DALEKOVOD d.d.

ANNUAL REPORT AND FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT 31 DECEMBER 2014

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CONTENT

The presentation of the audited financial statements of the Group Dalekovod (hereinafter referred to as "the Group") and Dalekovod d.d. (hereinafter referred to as "the Company") for the year 2014 is presented below. All information is presented in Kuna, unless otherwise indicated.

Business overview

In year 2014 the Group generated total revenues of HRK 1,188 million, which represents a increase of 1.5% compared to the same period last year, while the Company generated sales revenues of HRK 721 million, which represents a decrease of 12% compared to the year 2013. The decrease of revenue was primarily influenced by a drop in turnover in the domestic market, i.e. the absence of planned investments in Croatia. In the year 2014 a profit from operations in the amount of HRK 63.7 million was incurred, while the loss of the Group amounted to HRK 4.1 million.

Increase in revenues of the Group is result of finance income of Dalekovod d.d. in the amount of HRK 209 million that are result of the pre-bankruptcy settlement that became valid on 14 February 2014 and fair values calculations of the resulting financial instruments.

Enforcement of the pre-bankruptcy settlement plan was carried out as planned during 2014.

In accordance with the pre-bankruptcy settlement and refinancing of the liabilities towards financial institutions, suppliers and other creditors, fair value of the liabilities as at reporting date has been calculated and presented in the financial statements in accordance with International Accounting Standards and represents one-off effect on the income statements and balance sheet of the Company, except for the liabilities presented in note 31 in the amount of HRK 161,771 thousand.

During April 2014, the share capital was increased from HRK 28,672 thousand by HRK 158,522 thousand to HRK 187,194 thousand by cash payment of HRK 150,000 thousand and a contribution in rights/conversion of debt of HRK 8,522 thousand by issuing 15,852,168 new shares. Phase I of the cash injection into the share capital was available to a Croatian equity fund.

In second phase of increase in share capital, as of 21 August 2014, the share capital was increased from HRK 187,194 thousand by cash payment of HRK 59,999 thousand to HRK 247,193 thousand by issuing 5,999,872 new shares. Phase II of the cash contribution was available to existing shareholders and limited to the HRK 60.000 thousand.

Changes in Management: In July 2014 the Management Board was changed. Mr Paško Vela has been appointed as the President of the Management Board, Ms. Adrijana Raković and Mr. Željko Lakić have been appointed as new members of the Management Board while Mr. Marko Jurković was member of the Management Board from previous Management Board.

Significant engagements obtained: During year 2014 and the beginning of 2015 Dalekovod d.d. signed new contracts abroad amounting to EUR 53.5 million; in the Norway market in the amount of EUR 7.7 million, in the Kosovo market in the amount of EUR 8.5 million and in the Ukrainian market in the amount of EUR 30 million. All contracts relate to construction of transmission networks in these countries. At the same time new contracts in the amount of HRK 161 million have been signed on domestic market.

Guiding principles for the upcoming periods

The business plan for the future anticipates a gradual recovery of operating revenues, by focusing on the segment of power projects in the foreign and domestic market, where the Company already has considerable experience and references.

In the domestic market there are still plans for a significant revenues in transmission lines, substations and roads, although much lower than in the previous years. These are dependent on the level of investments in infrastructure which is in correlation with macroeconomic situation in Croatia.

A precondition for the achievement of the assumed level of revenue is to obtain guarantees for the proper performance of the work and advances in the international projects, as well as a proof of adequate liquidity available.

Restructuring process predicts a further reduction of fixed costs, administrative costs and other overhead expenses.

The projections of a business plan anticipate improving operating (EBITDA) results due to the gradual recovery of revenue and gross margin and planned cost efficiency.

Planned net profit has both absolute and relative growth trend and is in line with the peer group.

Treasury shares

In the year 2014 there was no acquisition or disposal of shares.

Investments in subsidiaries and associated companies and joint ventures

Investments in subsidiaries are detailed in note 19 of the financial statements.

Investments in associates are detailed in note 20 of the financial statements.

Investments in joint ventures are detailed in note 21 of the financial statements.

Subsequent events

Subsequent events are presented in more detail in note 37 of the financial statements.

The goals and policies related to the management of financial risk and capital risk

The Company and the Group are exposed to market, price, credit and liquidity risk which is, together with the management of capital risk, detailed in note 3 of the financial statements.

Code of Corporate Governance

The Company voluntarily applies the Code of Corporate Governance issued by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange.

In the year 2014 the Company followed and applied the recommendations set forth by the Code, by publishing any information whose disclosure is provided by positive regulations and information that are in the interests of shareholders. Explanations related to significant deviations, if any, of certain recommendations of the Code, the Company publishes in its annual questionnaire addressed to the Zagreb Stock Exchange.

In accordance with the provisions of the Companies Act, the Supervisory Board oversees the Company's holding of regular meetings at which management presents relevant reports. At the meetings of the Supervisory Board is discussed and decided on all matters within the jurisdiction of that body prescribed by the Companies Act and the Articles of Association.

Report of the Supervisory Board on the review of the operations is part of the Company's annual report to be submitted to the General Assembly. In addition, the Supervisory Board performs internal control and supervision by the Audit Subcommittee, which provides technical support to the Supervisory Board and the Management Board in the effective execution of the obligations of corporate governance, risk management, financial reporting and control of the Company. In addition to the Audit Subcommittee, the Supervisory Board includes Subcommittee on appointment and remuneration and the Subcommittee on strategy. Management is required to monitor that the Company maintains business and other books and records, prepares accounting documents, realistically estimates assets and liabilities, drafts financial and other statements in accordance with accounting regulations and standards and applicable laws and regulations.

Ownership structure as at 31 December 2014:

KONSOLIDATOR d.o.o.	15,000,000
PENSION FUNDS	3,955,632
INDIVIDUALS	3,273,166
BANK	1,303,407
TELEGRA d.o.o.	223,015
OTHERS	920,151
OWN SHARES	43,934
TOTAL	**24,719,305**

In the accordance with the Articles of Association, the shareholders voting rights are not limited to a certain percentage or number of votes, and there are no time limits for the exercise of voting rights. Each ordinary share carries the right to one vote at the General Assembly.

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

The Management Board is composed of four members, the President and three members of the Board. The duty of the President of the Board performs Paško Vela, while the three remaining members of the Board are Adrijana Raković, Marko Jurković And Željko Lakić.

Management manages the operations of the Company in accordance with applicable regulations, Articles of Association and Rules of Procedure of the management.

Management Board is appointed and dismissed by the Supervisory Board, which at 31 December 2014 was composed of the following members: Marko Lesić, president, Ivan Peteržilnik, vice-president, and members of the Supervisory Board Vlado Čović, Uwe Heiland, Marko Makek, Hrvoje Markovinović, Anton Pernar, Krešimir Ruždak i Mirela Tomljanović Radović.

Zagreb, 22 May 2015

Paško Vela
President of the Management Board

DALEKOVOD

RESPONSIBILITIES OF THE MANAGEMENT BOARD

The Management Board is required to prepare financial statements and consolidated financial statements for each financial year which give a true and fair view of the financial position, results of operations and cash flows for the period in accordance with applicable accounting standard, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements and consolidated financial statements at any time. The Management Board has a general responsibility for taking such steps which are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Management Board is responsible for the submission of the financial statements and consolidated financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements and consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 8 to 89 were authorised by the Management Board on 22 May 2015 for issue to the Supervisory Board and are signed below to signify this.

Paško Vela
President of Management Board

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Independent auditors' report

To the Shareholders of Dalekovod d.d. and Dalekovod Group:

Report on the financial statements

We have audited the accompanying financial statements of Dalekovod d.d. ("Dalekovod", or "the Company"), and consolidated financial statements of the company Dalekovod d.d. and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2014 and consolidated statement of financial position as at 31 December 2014, income statement and consolidated income statement, statement of comprehensive income and consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of changes in equity and cash flow statement and consolidated cash-flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 8 to 89) ("the financial statements").

Management 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 as adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 qualified opinion.

Basis for qualified opinion

1) As of 31 December 2014 and 31 December 2013 the Company and Group reported land and buildings in the net book amount of HRK 218.654 thousand (2013: HRK 221.549 thousand) and HRK 475.874 thousand (2013: HRK 523.458 thousand) respectively measured at amounts revalued in 2010 based on the revaluation report of independent valuator. Accounting policy of the Company and Group for measuring of land and buildings states that revaluation of land and buildings is performed at least every three years. As at 31 December 2014 and 31 December 2013 the Company and Group has not prepared revaluation of the land and buildings, as well some subsidiaries reported land and buildings at historical cost in consolidated financial statements and therefore we could not convince ourselves into fair value of land and buildings reported in separate and consolidated financial statements ending 31 December 2014 and 31 December 2013 in the net book amount of HRK 218.654 thousand (2013: HRK 221.549 thousand) and HRK 475.874 thousand (2013: 523.458 thousand) respectively nor in the amount of revaluation reserves in the amount of HRK 40.015 thousand (2013: HRK 40.015 thousand) reported within the equity in the separate and consolidated financial statements of the Company as at 31 December 2014 and 31 December 2013.

2) As disclosed in Note 31 to the financial statements as of 31 December 2014 the Company and Group reported current loan liability and liability for payment per guarantee in the amount of HRK 161.771 thousand which according to pre-bankruptcy settlement plan will be repaid through enforcement of pledged assets. As of 31 December 2014 the Company and Group did not prepare estimate of expected future receipts from sale of pledged assets, therefore we could not convince ourselves into fair value of financial liability reported in financial statements in the amount of HRK 161.771 thousand.

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Independent auditors' report (continued)

Basis for qualified opinion (continued)

3) As of 31 December 2014 and 31 December 2013 the Company reported investment property (land and buildings) in the net book amount of HRK 215.646 thousand (2013: 220,874 thousand) measured based on accounting policy disclosed at historical cost. In addition, the Company has measured land and buildings from one location within the Investment property class in the net book amount of HRK 89.756 thousand (2013: HRK 90.759 thousand) at revalued amounts based on appraisal report prepared by independent valuator during January 2011, thus representing departure from IAS 40 Investment property according to which an entity shall choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all of its investment property. Based on review of accounting records we could not convince ourselves for how much investment property of the Company is overstated because instead of historical cost the Company applied revaluation method for measuring of land and buildings in Investment property.

4) As at 31 December 2013 the Company reported in its financial statements investment and receivables from related party Dalekovod ulaganja d.o.o., Zagreb in total net book value amount of HRK 75.032 thousand, while in its consolidated financial statements Group reported non-current tangible assets under construction in the amount of HRK 384.490 thousand. According to International accounting standard 36 - Impairment of assets, the Company and Group shall assess at each reporting date whether there is any indication that an assets may be impaired. Although the Company and Group properly assessed recoverability as of 31 December 2014, as of 31 December 2013 the Company and Group did not assess whether there is any indication that an asset is impaired. In the absence of an impairment test (which preparation is required in accordance with International Financial Reporting Standards as adopted in European Union) including a valuation of the investment and receivables from related party and non-current tangible assets under construction, we were unable to calculate the effect of the required impairment provision on the separate and consolidated financial statements as at 31 December 2013. As at 31 December 2014 the Company recognized the impairment provision to the investment into subsidiary Dalekovod ulaganja d.o.o., Zagreb (gross book value of HRK 77.688 thousand) in the amount of HRK 67.694 thousand and the impairment provision to the investment property in the amount of HRK 67.694 thousand (gross book value of HRK 433.530 thousand). Since the Company has not prepared the impairment test in respect of the valuation of investment into subsidiary Dalekovod ulaganja d.o.o., Zagreb in the prior year and the Group has not prepared the impairment test in respect of the valuation of the non-current tangible assets under construction (presented in the current year as part of the investment property) in the prior year, we were unable to determine how much from the current year impairment charge recognized in the current year separate and consolidated income statement should have been already recognized in the prior year separate and consolidated income statement and therefore we are not able to conclude on the correctness of the impairment charge presented in the current year separate and consolidated income statement and necessity of the adjustment on the retained earnings.

