

Dalekovod d.d.

Financial Restructuring Implementation Report

2nd Implementation Report (Q2 2014)

1. Introduction

The report is prepared in compliance with the provision of Article 79, paragraph 4 of the Financial Operations and Pre-Bankruptcy Settlement Act. In all its contents, it refers to the period from 1 January 2014 to 30 June 2014.

The pre-bankruptcy settlement (hereinafter: "Settlement") over the debtor Dalekovod d.d. Zagreb (hereinafter: "Company") was reached at the hearing before the Commercial Court in Zagreb on 29 January 2014 and became legally effective on 14 February 2014.

In compliance with the provisions of Article 79, paragraph 4 of the Financial Operations and Pre-Bankruptcy Settlement Act, the report contains the following:

1. description of financial restructuring measures that were implemented and their impact on the debtor in terms of liquidity and solvency,
2. total amount of the creditors' claims payment, in portions in which these claims were paid,
3. quarterly Balance Sheets, Profit and Loss Account and Cash Flow Statement,
4. debtor's declaration that no actions have been taken that would result in putting the creditors in an unequal position.

2. Description of financial restructuring measures that were implemented and their impact on the debtor in terms of liquidity and solvency as well as the total amount of the creditors' claims payment, in portions in which these claims were paid

Within the period from 14 February 2014, when the resolution on the pre-bankruptcy settlement became legally effective, to 30 June 2014, the following financial restructuring measures were implemented:

- A) Share capital was decreased to cover the accumulated losses, and accordingly the nominal value per share was decreased from HRK 100 to HRK 10.
- B) A conversion of a partial debt to creditors into the capital was carried out, 852.168 new shares were issued and thereby the Company's share capital was increased by HRK 8,521,680.
- C) Recapitalization was carried out in the amount of HRK 150,000,000 by a cash contribution to finance investments and development of the Company. The recapitalization was made by the company Konsolidator d.o.o. at the price of HRK 10 per share. 15.000.000 new shares were issued and the share capital was increased by HRK 150,000,000.
- D) The Company's recapitalization was initiated by the existing shareholders to make cash contribution to finance the working capital on equal terms as stated in point C) by denying the pre-emptive right of Konsolidator d.o.o. Share subscription shall be carried out in two rounds. The first round ends on 9 July 2014.
- E) The process of selling the shares in the company Dalekovod Professio d.o.o. to invest in renewable energy sources was initiated as one of financial restructuring measures stated in the Settlement.
- F) In accordance with the terms of the Settlement, the Company's debt was relieved on the basis of a joint debt, joint and several liability or warranty in full as well as the claims of other companies based on joint debt for the Company's liabilities to the third parties.

- G) The payment of the first instalment to suppliers was made by a single cash payment. The first instalment included 20% of total debt to creditors of categories (j), (k), (l), (m) and (n), and it totalled in HRK 69.8 million according to the Settlement. At the time of preparing this report, the Company has settled all trade payables that were due in the previous period pursuant to the Settlement.
- H) In compliance with the terms of the Settlement, the liabilities for interest and fees were written off.
- I) Fair value of non-current liabilities from the pre-bankruptcy settlement was calculated as of 31 March 2014 in compliance with the International Accounting Standards and it represents a significant positive impact on the Profit and Loss Account, as well as the Company's Balance Sheet in the amount of HRK 223.8 million. The fair value is calculated on a quarterly basis and is shown in the financial statements.
- J) All liabilities from the pre-bankruptcy settlement to financial institutions based on annuity and interest were regularly settled and there are no outstanding liabilities based on the issued invoices from liabilities according to the pre-bankruptcy settlement.

