DALEKOVOD d.d.

ANNUAL REPORT AND FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2013

DALEKOVOD d.d.

ANNUAL REPORT AND FINANCIAL STATEMENTS WITH INDEPENDET AUDITORS' REPORT – 31 DECEMBER 2013

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 2013 is presented below. All information is presented in Kuna, unless otherwise indicated.

Business overview

In year 2013 the Group generated total revenues of HRK 1,170 million, which represents a decrease of 9% compared to the same period last year, while the Company generated revenues of HRK 831 million, which represents a decrease of 11% compared to the year 2012. 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 2013 a loss from operations in the amount of HRK 159.4 million was incurred, while the loss of the Group amounted to HRK 122.2 million.

During 2013 Dalekovod d.d. was in the process of pre-bankruptcy settlement and that fact had a significant impact on the operations of the company and obtaining engagements. Pre-bankruptcy settlement process was opened by the decision of FINA on 20 December 2012. During this process the Management Board continuously negotiated with creditors and reached a settlement at a hearing on 2 April 2013. Pre-bankruptcy settlement plan established deadlines and manner of debt repayment to creditors and basic measures of financial and operational restructuring of the Company, with the aim of continuing operations of Dalekovod d.d. After hearings at the Commercial Court were not held, Dalekovod d.d. used legal instruments to return their case to the Commercial Court in Zagreb and on 14 February 2014 received the final decision on the conclusion of pre-bankruptcy settlement. Implementation of the pre-bankruptcy settlement in year 2014 is progressing according to plan.

Changes in Management: In September 2013, after the resignation of Mr. Matjaž Gorjup, the President of the Management Board, Mr Goran Brajdić, former member of the Board became President of the Management Board.

The introduction of monthly reporting and improvement of the controlling system: In order to preserve and improve the Group's liquidity and advance operations, reporting on a monthly basis was introduced of cash receipts and expenditures of the Group, comparison with the plan, expected revenues for the future period and repayment schedule of financial debt (according to the focus and the need to reduce the debt). The Group also intends to improve the controlling system in order to effectively monitor the implementation of savings measures and their influence on the profitability of the Group.

Significant engagements obtained: During year 2013 and the beginning of 2014 Dalekovod d.d. signed new contracts abroad amounting to EUR 170 million; in the Kosovo market in the amount of EUR 30 million, in the Ukrainian market in the amount of EUR 30 million and in the Polish market in the amount of EUR 110 million. All contracts relate to construction of transmission networks in these countries.

Guiding principles for the upcoming periods

The business plan for the future anticipates a gradual recovery of operating revenues, by refocusing on the segment of power projects in the domestic market, regional market and foreign markets where the Company already has considerable experience and references (primarily Scandinavia and CIS etc.). 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.

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.

In addition, business projections predict a significant reduction of fixed costs, administrative costs and other overhead expenses.

The projections of a business plan anticipate improving operating (EBITDA) results to a level of about HRK 13 million during the year 2014, and a gradual increase to a level of about HRK 100 million to the year 2018, primarily due to the gradual recovery of revenue and gross margin and planned cost efficiency. With a steady amount of annual depreciation in the projected five-year period and a significant reduction in interest on restructured debt, Dalekovod achieves net profit after the year 2014.

Treasury shares

In the year 2013 there was no acquisition or disposal of shares.

Investments in subsidiaries and associated companies and joint ventures

During the year 2013 the company Dalekovod Norge AS was established. A subsidiary, Dalekovod Production Ltd., established a subsidiary DalProizvodnja d.o.o. during 2013. Investments in subsidiaries are detailed in note 18 of the financial statements.

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

Investments in joint ventures are detailed in note 20 of the financial statements.

Subsequent events

Subsequent events are presented in more detail in note 34 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 2013 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 2013:

INDIVIDUALS	1,482,238
PENSION FUNDS	638,891
BANK	315,036
TELEGRA d.o.o.	164,753
OTHERS	222 413
OWN SHARES	43,934
TOTAL	2,867,265

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 Goran Brajdić, while the three remaining members of the Board are Krešimir Anušić, Željko Lekšić and Marko Jurković.

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 2013 was composed of the following members:

Marijan Pavlović (President)
Viktor Miletić
Nataša Ivanović
Dubravko Štimac
Davor Doko
Ante Ćurković

Zagreb, 23 June 2014

Goran Brajdić
President of the Management Board

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Zagreb, Republika Hrvatska, p.p. 128, MB 3273531

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 75 were authorised by the Management Board on 23 June 2014 for issue to the Supervisory Board and are signed below to signify this.

Goran Brajdić
President of Management Board

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INDEPENDENT AUDITORS' REPORT

To the Management Board and the shareholders of Dalekovod d.d.:

Report on the financial statements

We have audited the accompanying financial statements ("the 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 2013 and consolidated statement of financial position as at 31 December 2013, 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 75).

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 judgement, 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) 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 at 31 December 2012: HRK 21,539 thousand and HRK 28,434 thousand respectively) as stated in Note 25 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 (as at 31 December 2012: HRK 99,343 thousand and HRK 106,238 thousand respectively).

2) 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 373,028 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. As of 31 December 2013 the Company and Group did not asses whether there is any indication that an asset is impaired. Accordingly, we could not convince ourselves into recoverability of net book value of the investments and receivables of the Company in the amount of HRK 75,032 thousand, neither into recoverability of the net book value of non-current tangible assets under construction of the Group in the amount of HRK 373,028 thousand.

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INDEPENDENT AUDITORS' REPORT (continued)

3) As of 31 December 2013 the Company reported land and buildings in the net book amount of HRK 221,549 thousand measured at amounts revalued in 2010 based on the revaluation report of independent valuator. Accounting policy of the Company for measuring of land and buildings states that revaluation of land and buildings is performed at least every three years. As at 31 December 2013 the Company has not prepared revaluation of the land and buildings and therefore we could not convince ourselves into fair value of land and buildings reported in financial statements ending 31 December 2013 in the net book amount of HRK 221,549 thousand nor in the amount of revaluation reserves in the amount of HRK 40,015 thousand reported within the equity in the financial statements of the Company as at 31 December 2013.

4) As of 31 December 2013 the Group reported land and buildings in the net book amount of HRK 523,458 thousand. Accounting policy of the 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 2013 the 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 consolidated financial statements ending 31 December 2013 in the net book amount of HRK 523,458 thousand nor in the amount of revaluation reserves in the amount of HRK 40,015 thousand reported within the equity in the consolidated financial statements of the Group as at 31 December 2013.

5) As of 31 December 2013 the Company reported investment property (land and buildings) in the net book amount of HRK 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 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.

6) As of 31 December 2012 the Company and Group reported revaluation reserves arising on revaluation of land and buildings in the amount of HRK 50,019 thousand and HRK 64,444 thousand respectively, which represents difference between the carrying amount of revalued assets and its fair value. According to IAS 12 *Income taxes* the Company and Group should recognize deferred tax liability arising on revaluation of assets, but they did not. As a result of that the Company and Group has as of 31 December 2012 overstated revaluation reserves within the equity by the HRK 10,004 thousand and HRK 11,446 thousand respectively and understated deferred tax liability for the same amounts.

7) As of 31 December 2012 the Group and the Company has reported receivables arising from construction contracts in the amount of HRK 53,333 thousand. 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 receivables by an amount of HRK 16,714 thousand as of 31 December 2012 and overstated result for the year 2012 for same amount, as well result for the year 2013 is understated for the same amount.

8) 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 prior year and criteria from IAS 18 *Revenues* for recognition of revenues were met as of prior 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 understated accrued income as of 31 December 2012 and revenue from services for the year 2012 by the same amount.

9) As of 31 December 2013 the Group reported tangible assets under constructions in the amount of HRK 376,893 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 2012. 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 result for the year 2012 by an amount of HRK 2,917 thousand.

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INDEPENDENT AUDITORS' REPORT (continued)

10) As of 31 December 2013 the Group reported investment into Joint Ventures in the amount of HRK 70,514 thousand. In prior years 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 current year loss in investment into Joint Ventures in the amount of HRK 5,067 thousand in profit and loss statements, although the loss relates to periods before 2012 thus resulting in overstated retained earnings of the Group as of 1 January 2013 and understated result for the year 2013.

