

Dalekovod d.d.

Financial Restructuring Implementation Report

3rd Implementation Report (Q3 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 September 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 September 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) Recapitalization was carried out in the amount of HRK 59,998,720 by a cash contribution to finance investments and development of the Company. The recapitalization was made by the existing shareholders, by denying the pre-emptive right of the shareholders that hold the Company's shares issued for cash contributions pursuant to the decision of the Company's Ordinary General Meeting held on 22 July 2013, under point 8 of the Agenda, at the price of HRK 10 per share. 5,999,872 new shares were issued and the share capital was increased by HRK 59,998,720.
- 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.
- 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 shall be shown in the future 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	Previous year (net)	Current year (net)	Previous year (net)	Current year (net)
DALEKOVOD D.D.			DALEKOVOD GROUP	
ASSETS				
A) SUBSCRIBED CAPITAL UNPAID	0	0	0	0
B) NON-CURRENT ASSETS (003+010+020+029+033)	905.439.504	909.353.803	1.186.895.227	1.185.903.701
I. INTANGIBLE ASSETS (004 to 009)	7.022.262	5.133.238	10.234.288	8.274.084
1. Research and development expenditure	0	0	0	0
2. Patents, licences, royalties, trademarks, software and similar rights	7.022.262	5.075.827	8.905.615	6.112.145
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	57.411	0	216.954
6. Other intangible assets	0	0	115.673	731.984
II. TANGIBLE ASSETS (011 to 019)	516.163.090	510.448.582	1.040.465.595	1.041.502.609
1. Land	164.913.887	164.913.887	285.138.497	285.132.519
2. Property	56.634.825	54.326.783	229.792.973	610.377.394
3. Plants and equipment	68.877.075	73.605.096	118.870.097	119.825.016
4. Tools, plants and vehicles	4.862.839	2.788.911	13.966.627	11.307.815
5. Biological assets	0	0	0	0
6. Prepayments for tangible assets	0	0	45.232	45.165
7. Tangible assets under construction	0	29.878	392.643.852	14.808.820
8. Other tangible assets	0	0	8.317	5.880
9. Investments property	220.874.464	214.784.027	0	0
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	367.818.211	379.325.091	120.554.090	116.666.850
1. Share in related parties	314.078.254	314.078.254	70.516.314	68.770.931
2. Loans to related parties	1.401.507	13.726.840	0	0
3. Participating interests (stakes)	25.516.604	25.520.024	21.766.296	20.551.762
4. Loans to participating interests	0	0	0	0
5. Investments in securities	22.984.198	22.400.065	22.984.198	22.400.065
6. Loans and deposits	3.837.648	3.599.908	5.287.282	4.944.092
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	17.869.238
1. Receivables from related parties	0	0	0	157.483
2. Receivables from credit sales	0	0	0	0
3. Other receivables	14.435.941	14.446.892	15.641.254	17.711.755
V. DEFERRED TAX ASSETS	0	0	0	1.590.920
C) CURRENT ASSETS (035+043+050+058)	392.194.887	642.260.657	546.754.750	814.425.655
I. INVENTORIES (036 to 042)	9.443.774	13.447.333	109.993.744	146.165.315
1. Raw material and consumables	8.480.689	12.296.977	58.725.963	76.926.586
2. Work in progress	0	0	710.157	11.571.184
3. Products	963.085	890.200	41.133.828	44.754.377
4. Merchandise	0	260.156	9.097.868	11.554.688
5. Prepayments for inventories	0	0	206.768	1.358.481
6. Other available-for-sale assets	0	0	119.160	0
7. Biological assets	0	0	0	0
II. RECEIVABLES (044 to 049)	325.314.674	436.620.816	398.603.199	496.713.013
1. Receivables from related parties	63.184.886	59.410.347	3.075.000	1.187.500
2. Trade receivables	173.293.741	268.163.607	265.321.737	357.323.507
3. Receivables from participating parties	671.564	993.322	1.222.951	1.011.000
4. Amounts receivable from employees	209.971	204.339	1.383.881	338.304
5. Receivables from government agencies	264.321	12.842.535	5.600.761	16.724.420
6. Other receivables	87.690.191	95.006.666	121.998.869	120.128.282
III. CURRENT FINANCIAL ASSETS (051 to 057)	51.890.333	123.566.486	8.089.176	82.686.694
1. Share in related parties	0	0	0	0
2. Loans to related parties	51.405.306	50.829.369	0	0

