

Dalekovod Group  
Marijana Čavića 4  
10 000 Zagreb

**Management's Report  
2012 Annual Report on the Financial Position of the  
Company and the Group**



*Audited, consolidated*

Zagreb, June 17, 2013

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## I. MANAGEMENT'S REPORT ON THE FINANCIAL POSITION OF THE COMPANY AND THE DALEKOVOD GROUP / ANNUAL REPORT ON THE FINANCIAL POSITION OF THE COMPANY AND THE GROUP

What follows hereinafter is an account of the audited financial statements of the Dalekovod Group (hereinafter referred to as: Group) and Dalekovod d.d. (hereinafter referred to as: Company) for 2012. All the figures are expressed in HRK unless otherwise specified.

In 2012, the Group achieved a total operating income in the amount of 1,285 million kuna, which represents an increase of 10.4% compared to the same period the year before. The realized income growth was primarily influenced by an increase in the volume of business of Dalekovod proizvodnja d.o.o. and a 23.5% increase in international projects, which compensated for a decrease in domestic market turnover. In spite of the aforementioned, 2012 ended with an operating loss in the amount of 346.4 million kuna, while the total loss of the Group amounted to 430.3 million kuna, due to a loss in the amount of 441.2 million kuna recorded by the Parent Company.

Dalekovod d.d. struggled with insufficient liquidity all throughout 2012 and the Company's account was blocked several times. The problems associated with account freezes escalated in the fourth quarter of 2012, when, due to a lasting freeze and the consequent incapability of performing business operations, the Management Board requested, pursuant to the Act on Financial Operations and Pre-bankruptcy Settlement, the initiation of the pre-bankruptcy settlement procedure over Dalekovod d.d. The pre-bankruptcy settlement procedure was initiated on the basis of FINA's decision dated December 20, 2012. During the procedure, the Company's Management Board continuously negotiated with the creditors and finally reached an agreement with the same at the meeting held on April 2, 2013. The Pre-bankruptcy Settlement Plan defines the deadlines and the manner in which the debts towards the creditors will be repaid, as well as the basic measures through which the Company will carry out financial and operational restructuring, all with the aim of ensuring the continuation of operations of Dalekovod d.d.

Changes in the Management Board. In October 2012, the Management Board of the Parent Company was changed. The new Management Board is composed of Matjaž Gorjup, President of the Management Board, and Krešimir Anušić, Željko Lekšić and Marko Jurković, Members of the Management Board. On December 1, 2012, Goran Brajdić was appointed as the fifth Member of the Management Board.

Introduction of monthly reporting and controlling system improvements. With the aim of maintaining and improving the Group's liquidity as well as enhancing its business operations, monthly reporting on the Group's cash inflows and outflows has been introduced, which also includes the comparison of the same with the plan,

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the expected income for the upcoming period and the financial debt repayment plan (in accordance with the focus and the need to reduce the level of indebtedness). The Group also plans to improve its controlling system in order to efficiently support the implementation of savings measures and the influence of the same on the profitability of the Group.

## Plan for 2013

### 5-year Business Plan

5-year Business Plan – 2013 - 2017								
	2011	9 m 2012	2012	2013	2014	2015	2016	2017
Income from sale	1,005.1	604.6	868.7	1,047.4	1,128.3	1,216.0	1,311.2	1,414.6
Other income	37.7	14.7	14.7	↓	↓	↓	↓	↓
Operating income	1,042.8	619.3	883.4	1,047.4	1,128.3	1,216.0	1,311.2	1,414.6
Material costs	(843.8)	(568.6)	(738.4)	(673.7)	(711.3)	(783.4)	(824.0)	(885.4)
Labor costs	(233.6)	(108.5)	(144.7)	(137.5)	(123.1)	(115.9)	(117.0)	(118.2)
Other operating expenses	(116.3)	(232.7)	(323.4)	(223.4)	(255.3)	(247.6)	(259.2)	(276.4)
Amortization	(48.6)	(29.4)	(37.7)	(20.6)	(21.3)	(21.9)	(22.5)	(23.1)
Operating expenses	(1,242.2)	(939.3)	(1,244.3)	(1,055.1)	(1,110.8)	(1,168.8)	(1,222.7)	(1,303.1)
Financial income	0.7	0.5	↓	↓	↓	↓	↓	↓
Financial expenses	(75.7)	(54.0)	(77.0)	(14.3)	(14.0)	(13.7)	(13.4)	(12.5)
Net financial income / expenses	0.7	(53.6)	(77.0)	(14.3)	(14.0)	(13.7)	(13.4)	(12.5)
Operating (loss)/profit	(198.7)	(373.6)	(437.9)	(22.0)	3.4	33.5	75.0	99.1
Income tax	(75.7)	(0.3)	↓	↓	↓	↓	↓	↓
<b>Net operating (loss)/profit</b>	<b>(274.4)</b>	<b>(373.9)</b>	<b>(437.9)</b>	<b>(22.0)</b>	<b>3.4</b>	<b>33.5</b>	<b>75.0</b>	<b>99.1</b>
EBITDA	(150.8)	(290.5)	(323.2)	12.9	38.7	69.1	111.0	134.6
EBITDA margin	(14.5)%	(46.9)%	(36.6)%	1.2%	3.4%	5.7%	8.5%	9.5%

The 5-year business plan envisages a gradual increase in the operating income resulting from switching the focus on the segment of power projects in the domestic, regional and international markets where the Company already possesses significant experience and references (primarily Scandinavia, CIS countries, etc.). In the domestic market, it is expected that significant income will come from the road program, although substantially lower compared to the previous years.

The income was calculated taking into consideration the active contracts and potential projects still in the bidding phase. The probability of winning the contracts was estimated on an individual level. Additional income from future public tenders is planned in the amount of 20% of the income of the currently open tenders.

The precondition for achieving the estimated level of income is to secure guarantees for proper completion of works and advance payments for international projects, as well as proof of adequate liquidity.

The historical cost structure divided by the type of cost, in which the sub-contractor costs account for the largest share, was applied in the calculation of cost forecasts.

A reduction in operating expenses and improvement of the project planning and management processes will contribute to the expected improvement of business results and stabilization of business operations as well

Furthermore, the forecasts envisage a significant reduction in fixed operating expenses, administration costs as well as other overheads.

The business plan forecasts envisage an improvement of the operating results (EBITDA) to the level of approx. 13 million in 2013, i.e. a gradual increase to the level of approx. 130 million until 2017, primarily as a result of a gradual increase in income and gross margin as well as planned cost efficiencies. The cost of restructuring is included in other operating expenses for 2013 and 2014.

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With a stable annual amortization expected in the five-year period for which forecasts have been made and a significant reduction in the interest rate on the restructured debt, it is envisaged that Dalekovod will achieve a net operating income after 2014.

On behalf of the Company's Management Board:

  
Matjaž Gorjup  
President of the Management Board of Dalekovod d.d.

## II. Statement Concerning the Implementation of the Corporate Governance Code

Pursuant to Article 272 p. with reference to Article 250 a., Section 4 of the Companies Act, the Management Board of Dalekovod d.d., Zagreb, Marijana Čavića 4 (hereinafter referred to as: Company) passed on April 27, 2013 the following

### STATEMENT concerning the implementation of the Corporate Governance Code

The Company voluntarily implements the Corporate Governance Code prescribed by the Croatian Agency for Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange.

During 2012, the Company followed and implemented most of the recommendations defined under the Code and published all information the publication of which is prescribed by the valid regulations as well as other information deemed to be in the interest of the Company's shareholders. The explanations provided to account for more significant deviations from particular recommendations prescribed by the Code, if any, are stated in the Annual Questionnaire delivered to the Zagreb Stock Exchange.

Pursuant to the provisions of the Companies Act, the Supervisory Board supervises the management of the Company's business operations by holding regular meetings at which the Management Board presents relevant reports. At the meetings of the Supervisory Board, all matters falling within the competence of the Board, as prescribed by the Companies Act and the Company's Bylaws, are discussed and decided upon. The Supervisory Board's Report on the Supervision of Business Operations Management constitutes an integral part of the Annual Report which is submitted for approval to the General Assembly. Furthermore, the Supervisory Board performs internal control and supervision through an Audit Committee which provides professional support to the Supervisory and Management Boards ensuring efficient performance of their obligations associated with corporate governance, risk management, financial reporting and control of the Company. Apart from the Audit Committee, the Supervisory Board also includes the Appointment and Remuneration Committee and the Strategy Committee. The Management Board is responsible for ensuring that the Company keeps relevant business and other books and documents. It also prepares accounting documents, performs appraisal of assets and liabilities in real terms and draws up all financial and other reports in accordance with the accounting regulations and standards, as well as other valid laws and regulations.

#### The structure of ownership as of December 31, 2012

NATURAL PERSONS	1,430,432
PENSION FUNDS	638,891
BANKS	338,751
TELEGRA d.o.o.	164,753
OTHERS	250,504
OWN SHARES	43,934
TOTAL	2,867,265





### III. STATEMENT BY THE PERSONS RESPONSIBLE FOR DRAWING UP THE ANNUAL REPORT

Pursuant to Article 410, Section 2 and Article 407, Section 2, Item 3 and Section 3 of the Capital Market Act, the persons responsible for drawing up the Annual Report, namely Matjaž Gorjup – President of the Management Board, Krešimir Anušić – Member of the Management Board, Željko Lekšić – Member of the Management Board, Marko Jurković – Member of the Management Board and Goran Brajdić – Member of the Management Board, hereby give the following

### STATEMENT

To the best of our knowledge, the Group's Annual Financial Statements have been drawn up applying the relevant financial reporting standards and provide a complete and truthful account of assets and liabilities as well as the Group's business results, with a short overview of the factors that influenced the figures. The financial statements have been audited.

On behalf of the Company's Management Board:

  
Matjaž Gorjup  
President of the Management Board of Dalekovod d.d.

  
**DALEKOVOD**  
Dioničko društvo za inženjering, projektiranje i usluge  
Zagreb, Republika Hrvatska, p.p. 126, MO 3278931 4

## IV. BALANCE SHEET

Name of position:	AOP	Previous year (net)	Current year (net)	Previous year (net)	Current year (net)
		<b>DALEKOVOD jsc</b>		<b>DALEKOVOD GROUP</b>	
1	2	3	4	5	6
<b>ASSETS</b>					
A) SUBSCRIBED CAPITAL UNPAID	001	0	0	0	0
B) NON CURRENT ASSETS (003+010+020+029+033)	002	1.127.395.180	1.031.951.829	1.222.229.586	1.203.206.238
I. INTANGIBLE ASSETS (004 do 009)	003	18.148.117	10.369.957	27.482.563	17.343.544
1. Research & Development expenditure	004	0	0	0	0
2. Patents, licences, royalties, trade marks, software&similar rights	005	16.914.361	10.356.357	21.669.580	12.476.778
3. Goodwill	006	0	0	4.559.000	4.559.000
4. Prepayments for intangible assets	007	0	0	0	0
5. Intangible assets under construction	008	1.233.756	13.600	1.253.983	13.600
6. Other intangible assets	009	0	0	0	294.165
II. TANGIBLE ASSETS (011 do 019)	010	585.879.705	542.590.087	984.034.145	1.035.750.193
1. Land	011	164.913.887	164.913.887	212.124.393	212.852.569
2. Property	012	71.460.820	67.252.692	114.871.611	114.703.655
3. Plants and equipment	013	97.775.857	81.475.067	154.560.883	141.331.822
4. Tools, plants&vehicles	014	14.050.127	8.175.967	22.851.301	16.523.935
5. Biological asset	015	0	0	0	0
6. Prepayments for tangible assets	016	0	0	44.595	118.952
7. Assets under construction	017	7.100.194	0	248.725.101	329.054.453
8. Other tangible assets	018	0	0	0	14.224
9. Investments property	019	230.578.810	220.772.474	230.856.261	221.150.585
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	020	523.367.357	478.991.785	210.711.440	150.112.501
1. Share in related parties	021	427.498.522	410.524.187	101.551.520	79.730.048
2. Loans to related parties	022	2.929.980	1.384.622	2.929.980	1.384.622
3. Participating interests (stakes)	023	30.277.334	26.436.656	30.324.677	26.436.656
4. Loans to participating interest	024	8.551.101	0	8.551.101	0
5. Investments in securities	025	28.053.190	36.590.140	29.876.847	36.613.812
6. Loans & deposits	026	26.057.230	4.056.180	26.137.315	5.665.420
7. Other non-current financial assets	027	0	0	11.340.000	281.945
8. Investment accounted by equity method	028	0	0	0	0
IV. TRADE RECEIVABLES (030 do 032)	029	0	0	1.438	0
1. Receivables from related parties	030	0	0	0	0
2. Receivables from credit sales	031	0	0	0	0
3. Other receivables	032	0	0	1.438	0
V. DEFERRED TAX ASSETS	033	0	0	0	0
C) CURENT ASSETS (035+043+050+058)	034	1.024.699.655	457.783.310	1.253.962.988	710.536.470
I. INVENTORIES (036 do 042)	035	20.144.725	10.339.440	189.660.672	152.760.132
1. Raw materials & consumables	036	14.390.404	8.147.751	77.117.651	58.374.403
2. Work in progress	037	0	0	12.788.435	32.799.672
3. Products	038	5.724.889	2.145.149	83.110.705	43.776.567
4. Merchandise	039	29.432	46.540	16.273.707	17.437.858
5. Prepayments for inventories	040	0	0	552.703	273.960
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	838.895.899	372.825.182	919.192.995	526.792.020
1. Receivables from related parties	044	73.178.702	46.948.617	0	0
2. Trade receivables	045	548.920.800	264.682.910	640.754.965	430.942.041
3. Receivables from participating parties	046	4.037.721	494.108	4.037.721	1.045.495
4. Amounts receivable from employees	047	656.421	506.898	1.879.956	602.781
5. Receivables from government agencies	048	56.245.870	0	65.426.835	843.602
6. Other receivables	049	155.856.385	60.182.649	207.093.518	93.356.101
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	135.545.130	64.926.870	98.874.388	9.810.758
1. Share in related parties	051	0	0	0	0
2. Loans to related parties	052	48.684.603	63.947.039	0	0
3. Participating interests (stakes)	053	0	0	0	0
4. Loans to participating interest	054	9.631.534	334.261	9.631.534	334.261
5. Investments in securities	055	26.629	28.074	26.629	28.074
6. Loans & deposits	056	77.202.364	617.496	88.905.357	9.087.557
7. Other financial assets	057	0	0	310.866	360.866
IV. CASH ON HAND AND IN THE BANK	058	30.113.902	9.691.818	45.934.735	21.153.561
D) PREPAYMENTS AND ACCRUED INCOME	059	5.637.911	2.951.921	9.619.059	5.600.231
E) TOTAL ASSETS (001+002+034+059)	060	2.157.732.746	1.492.687.060	2.485.811.633	1.919.342.939
F) OFF-BALANCE SHEET ITEMS	061	614.789.122	1.091.563.126	643.491.396	1.756.703.665