5) In years before 2013 the Group and the Company has not applied determinants of IAS 11 Construction contracts in calculation of stage of completion of construction contract what resulted in overstatement of opening balance of retained earnings as of 1 January 2013 by HRK 16.714 thousand, as well result for the year 2013 is understated for the same amount. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

6) As of 31 December 2013 the Company has recognized revenue from services in the amount of HRK 4.350 thousand, although services were rendered in year 2012 and criteria from IAS 18 Revenues for recognition of revenues were met as of 2012 year end. As a result of this the Company has overstated revenues for the year 2013 in the amount of HRK 4.350 thousand and overstated opening balance of loss brought forward as of 1 January 2013, by the same amount. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

7) As of 31 December 2013 the Group reported tangible assets under constructions in the amount of HRK 384.490 thousand which includes also penalty interest capitalized in the amount of HRK 6.878 thousand, out of which an amount of HRK 2.917 thousand is capitalized in year before 2013. According to IAS 23 Borrowing cost, penalty interests are not eligible for capitalization. Because of that, the Group has as of 31 December 2013 overstated assets under construction by HRK 6.878 thousand and overstated result for the year 2013 by an amount of HRK 3.961 thousand as well overstated opening balance of retained earnings as of 1 January 2013 by an amount of HRK 2.917 thousand. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

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Independent auditors' report (continued)

Basis for qualified opinion (continued)

8) As of 31 December 2013 the Group reported investment into Joint Ventures in the amount of HRK 70.514 thousand. In years before 2013 the Group has not appropriately applied equity method in valuation of investment into joint venture and as a result of that the Group recognized in prior year loss in investment into Joint Ventures in the amount of HRK 5.607 thousand in profit and loss statements, although the loss relates to periods before 2013 thus resulting in overstated retained earnings of the Group as of 1 January 2013 and understated result for the year 2013. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

9) In 2013 the Company and the Group recognized expenses in the amount of HRK 5.685 thousand and HRK 7.985 respectively, which relate to periods before 2013. As a result of that the Company has understated prior year income statement by HRK 5.685 thousand and overstated prior period opening balance of retained earnings by the same amount. The Group has understated prior year consolidated income statement by HRK 7.985 thousand and overstated prior period opening balance of retained earnings by the same amount. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

10) In statement of financial position and consolidated statement of financial position for the year end 31 December 2013 the Company and Group disclosed receivables and liabilities arising in branch offices on net principle in the amount of HRK 45.758 thousand and HRK 51.122 thousand respectively as stated in Note 23 to the financial statements and consolidated financial statements. Off-setting receivables and liabilities represents departure from IAS 1 - Presentation of Financial Statements, therefore as of 31 December 2013 the Company and Group has understated assets and liabilities by HRK 171.683 thousand and HRK 177.047 thousand respectively. Our audit opinion on the financial statements for the period ended December 31, 2013 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified opinion

In our opinion, except for the matters described under 1), 2), 3) and 4) in Basis for qualified opinion paragraph and any related possible effects and except for the effects on the corresponding figures of the matters described in under 5), 6), 7), 8), 9) and 10) in Basis for qualified opinion paragraph, the financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Company and Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Report on Other Legal Reporting Requirements

Management Board of the Company has prepared Annual report as set out on pages 1 to 3. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements and consolidated financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company and the Group. In our opinion, the accounting information presented in the Annual report of the Company and the Group for the year 2014 is consistent, in all material respects, with the audited financial statements and consolidated financial statements for that year which are presented on pages 8 to 89.

Berislav Horvat
Certified auditor and President of Management Board
Ernst&Young d.o.o., Zagreb
Republic of Croatia
Zagreb, 22 May 2015

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2014	Dalekovod Group 2013	Dalekovod d.d. 2014	Dalekovod d.d. 2013
Sales revenue	6	985.884	1.145,501	721,015	808,533
Other income	6, 7	18,660	23,010	18.548	22,411
Change in work in progress and finished goods		14,305	(23,147)	(90)	(222)
Cost of trade goods sold		(92,297)	(87,611)	(59,833)	(30,845)
Cost of materials and services	8	(494,749)	(647,293)	(390,024)	(543,112)
Staff costs	9	(221,827)	(259,971)	(114,117)	(149,776)
Depreciation and amortisation	16, 17, 18	(50,264)	(48,300)	(33,153)	(33,641)
Other operating expenses	10	(246,962)	(186,435)	(217,354)	(201,869)
Other gains/(losses) – net	11	(30,312)	(14,311)	(28,347)	(12,744)
Operating loss		(117,562)	(98,557)	(103,355)	(141,265)
Finance income	12	183,395	1,325	211,097	1,203
Finance costs	12	(37,599)	(4,627)	(21,231)	(6,261)
		145,796	(3,302)	189,866	(5,058)
Share in profit/(loss) of associates and joint ventures	20, 21	(7,287)	(7,370)	-	-
Profit / (loss) before tax		**20,947**	**(109,229)**	**86,511**	**(146,323)**
Income tax	13	(25,070)	(13,639)	(22,775)	(13,067)
Net profit / (loss)		**(4,123)**	**(122,868)**	**63,736**	**(159,390)**
Net profit / (loss) attributable to:					
Equity holders of the Company		(3,724)	(122,216)	63,736	(159,390)
Non-controlling interests		(399)	(652)	-	-
Net profit / (loss)		**(4,123)**	**(122,868)**	**63,736**	**(159,390)**
Basic and diluted profit / (loss) per share (in HRK)	14	**(0.22)**	**(43.29)**		

The financial statements set out on pages 8 to 89 were approved by the Management Board on 22 May 2015.

Paško Vela
President of the Management Board

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	Note	2014	2013	2014	2013
Net loss		(4,123)	(122,868)	63,736	(159,390)
Other comprehensive income / (loss):					
Losses on revaluation of assets	30	-	(14,425)	-	-
Foreign exchange differences		(4,236)	2,780	-	-
Total other comprehensive income / (loss)		(4,236)	(11,645)	-	-
Total comprehensive income / (loss)		(8,359)	(134,513)	63,736	(159,390)
Comprehensive income / (loss) attributable to:					
Equity holders of the Company		(8,020)	(133,459)	63,736	(159,390)
Non-controlling interests		(339)	(1,054)	-	-
Total comprehensive income / (loss)		(8,359)	(134,513)	63,736	(159,390)

The financial statements set out on pages 8 to 89 were approved by the Management Board on 22 May 2015.

Paško Vela
President of the Management Board

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	Note	2014	2013	2014	2013
ASSETS					
Intangible assets	16	22,183	10,235	19,143	7,022
Property, plant and equipment	17	596,264	1,032,266	281,861	295,289
Investment property	18	365,835	-	215,646	220,874
Investments in subsidiaries	19	-	-	287,782	314,079
Investments in associates	20	14,654	16,478	20,241	20,241
Investments in joint ventures	21	-	70,514	-	-
Available-for-sale financial assets	22	10,269	28,273	9,854	28,260
Embeded derivatives	5	127,495	-	151,358	-
Loans and receivables	24	77,664	20,692	83,066	18,036
Non-current assets		1,214,364	1,178,458	1,068,951	903,801
Inventories	25	146,626	118,169	20,313	9,444
Trade and other receivables	26	501,059	406,064	447,224	383,036
Income tax receivable		3,691	2,907	575	264
Financial assets at fair value through profit or loss	27	40,680	28	40,178	28
Cash and cash equivalents	28	66,388	30,069	41,762	5,547
Assets held for sale	29	65,043	-	-	-
Current assets		823,487	557,237	550,052	398,319
Total assets		**2,037,851**	**1,735,695**	**1,619,003**	**1,302,120**

STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2014	Dalekovod Group 2013	Dalekovod d.d. 2014	Dalekovod d.d. 2013
EQUITY AND LIABILITIES					
Share capital	30	247,193	286,726	247,193	286,726
Share premium	30	86,142	80,479	86,142	80,479
Legal reserves	30	11,652	11,652	11,487	11,487
Treasury shares	30	(7,773)	(7,773)	(7,773)	(7,773)
Statutory and other reserves	30	72,701	177,735	40,654	153,417
Revaluation reserves	30	40,015	40,015	40,015	40,015
Translation reserves		(2,482)	1,721	-	-
Accumulated loss		(119,972)	(549,760)	(95,654)	(600,631)
Shareholders' equity		327,476	40,795	322,064	(36,280)
Non-controlling interests		(647)	(215)	-	-
Total equity		**326,829**	**40,580**	**322,064**	**(36,280)**
Borrowings	31	422,622	11,539	406,681	969
Mezzanine debt	32	148,607	-	176,421	-
Provisions	34	8,389	12,090	5,605	9,570
Trade and other payables	33	91,537	-	111,355	-
Deferred tax liability	13	10,004	10,004	10,004	10,004
Non-current liabilities		681,159	33,633	710,066	20,543
Borrowings	31	471,212	1,115,495	150,664	841,760
Mezzanine debt	32	58,419	-	62,000	-
Provisions	34	1,070	1,031	569	495
Trade and other payables	33	476,670	544,873	352,934	475,602
Income tax payable		22,492	83	20,706	-
Current liabilities		1,029,863	1,661,482	586,873	1,317,857
Total liabilities		**1,711,022**	**1,695,115**	**1,296,939**	**1,338,400**
Total equity and liabilities		**2,037,851**	**1,735,695**	**1,619,003**	**1,302,120**

The financial statements set out on pages 8 to 89 were approved by the Management Board on 22 May 2015.

Paško Vela
President of the Management Board

DALEKOVOD

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

DALEKOVOD d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

Group

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Translation reserve	Accumulated loss	Total	Non-controlling interests	Total
At 1 January 2013		286,726	80,479	12,838	(7,773)	182,201	64,444	(1,461)	(429,924)	187,530	1,203	188,733
Net loss		-	-	-	-	-	-	-	(122,216)	(122,216)	(652)	(122,868)
Other comprehensive income		-	-	-	-	-	(14,425)	3,182	-	(11,243)	(402)	(11,645)
Total comprehensive loss		-	-	-	-	-	(14,425)	3,182	(122,216)	(133,459)	(1,054)	(134,513)
Transactions with owners												
Reinvestment of profits	13	-	-	-	-	16,581	-	-	(16,581)	-	-	-
Recognition of deferred tax liability		-	-	-	-	-	(10,004)	-	-	(10,004)	-	(10,004)
Effects of consolidation		-	-	-	-	-	-	-	(3,112)	(3,112)	-	(3,112)
Recognition within equity		-	-	-	-	-	-	-	(160)	(160)	-	(160)
Exchange rate effect		-	-	-	-	-	-	-	-	-	(364)	(364)
Covering losses with legal reserves		-	-	(1,186)	-	-	-	-	1,186	-	-	-
reserves		-	-	-	-	(21,047)	-	-	21,047	-	-	-
At 31 December 2013		**286,726**	**80,479**	**11,652**	**(7,773)**	**177,735**	**40,015**	**1,721**	**(549,760)**	**40,795**	**(215)**	**40,580**
Net loss		-	-	-	-	-	-	-	(3,724)	(3,724)	(399)	(4,123)
Other comprehensive income		-	-	-	-	-	-	(4,203)	-	(4,203)	(33)	(4,236)
Total comprehensive loss		-	-	-	-	-	-	(4,203)	(3,724)	(7,927)	(432)	(8,359)
Transactions with owners												
Reinvestment of profits	13	-	-	-	-	7,729	-	-	(7,729)	-	-	-
Covering losses	30	(258,054)	(70,424)	-	-	(112,763)	-	-	441,241	-	-	-
Share capital increase	30	218,521	76,087	-	-	-	-	-	-	294,608	-	294,608
At 31 December 2014		**247,193**	**86,142**	**11,652**	**(7,773)**	**72,701**	**40,015**	**(2,482)**	**(119,972)**	**327,476**	**(647)**	**326,829**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

Company

(all amounts are expressed in thousands of HRK)	Note	Share capital	Share premium	Legal reserves	Treasury shares	Statutory and other reserves	Revaluation reserves	Accumulated loss	Total
At 1 January 2013		286,726	80,479	11,487	(7,773)	153,417	50,019	(441,241)	133,114
Net loss		-	-	-	-	-	-	(159,390)	(159,390)
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	-	(159,390)	(159,390)
Transactions with owners									
Recognition of deferred tax liability		-	-	-	-	-	(10,004)	-	(10,004)
At 31 December 2014		**286,726**	**80,479**	**11,487**	**(7,773)**	**153,417**	**40,015**	**(600,631)**	**(36,280)**
Net profit		-	-	-	-	-	-	63,736	63,736
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-	63,736	63,736
Transactions with owners									
Covering losses	30	(258,054)	(70,424)	-	-	(112,763)	-	441,241	-
Share capital increase	30	218,521	76,087	-	-	-	-	-	294,608
At 31 December 2014		**247,193**	**86,142**	**11,487**	**(7,773)**	**40,654**	**40,015**	**(95,654)**	**322,064**