Name of position	Previous year (net)	Current year (net)	Previous year (net)	Current year (net)
DALEKOVOD D.D.			DALEKOVOD GROUP	
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	32.397.090	7.710.324	41.446.779
7. Other financial assets	0	0	38.825	38.769
IV. CASH ON HAND AND IN THE BANK	5.546.106	68.626.022	30.068.631	88.860.634
D) PREPAYMENTS AND ACCRUED INCOME	4.485.669	1.192.082	2.045.233	2.633.475
E) TOTAL ASSETS (001+002+034+059)	1.302.120.060	1.552.806.542	1.735.695.210	2.002.962.832
F) OFF-BALANCE SHEET ITEMS	947.853.743	375.897.175	1.500.611.951	568.923.455
EQUITY AND LIABILITIES				
A) CAPITAL I RESERVES (063+064+065+071+072+075+078)	-36.279.739	476.189.430	40.579.836	513.066.015
I. SHARE CAPITAL	286.726.500	247.193.050	286.726.500	247.193.050
II. CAPITAL RESERVES	80.478.889	86.175.590	80.478.889	86.175.590
III. RESERVES FROM PROFIT (066+067-068+069+070)	157.131.299	44.367.886	183.334.825	78.292.005
1. Legal reserves	11.486.600	11.486.600	11.652.467	11.590.720
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	33.777.310
IV. REVALUATION RESERVES	40.014.573	40.014.573	40.014.627	40.012.916
V. RETAINED EARNINGS OR LOSS BROUGHT FORWARD (073-074)	-441.240.682	-159.390.318	-427.543.269	-119.223.821
1. Retained earnings	0	0		
2. Loss brought forward	441.240.682	159.390.318	427.543.269	119.223.821
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR(076-077)	-159.390.318	217.828.649	-122.216.466	180.865.160
1. Profit for the financial year	0	217.828.649		180.865.160
2. Loss for the financial year	159.390.318	0	122.216.466	
VII. MINORITY INTEREST	0		-215.270	-248.885
B) PROVISIONS (080 to 082)	4.211.441	4.237.175	7.039.138	7.166.768
1. Provisions for pensions, severance pay and similar liabilities	4.211.441	4.237.175	6.975.473	7.118.697
2. Provisions for tax obligations	0	0	0	0
3. Other provisions	0	0	63.665	48.070
C) NON-CURRENT LIABILITIES (084 to 092)	20.542.464	743.221.858	33.632.884	707.749.425
1. Liabilities to related parties	0	46.655.063	0	157.479
2. Liabilities for loans, deposits and similar	0	0	0	0
3. Liabilities towards banks and other financial institutions	0	419.018.208	10.186.092	429.245.189
4. Amounts payable for prepayment	0	0	0	0
5. Trade payables	969.117	242.496.046	1.352.686	243.294.216
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	327.297.222	1.650.299.541	772.926.831
1. Liabilities to related parties	119.155.367	20.589.775	26.085	0
2. Liabilities for loans, deposits and similar	8.009.169	743.790	10.636.799	5.996.156
3. Liabilities towards banks and other financial institutions	627.217.358	81.327.663	952.511.268	400.602.977
4. Amounts payable for prepayment	21.371.228	68.931.786	26.535.076	80.965.742
5. Trade payables	448.080.173	88.972.571	521.769.757	187.799.828
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	8.581.422	18.667.164	20.176.272
9. Taxes, contributions and similar liabilities	19.502.861	8.461.250	33.377.965	23.396.506
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	46.869.786	34.308.288	51.170.172
E) ACCRUED EXPENSES AND DEFERRED INCOME	4.080.290	1.860.857	4.143.811	2.053.793
F) TOTAL – LIABILITIES (062+079+083+093+106)	1.302.120.060	1.552.806.542	1.735.695.210	2.002.962.832
G) OFF-BALANCE SHEET ITEMS	947.853.743	375.897.175	1.500.611.951	568.923.455
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	513.314.900