11) The Company and the Group recognized prior period expenses in the amount of HRK 5,685 thousand and HRK 7,985 respectively in 2013, out of which HRK 2,768 relates to periods before 2012 for both the Company and the Group. As a result of that the Company has understated current year income statement by HRK 5,685 thousand and overstated prior period result by HRK 2,917 thousand and overstated prior period opening balance of retained earnings by HRK 2,768 thousand. The Group has understated current year consolidated income statement by HRK 7,985 thousand and overstated prior period result by HRK 5,217 thousand and overstated prior period opening balance of retained earnings by HRK 2,768 thousand.

12) Because of the numbers of qualifications, state of the Company and the Group records and the fact that we were not auditors of the prior year financial statements, we were unable to determine whether further adjustments to the comparative information would be necessary. Our opinion on the current period's financial statements and consolidated financial statements is modified because of the possible effect of this matter on the comparability of the current period's figures and the comparative information.

Qualified opinion
In our opinion, except for the effect of the matters described in Basis for qualified opinion paragraph and except for the possible effects of the matters described under 2), 3), 4), 5) and 12) 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 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Other matter
Financial statements of the Company and the Group for the year ended 31 December 2012 were audited by another auditor who expressed a modified opinion on those statements on 14 June 2013 in respect of recoverability of investment into subsidiary Dalekovod Ulaganja d.o.o. and recoverability of property plant and equipment under construction of the Group.

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 2013 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 75.

Berislav Horvat
Certified auditor and procurator
Ernst&Young d.o.o.
Zagreb, 23 June 2014

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Sales revenue	5	1,145,501	1,253,799	808,533	901,487
Other income	5, 6	23,010	27,087	22,411	29,448
Change in work in progress and finished goods		(23,147)	(19,058)	(222)	(3,380)
Cost of trade goods sold		(87,611)	(45,376)	(30,845)	(114,201)
Cost of materials and services	7	(647,293)	(905,214)	(543,112)	(683,071)
Staff costs	8	(259,971)	(259,414)	(149,776)	(148,682)
Depreciation and amortisation	15, 16, 17	(48,300)	(50,317)	(33,641)	(39,071)
Other operating expenses	9	(186,435)	(341,262)	(201,869)	(292,245)
Other gains/(losses) – net	10	(14,311)	(6,690)	(12,744)	(9,043)
Operating loss		(98,557)	(346,445)	(141,265)	(358,758)
Finance income	11	1,325	1,397	1,203	452
Finance costs	11	(4,627)	(79,652)	(6,261)	(78,629)
		(3,302)	(78,255)	(5,058)	(78,177)
Share in profit/(loss) of associates and joint ventures	19, 20	(7,370)	2,533	-	-
Loss before tax		**(109,229)**	**(422,167)**	**(146,323)**	**(436,935)**
Income tax	12	(13,639)	(8,175)	(13,067)	(4,306)
Net loss		**(122,868)**	**(430,342)**	**(159,390)**	**(441,241)**
Net loss attributable to:					
Equity holders of the Company		(122,216)	(429,924)	(159,390)	(441,241)
Non-controlling interests		(652)	(418)	-	-
Net loss		**(122,868)**	**(430,342)**	**(159,390)**	**(441,241)**
Basic and diluted loss per share (in HRK)	13	**(43.29)**	**(152.28)**		

The financial statements set out on pages 8 to 75 were approved by the Management Board on 23 June 2014.

Goran Brajdić
President of the Management Board

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Zagreb, Republika Hrvatska, p.p. 128, MB 3275531

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

DALEKOVOD d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Net loss		**(122,868)**	**(430,342)**	**(159,390)**	**(441,241)**
Other comprehensive income/(loss):					
(Losses)/gains on revaluation of assets	28	(14,425)	14,425	-	-
Foreign exchange differences		2,780	(224)	-	-
Available-for-sale financial assets at fair value	28	-	(9,283)	-	(9,283)
Total other comprehensive income/(loss)		**(11,645)**	**4,918**	**-**	**(9,283)**
Total comprehensive loss		**(134,513)**	**(425,424)**	**(159,390)**	**(450,524)**
Comprehensive loss attributable to:					
Equity holders of the Company		(133,459)	(425,398)	(159,390)	(450,524)
Non-controlling interests		(1,054)	(26)	-	-
Total comprehensive loss		**(134,513)**	**(425,424)**	**(159,390)**	**(450,524)**

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

DALEKOVOD d.d.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
ASSETS					
Intangible assets	15	10,235	17,343	7,022	10,370
Property, plant and equipment	16	1,032,266	1,035,631	295,289	321,818
Prepayments		-	119	-	-
Investment property	17	-	-	220,874	220,772
Investments in subsidiaries	18	-	-	314,079	410,525
Investments in associates	19	16,478	20,241	20,241	20,241
Investments in joint ventures	20	70,514	79,729	-	-
Available-for-sale financial assets	21	28,273	42,809	28,260	42,786
Loans and receivables	23	20,692	24,404	18,036	22,794
Non-current assets		1,178,458	1,220,276	903,801	1,049,306
Inventories	24	118,169	152,780	9,444	10,339
Trade and other receivables	25	406,064	529,136	383,036	423,305
Financial assets at fair value through profit or loss	26	28	424	28	28
Cash and cash equivalents	27	30,069	17,884	5,547	9,692
Income tax receivable		2,907	16	264	16
Current assets		557,237	700,240	398,319	443,380
Total assets		1,735,695	1,920,516	1,302,120	1,492,686
EQUITY AND LIABILITIES					
Share capital	28	286,726	286,726	286,726	286,726
Share premium	28	80,479	80,479	80,479	80,479
Legal reserves	28	11,652	12,838	11,487	11,487
Treasury shares	28	(7,773)	(7,773)	(7,773)	(7,773)
Statutory and other reserves	28	177,735	182,201	153,417	153,417
Revaluation reserves	28	40,015	64,444	40,015	50,019
Translation reserves		1,721	(1,461)	-	-
Accumulated loss		(549,760)	(429,924)	(600,631)	(441,241)
Shareholders' equity		40,795	187,530	(36,280)	133,114
Non-controlling interests		(215)	1,203	-	-
Total equity		40,580	188,733	(36,280)	133,114
Borrowings	29	11,539	155,976	969	147,081
Provisions	31	12,090	7,073	9,570	3,488
Deferred tax liability	12	10,004	-	10,004	-
Non-current liabilities		33,633	163,049	20,543	150,569
Borrowings	29	1,115,495	944,868	841,760	717,968
Provisions	31	1,031	1,325	495	226
Trade and other payables	30	544,873	622,541	475,602	490,809
Income tax payable		83	-	-	-
Current liabilities		1,661,482	1,568,734	1,317,857	1,209,003
Total liabilities		1,695,115	1,731,783	1,338,400	1,359,572
Total equity and liabilities		1,735,695	1,920,516	1,302,120	1,492,686

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 2013

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 2012		286,726	80,479	12,838	(7,773)	455,045	59,302	(845)	(278,179)	607,593	2,636	610,229
Net loss		-	-	-	-	-	-	-	(429,924)	(429,924)	(418)	(430,342)
Other comprehensive income		-	-	-	-	-	5,142	(616)	-	4,526	392	4,918
Total comprehensive loss		-	-	-	-	-	5,142	(616)	(429,924)	(425,398)	(26)	(425,424)
Transactions with owners												
Effects of consolidation		-	-	-	-	3,928	-	-	-	3,928	-	3,928
Covering losses with reserves	28	-	-	-	-	(276,772)	-	-	278,179	1,407	(1,407)	-
At 31 December 2012		**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	12	-	-	-	-	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	-	-	-
Covering losses with statutory and other 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**

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 2013

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 2012		286,726	80,479	11,487	(7,773)	430,731	59,302	(277,314)	583,638
Net loss		-	-	-	-	-	-	(441,241)	(441,241)
Other comprehensive income		-	-	-	-	-	(9,283)	-	(9,283)
Total comprehensive loss		-	-	-	-	-	(9,283)	(441,241)	(450,524)
Transactions with owners									
Covering losses with reserves	28	-	-	-	-	(277,314)	-	277,314	-
At 31 December 2012		**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)
Covering losses with statutory and other reserves	28	-	-	-	-	-	-	-	-
At 31 December 2013		**286,726**	**80,479**	**11,487**	**(7,773)**	**153,417**	**40,015**	**(600,631)**	**(36,280)**

