

Management Board

According to the provision of Article 308, paragraph 5 of the Companies' Act (Official Gazette Number 111/93, 34/99, 52/00, 118/03, 107/07, 146/08 and 137/09), and according to item VIII of the Decision on an increase in share capital of the Company and issuance of new shares as of June 09th 2011 (hereinafter referred to as "**Decision on an increase in share capital**"), the Management Board of the company Dalekovod d.d., with registered seat in Zagreb, Ulica Marijana Čavića 4 (hereinafter referred to as: "**Company**"), for the purpose of enforcement of the Decision on an increase in share capital submits the below Report to the Supervisory Board of the Company

**REPORT ON
REASONS FOR COMPLETE EXCLUSION OF PRE-EMPTIVE RIGHT WHILST
SUBSCRIBING THE NEW SHARES**

According to Article 18.c) of the Articles of Association, the Management Board of the Company is authorized to, with consent granted by the Supervisory Board of the Company, during a period of five years from the date of entry of changes and amendments to the Articles of Association in the court register, thereby authorizing the Management Board of the Company, make a decision on an increase in share capital of the Company by payment a contribution in cash and is also authorized to, with the consent by the Supervisory Board of the Company in respect of shares issued according to the Decision by the Management Board of the Company, exclude the pre-emptive right of the Company's shareholders whilst subscribing new shares.

According to the Decision on an increase in share capital of the Company, the share capital of the Company is increased by issuing new non-materialized bearer ordinary shares with payment of contribution in cash from the amount of HRK 270,251,200.00 (two hundred seventy million two hundred and fifty-one thousand two hundred Kuna) by the amount of HRK 16,475,300.00 (sixteen million four hundred seventy-five thousand and three hundred Kuna) to total amount of HRK 286,726,500.00 (two hundred eighty-six million seven hundred twenty-six thousand five hundred Kuna) by payment of 164,753 (one hundred sixty-four thousand seven hundred fifty-three) new non-materialized bearer ordinary shares, each to nominal amount of HRK 100 (one hundred Kuna) with total nominal amount of HRK 16,475,300.00 (sixteen million four hundred seventy-five thousand and three hundred Kuna). The new ordinary shares are issued for the amount of HRK 245.00 (two hundred forty-five Kuna) for each new ordinary share.

The Management Board of the Company requested the Supervisory Board of the Company to give its consent for making a Decision on an increase in share capital and exclusion of the pre-emptive rights of the existing shareholders whilst subscribing new shares in favour of the company TELEGRA Ltd. for designing, production, installation and maintenance of intelligent traffic systems and telecommunication infrastructure, with registered seat in Sveta Nedelja, Plešivička 3, Company Number 80367121.

The reasons for complete exclusion of the pre-emptive right whilst subscribing the shares are the reasons listed in the Statement made by the Management Board as of May 26th 2011.

The Management Board and its advisors assess that the most effective capital increase at the

moment for the Company includes using the statutory option which enables the Management Board of the Company to issue up to 25% of new shares of the Company thereby excluding pre-emptive rights of the existing shareholders. According to the Management Board beliefs, the capital increase without exclusion of pre-emptive rights of the existing shareholders would not generate additional demand to compensate for having a much more expensive process. Further, this option would prevent the company from timely provision of funds for the implementation of planned restructuring activities as realization of such process requires significantly more time.

While making a decision on exclusion of pre-emptive right of the existing shareholders, the Management Board stresses the urgency of providing high quality financing sources assuming that minority shareholders would not be in position to provide larger funds and that the public offering at this moment would extend the time of receiving new capital for the implementation of the announced activities which would additionally stress the financial position of the Company and thus in return have an implication on the price of the share.

In the above mentioned process the Management board tried to achieve the price per share in accordance with the market conditions.

Finally, the Management Board of the Company states that the exclusion of the pre-emptive rights will allow the Company to use an exception from the rules stated in the Capital Markets Law and conducts the subscription and payment for the new ordinary shares without publicizing prospectus and accumulating costs related to it.

Considering the above mentioned, the Management Board of the Company suggests that the Supervisory Board should give its consent for exclusion of the pre-emptive right of shareholders whilst subscribing new shares.

Zagreb, June 9th 2011.

Company Management Board

Luka Miličić, M.Sc.

President of the Management Board