Name of position	Previous year (net)	Current year (net)	Previous year (net)	Current year (net)
	DALEKOVOD D.D.		DALEKOVOD GROUP	
2. Attributable to non-controlling interests			-215.270	-248.885

B) Profit and Loss Account

Name of position	3Q 2013	3Q 2014	3Q 2013	3Q 2014
	DALEKOVOD d.d.		DALEKOVOD GROUP	
I. OPERATING INCOME (112+113)	628.494.937	542.130.915	900.520.696	749.469.586
1. Sales revenue	620.150.339	528.298.979	888.540.561	718.665.316
2. Other operating income	8.344.598	13.831.936	11.980.135	30.804.270
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	640.882.876	531.059.468	899.415.340	732.990.213
1. Changes in inventories of finished products and work in progress	208.041	72.713	17.528.317	-14.135.293
2. Material costs (117 to 119)	423.685.560	326.486.886	567.704.176	438.534.759
a) Cost of raw material and consumables	116.507.340	62.789.466	153.778.394	98.275.278
b) Cost of goods sold	26.326.255	28.065.548	70.714.161	73.856.665
c) Other costs	280.851.965	235.631.872	343.211.622	266.402.815
3. Staff costs (121 to 123)	113.450.372	87.868.461	183.336.800	158.373.287
a) Net salaries	75.606.359	61.125.002	118.452.649	103.451.742
b) Employee income tax	19.765.664	17.022.286	38.360.108	35.785.584
c) Tax on payroll	18.078.349	9.721.173	26.524.043	19.135.961
4. Depreciation and amortisation	25.579.856	24.940.092	33.928.616	36.148.843
5. Other expenditures	73.478.800	72.592.801	91.831.808	90.519.699
6. Value adjustment (127+128)	1.205.371	15.796.767	1.075.684	15.855.299
a) non-current assets (without financial assets)	0	0	0	0
b) current assets (without financial assets)	1.205.371	15.796.767	1.075.684	15.855.299
7. Provisions	0	500.000	0	500.000
8. Other operating expenses	3.274.876	2.801.748	4.009.939	7.193.619
III. FINANCIAL INCOME (132 to 136)	14.639.982	238.655.965	15.736.263	214.171.235
1. Interest income, foreign exchange differences, dividends and other financial income related to subsidiaries	1.934.596	29.498.557	1.733.893	0
2. Interest income, foreign exchange differences, dividends and other financial income related to third parties	12.408.700	30.498.316	13.662.598	35.487.028
3. Part of income from associates and participating interests	296.686	0	296.686	0
4. Unrealized gains (income) from the financial assets	0	0	0	0
5. Other financial income	0	178.659.092	43.086	178.684.207
IV. FINANCIAL COSTS (138 to 141)	17.225.693	31.897.741	19.000.552	45.408.303
1. Interest, foreign exchange differences and other expenses related to subsidiaries	665.691	837.896	629.413	0
2. Interest, foreign exchange differences and other expenses related to third parties	15.724.822	26.105.114	17.555.931	40.353.527
3. Unrealized loss (expenses) from the financial assets	0	240.903	0	240.903
4. Other financial expenses	835.180	4.713.828	815.207	4.813.873
V. SHARE OF INCOME OF ASSOCIATES	0	0	11.336.905	0
VI. SHARE OF LOSS OF ASSOCIATES	0	0	0	3.297.171
VII. EXTRAORDINARY – OTHER INCOME	0	0	0	0
VIII. EXTRAORDINARY – OTHER EXPENSES	0	0	0	0
IX. TOTAL INCOME (111+131+142 + 144)	643.134.919	780.786.880	927.593.864	963.640.822
X. TOTAL EXPENSES (114+137+143 + 145)	658.108.569	562.957.209	918.415.892	781.695.687
XI. PROFIT OR LOSS BEFORE TAX (146-147)	-14.973.650	217.829.671	9.177.973	181.945.135
1. Profit before tax (146-147)		217.829.671	9.177.973	181.945.135