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

DALEKOVOD d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2014	Dalekovod Group 2013	Dalekovod d.d. 2014	Dalekovod d.d. 2013
Loss before tax		**20,947**	**(109,229)**	**86,511**	**(146,323)**
Adjustments:					
Depreciation and amortisation	16, 17, 18	50,264	46,711	33,153	32,052
Property, plant and equipment writte-off	10	3,206	15,025	578	6
Intangible assets write-off		116	-	-	-
Impairmento of investment property	10	67,694	-	-	-
Gain on sale of property, plant and equipment	11	747	(514)	(1,013)	(500)
Fair value measurement loses of financial assets available for sale	11	49,307	14,536	49,299	14,526
Impairment of trade receivables and loans receivable	10	36,688	16,122	41,775	3,493
Impairment of other financial assets	10	4,049	2,697	3,973	3,112
Impairment of investments in subsidiaries	10	-	-	71,845	96,502
Impairment of investments in associates	10	-	-	-	-
Impairment of non-financial assets	10	-	774	-	417
Impairment of goodwill	10	-	3,346	-	-
Impairment of inventories	10	(2,223)	(7,312)	-	-
Net change in provisions	34	(3,662)	4,723	(3,891)	6,351
Dividend income	7	-	-	(1,532)	-
Share in profit/(loss) of associates and joint ventures	20, 21	7,287	7,370	-	-
Unrealised foreign exchange differences		(3,882)	10,713	777	4,788
Interest income	7, 12	(3,313)	(3,449)	(3,572)	(4,304)
Income from discount of long term liabilities	12	(157,384)	-	(185,448)	-
Income from interest and fees write-offs	12	(22,394)	-	(22,394)	-
Income from unwinding of discount	12	(1,363)	-	(1,363)	-
Other finance income	12	(2,082)	-	(1,818)	-
Interest expense	10, 12	39,391	28,788	21,445	8,015
		83,393	30,301	88,325	18,135
Changes in working capital:					
Trade and other receivables		(206,726)	78,648	(221,344)	(7,671)
Inventories		(26,234)	41,923	(10,869)	895
Trade and other payables		111,761	(83,337)	80,173	18,558
Net cash generated from operating activities		**(37,806)**	**67,535**	**(63,715)**	**29,917**
Interest paid		(26,789)	(23,120)	(22,333)	(8,563)
Tax paid		(3,445)	(3,380)	(2,380)	(248)
Net cash flows from operating activities		**(68,040)**	**41,035**	**(88,428)**	**21,106**

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

		Dalekovod Group		Dalekovod d.d.	
(all amounts are expressed in thousands of HRK)	Note	2014	2013	2014	2013
Cash flows from investing activities					
Acquisition of intangible assets	16	(589)	(443)	(165)	(4)
Acquisition of property, plant and equipment	17	(40,151)	(68,908)	(1,205)	(2,417)
Acquisition of investment property	18	-	-	(2,890)	-
Proceeds from sale of property, plant and equipment		259	1,079	1,452	638
Deposits given		(9,305)	(4,669)	(2,106)	(739)
Loans given		(13,192)	-	(38,455)	(25,549)
Repayments of loans given		447	4,247	4,949	1,437
Investments in subsidiaries	19	-	-	-	(56)
Investments in cash funds		(40,652)	-	(40,150)	-
Interest received		1,589	1,475	4,152	2,330
Net cash flows used in investing activities		**(101,594)**	**(67,219)**	**(74,418)**	**(24,360)**
Cash flows from financing activities					
Proceeds from issance of shares		209,391	-	209,391	-
Proceeds from borrowings		14,253	45,600	4,500	910
Repayment of borrowings		(8,392)	(6,016)	(5,710)	(994)
Repayment of finance lease liabilities		(9,299)	(1,215)	(9,120)	(807)
Net cash flows from / (used in) financing activities		**205,953**	**38,369**	**199,061**	**(891)**
Net increase / (decrease) in cash and cash equivalents		**36,319**	**12,185**	**36,215**	**(4,145)**
Cash and cash equivalents at beginning of year		30,069	17,884	5,547	9,692
Cash and cash equivalents at end of year	28	66,388	30,069	41,762	5,547
Net increase / (decrease) in cash and cash equivalents		**36,319**	**12,185**	**36,215**	**(4,145)**

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

NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and 19 subsidiaries owned by the parent company and additional five companies owned by two subsidiaries (2013: 19 subsidiaries owned by the parent company and additional five companies owned by two subsidiaries) – note 19.

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, Marijan Čavić 4 street. 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.

Management Board members of the Company during 2014 were: Mr Goran Brajdić (President of the Management Board, resigned on 31 August 2014), Mr. Krešimir Anušić (Member of the Management Board, resigned on 30 June 2014), Mr. Marko Jurković (Member of the Management Board), Mr. Željko Lekšić (Member of the Management Board, resigned on 30 June 2014), Mr. Željko Lakić (Member of the Management Board, appointed on 1 July 2014), Ms. Adrijana Raković (Member of the Management Board, appointed on 7 July 2014), and Mr. Paško Vela (President of the Management Board appointed on 1 September 2014).

Going concern

The Company went through the pre-bankruptcy settlement procedure, which also includes the financial and operational restructuring plan. Taking into account the Commercial court's approval of the pre-bankruptcy settlement between the Company as debtor and its creditors from 29 January 2014 and the subsequent increase in share capital financial statements 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 financial statements are set out below. These policies are applicable to both the Group and to the Company and they have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New and amended standards and interpretations endorsed by the European Union (EU)

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2014:

- *IAS 28 Investments in Associates and Joint Ventures (Revised)*
- *IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interests in Other Entities*
- *IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- *IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets*
- *IFRIC Interpretation 21: Levies*

The adoption of the standards or interpretations is described below:

IAS 28 Investments in Associates and Joint Ventures (Revised)

As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Revised standard does not have any impact on the financial reporting of the Company and the Group.

IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Application of the amendments does not have any impact on the separate and consolidated financial statements as the Company or the Group do not offset financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The application of this standard does not have significant impact on the consolidated financial statements of the Group as the parent has control over all of them. The Company or the Group does not have special purpose entities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Application of the new standard does not have impact on the separate financial statements of the Company or consolidated financial statements of the Group since the Group account for joint venture using equity method.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The new applicable disclosures required are presented by the Group in notes 19, 20 and 21.

IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting

Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. This amendment does not have impact on the separate financial statements of the Company or consolidated financial statements of the Group.

IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. As a result of amendment, the Company included additional disclosures in the notes relating to the impairment recognized in 2013 and 2014.

IFRIC Interpretation 21: Levies

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Interpretation does not have an impact on the financial statements of the Company or the Group as they do not have significant levies other than income taxes in the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Standards issued but not yet effective and not early adopted

IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment has not yet been endorsed by the EU. However it is not expected that this amendment will have any impact on the separate financial statements of the Company or consolidated financial statements of the Group as they are not using revenue as a basis for depreciation or amortization.

IAS 19 Employee benefits (Amended): Employee Contributions

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Management has assessed impact of this amendment to financial statements and concluded that the impact will not be significant as the Company or the Group does not provide contributions which are independent of the number of years of employee service.

IFRS 9 Financial Instruments – Classification and measurement

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the EU. Management plans to adopt it once it becomes effective in EU and is currently assessing its impact.

IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the EU. Management has assessed the impact of the new amendment to financial statements and concluded that the impact will not be significant to the Company or the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 14 Regulatory Deferral Accounts

The standard is effective for annual periods beginning on or after 1 January 2016. The aim of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, whereby governments regulate the supply and pricing of particular types of activity. This can include utilities such as gas, electricity and water. Rate regulation can have a significant impact on the timing and amount of an entity's revenue. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This standard has not yet been endorsed by the EU. Management has assessed that it will not have any impact on the financial statements of the Company or the Group as they are already presenting IFRS financial statements.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. Management is currently assessing the impact of the introduction of this new standard on the financial statements of the Company or the Group.

IAS 27 Separate Financial Statements (amended)

The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. This amendment has not yet been endorsed by the EU. The amendments will not have influence on the Company as the Company does not intend to account for investments in subsidiaries using the equity method. Management is currently assessing the impact of the introduction of this new standard on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after 1 January 2016. The amendments have not yet been endorsed by the EU. Management is currently assessing the impact of the introduction of this new standard.

The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. Management has assessed that these amendments will not have significant influence on the financial reporting of the Company and of the Group.

- *IFRS 2 Share-based Payment:* This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- *IFRS 3 Business combinations:* This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- *IFRS 8 Operating Segments:* This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- *IFRS 13 Fair Value Measurement:* This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- *IAS 16 Property Plant & Equipment:* The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- *IAS 24 Related Party Disclosures:* The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- *IAS 38 Intangible Assets:* The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. Management has assessed that these amendments will not have significant influence on the financial reporting of the Company and of the Group.

- *IFRS 3 Business Combinations:* This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- *IFRS 13 Fair Value Measurement:* This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- *IAS 40 Investment Properties:* This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

The IASB issued the Annual Improvements 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective from 1 January 2016. These annual improvements have not yet been endorsed by the EU. Management has assessed that these amendments will not have significant influence on the financial reporting of the Company and of the Group.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal; rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *IFRS 7 Financial Instruments: Disclosures:* The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- *IAS 19 Employee Benefits:* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *IAS 34 Interim Financial Reporting:* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the EU.

IAS 1: Disclosure Initiative (Amendment)

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the EU

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

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 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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) Associates

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(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 and buildings 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.

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

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

	Useful lives in years
Buildings	20 – 40
Equipment	5 – 10
Machinery	25

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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 other comprehensive income.

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

(a) 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.

(b) 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.

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 2.12).

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 collectability 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Mezzanine debt

Mezzanine debt is initially recognized as financial liability recognized at fair value (host contract). Within the host contract, according to IAS 39 the Company has identified embedded derivatives options, for (a) option for holder of the mezzanine instrument to require issuance of additional senior debt for no additional proceeds should the Company achieve certain pre-defined debt-to-EBITDA (D/E) ratios in 7th year and (b) option for early repayment of the mezzanine debt after 7th year for a maximum amount up to 48m HRK. Option (b) is separated from the total liability and treated as derivatives at fair value and recognized as an assets in statement of financial position. Remaining host contract is treated as an ordinary financial liability.

Managements estimates in assessing the mezzanine debt were as follow:

i) Part of mezzanine debt for which there is an obligation to pay proceeds from the sale of the investment in the creditor agreement (to a maximum of HRK 62 million) will be paid in full amount, i.e. estimated proceeds from sale of investment is in line with the maximum amount of HRK 62 million and higher.

ii) pre-defined debt-to-EBITDA ratio (2.5) in 7th year will not be achieved. The management estimates that EBITDA will not be on the level which would result that D/E ratio is below the 2.5.

iii) in case that D/E is below 2.5, the management plans to increase debts in order to increase required D/E ratio above 2.5, so no transfer of mezzanine debt into senior debt will occur.

iv) the management plans to use early repayment option after 7th year and the Company will repay remaining outstanding mezzanine debts with a maximum amount of HRK 35.5 million.

Part of mezzanine debt for which there is an obligation to pay proceeds from the sale of the investment identified in the creditor agreement (to a maximum of HRK 62 million) is accounted for as a financial liability initially recognised at fair value and classified as other financial liabilities and subsequently would be measured at amortised cost using the effective interest method, taking into consideration changes in future expected future cash flows in accordance with IAS 39.

2.26 Assets held for sale

Non-current assets are classified as held for sale if their carrying value will be largely compensated through sale rather than through its continuing use; if these assets are available for immediate sale in their existing state under conditions frequent and common for sale of such assets, and if the sale is probable.

Assets held for sale are stated at the lower of net book value and fair value less cost to sell. Loss on impairment from reduction to fair value less cost to sell, is charged to profit or loss.

Investments in associates and joint ventures that meet the criteria for classification as assets held for sale at a certain time ceased to be measured using the equity method and are measured at lower of carrying value based on equity method and fair value less cost to sell.

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. In addition to EURO, the Company is exposed to changes in NOK and UAH. 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. The Company does not use hedging instruments against currency risk.

At 31 December 2014, if the EURO had weakened/strengthened by 1.00% against the HRK (2013: 1.00%), with all other variables held constant, the net loss for the reporting period after tax would have been HRK 2,406 thousand (2013: HRK 3,573 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.

Based on Management's assessment, the effect of changes in other currencies does not have material effect on the financial statements of the Company and the Group.