<b>EQUITY AND LIABILITIES</b>						
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>583.638.994</b>	<b>133.116.722</b>	<b>610.228.565</b>	<b>188.734.011</b>	
<b>I. SHARE CAPITAL</b>	<b>063</b>	<b>286.726.500</b>	<b>286.726.500</b>	<b>286.726.500</b>	<b>286.726.500</b>	
<b>II. CAPITAL RESERVES</b>	<b>064</b>	<b>80.478.889</b>	<b>80.478.889</b>	<b>80.478.889</b>	<b>80.478.889</b>	
<b>III. RESERVES FROM PROFIT (066+067-068+069+070)</b>	<b>065</b>	<b>434.445.578</b>	<b>157.131.299</b>	<b>441.652.955</b>	<b>162.628.489</b>	
1. Legal reserves	066	11.485.600	11.485.600	13.171.857	12.634.367	
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	310.195.565	32.881.286	310.420.110	32.613.117	
5. Other reserves	070	112.763.413	112.763.413	117.960.978	117.381.006	
<b>IV. REVALUATION RESERVES</b>	<b>071</b>	<b>59.302.306</b>	<b>50.020.716</b>	<b>59.302.306</b>	<b>64.209.170</b>	
<b>V. RETAINED EARNINGS OR LOSS BROUGHT FORWARD (073-074)</b>	<b>072</b>	<b>0</b>	<b>0</b>	<b>17.711.613</b>	<b>23.270.485</b>	
1. Retained earnings	073	0	0	27.868.908	32.730.352	
2. Loss brought forward	074	0	0	10.157.295	9.459.867	
<b>VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)</b>	<b>075</b>	<b>-277.314.279</b>	<b>-441.240.682</b>	<b>-278.179.473</b>	<b>-429.923.513</b>	
1. Profit for the financial year	076	0	0	0	0	
2. Loss for the financial year	077	277.314.279	441.240.682	278.179.473	429.923.513	
<b>VII. MINORITY INTEREST</b>	<b>078</b>	<b>0</b>	<b>0</b>	<b>2.635.775</b>	<b>1.343.991</b>	
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>3.762.000</b>	<b>7.327.727</b>	<b>7.068.583</b>	<b>11.969.904</b>	
1. Provisions for pensions, severance pay and similar liabilities	080	3.762.000	7.327.727	6.579.068	10.637.363	
2. Provisions for tax obligations	081	0	0	0	634.831	
3. Other provisions	082	0	0	489.515	697.710	
<b>C) NON-CURRENT LIABILITIES (084 do 092)</b>	<b>083</b>	<b>482.436.118</b>	<b>475.194.193</b>	<b>672.477.705</b>	<b>484.089.874</b>	
1. Liabilities to related parties	084	0	0	633.333	0	
2. Liabilities for loans, deposits and other	085	0	0	0	0	
3. Liabilities towards banks and other financial institutions	086	329.101.121	334.650.265	517.686.271	343.097.933	
4. Amounts payable for prepayment	087	0	0	0	0	
5. Trade payables	088	153.334.997	140.543.928	154.158.101	140.991.941	
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. Deferred tax	092	0	0	0	0	
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	<b>1.084.844.932</b>	<b>877.048.418</b>	<b>1.192.865.836</b>	<b>1.222.851.788</b>	
1. Liabilities to related parties	094	52.724.327	95.985.029	0	0	
2. Liabilities for loans, deposits and other	095	1.159.071	7.086.640	1.226.407	6.052.021	
3. Liabilities towards banks and other financial institutions	096	356.960.472	308.082.205	407.334.632	590.691.325	
4. Amounts payable for prepayment	097	196.951.533	31.858.753	224.669.303	34.247.399	
5. Trade payables	098	355.053.342	338.410.290	415.550.167	476.938.745	
6. Amounts payable for securities	099	64.948.782	57.670.915	64.948.782	45.034.981	
7. Liabilities toward participating interests	100	1.906.148	6.464.836	1.906.148	6.464.836	
8. Liabilities to employees	101	17.345.107	9.976.064	23.668.192	19.343.663	
9. Taxes, contributions and similar liabilities	102	4.777.585	12.454.073	16.922.163	31.713.948	
10. Liabilities arising from share in the result	103	1.899.762	1.899.762	2.899.762	1.899.762	
11. Liabilities arising from non-current assets held for sale	104	0	0	0	0	
12. Other current liabilities	105	31.118.803	7.159.851	33.740.280	10.465.107	
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>3.050.702</b>	<b>0</b>	<b>3.170.944</b>	<b>11.697.380</b>	
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>2.157.732.746</b>	<b>1.492.687.060</b>	<b>2.485.811.633</b>	<b>1.919.342.937</b>	
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>108</b>	<b>614.789.122</b>	<b>1.091.583.126</b>	<b>643.491.396</b>	<b>1.756.703.665</b>	
<b>ANNEX TO THE BALANCE SHEET (to be filled in by a company preparing the consolidated annual financial statements)</b>					<b>0</b>	<b>0</b>
<b>A) CAPITAL AND RESERVES</b>						
1. Attributable to equity holders of the parent company's capital	<b>109</b>			<b>607.592.790</b>	<b>187.390.020</b>	
2. Attributable to non-controlling interests	<b>110</b>			<b>2.635.775</b>	<b>1.343.991</b>	

## V. PROFIT & LOSS STATEMENT

ITEM	AOP	2011	2012	2011	2012
1	2	3	4	5	6
<b>DALEKOVOD J.S.C.</b>					
<b>I. OPERATING INCOME (112+113)</b>	111	1.037.286.479	928.477.878	1.163.704.924	1.285.277.611
1. Sales revenue	112	1.002.091.799	901.487.355	1.129.182.694	1.253.147.678
2. Other operating income	113	35.193.680	26.990.523	34.522.230	32.130.033
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	114	1.075.160.811	1.221.590.545	1.366.002.506	1.679.135.023
1. Changes in inventories of finished products and work in progress	115	69.388.438	3.380.017	61.166.225	19.057.647
2. Material costs (117 do 119)	116	709.039.928	797.272.145	792.716.257	953.717.092
a) Cost of raw materials & consumables	117	133.222.897	188.163.596	152.437.634	449.532.724
b) Cost of goods sold	118	165.661.347	114.200.777	216.804.746	45.369.074
c) Other costs	119	410.155.684	494.907.772	423.473.877	458.795.294
3. Staff costs (121 do 123)	120	130.911.500	142.626.291	255.763.959	246.086.484
a) Net salaries	121	89.071.983	95.702.133	163.625.146	159.186.975
b) Employee income tax	122	26.936.936	24.811.500	56.126.110	52.181.485
c) Tax on payroll	123	14.902.581	22.112.658	33.812.703	34.718.024
4. Depreciation and amortisation	124	36.600.924	39.071.031	54.510.028	50.323.165
5. Other expenditures	125	97.878.321	112.922.083	159.185.364	148.334.879
6. Value adjustment (127+128)	126	9.199.298	77.365.062	14.855.050	94.256.976
a) non-current assets (without financial assets)	127	0	2.439.033	0	12.519.560
b) current assets (without financial assets)	128	9.199.298	74.926.029	14.855.050	76.759.024
7. Provisions	129	0	0	74.743	176.646
8. Other operating expenses	130	22.142.402	48.943.916	27.730.880	67.182.134
<b>III. FINANCIAL INCOME (132 do 136)</b>	131	7.613.930	8.475.538	7.747.128	10.260.506
1. Interest income, foreign exchange differences, dividends and other financial income related to subsidiaries	132	2.152.928	2.491.358	2.256.330	3.780.049
2. Interest income, foreign exchange differences, dividends and other financial income related to third parties	133	4.059.009	5.629.048	4.086.117	6.027.519
3. Part of income from associates and participating interests	134	1.401.993	355.132	1.401.993	446.916
4. Unrealized gains (income) from the financial assets	135	0	0	0	0
5. Other financial income	136	0	0	2.688	6.021
<b>IV. FINANCIAL COSTS (138 do 141)</b>	137	72.135.798	152.308.188	80.176.383	190.177.643
1. Interest, foreign exchange differences and other expenses related to subsidiaries	138	304.498	915.556	679.311	915.755
2. Interest, foreign exchange differences and other expenses related to third parties	139	67.125.179	73.943.365	74.590.870	75.281.730
3. Unrealized loss (expenses) from the financial assets	140	496.619	70.322.452	544.529	62.445.170
4. Other financial expenses	141	4.209.300	7.126.813	4.361.673	7.458.190
<b>V. SHARE OF INCOME OF ASSOCIATES</b>	142	0	0	398.448	2.633.864
<b>VI. SHARE OF LOSS OF ASSOCIATES</b>	143	0	0	0	0
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	144	0	0	0	18.004
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	145	171.999.141	0	0	143
<b>IX. TOTAL INCOME (111+131+142 + 144)</b>	146	1.044.899.409	936.953.419	1.171.850.500	1.298.089.975
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	147	1.319.295.748	1.373.886.731	1.446.178.889	1.720.257.660
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	148	-274.396.339	-436.933.312	-274.328.389	-422.167.675
1. Profit before tax (146-147)	149	0	0	0	0
2. Loss before tax (147-148)	150	274.396.339	436.933.312	274.328.389	422.167.675
<b>XII. INCOME TAX EXPENSE</b>	151	2.917.940	4.305.367	4.009.053	8.174.816
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	152	-277.314.279	-441.240.682	-278.337.442	-430.342.492
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	277.314.279	441.240.682	278.337.442	430.342.492
<b>ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)</b>					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Attributable to owners of the company	155	0	0	-278.179.473	-429.923.513
2. Attributable to non-controlling interests	156	0	0	-157.969	-418.970
<b>STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)</b>					
<b>I. PROFIT OR LOSS FOR THE PERIOD (= 152)</b>	157	-277.314.279	-441.240.682	-278.337.442	-430.342.492
<b>II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)</b>	158	44.264.589	0	45.841.574	4.918.125
1. Exchange differences arising from foreign operations	159	0	0	2.576.985	-224.000
2. Revaluation of non-current assets and intangible assets	160	50.020.716	0	50.020.716	14.425.115
3. Gains or loss available for sale investments	161	-5.756.127	-9.282.990	-5.756.127	-9.282.990
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. Actuarial gain / loss on post employment benefit obligations	165	0	0	0	0
<b>III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD</b>	166	0	0	0	0
<b>IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)</b>	167	44.264.589	0	45.841.574	4.918.125
<b>RAZDOBLJA (158-166)</b>					
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	168	-233.049.690	-450.623.672	-231.495.868	-425.424.367
<b>APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)</b>					
<b>VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD</b>					
1. Attributable to owners of the company	169	0	0	-231.408.671	-425.398.257
2. Attributable to non-controlling interests	170	0	0	-87.197	-28.110

## VI. CASH FLOW STATEMENT

ITEM	AOP	Previous period		Current period	
		3	4	5	6
1	2	DALEKOVOD jsc			
DALEKOVOD GROUP					
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
1. Pre-tax profit	001	-274.396.339	-436.935.315	-274.328.389	-422.167.675
2. Depreciation	002	36.600.924	39.071.031	54.510.028	50.323.165
3. Increase in short-term liabilities	003	237.196.099	0	323.929.451	0
4. Decrease in short-term receivables	004	0	224.208.455	0	150.538.713
5. Reduction of stocks	005	294.622.721	9.805.285	164.766.441	37.180.740
6. Other increase in cash flow	006	0	312.115.810	0	348.373.894
<b>I. Total increase in cash flow from operating activities (001 to 006)</b>	<b>007</b>	<b>294.023.405</b>	<b>148.265.266</b>	<b>268.877.531</b>	<b>164.248.837</b>
1. Decrease in short-term liabilities	008	0	149.337.586	0	131.787.484
2. Increase in short-term receivables	009	85.718.115	0	151.231.243	0
3. Increase in stocks	010	0	0	0	0
4. Other decrease in cash flow	011	15.654.761	2.302.793	37.135.474	2.302.793
<b>II Total decrease in cash flow from operating activities (008 to 011)</b>	<b>012</b>	<b>101.372.876</b>	<b>151.640.379</b>	<b>188.366.717</b>	<b>134.090.277</b>
<b>A1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>013</b>	<b>192.650.529</b>	<b>0</b>	<b>80.510.814</b>	<b>30.158.560</b>
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING</b>	<b>014</b>	<b>0</b>	<b>3.375.113</b>	<b>0</b>	<b>0</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>					
1. Cash receipts from sale of fixed tangible and intangible assets	015	49.939.456	712.328	49.939.456	718.950
2. Cash receipts from sale of treasury and debt financial	016	125.912.799	0	303.240.205	75.359.046
3. Cash receipts from interests	017	1.305.032	374.967	1.311.247	374.967
4. Cash receipts from dividends	018	0	0	0	0
5. Other cash receipts from investment activities	019	0	65.839.498	632.066	25.543.844
<b>III. Total cash receipts from investment activities (015 do 019)</b>	<b>020</b>	<b>177.157.287</b>	<b>66.926.793</b>	<b>355.122.974</b>	<b>101.996.807</b>
1. Expenditures for buying fixed assets and intangible assets	021	5.720.341	4.554.849	69.055.954	92.619.144
2. Expenditures for purchasing treasury and debt financial	022	368.986.015	16.020.856	368.986.015	15.135.074
3. Other expenditures from investment activities	023	0	0	95.914.739	24.870.717
<b>IV. Total expenditures from investment activities (021 to 023)</b>	<b>024</b>	<b>374.706.356</b>	<b>20.575.705</b>	<b>533.966.708</b>	<b>132.624.935</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTMENT</b>	<b>025</b>	<b>0</b>	<b>46.351.088</b>	<b>0</b>	<b>0</b>
<b>b2) NET DECREASE IN CASH FLOW FROM INVESTMENT</b>	<b>026</b>	<b>197.549.069</b>	<b>0</b>	<b>178.833.734</b>	<b>30.628.128</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>					
1. Cash receipts from issuance of treasury and debt financial	027	47.224.260	0	47.224.260	0
2. Cash receipts from loan principal, bonds, borrowings and other	028	680.769.529	5.549.144	803.129.504	64.380.347
3. Total cash receipts from financial activities	029	0	0	76.829.287	0
<b>V. Total cash receipts from financial activities (027 To 029)</b>	<b>030</b>	<b>727.993.789</b>	<b>5.549.144</b>	<b>927.183.051</b>	<b>64.380.347</b>
1. Expenditures for repayment of loan principal and bonds	031	759.295.323	56.156.134	779.432.659	75.525.794
2. Expenditures for payment of dividends	032	0	0	0	0
3. Expenditures for financial leasing	033	19.777.311	12.791.069	19.943.670	13.166.159
4. Expenditures for redemption of treasury shares	034	0	0	0	0
5. Other expenditures from financial activities	035	0	0	82.962.010	0
<b>VI. Total expenditures from financial activities (031 to 035)</b>	<b>036</b>	<b>779.072.634</b>	<b>68.947.203</b>	<b>882.338.539</b>	<b>88.691.963</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCIAL</b>	<b>037</b>	<b>0</b>	<b>0</b>	<b>44.844.512</b>	<b>0</b>
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCIAL</b>	<b>038</b>	<b>51.078.845</b>	<b>63.398.059</b>	<b>0</b>	<b>24.311.606</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	0	0	0
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	55.977.385	20.422.084	53.478.408	24.781.174
<b>Cash and cash equivalents at the beginning of the period</b>	<b>041</b>	<b>85.091.287</b>	<b>30.113.902</b>	<b>99.413.143</b>	<b>46.934.735</b>
Increase in cash and cash equivalents	042	0	0	0	0
Decrease in cash and cash equivalents	043	55.977.385	20.422.084	53.478.408	24.781.174
<b>Cash and cash equivalents at the end of the period</b>	<b>044</b>	<b>30.113.902</b>	<b>9.691.818</b>	<b>45.934.735</b>	<b>21.153.561</b>

