



***ANNUAL REPORT BY THE COMPANY
MANAGEMENT FOR
DALEKOVOD GROUP FOR THE YEAR 2008
FOCUSING ON EXPECTED DEVELOPMENT IN THE
FUTURE***

CONTENTS:

	PAGE:
1. INTRODUCTION	1
2. REPORT BY THE MANAGEMENT BOARD ON A POSITION OF THE COMPANY	2
3. SHAREHOLDERS' RELATIONS	13
4. COMPANY'S BODIES	14
5. PRODUCTION – NATURAL INDICATORS	16
6. EMPLOYMENT	18
7. BUSINESS PERFORMANCE INDICATORS	19
8. AUDITOR'S REPORT FOR THE YEAR 2008	21

I. INTRODUCTION

According to provisions of Article 300 b of the Companies' Act, the Company Management Board submits Annual financial statements and the Report on a position of the company to the Supervisory Board and shareholders and expresses a great satisfaction with the achieved results.

The Report includes the consolidated data of DALEKOVOD GROUP including DALEKOVOD d.d. and affiliated companies where DALEKOVOD d.d. is a major owner.

The annual financial statements include financial statements prepared in accordance with International Accounting Standards, International Financial Reporting Standards, Accounting Act, Audit Act and Companies' Act.

The annual financial statements have been audited in accordance with International Audit Standards by the chartered auditor PRICEWATERHOUSE COOPERS d.o.o. ZAGREB.

According to the opinion by the chartered auditor, the attached consolidated and non-consolidated financial statements present fairly and truly, in all material aspects, the financial position of the Group and the Company as at 31st December 2008, the results of their business and cash flows for the year 2008 according to International Financial Reporting Standards.

II REPORT BY THE MANAGEMENT BOARD ON A POSITION OF THE COMPANY

Dear shareholders,

Speaking in the name of the Company, I feel very happy to present annual financial statements for the year 2008 for the **DALEKOVOD GROUP** including the head office and the following affiliated companies:

<i>Name</i>	<i>% of ownership</i>
1. DALEKOVOD - CINČAONICA d.o.o. - Dugo Selo	100
2. DALEKOVOD PROJEKT d.o.o. - Zagreb	100
3. UNIDAL d.o.o. - Vinkovci	50,54
4. DALEKOVOD TIM d.d. - Topusko	89,28
5. DALEKOVOD TKS d.d. DOBOJ - BOSNIA AND HERZEGOVINA	88,83
6. DALEKOVOD d.o.o. - LJUBLJANA - SLOVENIA	100
7. DALCOM GmbH Freilassing - GERMANY	100
8. DALEKOVOD d.o.o. - Mostar – BOSNIA AND HERZEGOVINA	100
9. DALEKOVOD - POLSKA S.A. - Warsaw - POLAND	87,18
10. DALEKOVOD-NAMIBIJA LTD. - WINDHOEK NAMIBIA	60
11. ZABLAĆE d.o.o. - Zagreb (according to the Memorandum of Association signed)	50
12. DALEKOVOD ESOP d.o.o. - Zagreb	100
13. DALEKOVOD - EKO - Zagreb	50
14. ADRIAL d.o.o. - Šibenik	20
15. CINDAL d.o.o. – Doboj	95,01

Last year the GROUP and the company -principal office generated important operating results. The achieved results verify the continuation of the continuous growing trend of the Group throughout a longer period.

1. Financial indicators according to International Accounting Standards

	<i>Principal office</i>	<i>Index</i>	<i>GROUP</i>	<i>Index</i>
	<i>in HRK 000</i>	<i>08/07</i>	<i>in HRK 000</i>	<i>08/07</i>
Total assets	2.587.002	145,6	2.662.834	144,3
Total income	2.259.710	127,7	2.310.657	123,7
Gross profit	104.984	104,2	110.517	108,6
Net profit	82.514	104,2	86.515	108,3

Gross profit amounting HRK 46.10, that is, net profit amounting to HRK 36.30 per share was generated. Compared to the year 2007, gross and net profit per share records an increase of 4.0%.

According to Croatian regulations, the total income for the Company – Head office amounts to HRK 2,280,058,106 and HRK 2,302,458,919 for the Company.

<i>Income structure</i>	<i>Company – head office</i>		<i>Group</i>	
<i>Income from domestic sale of trade goods</i>	1.629.458	72,1	1.605.925	69,5
<i>Income from foreign sales of trade goods</i>	566.465	25,1	662.256	28,7
<i>Income from use of own products</i>	21.726	1,0	21.744	0,9
<i>Other financial income (and financial expenses)</i>	42.061	1,8	20.732	0,9
TOTAL	2.259.710	100,0	2.310.657	100,0

The high rise in assets was largely influenced by a rise in short-term assets, namely inventories and trade debtors, cash, accruals and fixed assets - investment in facilities, plants and equipment.

2. Natural business indicators

Dalekovod and production companies within the Group achieved the following quantities in 2008:

Achieved production	2008. Tons	Index 08/07
DALEKOVOD, d.d. ZAGREB		
(suspension and jointing equipment and metal structures)	3.349	91,5
	10.782	96,5
UNIDAL d.o.o. VINKOVCI (forged steel)	2.819	121,9
„DALEKO VOD - TKS “ Dobož	6.566	115,9
DALEKOVOD - TIM Topusko	8.638	118,0
DALEKOVOD - CINČAONICA d.o.o.		
DUGO SELO (galvanized goods)	31.786	100,5

We can principally be satisfied with achieved production quantities, especially in the Vinkovci factory that records a rise of 22%. Owing to a well-known economic depression worldwide and in the region, especially in the car industry that our company Unidal d.o.o. is mostly connected with, the production has been greatly reduced during the last quarter in 2008 which is also expected in the year 2009.

Dalekovod Cinčaonica d.o.o. records a rise of 1% compared to the last year, while the production in Velika Gorica has been reduced by 5% due to a significant reduction in serial production of covers for highways in comparison with the year 2007.

3. Capacity engagement

In 2008 we had a total capacity engagement in all production parts of the Dalekovod Group, while a certain number of employees working in the Department for Construction was temporary made redundant during the first 5 months.

4. Sales market

The largest income has been generated by sale of equipment and carrying out works in the country during this year as during the previous years.

We are very proud of the rise in export achieved on the demanding markets (Norway, Albania, Kazakhstan and some other).

The most important activities were focused on the following programs:

• Program „Road traffic systems“	40,05%
• Program of energy supply plants	20,46%
• Program „Railways and other rail and traffic systems“	5,22%
• Program „Halls, office, residential and sports facilities“	7,52%
• Program MK	7,19%
• Program OSO	5,31%
• Other	14,25%

It is worth mentioning that a large number of contracts were won at international auctions or rather tenders in the country, where unlike during some previous years, the competition of local and international companies was much tougher.

We, generally, won the contracts that we objectively counted on, mainly owing to recent references, our guaranteed quality and strictly meeting agreed deadlines.

5. Purchase market

During the year 2008 the purchase market was strongly affected by the global economic crisis so that the prices of strategic material from the black metallurgy sector rose from the beginning of 2008 to September 2008 (that is, non-ferrous metallurgy till the mid of 2008) followed by a significant fall in prices that was continued during the first quarter of 2009, only to be halted during the last one month with a signal for a potential growth during the forthcoming period.

Concerning the purchase strategy, the emphasis has been placed on transparency and negotiations with a smaller number of large suppliers aimed at achieving better prices and payment terms.

The future development of events on the purchase market will be greatly determined by the events on the international raw material market where the prices are dictated by the stock exchange especially for non-ferrous metals (zinc, aluminum, copper) and several large producers for black metallurgy.

However, according to available information, the lower threshold has been achieved and during the forthcoming period we can expect a rise in prices of basic materials from the black and non-ferrous metallurgy sector, so in the case of larger requirements for contracted and planned projects it would be a favorable moment for acquisition of them.

During the year 2008, the process of reorganization of warehousing function was continued in the manner that at the Dugo Selo location a central warehousing unit for finished products was organized receiving all galvanized goods within the Dalekovod group and also finished products by external suppliers so that dispatch could be performed from the warehouse of finished goods according to orders and suggestions obtained from Department of sales and contracting deals.

Dalekovod Cinčaonica d.o.o. delivers a complete and packed product to the warehouse of finished goods according to previous documentation submitted by the Department of sales and contracting deals.

6. Company's Liquidity

All liabilities, especially debts to the state (profit tax, value added tax, contributions, income tax, customs duties), dividends and employees' payrolls were timely settled and liabilities to trade creditors were settled with a 120 days' payment delay.

Long-term loans were used for purchasing new equipment and refinancing of works for foreign investors approved for commercial loan.

Short-term loans for current liquidity were used because of inability of timely collection of debts from buyers - investors and they were repaid through assignation/cession agreements.

The transfer account of Dalekovod d.d. was during the year 2008 or during the previous years never blocked.

7. Guarantee exposure to a type of guarantee

All the projects with our most important Investors:

- *Hrvatske autoceste d. o. o.*
- *Hrvatske autoceste d. o. o.*
- *Autocesta Rijeka Zagreb d.d.*
- *Hrvatska elektroprivreda d.d.*
- *KEGOC, Kazakhstan*
- *Statnett, Norway*
- *Elektroprivreda in Montenegro and Albania*

require issuing performance guarantees in the stage of tender. It is also necessary to prepare performance guarantees and refund of advance.

The total amount of guarantees issued by commercial banks as at 31/12/2008 amounts to HRK 555,840,968.26 with the following structure:

CONSTRUCTION AGREEMENTS	<i>Amounts</i>
<i>Performance guarantees and guaranteed deadline</i>	<i>314.323.929,95</i>
<i>Guarantees for refund of advance</i>	<i>184.119.175,36</i>
PUBLIC TENDERS	
<i>Bid guarantees</i>	<i>17.398.631,40</i>
OTHER	
<i>Other types of guarantees</i>	<i>39.999.231,55</i>
TOTAL	<i>555.840.968,26</i>

Compared to the year 2007, there occurred a significant fall in guarantee amounts through replacements of guarantees issued by local investors (HC, HAC, HEP, ARZ, HŽ), or repositioning of debt repayment security instruments (blank debenture bonds, debenture bonds, bills of exchange) not only with respect to already agreed contracts on construction, but also entering into any potential contracts, in whole or to a smaller percentage.

Within the business strategy of the Company towards financial institutions including financial monitoring of ordinary activities and new projects and acquisitions within the business growth strategy of the Company in the long run, during the second half of 2008, the Sale and Lease Back transaction has been accomplished – that is, the sale and lease back of the Galvanizing Plant Dugo Selo as the simplest form of the monetarization of the immobilized assets and an additional source of liquidity.

Having sold the Galvanizing Plant Dugo Selo and having leased it evaluated at the transaction value of EUR 30 mil. some open long-term loans of Dalekovod (ZABA, PBZ, HVB) and short-term loans and loans of TIM Topusko d.d. were refinanced, focusing on negotiations with banks, that is, a change to lending terms with an aim to cancel a fee for early loan repayment ranging between 1% and 2% of the debt remaining part saving thus considerable funds.

The goal was repositioning of the debt repayment security instruments by removing a lien on real estates and movables according to the existing loans and approved present loans and planned future limits by using only ordinary debt repayment security instruments such as ordinary debenture bonds, blank debenture bonds and bills of exchange.

Since the short-term loans by Zagrebačka banka are completely secured by the respective lien on all real estates according to issued bills of exchange, the repayment of funds with respect to this type of short-term debt must be taken into consideration. The difference in amount between EUR 1.15 and 30 million, the value of S/L back transaction was used for closing a part of the short-term loans of Zagrebačka banka.

8 Commercial bills

Considering:

- its size judging by revenues and a number of employees*
- a continuous growth of all relevant operating segments during the last years,*
- Presence of the surrounding countries on the market,*
- greater export orientation*
- its role and importance in the economy of the Republic of Croatia,*

Dalekovod is included in the companies that may provide funds – current assets on the capital market besides the traditional taking out loans with commercial banks at the price lower compared to the price of capital with commercial banks.

