83.110.705
4. Merchandise	**039**	0	29.432	1.990.659	16.273.707
5. Prepayments for inventories	**040**	0	0	160.355	552.703
6. Other available-for-sale assets	**041**	0	0	117.671	117.671
7. Biological asset	**042**	0	0	0	0
II. RECEIVABLES (044 do 049)	**043**	**880.721.122**	**838.895.899**	**954.444.600**	**919.192.995**
1. Receivables from related parties	**044**	46.887.177	73.178.702	0	0
2. Trade receivables	**045**	744.424.644	548.920.800	631.099.027	640.754.965
3. Receivables from participating parties	**046**	0	4.037.721	0	4.037.721
4. Amounts receivable from employees	**047**	1.150.392	656.421	2.607.272	1.879.956
5. Receivables from government agencies	**048**	30.657.572	56.245.870	35.224.717	65.426.835
6. Other receivables	**049**	57.601.337	155.856.385	285.513.584	207.093.518

III. CURRENT FINANCIAL ASSETS (051 do 057)	**050**	**129.753.577**	**135.545.130**	**86.562.668**	**98.874.386**
1. Share in related parties	**051**	0	0	0	0
2. Loans to related parties	**052**	30.862.219	48.684.603	0	0
3. Participating interests (stakes)	**053**	0	0	0	0
4. Loans to participating interest	**054**	855.000	9.631.534	0	9.631.534
5. Investments in securities	**055**	26.629	26.629	1.000	26.629
6. Loans & deposits	**056**	98.009.729	77.202.364	86.534.401	88.905.357
7. Other financial assets	**057**	0	0	27.267	310.866
IV. CASH ON HAND AND IN THE BANK	**058**	**86.091.287**	**30.113.902**	**99.413.145**	**45.934.735**
D) PREPAYMENTS AND ACCRUED INCOME	**059**	10.261.859	5.637.911	10.306.542	9.619.059
E) TOTAL ASSETS (001+002+034+059)	**060**	2.221.150.462	2.157.732.746	2.415.744.908	2.485.811.633
F) OFF-BALANCE SHEET ITEMS	**061**	613.050.041	614.789.122	613.050.041	643.491.396

Liabilities

Currency: HRK

Name of position:	AOP	2010	2011	2010	2011
		DALEKOVOD jsc		DALEKOVOD GROUP	
1	2	3	4	5	6
EQUITY AND LIABILITIES					
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	678.864.500	583.638.994	704.096.353	610.228.565
I. SHARE CAPITAL	063	229.381.200	286.726.500	229.381.200	286.726.500
II. CAPITAL RESERVES	064	0	80.478.889	37.768	80.478.889
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	431.585.358	434.445.578	436.803.555	441.552.955
1. Legal reserves	066	11.486.600	11.486.600	12.846.059	13.171.867
2. Reserves for own shares	067	7.773.071	7.773.071	7.773.071	7.773.071
3. Own shares and stakes (less)	068	7.773.071	7.773.071	7.773.071	7.773.071
4. Statutory reserves	069	307.335.345	310.195.565	307.335.345	310.420.110
5. Other reserves	070	112.763.413	112.763.413	116.622.151	117.960.978
IV. REVALUATION RESERVES	071	15.037.718	59.302.306	15.037.772	59.302.306
V. RETAINED EARNINGS OR LOSS BROUGHT FORWARD (073-074)	072	0	0	18.947.385	17.711.613
1. Retained earnings	073	0	0	18.947.385	27.868.908
2. Loss brought forward	074	0	0	0	10.157.295
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	075	2.860.224	-277.314.279	1.190.884	-278.179.473
1. Profit for the financial year	076	2.860.224	0	1.190.884	0
2. Loss for the financial year	077	0	277.314.279	0	278.179.473
VII. MINORITY INTEREST	078	0	0	2.697.789	2.635.775
B) PROVISIONS (080 do 082)	079	6.282.000	3.762.000	8.280.917	7.068.583
1. Provisions for pensions, severance pay and similar libabilities	080	6.282.000	3.762.000	7.672.388	6.579.068
2. Provisions for tax obligations	081	0	0	0	0
3. Other provisions	082	0	0	608.529	489.515
C) NON-CURRENT LIBILITIES (084 do 092)	083	336.485.580	482.436.118	426.852.298	672.477.705
1. Liabilites to related parties	084	0	0	1.477.778	633.333
2. Liabilities for loans, deposits and other	085	0	0	85.229.967	0
3. Liabilities towards banks and other financial institutions	086	243.298.205	329.101.121	246.079.363	517.686.271
4. Amounts payable for prepayment	087	0	0	0	0
5. Trade payables	088	93.187.375	153.334.997	94.065.190	154.158.101
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	1.199.518.382	1.084.844.932	1.276.477.299	1.192.865.836
1. Liabilites to related parties	094	20.086.020	52.724.327	0	0
2. Liabilities for loans, deposits and other	095	12.819.870	1.159.071	1.729.042	1.226.407
3. Liabilities towards banks and other financial institutions	096	429.766.197	356.960.472	470.642.918	407.334.632
4. Amounts payable for prepayment	097	135.030.287	196.951.533	116.574.785	224.669.303
5. Trade payables	098	365.331.524	355.053.342	436.023.492	415.550.167
6. Amounts payable for securities	099	210.105.783	64.948.782	210.105.783	64.948.782
7. Liabilities toward participating interests	100	0	1.906.148	0	1.906.148
8. Liabilities to emloyees	101	4.227.713	17.345.107	9.148.493	23.668.192
9. Taxes, contributions and similar liabilities	102	6.663.521	4.777.585	13.834.950	16.922.163
10. Liabilities arising from share in the result	103	1.899.762	1.899.762	2.900.422	2.899.762
11. Liabilities arising from non-current assets held for sale	104	0	0	0	0
12. Other current liabilities	105	13.587.705	31.118.803	15.517.414	33.740.280
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	0	3.050.702	38.041	3.170.944
F) TOTAL LIABILITIES (062+079+083+093+106)	107	2.221.150.462	2.157.732.746	2.415.744.908	2.485.811.633
G) OFF-BALANCE SHEET ITEMS	108	613.050.041	614.789.122	613.050.041	643.491.396
ANNEX TO THE BALANCE SHEET (to be filled in by a company preparing the consolidated annual financial statements)					
A) CAPITAL AND RESERVES					
1. Attributable to equity holders of the parent company's capital	109			701.398.564	607.592.790
2. Attributable to non-controlling interests	110			2.697.789	2.635.775

V GROSS PROFIT REPORT

Currency: HRK

ITEM	AOP	2010	2011	2010	2011
1	2	3	4	5	6
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
I. OPERATING INCOME (112+113)	111	1.576.758.056	1.037.285.479	1.657.494.941	1.163.704.924
1. Sales revenue	112	1.478.616.371	1.002.091.799	1.553.940.595	1.129.182.694
2. Other operating income	113	98.141.685	35.193.680	103.554.346	34.522.230
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.513.147.481	1.075.160.811	1.592.917.896	1.366.002.506
1. Changes in inventories of finished products and work in progress	115	114.292.612	69.388.438	105.787.322	61.166.225
2. Material costs (117 do 119)	116	982.969.205	709.039.928	980.056.328	792.716.257
a) Cost of raw materials & consumables	117	170.623.725	133.222.897	171.842.384	152.437.634
b) Cost of goods sold	118	114.480.157	165.661.347	155.924.766	216.804.746
c) Other costs	119	697.865.323	410.155.684	652.289.178	423.473.877
3. Staff costs (121 do 123)	120	225.385.562	130.911.500	285.414.230	255.763.959
a) Net salaries	121	143.298.826	89.071.983	179.164.247	163.825.146
b) Employee income tax	122	55.783.324	26.936.936	72.796.492	58.126.110
c) Tax on payroll	123	26.303.412	14.902.581	33.453.491	33.812.703
4. Depreciation and amortisation	124	51.497.854	36.600.924	56.017.582	54.510.028
5. Other expenditures	125	117.487.305	97.878.321	141.739.652	159.185.364
6. Value adjustment (127+128)	126	5.243.134	9.199.298	5.243.134	14.855.050
a) non-current assets (without financial assets)	127	0	0	0	0
b) current asssets (without financial assets)	128	5.243.134	9.199.298	5.243.134	14.855.050
7. Provisions	129	0	0	238.327	74.743
8. Other operating expenses	130	16.271.809	22.142.402	18.421.321	27.730.880
III. FINANCIAL INCOME (132 do 136)	131	2.230.814	7.613.930	1.833.942	7.747.128
1. Interest income, foreign exhange differences, dividends and other financial income related to subsidiaries	132	0	2.152.928	0	2.256.330
2. Interest income, foreign exchange differences, dividends and other financial income related to third parties	133	2.230.814	4.059.009	1.672.833	4.086.117
3. Part of income from associates and participating interests	134	0	1.401.993	94.045	1.401.993
4. Unrealized gains (income) from the financial assets	135	0	0	0	0
5. Other financial income	136	0	0	67.064	2.688
IV. FINANCIAL COSTS (138 do 141)	137	60.429.979	72.135.796	61.733.354	80.176.383
1. Interest, foreign exchange dfifferences and other expenses related to subsidiaries	138	248.775	304.498	0	679.311
2. Interest, foreign exchange differences and other expenses related to third parties	139	60.181.204	67.125.179	61.504.598	74.590.870
3. Unrealized loss (expenses) from the financial assets	140	0	496.819	23.815	544.529
4. Other financial expenses	141	0	4.209.300	204.941	4.361.673
V. SHARE OF INCOME OF ASSOCIATES	142	0	0	0	398.448
VI. SHARE OF LOSS OF ASSOCIATES	143	0	0	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	171.999.141	0	0
IX. TOTAL INCOME (111+131+142 + 144)	146	1.578.988.870	1.044.899.409	1.659.328.883	1.171.850.500
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.573.577.460	1.319.295.748	1.654.651.250	1.446.178.889
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	5.411.410	-274.396.339	4.677.633	-274.328.389
1. Profit before tax (146-147)	149	5.411.410	0	4.677.633	0
2. Loss before tax (147-146)	150	0	274.396.339	0	274.328.389
XII. INCOME TAX EXPENSE	151	2.551.186	2.917.940	3.760.160	4.009.053
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	2.860.224	-277.314.279	917.473	-278.337.442
1. Profit for the period (149-151)	153	2.860.224	0	917.473	0
2. Loss for the period (151-148)	154	0	277.314.279	0	278.337.442
ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)		0	0	0	
XIV. PROFIT OR LOSS FOR THE PERIOD		0	0	0	0
1. Attributable to owners of the company	155	0	0	1.190.884	-278.179.473
2. Attributable to non-controlling interests	156	0	0	-273.411	-157.969