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 2013

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Loss before tax		**(109,229)**	**(422,167)**	**(146,323)**	**(436,935)**
Adjustments:					
Depreciation and amortisation	15, 16, 17	46,711	50,317	32,052	39,071
Property, plant and equipment writte-off	9	15,025	29,172	6	12,959
Gain on sale of property, plant and equipment	10	(514)	(2,650)	(500)	(299)
Fair value measurement loses of financial assets available for sale	10	14,536	3,415	14,526	3,415
Impairment of trade receivables and loans receivable	9	16,122	75,276	3,493	84,521
Impairment of other financial assets	9	2,697	40,671	3,112	41,836
Impairment of investments in subsidiaries	9	-	897	96,502	32,995
Impairment of investments in associates	9	-	36,175	-	-
Impairment of non-financial assets	9	774	6,247	417	6,247
Impairment of goodwill	9	3,346	-	-	-
Impairment of inventories	9	(7.312)	11,438	-	4,270
Effect of change in monitoring other foreign business units	25	-	(20,052)	-	(20,052)
Net change in provisions	31	4,723	1,329	6,351	(48)
Share in profit/(loss) of associates and joint ventures	19, 20	7,370	(2,533)	-	-
Unrealised foreign exchange differences		10,713	5,675	4,788	5,203
Interest income	6, 11	(3,449)	(4,917)	(4,304)	(3,501)
Interest expense	9, 11	28,788	96,214	8,015	74,092
		30,301	(95,493)	18,135	(156,226)
Changes in working capital:					
Trade and other receivables		78,648	249,114	(7,671)	300,240
Inventories		41,923	20,794	895	586
Trade and other payables		(83,336)	(373)	18,558	(43,349)
Net cash generated from operating activities		**67,535**	**174,042**	**29,917**	**101,251**
Interest paid		(23,120)	(62,817)	(8,563)	(53,884)
Tax paid		(3,380)	17,472	(248)	21,112
Net cash flows from operating activities		**41,035**	**128,697**	**21,106**	**68,479**

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

STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts are expressed in thousands of HRK)	Note	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Cash flows from investing activities					
Acquisition of intangible assets	15	(443)	(1,008)	(4)	(14)
Acquisition of property, plant and equipment	16	(68,908)	(109,018)	(2,417)	(4,555)
Proceeds from sale of property, plant and equipment		1,079	2,650	638	299
Deposits given		(4,669)	(1,794)	(739)	(1,794)
Loans given		-	(18,864)	(25,549)	(82,668)
Repayments of loans given		4,247	7,560	1,437	67,560
Investments in subsidiaries	18	-	-	(56)	(16,021)
Proceeds from sale of avalable-for-sale financial assets		-	2,862	-	752
Interest received		1,475	9,086	2,330	9,946
Net cash flows from / (used in) investing activities		**(67,219)**	**(108,526)**	**(24,360)**	**(26,495)**
Cash flows from financing activities					
Proceeds from borrowings		45,600	31,635	910	4,815
Repayment of commercial papers		-	(56,974)	-	(71,801)
Proceeds of issuance of commercial papers		-	48,918	-	61,554
Repayment of borrowings		(6,016)	(71,801)	(994)	(39,627)
Repayment of finance lease liabilities		(1,215)	-	(807)	(17,347)
Net cash flows from / (used in) financing activities		**38,369**	**(48,222)**	**(891)**	**(62,406)**
Net increase / (decrease) in cash and cash equivalents		**12,185**	**(28,051)**	**(4,145)**	**(20,422)**
Cash and cash equivalents at beginning of year		17,884	45,935	9,692	30,114
Cash and cash equivalents at end of year	27	30,069	17,884	5,547	9,692
Net increase / (decrease) in cash and cash equivalents		**12,185**	**(28,051)**	**(4,145)**	**(20,422)**

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 four companies owned by a subsidiary (2012: 18) – note 18.

Dalekovod d.d., Zagreb (the Company) is privately owned and was incorporated in compliance with the laws and regulations of the Republic of Croatia. The registered office of the Company is in Zagreb, 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 2013 were: Mr Matjaž Gorjup (President of the Management Board, resigned on 17 September 2013), Mr. Krešimir Anušić (Member of the Management Board), Mr. Marko Jurković (Member of the Management Board), Mr. Željko Lekšić (Member of the Management Board) and Mr. Goran Brajdić (President of the Management Board appointed on 17 September 2013, by then Member of the Management Board).

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 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 standards and amendments to IFRS effective as of 1 January 2013:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments);*
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters;*
- *IFRS 7 Financial Instruments: Disclosures (Amendment);*
- *IFRS 13 Fair Value Measurement;*
- *IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets;*
- *IAS 19 Employee benefits (revised);*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.*

The adoption of the standards or interpretations is described below:

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment has no impact on the Company and the Group.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment had no impact on the Company and the Group.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have impact on the Company's ant the Group's financial position or performance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Standard did not affect financial position and performance of the Company and the Group but has affected fair value disclosures.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment did not affect financial position, performance or disclosures of the Company and the Group.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments did not affect financial position or results of the Company and the Group.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation did not have an impact on the Company and the Group.

Following standards becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standards and decided that standards should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014.

- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Company and members of the Group.

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.

IFRS 12 Disclosure 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. A number of new disclosures are also required, but has no impact on the Company's financial position or performance.

Standards endorsed by EU but not yet effective

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

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. These amendments are not expected to impact the Company's ant the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Company is currently assessing the impact that this standard could have on the financial position and performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of 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. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

Standards not yet endorsed by EU

The standards and interpretations that are issued, but not yet endorsed by EU, up to the date of issuance of the Company's financial statements are disclosed below.. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Hedge accounting

A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by EU.

The adoption IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued and endorsed by EU.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after January 1, 2014. The new interpretation will have no impact on the Company and the Group.

2.2 Consolidation

(a) (a) Subsidiaries

In the non-consolidated financial statements, the Company carries investments in subsidiaries at cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered an impairment in previous periods are reviewed for possible reversal of the impairment at each reporting date.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investment properties (continued)

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.

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 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

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

At 31 December 2013, if the EURO had weakened/strengthened by 1.00% against the HRK (2012: 1.00%), with all other variables held constant, the net loss for the reporting period after tax would have been HRK 3,573 thousand (2012: HRK 4,044 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

(ii) Price risk

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Cash flow interest rate risk

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

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

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 2013, if the effective interest rate on borrowings had increased/decreased by 0.82% on an annual level (2012: 0.82%), the loss after tax would have been higher/lower by HRK 249 thousand (2012: HRK 2,905 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 22. Further, judgements and estimates in respect of credit risk exposure and related impairment provisions are described in more detail in note 4(b).

(c) Liquidity risk

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

Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in note 29.

The restructuring plan as integral part of the pre-bankruptcy settlement is based on decrease and reprogram of liabilities of the Company. Conditions for enforcement of financial restructuring which will significantly affect liabilities of the Companies presented as at 31 December 2013 had been by legal validity of the pre-bankruptcy settlement determined on 14 February 2014. The effect of financial restructuring measures planned as a part of the pre-bankruptcy settlement is shown in note 34.

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. prosinca 2013.	31. prosinca 2012.
Borrowings (note 29)	842,729	865,049
Cash and cash equivalents (note 27)	(5,547)	(9,692)
Net debt	837,182	855,357
Equity	(36,280)	133,114
Total equity and net debt	**800,902**	**988,471**
Gearing ratio - Company	**104.5%**	**86.5%**

The Group's gearing ratio was as follows:

(in thousands of HRK)	31. prosinca 2013.	31. prosinca 2012.
Borrowings (note 29)	1,127,034	1,100,844
Cash and cash equivalents (note 27)	(30,069)	(17,884)
Net debt	1,096,965	1,082,960
Equity	40,580	188,733
Total equity and net debt	**1,137,545**	**1,271,693**
Gearing ratio - Group	**96.4%**	**85.2%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below present the Group's and the Company's assets at fair value as at 31 December 2013 and 2012:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
Group				
31 December 2013				
Listed entities	44	16,690	13	16,747
Unlisted entities	-	11,554	-	11,554
Total	**44**	**28,244**	**13**	**28,301**
31 December 2012				
Listed entities	68	19,201	396	19,665
Unlisted entities	-	23,567	-	23,567
Total	**68**	**42,768**	**396**	**43,232**
Company				
31 December 2013				
Listed entities	44	16,690	-	16,734
Unlisted entities	-	11,554	-	11,554
Total	**44**	**28,244**	**-**	**28,288**
31 December 2012				
Listed entities	45	19,201	-	19,246
Unlisted entities	-	23,568	-	23,568
Total	**45**	**42,769**	**-**	**42,814**

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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 5).