Therefore, a decision on further issuance of commercial bills has been made. The existing program of issuing commercial bills has been increased to HRK 250,000,000.00, so after the issuance of the first three tranches of commercial bills for Dalekovod d.d. during the second half of the year 2008 two additional tranches of commercial bills have been issued, the IV tranche to amount of HRK 115,000,000.00 (due date on 23rd July 2009) and the V tranche to amount of HRK 110,000,000.00 (due date on 12th September 2009).

9 Personnel and salaries

An average number of employees in 2008 totaled to 2,287 employees, out of whom 1,525 in Dalekovod d.d., and 762 employees in affiliated companies, which in comparison to the average position in 2007 represents a total increase of 65 employees or 3%.

The good operating results of the Company were greatly caused by a continuous care of the Company for the employees which was reflected in:

- regular disbursement of salaries and other remuneration specified by general bylaws of the Company and Collective Agreement, ,*
- improvement of employees by assigning them to better paid job positions,*

- ensuring professional training for the employees (different courses, seminars, additional educational programs and similar),
- a stronger supervision of the implementation of occupational safety and training of the employees for the work in a safe manner.

An average disbursed salary for the year 2008 at the level of Dalekovod group amounted to HRK 5,518.

In „Dalekovod“, d.d. an average salary amounted to HRK 7,242 which, compared to the previous years, represents an increase of 2%.

10. Investments

In 2008 the following amounts were invested in new technology and equipment. fixed assets:

- in PC Management Board Department and Support to PP (and the Dugo selo location)

HRK 12,743,941

- in PC Engineering

HRK 1,191,413

- in PC Production

HRK 10,888,590

- in PC Construction

HRK 8,352,781

TOTAL:

HRK 33,176,725

11. Acquisitions

The actual acquisition of Dalekovod is the company Pružne građevine d.o.o. with its partner Sitolor for which acquisition we have already submitted our bid to the Croatian Privatization Fund and expect a successful finalization of this project during spring 2009.

This is the way how Dalekovod d.d. could strengthen its position in the area of construction of railway infrastructure.

EXPECTED DEVELOPMENT OF THE COMPANY IN THE FUTURE

The main goal of strategic positioning of Dalekovod d.d. is to ensure a long-term profitability of the company and a continuous growth. Dalekovod has strengthened its position as a market leader in its branch in different infrastructural industries (energy supply industry, railways, road equipment, telecommunications, steel lattice facilities etc.) trying to achieve the same in the countries of the region. This is the way how we reduce the impact of market investment cycles in the aforementioned industries on the business operation of Dalekovod. This risk management strategy has proved to be correct since Dalekovod has achieved an impressive growth due to diversification in the aforementioned industries owing to the fact that we do not depend only on the income earned from the energy supply industry.

Considering this long-term operating risk management through positioning in different market niches in Croatia and countries of the region, Dalekovod will continue with strengthening of its market position in the forthcoming period. During the last few years, it started with ambitious plans of acquisition and investments in activities complementary to our core activity.

The strategic plan of Dalekovod is to become a leader on the market of hard prefabricated construction. Besides the installment services, we are to be distinguished because we offer not only the delivery and installment, but also conceptual designs, technical documentation (electrical, construction, architectural projects, static calculations, administrative procedure) and production, that is, a complete service, the turn-key projects. The share in the segment of prefabricated construction in the entire income of Dalekovod d.d. is approximately 10% and refers to steel structures. Dalekovod d.d. builds and installs sports gyms and halls, shopping centers, structures for refineries, substations of all voltage levels etc. in the region of entire Croatia. Since the Croatian market is small, it is hard to speak about regions where we perform a majority of such activities. We focus on big cities, especially after construction of large halls on occasion of the World Handball Championship.

The perspectives for entire capacity engagement are not only for 2009, but also during the following few years optimistic, despite restrictions in investments. We expect an increased engagement on the international market.

Therefore, the fundamental activities of the Company's Management Board will be focused on:

- Equipment of the Rijeka roundabout*
- Equipment of the Osijek – Đakovo highway*
- Finalization of the construction of the Zagreb airport*
- Equipment of the highway Jakuševac-Velika Gorica-Buševac*
Relocation and equipment of the highway Ravča-Ploče
- Construction of the railway Moravice - Rijeka*
- Construction of the transmission line 400 kV Ernestinovo - Pecs*
- Finalization of the construction of the substation Vrbovsko*

Dalekovod is optimistic about winning contracts in its scope of activities in the future tenders.

More significant operations in the international market

The generated revenues on the international market amount to HRK 566,464,766 which comparing to the year 2007 represents an increase of 48.9%. Dalekovod d. d. is gradually, from one year to another, increasing a share in revenues from the international markets in the total revenues.

The implementation of the following contracts is underway:

- *Nea - Riksgrensen 420 kV Transmission Line - €5,800,000 - Statnett - Norway (the finalization is planned for October 2009)*
- *420 kV Skaraheia (Evje) - Holen Transmission Line - €21,935,896 - Statnett - Norway (finalization planned for August 2009)*
- *400/110/35 kV Ribarevina and 110/10 kV Podgorica 5 - 7,013,696 € - Energy Supply Industry Montenegro*
- *400 kV Transmission line Tirana - Podgorica - €41,879,495 - OST and OPCG*
- *500 kV Agadyr - Yukgres – USD 80,466,982 - Kazakhstan (commissioning in June 2009)*
- *POWER IV (B&H) - €17,000,000 (works finished, final calculation in progress) - EPHZHB*
- *Substation 35/10 (20) kV Blidinje - €30,000 - Dalekovod Mostar*
- *Construction of 22 BP GSM - €1,800,000 - JP HT Mostar*
- *ČHE Avče – connection transmission line 2x110 kV Avče - €264,545 - Dalekovod Ljubljana*
- *Transmission line 110 kV Gorica - Plave and transmission line 110 kV Plave Doblar - €243.605 - Dalekovod Ljubljana*
- *Transmission line 400 kV Divača - Redipuglia - €147,259 - Dalekovod Ljubljana*
- *Acquisition and installment of 110 kV cables for Nuclear power plant Krško -€214,373 Krško Nuclear Power Plant*

The imperative of the Company is, considering the limitation of the local market, a considerable income on the international market, and to increase the present share of income with respect to equipment export and execution of works abroad from 28.7% to 40% The accomplishment of goals is guaranteed by some new contracts we expect:

- *Montenegro energy supply industry:*
 - a. *Substation 110/20 kV Kotor (value €2.25 mil.)*
 - b. *transmission line 110 Kv Tivat - Kotor (value of €300,000)*
 - c. *Reconstruction of substation 220/110 kV Mojkovac and substation 110/35 Andrijevci (value €1.95 mil.)*
- *Bosnia and Herzegovina EPHZHB*
 - a. *HE Čapljinina - VP 220 kV Kabel (value of €1.5 mil.)*
 - b. *Reconstruction of the distribution grid (value of €11 mil.)*
 - c. *Construction of the connection of the transmission line 2x110 kV HE Blato (value €600.000)*
- *Sweden*
 - a. *500 kV Dannebo - Fimbole, investor VATTENFALL (value of €2 mil.) –we expect signing of the contract. In the area of Scandinavia, we currently participate in several important tenders for transmission lines and expect positive results.*

The export of goods records a slight, but a continuous rise.

The full engagement in the segment of Production and affiliated production companies may not be achieved without a significant export and specialization of factories for multi-serial production and dislocation of the factory from Velika Gorica.

The increased export is conditioned by acceptable competitive price, quality and deadline of delivery.

Besides the existing regular export to traditional customers, even in this year we count on a more significant increase in export of equipment for the contact network for the railways of the Republic of Poland.

Dalekovod d.d. being in consortium with the company Gizzoni spa, Italy has submitted a bid for the construction of the main pipeline of Lika and Dalmatia invited by the company Plinacro. The bid is being inspected and reviewed at the moment. The value of works is evaluated at 94 mil €, referring to the two sections Jospidol – Gospić and Gospić –Benkovac.

We also qualified for a tender in Ukraine referring to the construction of 750 kV transmission line that is 500 km long. We expect an invitation to submit bids.

Savings and rationalization programs

Due to a newly created situation of general illiquidity and worsened economic conditions, Dalekovod group has undertaken a series of activities referring to reorganization of operations with the aim to reduce operating expenses.

Savings and rationalization need to be conducted in all parts of the Company. It does not refer only to the segment of purchase with regard to purchase terms (prices, deadlines, quantities, etc.) but also to the segment of consumption at every cost point.

For the purpose of rationalization of costs, the activities/projects need to be elaborated and analyzed in the best way in the segment of Construction, that is, calculations and monitoring of costs by projects need to be elaborated in a better way.

PC Production needs to unify the relation product – work order and to design the production order as an initial production document and to design the sales document as the final sale product.

We shall especially insist on execution of work tasks, control and working discipline

Certain activities have already been undertaken such as reduction of salaries for directors and senior managers by approximately 10%.

All other costs that may be affected for the purpose of reduction thereof are under special control.

Investments

Cindal

We are currently in stage of obtaining building permit for the construction of a new plant for hot galvanizing within the factory Dalekovod TKS Dobož. The new galvanizing plant is called CINDAL d.o.o. and the value of the investment is € 10 mil.

TLM Šibenik

Dalekovod d.d. has together with its partners (Konstruktor-inženjering d.d. Split, Aluflexpack d.o.o. Zadar, Feal d.o.o. Široki Brijeg and Zagreb-montaža d.o.o. Zagreb) conducted the privatization of the company TLM Šibenik that will following the restructuring be focused on its basic activities: rolled and pressed products. For this purpose, a company for special purposes Adrial that is currently preparing the project documentation for the investment evaluated at € 105 mil. has been established. In this way Dalekovod d.d. as a financial investor started operations in aluminum industry which represents diversification of operations.

Aluminij Mostar

After almost two years after the privatization process of some 88% of the capital of Aluminij d.d. Mostar and almost a year from the moment of organizing the Consortium as the most favorable bidder and from the start of negotiations conducted by the Consortium Glencore, FEAL and Dalekovod with the Committee for the privatization of Aluminij d.d. Mostar, the Consortium has so far received no reply or opinion from the Committee on all open issues.

In such circumstances of uncertainty and lack of communication, the deadlines for our bank guarantees to amount of 130 mil. have expired. Since we have extended deadlines for several times, this time the Committee failed to call Consortium to extend the deadlines of the bank guarantees again, so the privatization process has not progressed from the moment of publication that the Consortium was selected as the best bidder and the decision has been made that bank guarantees shall no longer be extended. The Consortium has incurred large costs in this process so far and the Consortium as the best bidder thinks that we have started wondering if there was a serious intention for the privatization process to be implemented at all.

At the beginning of this year, all other bidders withdrew their bids as a consequence of inadequately inappropriate long deadline for the decision on privatization and the fact that the aluminum market has become affected by a deep economic recession. Due to highly low aluminum prices on the London stock exchange of metals and the fact that the world aluminum stocks reached a historic maximum, many producers worldwide and so Aluminij d.d. have reduced or even stopped production as to cut down on losses.

Finally, upon expiry of the Privatization Act, every possibility for privatization was excluded for Aluminij d.d. Mostar according to tender at the beginning of May 2009 and the Consortium thinks that this project has been unsuccessfully finished.

Sky Office

In the end we should mention the project relating to construction of the building SKY OFFICE in Rudeš whereas we implement the construction with our partner Zagreb-Montaža, and the finalization is planned to be at the beginning of 2011. Considering the fact that the projects relating to construction of skyscrapers in the City of Zagreb are to be given up or postponed due to the current financial crisis, we believe that the building of Sky office will be finished in time and at the time of economic recovery when there will be no similar offer of such office buildings on the market.

Acquisition of treasury shares

The Company had 34,208 treasury shares representing 1.5% of total shares as at 31/12/2008. In 2008, the Company acquired 8,969 treasury shares or 0.4 of total shares.