3. Quarterly Balance Sheets, Profit and Loss Account and Cash Flow Statement

A) Balance Sheet

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
DALEKOVOD D.D. Amounts in HRK			DALEKOVOD GROUP Amounts in HRK	
ASSETS				
A) SUBSCRIBED CAPITAL UNPAID	0	0	0	0
B) NON-CURRENT ASSETS (003+010+020+029+033)	905.439.504	888.061.926	1.186.895.227	1.178.897.685
I. INTANGIBLE ASSETS (004 to 009)	7.022.262	5.679.500	10.234.288	8.816.803
1. Research and development expenditure	0	0	0	0
2. Patents, licences, royalties, trademarks, software and similar rights	7.022.262	5.673.388	8.905.615	7.499.285
3. Goodwill	0	0	1.213.000	1.213.000
4. Prepayments for intangible assets	0	0	0	0
5. Intangible assets under construction	0	6.112	0	101.995
6. Other intangible assets	0	0	115.673	2.522
II. TANGIBLE ASSETS (011 to 019)	516.163.090	502.033.734	1.040.465.595	1.034.908.659
1. Land	164.913.887	164.913.887	285.138.497	285.103.664
2. Property	56.634.825	54.913.156	229.792.973	616.169.107
3. Plants and equipment	68.877.075	62.177.292	118.870.097	109.400.885
4. Tools, plants and vehicles	4.862.839	3.217.128	13.966.627	12.327.837
5. Biological assets	0	0	0	0
6. Prepayments for tangible assets	0	0	45.232	44.840
7. Tangible assets under construction	0	0	392.643.852	11.856.489
8. Other tangible assets	0	0	8.317	5.838
9. Investments property	220.874.464	216.812.271	0	0
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	367.818.211	365.901.800	120.554.090	117.922.914
1. Share in related parties	314.078.254	314.078.254	70.516.314	69.255.987
2. Loans to related parties	1.401.507	0	0	0
3. Participating interests (stakes)	25.516.604	25.520.024	21.766.296	20.999.403
4. Loans to participating interests	0	0	0	0
5. Investments in securities	22.984.198	22.640.967	22.984.198	22.640.967
6. Loans and deposits	3.837.648	3.662.555	5.287.282	5.026.557
7. Other non-current financial assets	0	0	0	0
8. Investments accounted by equity method	0	0	0	0
IV. TRADE RECEIVABLES (030 to 032)	14.435.941	14.446.892	15.641.254	17.249.309
1. Receivables from related parties	0	0	0	0
2. Receivables from credit sales	0	0	0	0
3. Other receivables	14.435.941	14.446.892	15.641.254	17.249.309
V. DEFERRED TAX ASSETS	0	0	0	0
C) CURRENT ASSETS (035+043+050+058)	392.194.887	522.615.163	546.754.750	677.197.162
I. INVENTORIES (036 to 042)	9.443.774	12.544.363	109.993.744	129.717.616
1. Raw material and consumables	8.480.689	11.373.980	58.725.963	68.273.246
2. Work in progress	0	0	710.157	10.265.426
3. Products	963.085	909.867	41.133.828	38.749.640
4. Merchandise	0	260.516	9.097.868	12.235.412
5. Prepayments for inventories	0	0	206.768	192.415
6. Other available-for-sale assets	0	0	119.160	1.476
7. Biological assets	0	0	0	0
II. RECEIVABLES (044 to 049)	325.314.674	378.966.251	398.603.199	435.099.067
1. Receivables from related parties	63.184.886	78.219.688	3.075.000	2.975.000
2. Trade receivables	173.293.741	183.360.724	265.321.737	285.628.925
3. Receivables from participating parties	671.564	890.572	1.222.951	890.572
4. Amounts receivable from employees	209.971	249.777	1.383.881	343.525