(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 9).

(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 31).

NOTE 5 – SEGMENT INFORMATION

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

1. The Production segment includes forging works, the casting plant and the laboratory for quality control and the production 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.

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 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)**
Year ended 31 December 2012				
Gross revenues	1,226,642	388,996	5,800	1,621,438
Inter-segment revenues /i/	(339,651)	(27,988)	-	(367,639)
Total revenues	**886,991**	**361,008**	**5,800**	**1,253,799**
Operating profit/(loss) before depreciation and amortisation	(266,747)	(162)	(29,219)	(296,128)
Depreciation and amortisation	(40,724)	(9,516)	(77)	(50,317)
Operating loss	**(307,471)**	**(9,678)**	**(29,296)**	**(346,445)**

NOTE 5 – SEGMENT INFORMATION (continued)

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

	2013	2012
	(in thousands of HRK)	
Segment sales revenue	1,310,558	1,615,638
Inter-segment receivables	(170,023)	(367,639)
Unalocated:		
Other	5,500	5,800
Inter-segment receivables	(534)	-
Total revenues	1,145,501	1,253,799

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

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

	2013		2012	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Croatia	459,887	40.15	601,996	48.02
Norway	261,035	22.79	273,371	21.80
Ukraine	127,161	11.10	47,856	3.82
Slovenia	104,672	9.14	187,317	14.94
Bosnia and Herzegovina	85,286	7.45	47,991	3.83
Saudi Arabia	46,631	4.07	56,307	4.49
Montenegro	10,066	0.88	12,330	0.98
Sweden	7,582	0.66	12,832	1.02
Oman	5,496	0.48	7,769	0.62
Serbia	3,411	0.30	4,063	0.32
Other abroad	34,274	2.98	1,967	0.16
Total	**1,145,501**	**100.00**	**1,253,799**	**100.00**

NOTE 5 – SEGMENT INFORMATION (continued)

/iii/ Sales revenues by sectors are as follows:

	2013	2012
	(in thousands of HRK)	
Energetics	668,812	725,894
Roads	253,903	174,889
Properties	18,603	97,243
Railroads	8,682	28,289
Telecomunications	2,691	288
Sale of metal constructions	72,992	78,856
Sale of suspension and jointing equipment	94,072	117,406
Other	25,746	30,934
Total	1,145,501	1,253,799

Revenue from construction contracts amounts to HRK 958,094 thousand (2012: HRK 886,991 thousand).

Advances received for projects under construction that are active at the reporting date are presented within advances in note 30 and amounts to HRK 9,565 thousand (2012: HRK 9,502 thousand).

Out of total amount of guarantee deposits shown within notes 23 and 25, HRK 30,064 thousand relates to guarantee deposits (retentions) for contracts under construction that are active at the reporting date (2012: HRK 24,456 thousand).

NOTE 6 – OTHER INCOME

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Interest income	2,086	3,520	3,101	3,049
Income from penalty interest	38	5.511	-	5,511
Insurance claims proceeds	816	2,710	749	2,593
Rental income	299	724	4,831	5,310
Income from reversal of provisions	4,485	123	3,096	48
Inventory surpluses	1.066	802	-	39
Other operating income	14.220	13.697	10,634	12,898
	23,010	27,087	22,411	29,448

Rental income of the Company are realised based on investment property (note 17).

NOTE 7 – COST OF MATERIALS AND SERVICES

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Raw materials and supplies				
Raw materials and supplies	173,101	386,760	140,322	185,967
Energy	21,355	21,810	11,170	12,646
Spare parts and small inventory	6,165	3,646	4,023	2,196
	200,621	412,216	155,515	200,809
External services				
Subcontractor services	407,631	456,363	363,620	463,320
Transportation	11,871	12,296	5,612	4,330
Repairs and maintenance	12,820	10,164	10,121	7,982
Advertising and promotion	246	1,375	10	626
Rental expense	8,616	7,360	5,828	3,142
Other	5,488	5,440	2,406	2,862
	446,672	492,998	387,597	482,262
Total cost of materials and services	647,293	905,214	543,112	683,071

NOTE 8 – STAFF COSTS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Net salaries	154,748	158,604	93,615	95,702
Taxes and contributions on and from salaries	75,865	87,443	40,698	46,924
Severance costs	15,555	1,024	12,810	166
Unused vacation days	2,750	3,614	102	3,614
Other staff costs	10,490	8,349	2,153	2,139
Supervisory Board compensation	563	380	398	137
	259,971	259,414	149,776	148,682

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 29,165 thousand (2012: HRK 23,333 thousand) for the Group, and HRK 15,456 thousand for the Company (2012: HRK 13,373 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 2013, the Group had 1,476 employees (2012: 1,690 employees), and the Company had 620 employees (2012: 743 employees).

NOTE 9 – OTHER OPERATING EXPENSES

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Intellectual and non-production services	31,654	29,859	15,349	16,282
Daily allowances and travel cost	38,462	19,488	36,445	13,957
Bank charges	5,358	11,353	3,761	8,603
Entertainment	2,049	2,483	866	1,940
Taxes and contributions	4,178	6,210	3,346	4,564
Insurance	4,330	5,979	2,997	5,211
Sponsorships, donations and other aids	913	1,326	770	1,245
Impairment and write-off of property, plant and equipment	15,025	26,079	6	13,534
Impairment of trade receivables and loans – net (note 23 and note 25)	16,122	75,276	3,493	84,521
Impairment of investmets in associates (note 19)	-	36,175	-	-
Impairment of other financial assets (note 23 and note 25)	2,697	40,671	3,112	41,836
Impairment of non-financial assets (note 25)	774	6,247	417	6,247
Impairment of investments in subsidiaries (note 18)	-	897	96,502	32,995
Impairment of goodwill (note 15)	3,346	-	-	-
Impairment of inventories	7,312	11,438	-	4,270
Inventory shortages	3,304	3,934	30	297
Interest from suppliers	2,092	4,828	1,754	4,662
Fines and penalties	99	657	-	657
Court cases and additional taxes per Tax authorities' decision	7,014	-	7,014	-
Other	41,706	58,362	26,007	51,424
	186,435	341,262	201,869	292,245

NOTE 10 – OTHER GAINS/(LOSSES) – NET

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Net foreign exchange loss from operating activities	(289)	(5,925)	1,282	(5,927)
Fair value losses of financial assets available-for-sale (note 21)	(14,536)	(3,415)	(14,526)	(3,415)
Net gain on sale of property, plant and equipment	514	2,650	500	299
	(14,311)	(6,690)	(12,744)	(9,043)

NOTE 11 – FINANCE INCOME AND COSTS - NET

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Interest income on bank deposits	1,325	1,397	1,203	452
Finance income	1,325	1,397	1,203	452
Net foreign exchange differences (financing activities)	1,128	(4,551)	-	(4,537)
Interest expense	(26,696)	(96,214)	(6,261)	(74,092)
Less capitalised interest (note 16)	20,941	21,113	-	-
Finance costs	(4,627)	(79,652)	(6,261)	(78,629)
	(3,302)	(78,255)	(5,058)	(78,177)

NOTE 12 – INCOME TAX

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

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Loss before tax	(109,229)	(422,167)	(146,323)	(436,935)
Tax calculated at the domestic tax rate applicable to profits in the respective countries	(40,520)	(81,524)	(20,941)	(85,424)
Effect of non-taxable income	(261)	(766)	(214)	(113)
Effect of non-deductible expenses	37,534	22,990	25,191	19,629
Effect of reinvestment of profit /i/	(977)	(3,894)	-	-
Effect of tax losses not recognised as deferred tax assets	17,863	71,369	9,031	70,214
Income tax expense	13,639	8,175	13,067	4,306
Effective tax rate	*-12.5%*	*-1.9%*	*-8.9%*	*-1.0%*

/i/ In 2012, some Group members 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 2013 by HRK 19,470 thousand. One member did not fulfil all conditions so the realised increase of share capital amounts to HRK 16,851 thousand, while the remaining HRK 2,889 thousand were taxable. Tax exemption pursuant to the reinvestment in 2013. Amounts to HRK 7,776 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.

NOTE 12 – INCOME TAX (continued)

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.