(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.

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 2014, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2013: 0.82%), the loss after tax would have been higher/lower by HRK 115 thousand (2013: HRK 249 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.

All conditions for introduction of measures of financial restructuring that significantly influenced on liabilities of the Company and reprogram of the liabilities have been accomplished by legal validity of the pre-bankruptcy settlement determined on 14 February 2014. Part of liabilities towards suppliers have been transferred to share capital (note 30), part is changed to mezzanine debt (note 5) while part of liabilities in accordance with accepted plan have been reclassified to long-term liabilities. Loan liabilities are also partially transferred to mezzanine debt, and partially reprogramed. Maturity of loans received is shown in note 31.

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:

(in thousands of HRK)	31 December 2014	31 December 2013
Borrowings (note 31)	557,345	842,729
Cash and cash equivalents (note 28)	(41,762)	(5,547)
Net debt	515,583	837,182
Equity	322,064	(36,280)
Total equity and net debt	**837,647**	**800,902**
Gearing ratio - Company	**61.6%**	**104.5%**

The Group's gearing ratio was as follows:

(in thousands of HRK)	31 December 2014	31 December 2013
Borrowings (note 31)	893,834	1,127,034
Cash and cash equivalents (note 28)	(66,388)	(30,069)
Net debt	827,446	1,096,965
Equity	326,829	40,580
Total equity and net debt	**1,154,275**	**1,137,545**
Gearing ratio - Group	**71.7%**	**96.4%**

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 assets at fair value as at 31 December 2014 and 2013:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2014				
Property, plant and equipment				
Land and buildings	-	-	475,874	475,874
Available for sale financial assets				
Listed entities	430	336	5	771
Unlisted entities	-	9,498	-	9,498
Embeded derivatives				
Embeded derivatives	-	-	127,495	127,495
Financial asstes at fair value through profit and loss				
Investments in cash funds	40,680	-	-	40,680
Total	**41,110**	**9,834**	**603,374**	**654,318**
31 December 2013				
Property, plant and equipment				
Land and buildings	-	-	523,458	523,458
Available for sale financial assets				
Listed entities	16	16,690	13	16,719
Unlisted entities	-	11,554	-	11,554
Financial asstes at fair value through profit and loss				
Investments in cash funds	28	-	-	28
Total	**44**	**28,244**	**523,471**	**551,759**

There were no transfers between level 1 and level 2 during 2014 and 2013.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The table below present the Company's assets at fair value as at 31 December 2014 and 2013:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2014				
Property, plant and equipment				
Land and buildings	-	-	218,654	218,654
Available for sale financial assets				
Listed entities	20	336	-	356
Unlisted entities	-	9,498	-	9,498
Embeded derivatives				
Embeded derivatives	-	-	151,358	151,358
Financial asstes at fair value through profit and loss				
Investments in cash funds	40,178	-	-	40,178
Total	**40,198**	**9,834**	**370,012**	**420,044**
31 December 2013				
Property, plant and equipment				
Land and buildings	-	-	221,549	221,549
Available for sale financial assets				
Listed entities	16	16,690	-	16,706
Unlisted entities	-	11,554	-	11,554
Financial asstes at fair value through profit and loss				
Investments in cash funds	28	-	-	28
Total	**44**	**28,244**	**221,549**	**249,837**

There were no transfers between level 1 and level 2 during 2014 and 2013.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

The table below present the Group's and the Company's liabilities at fair value as at 31 December 2014 (2013: there were no liabilities at fair value):

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2013				
Finance lease	-	-	117,491	117,491
Mezzanine debt	-	-	207,026	207,026
Trade payables	-	-	142,844	142,844
Total	**-**	**-**	**467,361**	**467,361**

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Company				
31 December 2013				
Finance lease	-	-	117,491	117,491
Mezzanine debt	-	-	238,421	238,421
Trade payables	-	-	167,680	167,680
Total	**-**	**-**	**523,592**	**523,592**

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 (note 6).

(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 (note 10).

(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 (note 2.5).

(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 (note 34).

(e) Sale of assets held for sale

Sale of assets held for sale which is one of the measures of the pre-bankruptcy settlement is expected to be realised within defined timeframe (note 2.26).

(f) Mezzanine debt

Estimates related to recognition of mezzanine debt are described in accounting policy for recognition and measurement of mezzanine debt (note 2.25).

NOTE 5 – PRE-BANKRUPCY SETTLEMENT

The pre-bankruptcy settlement procedure ("the Settlement"), which the Company initiated on 20 December 2012, was formally completed at 14 February 2014 by issuance of the final legally valid decision.

As a part of pre-bankruptcy settlement the Company prepared financial and operating restructuring plan which was the basis for negotiations with creditors and which was accepted by creditors on 2 April 2013 by more than 90% votes indicating the commitment of the Company's creditors; suppliers, banks, tax authorities and other stakeholders to support completion of administrative proceedings.

The restructuring plan prepared by the Company, and adopted by the creditors, incorporate financial and operational measures with the objective of deleveraging the Company and thus improving profitability and EBITDA to achieve a long term sustainable business case.

Financial restructuring is focused on ensuring liquidity, through disposal of non-core assets and debt restructuring and reduction, with the objective of creating conditions for recapitalisation and achieving financial stability.

Following the date on which the Settlement became legally effective the Company implemented the following measures with the accompanying effect on the financial position and financial performance of the entity for the year ended 31 December 2014:

- As of 28 March 2014, the share capital was decreased from HRK 286,726 thousand by HRK 258,054 thousand to HRK 28,672 thousand to cover the losses by reducing the nominal value of share from HRK 100 to HRK 10. Simultaneously, the share capital was increased from HRK 28,672 thousand by HRK 158,522 thousand to HRK 187,194 thousand by cash payment of HRK 150,000 thousand and a contribution in rights/conversion of debt of HRK 8,522 thousand by issuing 15,852,168 new shares. Phase I of the cash injection into the share capital was available to a Croatian equity fund.

- As of 21 August 2014, the share capital was increased from HRK 187,194 thousand by cash payment of HRK 59,999 thousand to HRK 247,193 thousand by issuing 5,999,872 new shares. Phase II of the cash contribution was available to existing shareholders and limited to the HRK 60.000 thousand.

- Conversion of the debt in the amount of HRK 238,421 thousand in mezzanine debt. Mezzanine is a subordinated low-interest hybrid instrument with equity and debt conversion right subject to EBITDA and net debt targets. Mezzanine lenders are not shareholders of the Company these are banks who are not related to the Company in the amount of HRK 207,026 thousand and entities who are related parties of the Company in the amount of HRK 31,395 thousand.

  Mezzanine debt is financial liability initially recognized at fair value (host contract) within which the Company identified embedded derivative, which is then separated from total liability and treated as derivative at fair value.

  Estimates applied in recognition and measurement of mezzanine debt are disclosed under section Summary of significant accounting policy, Note 2.25

  Embedded derivative is separated from host contract and recognized at fair value. Fair value gain on initial measurement of embedded derivative in the amount of HRK 151.908 thousand was recognised as finance income in statement of comprehensive income.

NOTE 5 – PRE.BANKRUPCY SETTLEMENT

- Transfer of trade payables and liabilities towards tax authorities to long term payables – since the terms of these debts are substantially modified in accordance with the Settlement, the renegotiation of the liabilities in the amount of HRK 176.448 thousand is accounted for as an extinguishment of the original liabilities. The new modified financial liabilities recognised at fair value amounted to HRK 158,176 thousand. The difference, between the consideration paid and the carrying amount of the original liabilities which are derecognised, is recognised in finance income within profit or loss in the amount of HRK 18,272 thousand.

  These financial liabilities are subsequently measured at amortised cost using the effective interest method, with the unwinding of the discount on the long-term payables in the amount of HRK 3.498 thousand accounted for as an interest expense in profit and loss. Renegotiated maturity date of these long term payables is 31 March 2018.

- New repayment plan, substantially different from the original, have been agreed with lessor for the finance lease arrangement. Fair value gain on initial recognition on new financial liability in the amount of HRK 15.269 thousand was realised and recognised as finance income in profit or loss.

  Expected repayment date for this portion of mezzanine principle 31 December 2022 which is the period for the unwinding of the discount realised at initial recognition

- Repayment terms of loans received, other than those transferred to mezzanine, did not change significantly so no fair value gains or losses have been recognised. The liabilities have been reclassified to reflect the loans repayment plans. All liabilities from the pre-bankruptcy settlement to financial institutions are regularly settled and the payment of the first instalment to suppliers was made in accordance with the Settlement.

- Also, in compliance with the Settlement, the liabilities for interest and fees were written off and the Company realised income on release of liabilities for interest and fees in the amount of HRK 19,188 thousand. Income on release of liabilities from interest and fees have been recognised as finance income in the profit or loss.

- Furthermore, three creditors (banks) decided to settle their receivables outside the pre-bankruptcy settlement through future proceeds from the sale of assets under foreclosure (pledged as security for payment), as explained in note 31 of the financial statements.

- Additionally, the Company's debt on the basis of joint debt, joint and several liability or warranty was relived in full.

NOTE 6 – SEGMENT INFORMATION

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

1. The **Production segment** includes forging works, the casting plant and the laboratory for quality control and the production and sales of metal frames/structures, as well as the manufacture and sales of suspension and jointing equipment.

2. The **Construction segment** includes the services of construction and project documentation preparation 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.

NOTE 6 – SEGMENT INFORMATION (continued)

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

Operating results by business segments for the Group

(in thousands of HRK)	Construction	Production	Other	Total
Year ended 31 December 2014				
Gross revenues	919,130	214,147	24,935	1,158,212
Inter-segment revenues /i/	(83,565)	(88,739)	(24)	(172,328)
Total revenues	**835,565**	**125,408**	**24,911**	**985,884**
Operating profit/(loss) before depreciation and amortisation	16,374	(26,353)	(57,319)	(67,298)
Depreciation and amortisation	(34,472)	(9,205)	(6,587)	(50,264)
Operating loss	**(18,098)**	**(35,558)**	**(63,906)**	**(117,562)**
Total assets	**1,261,455**	**302,447**	**473,949**	**2,037,851**
Total liabilities	**1,137,851**	**178,181**	**394,990**	**1,711,022**
Year ended 31 December 2013				
Gross revenues	1,026,950	283,608	5,500	1,316,058
Inter-segment revenues /i/	(68,856)	(101,167)	(534)	(170,557)
Total revenues	**958,094**	**182,441**	**4,966**	**1,145,501**
Operating profit/(loss) before depreciation and amortisation	8,146	(48,060)	(10,343)	(50,257)
Depreciation and amortisation	(34,872)	(13,235)	(193)	(48,300)
Operating loss	**(26,726)**	**(61,295)**	**(10,536)**	**(98,557)**
Total assets	**844,964**	**338,487**	**552,244**	**1,735,695**
Total liabilities	**1,107,955**	**164,172**	**422,988**	**1,695,115**

Out of gross revenues classified within segment other HRK 19,511 thousand relate to rent income generated from investment property (2014: HRK nil).

NOTE 6 – SEGMENT INFORMATION (continued)

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

	2014	2013
	(in thousands of HRK)	
Segment sales revenue	1,133,277	1,310,558
Inter-segment receivables	(172,304)	(170,023)
Unalocated:		
Other	24,935	5,500
Inter-segment receivables	(24)	(534)
Total revenues	**985,884**	**1,145,501**

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

	2014		2013	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Croatia	256,121	25.98	459,887	40.15
Ukraine	264,886	26.87	127,161	11.10
Norway	184,274	18.69	261,035	22.79
Bosnia and Herzegovina	69,457	7.05	85,286	7.45
Kosovo	67,191	6.82	-	-
Slovenia	59,444	6.03	104,672	9.14
Iraq	12,596	1.28	1,249	0.11
Moroco	12,472	1.27	-	-
Montenegro	5,619	0.57	10,066	0.88
Saudi Arabia	4,615	0.47	46,631	4.07
Sweden	1,233	0.13	7,582	0.66
Serbia	1,182	0.12	3,411	0.30
Other abroad	46,794	4.72	38,521	3.35
Total	**985,884**	**100.00**	**1,145,501**	**100.00**

NOTE 6 – SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	2014	2013
	(in thousands of HRK)	
Energetics	713,302	668,812
Roads	60,649	253,903
Properties	14,554	18,603
Telecomunications	2,217	2,691
Railroads	1,755	8,682
Sale of metal constructions	67,369	72,992
Sale of suspension and jointing equipment	59,515	94,072
Other	66,523	25,746
Total	**985,884**	**1,145,501**

Revenue from construction contracts amounts to HRK 835,565 thousand (2013: HRK 958,094 thousand).