Currency: HRK

ITEM	AOP	2010	2011	2010	2011
1	2	3	4	5	6
		DALEKOVOD J.S.C.		DALEKOVOD GROUP	
STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)		0	0	0	0
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	2.860.224	-277.314.279	917.473	-278.337.442
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)	158	7.813.000	44.264.589	5.726.000	46.841.574
1. Exchange differences arising from foreign operations	159	0	0	-2.087.000	2.576.985
2. Revaluation of non-current assets and intangible assets	160	0	50.020.716	0	50.020.716
3. Gains or loss available for sale investments	161	7.813.000	-5.756.127	7.813.000	-5.756.127
4. Gains or loss on net movement on cash flow hedges	162	0	0	0	0
5. Gains or loss on net investments hedge	163	0	0	0	0
6. Share of the other comprehensive income/loss of associates	164	0	0	0	0
7. Acturial gain / loss on post employment benefit obligations	165	0	0	0	0
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	166	0	0	0	0
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166) RAZDOBLJA (158-166)	167	7.813.000	44.264.589	5.726.000	46.841.574
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)	168	10.673.224	-233.049.690	6.643.473	-231.495.868
APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)		0	0	0	0
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD		0	0	0	0
1. Attributable to owners of the company	169	0	0	6.842.473	-231.408.671
2. Attributable to non-controlling interests	170	0	0	-199.000	-87.197

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DALEKOVOD

VI CASH FLOW REPORT

Currency: HRK

ITEM	AOP	2010	2011	2010	2011
1	2	3	4	5	6
		DALEKOVOD jsc		DALEKOVOD GROUP	
CASH FLOW FROM OPERATING ACTIVITIES					
1. Pre-tax profit	**001**	5.411.410	-274.396.339	4.677.635	-274.328.389
2. Depreciation	**002**	51.497.854	36.600.924	56.017.582	54.510.028
3. Increase in short-term liabilities	**003**	0	237.196.099	0	323.929.451
4. Decrease in short-term receivables	**004**	22.491.883	0	5.774.218	0
5. Reduction of stocks	**005**	129.946.241	294.622.721	127.127.856	164.766.441
6. Other increase in cash flow	**006**	0	0	0	0
I. Total increase in cash flow from operating activities (001 to 006)	**007**	**209.347.388**	**294.023.405**	**193.597.291**	**268.877.531**
1. Decrease in short-term liabilities	**008**	83.848.020	0	118.618.013	0
2. Increase in short-term receivables	**009**	0	85.718.115	0	151.231.243
3. Increase in stocks	**010**	0	0	0	0
4. Other decrease in cash flow	**011**	25.211.786	15.654.761	34.035.041	37.135.474
II Total decrease in cash flow from operating activities (008 to 011)	**012**	**109.059.806**	**101.372.876**	**152.653.054**	**188.366.717**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	**013**	**100.287.582**	**192.650.529**	**40.944.237**	**80.510.814**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	**014**	**0**	**0**	**0**	**0**
CASH FLOW FROM INVESTMENT ACTIVITIES					
1. Cash receipts from sale of fixed tangible and intangible assets	**015**	32.518.041	49.939.456	32.577.571	49.939.456
2. Cash receipts from sale of treasury and debt financial instruments	**016**	154.012.560	125.912.799	175.810.910	303.240.205
3. Cash receipts from interests	**017**	1.510.117	1.305.032	1.533.844	1.311.247
4. Cash receipts from dividends	**018**	0	0	0	0
5. Other cash receipts from investment activities	**019**	0	0	378.134	632.066
III. Total cash receipts from investment activities (015 do 019)	**020**	**188.040.718**	**177.157.287**	**210.300.459**	**355.122.974**
1. Expenditures for buying fixed assets and intangible assets	**021**	171.354.575	5.720.341	179.512.877	69.055.954
2. Expenditures for purchasing treasury and debt financial instruments	**022**	320.882.497	368.986.015	343.843.341	368.986.015
3. Other expenditures from investment activities	**023**	0	0	48.193.115	95.914.739
IV. Total expenditures **from investment activities (021 to 023)**	**024**	**492.237.072**	**374.706.356**	**571.549.333**	**533.956.708**
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**	**304.196.354**	**197.549.069**	**361.248.874**	**178.833.734**
CASH FLOW FROM FINANCIAL ACTIVITIES					
1. Cash receipts from issuance of treasury and debt financial instruments	**027**	162.871.623	47.224.260	162.871.623	47.224.260
2. Cash receipts from loan principal, bonds, borrowings and other loans	**028**	965.868.104	680.769.529	979.067.310	803.129.504
3. Total cash receipts from financial activities	**029**	0	0	119.996.333	76.829.287
V. Total cash receipts from financial activities (027 To 029)	**030**	**1.128.739.727**	**727.993.789**	**1.261.935.266**	**927.183.051**
1. Expenditures for repayment of loan principal and bonds	**031**	692.612.234	759.295.323	703.677.945	779.432.659
2. Expenditures for payment of dividends	**032**	0	0	578.476	0
3. Expenditures for financial leasing	**033**	186.449.596	19.777.311	187.046.702	19.943.870
4. Expenditures for redemption of treasury shares	**034**	0	0	0	0
5. Other expenditures from financial activities	**035**	0	0	638	82.962.010
VI. Total expenditures **from financial activities (031 to 035)**	**036**	**879.061.830**	**779.072.634**	**891.303.761**	**882.338.539**
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	**037**	**249.677.897**	**0**	**370.631.505**	**44.844.512**
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	**038**	**0**	**51.078.845**	**0**	**0**
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	**039**	45.769.125	0	50.326.868	0
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	**040**	0	55.977.385	0	53.478.408
Cash and cash equivalents at the beginning of the period	**041**	**40.322.162**	**86.091.287**	49.086.275	99.413.143
Increase in cash and cash equivalents	**042**	45.769.125	0	50.326.868	0
Decrease in cash and cash equivalents	**043**	0	55.977.385	0	53.478.408
Cash and cash equivalents at the end of the period	**044**	**86.091.287**	**30.113.902**	**99.413.143**	**45.934.735**

VII CHANGES TO CAPITAL REPORT

Currency: HRK

	AOP	2010	2011	2010	2011
		DALEKOVOD jsc		DALEKOVOD GROUP	
1. Share capital	001	229.381.200	286.726.500	229.381.200	286.726.500
2. Capital reserves	002	0	80.478.889	37.768	80.478.889
3. Reserves from profit	003	431.585.358	434.445.578	436.803.555	441.552.955
4. Retained profit or loss carried forward	004	0	0	18.947.385	17.711.613
5. Profit or loss of current year	005	2.860.224	-277.314.279	1.190.884	-278.179.473
6. Revaluation of longterm tangible assets	006	0	50.020.716	0	50.020.716
7. Revaluation of intangible assets	007	0	0	0	0
8. Revaluation of financial assets available for sale	008	15.037.718	9.281.590	15.037.772	9.281.590
9. Other revaluations	009	0	0	0	0
10.Total equity and reserves (AOP 001 to 009)	**010**	**678.864.500**	**583.638.994**	**701.398.564**	**607.592.790**
11. Foreign exchange differences arising from the titles of net investment in foreign operations	011	0	0	0	0
12. Current and deferred taxes (part)	012	0	0	0	0
13. Cash flow protection	013	0	0	0	0
14. Changes in accounting policies	014	0	0	0	0
15. Correction of significant errors in the previous period	015			0	0
16. Other changes in equity	016			0	0
17. Total increase or decrease in equity (AOP 011 to 016)	**17**	**0**	**0**	**0**	**0**
17 a. Attributed to parent company equity holders	018			701.398.564	607.592.790
17 b. Attributed to minority interest	019			2.697.789	2.635.775

VIII DECISION OF THE COMPETENT BODY (PROPOSAL) ON SETTING UP ANNUAL FINANCIAL STATEMENTS OF THE GROUP

In accordance with Article 240 of the Companies Act and Paragraph 3 of Article 20 of the Accounting Act, the Management of the company Dalekovod d.d. Zagreb, Marijana Čavića 4 delivered the following statement on 27 April 2012.

STATEMENT

on setting up Consolidated Annual Financial Statements for 2011

Article 1

In accordance with the applicable regulations for 2011, the following Consolidated Annual Financial Statements and the Tax Report have drawn up:

1 Consolidated Balance Sheet
2 Consolidated Gross Profit Report
3 Consolidated Cash Flow Report
4 Consolidated Changes to Capital Report
5 Notes accompanying Annual Financial Statements
6 Consolidated Annual Statement (laid down in Article 18 of the Accounting Act: "Annual Report on the State of the Company", Article 250 of the Companies Act: "Report of the Management Board" of the Article 403 of the Capital Market Act).

Article 2

A Consolidated Gross Profit Report for 2011 has been set up. The declared loss amounts to HRK 278.337.442, of which the loss imputed to the parent company capital holders amounts to HRK 278.179.473, and the loss imputed to the minority interest amounts to HRK 157.969.

The Income Tax recorded in the 2011 Annual Income Tax Return of the Parent Company and Subsidiary Companies amounts to HRK 4.009.053.

The sum of assets and liabilities respectively declared in the Consolidated Balance Sheet as of 31 December 2011 amounts to HRK 2.485.811.633.

On behalf of the Company:

Luka Miličić, M.Sc.C.E.

President of Management Board “Dalekovod d.d.”

IX DECISION OF THE COMPETENT BODY (PROPOSAL) ON SETTING UP ANNUAL FINANCIAL REPORTS OF THE COMPANY

In accordance with Article 240 of the Companies Act and Paragraph 3 of Article 20 of the Accounting Act, the Management of the company Dalekovod d.d. Zagreb, Marijana Čavića 4 delivered the following statement on 27 April 2012.

STATEMENT

on setting up Annual Financial Statements for 2011

Article 1

In accordance with the applicable regulations for 2011, the following Annual Financial Statements and the Tax Report have been drawn up:

1 Balance Sheet
2 Gross Profit Report
3 Cash Flow Report
4 Changes to Capital Report
5 Notes accompanying Annual Financial Statements
6 Income Tax Return for 2011
7 Annual Statement on the State of the Company (laid down in Article 18 of the Accounting Act: "Annual Report on the State of the Company", Article 250 of the Companies Act: "Report of the Management Board" of the Article 403 of the Capital Market Act).