Name of position	3Q 2013	3Q 2014	3Q 2013	3Q 2014
DALEKOVOD d.d.			DALEKOVOD GROUP	
2. Loss before tax (147-146)	14.973.650			
XII. INCOME TAX EXPENSE	319.893	1.022	2.819.197	1.113.332
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	-15.293.543	217.828.649	6.358.776	180.831.802
1. Profit for the period (149-151)		217.828.649	6.358.776	180.831.802
2. Loss for the period (151-148)	15.293.543			
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			6.539.825	180.865.160
2. Attributable to non-controlling interests			-181.049	-33.357
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)	-15.293.543	217.828.649	6.358.776	180.831.802
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)	-15.293.543	217.828.649	6.358.776	180.831.802
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			6.539.825	180.865.160
2. Attributable to non-controlling interests			-181.049	-33.357

C) Cash Flow Statement

Name of position	3Q 2013	3Q 2014	3Q 2013	3Q 2014
DALEKOVOD d.d.			DALEKOVOD GROUP	
CASH FLOW FROM OPERATING ACTIVITIES				
1. Profit before taxation	-14.973.650	217.829.671	9.177.973	181.945.135
2. Depreciation and amortisation	25.579.856	24.940.092	33.928.616	36.148.843
3. Increase of current liabilities	48.632.310	0	0	0
4. Decrease of current receivables	0	0	17.461.790	0
5. Decrease of inventories	1.874.734	0	26.187.525	0
6. Other increase of cash flow	3.918.205	497.107.876	756.687	807.994.831
I. Total increase of cash flow from operating activities (001 to 006)	65.031.455	739.877.639	87.512.591	1.026.088.809
1. Decrease of current liabilities	0	70.315.426	30.496.863	343.044.524
2. Increase of current receivables	27.732.915	111.306.142	0	98.109.813
3. Increase of inventories	0	4.003.559	0	36.171.571
4. Other decrease of cash flow	0	589.167.405	0	589.167.405
II. Total decrease of cash flow from operating activities (008 to 011)	27.732.915	774.792.532	30.496.863	1.066.493.313
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	37.298.540	0	57.015.728	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	0	34.914.893	0	40.404.504
CASH FLOW FROM INVESTMENT ACTIVITIES				
1. Proceeds from sale of tangible and intangible non-current assets	24.398	0	100.369	0
2. Proceeds from sale of equity and debt instruments	0	0	0	0
3. Proceeds from interest	134.431	28.290	182.800	32.807
4. Proceeds from dividends	0	0	0	0
5. Other proceeds from investment activities	0	196.487.043	0	207.777.170
III. Total cash proceeds from investment activities (015 to 019)	158.829	196.515.333	283.169	207.809.977
1. Payments to purchase tangible and intangible non-current assets	2.507.579	17.336.560	35.791.855	35.225.654
2. Payments to acquire equity and debt instruments	229.472	0	7.383.993	0
3. Other payments from investment activities	37.877.182	71.676.153	30.358.998	74.597.518
IV. Total cash payments from investment activities (021 to 023)	40.614.233	89.012.713	73.534.846	109.823.172
B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)	0	107.502.620	0	97.986.805
B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)	40.455.404	0	73.251.677	0
CASH FLOW FROM FINANCIAL ACTIVITIES				
1. Proceeds from issuing of equity and debt financial instruments	0	0	20.240.058	0
2. Proceeds from loan principal, debentures, loans and other borrowing	0	0	0	0
3. Other proceeds from financial activities	0	0	0	16.967.918
V. Total proceeds from financial activities (027 to 029)	0	0	20.240.058	16.967.918
1. Repayment of loan principal and bonds	0	0	1.420.219	6.018.596
2. Dividends paid	0	0	0	0
3. Payment of finance lease liabilities	685.379	9.507.811	561.224	9.739.620
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)	685.379	9.507.811	1.981.443	15.758.216
C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	0	0	18.258.615	1.209.702
C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	685.379	9.507.811	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	0	63.079.916	2.022.665	58.792.003
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	3.842.243	0	0	0
Cash and cash equivalents at the beginning of the period	9.691.818	5.546.106	21.153.561	30.068.631
Increase of cash and cash equivalents	0	63.079.916	2.022.665	58.792.003
Decrease of cash and cash equivalents	3.842.243	0	0	0
Cash and cash equivalents at the end of the period	5.849.575	68.626.022	23.176.226	88.860.634

1. 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