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
	DALEKOVOD D.D. Amounts in HRK		DALEKOVOD GROUP Amounts in HRK	
5. Receivables from government agencies	264.321	3.887.724	5.600.761	8.412.576
6. Other receivables	87.690.191	112.357.766	121.998.869	136.848.470
III. CURRENT FINANCIAL ASSETS (051 to 057)	51.890.333	119.340.442	8.089.176	81.013.674
1. Share in related parties	0	0	0	0
2. Loans to related parties	51.405.306	60.373.122	0	0
3. Participating interests (stakes)	0	0	0	0
4. Loans to participating interests	311.737	311.737	311.737	311.737
5. Investments in securities	28.290	40.028.290	28.290	40.889.409
6. Loans and deposits	145.000	18.627.293	7.710.324	39.774.035
7. Other financial assets	0	0	38.825	38.494
IV. CASH ON HAND AND IN THE BANK	5.546.106	11.764.107	30.068.631	31.366.804
D) PREPAYMENTS AND ACCRUED INCOME	4.485.669	1.300.260	2.045.233	4.628.447
E) TOTAL ASSETS (001+002+034+059)	1.302.120.060	1.411.977.349	1.735.695.210	1.860.723.293
F) OFF-BALANCE SHEET ITEMS	947.853.743	328.140.604	1.500.611.951	786.878.420
EQUITY AND LIABILITIES				
A) CAPITAL I RESERVES (063+064+065+071+072+075+078)	-36.279.739	438.420.616	40.579.836	480.560.074
I. SHARE CAPITAL	286.726.500	187.194.330	286.726.500	187.194.330
II. CAPITAL RESERVES	80.478.889	86.750.590	80.478.889	86.750.590
III. RESERVES FROM PROFIT (066+067-068+069+070)	157.131.299	44.367.886	183.334.825	70.279.595
1. Legal reserves	11.486.600	11.486.600	11.652.467	11.589.528
2. Reserves for own shares	7.773.071	7.773.071	7.773.071	7.773.071
3. Own shares and stakes (less)	7.773.071	7.773.071	7.773.071	7.773.071
4. Statutory reserves	32.881.286	32.881.286	32.923.976	32.923.976
5. Other reserves	112.763.413	0	138.758.382	25.766.092
IV. REVALUATION RESERVES	40.014.573	40.014.573	40.014.627	40.014.573
V. RETAINED EARNINGS OR LOSS BROUGHT FORWARD (073-074)	-441.240.682	-159.390.318	-427.543.269	-111.412.611
1. Retained earnings	0	0		
2. Loss brought forward	441.240.682	159.390.318	427.543.269	111.412.611
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR(076-077)	-159.390.318	239.483.555	-122.216.466	207.954.628
1. Profit for the financial year	0	239.483.555		207.954.628
2. Loss for the financial year	159.390.318	0	122.216.466	
VII. MINORITY INTEREST	0		-215.270	-221.032
B) PROVISIONS (080 to 082)	4.211.441	4.711.441	7.039.138	7.755.826
1. Provisions for pensions, severance pay and similar liabilities	4.211.441	4.211.441	6.975.473	7.208.054
2. Provisions for tax obligations	0	0	0	0
3. Other provisions	0	500.000	63.665	547.771
C) NON-CURRENT LIABILITIES (084 to 092)	20.542.464	742.974.082	33.632.884	708.263.168
1. Liabilities to related parties	0	46.052.713	0	0
2. Liabilities for loans, deposits and similar	0	0	0	390.867
3. Liabilities towards banks and other financial institutions	0	418.787.845	10.186.092	428.887.112
4. Amounts payable for prepayment	0	0	0	0
5. Trade payables	969.117	243.080.983	1.352.686	243.932.648
6. Amounts payable for securities	0	19.307.618	0	19.307.618
7. Liabilities toward participating interests	0	3.185.125	0	3.185.125
8. Other non-current liabilities	9.569.204	2.555.655	12.089.963	2.555.655
9. Deferred tax	10.004.143	10.004.143	10.004.143	10.004.143
D) CURRENT LIABILITIES (094 to 105)	1.309.565.604	225.438.432	1.650.299.541	663.501.797
1. Liabilities to related parties	119.155.367	30.575.330	26.085	0
2. Liabilities for loans, deposits and similar	8.009.169	2.616.261	10.636.799	4.523.494
3. Liabilities towards banks and other financial institutions	627.217.358	81.331.128	952.511.268	400.119.591
4. Amounts payable for prepayment	21.371.228	41.931.841	26.535.076	52.933.830
5. Trade payables	448.080.173	55.654.753	521.769.757	160.777.008
6. Amounts payable for securities	44.197.127	919.417	44.197.127	919.417
7. Liabilities toward participating interests	6.370.250	0	6.370.250	0
8. Liabilities to employees	9.902.032	3.601.573	18.667.164	15.018.707
9. Taxes, contributions and similar liabilities	19.502.861	3.378.953	33.377.965	18.232.372
10. Liabilities arising from share in the result	1.899.762	1.899.762	1.899.762	1.899.762
11. Liabilities arising from non-current assets held for sale	0	0	0	0
12. Other current liabilities	3.860.277	3.529.414	34.308.288	9.077.617

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
	DALEKOVOD D.D. Amounts in HRK		DALEKOVOD GROUP Amounts in HRK	
E) ACCRUED EXPENSES AND DEFERRED INCOME	4.080.290	432.778	4.143.811	642.429
F) TOTAL – LIABILITIES (062+079+083+093+106)	1.302.120.060	1.411.977.349	1.735.695.210	1.860.723.293
G) OFF-BALANCE SHEET ITEMS	947.853.743	328.140.604	1.500.611.951	786.878.420
ANNEX TO THE BALANCE SHEET (to be filled in by the company preparing the consolidated annual financial statements)				
A) CAPITAL AND RESERVES				
1. Attributable to equity holders of the parent company's capital			40.795.106	480.781.104
2. Attributable to non-controlling interests			-215.270	-221.032