## VII. CHANGES IN EQUITY STATEMENT

	AOP	Previous period	Current period	Previous period	Current period
		<b>DALEKOVOD Jsc</b>		<b>DALEKOVOD GROUP</b>	
1. Share capital	001	286.726.500	286.726.500	286.726.500	286.726.500
2. Capital reserves	002	80.478.889	80.478.889	80.478.889	80.478.889
3. Reserves from profit	003	434.445.578	157.131.299	441.552.955	162.628.489
4. Retained profit or loss carried forward	004	0	0	17.711.613	23.270.485
5. Profit or loss of current year	005	-277.314.279	-441.240.682	-278.179.473	-429.923.513
6. Revaluation of longterm tangible assets	006	50.020.716	50.020.716	50.020.716	64.209.170
7. Revaluation of intangible assets	007	0	0	0	0
8. Revaluation of financial assets available for sale	008	9.281.590	0	9.281.590	0
9. Other revaluations	009	0	0	0	0
<b>10. Total equity and reserves (AOP 001 to 009)</b>	<b>010</b>	<b>583.638.994</b>	<b>133.116.722</b>	<b>607.592.790</b>	<b>187.390.020</b>
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	0	0
16. Other changes in equity	016	0	0	0	0
<b>17. Total increase or decrease in equity (AOP 011 to 016)</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
17 a. Attributed to parent company equity holders	018			607.592.790	187.390.020
17 b. Attributed to minority interest	019			2.635.775	1.343.991

## VIII. COMPETENT AUTHORITY'S DECISION (PROPOSAL) ON IDENTIFICATION OF THE GROUP'S ANNUAL FINANCIAL STATEMENTS

Pursuant to Article 240 of the Companies Act and Article 20, Section 3 of the Accounting Act, the Management Board of DALEKOVOD d.d. from Zagreb, Marijana Čavića 4, passed on June 10, 2013 the following:

### DECISION

#### on identification of the 2012 Consolidated Annual Financial Statements

##### Section 1

Pursuant to valid regulations, the following Consolidated Annual Financial Statements have been prepared for 2012:

1. Consolidated Balance Sheet
2. Consolidated Profit & Loss Statement
3. Consolidated Cash Flow Statement
4. Consolidated Changes in Equity Statement
5. Notes to the Annual Financial Statements
6. Consolidated Annual Report (from Article 18 of the Accounting Act; „Annual Report on the Company's Financial Position", Article 250 a. of the Companies Act; „Management's Report" from Article 403 of the Capital Market Act)

##### Section 2

The 2012 Consolidated Profit & Loss Statement is hereby identified. It includes a declared loss in the amount of 430,342,491.44 kuna, of which 429,923,513.49 kuna ascribed to the shareholders of the Parent Company and 418,977.95 kuna to small shareholders.

An income tax in the amount of 8,174,816.28 kuna has been declared in the 2012 Annual Income Tax Reports of the Parent Company and dependent companies.

The Consolidated Balance Sheet as of December 31, 2012 includes total assets/liabilities in the amount of 1,919,342,937.34 kuna.

President of the Company's Management Board:

  
\_\_\_\_\_  
Matjaž Gorjup  
President of the Management Board,  
Dalekovod d.d.

## IX. COMPETENT AUTHORITY'S DECISION (PROPOSAL) ON IDENTIFICATION OF THE GROUP'S ANNUAL FINANCIAL STATEMENTS

Pursuant to Article 240 of the Companies Act and Article 20, Section 3 of the Accounting Act, the Management Board of DALEKOVOD d.d. from Zagreb, Marijana Čavića 4, passed on June 10, 2013 the following:

### DECISION

#### on identification of the 2012 Annual Financial Statements

##### Section 1

In accordance with the valid regulations, the following Annual Financial Statements and Tax Report have been prepared for 2012:

1. Balance Sheet
2. Profit & Loss Statement
3. Cash Flow Statement
4. Changes in Equity Statement
5. Notes to the Annual Financial Statements
6. 2012 Income Tax Report (PD form)
7. Annual Report on the Financial Position of the Company (from Article 18 of the Accounting Act; „Annual Report on the Financial Position of the Company”, Article 250 a. of the Companies Act; „Management's Report" from Article 403 of the Capital Market Act)

##### Section 2

The 2012 Profit & Loss Statement is hereby identified. It includes a declared loss in the amount to 441,240,682.19 kuna.

Due to the mentioned loss, the Company did not declare income tax in its 2012 Annual Income Tax Report (PD form). A tax loss in the amount of 351,072,683.90 kuna was identified and will be transferred to future business and tax periods. The income tax included in the 2012 Profit & Loss Statement, which amounts to 4,305,367.74 kuna, refers to the tax paid abroad calculated on the basis of the business results achieved by the Company's permanent business units based abroad.

The 2012 Balance Sheet as of December 31, 2012 includes total assets/liabilities in the amount of 1,492,687,059.91 kuna.

President of the Company's Management Board:

  
Matjaž Gorjup  
President of the Management Board,  
Dalekovod d.d.



## X. COMPETENT AUTHORITY'S DECISION (PROPOSAL) ON LOSS COVERAGE

Pursuant to the provisions of Article 20, Section 3 of the Accounting Act and the Rules of the Zagreb Stock Exchange, the Management and Supervisory Boards of DALEKOVOD d.d. from Zagreb, Marijana Čavića 4, jointly defined on June 10, 2013 a proposal of the decision on the manner in which the loss recorded in 2012 will be covered which will be submitted for approval to the General Assembly scheduled to convene on June 22, 2013 pursuant to the provisions of Article 275 of the Companies Act

The proposal reads as follows:

### DECISION

#### on the manner in which the loss recorded in 2012 will be covered

##### Section 1

It is hereby established that the loss recorded in 2012 amounts to 441,240,682.19 kuna (in words: four hundred forty-one million, two hundred forty thousand six hundred eighty-two kuna and nineteen lipa).

##### Section 2

A portion of the declared loss amounting to 243,949,626.07 kuna (in words: two hundred forty-three million nine hundred forty-nine thousand six hundred twenty-six kuna and seven lipa) will be covered using the Company's reserves, while the remaining portion amounting to 197,291,056.12 kuna (in words: one hundred ninety-seven million two hundred ninety-one thousand fifty-six kuna and twelve lipa) will be covered through a facilitated reduction of share capital.

##### Section 3

The proposal of this decision will be discussed at the regular session of the General Assembly.

*Explanation: It is hereby established that an operating loss was recorded in 2012. Furthermore, the Company has reserves created through a transfer of the retained profit from previous years which may be used to cover the loss recorded in 2012. Pursuant to the proposed Decision, the 2012 operating loss will be covered using the Company's reserves in accordance with the Company's Bylaws and the law, as well as through a facilitated reduction in share capital. Pursuant to the proposal of the Decision on a facilitated reduction of share capital, the Company's share capital will be reduced by the amount of 258,053,850.00 kuna for the purpose of covering the outstanding loss and transferring the funds in the amount of 60,762,793.88 kuna into capital reserves.*

President of the Company's Management Board:

  
\_\_\_\_\_  
**Matjaž Gorjup**  
President of the Management Board of Dalekovod d.d.

President of the Supervisory Board:

  
\_\_\_\_\_  
**Marijan Pavlović**

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XI. **INDEPENDENT AUDITOR'S REPORT**

**DALEKOVOD d.d.**

**INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS  
31 DECEMBER 2012**



## **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 2012 and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

### **Basis for Qualified Opinion**

As at 31 December 2012, the Company recorded in its financial statements an investment in and receivable from its subsidiary Dalekovod-ulaganje d.o.o. Zagreb with a total carrying value of HRK 70,559 thousand, while the Group recorded fixed assets in progress with a total carrying value of HRK 312,888 thousand. According to International Accounting Standard 36 - Impairment of Assets, the Company and Group must assess each year whether there is any indication of impairment. At 31 December 2012, the Company and the Group did not make an assessment of the existence of any impairment indicators. Accordingly, we could not satisfy ourselves as to the recoverability of the carrying values of the Company's investment and receivables, or the recoverability of the carrying value of the Group's fixed assets in progress.

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T: +385 (1) 6328 888, F: +385 (1) 6111 556, [www.pwc.com/hr](http://www.pwc.com/hr)*

Commercial Court in Zagreb, TI-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: F. Mattelaer, President, T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, giro account no.: 2484008-1105514875.



### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without further qualifying our opinion, we draw attention to Note 1 and Note 33 in the financial statements which describes the financial position of the Company and the Group at 31 December 2012, as well as the fact that at the start of June the Company is near completion of pre-bankruptcy settlement procedures which include financial and operational restructuring of the Company and the Group. Achieving all measures included in the restructuring plan will significantly impact the ability of the Company and the Group to operate in the future.

*PricewaterhouseCoopers d.o.o.*

PricewaterhouseCoopers d.o.o.  
Zagreb, 14 June 2013

## DALEKOVOD d.d.

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2012	2011	2012	2011
<b>Continued operations</b>					
Sales	5	1,253,799	1,130,793	901,487	1,006,250
Other income	5, 6	27,087	34,154	29,448	33,610
Change in work in progress and finished goods		(19,058)	(61,027)	(3,380)	(69,250)
Cost of goods sold		(45,376)	(179,779)	(114,201)	(165,661)
Cost of materials and services	7	(905,214)	(611,396)	(683,071)	(543,378)
Staff costs	8	(259,414)	(304,854)	(148,682)	(135,716)
Depreciation and amortisation	15,16,17	(50,317)	(54,509)	(39,071)	(36,601)
Other operating expenses	9	(341,262)	(146,021)	(292,245)	(117,438)
Other (losses)/gains – net	10	(6,690)	(4,859)	(9,043)	(4,885)
<b>Operating loss</b>		<b>(346,445)</b>	<b>(197,498)</b>	<b>(358,758)</b>	<b>(33,069)</b>
Finance income	11	1,397	844	452	679
Finance costs	11	(79,652)	(77,674)	(78,629)	(70,007)
		(78,255)	(76,830)	(78,177)	(69,328)
Share in profit of associates	19 b	2,533	-	-	-
Loss before tax		<b>(422,167)</b>	<b>(274,328)</b>	<b>(436,935)</b>	<b>(102,397)</b>
Income tax expense	12	(8,175)	(4,009)	(4,306)	(2,918)
<b>Net loss from continued operations</b>		<b>(430,342)</b>	<b>(278,337)</b>	<b>(441,241)</b>	<b>(105,315)</b>
<b>Discontinued operations</b>					
Net loss from discontinued operations	5	-	-	-	(171,999)
<b>Net loss attributable to:</b>					
Equity holders of the Company		(429,924)	(278,179)	(441,241)	(277,314)
Non-controlling interest		(418)	(158)	-	-
<b>Net loss</b>		<b>(430,342)</b>	<b>(278,337)</b>	<b>(441,241)</b>	<b>(277,314)</b>
<b>Basic and diluted loss per share (in HRK)</b>	13	<b>(152.28)</b>	<b>(109.67)</b>	<b>(156.28)</b>	<b>(109.33)</b>
Basic and diluted loss – continued operations		(152.28)	(109.67)	(156.28)	(41.52)
Basic and diluted loss – discontinued operations		-	-	-	(67.81)

The financial statements set out on pages 2 to 68 were approved by the Management Board on 10 June 2013.

President of the Board



Matjaž Gorjup

**DALEKOVOD**  
 d.d. ul. Matije Gupca 11, 10000 Zagreb, HR  
 OIB: 63220123112280114  
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The accounting policies and notes form an integral part of these consolidated financial statements.