Company's activities in the area of research and development

Intensive activities have been invested in research of the market, especially on the international markets. Currently, we are trying to open a subsidiary in Qatar as to launch our own products and construction of facilities. Great efforts are made as to improve the quality of our own products and construction and to meet high standards relating to employee's working conditions.

Employees' salaries

The Management Board wishes to maintain employees' salaries at the level of 2008 (except for salaries which have been reduced by approx. 10% because of employment agreements including a coefficient).

Profit forecasted

Since we currently have contracts concluded for the entire 2009 and for a major part of 2010 to perform, they will be given full attention with as low expenses as possible as to generate greater profit than what is was in 2008 not only in absolute, but also relative amount.

Not only the work of the Management Board, but also the employee's work will be focused on the above-mentioned. This is, principally, a briefly described long-term development strategy for "Dalekovod" for the next 5 and perhaps more years.

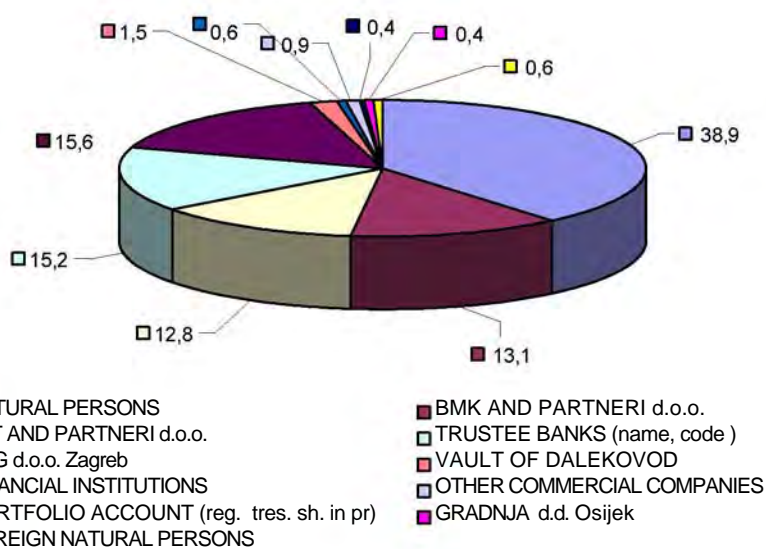
***President of the Management
Board***

Luka Miličić, M. of Constr., M.Sc.

3. SHAREHOLDERS' RELATIONS

According to the book of shares, shareholders' relations as at 31/12/2008 were the following:

<i>IN OWNERSHIP</i>	<i>NUMBER OF SHARES</i>	<i>COMPOSITION %</i>
<i>NATURAL PERSONS</i>	893.053	38,9
<i>BMK AND PARTNERI d.o.o.</i>	300.646	13,1
<i>KLT AND PARTNERI d.o.o.</i>	293.329	12,8
<i>TRUSTEE BANKS (in name, code and collective)</i>	349.523	15,2
<i>CTG d.o.o. Zagreb</i>	358.674	15,6
<i>VAULT OF DALEKOVOD</i>	34.208	1,5
<i>FINANCIAL INSTITUTIONS</i>	14.488	0,6
<i>OTHER COMMERCIAL COMPANIES</i>	20.222	0,9
<i>PORTFOLIO ACCOUNT (reg. of shareholders underway)</i>	8.375	0,4
<i>GRADNJA d.d. Osijek</i>	8.874	0,4
<i>FOREIGN NATURAL PERSONS</i>	12.420	0,6
TOTAL	2.293.812	100



4. COMPANY'S BODIES

„Dalekovod“, joint-stock company for engineering, production and construction is the company complied with the Companies' Act and according to the Resolution of the Commercial Court in Zagreb under the number Tt-95/688-2 on 24/10/1995 it was entered in the court register with the same court under the company number MBS 080010093, Identification number 47911242222.

The National Statistical Institute has classified the Company according activities: Low rise - code 45212, company no. 3275531.

The Company has three bodies:

*Management Board
Supervisory
Board Assembly*

1. Management Board

At the 47th meeting of the Supervisory Board held on 19th March 2008, the Management Board was appointed:

1. Luka Miličić, M. of Constr., M.Sc. - President of the Management Board

*Born on 08th November 1946, PERSONAL IDENT. NO. 09355967751
Zagreb, Čačkovićeva 7a
Represents the company and independently*

2. Tomislav Belamarić, M. of Eng. - Member of the Management Board

*Born on 30th September 1948, PERSONAL IDENT. NO. 96559187119
Zagreb, Lastovska 5
Represents the Company jointly with another member of the Management Board*

3. Krešo Kraljević, M. of Eng. - Member of the Management Board

*Born on 01st November 1946, PERSONAL IDENT. NO. 48507647066
Zagreb, Milana Rešetara 26
Represents the Company jointly with another member of the Management Board*

Term of office for the members of the Management Board is 5 (five) years and commences on 30th March 2008

2. Supervisory Board

The Supervisory Board was elected at the regular General Meeting held on 01st July 2006. .

The present members of the Supervisory Board are:

1. Marijan Pavlović, LL.M., - President of the Supervisory Board

Born on 25th February 1958, PERSONAL IDENT. NO. 74726318835
Zagreb, Ružmarinka 17
Dalekovod d.d. Zagreb, Marijana Čavića 4

2. Željko Poljak, - Deputy President

Born on 25th August 1945, PERSONAL IDENT. NO. 68583075126
Zagreb, Nova cesta 19
Dalekovod d.d. Zagreb, Marijana Čavića 4

3. Anna Bošković, M of Econ. - Member

Born on 24th February 1956, PERSONAL IDENT. NO. 36625140093
Zagreb, Požarinje 14
IGH d.d., Zagreb, J. Rakuše 1

4. Ivan Radotić - member

Born on 28th Oct. 1953, PERSONAL IDENT. NO. 86863112266 Zagreb, I Kanalski put, I odvojak 6 Dalekovod d.d. Zagreb, Marijana Čavića 4

5. Velimir Đurriević - member

Born on 23rd August 1964, PERSONAL IDENT. NO. 15530079750
Zagreb, Ivanićgradska 3
Dalekovod d.d. Zagreb, Marijana Čavića 4

6. Alda Zaninović - Member

Born on 27th August 1952, PERSONAL IDENT. NO. 99790165141
Zagreb, Nortska 22
Zagrebačka banka d.d., Paromlinska 2

7. Dinko Markoljević – a member since 05th July 2008

Born on 23rd Sept. 1973., PERSONAL IDENT. NO. 69582002028 Sunja, Bana Josipa Jelačića 30 Dalekovod d.d. Zagreb, Marijana Čavića 4

The term of office for the members of the Supervisory Board is 4 (four) years.

3. Company Assembly

According to the decision by the General Meeting held on 05th July 2008 **Marko Kozina, LL.M.** born on 20th July 1953, PERSONAL IDENT. NO. 52948566094 Zagreb, Drenovačka 7, was elected as **President of the General Meeting** and **Zdenko Milas, Master of Science in Business and Econ.** born on 18th June 1957, PERSONAL IDENT. NO. 23141679069, Zagreb, Vrančeva 24 was elected as a **Deputy President of the General Meeting**.

5. PRODUCTION IN NATURAL INDICATORS FOR 2008

A) DALEKOVOD d.d. - PRODUCTION ACTIVITY

No.	DESCRIPTION	UNIT MEAS URE	ACHIEVED IN 2007	PLAN FOR 2008	ACHIEVED IN 2008	INDEXES	
						6:4	6:5
1	2	3	6	5	6	7	8
1	Suspension and jointing equipment	Tons	3.660	3.700	3.349	92	91
2	Metal structures	Tons	11.065	11.410	10.764	97	94
3	Other production	Tons	108	110	18	17	16
4	TOTAL FINISHED GOODS PRODUCTION	Tons	14.833	15.220	14.131	95	93
5	Chains completion	Tons	855	870	1.277	149	147

B) AFFILIATED COMPANIES – with production activity

- Dalekovod Cinčaonica d.o.o. D.Selo, Republic of Croatia

- Total different galvanized goods 31,786.1 tons.

- Unidal d.o.o. Vinkovci, Republic of Croatia

- Forged steel production of 2,818.6 tons.

- Dalekovod TKS a.d. Doboje, Bosnia and Herzegovina

- Production of different metal structures of 6,566.0 tons.

- Dalekovod TIM d.d., Topusko

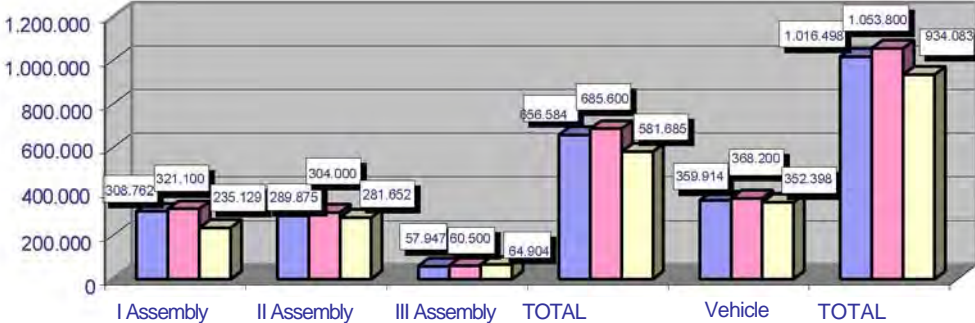
- Production of different metal structures of 8,638.0 tons.

*CONSTRUCTION
NORM HOURS - KM*

<i>No.</i>	<i>DESCRIPTION</i>	<i>UNIT ACHIEVED UNITS IN 2007</i>		<i>PLAN FOR 2008</i>	<i>ACHIEVED IN 2008</i>	<i>INDEXES</i>	
						<i>6:4</i>	<i>6:5</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>6</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>
<i>1</i>	<i>I Assembly group</i>	<i>Hourly norm</i>	<i>308.762</i>	<i>321.100</i>	<i>235.129</i>	<i>76</i>	<i>73</i>
<i>2 3</i>	<i>II Assembly group</i>	<i>Hourly norm</i>	<i>289.875</i>	<i>304.000</i>	<i>281.652</i>	<i>97</i>	<i>93</i>
	<i>III Assembly group</i>	<i>Hourly norm</i>	<i>57.947</i>	<i>60.500</i>	<i>64.904</i>	<i>112</i>	<i>107</i>
<i>4</i>	<i>TOTAL HOURLY NORM</i>	<i>Hourly norm</i>	<i>656.584</i>	<i>685.600</i>	<i>581.685</i>	<i>89</i>	<i>85</i>
<i>5</i>	<i>Vehicle operating hours</i>	<i>Hourly norm</i>	<i>359.914</i>	<i>368.200</i>	<i>352.398</i>	<i>98</i>	<i>96</i>
<i>6</i>	<i>TOTAL HOURS REALIZED</i>	<i>Hourly norm</i>	<i>1.016.498</i>	<i>1.053.800</i>	<i>934.083</i>	<i>92</i>	<i>89</i>
<i>7</i>	<i>VEHICLE MILEAGE IN KM</i>	<i>Km</i>	<i>7.100.143</i>	<i>7.263.100</i>	<i>6.774.251</i>	<i>95</i>	<i>93</i>

Total operating hours realized dropped by 8% compared to the last year and 11% compared to the Plan.

REALIZED HOURLY NORM FOR 2008



■ REALIZED 2007. ■ LAN 2008.
■ REALIZED 2008.