B) Profit and Loss Account

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
	DALEKOVOD d.d. Amounts in HRK		DALEKOVOD GROUP Amounts in HRK	
I. OPERATING INCOME (112+113)	385.581.769	339.661.569	563.934.467	486.246.189
1. Sales revenue	380.262.618	333.769.416	558.104.645	470.284.587
2. Other operating income	5.319.151	5.892.153	5.829.822	15.961.602
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	380.690.088	315.773.653	549.733.953	455.113.966
1. Changes in inventories of finished products and work in progress	184.684	53.046	2.605.603	-9.208.055
2. Material costs (117 to 119)	245.864.913	190.514.212	346.044.447	265.146.172
a) Cost of raw material and consumables	75.614.323	47.247.310	107.965.593	77.297.337
b) Cost of goods sold	31.179.713	12.879.535	56.398.846	48.429.384
c) Other costs	139.070.877	130.387.367	181.680.008	139.419.450
3. Staff costs (121 to 123)	68.088.140	57.138.656	115.490.810	102.413.380
a) Net salaries	45.839.524	39.170.830	74.952.112	65.359.583
b) Employee income tax	11.572.224	11.558.625	24.284.534	24.360.692
c) Tax on payroll	10.676.392	6.409.201	16.254.164	12.693.105
4. Depreciation and amortisation	17.255.517	16.447.989	23.175.651	22.824.938
5. Other expenditures	45.020.861	45.448.062	57.624.914	63.987.882
6. Value adjustment (127+128)	1.205.371	0	1.205.371	58.532
a) non-current assets (without financial assets)	0	0	0	0
b) current assets (without financial assets)	1.205.371	0	1.205.371	58.532
7. Provisions	0	500.000	0	500.000
8. Other operating expenses	3.070.602	5.671.688	3.587.157	9.391.117
III. FINANCIAL INCOME (132 to 136)	7.695.937	228.482.315	8.486.966	204.211.699
1. Interest income, foreign exchange differences, dividends and other financial income related to subsidiaries	1.394.968	29.283.364	1.367.984	326.764
2. Interest income, foreign exchange differences, dividends and other financial income related to third parties	6.004.283	20.539.859	6.737.953	25.218.168
3. Part of income from associates and participating interests	296.686	0	380.847	7.471
4. Unrealized gains (income) from the financial assets	0	0	0	0
5. Other financial income	0	178.659.092	183	178.659.296
IV. FINANCIAL COSTS (138 to 141)	7.408.163	12.599.312	9.129.394	23.462.067
1. Interest, foreign exchange differences and other expenses related to subsidiaries	623.109	393.026	623.229	0
2. Interest, foreign exchange differences and other expenses related to third parties	6.230.930	9.418.622	7.339.905	20.592.334
3. Unrealized loss (expenses) from the financial assets	0	0	0	7.471
4. Other financial expenses	554.124	2.787.664	1.166.260	2.862.261
V. SHARE OF INCOME OF ASSOCIATES	0	0	7.140.850	52.730
VI. SHARE OF LOSS OF ASSOCIATES	0	0	0	2.444.877
VII. EXTRAORDINARY – OTHER INCOME	0	0	0	0
VIII. EXTRAORDINARY – OTHER EXPENSES	0	0	0	0
IX. TOTAL INCOME (111+131+142 + 144)	393.277.706	568.143.884	579.562.283	690.510.618
X. TOTAL EXPENSES (114+137+143 + 145)	388.098.251	328.372.965	558.863.347	481.020.909
XI. PROFIT OR LOSS BEFORE TAX (146-147)	5.179.455	239.770.919	20.698.936	209.489.709

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
	DALEKOVOD d.d. Amounts in HRK		DALEKOVOD GROUP Amounts in HRK	
1. Profit before tax (146-147)	5.179.455	239.770.919	20.698.936	209.489.709
2. Loss before tax (147-146)	0	0	0	
XII. INCOME TAX EXPENSE	998	287.364	1.922.847	1.539.342
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	5.178.457	239.483.555	18.776.089	207.950.367
1. Profit for the period (149-151)	5.178.457	239.483.555	18.776.089	207.950.367
2. Loss for the period (151-148)	0	0	0	0
ANNEX TO THE BALANCE SHEET (to be filled in by the company preparing the consolidated annual financial statements)				
XIV. PROFIT OR LOSS FOR THE PERIOD				
1. Attributable to owners of the company			19.010.206	207.954.628
2. Attributable to non-controlling interests			-234.116	-4.262
STATEMENTS OF COMPREHENSIVE INCOME (to be filled in by entities who work in compliance with the IFRS)				
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	5.178.457	239.483.555	18.776.089	207.950.367
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (159 to 165)				
1. Exchange differences arising from foreign operations				
2. Revaluation of non-current assets and intangible assets				
3. Gains or loss available for sale investments				
4. Gains or loss on net movement on cash flow hedges				
5. Gains or loss on net investments hedge				
6. Share of the other comprehensive income/loss of associates				
7. Actuarial gain/loss on post-employment benefit obligations				
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD				
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)				
V. TOTAL COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	5.178.457	239.483.555	18.776.089	207.950.367
ANNEX to the Statement of Comprehensive income (to be filled in by the company preparing the consolidated annual financial statements)				
VI. TOTAL COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD				
1. Attributable to owners of the company			19.010.206	207.954.628
2. Attributable to non-controlling interests			-234.116	-4.262