## DALEKOVOD d.d.

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2012

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2012	2011	2012	2011
<b>Net loss</b>		<b>(430,342)</b>	<b>(278,337)</b>	<b>(441,241)</b>	<b>(277,314)</b>
<b>Other comprehensive income/(loss):</b>					
Gains on revaluation of assets	26	14,425	50,021	-	50,021
Foreign exchange differences		(224)	2,577	-	-
Available-for-sale financial assets at fair value	26	(9,283)	(5,757)	(9,283)	(5,757)
Total other comprehensive income/(loss)		4,918	46,841	(9,283)	44,264
<b>Total comprehensive loss</b>		<b>(425,424)</b>	<b>(231,496)</b>	<b>(450,524)</b>	<b>(233,050)</b>
Comprehensive loss from continued operations attributable to:					
Equity holders of Dalekovod d.d.		(425,398)	(231,583)	(450,524)	(61,051)
Non-controlling interest		(26)	87	-	-
Total		(425,424)	(231,496)	(450,524)	(61,051)
Comprehensive loss from discontinued operations attributable to:					
Equity holders of Dalekovod d.d.		-	-	-	(171,999)
Non-controlling interest		-	-	-	-
Total		-	-	-	(171,999)
<b>Total comprehensive loss</b>		<b>(425,424)</b>	<b>(231,496)</b>	<b>(450,524)</b>	<b>(233,050)</b>

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

## DALEKOVOD d.d.

## BALANCE SHEET

AS AT 31 DECEMBER 2012

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2012	2011	2012	2011
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	15	17,343	27,483	10,370	18,148
Property, plant and equipment	16	1,035,631	983,989	321,818	355,301
Prepayments		119	45	-	-
Investment property	17	-	-	220,772	230,579
Investments in subsidiaries	18	-	971	410,525	427,498
Investments in associates	19a	20,241	56,416	20,241	20,241
Investments in joint ventures	19b	79,729	76,640	-	-
Available-for-sale financial assets	19c	42,809	40,198	42,786	38,090
Loans and receivables	21	24,404	24,803	22,794	23,971
		<u>1,220,276</u>	<u>1,210,545</u>	<u>1,049,306</u>	<u>1,113,828</u>
<b>Current assets</b>					
Inventories	22	152,780	189,961	10,339	20,144
Trade and other receivables	23	529,136	1,016,961	423,305	968,187
Financial assets at fair value through profit or loss	24	424	140	28	27
Cash and cash equivalents	25	17,884	45,935	9,692	30,114
Income tax receivable	12	16	25,663	16	25,433
		<u>700,240</u>	<u>1,278,660</u>	<u>443,380</u>	<u>1,043,905</u>
<b>Total assets</b>		<b><u>1,920,516</u></b>	<b><u>2,489,205</u></b>	<b><u>1,492,686</u></b>	<b><u>2,157,733</u></b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>					
Share capital	26	286,726	286,726	286,726	286,726
Share premium	26	80,479	80,479	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	182,201	455,045	153,417	430,731
Revaluation reserves	26	64,444	59,302	50,019	59,302
Cumulative exchange differences		(1,461)	(845)	-	-
Accumulated losses		(429,924)	(278,179)	(441,241)	(277,314)
		<u>187,530</u>	<u>607,593</u>	<u>133,114</u>	<u>583,638</u>
<b>Non- controlling interest</b>		<u>1,203</u>	<u>2,636</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>		<b><u>188,733</u></b>	<b><u>610,229</u></b>	<b><u>133,114</u></b>	<b><u>583,638</u></b>
<b>Non-current liabilities</b>					
Borrowings	27	155,976	329,984	147,081	322,137
Provisions	29	7,073	6,480	3,488	3,536
		<u>163,049</u>	<u>336,464</u>	<u>150,569</u>	<u>325,673</u>
<b>Current liabilities</b>					
Borrowings	27	944,868	813,852	717,968	600,088
Provisions	29	1,325	589	226	226
Trade and other payables	28	622,541	728,071	490,809	648,108
		<u>1,568,734</u>	<u>1,542,512</u>	<u>1,209,003</u>	<u>1,248,422</u>
<b>Total liabilities</b>		<b><u>1,731,783</u></b>	<b><u>1,878,976</u></b>	<b><u>1,359,572</u></b>	<b><u>1,574,095</u></b>
<b>Total shareholders' equity and liabilities</b>		<b><u>1,920,516</u></b>	<b><u>2,489,205</u></b>	<b><u>1,492,686</u></b>	<b><u>2,157,733</u></b>

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 2012

Dalekovod Group		Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Cumulative exchange differences	Retained earnings/ (Accumulated loss)	Non-controlling interest	Total
(all amounts are expressed in thousands of HRK)	Note										
At 1 January 2011		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/(loss)		-	-	-	-	-	44,264	2,332	(278,179)	87	(231,496)
Transactions with owners:											
Proceeds from shares issued	26	57,345	80,479	-	-	-	-	-	-	-	137,824
Non-controlling interests – additional acquisition		-	-	-	-	-	-	-	-	(148)	(148)
Transfers within reserves		-	-	-	-	1,191	-	-	(1,191)	-	-
<b>At 31 December 2011</b>		<b>286,726</b>	<b>80,479</b>	<b>12,838</b>	<b>(7,773)</b>	<b>455,045</b>	<b>59,302</b>	<b>(845)</b>	<b>(278,179)</b>	<b>2,636</b>	<b>610,229</b>
Net loss for the year		-	-	-	-	-	-	-	(429,924)	(418)	(430,342)
Other comprehensive income		-	-	-	-	-	5,142	(616)	-	392	4,918
Total comprehensive income/(loss)		-	-	-	-	-	5,142	(616)	(429,924)	(26)	(425,424)
Transactions with owners:											
Effects of consolidation		-	-	-	-	3,928	-	-	-	-	3,928
Transfers within reserves	26	-	-	-	-	(276,772)	-	-	278,179	(1,407)	-
<b>At 31 December 2012</b>		<b>286,726</b>	<b>80,479</b>	<b>12,838</b>	<b>(7,773)</b>	<b>182,201</b>	<b>64,444</b>	<b>(1,461)</b>	<b>(429,924)</b>	<b>1,203</b>	<b>188,733</b>

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 2012

Dalekovod d.d.	Note	Share capital	Premium on issued shares	Legal reserves	Treasury shares	Revaluation reserves	Statutory and other reserves	Retained earnings/ (Accumulated loss)	Total
<i>(all amounts are expressed in thousands of HRK)</i>									
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/(loss)		-	-	-	-	44,264	-	(277,314)	(233,050)
<b>Transactions with owners:</b>									
Proceeds from shares issued	26	57,345	80,479	-	-	-	-	-	137,824
Transfer to statutory reserves	26	-	-	-	-	-	2,860	(2,860)	-
<b>At 31 December 2011</b>		<b>286,726</b>	<b>80,479</b>	<b>11,487</b>	<b>(7,773)</b>	<b>59,302</b>	<b>430,731</b>	<b>(277,314)</b>	<b>583,638</b>
Net loss for the year		-	-	-	-	-	-	(441,241)	(441,241)
Other comprehensive income		-	-	-	-	(9,283)	-	-	(9,283)
Total comprehensive loss		-	-	-	-	(9,283)	-	(441,241)	(450,524)
<b>Transactions with owners:</b>									
Transfer to statutory reserves	26	-	-	-	-	-	(277,314)	277,314	-
<b>At 31 December 2012</b>		<b>286,726</b>	<b>80,479</b>	<b>11,487</b>	<b>(7,773)</b>	<b>50,019</b>	<b>153,417</b>	<b>(441,241)</b>	<b>133,144</b>

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

## DALEKOVOD d.d.

## CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2012

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2012	2011	2012	2011
<b>Cash flows from operating activities</b>					
Cash generated from operations	30	174,042	121,165	101,251	117,449
Interest paid		(62,817)	(70,634)	(53,884)	(61,025)
Income tax paid		17,472	(11,886)	21,112	(10,453)
<b>Net cash outflow from operating activities</b>		<b>128,697</b>	<b>38,645</b>	<b>68,479</b>	<b>45,971</b>
<b>Cash flows from investing activities</b>					
Purchase of intangible assets	15	(1,008)	(6,844)	(14)	(3,501)
Purchase of property, plant and equipment	16, 17	(109,018)	(273,396)	(4,555)	(154,869)
Proceeds from sale of property, plant and equipment		2,650	2,658	299	2,945
Deposits and loans given	23	(20,658)	(24,252)	(84,462)	(21,907)
Loan repayments received		7,560	23,605	67,560	11,320
Investments in subsidiaries		-	(2,023)	(16,021)	(62,906)
Investments in joint ventures		-	(56,000)	-	-
Proceeds from sales of available-for-sale assets	19c	2,862	5,400	752	5,400
Interest received		9,086	2,706	9,946	3,336
<b>Net cash used in investing activities</b>		<b>(108,526)</b>	<b>(328,146)</b>	<b>(26,495)</b>	<b>(220,182)</b>
<b>Cash flows from financing activities</b>					
Proceeds from shares issued		-	137,824	-	137,824
Proceeds from borrowings	27	31,635	325,362	4,815	207,573
Repayment of commercial papers	27	(56,974)	(157,727)	(71,801)	(157,727)
Issue of commercial papers	27	48,918	53,392	61,554	53,392
Repayments of borrowings	27	(71,801)	(122,828)	(56,974)	(122,828)
<b>Net cash from/(used in) financing activities</b>		<b>(48,222)</b>	<b>236,023</b>	<b>(62,406)</b>	<b>118,234</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(28,051)</b>	<b>(53,478)</b>	<b>(20,422)</b>	<b>(55,977)</b>
Cash and cash equivalents at beginning of year		45,935	99,413	30,114	86,091
Cash and cash equivalents at end of year	25	17,884	45,935	9,692	30,114
<b>Net decrease in cash and cash equivalents</b>		<b>(28,051)</b>	<b>(53,478)</b>	<b>(20,422)</b>	<b>(55,977)</b>

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 owned by the parent company (2011: 17) and additional four companies owned by a subsidiary – 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 are 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.

On 1 October 2012, three new Management Board members were appointed: Mr Matjaž Gorjup (President of the Management Board), Mr. Marko Jurković (Member of the Management Board) and Mr Željko Lekšić (Member of the Management Board), while on the same day, Mr Luka Miličić (President of the Management Board) and Mr Damir Skansi (Member of the Management Board) were released from duty. In addition, on 1 December 2012, Mr Goran Brajdić was appointed Member of the Management Board.

**Going concern**

From 29 October 2012 to 20 December 2012, all bank accounts of the Company were blocked. This was one of the basic conditions for initiating a pre-bankruptcy settlement procedure under the Law on Financial Operations and Pre-Bankruptcy Settlement (see Note 33).

At 31 December 2012, the Group's and the Company's current liabilities exceed current assets by HRK 868,494 thousand and 765,623 thousand, respectively (2011: HRK 263,852 thousand and HRK 204,517 thousand, respectively). As discussed in Note 33, the Company is in the pre-bankruptcy settlement procedure, which also includes the financial and operational restructuring plan. As the plans were accepted by the creditors and as the pre-bankruptcy settlement is in its final stage, the financial statements as at and for the year ended 31 December 2013 have been prepared under the going concern principle.

**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.

**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, buildings and machinery, 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*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group and the Company.

*(b) Standards and interpretations issued but not yet effective*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. The Group intends to adopt the new standards as at their effective date. None of these standards is expected to have an impact on the financial statements of the Group and the Company, except the following set out below:

*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. The amendment affects presentation only and therefore is not expected to have an impact on the Group's and the Company's financial position or performance.

*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. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. IFRS 10 sets out the accounting requirements for the preparation of consolidated financial statements. The Group and the Company are currently assessing the impact that IFRS10 will have on financial statements. The Group and the Company plan to adopt this new standard on its effective date and they do not expect a significant impact.

*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. The Group and the Company are currently assessing the impact of IFRS 13 on the financial statements. The Group and the Company plan to adopt this new standard on its effective date.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

*(b) Standards and interpretations issued but not yet effective (continued)*

*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. The Group and the Company are currently assessing the impact of IAS 27 on financial statements. The Group and the Company plan to adopt this new standard on its effective date.

*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. The Group and the Company do not expect IFRS 9 to have an impact on the financial statements and plan to adopt this new standard on its effective date.

*Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013)*

These annual improvements address six issues in the 2009-2011 reporting cycle. The improvements include changes to: IFRS 1, 'First time adoption', IAS 1, 'Financial statement presentation', IAS 16, 'Property plant and equipment', IAS 32, 'Financial instruments; Presentation' and IAS 34, 'Interim financial reporting'. The Group and the Company are considering the implications of the improvements and plan to adopt these improvements on their effective dates.

**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 an impairment in previous periods 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 are 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 purchases 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 other comprehensive income is recognised in other comprehensive income. 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 are 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 other comprehensive income 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**

Land, buildings and machinery are carried 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**2.5 Property, plant and equipment (continued)**

Increases in the carrying amount of land, buildings and machinery 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 to the income statement.

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:

	<u>Useful lives in years</u>
Buildings	20 – 40
Equipment	5 – 10
Machinery	25

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. Gains and losses are included in the line item "other (losses)/gains – net" in the income statement.

**2.6 Investment properties**

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.7 Intangible assets**

*(a) Goodwill*

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 Financial assets**

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

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

Financial assets valued 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 and are classified as current assets.

Financial assets valued 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 which 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 where the Group and the Company are the lessor 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. Costs 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 in the income statement.

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**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. The tax base represents the difference between income and expenses, as determined by the applicable law. Management of the Group periodically evaluates 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, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity 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. 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 distributions**

Dividend distributions to the Company's shareholders are 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) Currency 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 2012, if the EURO had weakened/strengthened by 1.00% against the HRK (2011: 1.35%), with all other variables held constant, the net loss for the reporting period after tax would have been HRK 3,447 thousand (2011: HRK 4,221 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

*(ii) Price 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 but do not have a significant effect on the financial position. 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 2012, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2011: 0.33%), the loss after tax would have been higher/lower by HRK 2,905 thousand (2011: HRK 2,036 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. Further, judgements and estimates in respect of credit risk exposure and related impairment provisions are described in more detail in Note 4(b).

*(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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 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. Upon finalisation of the pre-bankruptcy settlement (Note 33), the Company's and the Group's new total debt exposure will be defined as well as the new repayment plans of borrowings.