A Report of Gross Profit for 2011 has been set up. The declared loss amounts to HRK 277.314.279.
One-off restructuring costs and one-off costs arising from spinning off discontinuous Production Entity have exerted negative effect on the loss amounting to HRK 171.999.141.

Due to the realised loss, the Company has not stated its liability related to the income tax in the Annual Income Tax Return for 2011 (PD Form). The declared tax loss amounting to HRK 261.432.727 shall be transferred to the forthcoming business and tax periods, which can be effected within the statutory five-year period. The income tax laid down in the Report of Gross Profit for 2011, amounting to HRK 2.917.940, refers to the tax paid abroad, resulting from business performance of permanent business units abroad.

The sum of assets and liabilities respectively declared in the Balance Sheet as of 31 December 2011 amounts to HRK 2.157.732.746.

On behalf of the Company:

Luka Miličić, M.Sc.C.E.
President of Management Board “Dalekovod d.d.”

X DECISION OF THE COMPETENT BODIES (PROPOSAL) ON COVERING THE LOSS

In accordance with the provisions of Paragraph 3 of Article 20 of the Accounting Act and the Zagreb Stock Exchange Rules, the Management Board and the Supervisory Board of the Company DALEKOVOD d.d. Zagreb, Marijana Čavića 4, made a joint proposal on 27 April 2012 regarding the decision on covering the loss for 2011. The above cannot be regarded as a final proposal that shall, in accordance with the provisions of Article 275 of the Companies Act, be submitted to the General Shareholders' Meeting, with the date to be determined later on, but shall serve solely for the purpose of publication on the Zagreb Stock Exchange.

The above proposal reads as follows

DECISION

on covering the loss for 2011

Article 1

It has been established that the loss for the fiscal year 2011 amounts to HRK 277.314.279.

Article 2

The declared loss shall be covered by Company's statutory reserves arising out of retained earnings of previous years.

Article 3

The General Shareholder's Meeting shall authorise the Company's Management Board, in case of justified need, to effect a change in application of coverage funds as laid down in Article 2 of this Decision in accordance with limits provided for by the law and the Company's Articles of Association.

***Explanation**: It has been established that a loss has generated as a result of business operations in 2011. Further, it has been established that the Company has statutory reserves at its disposal as a result of transfer of the retained profit from the previous periods and that the above reserves can be fully utilised for the purpose of covering the loss reported in the year 2011. By the proposed Decision, the realized loss as a result of business operations in 2011, shall, according to the plan, be covered by the Company's statutory reserves in accordance with the Company's Articles of Association and the law.*

On behalf of the Company:

Luka Miličić, M.Sc.C.E.

President of Management Board "Dalekovod d.d."

Predsjednik Nadzornog Odbora:

Dr. sc. Petar Đukan, dipl.ing.građ.

XI INDEPENDENT AUDITOR'S REPORT

Report of independent auditor Pricewaterhousecoopers and audited financial statements for Dalekovod d.d. and Dalekovod Group are attached below as part of this document.

DALEKOVOD d.d.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2011

pwc

Independent auditor's report

To the Shareholders of Dalekovod d.d.

We have audited the accompanying financial statements of Dalekovod d.d. (the 'Company') and consolidated financial statements of Dalekovod d.d. and its subsidiaries (the 'Group') which comprise the balance sheet as at 31 December 2011 and the income statement, statements of comprehensive income, changes in equity and cash flows 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 about 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 financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 30 April 2012

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

DALEKOVOD d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2011	Dalekovod Group 2010	Dalekovod d.d. 2011	Dalekovod d.d. 2010
Continued operations					
Sales	5	1,130,793	1,556,285	1,006,250	1,478,616
Other income	5, 6	34,154	92,862	33,610	91,651
Change in work in progress and finished goods		(61,027)	(105,791)	(69,250)	(114,293)
Cost of goods sold		(179,779)	(155,925)	(165,661)	(114,480)
Cost of materials and services	7	(611,396)	(827,707)	(543,378)	(868,489)
Staff costs	8	(304,854)	(300,185)	(135,716)	(235,486)
Depreciation and amortisation	15,16,17	(54,509)	(56,017)	(36,601)	(51,498)
Other operating expenses	9	(146,021)	(141,771)	(117,438)	(125,105)
Other (losses)/gains – net	10	(4,859)	2,231	(4,885)	1,994
Operating (loss)/profit		**(197,498)**	**63,982**	**(33,069)**	**62,910**
Finance income	11	844	2,293	679	2,932
Finance costs	11	(77,674)	(61,597)	(70,007)	(60,430)
		(76,830)	(59,304)	(69,328)	(57,498)
(Loss)/profit before tax		**(274,328)**	**4,678**	**(102,397)**	**5,412**
Income tax expense	12	(4,009)	(3,760)	(2,918)	(2,552)
Net (loss)/profit from continued operations		**(278,337)**	**918**	**(105,315)**	**2,860**
Discontinued operations					
Net loss from discontinued operations	5	-	-	(171,999)	-
Net (loss)/profit attributable to:					
Equity holders of the Company		(278,179)	1,191	(277,314)	2,860
Non-controlling interest		(158)	(273)	-	-
Net (loss)/profit		**(278,337)**	**918**	**(277,314)**	**2,860**
Basic and diluted (loss)/earnings per share (in HRK)	13	**(109.67)**	**0.52**	**(109.33)**	**1.27**
Basic and diluted – continued operations		**(109.67)**	**0.52**	**(41.52)**	**1.27**
Basic and diluted – discontinued operations		**-**	**-**	**(67.81)**	**-**

The financial statements set out on pages 2 to 69 were approved by the Management Board on 27 April 2012.

President of the Board
mr. sc. Luka Miličić, dipl. ing

The accounting policies and notes form an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2011	Dalekovod Group 2010	Dalekovod d.d. 2011	Dalekovod d.d. 2010
Net (loss)/profit		**(278,337)**	**918**	**(277,314)**	**2,860**
Other comprehensive (loss)/profit:					
Gains on revaluation of assets	26	50,021	-	50,021	-
Foreign exchange differences		2,577	(2,087)	-	-
Available-for-sale financial assets at fair value	26	(5,757)	7,813	(5,757)	7,813
Total other comprehensive income		46,841	5,726	44,264	7,813
Total comprehensive (loss)/income		**(231,496)**	**6,644**	**(233,050)**	**10,673**
Comprehensive (loss)/income from continued operations attributable to:					
Equity holders of Dalekovod d.d.		(231,583)	6,843	(61,051)	10,673
Non-controlling interest		87	(199)	-	-
Total		(231,496)	6,644	(61,051)	10,673
Comprehensive (loss)/income from discontinued operations attributable to:					
Equity holders of Dalekovod d.d.		-	-	(171,999)	-
Non-controlling interest		-	-	-	-
Total		-	-	(171,999)	-
Total comprehensive (loss)/income		**(231,496)**	**6,644**	**(233,050)**	**10,673**

DALEKOVOD d.d.

BALANCE SHEET

AS AT 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2011	Dalekovod Group 2010	Dalekovod d.d. 2011	Dalekovod d.d. 2010
ASSETS					
Non-current assets					
Intangible assets	15	27,483	26,308	18,148	19,936
Property, plant and equipment	16	983,989	716,253	355,301	376,681
Prepayments		45	99	-	-
Investment property	17	-	-	230,579	106,201
Investments in subsidiaries	18	971	971	427,498	165,706
Investments in associates	19a	56,416	54,541	20,241	20,241
Investments in joint ventures	19b	76,640	19,478	-	-
Available-for-sale financial assets	19c	40,198	47,850	38,090	68,059
Loans and receivables	21	24,803	56,135	23,971	53,928
		1,210,545	921,635	1,113,828	810,752
Current assets					
Inventories	22	189,961	354,287	20,144	314,767
Trade and other receivables	23	1,016,961	1,026,175	968,187	991,615
Financial assets at fair value through profit or loss	24	140	627	27	27
Cash and cash equivalents	25	45,935	99,413	30,114	86,091
Income tax receivable	12	25,663	17,786	25,433	17,898
		1,278,660	1,498,288	1,043,905	1,410,398
Total assets		**2,489,205**	**2,419,923**	**2,157,733**	**2,221,150**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	26	286,726	229,381	286,726	229,381
Premium on issued shares	26	80,479	-	80,479	-
Legal reserves	26	12,838	12,838	11,487	11,487
Treasury shares	26	(7,773)	(7,773)	(7,773)	(7,773)
Statutory and other reserves	26	455,045	453,854	430,731	427,871
Revaluation reserves	26	59,302	15,038	59,302	15,038
Cumulative exchange differences		(845)	(3,177)	-	-
(Accumulated loss)/Retained earnings		(278,179)	1,191	(277,314)	2,860
		607,593	701,352	583,638	678,864
Non- controlling interest		2,636	2,697	-	-
Total equity		**610,229**	**704,049**	**583,638**	**678,864**
Non-current liabilities					
Borrowings	27	329,984	426,657	322,137	336,486
Provisions	29	6,480	7,781	3,536	5,883
		336,464	434,438	325,673	342,369
Current liabilities					
Provisions	29	589	499	226	399
Borrowings	27	813,852	611,243	600,088	599,092
Trade and other payables	28	728,071	669,694	648,108	600,426
		1,542,512	1,281,436	1,248,422	1,199,917
Total liabilities		**1,878,976**	**1,715,874**	**1,574,095**	**1,542,286**
Total shareholders' equity and liabilities		**2,489,205**	**2,419,923**	**2,157,733**	**2,221,150**

The accounting policies and notes form an integral part of these consolidated financial statements.

DALEKOVOD d.d.