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

	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
Unutilised tax losses				
Tax loss from 2008 - expires 2013	-	2	-	-
Tax loss from 2009 - expires 2014	301	301	-	-
Tax loss from 2010 - expires 2015	6,636	6,636	-	-
Tax loss from 2011 - expires 2016	271,879	271,879	261,433	261,433
Tax loss from 2012 - expires 2017	352,437	352,437	351,073	351,073
Tax loss from 2013 - expires 2018	97,739	-	45,157	-
	728,992	631,255	657,663	612,506

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 the year the Company and the Group recognised deferred tax liability on revaluation of assets (note 28).

Movement in deferred tax liability

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
At beginning of year	-	-	-	-
Charged to revaluation reserves	10,004	-	10,004	-
At end of year	10,004	-	10,004	-

NOTE 13 – BASIC AND DILUTED LOSS PER SHARE

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

	Dalekovod Group	
	2013	2012
Net loss attributable to shareholders *(in thous. of HRK)*	(122,216)	(429,924)
Weighted average number of shares	2,823,331	2,823,331
Basic/diluted loss per share *(in HRK)*	(43.29)	(152.28)

NOTE 14 – DIVIDEND PER SHARE

Unpaid dividends in the amount of HRK 1,900 thousand (2012: HRK 1,900 thousand) are presented as dividend payable within "trade and other payables" (note 30), and it relates to dividends for shareholders who did not submit the required data for payment.

NOTE 15 – INTANGIBLE ASSETS

Group

(in thousands of HRK)	Goodwill	Software	Total
At 1 January 2012			
Cost	4,559	43,370	47,929
Accumulated amortisation and impairment losses	-	(20,446)	(20,446)
Net book value	**4,559**	**22,924**	**27,483**
Year ended 31 December 2012			
At 1 January	4,559	22,924	27,483
Additions	-	1,008	1,008
Disposals	-	(3,930)	(3,930)
Amortisation	-	(7,218)	(7,218)
At 31 December	**4,559**	**12,784**	**17,343**
At 31 December 2012			
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)
Impairment 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**

NOTE 15 – 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 3%, and the present value of future cash flows is calculated using a discount rate of 9,88%. 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 9).

NOTE 15 – INTANGIBLE ASSETS (continued)

Company

(in thousands of HRK)	Software
At 1 January 2012	
Cost	37,687
Accumulated amortisation	(19,539)
Net book value	**18,148**
Year ended 31 December 2012	
At 1 January	18,148
Additions	14
Disposals	(1,524)
Amortisation	(6,268)
At 31 December	**10,370**
At 31 December 2012	
Cost	36,177
Accumulated amortisation	(25,807)
Net book value	**10,370**
Year ended 31 December 2013	
At 1 January	10,370
Additions	4
Amortisation	(3,352)
At 31 December	**7,022**
At 31 December 2013	
Cost	36,181
Accumulated amortisation	(29,159)
Net book value	**7,022**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Group

(In thousands of HRK)	Land	Buildings	Plant and equipment	Assets under construction	Total
At 1 January 2012					
Cost or deemed cost	284,333	352,064	251,693	248,725	1,136,815
Accumulated depreciation	-	(81,884)	(70,942)	-	(152,826)
Net book value	**284,333**	**270,180**	**180,751**	**248,725**	**983,989**
Year ended 31 December 2012					
At 1 January	284,333	270,180	180,751	248,725	983,989
Additions	-	1,380	10,128	97,510	109,018
Transfer	-	-	5	(5)	-
Revaluation surplus	729	13,696	-	-	14,425
Disposals and write-offs	-	(4,381)	(8,637)	(17,176)	(30,194)
Foreign exchange differences	-	147	-	-	147
Depreciation	-	(9,228)	(32,526)	-	(41,754)
At 31 December	**285,062**	**271,794**	**149,721**	**329,054**	**1,035,631**
At 31 December 2012					
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 and impairment losses	(729)	(223,548)	(255,935)	-	(480,212)
Net book value	**284,409**	**239,049**	**124,318**	**384,490**	**1,032,266**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Company

(In thousands of HRK)	Land	Buildings	Plant and equipment	Assets under construction	Total
At 1 January 2012					
Cost or deemed cost	164,914	123,862	273,862	7,100	569,738
Accumulated depreciation	-	(52,401)	(162,036)	-	(214,437)
Net book value	**164,914**	**71,461**	**111,826**	**7,100**	**355,301**
Year ended 31 December 2012					
At 1 January	164,914	71,461	111,826	7,100	355,301
Additions	-	-	3,915	-	3,915
Transfer from investment property	-	85	-	-	85
Transfer	-	-	5	(5)	-
Disposals and write-offs	-	(1,695)	(4,972)	(7,095)	(13,762)
Depreciation	-	(2,854)	(20,867)	-	(23,721)
At 31 December	**164,914**	**66,997**	**89,907**	**-**	**321,818**
At 31 December 2012					
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**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction mainly relate to Sky Office property.

In 2013, capitalised interest on assets under construction amounted to HRK 20,941 thousand (2012: HRK 21,113 thousand) using a rate of 4.79% (2012: 7.35%).

Had revaluation not been performed, the carrying amount of land and buildings of the Group would have amounted to HRK 464,912 thousand at 31 December 2013 (2012: HRK 495,189 thousand), while the carrying amount of land and buildings of the Company would have amounted to HRK 171,530 thousand (2012: HRK 181,890 thousand).

As at 31 December 2013, land, buildings and equipment of the Group and the Company with a net book value of HRK 335.352 thousand (2012: HRK 341,829 thousand) were pledged as security for borrowings (note 29).

At 31 December 2013, assets under a finance lease where the Company are the lessee amounted to HRK 51.066 thousand (2012: HRK 60,935 thousand) – see note 29.

NOTE 17 – INVESTMENT PROPERTY

Company

(in thousands of HRK)	Land	Buildings	Total
At 1 January 2012			
Cost	72,209	263,871	336,080
Accumulated depreciation	-	(105,501)	(105,501)
Net book value	**72,209**	**158,370**	**230,579**
Year ended 31 December 2012			
At 1 January	72,209	158,370	230,579
Additions	-	640	640
Transfer to property, plant and equipment	-	(85)	(85)
Disposals and write-offs	-	(2,625)	(2,625)
Depreciation	-	(7,737)	(7,737)
At 31 December	**72,209**	**148,563**	**220,772**
At 31 December 2012			
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**

Land and buildings with a carrying amount of HRK 123,091 thousand (2012: HRK 127,664 thousand) have been pledged as security for the repayment of the finance lease (note 29).

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
At 1 January	-	971	410,525	427,498
Additions /i/	-	-	56	16,022
Decrease	-	-	-	-
Consolidation of Dalekovod Ukrajina d.o.o.	-	(74)	-	-
Impairment /ii/	-	(897)	(96,502)	(32,995)
At 31 December	-	-	314,079	410,525

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

Name	Country of incorporation	2013	2012	2013	2012
		Holding in %		*(in thousands of HRK)*	
Dalekovod d.o.o., Ljubljana	Slovenia	100,00	100,00	2.075	2.075
Dalekovod d.o.o., Mostar	Bosnia and Herzegovina	100,00	100,00	210	210
Dalekovod Proizvodnja d.o.o., Dugo Selo	Croatia	100,00	100,00	222.758	222.758
Dalekovod-projekt d.o.o., Zagreb	Croatia	100,00	100,00	4.614	4.614
Dalcom Engineering GmbH, Freilassing	Germany	100,00	100,00	372	372
Dalekovod-Polska S.A., Warsaw /ii/	Poland	100,00	100,00	2.597	2.597
Dalekovod TKS a.d., Doboj /ii/	Bosnia and Herzegovina	97,25	97,25	20.344	20.344
Dalekovod Professio d.o.o., Zagreb	Croatia	100,00	100,00	77.029	77.029
Denacco Namibia (PTY) Ltd /ii/	Namibia	60,00	60,00	18	18
Dalekovod TIM Topusko d.d.	Croatia	95,81	95,81	28.059	28.059
Dalekovod – ulaganja d.o.o. Zagreb	Croatia	100,00	100,00	38.120	38.120
Cindal d.o.o. Doboj /ii/	Bosnia and Herzegovina	95,01	95,01	5.191	5.191
Dalekovod-Adria d.o.o. Zagreb /ii/	Croatia	100,00	100,00	32.098	32.098
Dalekovod EMU d.o.o. Zagreb	Croatia	100,00	100,00	11.063	11.063
EL-RA d.o.o. Zagreb	Croatia	100,00	100,00	492	492
Dalekovod Libya za inženjering, zajedničko poduzeće, Libya /ii/	Libya	65,00	65,00	879	879
Dalekovod Ukrajina d.o.o.	Ukraine	100,00	100,00	74	74
Dalekovod ApS. Grenland	Grenland	100,00	100,00	124	124
Dalekovod Norge AS /i/	Norway	100,00	-	56	-
Impairment of investments /ii/				(132.094)	(35.592)
				314.079	410.525

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (continued)

/i/ During 2013 subsidiary Dalekovod Norge AS was incorporated.