<i>(in thousands of HRK)</i>	<b>Less than 6 months</b>	<b>Between 6 months and 1 year</b>	<b>Between 1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Dalekovod Group</b>					
<b>31 December 2012</b>					
Finance lease	15,223	16,635	126,359	-	158,217
Borrowings	772,046	110,804	44,671	-	927,521
Trade and other payables	516,437	-	-	-	516,437
<b>31 December 2011</b>					
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
<b>Dalekovod d.d.</b>					
<b>31 December 2012</b>					
Finance lease	15,223	16,635	125,375	-	157,233
Borrowings	532,510	110,804	36,825	-	680,139
Trade and other payables	433,142	-	-	-	433,412
<b>31 December 2011</b>					
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

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

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2012

## 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 Company and the Group monitor 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:

	<b>31 December 2012</b>	<b>31 December 2011</b>
	<i>(in thousands of HRK)</i>	
Borrowings (Note 27)	865,049	922,225
Less cash and cash equivalents (Note 25)	(9,692)	(30,114)
Net debt	855,357	892,111
Equity	133,114	583,638
<b>Total equity and net debt</b>	<b>988,471</b>	<b>1,475,749</b>
<b>Gearing ratio – Company</b>	<b>86.5%</b>	<b>60.5%</b>

The Group's gearing ratio was as follows:

	<b>31 December 2012</b>	<b>31 December 2011</b>
	<i>(in thousands of HRK)</i>	
Borrowings (Note 27)	1,100,844	1,143,836
Less cash and cash equivalents (Note 25)	(17,883)	(45,935)
Net debt	1,082,961	1,097,901
Equity	188,733	610,229
<b>Total equity and net debt</b>	<b>1,271,694</b>	<b>1,707,130</b>
<b>Gearing ratio – Group</b>	<b>85.2%</b>	<b>64.3%</b>

Significant losses for the year led to an increase in the gearing ratio.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2012

## 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. IFRS 7 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 2012 and 2011:

<i>(in thousands of HRK)</i>	Level 1	Level 2	Level 3	Total
<b>Group</b>				
<b>31 December 2012</b>				
Listed companies	68	19,201	396	19,665
Unlisted companies	-	23,567	-	23,567
<b>Total</b>	<b>68</b>	<b>42,768</b>	<b>396</b>	<b>43,232</b>
<b>31 December 2011</b>				
Listed companies	4,079	-	-	4,079
Unlisted companies	-	36,259	-	36,259
<b>Total</b>	<b>4,079</b>	<b>-</b>	<b>-</b>	<b>40,338</b>
<b>Company</b>				
<b>31 December 2012</b>				
Listed companies	45	19,201	-	19,246
Unlisted companies	-	23,568	-	23,568
<b>Total</b>	<b>45</b>	<b>42,769</b>	<b>-</b>	<b>42,814</b>
<b>31 December 2011</b>				
Listed companies	3,965	-	-	3,965
Unlisted companies	-	34,152	-	34,152
<b>Total</b>	<b>3,965</b>	<b>34,152</b>	<b>-</b>	<b>38,117</b>

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 5,333 thousand if the percentage of completion were increased, or would be decreased by HRK 4,848 thousand if the percentage of completion were decreased.

*(b) 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.

During 2012, circumstances in the construction and electricity sector continued to change. The expected growth of investments in the electricity sector failed to occur, work on existing projects was delayed, and the further decline in production in the construction industry has led most of the Company's and the Group's major partners into liquidity problems. As a consequence, a number of partners also initiated pre-bankruptcy settlement procedures which hinders or delays the collection of receivables. Blocking of the Company's bank accounts (by banks and creditors via liens and mortgages) and initiating the pre-bankruptcy settlement procedure further influenced the deterioration in the credit rating and trust of customers (especially in foreign markets) and undermined the liquidity of certain subsidiaries.

Based on new information and changed circumstances, the Company's new Management had a heightened sensitivity regarding the risk assessment of the recoverability of certain receivables as well as regarding the viability of certain investments. As a result, the Group and the Company recognised impairment provisions in respect of receivables and assets totalling HRK 200,198 thousand and HRK 187,088 thousand, respectively (Notes 9 and 10).



**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

*(c) 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 4,310 thousand higher or HRK 3,918 thousand lower.

*(d) Legal claims and disputes*

Provisions for legal claims and disputes are recorded based on Management's best 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 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 Production segment includes 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 Construction segment 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.

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)*

	<u>Construction</u>	<u>Production</u>	<u>Other</u>	<u>Total</u>
<b>Year ended 31 December 2012</b>				
Gross segment revenues	1,226,642	388,996	5,800	1,621,438
Inter-segment sales /i/	<u>(339,651)</u>	<u>(27,988)</u>	-	<u>(367,639)</u>
Total revenues	886,991	361,008	5,800	1,253,799
Operating profit/(loss) before depreciation, amortisation and restructuring costs	(266,747)	(162)	(29,219)	(296,128)
Depreciation and amortisation	<u>(40,724)</u>	<u>(9,516)</u>	<u>(77)</u>	<u>(50,317)</u>
Loss from regular operations	<b>(307,471)</b>	<b>(9,678)</b>	<b>(29,296)</b>	<b>(346,445)</b>
<b>Year ended 31 December 2011</b>				
Gross segment revenues	1,181,662	124,603	23,709	1,329,974
Inter-segment sales /i/	<u>(125,828)</u>	<u>(73,353)</u>	-	<u>(199,181)</u>
Total revenues	1,055,834	51,250	23,709	1,130,793
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	<u>(37,932)</u>	<u>(16,577)</u>	-	<u>(54,509)</u>
Profit/(loss) from regular operations	<b>48,114</b>	<b>(245,612)</b>	-	<b>(197,498)</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 5 – SEGMENT INFORMATION (continued)

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

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of HRK)</i>	
Segment sales	1,615,638	1,306,265
Inter-segment receivables	(367,639)	(199,181)
<b>Unallocated:</b>		
Sales of goods	-	21,093
Other	5,800	2,616
Total revenues	<u>1,253,779</u>	<u>1,130,793</u>

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

/ii/ 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 separation, the Production segment generated total revenues of HRK 4,439 thousand, total operating expenses of HRK 170,042 thousand, net finance costs of 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	<u>183,877</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 5 – SEGMENT INFORMATION (continued)

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

	2012		2011	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Croatia	601,996	48.15	602,873	53.31
Bosnia and Herzegovina	47,991	3.82	59,052	5.22
Norway	273,371	21.75	167,026	14.77
Ukraine	47,856	3.81	121,851	10.78
Albania	-	-	6,493	0.57
Slovenia	187,317	14.90	40,118	3.55
Greenland	10	0.00	18,462	1.63
Saudi Arabia	56,307	4.48	13,296	1.18
Montenegro	12,330	0.98	6,171	0.55
Sweden	12,832	1.02	4,124	0.36
Other foreign countries	13,789	1.10	91,327	8.08
<b>Total</b>	<b>1,253,799</b>	<b>100.00</b>	<b>1,130,793</b>	<b>100.00</b>

Sales revenues by sectors are as follows:

	2012	2011
	<i>(in thousands of HRK)</i>	
Road sector	182,587	200,064
Electricity sector	898,404	455,411
Railroad and telecommunications sector	28,577	27,965
Gas sector	295	25,707
Properties sector	96,948	58,340
Other	46,988	363,306
	<b>1,253,799</b>	<b>1,130,793</b>

Key customers in the electricity sector (4 customers) and the road sector (3 customers) have the greatest impact on total revenues of the Group and the Company. In, 2012, these customers comprised 67.1% of sales revenues (2011: 37.5%).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 6 – OTHER INCOME

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Interest income	3,520	8,718	3,049	8,669
Income from penalty interest	5,511	4,276	5,511	4,276
Proceeds from insurance claims	2,710	1,319	2,593	1,100
Rental income	724	800	5,310	2,202
Income from reversal of provisions	123	2,938	48	2,520
Inventory surplus	802	1,495	39	1,423
Other operating income	13,697	14,608	12,898	13,420
	<b>27,087</b>	<b>34,154</b>	<b>29,448</b>	<b>33,610</b>

## NOTE 7 – COST OF MATERIALS AND SERVICES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
<b>Raw materials and supplies</b>				
Raw materials and supplies	386,760	169,163	185,967	129,269
Energy	21,810	19,584	12,646	12,783
Spare parts and small inventory	3,646	4,666	2,196	3,953
	<b>412,216</b>	<b>193,413</b>	<b>200,809</b>	<b>146,005</b>
<b>External services</b>				
Subcontractor services	456,363	368,215	463,320	362,910
Transportation	12,296	18,562	4,330	14,033
Repairs and maintenance	10,164	10,613	7,982	8,363
Advertising and promotion	1,375	2,992	626	2,689
Rental expense	7,360	4,298	3,142	3,735
Other	5,440	13,303	2,862	5,643
	<b>492,998</b>	<b>417,983</b>	<b>482,262</b>	<b>397,373</b>
<b>Total cost of materials and services</b>	<b>905,214</b>	<b>611,396</b>	<b>683,071</b>	<b>543,378</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 8 – STAFF COSTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Net salaries	158,604	148,118	95,702	89,072
Taxes and contributions on and from salaries	87,443	90,044	46,924	41,840
Severance costs	1,024	60,587	166	1,548
Unused vacation days	3,614	-	3,614	-
Other staff costs	8,349	5,163	2,139	2,793
Supervisory Board compensation	380	942	137	463
	<u>259,414</u>	<u>304,854</u>	<u>148,682</u>	<u>135,716</u>

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 23,333 thousand (2011: HRK 30,289 thousand) for the Group, and HRK 13,373 thousand for the Company (2011: HRK 16,637 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 2012, the Group had 1,690 employees (2011: 1,794 employees), and the Company had 743 employees (2011: 814 employees).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 9 – OTHER OPERATING EXPENSES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Intellectual and non-production services	29,859	30,973	16,282	18,777
Daily allowances and travel cost	19,488	19,248	13,957	14,513
Bank charges	11,353	10,491	8,603	9,490
Entertainment	2,483	4,315	1,940	3,610
Taxes and contributions	6,210	5,117	4,564	4,312
Insurance	5,979	9,150	5,211	7,289
Sponsorships, donations and other aids	1,326	4,704	1,245	4,404
Impairment and write-off of property, plant and equipment	26,079	1,163	13,534	165
Impairment of trade receivables and loans – net (Note 23)	75,276	16,500	84,521	9,156
Impairment of associates (Note 19)	36,175	-	-	-
Impairment of other financial assets (Note 23)	40,671	-	41,836	-
Impairment of non-financial assets (Note 23)	6,247	-	6,247	-
Impairment of investments in subsidiaries (Note 18)	897	-	32,995	-
Write-off of inventories	11,438	-	4,270	-
Inventory deficits	3,934	2,723	297	2,602
Interest from suppliers	4,828	5,451	4,662	4,832
Fines and penalties	657	4,704	657	4,704
Other	58,362	31,482	51,424	33,584
	<b>341,262</b>	<b>146,021</b>	<b>292,245</b>	<b>117,438</b>

## NOTE 10 – OTHER GAINS/(LOSSES) – NET

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Net foreign exchange loss from operating activities	(5,925)	(4,832)	(5,927)	(4,806)
Loss on sale of available-for-sale financial assets	-	(150)	-	(150)
Fair value losses of financial assets available for sale (Note 19c)	(3,415)	-	(3,415)	-
Net gain on sale of tangible assets (Note 31)	2,650	123	299	71
	<b>(6,690)</b>	<b>(4,859)</b>	<b>(9,043)</b>	<b>(4,885)</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 11 – FINANCE INCOME AND COSTS - NET

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Interest income on bank deposits	1,397	844	452	679
Finance income	1,397	844	452	679
Net foreign exchange differences (financing activities)	(4,551)	(5,510)	(4,537)	(5,502)
Interest expense	(96,214)	(83,270)	(74,092)	(64,505)
Less capitalised interest (Note 16)	21,113	11,106	-	-
Finance costs	(79,652)	(77,674)	(78,629)	(70,007)
	<b>(78,255)</b>	<b>(76,830)</b>	<b>(78,177)</b>	<b>(69,328)</b>

## NOTE 12 – INCOME TAX

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
<b>Loss before tax including discontinued operations</b>	<b>(422,167)</b>	<b>(274,328)</b>	<b>(436,935)</b>	<b>(274,396)</b>
Tax calculated at the domestic tax rate applicable to profits in the respective countries	(81,524)	(50,857)	(85,424)	(51,961)
Effect of income not subject to tax	(766)	(1,220)	(113)	(620)
Effect of expenses not deductible for tax purposes	22,990	2,105	19,629	1,738
Effect of reinvestment of profit /i/	(3,894)	-	-	-
Effect of tax losses not recognised as deferred tax assets	71,369	53,981	70,214	53,761
<b>Income tax expense</b>	<b>8,175</b>	<b>4,009</b>	<b>4,306</b>	<b>2,918</b>

/i/ In 2012, some Group members utilised a tax exemption pursuant to the reinvestment of profit. In 2013, in line with the decision of the Management of individual companies, the registered capital of Group members will be increased by a total of HRK 19,470 thousand.

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.

The recorded income tax expense in the Company includes income tax expense recorded in the foreign business units in accordance with the laws of the countries in which they operate.



**DALEKOVOD d.d.****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2012**

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**NOTE 13 – BASIC AND DILUTED LOSS 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.

	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net loss attributable to shareholders from continued operations <i>(in thousands of HRK)</i>	(429,924)	(278,179)	(441,241)	(105,315)
Net loss attributable to shareholders from discontinued operations <i>(in thousands of HRK)</i>	-	-	-	(171,999)
Weighted average number of shares	2,823,331	2,536,605	2,823,331	2,536,605
Basic/diluted loss per share from continued operations <i>(in HRK)</i>	(152.28)	(109.67)	(156.28)	(41.52)
Basic/diluted loss per share from discontinued operations <i>(in HRK)</i>	-	-	-	(67.81)

**NOTE 14 – DIVIDEND PER SHARE**

In 2012, the General Assembly did not approve the payment of dividends from retained earnings of earlier years.