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

Dalekovod Group

(all amounts are expressed in thousands of HRK)	Note	Share capital	Premium on issued shares	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Cumulative exchange differences	(Accumulated loss)/ Retained earnings	Non-controlling interest	Total
At 1 January 2010		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	30	-	-	-	-	9,211	-	-	-	(7,037)	2,174
Non-controlling interests – additional acquisition		-	-	-	-	-	-	-	-	(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**
Net loss for the year		-	-	-	-	-	-	-	(278,179)	(158)	(278,337)
Other comprehensive income		-	-	-	-	-	44,264	2,332	-	245	46,841
Total comprehensive income		-	-	-	-	-	44,264	2,332	(278,179)	87	(231,496)
Transactions with owners:											
Proceeds from shares issued		57,345	80,479	-	-	-	-	-	-	-	137,824
Non-controlling interests – additional acquisition		-	-	-	-	-	-	-	-	(148)	(148)
Transfers within reserves		-	-	-	-	1,191	-	-	(1,191)	-	-
At 31 December 2011		**286,726**	**80,479**	**12,838**	**(7,773)**	**455,045**	**59,302**	**(845)**	**(278,179)**	**2,636**	**610,229**

The accounting policies and notes form an integral part of these consolidated financial statements.

Dalekovod d.d.

(all amounts are expressed in thousands of HRK)	Note	Share capital	Premium on issued shares	Legal reserves	Treasury shares	Revaluation reserves	Statutory and other reserves	(Accumulated loss)/ Retained earnings	Total
At 1 January 2010		229,381	-	11,487	(7,773)	7,225	338,936	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 1 January 2011		**229,381**	**-**	**11,487**	**(7,773)**	**15,038**	**427,871**	**2,860**	**678,864**
Net loss for the year		-	-	-	-	-	-	(277,314)	(277,314)
Other comprehensive income		-	-	-	-	44,264	-	-	44,264
Total comprehensive income		-	-	-	-	44,264	-	(277,314)	(233,050)
Transactions with owners:									
Proceeds from shares issued		57,345	80,479	-	-	-	-	-	137,824
Transfer to statutory reserves		-	-	-	-	-	2,860	(2,860)	-
At 31 December 2011		**286,726**	**80,479**	**11,487**	**(7,773)**	**59,302**	**430,731**	**(277,314)**	**583,638**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2011	Dalekovod Group 2010	Dalekovod d.d. 2011	Dalekovod d.d. 2010
Cash flows from operating activities					
Cash generated from operations	31	121,165	33,016	117,449	24,059
Interest paid		(70,634)	(62,953)	(61,025)	(61,644)
Income tax paid		(11,886)	(23,837)	(10,453)	(22,680)
Net cash outflow from operating activities		**38,645**	**(53,774)**	**45,971**	**(60,265)**
Cash flows from investing activities					
Purchase of intangible assets	15	(6,844)	(8,577)	(3,501)	(6,764)
Purchase of property, plant and equipment	16, 17	(273,396)	(109,730)	(154,869)	(61,077)
Proceeds from sale of property, plant and equipment	31	2,658	834	2,945	597
Deposits and loans given	23	(24,252)	(138,630)	(21,907)	(115,329)
Loan repayments received		23,605	46,660	11,320	8,178
Investments in subsidiaries		(2,023)	(1,577)	(62,906)	(1,883)
Investments in joint ventures		(56,000)	-	-	-
Investments in financial assets at fair value through profit or loss	24	-	(92)	-	-
Proceeds from sales of available-for-sale assets	19c	5,400	-	5,400	-
Interest received		2,706	2,919	3,336	3,533
Net cash used in investing activities		**(328,146)**	**(208,193)**	**(220,182)**	**(172,745)**
Cash flows from financing activities					
Proceeds from shares issued		137,824	-	137,824	-
Proceeds from borrowings	27	325,362	741,338	207,573	704,139
Repayment of commercial papers	27	(157,727)	(164,638)	(157,727)	(164,638)
Issue of commercial papers – net	27	53,392	156,500	53,392	156,500
Repayments of borrowings	27	(122,828)	(420,767)	(122,828)	(417,222)
Net cash from/(used in) financing activities		**236,023**	**312,433**	**118,234**	**278,779**
Net (decrease)/increase in cash and cash equivalents		**(53,478)**	**50,466**	**(55,977)**	**45,769**
Cash and cash equivalents at beginning of year		99,413	48,947	86,091	40,322
Cash and cash equivalents at end of year	25	45,935	99,413	30,114	86,091
Net (decrease)/increase in cash and cash equivalents		**(53,478)**	**50,466**	**(55,977)**	**45,769**

The accounting policies and notes form an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and 17 subsidiaries (2010: 17) – 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 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.

At 31 December 2011, the Group's and the Company's current assets are lower than current liabilities by an amount of HRK 263,852 thousand and HRK 204,517 thousand, respectively (2010: HRK 217,586 thousand and HRK 131,888 thousand, respectively). During 2011, the Company's Management adopted and started implementing a restructuring plan which envisages abandoning the production segment within the parent company, a disinvestment in non-core activities and projects, operational restructuring through a decrease in operating expenses and financial restructuring through a refinancing of borrowings in order to reduce financing costs and improve cash flow. The Company's Management expects to continue realising the restructuring plan in 2012, and the financial statements have been prepared under the going concern principle.

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 land and buildings, 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.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

– *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).* The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of the amendment did not have any impact on the financial position and performance of the Group and the Company, as the Group and the Company do not have such instruments.

– *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010).* The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial statements as the Group and the Company do not negotiate such terms with its creditors. It is not expected to have a significant impact on the financial statements of the Group and the Company.

– *Amendment to IFRS 1 First time adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial years beginning on or after 1 July 2010).* The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The adoption of the amendment did not affect the financial statements of the Group and the Company.

– *Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011).* The amendments simplify the definition of a related party and modify certain related-party disclosure requirements for government-related entities. The implementation of these amendments did not have any impact on the financial position and performance of the Group and the Company and the related parties' disclosures.

– *Amendment to IFRIC 14 The Limit On A Defined Benefit Assets, Minimum Funding Requirements And Their Interaction (effective for financial years beginning on or after 1 January 2011).* Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. The Group and the Company are not subject of minimum funding requirements; therefore the amendment of the interpretation did not have any effect on the financial position and performance of the Group and the Company.

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)

- *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. It is not expected to have a significant impact on the financial statements of the Group and the Company.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) and not early adopted

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods. The Group and the Company plan to adopt the applicable standards / amendments on their effective date, and they will not have a significant impact on the Group's and the Company's financial statements.

- *Amendments to IFRS 7 Financial Instruments: Disclosures on Derecognition (effective for annual periods beginning on or after 1 July 2011).* This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

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 2011 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) and not early adopted - continued

– *Amendments to IFRS 1 First Time Adoption: Fixed Dates and Hyperinflation (effective for annual periods beginning on or after 1 July 2011).* These amendments include two changes to *IFRS 1 First-time adoption of IFRS*. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

– *IAS 12 Income Taxes – Deferred Taxes (effective for annual periods beginning on or after 1 January 2012). IAS 12 Income taxes*, currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in *IAS 40 Investment property*. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, *SIC 21 Income taxes - recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

– *Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

– *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

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 2011 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) and not early adopted - continued

– *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).* IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

– *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.

– *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

– *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

– *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).* IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

– *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

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 2011 but not currently relevant to the Group and the Company (although they may affect the accounting for future transactions and events) and not early adopted - continued

– *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

– *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).* The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met.

– *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

– *Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

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 cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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 on consolidation. 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) Changes in ownership of subsidiaries without loss of control

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Disposal of subsidiaries

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.

(d) 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.

(e) 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.

(f) 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 is recognised in the income statement, whereas its share of post-acquisition movements in reserves is 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)

2.3 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.

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 is recorded at fair value, based on periodic, but at least triennial, valuations by external independent valuers. Other tangible assets are carried in the balance sheet at historical cost less accumulated depreciation. Historical cost includes the cost that is directly attributable to the purchase of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount of land and buildings arising on revaluation are credited to other comprehensive income and presented in equity under revaluation reserves. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged are recorded as expense in the statement of comprehensive income.

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
Equipment	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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties (continued)

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.

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 on acquisition of subsidiary is included in intangible assets at acquisition. Separately recognised goodwill is tested annually for impairment, or whenever there are indications of impairment, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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 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 and the transaction costs are recorded in the income statement.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised 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 nor 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 or 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 the 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 their present value.

(c) Other 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 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. 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 against the Croatian kuna will have an impact on the Group's and the Company's operating results.

At 31 December 2011, if the EURO had weakened/strengthened by 1.35% against the HRK (2010: 1.00%), with all other variables held constant, the net profit/loss for the reporting period after tax would have been HRK 4,221 thousand (2010: HRK 7,592 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.

(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. Management does not actively monitor the impact of interest rate risk on operations.

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 2011, if the effective interest rate on borrowings had increased/decreased by 0.33% on an annual level (2010: 1.00%), the profit/loss after tax would have been lower/higher by HRK 2,036 thousand (2010: HRK 2,334 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 6 months**	**Between 6 months and 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
Dalekovod Group					
31 December 2011					
Finance lease	14,072	11,405	158,499	-	183,976
Borrowings	453,975	381,789	221,084	-	1,056,848
Trade and other payables	470,657	-	-	-	470,657
31 December 2010					
Finance lease	2,759	2,236	48,940	46,914	100,849
Borrowings	182,840	498,961	293,191	70,478	1,045,470
Trade and other payables	512,374	-	-	-	512,374

	Less than 6 months	**Between 6 months and 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
Dalekovod d.d.					
31 December 2011					
Finance lease	14,072	11,405	158,499	-	183,976
Borrowings	335,864	279,634	210,234		825,732
Trade and other payables	424,855	-	-	-	424,855
31 December 2010					
Finance lease	2,759	2,041	48,745	46,914	100,459
Borrowings	159,469	438,454	257,122	61,807	916,852
Trade and other payables	455,350	-	-	-	455,350

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Company's and Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company and the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the balance sheet) less cash and cash equivalents and short-term deposits given. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The Company's gearing ratio was as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Borrowings (Note 27)	922,225	935,578
Less cash and cash equivalents (Note 25)	(30,114)	(86,091)
Net debt	892,111	849,487
Equity	583,638	678,864
Total equity and net debt	**1,475,749**	**1,528,351**
Gearing ratio	**60.5%**	**55.6%**

The Group's gearing ratio was as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Borrowings (Note 27)	1,143,836	1,037,900
Less cash and cash equivalents (Note 25)	(45,935)	(99,413)
Net debt	1,097,901	938,487
Equity	611,229	704,049
Total equity and net debt	**1,709,130**	**1,642,536**
Gearing ratio	**64.2%**	**57.2%**

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 2011 and 2010:

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
Group				
31 December 2011				
Listed companies	4,079			**4,079**
Unlisted companies	-	36,259		**36,259**
Total	4,079			**40,338**
31 December 2010				
Listed companies	12,543	-	-	**12,543**
Unlisted companies	-	70,234	-	**70,234**
Total	12,543	70,234	-	**82,777**
Company				
31 December 2011				
Listed companies	3,965	-	-	**3,965**
Unlisted companies	-	34,152	-	**34,152**
Total	3,965	34,152	-	**38,117**
31 December 2010				
Listed companies	11,943	-	-	**11,943**
Unlisted companies	-	56,143	-	**56,143**
Total	11,943	56,143	-	**68,086**

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 recognised in the year would be increased by HRK 11,500 thousand if the percentage of completion were increased, or would be decreased by HRK 9,800 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 6,041 thousand higher or HRK 3,834 thousand lower.