Advances received for projects under construction that are active at the reporting date are presented within advances in note 33 and amount to HRK 99,960 thousand (2013: HRK 9,565 thousand).

Out of total amount of guarantee deposits shown within notes 24 and 26, HRK 78,971 thousand relates to guarantee deposits (retentions) for contracts under construction that are active at the reporting date (2013: HRK 30,064 thousand).

NOTE 7 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Interest income	2,996	2,086	3,442	3,101
Income from penalty interest	56	38	56	-
Dividend income	-	-	1,532	-
Insurance claims proceeds	180	816	87	749
Rental income	207	299	4,897	4,831
Income from reversal of provisions	2,904	4,485	2,709	3,096
Inventory surpluses	1,063	1,066	1	-
Other operating income	11,254	14,220	5,824	10,634
	18,660	**23,010**	**18,548**	**22,411**

Rental income of the Company are realised based on investment property (note 18).

NOTE 8 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Raw materials and supplies				
Raw materials and supplies	124,201	173,101	68,840	140,322
Energy	20,919	21,355	10,529	11,170
Spare parts and small inventory	5,657	6,165	3,190	4,023
	150,777	200,621	82,559	155,515
External services				
Subcontractor services	299,245	407,631	284,896	363,620
Transportation	14,413	11,871	6,983	5,612
Repairs and maintenance	12,343	12,820	6,479	10,121
Advertising and promotion	376	246	182	10
Rental expense	11,506	8,616	6,877	5,828
Other	6,089	5,488	2,048	2,406
	343,972	446,672	307,465	387,597
Total cost of materials and services	**494,749**	**647,293**	**390,024**	**543,112**

NOTE 9 – STAFF COSTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Net salaries	136,705	154,748	75,273	93,615
Taxes and contributions on and from salaries	72,561	75,865	34,890	40,698
Severance costs	3,928	15,555	1,900	12,810
Unused vacation days	938	2,750	-	102
Other staff costs	6,839	10,490	1,317	2,153
Supervisory Board compensation	856	563	737	398
	221,827	**259,971**	**114,117**	**149,776**

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 28,462 thousand (2013: HRK 29,165 thousand) for the Group, and HRK 13,653 thousand for the Company (2013: HRK 15,466 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 2014, the Group had 1,397 employees (2013: 1,476 employees), and the Company had 548 employees (2013: 620 employees).

NOTE 10 – OTHER OPERATING EXPENSES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Intellectual and non-production services	58,433	31,654	39,203	15,349
Daily allowances and travel cost	33,101	38,462	26,681	36,445
Bank charges	8,380	5,358	6,823	3,761
Entertainment	1,982	2,049	833	866
Taxes and contributions	3,013	4,178	2,745	3,346
Insurance	4,253	4,330	2,926	2,997
Sponsorships, donations and other aids	720	913	581	770
Impairment and write-off of property, plant and equipment	70,900	15,025	578	6
Impairment of trade receivables and loans – net (note 24 and note 26)	36,688	16,122	41,775	3,493
Impairment of other financial assets (note 24 and note 26)	4,049	2,697	3,973	3,112
Impairment of non-financial assets (note 26)	-	774	-	417
Impairment of investments in subsidiaries (note 19)	-	-	71,845	96,502
Impairment of goodwill (note 16)	-	3,346	-	-
Impairment of inventories	2,223	7,312	-	-
Inventory shortages	1,588	3,304	84	30
Interest from suppliers	343	2,092	214	1,754
Fines and penalties	4,329	99	1,577	-
Court cases and additional taxes per Tax authorities' decision	3,539	7,014	3,325	7,014
Other	13,421	41,706	14,191	26,007
	246,962	**186,435**	**217,354**	**201,869**

NOTE 11 – OTHER GAINS/(LOSSES) – NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Net foreign exchange loss from operating activities	19,742	(289)	19,939	1,282
Fair value losses of financial assets available-for-sale (note 22)	(49,307)	(14,536)	(49,299)	(14,526)
Net gain on sale of property, plant and equipment	(747)	514	1,013	500
	(30,312)	**(14,311)**	**(28,347)**	**(12,744)**

NOTE 12 – FINANCE INCOME AND COSTS - NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Interest income on bank deposits	172	1,325	74	1,203
Income from discount of long term liabilities	157,384	-	185,448	-
Income from interest and fees write-offs	22,394	-	22,394	-
Income from unwinding of discount	1,363	-	1,363	-
Other finance income	2,082	-	1,818	-
Finance income	183,395	1,325	211,097	1,203
Net foreign exchange differences (financing activities)	(810)	1,128	-	-
Interest expense	(38,512)	(26,696)	(21,231)	(6,261)
Less capitalised interest (note 17)	1,829	20,941	-	-
Other financial expenses	(106)	-	-	-
Finance costs	(37,599)	(4,627)	(21,231)	(6,261)
	145,796	**(3,302)**	**189,866**	**(5,058)**

NOTE 13 – INCOME TAX

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Loss before tax	**20,947**	**(109,229)**	**86,511**	**(146,323)**
Tax calculated at the domestic tax rate applicable to profits in the respective countries	15,596	(40,520)	35,846	(20,941)
Effect of non-taxable income	(1,353)	(261)	(392)	(214)
Effect of non-deductible expenses	46,995	37,534	30,053	25,191
Effect of reinvestment of profit /i/	(1,695)	(977)	-	-
Effect of tax losses not recognised as deferred tax assets	8,449	17,863	-	9,031
Utilisation of tax losses for whic deferred tax assets was not recognised	(42,922)	-	(42,732)	-
Income tax expense	**25,070**	**13,639**	**22,775**	**13,067**
Effective tax rate	***119.7%***	***-12.5%***	***26.3%***	***-8.9%***

/i/ In 2013, one Group member utilised a tax exemption pursuant to the reinvestment of profit and as a result of utilising the incentive they were obliged to increase their share capital in 2014 by HRK 7,729 thousand. Tax exemption pursuant to the reinvestment in 2014 amounts to HRK 8,474 thousand. This amount represents the amount by which the share capital of the member of the Group utilising the incentive will be increased.

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. During the year there were no changes in tax rates in countries where members of the Group operate.

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.

NOTE 13 – INCOME TAX (continued)

Overview of tax losses for which deferred tax asset has not been recognised is as follows:

	Dalekovod Group		Dalekovod d.d.	
	2014	2013	2014	2013
Unutilised tax losses				
Tax loss from 2009 - expires 2014	-	301	-	-
Tax loss from 2010 - expires 2015	5,878	6,636	-	-
Tax loss from 2011 - expires 2016	58,347	271,879	47,771	261,433
Tax loss from 2012 - expires 2017	352,035	352,437	351,073	351,073
Tax loss from 2013 - expires 2018	82,500	97,739	45,157	45,157
Tax loss from 2014 - expires 2019	32,654	-	-	-
	531,414	**728,992**	**444,001**	**657,663**

The Company and the Group did not recognise deferred tax asset as it is not probable that future taxable profits will be available to utilize the tax losses.

During 2013 the Company and the Group recognised deferred tax liability on revaluation of assets (note 30).

Movement in deferred tax liability

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At beginning of year	10,004	-	10,004	-
Charged to revaluation reserves	-	10,004	-	10,004
At end of year	**10,004**	**10,004**	**10,004**	**10,004**

NOTE 14 – 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.

	Dalekovod Group	
	2014	2013
Net loss attributable to shareholders *(in thous. of HRK)*	(3,724)	(122,216)
Weighted average number of shares	17,170,656	2,823,331
Basic/diluted loss per share *(in HRK)*	(0.22)	(43.29)

NOTE 15 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 1,900 thousand (2013: HRK 1,900 thousand) are presented as dividend payable within "trade and other payables" (note 33), and it relates to dividends for shareholders who did not submit the required data for payment.

NOTE 16 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Goodwill	Usage rights	Software	Total
At 1 January 2013				
Cost	4,559	-	40,368	44,927
Accumulated amortisation and impairment losses	-	-	(27,584)	(27,584)
Net book value	**4,559**	**-**	**12,784**	**17,343**
Year ended 31 December 2013				
At 1 January	4,559	-	12,784	17,343
Additions	-	-	443	443
Amortisation	-	-	(4,205)	(4,205)
Impeirment loss	(3,346)	-	-	(3,346)
At 31 December	**1,213**	**-**	**9,022**	**10,235**
At 31 December 2013				
Cost	4,559	-	40,811	45,370
Accumulated amortisation and impairment losses	(3,346)	-	(31,789)	(35,135)
Net book value	**1,213**	**-**	**9,022**	**10,235**
Year ended 31 December 2014				
At 1 January	1,213	-	9,022	10,235
Additions	-	15,511	589	16,100
Disposals and write-offs	-	-	(116)	(116)
Foreign exchange differences	-	-	(1)	(1)
Amortisation	-	(1,034)	(3,001)	(4,035)
At 31 December	**1,213**	**14,477**	**6,493**	**22,183**
At 31 December 2014				
Cost	4,559	15,511	40,947	61,017
Accumulated amortisation and impairment losses	(3,346)	(1,034)	(34,454)	(38,834)
Net book value	**1,213**	**14,477**	**6,493**	**22,183**

NOTE 16 – INTANGIBLE ASSETS (continued)

Group (continued)

Goodwill is allocated entirely to the Production segment.

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 2,50%, and the present value of future cash flows is calculated using a discount rate of 10,38%. 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.

During 2013 goodwill impairment loss in the amount of HRK 3,346 thousand have been recognised in the income statement (note 10).

NOTE 16 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Usage rights	Software	Total
At 1 January 2013			
Cost	-	36,177	36,177
Accumulated amortisation	-	(25,807)	(25,807)
Net book value	**-**	**10,370**	**10,370**
Year ended 31 December 2013			
At 1 January	-	10,370	10,370
Additions	-	4	4
Amortisation	-	(3,352)	(3,352)
At 31 December	**-**	**7,022**	**7,022**
At 31 December 2013			
Cost	-	36,181	36,181
Accumulated amortisation	-	(29,159)	(29,159)
Net book value	**-**	**7,022**	**7,022**
Year ended 31 December 2014			
At 1 January	-	7,022	7,022
Additions	15,511	165	15,676
Amortisation	(1,034)	(2,521)	(3,555)
At 31 December	**14,477**	**4,666**	**19,143**
At 31 December 2014			
Cost	15,511	36,249	51,760
Accumulated amortisation	(1,034)	(31,583)	(32,617)
Net book value	**14,477**	**4,666**	**19,143**

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

Group

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under construction	Total
At 1 January 2013					
Cost or deemed cost	285,062	469,406	377,291	329,054	1,460,813
Accumulated depreciation	-	(197,612)	(227,570)	-	(425,182)
Net book value	**285,062**	**271,794**	**149,721**	**329,054**	**1,035,631**
Year ended 31 December 2013					
At 1 January	285,062	271,794	149,721	329,054	1,035,631
Additions	-	-	5,947	62,961	68,908
Transfer	-	256	1,668	(1,924)	-
Disposals and write-offs	-	(34)	(531)	-	(565)
Foreign exchange differences	76	28	4	5	113
Depreciation	-	(13,307)	(29,199)	-	(42,506)
Impairment loss	(729)	(19,688)	(3,292)	(5,606)	(29,315)
At 31 December	**284,409**	**239,049**	**124,318**	**384,490**	**1,032,266**
At 31 December 2013					
Cost or deemed cost	285,138	462,597	380,253	384,490	1,512,478
Accumulated depreciation	(729)	(223,548)	(255,935)	-	(480,212)
Net book value	**284,409**	**239,049**	**124,318**	**384,490**	**1,032,266**
Year ended 31 December 2014					
At 1 January	284,409	239,049	124,318	384,490	1,032,266
Additions	-	2,890	2,281	34,980	40,151
Branch offices	-	-	7,864	-	7,864
Transfer	-	402,001	2,040	(404,041)	-
Revaluation surplus	(38,096)	(402,001)	-	-	(440,097)
Disposals and write-offs	-	(599)	(985)	-	(1,584)
Foreign exchange differences	13	76	(196)	60	(47)
Depreciation	-	(11,868)	(27,793)	-	(39,661)
Impairment loss	-	-	-	(2,628)	(2,628)
At 31 December	**246,326**	**229,548**	**107,529**	**12,861**	**596,264**
At 31 December 2014					
Cost or deemed cost	246,326	464,133	370,641	12,861	1,093,961
Accumulated depreciation and impairment losses	-	(234,585)	(263,112)	-	(497,697)
Net book value	**246,326**	**229,548**	**107,529**	**12,861**	**596,264**