/ii/ 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 96,502 thousand (2012: HRK 32,995 thousand) was recorded in the income statement (note 9).

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

Name	Country of incorporation	2013	2012
		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, as at 22 October 2013 a member of Group (Dalekovod Proizvodnja d.o.o.) founded subsidiary DalProizvodnja d.o.o., Doboj, Bosnia and Herzegovina. DalProizvodnja did not have any operations during 2013.

NOTE 19 – INVESTMENTS IN ASSOCIATES

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
At beginning of year	20,241	56,416	20,241	20,241
Share in profit/(loss)	(3,763)	-	-	-
Impairment (note 9)	-	(36,175)	-	-
At end of year	**16,478**	**20,241**	**20,241**	**20,241**

Associates are as follows:

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Holding in % 2013	Holding in % 2012
TLM Group Members	7	7	25-47	25-47
Unidal d.o.o., Vinkovci	16,471	20,234	49	49
Total	**16,478**	**20,241**		

Financial information about associate is summarised below:

(in thousands of HRK)	Assets	Liabilities	Revenues	Net gain / (loss)
At 31 December 2013				
Unidal d.o.o.	64,426	49,038	62,864	(2,358)
At 31 December 2012				
Unidal d.o.o.	69,459	51,713	68,691	248

NOTE 20 – INVESTMENTS IN JOINT VENTURES

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012
At beginning of year	79,729	76,640
Additional investments	-	9,938
Consolidation of Dalekovod OIE d.o.o.	-	(9,780)
Share in profit/(loss)	(3,607)	2,533
Other	(5,608)	398
At end of year	70,514	79,729

During 2012, the Group invested an additional amount of HRK 9,938 thousand in these joint ventures via conversion of receivables to equity.

The list of investments in joint ventures is as follows:

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Holding in % 2013	Holding in % 2012
Velika Popina d.o.o.	18,075	21,950	50	50
Eko d.o.o.	52,421	57,761	50	50
OIE Makedonija	18	18	50	50
Total	70,514	79,729		

Financial information of joint ventures is summarised below:

(in thousands of HRK)	Assets	Liabilities	Revenues	Net gain / (loss)
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)
At 31 December 2012				
Velika Popina d.o.o.	119,453	84,384	20,102	2,253
Eko d.o.o.	443,679	347,174	85,340	3,393
OIE Makedonija	24	-	-	(10)
	563,156	431,558	105,442	5,636

Joint venture OIE Macedonia did not start with business operation.

NOTE 21 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
At beginning of year	42,809	40,198	42,786	38,090
Increase /i/	-	18,171	-	18,147
Decrease	-	(2,862)	-	(753)
Adjustment to fair value /ii/	(14,536)	(12,698)	(14,526)	(12,698)
At end of year	28,273	42,809	28,260	42,786

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

/ii/ At 31 December 2013, the Company performed a valuation of available for sale financial assets and adjusted them to fair value. The fair value loss of HRK14,526 thousand was recognised in the income statement (note 10). During 2012, the fair value loss of HRK 9,283 thousand was recorded in revaluation reserves within other comprehensive income (note 28) and the remaining fair value loss of HRK 3,415 thousand was recorded in the income statement (note 10).

NOTE 22 – 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 2013					
Financial assets					
Trade receivables	25	201,411	-	-	201,411
Receivables by construction contracts	25	42,492	-	-	42,492
Loans receivable and deposits	23, 25	61,140	-	-	61,140
Interest receivable	25	317	-	-	317
Receivables from other foreign business units for unpaid profit and loans receivable	25	51,122	-	-	51,122
Other receivables	25	39,170	-	-	39,170
Available for sale financial assets	21	-	-	28,273	28,273
Financial assets at fair value through profit or loss	26	-	28	-	28
Cash and cash equivalents	27	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	29	942,466
Commercial papers	29	43,278
Finance lease	29	141,290
Trade payables	30	355,972
Other payables	30	103,869
Total		1,586,875

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

NOTE 22 – 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 2012					
Financial assets					
Trade receivables	25	355,242	-	-	355,242
Receivables by construction contracts	25	53,333	-	-	53,333
Loans receivable and deposits	23, 25	35,590	-	-	35,590
Interest receivable	25	1,832	-	-	1,832
Receivables from other foreign business units for unpaid profit and loans receivable	25	28,434	-	-	28,434
Other receivables	25	41,631	-	-	41,631
Available for sale financial assets	21	-	-	42,809	42,809
Financial assets at fair value through profit or loss	26	-	424	-	424
Cash and cash equivalents	27	17,884	-	-	17,884
Total		533,946	424	42,809	577,179

(in thousands of HRK)	Note	Other financial liabilities
31 December 2012		
Financial liabilities		
Loans	29	916,424
Commercial papers	29	44,116
Finance lease	29	140,304
Trade payables	30	387,681
Other payables	30	128,756
Total		1,617,281

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

NOTE 22 – 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	25	175,541	-	-	175,541
Receivables by construction contracts	25	40,779	-	-	40,779
Loans receivable and deposits	23, 25	86,558	-	-	86,558
Interest receivable	25	5,090	-	-	5,090
Receivables from other foreign business units for unpaid profit and loans receivable	25	45,758	-	-	45,758
Other receivables	25	31,170	-	-	31,170
Available for sale financial assets	21	-	-	28,260	28,260
Financial assets at fair value through profit or loss	26	-	28	-	28
Cash and cash equivalents	27	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	29	645,375
Commercial papers	29	57,005
Finance lease	29	140,349
Trade payables	30	347,546
Other payables	30	74,291
Total		1,264,566

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

NOTE 22 – 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 2012					
Financial assets					
Trade receivables	25	231,435	-	-	231,435
Receivables by construction contracts	25	53,333	-	-	53,333
Loans receivable and deposits	23, 25	91,543	-	-	91,543
Interest receivable	25	4,101	-	-	4,101
Receivables from other foreign business units for unpaid profit and loans receivable	25	21,539	-	-	21,539
Other receivables	25	30,949	-	-	30,949
Available for sale financial assets	21	-	-	42,786	42,786
Financial assets at fair value through profit or loss	26	-	28	-	28
Cash and cash equivalents	27	9,692	-	-	9,692
Total		442,592	28	42,786	485,406

(in thousands of HRK)	Note	Other financial liabilities
31 December 2012		
Financial liabilities		
Loans	29	668,841
Commercial papers	29	56.752
Finance lease	29	139,456
Trade payables	30	338,427
Other payables	30	94.985
Total		1,298,461

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

NOTE 23 – LOANS AND RECEIVABLES

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
Long-term deposits	2.566	1.827	2.566	1.827
Long-term guarantee deposits	17.096	18.738	15.890	18.738
Long-term loans receivable:				
- loans to subsidiaries	-	-	1.402	1.385
- housing loans and other loans to employees	2.722	2.318	1.272	2.229
- loans to other companies	8.600	11.566	8.600	8.660
Impairment of long-term deposits and loans receivable	(10.055)	(8.660)	(10.055)	(8.660)
Total long-term deposits and loans receivable	20.929	25.789	19.675	24.179
Current portion of long-term loans and deposits (note 25)	(237)	(1.385)	(1.639)	(1.385)
Long-term loans and deposits given	**20.692**	**24.404**	**18.036**	**22.794**

Deposits

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

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.

NOTE 23 – LOANS AND RECEIVABLES (continued)

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
At 1 January	8,660	-	8,660	-
Collection of impaired receivables (note 9)	(60)	-	(60)	-
Provision for impairment of trade receivables and other financial assets (note 9)	1,455	8,660	1,455	8,660
At 31 December	**10,055**	**8,660**	**10,055**	**8,660**

NOTE 24 – INVENTORIES

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
Raw materials	57,375	52,937	7,135	6,329
Finished and semi-finished goods and work in progress	49,818	76,385	963	1,954
Spare parts and small inventories	1,572	5,437	1,346	1,819
Trade goods	9,099	17,747	-	237
Advances for inventories	305	274	-	-
	118,169	152,780	9,444	10,339

Cost of raw materials and supplies recognised in the income statement is disclosed in note 7.