(c) Impairment of loans and receivables

The Group and the Company review the portfolio of loans and receivables on an annual basis to assess impairment. While assessing the recognition of impairment in the statement of comprehensive income, the Group and the Company assess whether there is observable data indicating the existence of a measurable decrease in future cash flows of the portfolio of loans and receivables before establishing the impairment of certain loans and receivables in the stated portfolio. This evidence may include observable data indicating the existence of adverse changes in the payment status of borrowers within the group, national or local economic conditions mutually linked with the parameters relevant for assets within the group.

(d) Legal claims and disputes

Provisions for legal claims and disputes are recorded based on Management's estimate of probable losses after consultation with legal counsel. Based on existing knowledge, it is reasonably possible that future litigation outcomes will be different from Management assumptions of probable losses.

NOTE 5 – SEGMENT INFORMATION

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, as well as the manufacture of suspension and jointing equipment.
2. The segment of Construction includes the construction of power and distribution facilities, transformer stations, laying submarine and subterranean energy 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, whose overall operating performance is expected in 2012. 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 2011			
Gross segment revenues	1,181,662	124,603	1,306,265
Inter-segment sales /i/	(125,828)	(73,353)	(199,181)
Total revenues	1,055,834	51,250	1,107,084
Operating profit/(loss) before depreciation, amortisation and restructuring costs	87,594	(169,996)	(82,402)
One-off restructuring costs (termination benefits and other)	(1,548)	(59,039)	(60,587)
Depreciation and amortisation	(37,932)	(16,577)	(54,509)
Profit/(loss) from regular operations	**48,114**	**(245,612)**	**(197,498)**
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	13,029	119,879
Depreciation and amortisation	(37,954)	(17,943)	(55,897)
Profit/(loss) from regular operations	**68,896**	**(4,914)**	**63,982**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011	2010
	(in thousands of HRK)	
Segment sales	1,306,265	1,624,020
Inter-segment receivables	(199,181)	(154,887)
Unallocated:		
Sales of goods	21,093	81,072
Other	2,616	6,100
Total revenues	1,130,793	1,556,305

/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.

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

/iii/ During 2011, the Company separated the Production segment and transferred it to the subsidiary Dalekovod Proizvodnja d.o.o. (former Dalekovod Cinčaonica d.o.o.).

Up to the moment of separating, the Production segment generated total revenues amounting to HRK 4,439 thousand, total operating expenses amounting to HRK 170,042 thousand, net finance costs amounting to HRK 6,396 thousand and loss before tax of HRK 171,999 thousand. In 2011, the Production segment did not have any tax expense.

The Company transferred the following assets to Dalekovod Proizvodnja d.o.o.:

Cash and cash equivalents	5,800
Trade receivables	5,105
Inventories	121,214
Non-current tangible and intangible assets	51,758
Net carrying amount of transferred assets	183,877

The Company increased its investment in the subsidiary Dalekovod Proizvodnja d.o.o. by the net carrying amount of transferred assets. At 31 December 2011, the investment amounted to HRK 206,736 thousand (2010: HRK 22,859 thousand).

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2011		2010	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Croatia	602,873	53.31	1,038,818	66.75
Bosnia and Herzegovina	59,052	5.22	128,113	8.23
Norway	167,026	14.77	90,061	5.79
Ukraine	121,851	10.78	-	-
Albania	6,493	0.57	76,779	4.93
Slovenia	40,118	3.55	39,903	2.56
Greenland	18,462	1.63	-	-
Saudi Arabia	13,296	1.18	-	-
Montenegro	6,171	0.55	33,863	2.18
Sweden	4,124	0.36	14,711	0.95
Other foreign countries	91,327	8.08	134,037	8.61
Total	**1,130,793**	**100.00**	**1,556,285**	**100.00**

Sales revenues by sectors are as follows:

	2011	2010
	(in thousands of HRK)	
Road sector	200,064	164,539
Electricity sector	455,411	546,684
Railroad and telecommunications sector	27,965	72,908
Gas sector	25,707	391,640
Properties sector	58,340	104,044
Other	363,306	276,470
	1,130,793	**1,556,285**

Key customers in the electricity sector (3 customers), the road sector (2 customers) and the gas sector (1 customer) have the greatest impact on total revenues of the Group and the Company, since in 2011 they represented 37.48% of sales revenues (2010: 46.19%).

NOTE 6 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Interest income	8,718	8,202	8,669	8,115
Income from penalty interest	4,276	-	4,276	-
Proceeds from insurance claims	1,319	853	1,100	791
Rental income /i/	800	9	2,202	641
Income from reversal of provisions	2,938	1,163	2,520	594
Gain on change in loan terms /ii/	-	71,152	-	71,152
Inventory surplus	1,495	-	1,423	-
Other operating income	14,608	11,483	13,420	10,358
	34,154	**92,862**	**33,610**	**91,651**

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

/ii/ 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, in the income statement the Company recognised the difference between the carrying amount and the net present value of the rescheduled future cash flow in the amount of HRK 71,152 thousand.

NOTE 7 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Raw materials and supplies				
Raw materials and supplies	169,163	161,780	129,269	163,369
Energy	19,584	16,034	12,783	11,738
Spare parts and small inventory	4,666	5,918	3,953	7,254
	193,413	183,732	146,005	182,361
External services				
Subcontractor services	368,215	590,463	362,910	644,755
Transportation	18,562	13,423	14,033	12,546
Repairs and maintenance	10,613	14,023	8,363	12,256
Advertising and promotion	2,992	3,655	2,689	3,612
Rental expense	4,298	5,959	3,735	5,306
Other	13,303	16,452	5,643	7,653
	417,983	643,975	397,373	686,128
Total cost of materials and services	**611,396**	**827,707**	**543,378**	**868,489**

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)	**2011**	**2010**	**2011**	**2010**
Net salaries	148,118	180,016	89,072	143,299
Taxes and contributions on and from salaries	90,044	106,315	41,840	82,087
Severance costs	60,587	4,990	1,548	4,191
Other staff costs	5,163	7,899	2,793	5,110
Supervisory Board compensation	942	965	463	799
	304,854	**300,185**	**135,716**	**235,486**

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 30,289 thousand (2010: HRK 53,703 thousand) for the Group, and HRK 16,637 thousand for the Company (2010: HRK 32,359 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 2011, the Group had 1,794 employees (2010: 1,998 employees), and the Company had 814 employees (2010: 1,406 employees).

NOTE 9 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2011	2010	2011	2010
Intellectual and non-production services	30,973	66,295	18,777	57,299
Daily allowances and travel cost	19,248	22,572	14,513	20,135
Bank charges	10,491	10,204	9,490	9,832
Entertainment	4,315	5,092	3,610	4,747
Taxes and contributions	5,117	6,791	4,312	6,212
Insurance	9,150	4,236	7,289	3,704
Sponsorships, donations and other aids	4,704	2,692	4,404	2,642
Write-off of property, plant and equipment	1,163	106	165	78
Impairment of receivables and loans – net (Note 23)	16,500	4,881	9,156	4,881
Write-off of inventories	-	95	-	95
Interest from suppliers	5,451	10,001	4,832	9,563
Fines and penalties	4,704		4,704	811
Other	34,205	8,806	36,186	5,106
	146,021	**141,771**	**117,438**	**125,105**

NOTE 10 – OTHER GAINS/ (LOSSES) – NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2011	2010	2011	2010
Net foreign exchange (loss)/gain from operating activities	(4,832)	(3,197)	(4,806)	(3,197)
(Loss)/gain on sale of available-for-sale financial assets	(150)	4,727	(150)	4,727
Fair value gains/(losses) (Note 24)	-	1	-	1
Net gain/(loss) on sale of tangible assets (Note 31)	123	700	71	463
	(4,859)	**2,231**	**(4,885)**	**1,994**

NOTE 11 – FINANCE INCOME AND COSTS - NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2011	2010	2011	2010
Interest income on bank deposits	844	40	679	701
Net foreign exchange differences (financing activities)	-	2,253	-	2,231
Finance income	844	2,293	679	2,932
Net foreign exchange differences (financing activities)	(5,510)	-	(5,502)	-
Interest expense	(83,270)	(67,656)	(64,505)	(60,430)
Less capitalised interest (Note 16)	11,106	6,059	-	-
Finance costs	(77,674)	(61,597)	(70,007)	(60,430)
	(76,830)	**(59,304)**	**(69,328)**	**(57,498)**

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)	2011	2010	2011	2010
Profit before tax including discontinued operations	**(274,328)**	**4,678**	**(274,396)**	**5,412**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	(50,857)	945	(51,961)	1,082
Effect of income not subject to tax	(1,220)	(460)	(620)	(396)
Effect of expenses not deductible for tax purposes	2,105	3,275	1,738	1,866
Effect of tax losses not recognised as deferred tax assets	53,981	-	53,761	-
Income tax charge	**4,009**	**3,760**	**2,918**	**2,552**
Income tax receivable/(payable) at 31 December	25,663	17,786	25,433	17,898

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 (LOSS)/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.	
	2011	**2010**	**2011**	**2010**
Net (loss)/ profit attributable to shareholders from continued operations *(in thousands of HRK)*	(278,179)	1,191	(105,315)	2,860
Net (loss) attributable to shareholders from discontinued operations *(in thousands of HRK)*	-	-	(171,999)	-
Weighted average number of shares	2,536,605	2,249,878	2,536,605	2,249,878
Basic/diluted (loss)/earnings per share from continued operations *(in HRK)*	(109.67)	0.52	(41.52)	1.27
Basic/diluted earnings per share from discontinued operations *(in HRK)*	-	-	(67.81)	-