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets under construction	Total
At 1 January 2013					
Cost or deemed cost	164,914	122,205	267,355	-	554,474
Accumulated depreciation	-	(55,208)	(177,448)	-	(232,656)
Net book value	**164,914**	**66,997**	**89,907**	**-**	**321,818**
Year ended 31 December 2013					
At 1 January	164,914	66,997	89,907	-	321,818
Additions	-	-	2,417	-	2,417
Transfer to investment property	-	(8,674)	-	-	(8,674)
Transfer	-	256	(256)	-	-
Disposals and write-offs	-	-	(144)	-	(144)
Depreciation	-	(1,944)	(18,184)	-	(20,128)
At 31 December	**164,914**	**56,635**	**73,740**	**-**	**295,289**
At 31 December 2013					
Cost or deemed cost	164,914	113,745	256,571	-	535,230
Accumulated depreciation	-	(57,110)	(182,831)	-	(239,941)
Net book value	**164,914**	**56,635**	**73,740**	**-**	**295,289**
Year ended 31 December 2014					
At 1 January	164,914	56,635	73,740	-	295,289
Additions	-	-	1,205	-	1,205
Branch offices	-	-	7,864	-	7,864
Disposals and write-offs	-	(539)	(478)	-	(1,017)
Depreciation	-	(2,356)	(19,124)	-	(21,480)
At 31 December	**164,914**	**53,740**	**63,207**	**-**	**281,861**
At 31 December 2014					
Cost or deemed cost	164,914	113,021	248,493	-	526,428
Accumulated depreciation	-	(59,281)	(185,286)	-	(244,567)
Net book value	**164,914**	**53,740**	**63,207**	**-**	**281,861**

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (continued)

In 2014, capitalised interest on assets under construction amounted to HRK 1,829 thousand (2013: HRK 20,941 thousand) using a rate of 4.79% (2013: 4,79%).

Had revaluation not been performed, the carrying amount of land and buildings of the Group would have amounted to HRK 411,430 thousand at 31 December 2014 (2013: HRK 464,912 thousand), while the carrying amount of land and buildings of the Company would have amounted to HRK 168,635 thousand (2013: HRK 171,530 thousand).

As at 31 December 2014, land, buildings and equipment of the Group and the Company with a net book value of HRK 310,860 thousand (2013: HRK 335.352 thousand) were pledged as security for borrowings (note 31).

At 31 December 2014, assets under a finance lease where the Company are the lessee amounted to HRK 40,920 thousand (2013: HRK 51.066 thousand) – see note 31.

NOTE 18 – INVESTMENT PROPERTY

Group

(in thousands of HRK)	Land	Buildings	Total
At 31 December 2013			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book value	**-**	**-**	**-**
Year ended 31 December 2014			
At 1 January	-	-	-
Transfer from property, plant and equipment	38,096	402,001	440,097
Depreciation	-	(6,568)	(6,568)
Impairment loss	-	(67,694)	(67,694)
At 31 December	**38,096**	**327,739**	**365,835**
At 31 December 2014			
Cost	38,096	402,001	440,097
Accumulated depreciation and impairment losses	-	(74,262)	(74,262)
Net book value	**38,096**	**327,739**	**365,835**

Investment property relates to Sky office.

Land and buildings with a net book value of HRK 365,835 thousand were pledged as security for borrowings (note 31).

NOTE 18 – INVESTMENT PROPERTY (continued)

Company

(in thousands of HRK)	Land	Buildings	Total
At 1 January 2013			
Cost	72,209	261,801	334,010
Accumulated depreciation	-	(113,238)	(113,238)
Net book value	**72,209**	**148,563**	**220,772**
Year ended 31 December 2013			
At 1 January	72,209	148,563	220,772
Transfer from property, plant and equipment	-	8,674	8,674
Depreciation	-	(8,572)	(8,572)
At 31 December	**72,209**	**148,665**	**220,874**
At 31 December 2013			
Cost	72,209	270,475	342,684
Accumulated depreciation	-	(121,810)	(121,810)
Net book value	**72,209**	**148,665**	**220,874**
Year ended 31 December 2014			
At 1 January	72,209	148,665	220,874
Additions	-	2,890	2,890
Depreciation	-	(8,118)	(8,118)
At 31 December	**72,209**	**143,437**	**215,646**
At 31 December 2014			
Cost	72,209	273,366	345,575
Accumulated depreciation and impairment losses	-	(129,929)	(129,929)
Net book value	**72,209**	**143,437**	**215,646**

Land and buildings with a carrying amount of HRK 118,517 thousand (2013: HRK 123,091 thousand) have been pledged as security for the repayment of the finance lease (note 31).

NOTE 19 – INVESTMENTS IN SUBSIDIARIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At 1 January	-	-	314,079	410,525
Additions /i/	-	-	45,548	56
Impairment /ii/	-	-	(71,845)	(96,502)
At 31 December	**-**	**-**	**287,782**	**314,079**

/i/ During 2014 by transfer of loans receivable investment in subsidiary Dalekovod Ulaganja d.o.o. was increases by HRK 39,548 thousand and investment in subsidiary Dalekovod.Polska S.A. by HRK 3,984 thousand while investment in subsidiary Dalekovod Norge AS in the amount of HRK 2.016 thousand is result of transfer of share from Norwegian business unit to Dalekovod d.d. (2013: subsidiary Dalekovod Norge AS was incorporated).

/ii/ During 2014 the Company partially impaired investment in subsidiaries Dalekovod Ulaganja in the amount of HRK 67,694 thousand and Dalekovod TIM Topusko d.d. in the amount of HRK 4,151 thousand. During 2013 the Company fully impaired investments in subsidiaries Dalekovod TKS a.d., Doboj i Cindal d.o.o., Doboj and partially impaired investments in subsidiaries Dalekovod Proizvodnja d.o.o. i Dalekovod TIM d.d. During 2012, the Company impaired investments in subsidiaries Denacco Namibia (PTY) Ltd, Dalekovod-Adria d.o.o. and Dalekovod Libya, while investment in Dalekovod-Polska S.A. had been impaired in 2009. The impairment of HRK 71,845 thousand (2013: HRK 96,502 thousand) was recorded in the income statement (note 10).

Impairment of investments in subsidiaries, i.e. calculation of recoverable amount is based on approved plans. Future cash flows derived from those plans are discounted using the weighted average cost of capital between 6% and 10.4% depending on the industry in which the individual entity operates.

NOTE 19 – INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of incorporation	Primary activity	2014	2013	2014	2013
			Holding in %		*(in thousands of HRK)*	
Dalekovod d.o.o., Ljubljana	Slovenia	Construction	100.00	100.00	2,075	2,075
Dalekovod d.o.o., Mostar	Bosnia and Herzegovina	Construction	100.00	100.00	210	210
Dalekovod Proizvodnja d.o.o., Dugo Selo	Croatia	Production	100.00	100.00	222,758	222,758
Dalekovod-projekt d.o.o., Zagreb	Croatia	Construction	100.00	100.00	4,614	4,614
Dalcom Engineering GmbH, Freilassing	Germany	Construction	100.00	100.00	372	372
Dalekovod-Polska S.A., Warsaw /i/, /ii/	Poland	Construction	100.00	100.00	6,581	2,597
Dalekovod TKS a.d., Doboj /ii/	Bosnia and Herzegovina	Production	97.25	97.25	20,344	20,344
Dalekovod Professio d.o.o., Zagreb	Croatia	Other	100.00	100.00	77,029	77,029
Denacco Namibia (PTY) Ltd /ii/	Namibia	Construction	60.00	60.00	18	18
Dalekovod TIM Topusko d.d. /ii/	Croatia	Production	95.81	95.81	28,059	28,059
Dalekovod – ulaganja d.o.o. Zagreb /i/, /ii/	Croatia	Other	100.00	100.00	77,668	38,120
Cindal d.o.o. Doboj /ii/	Bosnia and Herzegovina	Production	95.01	95.01	5,191	5,191
Dalekovod-Adria d.o.o. Zagreb /ii/	Croatia	Other	100.00	100.00	32,098	32,098
Dalekovod EMU d.o.o. Zagreb	Croatia	Construction	100.00	100.00	11,063	11,063
EL-RA d.o.o.. Zagreb	Croatia	Other	100.00	100.00	492	492
Dalekovod Libya za inženjering, zajedničko poduzeće, Libya /ii/	Libya	Construction	65.00	65.00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	Construction	100.00	100.00	74	74
Dalekovod ApS, Grenland	Grenland	Construction	100.00	100.00	124	124
Dalekovod Norge AS /i/	Norway	Construction	100.00	100.00	2,072	56
Impairment of investments /ii/					(203,939)	(132,094)
					287,782	**314,079**

NOTE 19 – INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of incorporation	2014	2013
		Holding in %	
Dalekovod OIE d.o.o., Zagreb	Croatia	100.00	100.00
Voštane j.d.o.o., Zagreb	Croatia	100.00	100.00
Dalekovod breze j.d.o.o., Zagreb	Croatia	100.00	100.00
Otrić j.d.o.o., Zagreb	Croatia	100.00	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.

Additionally, a member of Group (Dalekovod Proizvodnja d.o.o.) founded subsidiary DalProizvodnja d.o.o., Doboj, Bosnia and Herzegovina.

NOTE 20 – INVESTMENTS IN ASSOCIATES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At beginning of year	16,478	20,241	20,241	20,241
Share in profit/(loss)	(1,824)	(3,763)	-	-
At end of year	**14,654**	**16,478**	**20,241**	**20,241**

Associates are as follows:

	Dalekovod Group		Holding in %	
(in thousands of HRK)	2014	2013	2014	2013
TLM Group Members	7	7	25-47	25-47
Unidal d.o.o., Vinkovci	14,647	16,471	44.65	49
Total	**14,654**	**16,478**		

Financial information about associate is summarised below:

(in thousands of HRK)	Assets	Liabilities	Revenues	Net gain / (loss)
At 31 December 2014				
Unidal d.o.o.	57,139	41,584	63,777	(4,085)
At 31 December 2013				
Unidal d.o.o.	64,426	49,038	62,864	(2,358)

NOTE 21 – INVESTMENTS IN JOINT VENTURES

	Dalekovod Group	
(in thousands of HRK)	2014	2013
At beginning of year	70,514	79,729
Share in profit/(loss)	(5,463)	(3,607)
Other	(8)	(5,608)
Transfer to assets held for sale	(65,043)	-
At end of year	**-**	**70,514**

The list of investments in joint ventures is as follows:

	Dalekovod Group		Holding in %	
(in thousands of HRK)	2014	2013	2014	2013
Velika Popina d.o.o.	-	18,075	50	50
Eko d.o.o.	-	52,421	50	50
OIE Makedonija	-	18	50	50
Total	**-**	**70,514**		

Financial information of joint ventures is summarised below:

(in thousands of HRK)	Assets	Liabilities	Revenues	Net gain / (loss)
At 31 December 2014				
Velika Popina d.o.o.	97,271	68,147	18,037	(3,556)
Eko d.o.o.	384,468	299,381	87,459	(7,364)
OIE Makedonija	13	-	-	(6)
	481,752	**367,528**	**105,496**	**(10,926)**
At 31 December 2013				
Velika Popina d.o.o.	107,567	75,284	22,825	(3,159)
Eko d.o.o.	415,702	323,251	86,320	(4,055)
OIE Makedonija	19	-	-	(5)
	523,288	**398,535**	**109,145**	**(7,219)**

NOTE 22 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At beginning of year	28,273	42,809	28,260	42,786
Increase	414	-	4	-
Transfer from other receivables	30,889	-	30,889	-
Adjustment to fair value /i/	(49,307)	(14,536)	(49,299)	(14,526)
At end of year	**10,269**	**28,273**	**9,854**	**28,260**

/i/ At 31 December 2014, the Company performed a valuation of available for sale financial assets and adjusted them to fair value. The fair value loss of HRK 49,299 thousand (2013: HRK 14,526 thousand) was recognised in the income statement (note 11).