6. EMPLOYMENT

AVERAGE NUMBER OF PERSONS EMPLOYED
BASED ON A POSITION AND OPERATING HOURS FOR THE YEAR 2008

<i>No.</i>	<i>DESCRIPTION</i>	<i>EMPLOYEES POSITION</i>	<i>EMPLOYEES OPERATING HOURS</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
1.	<i>I - XII 2007</i>	2.222	2.263
2.	<i>PLAN FOR 2008</i>	2.315	2.344
3.	<i>I - XII 2008</i>	2.287	2.235
	<i>INDEXES 3:1</i>	103	99
	<i>INDEXES 3:2</i>	99	95

**7. OPERATING PERFORMANCE INDICATORS FOR DALEKOVOD
GROUP FOR THE YEAR 2008**

HRK 000

INDICATORS	01/01-31/12 2007	01/01-31/12 2008	INDEX31/12/2008/31/1 2/2007
1	2	3	4
INVENTORY TURNOVER RATIOS			
1. Total asset turnover ratio	1,01	0,87	85,69
Total income	1.868.218	2.310.657	123,68
Total assets	1.844.833	2.662.834	144,34
2. Current asset turnover ratio	1,47	1,17	79,89
Total income	1.868.218	2.310.657	123,68
Current assets	1.274.002	1.972.238	154,81
LIQUIDITY INDICATORS			
1. Current liquidity ratio	0,17	0,07	38,68
Cash	186.211	118.201	63,48
Short-term liabilities	1.091.324	1.790.955	164,11
EFFICIENCY RATIOS			
1. Total operations efficiency	1,06	1,05	99,30
Total income	1.868.218	2.310.657	123,68
Total expenses	1.766.407	2.200.140	124,55
PROFITABILITY INDICATORS			
2. Gross profit margin	6,80	6,99	102,72
Gross profit + interests	127.039	161.401	127,05
Total income	1.868.218	2.310.657	123,68
3. Gross profit rate	6,89	6,06	88,02
Gross profit + interests	127.039	161.401	127,05
Total assets	1.844.833	2.662.834	144,34
DEBT RATIO			
1. Debt ratio	0,70	0,77	110,40
Total liabilities	1.293.091	2.060.650	159,36
Total assets	1.844.833	2.662.834	144,34
5. Debt ratio	10,60	15,10	142,40
Total liabilities	1.293.091	2.060.650	159,36
Net profit + depreciation	121.973	136.495	111,91

<i>INDICATORS</i>	<i>01/01-31/12 2007</i>	<i>01/01-31/12 2008</i>	<i>INDEX31/12/2008 – 31/12/2007</i>
<i>1</i>			
<i>PRODUCTIVITY INDICATORS</i>			
<i>1. Total income by an employee</i>	<i>825,55</i>	<i>1.033,85</i>	<i>125,23</i>
<i>Total income</i>	<i>1.868.218</i>	<i>2.310.657</i>	<i>123,68</i>
<i>Number of employees</i>	<i>2.263</i>	<i>2.235</i>	<i>98,76</i>
<i>2. Net profit per employee</i>	<i>35,30</i>	<i>38,71</i>	<i>109,65</i>
<i>Net profit</i>	<i>79.891</i>	<i>86.515</i>	<i>108,29</i>
<i>Number of employees</i>	<i>2.263</i>	<i>2.235</i>	<i>98,76</i>
<i>3. Cost efficiency per employee</i>	<i>4,33</i>	<i>3,25</i>	<i>75,03</i>
<i>Net profit per employee</i>	<i>35,30</i>	<i>38,71</i>	<i>109,66</i>
<i>Total assets per employee</i>	<i>815,22</i>	<i>1.191,42</i>	<i>146,15</i>

DALEKOVOD d.d.

**AUDITOR'S REPORT I
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008**

DALEKOVOD d.d.**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDING AT 31st DECEMBER 2008**

<i>(all amounts quoted in thousands of Kuna)</i>	Note	2008	2007
Income from sales	5	2.289.925	1.848.513
Other income	6	19.463	15.423
Change to value of stocks of unfinished production and finished products	7 8	356.902	15.560
Expenses of goods sold	15,16	(262.253)	(133.441)
Material and services costs	9 10	(1.611.702)	(1.072.808)
Employees' expenses		(405.547)	(361.585)
Depreciation		(49.980)	(42.082)
Other operating expenses		(159.153)	(144.011)
Other gains/(losses) - net		(17.523)	(2.812)
Profit from ordinary operations		160.132	122.757
Financial income	11	1.269	4.282
Financial expenses	11	(50.884)	(25.228)
		(49.615)	(20.946)
Profit before tax		110.517	101.811
Profit (income) tax	12	(24.002)	(21.920)
Net profit		86.515	79.891
Net profit for:			
Company's shareholders		88.815	80.360
Minority interest		(2.300)	(469)
Net profit		86.515	79.891
Basic and diluted earning per share (in Kn)	13	39,07	35,42

Financial statements presented on pages from 2 to 52 were approved by the Management Board on 19th May 2009

The notes on the following pages constitute an integral part of consolidated financial statements.

President of the Management
Board/General Director: M.Sc Luka
Miličić, dipl. ing.

DALEKOVOD d.d. CONSOLIDATED BALANCE SHEET AS AT 31TH DECEMBER 2008

<i>(all amounts are expressed in thousands of Kuna)</i>	Note	2008	2007
ASSETS			
Fixed assets			
Intangible assets	15	21.688	22.725
Real estates, plants and equipment	16	592.441	498.507
Advances for real estates, plants and equipment	16	684	129
Investment in subsidiaries	17	5.439	273
Financial assets available for sale	18	45.186	27.435
Loans and receivables	20	25.157	21.762
		690.595	570.831
Current assets			
Inventories	21	745.369	266.566
Receivables from customers and other receivables	22	1.108.251	820.309
Financial assets at fair value in the profit and loss account	23	417	916
Cash and cash equivalents	24	118.201	186.211
		1.972.238	1.274.002
Total assets		2.662.833	1.844.833
EQUITY PRINCIPAL AND LIABILITIES			
Equity principal			
	25		
Share capital		229.381	229.381
Legal reserves		12.236	12.236
Treasury shares		(5.374)	(1.244)
Statutory reserves		219.999	173.309
Revaluation reserves		3.591	5.064
Other reserves		37.160	33.332
Retained profit		88.815	80.360
		585.808	532.438
Minority shares		16.375	19.304
Total capital		602.183	551.742
Long-term liabilities			
Borrowings	26	188.448	195.227
Provisions	29	7.189	6.540
Deferred income	27	77.388	-
		273.025	201.767
Short-term liabilities			
Borrowings	26	754.554	339.972
Payables to suppliers and other payables	28	1.030.230	750.045
Income tax liabilities	12	2.841	1.307
		1.787.625	1.091.324
Total liabilities		2.060.650	1.293.091
Total equity principal and liabilities		2.662.833	1.844.833

The notes on the following pages constitute an integral part of consolidated financial statements.

DALEKOVOD d.d.

CONSOLIDATED REPORT OF CHANGES TO EQUITY PRINCIPAL

FOR THE YEAR ENDING AT 31ST DECEMBER 2008

(all amounts expressed in thousands of Kuna)

	Note	Share capital	Legal reserves	Treasury shares	Statutory reserves	Revaluation reserves	Other reserves	Retained profit	Minority shares	Total
For the year ending at 31st December 2007										
Balance as at 1/01/2007		229.381	11.487	(1.244)	127.459	-	31.773	73.057	13.754	485.667
Foreign currency differences		-	-	-	-	-	4.118	-	(303)	3.815
Net costs recognized directly in capital		-	-	-	-	-	4.118	-	(303)	3.815
Net profit		-	-	-	-	-	-	80.360	(469)	79.891
Total income recognized for the year 2007		-	-	-	-	-	4.118	80.360	(772)	83.706
Financial assets – fair value	25	-	-	-	-	5.064	-	-	-	5.064
Refinancing Unidal d.o.o.	17	-	-	-	-	-	-	-	3.474	3.474
Minority shares – acquisition TIM d.d.	29	-	-	-	-	-	-	-	2.848	2.848
Transfer to reserves	25	-	749	-	45.850	-	-	(46.599)	-	-
Dividends for 2006	14	-	-	-	-	-	-	(29.017)	-	(29.017)
Transfer from other reserves		-	-	-	-	-	(2.559)	2.559	-	-
Balance as at 31/12/2007		229.381	12.236	(1.244)	173.309	5.064	33.332	80.360	19.304	551.742
For the year ending at 31st December 2008										
Balance as at 1/01/2008		229.381	12.236	(1.244)	173.309	5.064	33.332	80.360	19.304	551.742
Foreign currency differences		-	-	-	-	-	(1.464)	-	(445)	(1.909)
Net costs recognized directly in capital		-	-	-	-	-	(1.464)	-	(445)	(1.909)
Net profit		-	-	-	-	-	-	88.815	(2.300)	86.515
Total income recognized for the year 2008		-	-	-	-	-	(1.464)	88.815	(2.745)	84.606
Financial assets – fair value	25	-	-	-	-	(1.473)	-	-	-	(1.473)
Redemption of treasury shares	25	-	-	(4.130)	-	-	4.130	-	-	-
Minority shares – additional acquisition of TIM d.d.	17	-	-	-	-	-	-	-	(184)	(184)
Transfer to reserves	25	-	-	-	46.690	-	1.162	(47.852)	-	-
Dividends for 2007	14	-	-	-	-	-	-	(32.508)	-	(32.508)
Balance as at 31/12/2008		229.381	12.236	(5.374)	219.999	3.591	37.160	88.815	16.375	602.183

The notes on the following pages constitute an integral part of consolidated financial statements.

DALEKOVOD d.d.

CONSOLIDATED REPORT OF CASH FLOW

FOR THE YEAR ENDING AT 31ST DECEMBER 2008

<i>(all amounts expressed in thousands of Kuna)</i>	Note	2008	2007
Cash flow from ordinary operations			
Cash flow generated from ordinary operations	31	(228.895)	341.669
Interests paid		(47.360)	(28.689)
Income tax paid		(22.468)	(27.389)
Cash flow (outflow)/inflow from ordinary operations		(298.723)	285.591
Cash flow from investment activities			
Purchase of intangible assets	15	(3.236)	(10.823)
Purchase of real estates, plants and equipment		(143.694)	(108.966)
Receipts from sale of real estates, plants and equipment	31	1.449	3.123
Loans granted during the year		18.083	(74.724)
Repayments received by loans granted		4.968	11.818
Investments in subsidiaries and affiliated company		(5.191)	(30)
Investment in financial assets disposable for sale	19	(19.224)	(14.876)
Acquisition of subsidiary	30	-	(23.777)
Sale/investment in financial assets		499	5.894
Receipts from interests		5.596	6.034
Net cash flow used in investment activities		(140.750)	(206.327)
Cash flow from financial activities			
Loans received		578.276	414.433
Issuance of commercial bills - net	26	118.000	32.000
Redemption of treasury shares	25	(4.130)	-
Repayment of loans received		(288.175)	(325.519)
Dividends paid		(32.508)	(43.392)
Net cash flow from financial activities		371.463	77.522
Net (decrease)/increase in cash and cash equivalents		(68.010)	156.786
Cash and cash equivalents at the beginning of the year		186.211	29.425
Cash and cash equivalents at the end of the year	24	118.201	186.211
Net (decrease)/increase in cash and cash equivalents		(68.010)	156.786

The notes on the following pages constitute an integral part of consolidated financial statements.

NOTE 1 – GENERAL DATA

The Group Dalekovod (the Group) includes the principal company Dalekovod d.d., Zagreb and nine subsidiaries (2007.: eight) - Note 17.

Dalekovod d.d., Zagreb (hereinafter the Company) is privately owned, established according to laws and regulations of the Republic of Croatia. The registered seat of the Company is in Zagreb at the address Marijana Čavića 4. As at 31st December 2008 the Company's shares were listed on the market of public joint stock companies at the Zagreb Stock Exchange.

The core business activity of the Company is designing, production, construction and installment of energy supply facilities, road facilities, railway and town traffic and telecommunication infrastructure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The below text presents the importance of accounting policies adopted for the preparation of these financial statements. These accounting policies have been consistently applied for all period included in these accounts, unless otherwise indicated.

2.1 Fundamentals of preparation

The financial statements of the group have been prepared according to International Financial Reporting Standards (IFRS) by applying the historic cost method, that have been changed due to financial assets at fair value in the profit and loss account and financial assets disposable for sale.

The preparation of financial statements according to International Financial Reporting Standards (IFRS) requires use of specific key accounting assessments. The Management Board is also required to use judgments in the process of application of accounting policies of the Group. The areas where assumptions and assessments are material for the consolidated financial statements are presented in Note 4.