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 (2010: 1 HRK 1,900 thousand) is presented as dividend payable within "trade and other payables" (Note 28), 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 2010			
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
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**
Year ended 31 December 2011			
Opening net book amount	4,559	21,749	26,308
Additions	-	6,844	6,844
Disposals	-	(940)	(940)
Amortisation	-	(4,729)	(4,729)
Closing net book amount	4,559	22,924	27,483
At 31 December 2011			
Cost	4,559	43,370	47,929
Accumulated amortisation	-	(20,446)	(20,446)
Net book amount	**4,559**	**22,924**	**27,483**

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 6.25 %. 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 2010	
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**
Year ended 31 December 2011	
Opening net book amount	19,936
Additions	3,501
Disposals	(844)
Transfer to Dalekovod Proizvodnja d.o.o.	(96)
Amortisation	(4,349)
Closing net book amount	18,148
At 31 December 2011	
Cost	37,687
Accumulated amortisation	(19,539)
Net book amount	**18,148**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Equipment	Work in progress	Total
At 1 January 2010					
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 30)	(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**
Year ended 31 December 2011					
At 1 January	89,571	229,635	205,122	191,925	716,253
Additions	722	162,052	15,598	95,024	273,396
Transfer		28,027	10,197	(38,224)	-
Revaluation of assets	194,014	(143,993)	-	-	50,021
Disposals	-	-	(5,994)	-	(5,994)
Exchange differences	26	67	-	-	93
Depreciation	-	(5,608)	(44,172)	-	(49,780)
At 31 December	284,333	270,180	180,751	248,725	983,989
At 31 December 2011					
Cost	284,333	352,064	251,693	248,725	1,136,815
Accumulated depreciation	-	(81,884)	(70,942)	-	(152,826)
Net book amount	**284,333**	**270,180**	**180,751**	**248,725**	**983,989**

In 2011, capitalised interest on assets under construction amounted to HRK 11,106 thousand (2010: HRK 6,059 thousand) using a rate of 7.35% (2010: 6.95%).

Had the revaluation not been performed, the carrying amount of land and buildings would have amounted to HRK 504,492 thousand.

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Equipment	Work in progress	Total
At 1 January 2010					
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**
Year ended 31 December 2011					
At 1 January	13,521	122,238	194,204	46,718	376,681
Additions	-	183,813	10,197	(39,618)	154,392
Revaluation	194,014	(143,993)	-	-	50,021
Transfer to Dalekovod Proizvodnja d.o.o.	-	(101)	(51,561)	-	(51,662)
Transfer to investment property	(42,621)	(84,983)	-	-	(127,604)
Disposals	-	-	(5,994)	-	(5,994)
Depreciation	-	(5,513)	(35,020)	-	(40,533)
At 31 December	**164,914**	**71,461**	**111,826**	**7,100**	**355,301**
At 31 December 2011					
Cost	164,914	123,862	273,862	7,100	569,738
Accumulated depreciation	-	(52,401)	(162,036)	-	(214,437)
Net book amount	**164,914**	**71,461**	**111,826**	**7,100**	**355,301**

At 31 December 2011, advances paid by the Group for property, plant and equipment amounted to HRK 45 thousand (2010: HRK 99 thousand), while in 2011 and 2010 the Company did not have any paid advances.

As at 31 December 2011, land, buildings and equipment of the Group and the Company with a net book value of HRK 393,127 thousand (2010: HRK 207,245 thousand) were pledged as security for borrowings received (Note 27).

Had the revaluation not been performed, the carrying amount of land and buildings would have amounted to HRK 186,354 thousand.

NOTE 17 – INVESTMENT PROPERTY

(in thousands of HRK)	Land	Buildings	Total
At 1 January 2010			
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
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**
Year ended 31 December 2011			
At 1 January	29,588	76,613	106,201
Additions	-	477	477
Transfer from property, plant and equipment	42,621	84,983	127,604
Depreciation	-	(3,703)	(3,703)
At 31 December	72,209	158,370	230,579
At 31 December 2011			
Cost	72,209	263,871	336,080
Accumulated depreciation	-	(105,501)	(105,501)
Net book amount	**72,209**	**158,370**	**230,579**

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.

Land and buildings with a carrying amount of HRK 103,414 thousand (2010: HRK 106,201 thousand) have been pledged as security for the repayment of the finance lease (Note 27).

At 31 December 2011, assets under a finance lease where the Group and the Company are the lessee amounted to HRK 65,298 thousand (2010: HRK 75,015 thousand) – see Note 27.

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

	Dalekovod Group		Dalekovod d.d.	
	2011	**2010**	**2011**	**2010**
At 1 January	971	248	165,706	119,101
Decrease	-	(230)	(20)	-
Disposal	-		-	(16,185)
Additions /i/	-	953	261,812	62,790
At 31 December	**971**	**971**	**427,498**	**165,706**

At 31 December, the Company owns shares in the following subsidiaries:

Name	**Country of incorporation**	**2011**	**2010**	**2011**	**2010**
		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 Proizvodnja d.o.o., Dugo Selo /i/	Croatia	100.00	100.00	206,736	22,859
Dalekovod-projekt d.o.o., Zagreb	Croatia	100.00	100.00	4,614	4,614
Dalcom Engineering GmbH, Freilassing	Germany	100.00	100.00	372	372
Dalekovod-Polska S.A., Warsaw	Poland	100.00	100.00	2,597	2,597
Dalekovod TKS a.d., Doboj /ii/	Bosnia and Herzegovina	97.25	92.94	20,344	19,380
Dalekovod Professio d.o.o., Zagreb /iii/	Croatia	100.00	100.00	77,029	200
Denacco Namibia (PTY) Ltd	Namibia	60.00	60.00	18	18
Dalekovod TIM Topusko d.d. /iv/	Croatia	95.81	95.74	28,059	28,041
Dalekovod – ulaganja d.o.o. Zagreb	Croatia	100.00	100.00	38,120	38,120
Dalekovod EKO d.o.o. Zagreb /iii/	Croatia	-	100.00	-	20
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	32,098
Dalekovod EMU d.o.o. Zagreb	Croatia	100.00	100.00	11,555	11,555
Dalekovod Libya za inženjering, zajedničko poduzeće, Libya	Libya	65.00	65.00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	100.00	100.00	74	74
Dalekovod ApS, Greenland /iv/	Greenland	100.00	-	124	-
Impairment of investments				(2,597)	(2,597)
				427,498	**165,706**

/i/ During 2011, the Company separated the operating unit Production (segment) into the company Dalekovod Proizvodnja d.o.o. (former Dalekovod Cinčaonica d.o.o.) and discontinued production activities. The Company increased the investment in the company Dalekovod Proizvodnja by an amount of HRK 183,877 thousand, which is equivalent to the value of assets (inventories, equipment and cash) that were transferred into Dalekovod Proizvodnja when separating the Production segment.

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (continued)

/ii/ During 2011, the Company purchased an additional 4.31% shares of Dalekovod TKS Doboj from small shareholders in the amount of HRK 964 thousand (2010: 4.11% shares with a total value of HRK 816 thousand).

/iii/ During 2011, the Company increased the share capital of the company Dalekovod Professio d.o.o. by HRK 76,829 thousand through contributions in cash, a transfer of receivables and a transfer of shares in the company Dalekovod O.I.E. d.o.o. (former Dalekovod EKO d.o.o.).

/iv/ In 2011, the Company established a subsidiary in Greenland by investing HRK 124 thousand.

/v/ 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 was recorded as an investment in associates.

NOTE 19a – INVESTMENTS IN ASSOCIATES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
At beginning of year	54,541	50,307	20,241	16,007
Additional investments	1,875	20,234	-	20,234
Decrease	-	(16,000)	-	(16,000)
At end of year	**56,416**	**54,541**	**20,241**	**20,241**

During 2010, 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.

Associates are as follows:

	Dalekovod Group		Udio %	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Members of the TLM Group	36,175	34,300	33.3	33.3
Adrial d.o.o. Šibenik	7	7	25	25
Unidal d.o.o. Vinkovci	20,234	20,234	49	49
Total	**56,416**	**54,541**		

NOTE 19b – INVESTMENTS IN JOINT VENTURES

	Dalekovod Group	
(in thousands of HRK)	**2011**	**2010**
At beginning of year	19,478	-
Additional investments	57,162	19,478
Decrease	-	-
At end of year	**76,640**	**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.

During 2011, the Group made additional investments in joint ventures in the amount of HRK 57,162 thousand.

The list of investments in joint ventures is as follows:

	Dalekovod Group	
(in thousands of HRK)	**2011**	**2010**
Velika Popina d.o.o.	10,777	10,777
Dalekovod OIE d.o.o.	9,780	8,618
Eko d.o.o.	56,065	65
OIE Makedonija	18	18
Total	**76,640**	**19,478**

NOTE 19c – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
At beginning of year	47,850	6,468	68,059	40,768
Additional investments	-	33,569	-	19,478
Decrease	(1,895)	-	(24,212)	-
Adjustment to fair value	(5,757)	7,813	(5,757)	7,813
At end of year	**40,198**	**47,850**	**38,090**	**68,059**

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.

In 2011, the Company sold its shares in a bank thereby realising a loss on sale in the amount of HRK 150 thousand (Note 10).

At 31 December 2011, the Company performed a valuation of available-for-sale financial assets and reduced it to fair value. The decrease in the amount of HRK 5,757 thousand (2010: increase of HRK 7,813 thousand) was recorded in 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 2011					
Financial assets					
Trade receivables	23	433,979			**433,979**
Receivables by construction contracts	23	212,607			**212,607**
Other receivables	23	84,910			**84,910**
Loans and deposits given	21,23	177,733			**177,733**
Available-for-sale financial assets (changes through capital)	19			40,198	**40,198**
Financial assets at fair value through profit or loss	24		140		**140**
Cash and cash equivalents	25	45,935			**45,935**
Total		**955,164**	**140**	**40,198**	**995,502**

(in thousands of HRK)	**Note**	**Other financial liabilities**
31 December 2011		
Financial liabilities		
Borrowings	27	990,501
Finance lease	27	153,335
Trade payables	28	399,204
Other payables	28	71,453
Total		**2,013,697**

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 2010					
Financial assets					
Trade receivables	23	548,338			**548,338**
Receivables by construction contracts	23	221,498			**221,498**
Other receivables	23	56,060	-	-	**56,060**
Loans and deposits given	21,23	216,566	-	-	**216,566**
Available-for-sale financial assets (changes through capital)	19	-	-	47,850	**47,850**
Financial assets at fair value through profit or loss	24	-	627	-	**627**
Cash and cash equivalents	25	99,413	-	-	**99,413**
Total		**1,141,875**	**627**	**47,850**	**1,190,352**

(in thousands of HRK)	**Note**	**Other financial liabilities**
31 December 2010		
Financial liabilities		
Borrowings	27	961,739
Finance lease	27	76,161
Trade payables	28	435,095
Other payables	28	77,279
Total		**1,550,274**

Financial instruments do not include tax payables, payables for employees, taxes and contributions and advances received.

NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(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 2011					
Financial assets					
Trade receivables	23	409,301	-	-	**409,301**
Receivables by construction contracts	23	212,607	-	-	**212,607**
Other receivables	23	72,981	-	-	**72,981**
Loans and deposits given	21,23	214,884	-	-	**214,884**
Available-for-sale financial assets (changes through capital)	19	-	-	38,090	**38,090**
Financial assets at fair value through profit or loss	24	-	27	-	**27**
Cash and cash equivalents	25	30,114	-	-	**30,114**
Total		**939,887**	**27**	**38,090**	**978,004**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2011		
Financial liabilities		
Borrowings	27	768,890
Finance lease	27	153,335
Trade payables	28	368,415
Other payables	28	56,440
Total		**1,347,080**

NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(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	524,442	-	-	**524,442**
Receivables by construction contracts	23	221,498	-	-	**221,498**
Other receivables	23	27,407	-	-	**27,407**
Loans and deposits given	21,23	245,044	-	-	**245,044**
Available-for-sale financial assets (changes through capital)	19	-	-	68,059	**68,059**
Financial assets at fair value through profit or loss	24	-	27	-	**27**
Cash and cash equivalents	25	86,091	-	-	**86,091**
Total		**1,104,482**	**27**	**68,059**	**1,172,568**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2010		
Financial liabilities		
Borrowings	27	859,612
Finance lease	27	75,966
Trade payables	28	381,476
Other payables	28	73,703
Total		**1,390,757**

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.

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Trade receivables – neither past due nor impaired				
Existing customers – payments within maturity period	40,011	24,534	38,265	43,954
Existing customers – with some defaults in the past	158,648	160,801	151,727	174,282
	198,659	**185,335**	**189,992**	**218,236**
Long-term loans given and deposits	24,803	56,135	23,971	53,928
Trade receivables from contract work	212,607	146,632	212,607	221,498
Guarantee deposit – current portion	25,004	66,286	24,994	66,286
Current portion of long-term loans	25,401	4,269	25,401	4,269
Loans to subsidiaries	-	-	53,717	30,685
Other short-term loans	102,525	89,876	86,801	89,876
Other receivables	84,910	56,060	72,981	27,497
	673,909	**604,593**	**690,464**	**712,275**

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)	**2011**	**2010**	**2011**	**2010**
BBB -	10,060	32,714	6,455	14,652
Without rating	35,875	66,699	23,659	71,439
	45,935	**99,413**	**30,114**	**86,091**

NOTE 21 – LOANS AND RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Long-term deposits	33	41	33	41
Long-term guarantee deposits	11,857	11,197	11,857	11,197
Long-term loans receivable:				
- loans to subsidiaries	-	-	2,930	11,328
- consumer goods loans	514	1,127	514	1,127
- housing loans and other loans to employees	2,976	3,953	2,896	3,797
- loans to other companies	34,824	44,086	31,142	30,707
Total long-term loans and deposits	50,204	60,404	49,372	58,197
Current portion of long-term loans and deposits (Note 23)	(25,401)	(4,269)	(25,401)	(4,269)
Long-term loans and deposits	**24,803**	**56,135**	**23,971**	**53,928**

Deposits

Deposits are denominated in EUROs. During the year, the effective interest rates for deposits ranged from 1.5% to 3.5%.

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.

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 long-term loans given, the majority relates to a loan that the Company granted to Dalekovod TIM Topusko in October 2008 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. At 31 December 2011, the loan balance amounted to HRK 1,548 thousand (2010: HRK 2,674 thousand). The loans are secured by promissory notes and bills of exchange.

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. At 31 December 2011, the loan balance amounted to HRK 22,591 thousand (2010: HRK 22,156 thousand).

NOTE 21 – LOANS AND RECEIVABLES (continued)

The carrying and fair value of long-term loans given at a fixed interest rate is as follows:

	Carrying amount		Fair value	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Loans given	8,551	56,135	3,048	47,995

The calculation of the fair value of the Group's and the Company's long-term loans given at a fixed interest rate is based on the used discount rate of 6.25% (2010: 5.81%).

NOTE 22 – INVENTORIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Raw materials	71,523	100,739	12,412	79,572
Finished goods, semi-finished goods and work in progress	96,258	245,204	5,532	229,297
Spare parts and small inventories	5,595	5,716	1,978	5,378
Trade goods	16,585	2,628	222	520
	189,961	**354,287**	**20,144**	**314,767**

Total construction costs incurred and recognised profits (less recognised losses to date) for all active construction contracts amounted to HRK 5,099,615 thousand (2010: HRK 4,496,014 thousand). Costs of raw materials and supplies are included in the income statement in Note 7.

NOTE 23 – TRADE AND OTHER RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Domestic trade receivables	275,369	338,653	228,363	316,931
Foreign trade receivables	189,901	226,253	204,831	222,248
Provisions for impairment	(31,291)	(16,568)	(23,893)	(14,737)
	433,979	548,338	409,301	524,442
Receivable from customers for contract work	212,607	221,498	212,607	221,498
Guarantee deposits – current portion	25,004	66,286	24,994	66,286
Current portion of long-term loans (Note 21)	25,401	4,269	25,401	4,269
Loans to subsidiary (Note 32)	-	-	53,717	30,685
Other short-term loans	102,525	89,876	86,801	89,876
Other receivables	87,740	58,890	75,811	30,327
Impairment of other receivables	(2,830)	(2,830)	(2,830)	(2,830)
Total financial assets	884,426	986,327	885,802	964,553
Advances	87,588	9,608	47,438	9,531
Receivable from employees	1,880	2,607	656	1,150
VAT receivable	39,244	17,326	30,468	12,016
Prepaid expenses	3,823	10,307	3,823	4,365
Total non-financial assets	132,535	39,848	82,385	27,062
	1,016,961	**1,026,175**	**968,187**	**991,615**

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 12 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 2011, the Group recognised trade receivables in the amount of HRK 235,320 thousand (2010: HRK 363,003 thousand) that were past due, but not impaired. The Company has such receivables in the amount of HRK 219,309 thousand (2010: HRK 306,206 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:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Up to 90 days	47,797	168,389	44,545	98,373
From 91 to 180 days	29,098	94,170	27,118	41,219
Over 180 days	158,425	100,444	147,646	166,614
	235,320	**363,003**	**219,309**	**306,206**

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)	**2011**	**2010**	**2011**	**2010**
At 1 January	19,398	15,323	17,567	12,686
Provision for receivables impairment (Note 9)	16,620	5,148	9,176	5,148
Collected amounts	(120)	(267)	(20)	(267)
Receivables eliminated during the year as uncollectible	(1,777)	(806)	-	-
At 31 December	34,121	19,398	26,723	17,567

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)	**2011**	**2010**	**2011**	**2010**
EUR	260,105	252,661	246,920	239,853
USD	1,580	10,852	1,580	10,852
HRK	622,741	722,814	637,302	713,848
Total	**884,426**	**986,327**	**885,802**	**964,553**

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 2011, the Group invested in domestic cash funds. As at 31 December 2011, the fair value of these assets in the Group amounted to HRK 140 thousand (2010: 627 thousand), and in the Company to HRK 27 thousand (2010: HRK 27 thousand). During 2011, the Company did not realise any gain on the fair valuation of assets (2010: gain of HRK 1 thousand - Note 10).

NOTE 25 – CASH AND CASH EQUIVALENTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Domestic currency	13,897	40,243	6,099	36,879
Foreign currency	27,485	41,570	24,015	31,612
Short-term deposits at bank	4,553	17,600	-	17,600
	45,935	**99,413**	**30,114**	**86,091**

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 2011, the average effective interest rate for short-term deposits with banks was 2.3% (2010: 2.3%).

Cash and cash equivalents are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
EUR	7,257	32,593	5,173	23,232
USD	407	551	407	551
UAH	14,839	-	14,839	-
Other foreign currencies	4,982	8,426	3,596	7,829
Total	**27,485**	**41,570**	**24,015**	**31,612**

NOTE 26 – SHAREHOLDERS' EQUITY

Share capital

At 26 May 2011, the Company's Management decided to perform a capital increase with the exclusion of the pre-emptive right and by issuing new dematerialised ordinary registered shares with a contribution in cash. A number of 408,700 new shares were issued with a nominal amount of HRK 100 per share and a total nominal amount of HRK 40,870 thousand, issued at an amount of HRK 245 per new ordinary share. As a result, the share capital increased from HRK 229,381 thousand by an amount of HRK 40,870 thousand to an amount of HRK 270,251 thousand.

An additional capital increase with the exclusion of the pre-emptive right was performed based on the Management decision from 9 June 2011 when the share capital was increased by issuing new dematerialised ordinary registered shares with a contribution in cash. A number of 164,753 new shares were issued with a nominal amount of HRK 100 per share and a total nominal amount of HRK 16,475 thousand, issued at an amount of HRK 245 per new ordinary share. As a result, the share capital increased from HRK 270,251 thousand by an amount of HRK 16,475 thousand to an amount of HRK 286,726 thousand.

The structure of shareholders as at 31 December:

	Number of shares			
	2011	**2010**	**2011**	**2010**
Individuals	1,356,503	1,406,565	47.31%	61.32%
Funds – pension	641,120	218,371	22.36%	9.52%
Banks	354,394	272,505	12.36%	11.88%
Telegra d.o.o.	164,868	-	5.75%	-
Curatus d.o.o.	-	228,693	-	9.97%
Other	306,446	123,744	10.69%	5.39%
Treasury shares	43,934	43,934	1.53%	1.92%
	2,867,265	2,293,812	100.00%	100.00%

Treasury shares

As at 31 December 2011, the Company owns 43,934 treasury shares (2010: 43,934).

Premium on issued shares

From newly issued shares the Company realised a premium of HRK 83,151 thousand, which is decreased by the cost of issuing new shares in the amount of HRK 2,672 thousand. At 31 December 2011, the premium for shares issued amounted to HRK 80,479 thousand.