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2014					
Financial assets					
Trade receivables	24, 26	309,076	-	-	**309,076**
Receivables by construction contracts	26	60,056	-	-	**60,056**
Loans receivable and deposits	24, 26	135,827	-	-	**135,827**
Interest receivable	26	371	-	-	**371**
Other receivables	26	6,938	-	-	**6,938**
Available for sale financial assets	22	-	-	10,269	**10,269**
Financial assets at fair value through profit or loss	27	-	40,680	-	**40,680**
Cash and cash equivalents	28	66,388	-	-	**66,388**
Total		**578,656**	**40,680**	**10,269**	**629,605**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2014		
Financial liabilities		
Loans	31	740,558
Bonds	31	20,144
Finance lease	31	133,132
Mezzanine debt	32	207,026
Trade payables	33	312,873
Other payables	33	95,015
Total		**1,508,748**

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

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2013					
Financial assets					
Trade receivables	24, 26	201,411	-	-	**201,411**
Receivables by construction contracts	26	42,492	-	-	**42,492**
Loans receivable and deposits	24, 26	61,140	-	-	**61,140**
Interest receivable	26	317	-	-	**317**
Receivables from other foreign business units for unpaid profit and loans receivable	26	51,122	-	-	**51,122**
Other receivables	26	39,170	-	-	**39,170**
Available for sale financial assets	22	-	-	28,273	**28,273**
Financial assets at fair value through profit or loss	27	-	28	-	**28**
Cash and cash equivalents	28	30,069	-	-	**30,069**
Total		**425,721**	**28**	**28,273**	**454,022**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2013		
Financial liabilities		
Loans	31	942,466
Commercial papers	31	43,278
Finance lease	31	141,290
Trade payables	33	355,972
Other payables	33	103,869
Total		**1,586,875**

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

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2014					
Financial assets					
Trade receivables	24, 26	276,431	-	-	**276,431**
Receivables by construction contracts	26	60,056	-	-	**60,056**
Loans receivable and deposits	24, 26	129,874	-	-	**129,874**
Interest receivable	26	882	-	-	**882**
Receivables from other foreign business units for unpaid profit and loans	26	1,532	-	-	**1,532**
Other receivables	26	3,219	-	-	**3,219**
Available for sale financial assets	22	-	-	9,854	**9,854**
Financial assets at fair value through profit or loss	27	-	40,178	-	**40,178**
Cash and cash equivalents	28	41,762	-	-	**41,762**
Total		**513,756**	**40,178**	**9,854**	**563,788**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2014		
Financial liabilities		
Loans	31	398,697
Bonds	31	26,537
Finance lease	31	132,111
Mezzanine debt	32	238,421
Trade payables	33	294,842
Other payables	33	46,704
Total		**1,137,312**

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

NOTE 23 – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

(in thousands of HRK)	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale financial assets	Total
31 December 2013					
Financial assets					
Trade receivables	24, 26	175,541	-	-	**175,541**
Receivables by construction contracts	26	40,779	-	-	**40,779**
Loans receivable and deposits	24, 26	86,558	-	-	**86,558**
Interest receivable	26	5,090	-	-	**5,090**
Receivables from other foreign business units for unpaid profit and loans receivable	26	45,758	-	-	**45,758**
Other receivables	26	31,170	-	-	**31,170**
Available for sale financial assets	22	-	-	28,260	**28,260**
Financial assets at fair value through profit or loss	27	-	28	-	**28**
Cash and cash equivalents	28	5,547	-	-	**5,547**
Total		**390,443**	**28**	**28,260**	**418,731**

(in thousands of HRK)	Note	Other financial liabilities
31 December 2013		
Financial liabilities		
Loans	31	645,375
Commercial papers	31	57,005
Finance lease	31	140,349
Trade payables	33	347,546
Other payables	33	74,291
Total		**1,264,566**

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

NOTE 24 – LOANS AND RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Long-term deposits	3,448	2,566	1,867	2,566
Long-term guarantee deposits	73,015	17,096	67,819	15,890
Long-term trade receivables	446	-	11	-
Long-term loans receivable:				
- loans to subsidiaries	-	-	13,921	1,402
- housing loans and other loans to employees	2,324	2,722	1,017	1,272
- loans to other companies	8,551	8,600	8,551	8,600
Impairment of long-term deposits and loans receivable	(9,917)	(10,055)	(9,917)	(10,055)
Total long-term deposits and loans receivable	77,867	20,929	83,269	19,675
Current portion of long-term loans and deposits (note 26)	(203)	(237)	(203)	(1,639)
Long-term loans and deposits given	**77,664**	**20,692**	**83,066**	**18,036**

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 2016.

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 (EUR).

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 8,660 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. During the year HRK 49 thousand have been collected (2013: HRK 60 thousand).

NOTE 24 – LOANS AND RECEIVABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At 1 January	10,055	8,660	10,055	8,660
Collection of impaired receivables (note 10)	(49)	(60)	(49)	(60)
Unwinding of discount og guarantee deposits	(89)	-	(89)	-
Provision for impairment of trade receivables and other financial assets (note 10)	-	1,455	-	1,455
At 31 December	**9,917**	**10,055**	**9,917**	**10,055**

NOTE 25 – INVENTORIES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Raw materials	81,493	57,375	18,440	7,135
Finished and semi-finished goods and work in progress	54,123	49,818	581	963
Spare parts and small inventories	1,620	1,572	1,285	1,346
Trade goods	8,535	9,099	7	-
Advances for inventories	855	305	-	-
	146,626	**118,169**	**20,313**	**9,444**

Cost of raw materials and supplies recognised in the income statement is disclosed in note 8.

Impairment of inventories recognised in the income statement is disclosed in note 10.

NOTE 26 – TRADE AND OTHER RECEIVABLES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Domestic trade receivables	290,040	231,436	249,407	226,119
Foreign trade receivables	158,485	78,656	155,483	39,875
Impairment of trade receivables	(139,895)	(108,681)	(128,470)	(90,453)
	308,630	201,411	276,420	175,541
Receivable from customers for contract work	60,056	42,492	60,056	40,779
Guarantee deposits – current portion	29,956	32,189	12,079	15,021
Short-term deposits /iii/	15,623	7,200	2,805	-
Current portion of long-term loans (note 23)	203	237	203	1,639
Loans to subsidiary (note 32)	-	-	32,628	63,093
Other short-term loans /i/	16,471	3,279	15,788	2,913
Interest receivable	8,441	6,806	10,910	11,579
Receivables from other foreign business units for unpaid profit and loans receivable /iv/	-	51,122	-	45,758
Dividend receivable	-	-	1,532	-
Other receivables	15,807	48,039	12,088	40,039
Impairment of other financial assets	(20,583)	(17,815)	(35,581)	(29,502)
Total financial assets	434,604	374,960	388,928	366,860
Advances /ii/	44,641	23,787	48,475	12,645
Receivable from employees	177	328	100	210
VAT receivable	16,540	2,676	14,915	-
Outstanding VAT receivable	4,541	5,690	810	5,082
Prepaid expenses	6,803	4,870	243	4,486
Impairment of non-financial assets	(6,247)	(6,247)	(6,247)	(6,247)
Total non-financial assets	66,455	31,104	58,296	16,176
	501,059	**406,064**	**447,224**	**383,036**

/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 4.5%-7%. 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.

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

/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 1% to 2.25%.

/iv/ During 2014, the Company changed the method of monitoring foreign branch offices. In the financial statements for 2013 and 2012, assets and liabilities of certain branch offices were recorded on a net basis, while in 2014 assets and liabilities are recorded on a gross basis which is the presentation that had been used in 2011 and previous years. The effect of net basis presentation on 2013 figures can be seen in the table below:

(in thousands of HRK)	**2013**
Intangible assets	53
Plant and equipment	6,150
Loans and receivables	1,460
Inventories	7,255
Trade receivables	95,268
Other receivables	60,358
Cash	46,897
Total assets	**217,441**
Non-current liabilities	1,321
Trade payables	70,142
Other payables	100,220
Total liabilities	**171,683**
Net receivables	**45,758**

The ageing of trade receivables is as follows:

	Dalekovod Group		**Dalekovod d.d.**	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Not due	200,534	70,391	177,026	34,196
Up to 90 days	46,357	47,468	31,486	20,358
From 91 to 180 days	14,861	39,156	13,025	45,874
Over 180 days	46,878	44,396	54,883	75,113
	308,630	**201,411**	**276,420**	**175,541**

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
At 1 January	126,496	111,193	119,955	116,077
Impairment of trade receivables and other financial assets (note 10)	43,551	18,507	46,110	5,211
Collected amounts (note 10)	(6,029)	(1,957)	(336)	(351)
Receivables written-off during the year as uncollectible	(3,540)	(1,247)	(1,678)	(982)
At 31 December	**160,478**	**126,496**	**164,051**	**119,955**
Direct write-off of trade receivables and other financial assets (note 10)	3,264	874	23	350

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
HRK	217,953	185,769	188,435	263,997
EUR	112,750	139,690	105,865	53,410
NOK	4,908	19,399	2,868	19,399
UAH	93,274	22,754	88,464	22,754
Other currencies	5,719	7,348	3,296	7,300
Total	**434,604**	**374,960**	**388,928**	**366,860**

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 27 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss relate to investment in domestic cash funds.

As at 31 December 2014, the fair value of these assets in the Group amounted to HRK 40,680 thousand (2013: HRK 28 thousand), and in the Company to HRK 40,178 thousand (2013: HRK 28 thousand).

NOTE 28 – CASH AND CASH EQUIVALENTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Cash at bank and petty cash in domestic currency	15,930	6,862	8,526	3,087
Cash at bank and petty cash in foreign currency	50,458	11,919	33,236	2,460
Deposits at bank in domestic curreсny	-	1,239	-	-
Deposits at bank in foreign curreсny	-	10,049	-	-
	66,388	**30,069**	**41,762**	**5,547**

As at 31 December 2014, there are no deposits held at bank that are deposited on a period less than 3 months (2013: the average effective interest rate for short-term deposits with banks was 0.72%).

Cash and cash equivalents are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
EUR	20,155	19,283	10,693	2,460
NOK	17,456	1,842	10,929	-
UAH	10,643	115	10,063	-
Other currencies	2,204	728	1,551	-
Total	**50,458**	**21,968**	**33,236**	**2,460**

NOTE 29 – ASSETS HELD FOR SALE

	Dalekovod Group	
(in thousands of HRK)	2014	2013
Velika Popina d.o.o.	16,298	-
Eko d.o.o.	48,740	-
OIE Makedonija	5	-
Total	**65,043**	-

In accordance with the pre-bankruptcy settlement, investments in joint ventures have been classified as assets held for sale. Fair value of the investments in joint ventures less cost to sell is higher than book value of the investment in joint ventures so there is no need for impairment.

NOTE 30 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2014 amounts to HRK 247,193 thousand (2013: HRK 286,726 thousand) and consists of 24,719,305 shares (2013: 2,867,265 shares). Nominal value of a share amounts to HRK 10 (31 December 2013: HRK 100).

As of 28 March 2014, based on General Assembly decision, the share capital was decreased from HRK 286,726.500 by HRK 258,053,850 to HRK 28,672,650 to cover the losses by reducing the nominal value of share from HRK 100 to HRK 10. Simultaneously, the share capital was increased from HRK 28,672,650 by HRK 158,521,680 to HRK 187,194,330 by cash payment of HRK 150,000,000 and a contribution in rights/conversion of debt of HRK 8,521,680 by issuing new shares.

Additionally, during August 2014, the share capital was increased from HRK 187,194,330 by cash payment of HRK 59,998,720 to HRK 247,193,050 by issuing 5,999,872 new shares whose nominal value is HRK 10.00.

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

	Number of shares		Holding	
	2014	**2013**	**2014**	**2013**
Konsolidator d.o.o.	15,000,000	-	60.68%	-
Pension funds	3,955,632	638,891	16.00%	22.28%
Individuals	3,273,166	1,482,238	13.24%	51.70%
Banks	1,303,407	315,036	5.27%	10.99%
Telegra d.o.o.	223,015	164,753	0.90%	5.75%
Others	920,151	222,413	3.72%	7.76%
Treasury shares	43,934	43,934	0.18%	1.53%
	24,719,305	**2,867,265**	**100.00%**	**100.00%**

NOTE 30 – SHAREHOLDERS' EQUITY (continued)

Share premium

Share premium as at 31 December 2014 amounts to HRK 86,142 thousand (2013: HRK 80,479 thousand). Share premium as at 31 December 2013 arose by issuance of shares in 2011 when 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. During 2014 part of share premium in the amount of HRK 70,424 thousand is used to cover losses. Furthermore, during 2014 share premium was increased as a result of increase in share capital, i.e. transfer of debts towards suppliers into share capital as a part of the pre-bankruptcy settlement in the amount of HRK 76,695 thousand and decreased by the cost of issuing new shares in the amount of HK 608 thousand.