Unpaid dividends in the amount of HRK 1,900 thousand (2011: HRK 1,900 thousand) are 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)*

	<u>Goodwill</u>	<u>Software</u>	<u>Total</u>
<b>At 1 January 2011</b>			
Cost	4,559	41,275	45,834
Accumulated amortisation	-	(19,526)	(19,526)
<b>Net book amount</b>	<b>4,559</b>	<b>21,749</b>	<b>26,308</b>
<b>Year ended 31 December 2011</b>			
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
<b>At 31 December 2011</b>			
Cost	4,559	43,370	47,929
Accumulated amortisation	-	(20,446)	(20,446)
<b>Net book amount</b>	<b>4,559</b>	<b>22,924</b>	<b>27,483</b>
<b>Year ended 31 December 2012</b>			
Opening net book amount	4,559	22,924	27,483
Additions	-	1,008	1,008
Disposals	-	(3,930)	(3,930)
Amortisation	-	(7,218)	(7,218)
Closing net book amount	4,559	12,784	17,343
<b>At 31 December 2012</b>			
Cost	4,559	40,368	44,927
Accumulated amortisation	-	(27,584)	(27,584)
<b>Net book amount</b>	<b>4,559</b>	<b>12,784</b>	<b>17,343</b>

DALEKOVOD d.d.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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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 5.51%. 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)*

	<u>Software</u>
<b>At 1 January 2011</b>	
Cost	39,462
Accumulated amortisation	(19,526)
<b>Net book amount</b>	<b>19,936</b>
<b>Year ended 31 December 2011</b>	
Opening net book amount	19,936
Additions	3,501
Disposals	(844)
Transfer to Dalekovod Proizvodnja d.o.o.	(96)
Amortisation	(4,349)
<b>Closing net book amount</b>	<b>18,148</b>
<b>At 31 December 2011</b>	
Cost	37,687
Accumulated amortisation	(19,539)
<b>Net book amount</b>	<b>18,148</b>
<b>Year ended 31 December 2012</b>	
Opening net book amount	18,148
Additions	14
Disposals	(1,524)
Amortisation	(6,268)
<b>Closing net book amount</b>	<b>10,370</b>
<b>At 31 December 2012</b>	
Cost	36,177
Accumulated amortisation	(25,807)
<b>Net book amount</b>	<b>10,370</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Group <i>(in thousands of HRK)</i>	Land	Buildings	Machinery and equipment	Work in progress	Total
<b>At 1 January 2011</b>					
Cost	89,571	412,172	522,509	191,925	1,216,177
Accumulated depreciation	-	(182,537)	(317,387)	-	(499,924)
<b>Net book amount</b>	<b>89,571</b>	<b>229,635</b>	<b>205,122</b>	<b>191,925</b>	<b>716,253</b>
<b>Year ended 31 December 2011</b>					
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 surplus	194,014	(143,993)	-	-	50,021
Disposals	-	-	(5,994)	-	(5,994)
Exchange differences	26	67	-	-	93
Depreciation charge	-	(5,608)	(44,172)	-	(49,780)
<b>At 31 December</b>	<b>284,333</b>	<b>270,180</b>	<b>180,751</b>	<b>248,725</b>	<b>983,989</b>
<b>At 31 December 2011</b>					
Cost	284,333	352,064	251,693	248,725	1,136,815
Accumulated depreciation	-	(81,884)	(70,942)	-	(152,826)
<b>Net book amount</b>	<b>284,333</b>	<b>270,180</b>	<b>180,751</b>	<b>248,725</b>	<b>983,989</b>
<b>Year ended 31 December 2012</b>					
At 1 January	284,333	270,180	180,751	248,725	983,989
Additions	-	1,380	10,128	97,510	109,018
Transfer	-	-	5	(5)	-
Revaluation surplus	729	5,169	8,527	-	14,425
Disposals	-	(4,381)	(7,292)	(17,176)	(28,849)
Exchange differences	-	147	-	-	147
Depreciation charge	-	(9,228)	(33,871)	-	(43,099)
<b>At 31 December</b>	<b>285,062</b>	<b>263,267</b>	<b>158,248</b>	<b>329,054</b>	<b>1,035,631</b>
<b>At 31 December 2012</b>					
Cost	285,062	460,879	385,818	329,054	1,460,813
Accumulated depreciation	-	(197,612)	(227,570)	-	(425,182)
<b>Net book amount</b>	<b>285,062</b>	<b>263,267</b>	<b>158,248</b>	<b>329,054</b>	<b>1,035,631</b>

In 2012, capitalised interest on assets under construction amounted to HRK 21,113 thousand (2011: HRK 11,106 thousand) using a rate of 7.35% (2011: 7.35%).

Had revaluation not been performed, the carrying amount of land, buildings and machinery would have amounted to HRK 495,189 thousand at 31 December 2012 (2011: HRK 504,492 thousand).

## NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company					
<i>(in thousands of HRK)</i>	Land	Buildings	Machinery and equipment	Work in progress	Total
<b>At 1 January 2011</b>					
Cost	13,521	264,378	470,298	46,718	794,915
Accumulated depreciation	-	(142,140)	(276,094)	-	(418,234)
<b>Net book amount</b>	<b>13,521</b>	<b>122,238</b>	<b>194,204</b>	<b>46,718</b>	<b>376,681</b>
<b>Year ended 31 December 2011</b>					
At 1 January	13,521	122,238	194,204	46,718	376,681
Additions	-	183,813	10,197	(39,618)	154,392
Revaluation surplus	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 charge	-	(5,513)	(35,020)	-	(40,533)
At 31 December	164,914	71,461	111,826	7,100	355,301
<b>At 31 December 2011</b>					
Cost	164,914	123,862	273,862	7,100	569,738
Accumulated depreciation	-	(52,401)	(162,036)	-	(214,437)
<b>Net book amount</b>	<b>164,914</b>	<b>71,461</b>	<b>111,826</b>	<b>7,100</b>	<b>355,301</b>
<b>Year ended 31 December 2012</b>					
At 1 January	164,914	71,461	111,826	7,100	355,301
Additions	-	-	3,915	-	3,915
Transfer from investment property	-	85	-	-	85
Transfer from work in progress	-	-	5	(5)	-
Disposals and write-offs	-	(1,695)	(3,627)	(7,095)	(12,417)
Depreciation charge	-	(2,854)	(22,212)	-	(25,066)
At 31 December	164,914	66,997	89,907	-	321,818
<b>At 31 December 2012</b>					
Cost	164,914	122,205	267,355	-	554,474
Accumulated depreciation	-	(55,208)	(177,448)	-	(232,656)
<b>Net book amount</b>	<b>164,914</b>	<b>66,997</b>	<b>89,907</b>	<b>-</b>	<b>321,818</b>

At 31 December 2012, advances paid by the Group for property, plant and equipment amounted to HRK 119 thousand (2011: HRK 45 thousand), while in 2012 and 2011, the Company did not have any paid advances.

As at 31 December 2012, land, buildings and equipment of the Group and the Company with a net book value of HRK 341,829 thousand (2011: HRK 393,127 thousand) were pledged as security for borrowings (Note 27).

Had revaluation not been performed, the carrying amount of land and buildings would have amounted to HRK 181,890 thousand at 31 December 2012 (2011: HRK 186,354 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 17 – INVESTMENT PROPERTY

## Company

*(in thousands of HRK)*

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<b>At 1 January 2011</b>			
Cost	29,588	84,231	113,819
Accumulated depreciation	-	(7,618)	(7,618)
<b>Net book amount</b>	<b>29,588</b>	<b>76,613</b>	<b>106,201</b>
<b>Year ended 31 December 2011</b>			
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 charge	-	(3,703)	(3,703)
At 31 December	72,209	158,370	230,579
<b>At 31 December 2011</b>			
Cost	72,209	263,871	336,080
Accumulated depreciation	-	(105,501)	(105,501)
<b>Net book amount</b>	<b>72,209</b>	<b>158,370</b>	<b>230,579</b>
<b>Year ended 31 December 2012</b>			
At 1 January	72,209	158,370	230,579
Additions	-	640	640
Transfer to property, plant and equipment	-	(85)	(85)
Disposals and write-offs	-	(2,625)	(2,625)
Depreciation charge	-	(7,737)	(7,737)
At 31 December	72,209	148,563	220,772
<b>At 31 December 2012</b>			
Cost	72,209	261,801	334,010
Accumulated depreciation	-	(113,238)	(113,238)
<b>Net book amount</b>	<b>72,209</b>	<b>148,563</b>	<b>220,772</b>

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 127,664 thousand (2011: HRK 106,201 thousand) have been pledged as security for the repayment of the finance lease (Note 27).

At 31 December 2012, assets under a finance lease where the Group and the Company are the lessee amounted to HRK 60,935 thousand (2011: HRK 65,298 thousand) – see Note 27.

## NOTE 18 – INVESTMENTS IN SUBSIDIARIES

	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
At 1 January	971	971	427,498	165,706
Additions /i/	-	-	16,022	261,812
Decrease	-	-	-	(20)
Consolidation of Dalekovod Ukrajina d.o.o.	(74)	-	-	-
Impairment /ii/	(897)	-	(32,995)	-
At 31 December	-	971	410,525	427,498

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

Name	Country of incorporation	2012		2011	
		2012	2011	2012	2011
		<i> Holding in % </i>		<i> (in thousands of HRK) </i>	
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	222,758	206,736
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 /iii/	Bosnia and Herzegovina	97.25	97.25	20,344	20,344
Dalekovod Professio d.o.o., Zagreb /iv/	Croatia	100.00	100.00	77,029	77,029
Denacco Namibia (PTY) Ltd	Namibia	60.00	60.00	18	18
Dalekovod TIM Topusko d.d. /iv/	Croatia	95.81	95.81	28,059	28,059
Dalekovod – ulaganja d.o.o. Zagreb	Croatia	100.00	100.00	38,120	38,120
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 for engineering, joint venture, Libya	Libya	65.00	65.00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	100.00	100.00	74	74
Dalekovod ApS, Grenland /v/	Greenland	100.00	100.00	124	124
Impairment of investments /ii/				(35,592)	(2,597)
				<b>410,525</b>	<b>427,498</b>

/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 its investment in Dalekovod Proizvodnja by 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. During 2012, the investment in Dalekovod Proizvodnja d.o.o. was increased by HRK 16,022 thousand.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 18 – INVESTMENTS IN SUBSIDIARIES (continued)

- /ii/ During 2012, the Company impaired investments in subsidiaries Denacco Namibia (PTY) Ltd, Dalekovod-Adria d.o.o. and Dalekovod Libya. The impairment of HRK 32,995 thousand was recorded in the income statement (Note 9).
- /iii/ During 2011, the Company purchased an additional 4.31% shares of Dalekovod TKS Doboj from small shareholders in the amount of HRK 964 thousand.
- /iv/ During 2011, the Company increased the share capital of 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.).
- /v/ In 2011, the Company established a subsidiary in Greenland by investing HRK 124 thousand.

A Group member (Dalekovod Professio d.o.o.) owns shares in the following subsidiaries:

Name	Country of incorporation	2012	2011
<i> Holding in % </i>			
Dalekovod OIE d.o.o., Zagreb	Croatia	100.00	100.00
Voštane j.d.o.o., Zagreb	Croatia	100.00	-
Dalekovod breze j.d.o.o., Zagreb	Croatia	100.00	-
Otrić j.d.o.o., Zagreb	Croatia	100.00	-

The companies Voštane j.d.o.o., Dalekovod breze j.d.o.o. and Otrić j.d.o.o. are not included in consolidation due to immaterial assets and operating volume.

## NOTE 19a – INVESTMENTS IN ASSOCIATES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
At beginning of year	56,416	54,541	20,241	20,241
Additional investments	-	1,875	-	-
Impairment (Note 9)	(36,175)	-	-	-
At end of year	<b>20,241</b>	<b>56,416</b>	<b>20,241</b>	<b>20,241</b>

Associates are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Holding in %	
	2012	2011	2012	2011
Members of the TLM Group	7	26,182	25-47	25-47
Unidal d.o.o. Vinkovci	20,234	20,234	49	49
Total	<b>20,241</b>	<b>56,416</b>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 19b – INVESTMENTS IN JOINT VENTURES

<i>(in thousands of HRK)</i>	Dalekovod Group	
	2012	2011
At beginning of year	76,640	19,478
Additional investments	9,938	57,162
Effect of consolidation of Dalekovod OIE d.o.o.	(9,780)	-
Share in profit	2,533	-
Other	398	-
At end of year	<b>79,729</b>	<b>76,640</b>

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

During 2012, the Group invested an additional HRK 9,938 thousand (2011: HRK 57,162 thousand) in these joint ventures via conversion of receivables to equity.

The list of investments in joint ventures is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group	
	2012	2011
Velika Popina d.o.o.	21,950	10,777
Dalekovod OIE d.o.o.	-	9,780
Eko d.o.o.	57,761	56,065
OIE Makedonija	18	18
Total	<b>79,729</b>	<b>76,640</b>

## NOTE 19c – AVAILABLE-FOR-SALE FINANCIAL ASSETS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
At beginning of year	40,198	47,850	38,090	68,059
Additional investments /i/	18,171	-	18,147	-
Decrease /ii/	(2,862)	(1,895)	(753)	(24,212)
Adjustment to fair value /iii/	(12,698)	(5,757)	(12,698)	(5,757)
At end of year	<b>42,809</b>	<b>40,198</b>	<b>42,786</b>	<b>38,090</b>

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 investors.

/i/ In 2012, in exchange for bad debts the Company acquired rights of the Ministry of Finance and the Ministry of Public Works, Reconstruction and Construction. These rights include rights to certain shares/holdings from the portfolio of the Agency for State Property Management.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 19c – AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

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

/iii/ At 31 December 2012, the Company performed a valuation of available-for-sale financial assets and adjusted them to fair value. The fair value loss of HRK 9,283 thousand (2011: decrease of HRK 5,757 thousand) was recorded in revaluation reserves (Note 26). The remaining fair value loss on available-for-sale assets of HRK 3,415 thousand was recorded in the income statement (Note 10).