Impairment of inventories recognised in the income statement is disclosed in note 9.

NOTE 25 – TRADE AND OTHER RECEIVABLES

(In thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Domestic trade receivables	231,436	404,466	226,119	275,065
Foreign trade receivables	78,656	45,866	39,875	44,366
Impairment of trade receivables	(108,681)	(95,090)	(90,453)	(87,996)
	201,411	355,242	175,541	231,435
Receivable from customers for contract work	42,492	53,333	40,779	53,333
Guarantee deposits – current portion	32,189	6,567	15,021	6,567
Short-term deposits /iii/	7,200	3,270	-	-
Current portion of long-term loans (note 23)	237	1,385	1,639	1,385
Loans to subsidiary (note 32)	-	-	63,093	71,153
Other short-term loans /i/	3,279	4,964	2,913	2,913
Interest receivable	6,806	4,832	11,579	9,605
Receivables from other foreign business units for unpaid profit and loans receivable /iv/	51,122	28,434	45,758	21,539
Other receivables	48,039	49,734	40,039	40,257
Impairment of other financial assets	(17,815)	(16,103)	(29,502)	(28,081)
Total financial assets	374,960	491,658	366,860	410,106
Advances /ii/	23,787	35,462	12,645	14,780
Receivable from employees	328	646	210	507
VAT receivable	2,676	-	-	-
Outstanding VAT receivable	5,690	2,017	5,082	1,207
Prepaid expenses	4,870	5,600	4,486	2,952
Impairment of non-financial assets	(6,247)	(6,247)	(6,247)	(6,247)
Total non-financial assets	31,104	37,478	16,176	13,199
	406,064	**529,136**	**383,036**	**423,305**

/i/ Other short-term loans and loans to subsidiaries represent primarily trade receivables converted to loans and loans given to sports organisations with annual interest rates from 3%-6%. The loans are generally granted for periods from 3 to 12 months and are secured by bills of exchange and promissory notes.

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

NOTE 25 – 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 2.10% to 2.25%.

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

(in thousands of HRK)	2013	2012
Intangible assets	53	57
Plant and equipment	6,150	4,962
Loans and receivables	1,460	16,406
Inventories	7,255	1,655
Trade receivables	95,268	38,173
Other receivables	60,358	47,349
Cash	46,897	12,280
Total assets	**217,441**	**120,882**
Non-current liabilities	1,321	67
Trade payables	70,142	67,514
Other payables	100,220	31,762
Total liabilities	**171,683**	**99,343**
Net receivables	**45,758**	**21,539**

The ageing of trade receivables is as follows:

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
Not due	70,391	205,830	34,196	111,624
Up to 90 days	47,468	98,859	20,358	73,619
From 91 to 180 days	39,156	10,998	45,874	10,803
Over 180 days	44,396	39,555	75,113	35,389
	201,411	**355,242**	**175,541**	**231,435**

NOTE 25 – TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
At 1 January	111,193	34,121	116,077	26,723
Impairment of trade receivables and other financial assets (note 9)	18,507	78,499	5,211	89,570
Collected amounts (note 9)	(1,957)	(1,418)	(351)	(216)
Receivables written-off during the year as uncollectible	(1,247)	(9)	(982)	-
At 31 December	**126,496**	**111,193**	**119,955**	**116,077**
Direct write-off of trade receivables and other financial assets (note 9)	874	30,206	350	28,343

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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
HRK	227,922	366,734	263,997	344,231
EUR	139,690	110,847	53,410	52,090
Other currencies	7,348	14,077	49,453	13,785
Total	**374,960**	**491,658**	**366,860**	**410,106**

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 26 – 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 2013, the fair value of these assets in the Group amounted to HRK 28 thousand (2012: HRK 424 thousand), and in the Company to HRK 28 thousand (2012: HRK 28 thousand). During 2013 and 2012, the Company did not realise any gain on the fair valuation of assets.

NOTE 25 – CASH AND CASH EQUIVALENTS

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
Cash at bank and petty cash in domestic currency	6,862	3,837	3,087	3,067
Cash at bank and petty cash in foreign currency	11,919	14,047	2,460	6,625
Deposits at bank in domestic currecny	1,239	-	-	-
Deposits at bank in foreign currecny	10,049	-	-	-
	30,069	17,884	5,547	9,692

As at 31 December 2013, the average effective interest rate for short-term deposits with banks was 0.72% (2012: no deposits held at bank that are deposited on a period less than 3 months).

Cash and cash equivalents are denominated in the following currencies:

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	2013	2012	2013	2012
EUR	19,283	13,126	2,460	5,872
NOK	1,842	-	-	-
UAH	115	168	-	-
Other currencies	728	753	-	753
Total	21,968	14,047	2,460	6,625

NOTE 28 – SHAREHOLDERS' EQUITY

Share capital

The share capital as at 31 December 2013 amounts to HRK 286,726 thousand (2012: HRK 286,726 thousand) and consists of 2,867,265 shares. Nominal value of a share amounts to HRK 100.

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

	Number of shares		Holding	
	2013	2012	2013	2012
Individuals	1.482.238	1.430.432	51,70%	49,89%
Pension funds	638.891	638.891	22,28%	22,28%
Banks	315.036	338.751	10,99%	11,81%
Telegra d.o.o.	164.753	164.753	5,75%	5,75%
Others	222.413	250.504	7,76%	8,74%
Treasury shares	43.934	43.934	1,53%	1,53%
	2.867.265	2.867.265	100,00%	100,00%

NOTE 28 – SHAREHOLDERS' EQUITY (continued)

Share premium

Share premium as at 31 December 2013 amounts to HRK 80,479 thousand (2012: HRK 80,479 thousand) and it 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.

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 (2012: 43,934 treasury shares).

Statutory and other reserves

During 2012, according to the decision of the Company's Annual General Meeting and the reallocation of loss, the statutory and other reserves were decreased by HRK 277,314 thousand. Other reserves consist of profits from previous periods set aside by the decision of the General Meeting and treasury shares reserves.

Revaluation reserves

As at 31 December 2012, the Group and the Company remeasurd to fair value its available for sale financial assets (shares and interests in an investment fund – note 21) and, consequently a recognised a decrease in revaluation reserves of HRK 9,282 thousand

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 at 31 December.

NOTE 29 – BORROWINGS

(in thousands of HRK)	Average Interest rate	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Non-current					
Loans from banks and subsidiaries	6.08%	10,059	42,449	-	34,402
Finance lease /i/	5.14%	1,480	113.527	969	112,679
		11,539	**155,976**	**969**	**147,081**
Current					
Loans from banks and subsidiaries	7.19%	932,407	873.975	645,375	634,439
Commercial papers	8.75%	43,278	44,116	57,005	56,752
Finance lease /i/	5.14%	139,810	26.777	139,380	26,777
		1,115,495	**944,868**	**841,760**	**717,968**
Total borrowings		**1,127,034**	**1,100,844**	**842,729**	**865,049**

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

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Up to 1 year	147,085	31,858	146,595	31,858
Between 1 to 5 years	12,367	126.359	11,761	125,375
Over 5 years	-	-	-	-
	159,452	158,217	158.356	157,233
Future finance costs under finance lease	(18,162)	(17.913)	(18,007)	(17,777)
Present value of liabilities under finance lease	**141,290**	**140,304**	**140,349**	**139,456**

During 2012, the Company issued commercial papers in the amount of HRK 56.7 million for a period of 364 days from the day of issuance with an average annual nominal yield of 8.75% Commercial papers have not been repaid.

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

NOTE 29 – BORROWINGS (continued)

The Group's borrowings totalling HRK 1,008,899 thousand (2012: HRK 714,569 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings in the amount of HRK 118,135 thousand (2012: HRK 386,275thousand) have fixed interest rates and are exposed to interest rate changes upon maturity of the principal.

The borrowings are denominated in the following currencies:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
EUR	669,982	679,780	369,851	407,460
HRK	457,052	421,064	472,878	457,589
Total	1,127,034	1,100,844	842,729	865,049

The maturity of long-term borrowings is as follows:

	Dalekovod Group		Dalekovod d.d.	
(in thousands of HRK)	2013	2012	2013	2012
Between 1 to 5 years	10,059	42,449	-	34,402
Over 5 years	-	-	-	-
	10,059	42,449	-	34,402

The pre-bankruptcy settlement (note 34) defined new debt exposure of the Company (consequently of the Group as well), as well as the new repayment plans of borrowings.