(a) The interpretation of the existing standards that have been effective since 2008 but which are not relevant to the operation of the Group

The following interpretations of the existing standards are obligatory for the accounting periods commencing on the and after the first of January 2008, but are not relevant to the Group's business operation.

IFRIC 14, IAS 19 – Limitation to assets from specified earnings, minimum requirements for financing and their interaction (effective of 1st January 2008). IFRIC 14 is not relevant since the Group has no plans on defining receipts.

IFRIC 11 IFRS 2 – Transactions with companies' shares in the Group and treasury shares, gives guidelines concerning the fact whether the transactions pay off in respect of treasury shares or shares of the companies within the Group (such as options for shares of the principal company) are recognized as transactions settled by principal instruments or in cash in separate financial statements of the principal company and the companies within the Group. This interpretation has no impact on the Group's financial statements.

NOTE 2 – SUMMARY OF IMPORTANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(a) *Interpretations of the existing standards effective of 2008 but which are not relevant to the Group's operations (continuation)*

Annex to IAS 39 Financial instruments:: Recognition and measurement and IFRS 7 Financial instruments: Disclosure. An annex to standards, publicized in October 2008, allows the Company on certain conditions reclassification of non-derivative financial assets (except the one determined at fair value through the profit and loss account after the initial recognition) from the category at fair value through the profit and loss account. The annex also allows the Group a transfer of financial assets that satisfies the definition of the loan and receivables (unless determined as disposable for sale) from the category disposable for sale into the category of loans and receivables if the Group has an intention and a possibility to keep such financial assets in foreseeable future. The Group has not used the opportunity of reclassification of the financial assets.

IFRIC 16, 'Protection of net investment in foreign operations' (effective as of 1st October 2008). IFRIC 16 explains the accounting treatment with respect to protection of net investments. This includes the fact that the protection of net investments refers to the difference in functional currency, not in reporting currency, and protection instruments may be held anywhere in the group. IAS requirements 21, „Effects of changes to foreign exchange rates“, are applied to protected item. The Group shall apply IFRIC 16 of 1st January 2009. It is not expected to have a material effect on the Group's financial reports.

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted*

The following interpretations and annexes of the existing standards are obligatory for the accounting periods of the Group commencing on the and after the effective date, but have not been prematurely adopted by the Group:

IAS 1 (revised), Presenting financial statements (effective of 1st of January 2009). The revised standard shall forbid presenting income and cost items (that is, „non-equity changes to principal“) in the Report of changes to principal and requires presentation of „non-equity changes to principal“ separated from equity changes to principal. All non-equity changes to the principal shall be presented within the performance balance. The companies may select whether to present one balance sheet, that is, the report of totally recognized income or two balance sheets, that is, profit and loss account and report of totally recognized income. After the companies have adjusted or reclassified the comparable data, the adjusted balance should additionally be presented at the beginning of the comparative period. The Group will apply IAS 1(revised) of 1st January 2009. It is probable that the Group will present one balance sheet.

IAS 19 (Annex) Engagement of employees (effective of 1st January 2009). The Annex explains the effects of certain changes to plans of defined income, amends the definition of return on planned assets, explains the difference between short-term and long-term income of employees and requires disclosure of contingent liabilities, not their recognition, in accordance with IAS 19. The Group does not expect that the addition to IAS 19 will have a significant impact on financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and additions to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

- *IAS 23 (revised), Borrowing costs (effective of 1st January 2009).* The standard requires the Company to capitalize the borrowing costs referring to purchase, construction or production of qualified assets. The Management Board is currently considering the effect of this standard. The Group will apply IAS 23 (revised) of 1st January 2009.
- *IAS 23 (Annex), Costs of borrowing (effective of 1st January 2009).* This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The definition of borrowing costs has been changed in the manner that the interest cost is calculated by using the effective interest rate method as defined in IAS 39 “Financial Instruments: Recognition and measurements”. This eliminates the inconsistency of the terms of IAS 39 and IAS 23. The Group will apply IAS 23 (Annex) to capitalization of qualified asset borrowing costs of 1st January 2009.
- *IAS 1 (Annex), Disclosure of financial statements (effective of 1st January 2009).* The Annex explains that only some items of the financial assets and liabilities that are qualified as those intended for sale in accordance with IAS 39 „Financial instruments: Recognition and measurement“ the examples of short-term assets and short-term liabilities. The Company will apply IAS 1 (Annex) of 1st January 2009. It is not expected to have a material effect on the Company’s financial reports.
- *IAS 36 (Annex), Reduction of value of assets (effective of 1st January 2009).* This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. When the fair value is reduced by sales costs, it is calculated on the basis of discontinued cash flows, it is necessary to perform disclosures equal to those for the calculation of value in use. The Group will use IAS 36 (Annex) and ensure required disclosure where applicable for testing of reduced value of 1st January 2009.
- *IAS 38 (Annexes) Intangible assets (effective of 1st January 2009).* These Annexes are the part of the project of annual improvements of the Board for international accounting standards disclosed in May 2008.

The advance may be recognized only after this payment has been effected prior to obtaining a right to an access to goods or receipt of services. The Management Board expect this Annex will not have any material impact on financial statements of the Group.

The Annex removes the text stating that the method resulting in depreciation rates lower than linear method is “rarely, if ever” supported to be used. The Annex will have no impact on the Group’s operations, since all intangible assets are depreciated by using a linear method.
- *IFRS 2 (Annex), Payments based on shares (effective of 1st January 2009).* The Annex to the Standard refers to conditions of exercising rights and cancellations. The Annex explains that the conditions of exercising rights to shares exclusively refer to the time period when the services are rendered and to the accomplishment of goals set. Other payment elements based on shares do not refer to the conditions of exercising rights. These elements should be included in the fair value on the date of acquiring rights to transactions with employees and others who render similar services; they will not influence the number of awards that are expected to be exercised or their evaluation after the date of acquiring rights. All cancellations, irrespective whether by the company or any third party should be equally stated. The Group will apply IFRS 2 (Annex) of 1st January 2009. It is not expected to have a material effect on the Group’s financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

Annex to IAS 32 Financial instruments: Disclosure and IAS 1 Disclosure of financial statements - Financial instruments that may be sold and liabilities arising from liquidation (effective of 1st January 2009) The Annexes to standards require the Company to classify the financial instruments that may be sold and instruments or parts of instruments that impose an obligation for the Company to deliver a proportionate part in net assets as equity instruments only in the case of liquidation and only if the financial instruments have certain characteristics and meet specific conditions. The Group will apply IAS 32 and IAS 1 (Annex) of 1st January 2009. It is not expected to have a material effect on the Group's financial statements.

IAS 27 (revised), Consolidated and separate financial statements (effective of 1st July 2009). The revised standard requires disclosure of effects of all transactions with minority owners in the principal if there is no change in control, so these transaction will not result in goodwill or profits and losses. The Standard also determines the manner of accounting presentation with regard to loss of control. Every remaining portion in the company will be again measured against fair value, and profit or loss will be recognized in the profit and loss account. The Group will apply IAS 27 (revised) to transactions with minority owners of 1st January 2010.

IAS 39 (Annex) Financial instruments: Recognition and measurement (effective of 1st January 2009)

This Annex is the part of the project of annual improvements of the Board for international accounting standards disclosed in May 2008.

This Annex explains that transfer to and from category of fair value in the profit and loss account when the derivative starts or stops to be qualified as the security instrument for the cash flow or net investment protection is possible.

The definition of financial assets or financial liabilities at fair value in the profit and loss account referring to the assets that is intended for sale is also changed. It is explained that the financial assets or liabilities that are a part of portfolio of financial instruments that are commonly managed while there is evidence of recent actual short-term generation of income, are included in the portfolio at the time of initial recognition.

The current guidelines for determination and documentation of hedge instruments state that the hedge instrument must include the entity excluding the reporting entity and mentions the segment as an example of the reporting entity. This means that a certain segment must currently meet the requirements of hedge accounting, so that the hedge accounting could be applied at the level of the segment.

This Annex cancels this requirement, so that the guidelines are in compliance with IFRS 8 Operating segments requiring that the disclosures for segments are based on the data used by the Management Board.

At the time of repeated measurement of book value of debt instruments at the time of cease of fair value hedge accounting, the Annex explains that a new effective interest rate should be used that is calculated on the date of cease of fair value hedge accounting. The Group will apply IAS 39 (Annex) of 1st January 2009.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

IFRS 5 (Annex), Fixed assets intended for sale and cease of operations (and consequential annex to IFRS 1, First application) (effective as of 1st July 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. This Annex explains that all assets and liabilities of the subsidiary are classified as those intended for sale if the plan of partial sales results in a loss of control. Relevant disclosure needs to be performed for this subsidiary if the definition of cease of operations is satisfied. Annex to IFRS 1 states that these Annexes are applied in advance from the date of transfer to IFRS. The Group will apply IFRS 5 (Annex) to all partial sales of subsidiaries of 1st January 2010.

IFRS 3, (revised) Business combinations (effective of 1st July 2009). The revised standard will continue to apply the purchase method to business combinations with some important changes. For example, all payments at the time of buying the company need to be stated against fair value on the date of acquisition with potential payments classified as debt later again measured through the profit and loss account. The minority shares may be measured either against fair value or against proportionate share of minority portion in the net assets of the acquired company. All the costs related with acquisition need to be stated in the profit and loss account. The Group will apply IFRS 3 (revised) to all business combinations of 1st January 2010.

There are several smaller annexes to IFRS 7: Financial instruments: *Disclosures*, IAS 8: *Accounting policies, changes to accounting evaluations and errors*, IAS 10: *Post-balance items*, IAS 18; *Income IAS 34: Financial reporting for the period during the period*, that are the part of the project of annual improvements of the Board for international accounting standards disclosed in May 2008. These annexes will probably not affect the Group's reports and are therefore not analyzed in details.

IFRS 1 (Annex) – The first application of International Accounting Standards and IAS 27 – Consolidated and separated financial statements (effective as of 1st January 2009). The Annex to the Standard is not relevant since the Group applied IAS during the previous periods.

IAS 27 (Annex), Consolidated and separate financial statements (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. When the investments in the subsidiary that are stated in IAS 39; "Financial instruments: Recognition and measurement" is classified as the one intended for sale according to IFRS 5, „Fixed assets intended for sale and cease of operations“, IAS 39 continues to be applied. The Annex will have no impact on the Group's operations since the Group's policy is that the investments in the subsidiary are stated according to cost in separate financial statements for every individual company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

IAS 19 (Addition) Engagement of employees (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008.

- The Annex explains the impact of the change to plan of defined receipts on expected profit that are generated from the future increase in salaries or from past labor.
- The definition of return on assets included in the plan has been changed in the manner that it states that the administration costs of the plan are deducted in the calculation of return on assets included in the plan only if such costs are exempt from the measurement of liability by defined receipts.
- The difference of short-term and long-term employees' income is based on the fact whether the income should be paid within the 12 months' period or after the 12 months' period from the moment of providing a service.
- IAS 37, „Provisions, contingent liabilities and contingent assets“ requires disclosure of contingent liabilities that are not recognized. IAS 19 complies with this requirement.

IAS 16 (Annex) Real estates, plants and equipment (and consequential annex to IAS 7 Report on cash flow) (effective as of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The entities whose usual business activities include rental and subsequent sale of assets, and receipts from sales of such assets represent an income, the book amount of such assets is presented as stocks when the assets become intended for sales. The consequential IAS 7 states that the cash flows generated from purchase, rental and sale of such assets are classified as cash flows from operating activities. The Annex will not have an important impact on the Group's operations since the usual activities of no company within the Group include rental and subsequent sale of assets.

IAS 28 (Annex), Investments in affiliated companies (and consequential annexes to IAS 32, Financial instruments: Presentation and IFRS 7, Financial instruments: Disclosures) (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The investment in an affiliated company is treated as one asset item for the purpose of testing of value decrease. The loss from value reduction is not allocated to separate asset items included in the investment, as for example, goodwill. The cancellation of value decrease is stated as the adjustment of investment to the amount to which the recoverable amount of investment in affiliated company has been increased. It is not expected to have a material effect on the Group's financial statements.