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY

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

## Group

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Total
<b>31 December 2012</b>					
<b>Financial assets</b>					
Trade receivables	23	355,242	-	-	355,242
Receivables by construction contracts	23	53,333	-	-	53,333
Other receivables	23	56,629	-	-	56,629
Loans receivable and deposits	21,23	11,186	-	-	11,186
Interest receivable	23	1,832	-	-	1,832
Receivables from other foreign business units for unpaid profit and loans receivable	23	28,434	-	-	28,434
Other receivables	23	41,631	-	-	41,631
Available-for-sale financial assets	19	-	-	42,786	42,786
Financial assets at fair value through profit or loss	24	-	424	-	424
Cash and cash equivalents	25	17,884	-	-	17,884
<b>Total</b>		<b>509,542</b>	<b>424</b>	<b>42,786</b>	<b>552,752</b>

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
<b>31 December 2012</b>		
<b>Financial liabilities</b>		
Borrowings	27	960,540
Finance lease	27	140,304
Trade payables	28	387,681
Other payables	28	128,756
<b>Total</b>		<b>1,617,281</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

## Group

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
<b>31 December 2011</b>					
<b>Financial assets</b>					
Trade receivables	23	433,979	-	-	433,979
Receivables by construction contracts	23	212,607	-	-	212,607
Loans receivable and deposits	21,23	165,623	-	-	165,623
Interest receivable	23	12,110	-	-	12,110
Other receivables	23	84,910	-	-	84,910
Available-for-sale financial assets	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
<b>Total</b>		<b>955,164</b>	<b>140</b>	<b>40,198</b>	<b>995,502</b>

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
<b>31 December 2011</b>		
<b>Financial liabilities</b>		
Borrowings	27	990.501
Finance lease	27	153.335
Trade payables	28	399.204
Other payables	28	71.453
<b>Total</b>		<b>1.614.493</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

## Company

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
<b>31 December 2012</b>					
<b>Financial assets</b>					
Trade receivables	23	231,435	-	-	231,435
Receivables by construction contracts	23	53,333	-	-	53,333
Loans receivable and deposits	21,23	68,749	-	-	68,749
Interest receivable	23	4,101	-	-	4,101
Receivables from other foreign business units for unpaid profit and loans receivable	23	21,539	-	-	21,539
Other receivables	23	30,949	-	-	30,949
Available-for-sale financial assets	19	-	-	42,786	42,786
Financial assets at fair value through profit or loss	24	-	28	-	28
Cash and cash equivalents	25	9,692	-	-	9,692
<b>Total</b>		<b>419,798</b>	<b>28</b>	<b>42,786</b>	<b>462,612</b>

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
<b>31 December 2012</b>		
<b>Financial liabilities</b>		
Borrowings	27	725,593
Finance lease	27	139,456
Trade payables	28	338,427
Other payables	28	94,985
<b>Total</b>		<b>1,298,461</b>

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
<b>31 December 2011</b>					
<b>Financial assets</b>					
Trade receivables	23	409,301	-	-	409,301
Receivables by construction contracts	23	212,607	-	-	212,607
Loans receivable and deposits	21,23	200,063	-	-	200,063
Interest receivable	23	14,821	-	-	14,821
Other receivables	23	72,981	-	-	72,981
Available-for-sale financial assets	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
<b>Total</b>		<b>939,887</b>	<b>27</b>	<b>38,090</b>	<b>978,004</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 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.

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
<b>Trade receivables – neither past due nor impaired</b>				
Existing customers – payments within maturity period	107,406	40,011	26,390	38,265
Existing customers – with some defaults in the past	98,424	158,648	85,234	151,727
	<b>205,830</b>	<b>198,659</b>	<b>111,624</b>	<b>189,992</b>
Long-term loans receivable and deposits	24,404	24,803	22,794	23,971
Trade receivables from contract work	53,333	212,607	53,333	212,607
Loans receivable and deposits	11,186	137,990	68,849	173,262
Interest receivable	1,832	12,110	4,101	14,821
Receivables from other foreign business units for unpaid profit and loans receivable	28,434	-	21,539	-
Other receivables	41,631	87,740	30,949	75,811
	<b>366,650</b>	<b>673,909</b>	<b>313,189</b>	<b>690,464</b>

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
BBB -	-	10,060	-	6,455
BB+	3,938	-	3,448	-
Without rating	19,042	35,908	8,071	23,692
	<b>22,980</b>	<b>45,968</b>	<b>11,519</b>	<b>30,147</b>

## NOTE 21 – LOANS AND RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Long-term deposits	1,827	33	1,827	33
Long-term guarantee deposits	18,738	11,857	18,738	11,857
Long-term loans receivable:				
- loans to subsidiaries	-	-	1,385	2,930
- consumer goods loans	-	514	-	514
- housing loans and other loans to employees	2,318	2,976	2,229	2,896
- loans to other companies	11,566	34,824	8,660	31,142
Impairment of long-term deposits and loans	(8,660)	-	(8,660)	-
Total long-term loans and deposits	25,789	50,204	24,179	49,372
Current portion of long-term loans and deposits (Note 23)	(1,385)	(25,401)	(1,385)	(25,401)
<b>Long-term loans and deposits given</b>	<b>24,404</b>	<b>24,803</b>	<b>22,794</b>	<b>23,971</b>

**Deposits**

Deposits are denominated in HRK. During the year, the effective interest rates for deposits ranged from 0.5% to 3.5%. Long-term deposits mature in 2015.

**Consumer goods loans**

Consumer goods loans represent trade receivables 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. The loans were repaid in 2012.

**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 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. Due to the uncertainty of receivables collection under this loan, the Company impaired this loan during 2012.

In March 2010, the Company concluded a loan agreement with the company Chemo Invest d.o.o. in the amount of HRK 21,773 thousand denominated in EUROS for a period of 2 years and an interest rate of 4.5% p.a. The loan was repaid during 2012, while as at 31 December 2011, the loan balance amounted to HRK 22,591 thousand.



## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 21 – LOANS AND RECEIVABLES (continued)

Movements in the provision for impairment of long-term deposits and loans receivable are as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
At 1 January	-	-	-	-
Provision for impairment of trade receivables (Note 9)	8,660	-	8,660	-
At 31 December	8,660	-	8,660	-

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

<i>(in thousands of HRK)</i>	Carrying value		Fair value	
	2012	2011	2012	2011
Loans given	-	8,551	-	3,048

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% (2011: 6.25%).

## NOTE 22 – INVENTORIES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Raw materials	52,937	71,523	6,329	12,412
Finished goods, semi-finished goods and work in progress	76,385	96,258	1,954	5,532
Spare parts and small inventories	5,437	5,595	1,819	1,978
Trade goods	17,747	16,585	237	222
Advances for inventories	274	-	-	-
	152,780	189,961	10,339	20,144

Total construction costs incurred and recognised profits (less recognised losses to date) for all active construction contracts amounted to HRK 5,051,748 thousand (2011: HRK 5,099,615 thousand). Costs of raw materials and supplies are included in the income statement in Note 7.

## NOTE 23 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Domestic trade receivables	404,466	275,369	275,065	228,363
Foreign trade receivables	45,866	189,901	44,366	204,831
Provisions for impairment	(95,090)	(31,291)	(87,996)	(23,893)
	<u>355,242</u>	<u>433,979</u>	<u>231,435</u>	<u>409,301</u>
Receivable from customers for contract work	53,333	212,607	53,333	212,607
Guarantee deposits – current portion	6,567	25,004	6,567	24,994
Short-term deposits /iii/	3,270	-	-	-
Current portion of long-term loans (Note 21)	1,385	25,401	1,385	25,401
Loans to subsidiary (Note 32)	-	-	73,921	53,717
Other short-term loans /i/	4,964	90,415	145	71,980
Interest receivable	4,832	12,110	9,605	14,821
Receivables from other foreign business units for unpaid profit and loans receivable /iv/	28,434	-	21,539	-
Other receivables	49,734	87,740	40,257	75,811
Impairment of other financial assets	(16,103)	(2,830)	(28,081)	(2,830)
<b>Total financial assets</b>	<u>491,658</u>	<u>884,426</u>	<u>410,106</u>	<u>885,802</u>
Advances /ii/	35,462	87,588	14,780	47,438
Receivable from employees	646	1,880	507	656
VAT receivable	-	39,244	-	30,468
Outstanding VAT receivable	2,017	-	1,207	-
Prepaid expenses	5,600	3,823	2,952	3,823
Impairment of non-financial assets	(6,247)	-	(6,247)	-
<b>Total non-financial assets</b>	<u>37,478</u>	<u>132,535</u>	<u>13,199</u>	<u>82,385</u>
	<u>529,136</u>	<u>1,016,961</u>	<u>423,305</u>	<u>968,187</u>

/i/ 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.

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

/iii/ Short-term deposits are contracted with fixed maturities and variable interest rates that are approximately equal to market rates. All deposits have maturities of one year after the balance sheet date. During the year, the effective interest rate for deposits ranged from 2.10% to 2.25%.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

/iv/ During 2012, the Company changed the method of monitoring foreign business units. In the financial statements for the year 2011, assets and liabilities of certain business units were recorded on a gross basis, while in 2012 they were recorded on a net basis. The effect of these changes can be seen in the table below:

<i>(in thousands of HRK)</i>	<u>2012</u>	<u>2011</u>
Tangible assets	4,962	2,372
Intangible assets	57	1,235
Non-current receivables	16,406	23
Inventories	1,655	4,949
Trade receivables	38,173	1,579
Other current receivables	47,349	15,749
Cash	12,280	20,052
<b>Total assets</b>	<b>120,882</b>	<b>45,959</b>
Non-current liabilities	67	4,546
Trade payables	67,514	3,936
Other current liabilities	31,762	221
<b>Total equity and liabilities</b>	<b>99,343</b>	<b>8,703</b>
Net receivables	21,539	37,256

As at 31 December 2012, the Group recognised trade receivables in the amount of HRK 143,266 thousand (2011: HRK 235,320 thousand) that were past due, but not impaired. The Company has such receivables in the amount of HRK 124,470 thousand (2011: HRK 219,309 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:

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Up to 90 days	98,859	47,797	73,619	44,545
From 91 to 180 days	10,998	29,098	10,803	27,118
Over 180 days	39,555	158,425	35,389	147,646
	<b>149,412</b>	<b>235,320</b>	<b>119,811</b>	<b>219,309</b>

**NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)**

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
At 1 January	34,121	19,398	26,723	17,567
Provision for receivables impairment (Note 9)	78,499	16,620	89,570	9,176
Collected amounts	(1,418)	(120)	(216)	(20)
Receivables eliminated during the year as uncollectible	(9)	(1,777)	-	-
At 31 December	111,193	34,121	116,077	26,723
Direct write-off of trade receivables and other financial assets (Note 9)	30,206	-	28,343	-

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
HRK	366,734	622,741	344,231	637,302
EUR	110,847	260,105	52,090	246,920
Other	14,077	1,580	13,785	1,580
Total	<b>491,658</b>	<b>884,426</b>	<b>410,106</b>	<b>885,802</b>

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 2012, the Group invested in domestic cash funds. As at 31 December 2012, the fair value of these assets in the Group amounted to HRK 424 thousand (2011: HRK 140 thousand), and in the Company to HRK 28 thousand (2011: HRK 27 thousand). During 2012 and 2011, the Company did not realise any gain on the fair valuation of assets.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 25 – CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Domestic currency	3,837	13,897	3,067	6,099
Foreign currency	14,047	27,485	6,625	24,015
Short-term deposits at bank	-	4,553	-	-
	<b>17,884</b>	<b>45,935</b>	<b>9,692</b>	<b>30,114</b>

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 2012, the average effective interest rate for short-term deposits with banks was 2.2% (2011: 2.3%).

Cash and cash equivalents are denominated in the following currencies:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
EUR	13,126	7,257	5,872	5,173
USD	-	407	-	407
UAH	168	14,839	-	14,839
Other foreign currencies	753	4,982	753	3,596
Total	<b>14,047</b>	<b>27,485</b>	<b>6,625</b>	<b>24,015</b>

**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 total of 164,753 new shares were issued with a nominal value of HRK 100 per share and a total nominal value of HRK 16,475 thousand, issued at HRK 245 per new ordinary share. As a result, the share capital increased from HRK 270,251 thousand by HRK 16,475 thousand to HRK 286,726 thousand at 31 December 2011. There was no further activity in 2012 and the share capital totals HRK 286,726 thousand at 31 December 2012.

The structure of shareholders as at 31 December is as follows:

	Number of shares		2012	2011
	2012	2011		
Individuals	1,430,432	1,356,503	49.89%	47.31%
Funds – pension	638,891	641,120	22.28%	22.36%
Banks	338,751	354,394	11.81%	12.36%
Telegra d.o.o.	164,753	164,868	5.75%	5.75%
Other	250,504	306,446	8.74%	10.69%
Treasury shares	43,934	43,934	1.53%	1.53%
	2,867,265	2,867,265	100.00%	100.00%

**Treasury shares**

As at 31 December 2012, the Company owns 43,934 treasury shares (2011: 43,934).

**Share premium**

From newly issued shares in 2011, the Company realised a premium of HRK 83,151 thousand, which was reduced by the cost of issuing new shares of HRK 2,672 thousand. As at 31 December 2011 and 2012, the total share premium for issued shares 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 2012, according to the decision of the Company's Annual General Meeting and the reallocation of loss, the statutory reserves were decreased by HRK 277,314 thousand (2011: increased by HRK 2,860 thousand). Other reserves consist of profits from previous periods set aside by the decision of the General Meeting and treasury shares reserves.