NOTE 30 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Domestic trade payables	332,432	356,086	335,207	318,039
Foreign trade payables	23,540	31,595	12,339	20,388
	355,972	387,681	347,546	338,427
Interest payable	49,760	44,092	26,784	27,332
Bills of exchange	919	919	919	919
Dividends payable (note 14)	1,900	1,900	1,900	1,900
Contracted liabilities from acquisition	2,810	2,810	2,810	2,810
Other accruals and liabilities	25,625	56,767	19,023	39,756
Due to banks arising from collected guarantees	22,855	22,268	22,855	22,268
Financial liabilities	**459,841**	**516,437**	**421,837**	**433,412**
Advances	26,536	54,600	21,371	31,859
Due to employees	26,075	18,421	9,175	9,504
VAT payable	13,274	13,099	12,460	8,066
Taxes and contributions	12,784	16,370	7,043	4,354
Unused vacation days	6,363	3,614	3,716	3,614
Non-financial liabilities	**85,032**	**106,104**	**53,765**	**57,397**
	544,873	**622,541**	**475,602**	**490,809**

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

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
HRK	346,877	409,829	377,560	377,640
EUR	104,918	103,856	43,366	54,867
USD	571	649	239	649
Other currencies	7,475	2,103	672	256
Total	**459,841**	**516,437**	**421,837**	**433,412**

The pre-bankruptcy settlement (note 34) defined new amounts of trade payables and liabilities to other creditors of the Company (consequently of the Group as well), as well as new debt maturities.

NOTE 31 – PROVISIONS

Group

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2013	4,104	2,693	1,601	8,398
Increase	397	139	7,087	7,623
Decrease	(796)	(491)	(1,613)	(2,900)
At 31 December 2013	**3,705**	**2,341**	**7,075**	**13,121**

Analysis:	**2013**	**2012**
Non-curresnt portion	12,090	7,073
Current portion	1,031	1,325
Total	**13,121**	**8,398**

Company

(in thousands of HRK)	Jubilee awards	Severance payments	Other provisions	Total
At 1 January 2013	2,257	1,457	-	3,714
Increase	-	-	7,014	7,014
Decrease	(388)	(275)	-	(663)
At 31 December 2013	**1,869**	**1,182**	**7,014**	**10,065**

Analysis:	**2013**	**2012**
Non-curresnt portion	9,570	3,488
Current portion	495	226
Total	**10,065**	**3,714**

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 5.30% for the Group, and 2.0% for the Company (2012: Group 5.68%, Company 2.00%), an annual discount rate of 5.4% (2012: 4.4%); 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 and additional tax liability as per Tax authorities decision.

NOTE 32 – RELATED PARTY TRANSACTIONS

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

In the ordinary course of business operations, the Company enters into related party transactions, which include the purchase of goods and services and loans. The nature of services with related parties is based on arm's length terms. In addition to the subsidiaries presented in note 18, associates presented in note 19 and joint ventures presented in note 20, the Company's related parties include its Management Board and executive directors. The Company has no ultimate 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)	2013	2012
Sales revenue	49,489	131,865
Rental income	4,613	1,322
Interest income	2,051	2,281
Other operating income	4,350	1,215
	60,503	**136,683**
Cost of raw materials and supplies	26,149	23,075
Subcontractor services	39,018	58,275
Other operating expenses	696	285
Interest expesne and foreign exchange losses	596	943
	66,459	**82,578**

Receivables, payables and loans

(in thousands of HRK)	2013	2012
Trade receivables	62,518	51,927
Other receivables	6,974	4,773
Loans receivable	52,807	72,537
	122,299	**129,237**
Trade payables	66,671	48,978
Interest payable	77	80
Commercial papers liability	13,727	12,636
Loans payable	38,681	46,927
	119,156	**108,621**

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

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)	2013	2012
Sales revenue	393	-
Interest income	-	17
	393	17

Receivables, payables and loans

(in thousands of HRK)	2013	2012
Trade receivables	672	517
Loans receivable	312	312
	984	829
Trade payables	4,495	4,590
Loans payable	1,875	1,875
	6,370	6,465

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)	2013	2012
Sales revenue	3,707	4,442
Other income	-	41
Interest income	-	17
	3,707	4,500
Cost of raw materials and supplies	3,194	4,292
Subcontractor services	44	63
	3,238	4,355

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

Receivables, payables and loans

(In thousands of HRK)	2013	2012
Trade receivables	841	3,194
Loans receivable	312	312
	1,153	**3,506**
Trade payables	6,713	10,572
Loans payable	1,875	1,875
	8,588	**12,447**

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)	2013	2012
Sales revenue	5,500	5,800
	5,500	**5,800**

Receivables, payables and loans

(in thousands of HRK)	2013	2012
Trade receivables	3,075	2,000
	3,075	**2,000**

Transactions with key management

Key management consists of Management Board and Executive Directors. Remuneration to key management at Group's level amounted to HRK 16,461 thousand (2012: HRK 12,476 thousand), while remuneration at the level of the Company amounted to HRK 12,722 thousand (2012: 7,447 thousand).

NOTE 32 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2013, 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 684,214 thousand (2012: HRK 1,101,090 thousand).

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

(in thousands of HRK)	Dalekovod Group 2013	Dalekovod Group 2012	Dalekovod d.d. 2013	Dalekovod d.d. 2012
Up to 1 year	895	593	895	593
Between 1 to 5 years	876	144	876	144
Over 5 years	-	-	-	-
	1,771	737	1,771	737

Future As at 31 December 2013, 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 432,614 thousand and HRK 401,621 thousand (2012: HRK 494.179 thousand Group and HRK 491,058 thousand Company). They are additionally exposed as subsidiaries' co-debtors in the total amount of HRK 496,599 thousand (2012: HRK 523,574 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 31). In addition to those court cases for which provision have been made there are some legal disputes will not result in significant losses.

NOTE 34 – EVENTS AFTER THE BALANCE SHEET DATE

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

Financial restructuring measures include the following activities:

- Partial transfer of bank debt into "mezzanine" financing (payables with the conditional right of conversion into equity or transfer to senior debt under special conditions).
- Long-term rescheduling of outstanding debt (outside the mezzanine) towards banks and other financial institutions.
- Conversion of part of debt to creditors (suppliers, state) into equity.
- Release of certain co-debtor relations encumbering the Company or its subsidiaries.
- Sale of non-core assets.

NOTE 34 – EVENTS AFTER THE BALANCE SHEET DATE (continued)

- Decrease in share capital for the purpose of covering accumulated losses.
- Capital increase in the amount of HRK 210 million through payment in cash to finance business development (HRK 150 million) and partial financing of working capital (HRK 60 million).

The effects of financial restructuring measures are as follows:

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

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

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

Since the date of initiating the pre-bankruptcy settlement procedure, the Company was involved in negotiations with all creditors in order to obtain their acceptance of the Financial Restructuring Plan. On 9 April 2013, FINA issued a decision stating that the Financial Restructuring Plan is considered to be accepted and that it is to be implemented in accordance with the provisions of the Law. The pre-bankruptcy settlement procedure was formally completed at 14 February 2014 by issuance of the final legally valid decision.

In accordance with financial restructuring measures outlined in the pre-bankruptcy settlement, on 28 March 2014 share capital was increased by payment of cash contribution of HRK 150 million by the investor Konsolidator d.o.o. and by a contribution in rights made by converting the claims of the creditors in the pre-bankruptcy settlement against the Company to share capital in the amount of HRK 8,521,680. The Management Board is authorized by the General Assembly to increase the Company's share capital up to HRK 60 million in cash contributions by issuing new shares having a nominal value of HRK 10 each, to the exclusion of the pre-emption right granted to Konsolidator d.o.o. Both the Company and Konsolidator d.o.o. support increase in share capital.

Dalekovod TKS a.d. Doboj

Further to the prepared Restructuring Plan for Dalekovod d.d, the conclusion has been made that business expenses and debts of Dalekovod TKS a.d. Doboj, incurred from 2009 to 2012, were too large for the production to continue so the Management Board of Dalekovod TKS a.d. Doboj has submitted the Proposal to initiate bankruptcy proceedings to the Commercial Court in Doboj on 28 April 2014.