Legal 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.

Treasury shares

As at 31 December 2013, the Company owns 43,934 treasury shares (2013: 43,934 treasury shares).

Statutory and other reserves

Statutory and other reserves consist of statutory reserves in the amount of HRK 32,881 thousand and reserves for own shares in the amount of HRK 7,773 thousand. During 2014, according to the decision of the Company's General Assembly, other reserves in the amount of HRL 112,763 thousand were used to cover losses.

Revaluation reserves

During 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 50,019 thousand was recorded in other comprehensive income. At the end of 2012, the subsidiary Dalekovod TKS from Doboj performed a revaluation of land and buildings and increased the value of its non-current tangible assets in the amount of HRK 14,425 thousand (note 16) which was recorded in the statement of comprehensive income. During 2013 in accordance with business results and insolvency of Dalekovod TKS and in accordance with market situation impairment was recognised and the revaluation reserve utilised in full amount. During 2013 deferred tax liability related to revaluation in the amount of HRK 10.004 thousand have been recognised resulting with the revaluation reserve of HRK 40.015 thousand.

NOTE 31 – BORROWINGS

(in thousands of HRK)	Average interest rate	Dalekovod Group 2014	Dalekovod Group 2013	Dalekovod d.d. 2014	Dalekovod d.d. 2013
Non-current					
Loans from banks and subsidiaries	4.00%	280,624	10,059	259,010	-
Bonds	4.00%	20,144	-	26,537	-
Finance lease /i/	4.67%	121,854	1,480	121,134	969
		422,622	**11,539**	**406,681**	**969**
Current					
Loans from banks and subsidiaries	4.00%	459,934	932,407	139,687	645,375
Commercial papers	8.75%	-	43,278	-	57,005
Finance lease /i/	4.67%	11,278	139,810	10,977	139,380
		471,212	**1,115,495**	**150,664**	**841,760**
Total borrowings		**893,834**	**1,127,034**	**557,345**	**842,729**

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

(in thousands of HRK)	Dalekovod Group 2014	Dalekovod Group 2013	Dalekovod d.d. 2014	Dalekovod d.d. 2013
Up to 1 year	13,486	147,085	13,135	146,595
Between 1 to 5 years	60,189	12,367	59,502	11,761
Over 5 years	74,251	-	74,251	-
	147,926	159,452	146,888	158,356
Future finance costs under finance lease	(14,794)	(18,162)	(14,777)	(18,007)
Present value of liabilities under finance lease	**133,132**	**141,290**	**132,111**	**140,349**

/ii/ Out of total amount of loans from banks and subsidiaries that the Company and the Group presented as at 31 December 2014, the amount of HRK 139,129 thousand relates to loans received from three banks that decided to collect their receivables outside the pre-bankruptcy settlement through sale of assets under foreclosure. Furthermore, the Company has liability based on a paid guarantees in the amount of HRK 22,642 thousand as of 31 December 2014 (presented in note 33), that will also be closed with proceeds from sale of assets under foreclosure. In total, as of 31 December 2014, the Company and the Group have shown HRK 161,771 thousand of liability towards banks relating to loans and guarantees that will be settled with proceeds from sale of assets under foreclosure.

As of 31 December 2014, the Company and the Group did not prepare assessment of expected future cash proceeds from sale of assets under foreclosure which is the reason why the fair value of these loan liabilities and liabilities to banks arising on collection of guarantees were not calculated.

NOTE 31 – BORROWINGS (continued)

Bank borrowings are secured with bills of exchange and by mortgage over property, plant and equipment and investment property (notes 17 and 18).

The Group's borrowings totalling HRK 351,109 thousand (2013: HRK 1,008,899 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 542,725 thousand (2013: HRK 118,135 thousand) have fixed interest rates (loans in the amount of HRK 425,234 thousand 4% and finance lease in the amount of HRK 117,491 thousand 4.5% based on the pre-bankruptcy settlement).

The borrowings are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
EUR	543,607	669,982	222,156	369,851
HRK	349,833	457,052	335,189	472,878
Other	394	-	-	-
Total	**893,834**	**1,127,034**	**557,345**	**842,729**

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Between 1 to 5 years	67,022	10,059	57,111	-
Over 5 years	213,602	-	201,899	-
	280,624	**10,059**	**259,010**	**-**

NOTE 32 – MEZZANINE DEBT

	Dalekovod Group		Dalekovod d.d.	
	2014	**2013**	**2014**	**2013**
Long-term	148,607	-	176,421	-
Short-term	58,419	-	62,000	-
	207,026	**-**	**238,421**	**-**

The mezzanine debt is denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
	2014	**2013**	**2014**	**2013**
HRK	122,162	-	153,557	-
EUR	84,864	-	84,864	-
	207,026	**-**	**238,421**	**-**

NOTE 33 – TRADE AND OTHER PAYABLES

Long-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Trade payables	91,537	-	111,355	-
	91,537	**-**	**111,355**	**-**

Short-term

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Domestic trade payables	144,637	332,432	112,242	335,207
Foreign trade payables	76,699	23,540	71,245	12,339
	221,336	355,972	183,487	347,546
Interest payable	38,882	49,760	2,050	26,784
Bills of exchange	-	919	-	919
Dividends payable (note 14)	1,900	1,900	1,900	1,900
Contracted liabilities from acquisition	1,672	2,810	1,672	2,810
Other accruals and liabilities	29,795	25,625	18,316	19,023
Due to banks arising from collected guarantees	22,766	22,855	22,766	22,855
Financial liabilities	**316,351**	**459,841**	**230,191**	**421,837**
Advances	103,832	26,536	100,166	21,371
Deferred income	10,884	-	10,884	-
Due to employees	29,010	26,075	6,086	9,175
VAT payable	3,011	13,274	-	12,460
Taxes and contributions	7,784	12,784	2,942	7,043
Unused vacation days	5,798	6,363	2,665	3,716
Non-financial liabilities	**160,319**	**85,032**	**122,743**	**53,765**
	476,670	**544,873**	**352,934**	**475,602**

NOTE 33 – TRADE AND OTHER PAYABLES (continued)

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
HRK	78,658	-	101,530	-
EUR	7,330	-	9,295	-
NOK	106	-	27	-
UAH	4,940	-	-	-
Other currencies	503	-	503	-
Total	**91,537**	**-**	**111,355**	**-**

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
HRK	167,242	346,877	129,758	377,560
EUR	66,370	104,918	40,853	43,366
USD	239	571	-	239
NOK	1,768	-	1,768	-
UAH	58,431	-	55,001	-
Other currencies	22,301	7,475	2,811	672
Total	**316,351**	**459,841**	**230,191**	**421,837**

NOTE 34 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2014	3,705	2,341	7,075	13,121
Increase	80	300	3,826	4,206
Decrease	(238)	(94)	(7,536)	(7,868)
At 31 December 2014	**3,547**	**2,547**	**3,365**	**9,459**

Analysis:	**2014**	**2013**
Non-curresnt portion	8,389	12,090
Current portion	1,070	1,031
Total	**9,459**	**13,121**

Company

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2014	1,869	1,182	7,014	10,065
Increase	-	-	3,826	3,826
Decrease	(109)	(94)	(7,514)	(7,717)
At 31 December 2014	**1,760**	**1,088**	**3,326**	**6,174**

Analysis:	**2014**	**2013**
Non-curresnt portion	5,605	9,570
Current portion	569	495
Total	**6,174**	**10,065**

Provisions for jubilee awards and severance payments

These provisions relate to estimated long-term employee benefits for jubilee awards and severance payments at the time of retirement according to the Collective bargaining agreement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate of 5.11% for the Group, and 2.0% for the Company (2013: Group 5.30%, Company 2.0%), an annual discount rate of 4.0% (2013: 5.4%); 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 60 years for women).

Other provisions

Other provisions relate to provisions for court cases.

NOTE 35 – 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 19, associates presented in note 20 and joint ventures presented in note 21, the Company's related parties include its Management Board and executive directors, owners and ultimate owner Nexus FGS.

The Company does not have transactions with majority owner.

Items in the income statement for the year and balances in the statement of financial position at the end of the year that relates to subsidiaries are as follow:

Revenues and expenses

(in thousands of HRK)	2014	2013
Sales revenue	56,117	49,489
Rental income	4,669	4,613
Interest income	2,615	2,051
Income from discount of long-term liabilities	28,064	-
Dividend income	1,532	-
Other operating income	-	4,350
	92,997	**60,503**
Cost of goods sold	25,862	5,071
Cost of raw materials and supplies	15,703	21,078
Subcontractor services	13,714	39,018
Other operating expenses	1,009	696
Interest expesne and foreign exchange losses	1,503	596
	57,791	**66,459**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	2014	2013
Trade receivables	48,178	62,518
Dividends receivable	1,532	-
Other receivables	7,317	6,974
Loans receivable	31,429	52,807
	88,456	**122,299**
Trade payables	52,210	66,671
Mezzanine debt	31,395	-
Interest payable	-	77
Bonds	6,393	-
Commercial papers liability	-	13,727
Loans payable	353	38,681
	90,351	**119,156**

Items in the income statement for the year and balances in the statement of financial position at the end of the year that relates to associates are as follow:

Revenues and expenses

(in thousands of HRK)	2014	2013
Sales revenue	350	393
Interest income	103	-
	453	**393**
Interest expense	30	-
	30	**-**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	2014	2013
Trade receivables	1,109	672
Loans receivable	-	312
	1,109	**984**
Trade payables	3,112	4,495
Loans payable	-	1,875
	3,112	**6,370**

The Company has no transactions with joint ventures

In addition to the Company, other Group members have dealings with associates. Items in the income statement for the year and balances in the statement of financial position of the Group at the end of the year that arise from transactions with associates are as follow:

Revenues and expenses

(in thousands of HRK)	2014	2013
Sales revenue	2,656	3,707
Other income	103	-
Interest income	**2,759**	**3,707**
Cost of raw materials and supplies	6,015	3,194
Subcontractor services	12	44
Interest expense	30	-
	6,057	**3,238**

NOTE 35 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(in thousands of HRK)	2014	2013
Trade receivables	1,336	841
Loans receivable	-	312
	1,336	**1,153**
Trade payables	3,699	6,713
Loans payable	-	1,875
	3,699	**8,588**

Certain Group members have dealings with joint ventures as well. Items in the income statement for the year and balances in the statement of financial position of the Group at the end of the year that arise from transactions with joint ventures are as follow:

Revenues and expenses

(in thousands of HRK)	2014	2013
Sales revenue	5,400	5,500
	5,400	**5,500**

Receivables, payables and loans

(in thousands of HRK)	2014	2013
Trade receivables	1,388	3,075
	1,388	**3,075**

Transactions with key management

Key management consists of Management Board and Executive Directors. Remuneration to key management at Group's level amounted to HRK 15,973 thousand (2013: HRK 16,461 thousand), while remuneration at the level of the Company amounted to HRK 10,453 thousand (2013: 12,722 thousand).

NOTE 36 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2014, 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 733,317 thousand (2013: HRK 684,214 thousand).

Future minimum lease payments under non-cancellable operating lease are as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2014	2013	2014	2013
Up to 1 year	3,273	895	2,862	895
Between 1 to 5 years	3,450	876	3,110	876
Over 5 years	-	-	-	-
	6,723	1,771	5,972	1,771

As at 31 December 2014, 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 440,392 thousand and HRK 401,903 thousand (2013: HRK 432,614 thousand Group and HRK 401,612 thousand Company). They are additionally exposed as subsidiaries' co-debtors in the total amount of HRK 529,050 thousand (2013: HRK 496,599 thousand).

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on Management Board and legal counsel believes, provision have been created for those court cases that will result with losses and were those losses can be estimated (note 34). In addition to those court cases for which provision have been made there are some legal disputes will not result in significant losses.

NOTE 37 – EVENTS AFTER THE BALANCE SHEET DATE

As of 2 February 2015 insolvency proceeding over the subsidiary Dalekovod TKS d.d. Doboj have been opened.

As of 13 February 2015 the agreement on sale and transfer of 254,056 shares in subsidiary Dalekovod TIM d.d. Topusko have been concluded.

Except as outlined above, there were no events after 31 December 2014 that have material impact on financial statements as of and for the year then ended or that are of such impact on business operations of the Company or the Group that should require the disclosure in the notes to the financial statements.