**Revaluation reserves**

As at 31 December 2012, the Group and the Company remeasured to fair value its available-for-sale financial assets (shares and interests in an investment fund – Note 19) and, consequently a recognised a decrease in revaluation reserves of HRK 9,282 thousand (2011: decrease of HRK 5,757 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 external appraiser. 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. At the end of 2012, the subsidiary Dalekovod TKS from Dobož performed a revaluation of land, buildings and plant. The increase in non-current tangible assets in the total amount of HRK 14,425 thousand (Note 16) was recorded in the statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 27 – BORROWINGS

<i>(in thousands of HRK)</i>	Average interest rates	Dalekovod Group		Dalekovod d.d.	
		2012	2011	2012	2011
<b>Long-term</b>					
Borrowings from banks and subsidiaries	5.66%	42,449	194,535	34,402	186,688
Finance lease /i/	5.04%	113,527	135,449	112,679	135,449
		<b>155,976</b>	<b>329,984</b>	<b>147,081</b>	<b>322,137</b>
<b>Short-term</b>					
Borrowings from banks and subsidiaries	7.98%	873,975	743,795	634,439	530,031
Commercial papers	8.75%	44,116	52,171	56,752	52,171
Finance lease /i/	5.04%	26,777	17,886	26,777	17,886
		<b>944,868</b>	<b>813,852</b>	<b>717,968</b>	<b>600,088</b>
<b>Total borrowings</b>		<b>1,100,844</b>	<b>1,143,836</b>	<b>865,049</b>	<b>922,225</b>

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

<i>(in thousands of HRK)</i>	Group		Company	
	2012	2011	2012	2011
Up to 1 year	31,858	25,477	31,858	25,477
1 to 5 years	126,359	158,499	125,375	158,499
Over 5 years	-	-	-	-
	<b>158,217</b>	<b>183,976</b>	<b>157,233</b>	<b>183,976</b>
Future finance costs under finance lease	(17,913)	(30,641)	(17,777)	(30,641)
<b>Present value of liabilities under finance lease</b>	<b>140,304</b>	<b>153,335</b>	<b>139,456</b>	<b>153,335</b>

During 2012, the Company issued commercial papers in the amount of HRK 56.7 million (2011: HRK 52.1 million) in denominations of HRK 1.00 for a period of 364 days from the day of issuance with an average annual nominal yield of 8.75% (2011: 7.99%).

Bank borrowings are secured with bills of exchange and by mortgage over property, plant and equipment and investment property (Notes 16 and 17).



## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 27 – BORROWINGS (continued)

As at 31 December 2012, the Group's and the Company's interest payable on long-term and short-term borrowings amounted to HRK 44,092 thousand and HRK 27,332 thousand, respectively (2011: HRK 10,695 thousand and HRK 7,124 thousand, respectively), (Note 28).

The Group's borrowings totalling HRK 714,569 thousand (2011: HRK 756,433 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 386,275 thousand (2011: HRK 387,403 thousand) 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):

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
1 month	77,659	47,711	77,659	24,576
3 months	636,493	637,024	355,934	513,605
6 months	417	71,698	417	71,698
	<u>714,569</u>	<u>756,433</u>	<u>534,010</u>	<u>609,879</u>

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

<i>(in thousands of HRK)</i>	Carrying value		Fair value	
	2012	2011	2012	2011
Bank borrowings	141,713	117,910	138,104	112,508

As at 31 December 2012, the fair value of the Group's and the Company's fixed-interest long-term borrowings amounted to HRK 138,104 thousand (2011: HRK 112,508 thousand) using a discount rate of 5.51% (2011: 6.25%), 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.	
	2012	2011	2012	2011
EUR	679,780	618,043	407,460	498,301
HRK	421,064	525,793	457,589	423,924
	<u>1,100,844</u>	<u>1,143,836</u>	<u>865,049</u>	<u>922,225</u>

The maturity of long-term borrowings is as follows:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Between 1 and 5 years	42,449	194,535	34,402	186,688
Over 5 years	-	-	-	-
	<u>42,449</u>	<u>194,535</u>	<u>34,402</u>	<u>186,688</u>

Upon finalisation of the pre-bankruptcy settlement (Note 33), the Company's and the Group's new total debt exposure will be defined as well as the new repayment plans of borrowings.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 28 – TRADE AND OTHER PAYABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
Domestic suppliers	356,086	363,791	318,039	338,894
Foreign suppliers	31,595	35,413	20,388	29,521
	<b>387,681</b>	<b>399,204</b>	<b>338,427</b>	<b>368,415</b>
Interest payable	44,092	10,695	27,332	7,124
Bills of exchange	919	12,777	919	12,777
Dividend payable (Note 14)	1,900	1,900	1,900	1,900
Contracted liabilities from acquisition	2,810	2,810	2,810	2,810
Other accruals and liabilities	56,767	43,271	39,756	31,829
Due to banks arising from collected guarantees	22,268	-	22,268	-
Financial liabilities	516,437	470,657	433,412	424,855
Advances	54,600	224,198	31,859	201,670
Due to employees	18,421	23,146	9,504	16,851
VAT payable	13,099	-	8,066	-
Taxes and contributions	16,370	10,070	4,353	4,732
Unused vacation days	3,614	-	3,615	-
Non-financial liabilities	106,104	257,414	57,397	223,253
	<b>622,541</b>	<b>728,071</b>	<b>490,809</b>	<b>648,108</b>

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2012	2011	2012	2011
HRK	409,829	435,244	377,640	395,334
EUR	103,856	32,948	54,867	25,746
USD	649	193	649	193
Other foreign currencies	2,103	2,272	256	3,582
Total	<b>516,437</b>	<b>470,657</b>	<b>433,412</b>	<b>424,855</b>

Upon finalisation of the pre-bankruptcy settlement (Note 33), new amounts of trade payables and payables to the Company's and the Group's other creditors will be defined as well as new debt maturities.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 29 – PROVISIONS

## Group

<i>(in thousands of HRK)</i>	Jubilee awards	Retirement severance payment	Other provisions	Total
At 1 January 2012	3,821	2,599	649	7,069
Additional provisions	283	329	1,486	2,098
Reversal of provision	-	(235)	(534)	(769)
<b>At 31 December 2012</b>	<b>4,104</b>	<b>2,693</b>	<b>1,601</b>	<b>8,398</b>
<b>Analysis:</b>			<b>2012</b>	<b>2011</b>
Non-current portion			7,073	6,480
Current portion			1,325	589
<b>Total:</b>			<b>8,398</b>	<b>7,069</b>

## Company

<i>(in thousands of HRK)</i>	Jubilee awards	Retirement severance payment	Total
At 1 January 2012	2,142	1,620	3,762
Additional provisions	115	-	115
Reversal of provision	-	(163)	(163)
<b>At 31 December 2012</b>	<b>2,257</b>	<b>1,457</b>	<b>3,714</b>
<b>Analysis:</b>		<b>2012</b>	<b>2011</b>
Non-current portion		3,488	3,536
Current portion		226	226
<b>Total:</b>		<b>3,714</b>	<b>3,762</b>

*Retirement severance payment*

According to the Collective bargaining agreement, the Group has an obligation to make severance payments to employees at the time of the employees' retirement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 5.68% for the Group, and 2.0% for the Company (2011: Group 4.83%, Company 2.00%), an annual discount rate of 4.4% (2011: 7.2%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service (the average age of retirement used in the calculation is 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 – CASH GENERATED FROM OPERATIONS

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Dalekovod Group</u>		<u>Dalekovod d.d.</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Loss before tax including discontinued operations		(422,167)	(274,328)	(436,935)	(274,396)
Adjustments for:					
Depreciation and amortisation	15,16,17	50,317	54,509	39,071	36,601
Unrealised foreign exchange differences		5,675	7,980	5,203	5,010
Property, plant and equipment written off	16	29,172	4,306	12,959	3,964
Fair value loss of financial assets available for sale	10	3,415	-	3,415	-
Impairment of trade receivables and loans	9	75,276	16,620	84,521	9,176
Impairment of other financial assets	9	40,671	-	41,836	-
Impairment of investments in subsidiaries	9	897	-	32,995	-
Impairment of investments in associates	9	36,175	-	-	-
Impairment of non-financial assets	9	6,247	-	6,247	-
Impairment of inventories	9	11,438	-	4,270	-
Effect of change in monitoring other foreign business units	23	(20,052)	-	(20,052)	-
Provision for long-term employee benefits – net	30	1,329	(1,211)	(48)	(2,520)
Gain on sale of property, plant and equipment	10	(2,650)	(123)	(299)	(71)
Profit of associates	10	(2,533)	-	-	-
Loss on sale of financial assets at fair value	10	-	150	-	150
Interest income	6,11	(4,917)	(9,562)	(3,501)	(9,348)
Interest expense	11	96,214	77,674	74,092	70,007
		<u>326,674</u>	<u>150,343</u>	<u>280,709</u>	<u>112,969</u>
Changes in working capital:					
Trade and other receivables		249,114	29,774	300,240	66,768
Inventories		20,794	164,326	586	173,409
Trade and other payables		(373)	51,050	(43,349)	38,699
<b>Net cash generated from operations</b>		<u><b>174,042</b></u>	<u><b>121,165</b></u>	<u><b>101,251</b></u>	<u><b>117,449</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 31 – 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**

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of HRK)</i>	
Sales	131,865	121,346
Rental income	1,322	3,182
Interest income	2,281	1,850
Other operating income	1,215	3,371
	<u>136,683</u>	<u>129,749</u>
Cost of materials and services	23,075	13,926
Service	58,275	29,453
Other operating expenses	285	2,422
Interest expense and foreign exchange differences	943	-
	<u>82,578</u>	<u>45,801</u>

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

**Receivables, payables and loans**

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of HRK)</i>	
Trade receivables	51,927	64,492
Other receivables	4,773	2,930
Short-term loans given	72,537	53,717
	<u>129,237</u>	<u>121,139</u>
Trade payables	48,978	11,819
Interest payable	80	-
Commercial papers	12,636	-
Borrowings	46,927	2,930
	<u>108,621</u>	<u>14,749</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

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

	<u>2012</u>	<u>2011</u>
	<i>(in thousands of HRK)</i>	
Interest income	17	862
Service costs	-	84
Receivables	517	4,036
Loans given	312	14,226
Trade payables	4,590	5,028
Borrowings	1,875	1,875

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues and expenses</b>				
Salaries	5,018	6,412	3,548	5,193
Pension contributions	1,625	1,943	1,149	1,557
Other contributions and taxes	5,833	1,361	2,750	1,102
	<u>12,476</u>	<u>9,716</u>	<u>7,447</u>	<u>7,825</u>
Interest income	-	16	-	16
<b>Loans</b>				
Housing loans	-	386	-	386

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

## NOTE 32 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2012, 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 1,101,090 thousand (2011: HRK 2,613,333 thousand).

As at 31 December 2012, 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 491,058 thousand (2011: HRK 494,982 thousand). They are additionally exposed as co-debtors with subsidiaries in the total amount of HRK 523,574 thousand (2011: HRK 287,321 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 33 – EVENTS AFTER THE REPORTING PERIOD**

In October 2012, the Law on Financial Operations and Pre-Bankruptcy Settlement came into force (the "Law"), which clearly defines the conditions under which companies must initiate pre-bankruptcy procedures. Shortly thereafter, Dalekovod d.d. became insolvent as the value of assets did not cover existing liabilities (deficit of liquid assets of approximately HRK 169.1 million). It was estimated that in the coming period the Company would not be able to properly fulfil its due obligations. As a result, on 20 December 2012, the Company initiated the pre-bankruptcy settlement procedure before the competent institutions (the Financial Agency – FINA).

Dalekovod d.d. prepared a Financial Restructuring Plan including, among other things, the following:

1. Description of the facts and circumstances indicating the existence of conditions for initiating the pre-bankruptcy settlement.
2. Calculation of deficit of liquid assets as at 30 September 2013.
3. Description of financial restructuring measures, and calculation of their effects on the deficit of liquid assets.
4. Description of financial restructuring measures, and calculation of their effects on operating profitability and the removal of operating insolvency.
5. Business plan for a period of five years.
6. Planned balance sheet at the last day of the five-year period.
7. Proposed pre-bankruptcy settlement including an offer to creditors containing an analysis of recorded receivables according to their amount and grouping into categories, a settlement plan and the calculation of restructuring costs.

Financial restructuring measures include the following activities:

- Partial transfer of bank debt into "mezzanine" financing (payables with the conditional right of conversion into equity or transfer to senior debt under special conditions).
- Long-term rescheduling of outstanding debt (outside the mezzanine) towards banks and other financial institutions.
- Conversion of part of debt to creditors (suppliers, state) into equity.
- Release of certain co-debtor relations encumbering the Company or its subsidiaries.
- Sale of non-core assets.
- Decrease in share capital for the purpose of covering accumulated losses.
- Capital increase in the amount of HRK 210 million through payment in cash to finance business development (HRK 150 million) and partial financing of working capital (HRK 60 million).

**NOTE 33 – EVENTS AFTER THE REPORTING PERIOD (continued)**

The effects of financial restructuring measures are as follows:

- Decrease in the Company's indebtedness (through mezzanine financing and the conversion of payables into equity) of HRK 338 million.
- Rescheduling of the remaining short-term debt into long-term debt, including financial lease liabilities, totalling HRK 434 million.
- Write-off/forgiveness of interest (including arrears interest) and financing fees payable of HRK 61 million.
- Decrease in liabilities arising from co-debtor guarantees of related party debts totalling HRK 1,525.9 million.

Furthermore, operational restructuring measures were proposed that include work process optimisation, an increase in project execution control, as well as the reorganisation of procurement aimed at increasing targeted and realised margins on projects and reducing expenses of operating support processes and overhead costs.

Based on the aforementioned measures, a five-year business plan, including cash flows, was prepared which anticipates a gradual increase in revenues (7.8% annually), concentrating on the segment of power projects with a focus on the international market provided that bank guarantees are secured for the proper execution of work as well as advances on foreign projects. The plan envisages an improvement of EBIDTA margin from 1.2% to 9.5%. The business plan does not take into account the effects of fair valuing of the "Mezzanine" financing nor its classification into debt or equity.

Since the date of initiating the pre-bankruptcy settlement procedure, the Company was involved in negotiations with all creditors in order to obtain their acceptance of the Financial Restructuring Plan. On 9 April 2013, FINA issued a decision stating that the Financial Restructuring Plan is considered to be accepted and that it is to be implemented in accordance with the provisions of the Law. The formal completion of the pre-bankruptcy settlement procedure is expected in June 2013, when the Commercial Court in Zagreb will issue the final legally valid decision (enforcement title).

In addition, on 17 May 2013, a potential investor made a binding offer for a capital increase of the Company in the amount of HRK 150 million. The binding offer is subject to the formal ratification of the Commercial Court on the approval of the agreed pre-bankruptcy settlement and the decision of the General Assembly to decrease the share capital to cover accumulated losses as well as other decisions of the Assembly, which will enable the implementation of the agreed pre-bankruptcy settlement plans.