C) Cash Flow Statement

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
DALEKOVOD d.d. Amounts in HRK			DALEKOVOD GROUP Amounts in HRK	
CASH FLOW FROM OPERATING ACTIVITIES				
1. Profit before taxation	5.179.455	239.770.919	20.698.936	209.489.709
2. Depreciation and amortisation	17.255.517	16.447.989	23.175.651	22.824.938
3. Increase of current liabilities	54.152.603	0	2.091.917	0
4. Decrease of current receivables	0	0	0	0
5. Decrease of inventories	841.661	0	6.996.285	0
6. Other increase of cash flow	0	407.692.544	306.300	727.858.472
I. Total increase of cash flow from operating activities (001 to 006)	77.429.236	663.911.452	53.269.089	960.173.119
1. Decrease of current liabilities	0	93.934.031	0	373.473.680
2. Increase of current receivables	36.991.485	53.651.577	12.853.624	36.495.869
3. Increase of inventories	0	3.100.589	0	19.723.872
4. Other decrease of cash flow	1.418.483	589.163.940	0	589.163.940
II. Total decrease of cash flow from operating activities (008 to 011)	38.408.970	739.850.137	12.853.624	1.018.857.361
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	39.019.268	0	40.415.465	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	0	75.938.685	0	58.684.242
CASH FLOW FROM INVESTMENT ACTIVITIES				
1. Proceeds from sale of tangible and intangible non-current assets	22.818	0	0	0
2. Proceeds from sale of equity and debt instruments	0	0	0	0
3. Proceeds from interest	140.154	28.249	0	32.078
4. Proceeds from dividends	0	0	0	0
5. Other proceeds from investment activities	0	150.486.655	0	146.471.320

Name of position	2Q 2013	2Q 2014	2Q 2013	2Q 2014
	DALEKOVOD d.d. Amounts in HRK		DALEKOVOD GROUP Amounts in HRK	
III. Total cash proceeds from investment activities (015 to 019)	162.972	150.514.904	0	146.503.398
1. Payments to purchase tangible and intangible noncurrent assets	1.992.463	975.871	7.400.328	15.850.517
2. Payments to acquire equity and debt instruments	56.124	0	7.180.267	0
3. Other payments from investment activities	39.041.024	67.450.109	25.337.018	72.924.498
IV. Total cash payments from investment activities (021 to 023)	41.089.611	68.425.980	39.917.613	88.775.015
B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	0	82.088.924	0	57.728.383
B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	40.926.639	0	39.917.613	0
CASH FLOW FROM FINANCIAL ACTIVITIES				
1. Proceeds from issuing of equity and debt financial instruments	0	0	0	0
2. Proceeds from loan principal, debentures, loans and other borrowing	852.299	0	11.654.209	0
3. Other proceeds from financial activities	0	4.500.000	0	13.382.273
V. Total proceeds from financial activities (027 to 029)	852.299	4.500.000	11.654.209	13.382.273
1. Repayment of loan principal and bonds	0	0	0	6.505.447
2. Dividends paid	0	0	0	0
3. Payment of finance lease liabilities	444.771	4.432.238	168.238	4.622.794
4. Payments from repurchase of treasury shares	0	0	0	0
5. Other payments from financial activities	0	0	0	0
VI. Total payments from financial activities (031 to 035)	444.771	4.432.238	168.238	11.128.241
C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	407.528	67.762	11.485.971	2.254.032
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	0	0	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	0	6.218.001	11.983.823	1.298.173
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	1.499.843	0	0	0
Cash and cash equivalents at the beginning of the period	9.691.818	5.546.106	0	30.068.631
Increase of cash and cash equivalents	0	6.218.001	11.983.823	1.298.173
Decrease of cash and cash equivalents	1.499.843	0	0	0
Cash and cash equivalents at the end of the period	8.191.975	11.764.107	11.983.823	31.366.804

4. Debtor's declaration that no actions have been taken that would result in putting the creditors in an unequal position

DECLARATION

whereby we confirm that we have taken no actions that would result in putting the creditors in an unequal position.

Goran Brajdić
President of Management Board

Krešimir Anušić
Member of Management Board

Marko Jurković
Member of Management Board

Željko Lekšić
Member of Management Board