IAS 28 (Annex), Investments in affiliated companies (and consequential annexes to IAS 32, Financial instruments: Presentation and IFRS 7, Financial instruments: Disclosures) (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. When the investment in the affiliated company is calculated in accordance with IAS 39: Financial instruments: Recognition and measurements“, only some of requirements need to be met, not all of the requirements for disclosure according to IAS 28, with disclosures that require IAS 32 „Financial instruments: Presentation“ and IFRS 7 „Financial instruments: Disclosures“. It is not expected to have a material effect on the Group's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

IAS 31 (Annex) Shares in joint ventures (and consequential annexes to IAS 32 and IFRS 7) (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. When the investment in joint venture is calculated in accordance with IAS 39, only some, not all requirements for disclosure according to IAS 31 need to be met, with disclosures that require IAS 32 "Financial instruments: Presentation" and IFRS 7 „Financial instruments: Disclosures“. The annex will not impact the Group's operations since the Group's policy is that the shares in joint ventures in consolidated financial statements are stated against the equity method.

IAS 29 (Annex) Financial reporting in hyperinflation economies (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The guidelines are changed so that they reflect the fact that a certain part of assets and liabilities is measured against the fair value, not against the historic cost. The Annex will not impact the Group's operations, since not a single subsidiary within the Group operates in the hyperinflation economy.

IAS 40 (Annex) Investment in real estate (consequential annexes to IAS 16) (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The real estates under construction or development that will be used in the future as investment in real estates fall within the IAS 40. When the fair value model is applied, such real estates are measured against fair value. However, when the fair value of investment in real estate under construction may not be measured with reliability, the real estates are measured at cost occurred on the date of finalization of construction or on the date when the fair value becomes reliably measurable, depending what is more relevant. The Annex will not impact the Group's operations.

IAS 41 (Annex), Agriculture (effective of 1st January 2009). This Annex is the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. It requires the use of market discount rate when the calculations of fair value are based on the discounted cash flows and cancels the ban on using the biological transformations for the calculation of the fair value. The Annex will not impact the Group's operations since the Group is not engaged in agricultural activities.

IAS 20 (Annex) Accounting for state incentives and disclosure of state aid (effective of 1st January 2009). The profit from the state loan granted with interest lower than the market interest is the difference of the book amount in compliance with IAS 39 "Financial instruments: Recognition and measurements" and receipts calculated in compliance with IAS 20. The Annex will not impact the Group's operations.

There are several smaller annexes to *IAS 20, Accounting for governmental incentives and disclosures of the governmental aids* and *IAS 29 Financial Reporting in hyperinflation economies, IAS 40 Investments in real estates* and *IAS 41 Agriculture*, that are the part of the project of annual improvements of the Board for International Accounting Standards disclosed in May 2008. The Annex will not impact the Group's operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.1 Fundamentals of preparation (continuation)

(b) *Standards and annexes to the existing standards in force on the date and after the 1st of January 2009 and that the Group has not prematurely adopted (continuation)*

IFRIC 15, Real Estate Construction Contracts (effective of 1st January 2009). This explains whether IAS 18 „Income“ or IAS 11 „Construction Contracts“ should be applied to particular transactions. It is not expected to have a material effect on the Group’s financial reports.

IFRIC 17, Distribution of non-monetary assets to shareholders (in force for annual periods commencing on or after 1st July 2009). The interpretation explains when and how the distribution of non-monetary assets to shareholders in the form of dividends should be recognized. The Company should measure the liability for distribution of non-monetary assets to shareholders in the form of dividends at fair value of the assets that will be distributed. The profit or loss from the distribution of non-monetary assets will be recognized in the profit and loss account after the Company has settled the liability with regard to dividends.

IFRIC 18, Transfer of assets from customers (in force for annual periods commencing on or after 1st July 2009). The interpretation explains the accounting treatment of transfer of assets from customers, i.e. circumstances where the definition of assets has been satisfied; recognition of assets and measurement of its cost at the time of initial recognition; determination of services that may individually be recognized (one or several of them in replacement for transferred assets); recognition of income and accounting principal for the transfer of money from customers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.2 Consolidation

(a) Subsidiaries

The subsidiaries are all the companies controlled that the Group has control of the financial and business policies which principally includes more than a half of the voting rights. The existence and effect of potential voting rights that may be used or replaced are considered at the time of evaluation as to whether the Group has control of some other commercial entity. The subsidiaries are completely consolidated from the date when the control was really transferred to the Group (date of acquisition) and excluded from the consolidation from the date of sale or loss of control.

The Company states investments in subsidiaries at the acquisition cost in non-consolidated financial statements.

The purchase method is used for stating acquisition of subsidiaries by the Group. The cost of purchase is measured as a fair value of the assets, issued principal instruments and occurred and assumed liabilities on the date of purchase, increased by the costs directly connected with the purchase. The purchase date refers to the date of acquisition when the business combination was realized by one transaction, and refers to every date of purchasing shares when the business combination was realized in stages by gradual purchase of shares.

The acquired recognizable assets, liabilities and contingent liabilities in the business combination are initially measured against fair value on the date of acquisition independent of minority share. The surplus of acquisition cost above the fair value of the Group's shares in net acquired assets of the subsidiary is stated as goodwill. If the acquisition cost is lower than the fair value of the net acquired assets of the subsidiary, the difference is recognized directly in the profit and loss account.

All the transactions within the Group, balance and non-realized gains from the transactions within the companies of the Group were eliminated at the time of consolidation. In the same way, the non-realized gains are eliminated, except if there is evidence of depreciation of value of transferred assets. As required, the accounting policies of the subsidiaries have been changed as to comply with the policies applied by the Group.

(b) Transactions and minority shares

The Group treats the transactions with minority shares as transactions with parties outside the Group. The sale of minority shares results in profits and losses of the Group that are stated in the profit and loss account. The redemption of minority shares results in goodwill representing the difference between the paid fee and acquired share in the book value of the net assets of the subsidiary.

2.3 Reporting of operating segments

The operating segment is the group of assets and business activities related with products or services that are subject to certain risks and benefits and are different from risk and benefits of other operating segments related with certain assets. The geographical segment relates to activities in connection with products or services within a certain geographical surrounding that are subject to certain risks and benefits and are different from risk and benefits of the segment that operate in some other economic settings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.4 Foreign currencies

(a) Functional and reporting currency

The items included in the financial statements of a single member of the group are quoted in the currency of the primary economic setting where the Group member operates (“functional currency”). The consolidated financial statements are stated in HRK which represents functional and reporting currency of the Group.

(b) Transactions and positions in foreign currency

The transactions in foreign currency are converted in functional currency so that the amounts in foreign currencies are converted at the exchange rate on the transaction date. Foreign exchange gains and losses arising at the time of settlement of such transactions and calculation of monetary assets and liabilities quoted in foreign currencies are recognized in the profit and loss account.

(c) Group members

The operating results and financial position of all Group members the functional currency of which differs from reporting currency are converted into reporting currency in the way as follows:

- (i) assets and liabilities for every balance are converted according to closing exchange rate on the balance date;
- (ii) revenues and expenditures for every profit and loss account are calculated at mean exchange rates;
- and (iii) all occurred exchange currency difference are recognized in a separate position within the principal.

In consolidation, the foreign exchange rates occurred by calculation of net investments in international subsidiaries are recorded within “Cumulated foreign exchange rates” within the equity capital. During partial or entire sale of foreign of international subsidiary, all foreign exchange differences are recognized in the profit and loss account as a part of the profit or loss from sales.

2.5 Real estates, plants and equipment

Real estates, plants and equipment are stated in the balance sheet against historic cost reduced by accumulated depreciation and provisions for depreciation of value, if required. The historic cost includes the cost that is directly connected with acquisition of assets.

The subsequent expenses are included in the book value of assets or are, when required, recognized as separate assets only if the Group has future economic benefits from the aforementioned assets and if the cost of assets may be reliably measured. The book value of replaced part ceases to be recognized. All the other costs of investment and current maintenance charge the profit and loss account in the fiscal period at the time when they occurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.5 Real estates, plants and equipment (continuation)

The land and assets in construction are not depreciated. The depreciation of other assets is calculated by applying linear method for the purpose of the allocation of costs and assets to their residual value during its evaluated beneficial use, in the way as follows:

	Term of use in years
Buildings	20 - 40
Plants, machinery and equipment	8 - 10
Motor vehicles	5 - 8
Investment in foreign assets	During the period of lease
Other	5 - 10

The residual value of assets is the evaluated amount that the Group would currently obtain from sale of assets reduced by assessed cost of sale in the event that the assets reached the age and are in state as expected at the end of life period for assets. The residual value of assets is zero if the Group expects to use it by the end of its life period. The residual value of assets and beneficial period of use are inspected on every date of balance sheet and they are adjusted when required.

In the event that the book amount of assets exceeds the evaluated recoverable amount, the difference is written off up to recoverable amount (note 2.8).

Gains and losses occurred by sale are determined by comparison of income and book value of funds and are included in the item “other (losses)/gains - net ” in the profit and loss account.

2.6 Intangible assets

License for software is capitalized on the basis of acquisition costs and costs occurring by putting the software in operational condition. These costs are depreciated during their useful life period (5 years).

2.7 Depreciation of value of non-financial assets

The depreciation of value is inspected on an annual basis that have an unlimited useful life period and are not depreciated (such as land and goodwill). The assets that are depreciated are inspected due to depreciation of value when events or changes to circumstances indicate that the book value may be irrecoverable. The loss from depreciation of value is recognized as a difference between the book value of assets and their recoverable amount. The recoverable amount is the fair value of assets reduced by costs of sale or value of assets in use, depending on which one is higher. The assets are grouped at the lowest level as to determine the cash flow separately (cash generating units) for the purpose of evaluation of value depreciation. Non-financial assets, except for goodwill, for which the loss from value decrease has been stated, is inspected on every reporting date for the purpose of any potential decrease in value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.8 Financial assets

The Group classifies its financial assets into the following categories: Financial assets at fair value in the profit and loss account, financial assets disposable for sale, loans and receivables. The classification depends on a purpose for which the financial assets have been acquired. The Management Board classifies financial assets at the time of initial recognition.

(a) Financial assets at fair value in the profit and loss account

Financial assets at fair value in the profit and loss account represent financial assets intended for trading. The financial assets are classified into this category if they have been acquired mainly for the purpose of sales in a short term. The assets in this category are classified as short-term assets.

The financial assets are stated against fair value in the profit and loss account, they are initially recognized against fair value and the transaction cost is stated in the profit and loss account.

The gains and losses arisen from changes in fair values of the financial assets at fair value in the profit and loss account are stated in the profit and loss account within the "other (gains)/profit-net" during the period when they occurred.

(b) Financial assets disposable for sale

The financial assets disposable for sale represents non-derivative assets stated in this category or are not classified in some other category. They are included in fixed assets, unless the Management Board has an intention to sell the investment within the period of 12 months from the balance date. The financial assets disposable for sale are stated against fair value.

Changes to fair value of the monetary and non-monetary financial assets classified as disposable for sale are recognized in the capital.

In the event of principal securities classified as disposable for sale, a significant or long-term fall in fair value of securities below their acquisition value is taken into consideration at the time of considering as whether the value of assets has been depreciated. In case that such evidence exists for the financial assets, the cumulative loss – that is measured as a difference of acquisition and current fair value reduced by loss from value depreciation of the aforementioned financial assets that have been previously recognized in the profit and loss account—will be eliminated from the principal and is recognized in the profit and loss account.

At the time of sales or depreciation of value of securities disposable for sale, the accumulated adjustment of fair value recognized in the capital is included in the profit and loss account in the item "other (gains)/profits-net".

The interests on securities disposable for sale calculated by applying the effective interest rate method are stated in the profit and loss account. The dividends on securities disposable for sale are stated in the profit and loss account after the right to payment of dividends has been determined.