NOTE 26 – SHAREHOLDERS' EQUITY (continued)

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 2011, according to the decision of the Annual General Meeting statutory reserves were increased by HRK 2,860 thousand (2010: increased by HRK 88,935 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 Dalekovod Professio d.o.o. Other and statutory reserves are distributable in accordance with the General Meeting's decision.

Revaluation reserves

As at 31 December 2011, 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 5,757 thousand (2010: increase of HRK 7,813 thousand).

In 2011, the Group and the Company performed a revaluation of land and buildings on the sites in Velika Gorica and Žitnjak based on the assessment of an authorised expert. The fair value of land and buildings at the site in Velika Gorica was determined using the revenue method based on future rental fees, while the fair value of land and buildings at the site in Žitnjak was determined using the cost method based on active market prices and recent arm's length market transactions. The increase in the value of land and buildings in the amount of HRK 50,021 thousand was recorded in other comprehensive income.

NOTE 27 – BORROWINGS

(in thousands of HRK)	Average interest rates	Dalekovod Group 2011	Dalekovod Group 2010	Dalekovod d.d. 2011	Dalekovod d.d. 2010
Long-term					
Bank borrowings	6.26%	194,535	355,491	186,688	265,320
Finance lease /i/	4.95%	135,449	71,166	135,449	71,166
		329,984	**426,657**	**322,137**	**336,486**
Short-term					
Bank borrowings	8.25%	743,795	449,742	530,031	437,786
Commercial papers	7.99%	52,171	156,506	52,171	156,506
Finance lease	4.95%	17,886	4,995	17,886	4,800
		813,852	**611,243**	**600,088**	**599,092**
Total borrowings		**1,143,836**	**1,037,900**	**922,225**	**935,578**

/i/ Gross liabilities under the finance lease – minimum lease payments:

	2011	2010
	(in thousands of HRK)	
Up to 1 year	25,477	4,995
1 to 5 years	158,499	48,940
Over 5 years	-	46,914
	183,976	100,849
Future finance costs under finance lease	(30,641)	(24,688)
Present value of liabilities under finance lease	**153,335**	**76,161**

During 2011, the Company issued commercial papers in the amount of HRK 52.1 million (2010: 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 7.99% p.a. (2010: 9.08%).

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 2011, the Group's and the Company's interest payable on long-term and short-term borrowings amounted to HRK 10,695 thousand and HRK 7,124 thousand, respectively (2010: HRK 3,655 thousand and HRK 3,644 thousand, respectively), (Note 28).

The Group's borrowings in the amount of HRK 756,433 thousand (2010: HRK 683,755 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)	**2011**	**2010**	**2011**	**2010**
1 month	47,711	50,403	24,576	49,613
3 months	637,024	465,559	513,605	343,371
6 months	71,698	167,793	71,698	167,793
	756,433	**683,755**	**609,879**	**560,777**

The carrying and fair value of the Group's and the Company's long-term borrowings is as follows:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Bank borrowings	117,910	159,062	112,508	151,775

As at 31 December 2011, the fair value of the Group's and the Company's fixed-interest long-term borrowings amounted to HRK 117,910 thousand and HRK 112,508 thousand, respectively (2010: HRK 159,062 thousand and HRK 151,775 thousand, respectively) using a discount rate of 6.25% (2010: 5.81%), 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.**	
	2011	**2010**	**2011**	**2010**
EUR	618,043	705,310	498,301	635,812
CHF	-	791	-	-
HRK	525,793	331,799	423,924	299,766
	1,143,836	**1,037,900**	**922,225**	**935,578**

The maturity of long-term borrowings is as follows:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Up to 1 year (current portion)	343,194	79,333	160,299	74,333
Between 1 and 5 years	194,535	309,664	186,677	219,493
Over 5 years	-	45,827	-	45,827
	537,729	**434,824**	**346,987**	**339,653**

NOTE 28 – TRADE AND OTHER PAYABLES

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Domestic suppliers	363,791	371,635	338,894	320,701
Foreign suppliers	35,413	63,460	29,521	60,946
	399,204	**435,095**	**368,415**	**381,647**

Interest payable	10,695	3,655	7,124	3,644
Bills of exchange (i)	12,777	53,600	12,777	53,600
Dividend payable (Note 14)	1,900	1,900	1,900	1,900
Contracted liabilities from acquisition	2,810	3,163	2,810	3,163
Other accruals and liabilities	43,271	14,961	31,829	11,396
Financial liabilities	470,657	512,374	424,855	455,350
Advances	224,198	135,264	201,670	135,030
Salaries	23,146	6,600	16,851	3,388
Taxes and contributions	10,070	15,456	4,732	6,658
Non-financial liabilities	257,414	157,320	223,253	145,076
	728,071	**669,694**	**648,108**	**600,426**

(i) Bills of exchange relate to financing with a discount of 6% (2010: 5%) with maturity at the beginning of 2012 when the liability was settled.

The Group's and the Company's financial liabilities are denominated as follows:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
EUR	32,948	91,372	25,746	82,913
USD	193	1,450	193	1,450
Other foreign currencies	2,272	5,534	3,582	3,244
HRK	435,244	414,018	395,334	367,743
Total	**470,657**	**512,374**	**424,855**	**455,350**

NOTE 29 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Retirement severance payment	Total
At 1 January 2011	**5,280**	**3,000**	**8,280**
Additional provisions	587	1,140	1,727
Reversal of provision	(2,046)	(892)	(2,938)
At 31 December 2011	**3,821**	**3,248**	**7,069**

Analysis:	**2011**	**2010**
Non-current portion	6,480	7,781
Current portion	589	499
Total:	**7,069**	**8,280**

Company

(in thousands of HRK)	Jubilee awards	Retirement severance payment	Total
At 1 January 2011	**3,967**	**2,315**	**6,282**
Additional provisions	-	-	-
Reversal of provision	(1,825)	(695)	(2,520)
At 31 December 2011	**2,142**	**1,620**	**3,762**

Analysis:	**2011**	**2010**
Non-current portion	3,536	5,883
Current portion	226	399
Total:	3,762	6,282

NOTE 29 – PROVISIONS (continued)

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 4.83% for the Group, and 2.0% for the Company (2010: Group 5.33%, Company 2.01%), an annual discount rate of 7.2% (2010: 6.62%); 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 61 years for men and 59 years for women).

Jubilee awards

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

NOTE 30 – 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	8,536
Trade and other payables	(47,208)
Minority interest	(7,037)
Fair value of investment	(20,234)
Effect of loss of control	(9,211)

NOTE 31 – CASH GENERATED FROM OPERATIONS

		Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**Note**	**2011**	**2010**	**2011**	**2010**
(Loss)/profit before tax including discontinued operations		(274,328)	4,678	(274,396)	5,412
Adjustments for:					
Depreciation and amortisation	15,16,17	54,509	56,017	36,601	51,498
Unrealised foreign exchange differences		7,980	2,655	5,010	4,995
Property, plant and equipment written off	16	4,306	-	3,964	-
Impairment of trade receivables and loans	23	16,620	5,148	9,176	5,148
Impairment of inventories	9	-	95	-	95
Provision for long-term employee benefits – net	30	(1,211)	(196)	(2,520)	(594)
Gain on sale of property, plant and equipment	10	(123)	(700)	(71)	(463)
Fair value gains	10	-	(1)	-	(1)
Loss on sale of financial assets at fair value	10	150	-	150	-
Interest income	6,11	(9,562)	(8,242)	(9,348)	(8,816)
Interest expense	11	77,674	61,597	70,007	60,430
Release of deferred income	6	-	(71,152)	-	(71,152)
Other		-	(2,174)	-	-
		150,343	43,047	112,969	41,140
Changes in working capital:					
Trade and other receivables		29,774	(41,007)	66,768	(8,022)
Inventories		164,326	128,330	173,409	129,852
Trade and other payables		51,050	(102,032)	38,399	(144,323)
Net cash generated from operations		**121,165**	**33,016**	**117,449**	**24,059**

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Net book amount	2,535	134	2,874	134
Net gain on sale of property, plant and equipment (Note 10)	123	700	71	463
Proceeds from sale of property, plant and equipment	**2,658**	**834**	**2,945**	**597**

NOTE 32 – 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

	2011	2010
	(in thousands of HRK)	
Sales	121,346	95,853
Rental income	3,182	641
	124,528	96,494
Cost of materials and services	13,926	51,902
Service	29,453	12,525
Other operating expenses	2,422	3,722
	45,801	68,149

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

Receivables, payables and loans

	2011	2010
	(in thousands of HRK)	
Trade receivables	64,492	70,695
Other receivables	2,930	-
Short-term loans given	53,717	30,685
	121,139	101,380
Trade payables	11,819	20,086
Borrowings	2,930	4,648
	14,749	24,734

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

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

	2011	2010
	(in thousands of HRK)	
Interest income	862	659
Service costs	84	7,868
Receivables	4,036	3,380
Loans given	14,226	24,686
Trade payables	5,028	2,325
Borrowings	1,875	-

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2011	2010	2011	2010
Revenues and expenses				
Salaries	6,412	7,780	5,193	6,641
Pension contributions	1,943	2,357	1,557	2,013
Other contributions and taxes	1,361	1,650	1,102	1,409
	9,716	11,787	7,825	10,063
Interest income	16	55	16	44
Loans				
Housing loans	386	1,355	386	1,090

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

NOTE 33 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2011, 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 2,613,333 thousand (2010: HRK 2,516,167 thousand).

As at 31 December 2011, the Group and the Company are exposed to potential liabilities arising from issued bank guarantees (as collateral for collection and security for the quality of work performed) in the total amount of HRK 494,982 thousand (2010: HRK 413,649 thousand). They are additionally exposed as co-debtors with subsidiaries in the total amount of HRK 287,321 thousand (2010: HRK 199,295 thousand).

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 34 – SUBSEQUENT EVENTS

In 2011, the Company continued the process of restructuring commenced in 2010 to ensure long-term business stability and profitability growth. Restructuring costs were 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:

- continue implementation of measures to optimise business processes at the Group level
- significantly reduce fixed costs and production unit costs
- significantly reduce variable costs due to better contractual relations with suppliers and subcontractors
- based on planned savings increase the EBIDTA margin on the Company and the Group level
- 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
- continue investments in projects with stable cash flow, including wind farms and other projects related to renewable energy sources not dependent on variable economic cycles (up to the end of February 2012, the two wind farm fields Zadar 2 and Zadar 3 were put into commercial operation).