On every date of the balance sheet, the Group evaluates if there is any objective evidence of value depreciation of financial assets or financial asset group. The losses from principle instrument value depreciation recognized in the profit and loss account are not cancelled in the profit and loss account.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.8 Financial assets (continuation)

(c) Loans and receivables

The loans and receivables represent non-derivative financial assets with fixed or determined payments not listed on the active market. They are stated within the short-term assets, except for assets with maturity not longer than 12 months after the balance sheet date. Such assets are classified as long-term assets.

Loans and receivables are stated at depreciation cost by applying the effective interest method. The inspection of the loan and receivables value depreciation has been described in the note 2.11.

2.9 Lease

The Group is lessee

The Group rents certain real estates, plants and equipment. Leased real estates, plants and equipment where the Group assumes all ownership benefits and risks are classified as financial lease. Financial lease is capitalized at the beginning of the lease against fair value of rented real estate or current value of the minimum rental, depending on which one is lower. Every payment for the lease is classified to liabilities and financial expenses as to obtain a constant rate on the remaining financial position. Interest component of financial expenditures charges the profit and loss account during the whole lease period. Real estates, plants and equipment bought under financial lease are depreciated against useful life period of assets or period of rental, depending which one is shorter.

Lease where the Group does not assume an important part of the risk and ownership benefits are classified as operational lease. Payments with respect to operational lease are stated in the profit and loss account according to a linear method during the lease period.

The Group is Lessor

The assets given as operational lease are depreciated during the expected useful life period equally as other similar assets. The profit from lease is stated equally during the term of lease, even if the receipts are not equal, except if there is no other systematic base that represents the timeframe better in which the benefit from lease and depreciation of assets leased are confronted.

2.10 Stocks

The stocks of raw material and spare parts are stated against acquisition cost or net realizable value, depending on which one is lower. The cost is determined at the weighted mean price method. Net achievable value is the evaluated sales price in ordinary course of operation reduced by variable sales costs.

The cost of production in progress and finished products includes raw materials, cost of direct work, other direct costs and accompanied part of general production costs (based on ordinary and normal production capacity).

Stationary and tools are completely written off during commissioning thereof.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.11 Trade debtors and loan receivables

Trade debtors and loan debts are initially recognized at fair value and they are subsequently measured against depreciated cost by using the effective interest rate method, reduced by value adjustment. The value adjustment of receivables is conducted when there is objective evidence that the Group may not collect all of its receivables in accordance with agreed conditions. Some important debtors' financial difficulties, probability of debtors' bankruptcy and default in or failure of making payments are considered to be indicators for depreciation of receivables. The amount of value adjustment is determined as a difference between the book value and recoverable amount of receivables and constitutes a present value of expected cash flows discounted by using the effective interest rate. The value adjustment correction is stated in the profit and loss account within "other operating expenses".

2.12 Construction contracts

The costs from contracts are recognized at the time of occurrence thereof.

When it proves impossible to evaluate the outcome of construction contracts with reliability, the income from the contracts is recognized only to amount of incurred costs from contracts that are expected to be performable.

When the construction contract outcome may be evaluated with reliability and when the income is likely to be generated by the contract, the income from the construction contract will be recognized as the income during the term of the contract. When the total costs under the contract are likely to exceed the total income under the contract, the expected loss is immediately recognized as a cost.

The Group applies the method of finalization degree as to determine a suitable amount of revenues and expenditures for a specific period. The finalization degree is measured on the basis of costs under the contract till the balance date as a percentage of totally evaluated costs for every contract. When determining the finalization degree, all costs incurred during the year are excluded referring to the future business activities under the Contract and are stated as stocks, advances and other assets, depending on their nature.

Regarding all contracts in progress for which incurred costs and recognized gains (reduced by recognized losses) exceed gradually calculated amounts, the Group states the gross debts from clients within the assets. Gradually calculated amounts not been paid by clients and retained amounts are quoted within customers' debts and other debts.

Regarding all contracts in progress for which gradually calculated amounts exceed occurred costs and recognized profits (reduced by recognized losses), the Group states the gross debt amount towards clients within the liabilities.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits with banks and other short-term highly liquid instruments with collection due dates up to three months or shorter.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.14 Equity capital

Equity capital consists of common shares. Receipts that are stated in principal while issuing new shares or options, are stated as reduced by accompanied transaction costs and income tax.

The fee paid for purchased treasury shares, including all directly accompanying transaction costs (reduced by income tax), reduces equity principal that may be ascribed to Company's shareholders till withdrawal of shares, their repeated issuance or sale. When such shares are later sold or issued again, every received fee, reduced by all directly accompanied transaction costs and effects of the income tax, is included in the principal that may be ascribed to the Company's shareholders.

2.15 Borrowings

Borrowings are initially recognized at fair value, reduced by transaction costs. In the future periods, borrowings are stated against depreciated cost; all differences between receipts (reduced by transaction costs) and redeemed values are recognized in the profit and loss account during the term of borrowing, using the effective interest rate. The Group does not capitalize the borrowing costs.

Borrowings are classified as short term liabilities, except if the Group has unconditional right to defer the settlement of the debts at least 12 months after the balance date.

2.16 Deferred income tax

The amount of deferred tax is calculated by balance sheet liability method on interim differences between the tax base of assets and liabilities of their book value in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of assets or liabilities in the transaction that is not business merger and which at the time of transaction neither affects the accounting profit nor the taxable profit (tax loss). Deferred tax assets and liabilities are measured by tax rates that are expected to be applied during the periods when the assets are compensated or liabilities settled, on the basis of tax rates which are besides the tax laws in force or are partially applied on the balance sheet date.

Deferred tax assets are recognized up to amount of the future taxable profit that is likely to be disposable for using interim differences.

2.17 Trade creditors and other debts

Trade creditors and other debts are initially recognized at fair value and are subsequently measured at depreciated cost by applying effective interest rate method.

NOTE 2 – SUMMARY OF IMPORTANT ACCOUNTING POLICIES (continuation) 2.18

Employees' income

(a) Liabilities for pensions and other liabilities after retirement

During the normal operations at the time of payment of salaries the Group makes for its employees who are the members of compulsory pension funds regular payments for contributions according to Law. Compulsory pension contributions to funds are stated as a part of the cost of salaries when they are calculated.

Besides, according to the Collective Agreement, the Group has an obligation to settle severance pays to an employee at the time of his/her retirement. The liability recognized in the balance sheet represents the current value of defined liability reduced by costs of previous employment service, along with adjustment for non-recognized actuarial profits or losses. The defined liability is calculated on an annual basis by independent actuaries using the projected credit unit method. The current value of the defined liability is determined by discounting the evaluated future cash outflows by using interest rates for government bonds stated in the currency in which liabilities will be settled and the maturity conditions of which equal the conditions of related liability for severance pays for pensions.

Actuarial profits and losses generated by adjustments or changes to actuarial assumptions exceeding 10% of the defined liability are posted by debiting or crediting income during the remaining expected average employee's employment service.

The previous employment service costs are depreciated by using a linear method during the remaining expected employee's employment service.

In addition, the Group has no obligation relating to insurance or engagement of any other employees after their retirement.

(b) Severance pays

The liabilities for severance pays are recognized when the Group terminates employee's employment prior to normal date of retirement or by a decision of an employee to voluntarily accept the termination of the employment in replacement for remuneration. The Group recognizes liabilities for severance pays when it can be proved that it assumed an obligation to terminate employment with the current employees according to a detailed plan with no possibility of waiving from it or it provides severance pays as a result of the offer to stimulate voluntary termination of the employment. The severance pays maturing during the period longer than 12 months after the date of the balance sheet are discounted to their current value.

(c) Long-term employees' income

The Group recognizes an obligation for long-term income of employees proportionally during the period when the remuneration has been won, on the basis of an actual number of years of the employment service. The obligation for long-term engagement of employees is determined on the basis of the assumption of a number of employees whom the above income needs to be paid, evaluated cost of the above income and discounted rate.

NOTE 2 – SUMMARY OF IMPORTANT ACCOUNTING POLICIES (continuation)

2.19 Provisions

The provisions are recognized if the company has a present legal or derived liability as a consequence of past event, if it is likely that the outflow of resources will be necessary for settlement of liabilities and if the liability amount may reliably be evaluated.

Where certain similar liabilities exist, the likelihood that outflow of funds will be required for their settlement is determined by considering the category of liabilities in whole. The provisions are recognized even if the likelihood for outflow of funds compared to any item to be found in the same category is small.

The provisions are measured against present value of costs which are deemed to be necessary for settlement of liabilities by using discounted rate before tax, that reflects current market evaluations of timely cash value and the risks that are specific for the above-named liability. The amount of provisions is increased in every period as to reflect the elapsed time. This increase is stated as an expense from interests.

2.20 Recognition of income

The income consists of fair value of received fee or receivables for products sold or services, goods or services during the ordinary course of Company's operations. The revenues are stated in amounts reduced by value added tax, evaluated refunds, rebates and discounts. The company recognizes the income when the income sum may be reliably measured, when the Group has future economic benefits and in the event of fulfillment of all specific criteria for all Group's activities that are described in the text that follows.

(a) Income from the Construction Contracts

When it proves impossible to evaluate the outcome of construction contracts with reliability, the income from the contracts is recognized only to amount of incurred costs from contracts that are expected to be performable. When the construction contract outcome may be evaluated with reliability and when the income is likely to be generated by the contract, the income from the construction contract will be recognized as the income during the term of the contract (note 2.12).

(b) Income from sales of finished products and goods

Income from sale of finished products and goods is recognized after the company has delivered the goods to a customer, after a customer has accepted the delivered products and goods and when the collectivity of receivables occurred is rather safe.

(c) Income generated from interests

Income from interests is recognized on a timely proportionate basis using the effective interest rate method. When the value of receivables is reduced, the Group reduces book value of receivables to its recoverable value, which represents an evaluated value from expected cash inflows discounted at original effective interest rate of the instrument. The proportional cancellation of the discount in the future periods is recognized as an income from interests. Income from interests from loans the collectivity of which is questionable, is recognized by using the original effective interest rate method.

(d) Income from dividends

Income from dividends is recognized after the right to dividend payment has been determined.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

2.21 Distribution of dividends

The dividend distribution to Company's shareholders is recognized as a liability in financial statements during the period when the dividends are approved by Company's General Meeting shareholders.

2.22 Earning per share

Earning per share is calculated by dividing profit and loss that the Company's shareholders are entitled to with a mean weighted number of common shares in issuance during the year.

2.23 Value added tax

The tax administration requires settlement of VAT on net basis. VAT arising from the sales and purchase transaction is recognized and stated in the balance sheet on net basis. In the event of reduction of receivables for value adjustment, the loss from reduction is stated in gross receivables amount, including VAT.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The activities conducted by the Group expose it to different financial risks: market risk (including currency risk and cash flow interest risk), credit risk and liquidity risk, the Group has no formal risk management program, however the complete risk management is performed by the Company's Financial Department.

a) Market risk

(i) Foreign currency risk

Income from sale abroad is generated mainly in EUR and USD. The income from sales on the local market has been generated in Kuna. A larger part of long-term and short-term loans has been agreed with foreign currency, that is, connected with EUR. The changes to foreign currency rate in EUR and USD towards Croatian Kuna affect the Group's operating results.

On 31st December 2008, when Euro was appreciated/depreciated by 0.5% compared to Kuna, assuming no changes to some other variables, net profit for the reporting period after tax would be HRK 1,355 thousand (in 2007 6,905 thousand Kuna) greater/smaller mainly as a result of the positive/negative foreign currency differences occurred by calculation of trade debtors, lendings and monetary foreign funds quoted in Euros.

On 31st December 2008, when Euro was appreciated/depreciated by 0.5% compared to Kuna, assuming no changes to some other variables, net profit for the reporting period after tax would be by HRK 5,449 thousand (in 2007 8,097 thousand Kuna) greater/smaller mainly as a result of the positive/negative foreign currency differences occurred by calculation of trade debtors, advances and monetary foreign funds quoted in USD.

(ii) Risk of investments in securities

The Group is exposed to the risk of investment in securities through fair value risks and risks of price changes, since the Group's investments are classified in the consolidated balance sheet as the ones disposable for sale and at fair value in the profit and loss account. Investments in securities classified as the ones disposable for sale are not listed on the stock exchange, while the securities classified at fair value in the profit and loss account are traded on the securities stock exchange. Management of risks arising from their fair value and changes to prices are monitored by the Group through market transactions and results of the investment entity.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continuation) 3.1

Financial risk factors (continuation)

(iii) Cash flow interest risk and interest rate fair value risk

Since the Group has no significant assets that generate income from interests, the revenues of the Group and cash flow from operating activities are not significantly dependent on changes of market interest rates.

Group's interest risk arises from long-term loans and commercial bills. The loans granted at variable rates expose the Group to cash flow risk. Loans and commercial bills granted at fixed rates expose the Group to interest rate fair value risk (note 26).

The Group continuously monitors changes to interest rates. Different situations are simulated considering refinancing, renewal of the current position and alternative financing. Based on this situation, the Group calculates the impact of a change to interest rate in the profit and loss account. Compared to the presented position as at 31st December 2008 if the effective interest rate on the received loans rose/fell by 1% on an annual basis (2007:1%), the profit after tax would be greater/smaller by 1,735 thousand Kuna (2007 : 4,938 thousands of Kuna).

b) Credit risk

The Group's assets bearing the credit risk mainly consists of monetary funds, trade debtors and other debts. The sales policies of the Group ensure that the sale is performed to customers who have an adequate credit history within credit restrictions determined in advance. The high quality customers' structure and the fact that the collection from customers, as required, regulated by banking payment guarantees, bills of exchange, letters of credit and other types of payment securities almost always fully reduce the risk related with a certainty of collection of customers' debts. A detailed analysis and maximum exposure to credit risk is stated in the note 22.

The Group applies policies that limit the amount of exposure to credit risk to any financial institution.

(c) Liquidity risk

Reasonable liquidity risk management implies maintenance of sufficient cash amount, ensuring availability of funds by adequate amount of agreed credit lines and ability to settle all debts. The goal of the Group is the maintenance of financing flexibility in the manner that the agreed credit lines should be available.

The trade debtors and other debts as well as the short term loan debts mature up to 12 months after the balance sheet date while the maturity of long-term loans is presented in the note 26.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continuation) 3.1 Financial

risk factors (continuation)

(c) Liquidity risk (continuation)

The table below analyzes financial liabilities of the Group according to the agreed maturity dates. The aforementioned amounts represent non-discounted cash flows.

<i>In thousands of Kuna</i>	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
31 December 2008				
Payables to suppliers	862.060	-	-	862.060
Other payables	16.410	-	-	16.410
Borrowings	745.554	150.060	53.731	949.345
<i>In thousands of Kuna</i>	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
31. December 2007				
Payables to suppliers	443.941	-	-	443.941
Other payables	21.436	-	-	21.436
Borrowings	388.482	107.074	39.643	535.199

Financial liabilities do not include liabilities to employees, liabilities for contributions, taxes, liabilities for received advances and deferred income.

3.2 Capital risk management

The Group controls the capital in compliance with laws and regulations of the states where it runs its operations. A minimum capital amounting to HRK 200,000 is required for joint-stock companies in the Republic of Croatia. The owners require no special measures with respect to capital management. The Group has no obligation to comply with capital requirements imposed from outside. In addition, there are no capital goals that are internally monitored.

3.3 Fair value evaluation

Fair value of financial instruments that are traded with on the active markets is based on listed market prices on the balance date. The listed market price that is used for the determination of the fair value of the financial assets represents the current price of the offer. Fair value of financial instruments that are not traded on the active market is determined by the use of value evaluation techniques. The Group uses different methods and determines assumptions based on market conditions on the balance date.

The face value of trade debtors reduced by value adjustment and trade creditors mainly equals their fair value.

For the purpose of disclosure, the fair value of financial liabilities is evaluated by discounting the future contractual cash flows at current market interest rate that is available to the Group for similar financial instruments.

NOTE 4 – KEY ACCOUNTING ASSESSMENTS AND JUDGMENTS

The company prepares assessments and creates assumptions with regard to the future. The obtained accounting assessments are according to the definition in some rare cases equalized with real results. In the text that follows, there are assessments and assumptions that may cause a material risk of adjustment of book amounts of assets and liabilities in the next fiscal year.

(a) Recognition of income

The Group applies the method of finalization degree as to determine a suitable amount of revenues under the Construction Contract for a specific period. The finalization degree is measured on the basis of costs under the contract till the balance date as a percentage of totally evaluated costs for every contract. If the evaluated finalization degree differed by 10% from the Management Board's evaluation, the amount of revenues for the year would be increased by 16,300 thousand Kuna when the degree of finalization was increased, or it would be reduced by 14,100 thousand Kuna when the finalization degree was reduced.

(b) Long-term employees' income

The Group recognizes long-term liabilities towards employees including liabilities for anniversary remunerations and severance pays for retirement to amount of evaluated current value of the future costs. Every year, an authorized actuary once again evaluates the current value of such liabilities based on new information.

(c) Testing a reduction of goodwill

The amount of temporary determined goodwill arising from the business merger during the year 2007 has been changed after the finalization of evaluation of the acquired net assets (note 15 and 30).

The Group annually conducts inspection of the goodwill due to value depreciation according to the policy stated in the note 2.8.

The recoverable value of the units of creation of funds is determined by the calculation of value in use based on the cash flow projections based on the financial plans approved by the Management Board covering a five-year period. Cash flows are after a five years' period extrapolated by using a terminal rate to amount of 5% and the current value of the future cash flows is calculated with a discount rate of 10%. The assumption of the increase rate is based on historic data and expectations of the Management Board on development of the market. The used discount rate was based on the mean weighted rate of the cost of the Group's capital.

On the balance date, the recoverable value of the units for cash generation is greater than their book value and there is no need to state losses by value depreciation.

NOTE 4 – KEY ACCOUNTING ASSESSMENTS AND JUDGMENTS (continuation)

The current global liquidity crisis that commenced in the mid 2007 resulted in, besides some other things, a lower level of financing of the capital market, lower levels in the banking sector, and sometimes higher inter-banking interest rates and very high non-existence on the stock exchange market. Uncertainty on the global financial markets also led to both bankruptcy and rescue of banks in the United States of America Western Europe, Russia and elsewhere. It has been shown that the complete scope of effects of the current financial crisis is impossible to predict or get protected from it completely.

It is not possible to reliably assess effects of any further worsening of the liquidity of financial markets and increased non-existence on the foreign currency and capital markets. The Management Board thinks it is undertaking all required measures as to support sustainability and a growth of the Group's business operations in the given circumstances.

NOTE 5– INFORMATION TO BUSINESS SEGMENTS

Primary reporting format - business segments

The Group separately monitors operating results of the fundamental business segments of the Group, Production and Construction the business activities of which are interconnected for the purpose of generating the profit of the Group.

1. The Production segments are forge plant, casting plant, laboratory for the quality control and production of metal structures.
2. The segment of the Construction engages in construction of electricity supply and distribution facilities, substations, laying underground, underwater electricity supply and telecommunication cables and erecting lighting poles, erecting antenna, television and telecommunication poles and works connected with construction of highways.
3. Some other business segments that the Group separately states are Projecting, Galvanizing and other ancillary activities (activities of regional branches, restaurant and joint facilities).

Operating result by business segments

(in thousands of Kuna)

For the year ending at 31st December 2008

	Construction	Production	Other	Total
Gross operating income	1.951.405	461.344	70.063	2.482.812
Income within segments	(18.548)	(140.269)	(14.607)	(173.424)
Operating income	1.932.857	321.075	55.456	2.309.388
Profit from ordinary operations	139.119	8.611	12.402	160.132
Financial expenses				(49.615)
Profit before tax				110.517
Income tax				(24.002)
Net profit				86.515

For the year ending at 31st December 2007

Gross operating income	1.307.577	244.472	471.327	2.023.376
Income within segments	(10.660)	(36.448)	(112.332)	(159.440)
Operating income	1.296.917	208.024	358.995	1.863.936
Profit from ordinary operations	101.797	765	20.195	122.757
Financial expenses				(20.946)
Profit before tax				101.811
Income tax				(21.920)
Net profit				79.891

NOTE 5 – INFORMATION ON BUSINESS SEGMENTS (continuation)*Other information on business segments is included in the profit and loss account:**(in thousands of Kuna)*

	Construction	Production	Other	Total
For the year ending at 31st December 2008				
Depreciation (notes 15,16)	12.755	27.267	9.958	49.980
Stocks depreciation (note 9)	295	-	3	298
Changes to provisions for receivables (note 9)	1.995	-	604	2.599
Removal of real estates, plants and equipment (note 9)	325	1.361	-	1.686
For the year ending at 31st December 2007				
Depreciation (notes 15,16)	12.112	11.305	18.665	42.082
Stocks depreciation (note 9)	160	-	87	247
Changes to provisions for receivables (note 9)	588	-	212	800
Removal of real estates, plants and equipment (note 9)	141	2.023	309	2.473

*Balance sheet by business segments:**(in thousands of Kuna)*

	Construction	Production	Other	Non-allocated	Total
As at 31 December 2008					
Assets					
Real estates, plants and equipment	118.224	156.053	318.164	-	592.441
Other assets	1.279.525	424.846	366.021	-	2.070.392
	1.397.749	580.899	684.185	-	2.662.833
Liabilities					
Long-term loans	-	-	-	262.506	262.506
Long-term provisions	-	-	-	7.189	7.189
Short-term liabilities	671.091	68.305	183.021	868.538	1.790.955
	671.091	68.305	183.021	1.138.233	2.060.650
Investments (note 15 and 16)	18.843	105.475	20.371	-	144.689
As at 31 December 2007					
Assets					
Real estates, plants and equipment	72.869	66.894	358.744	-	498.507
Other assets	780.335	401.126	164.865	-	1.346.326
	853.204	468.020	523.609	-	1.844.833
Liabilities					
Long-term loans	-	-	-	195.227	195.227
Long-term provisions	-	-	-	6.540	6.540
Short-term liabilities	320.497	90.748	86.455	593.624	1.091.324
	320.497	90.748	86.455	795.391	1.293.091
Investments (note 15 and 16)	59.306	44.845	12.517	-	116.668

Long-term liabilities include land, buildings, equipment and intangible assets, while short-term assets of the segments mainly include stocks, trade debtors and cash. Long-term loans of the segments are not located by segments. Short-term liabilities of the segments mainly include the trade creditors and other business liabilities.

NOTE 5 – INFORMATION ON BUSINESS SEGMENTS (continuation)

Secondary reporting format – geographical segments

Income from sales is allocated by geographical areas on the basis of the customer's registered seat.

	2008.		2007.	
	<i>(in thousands of Kuna)</i>	<i>%</i>	<i>(in thousands of Kuna)</i>	<i>%</i>
Croatia	1.627.669	71,08	1.451.247	78,51
Bosnia & Herzegovina	133.953	5,85	139.146	7,53
Norway	113.599	4,96	31.576	1,71
Albania	125.787	5,49	-	-
Slovenia	69.812	3,05	61.192	3,31
Kazakhstan	48.217	2,11	72.330	3,91
Other foreign countries	170.888	7,46	93.022	8,34
Total	2.289.925	100,00	1.848.513	100,00

NOTE 6 – OTHER INCOME

<i>(in thousands of Kuna)</i>	2008.	2007.
Income generated from interests	6.616	5.561
Collection of insurance	458	867
Income from rentals	77	8
Income from cancellation of provisions (Note 27)	33	733
Other operating income	12.279	8.254
	19.463	15.423

NOTE 7 - MATERIAL AND SERVICES COSTS*(in thousands of Kuna)*

	2008	2007
Raw material and material		
Raw material and material	464.629	361.053
Electricity	22.596	16.613
Spare parts and stationary	11.610	8.455
	<u>498.835</u>	<u>386.121</u>
External services		
External production services	1.022.151	628.374
Transport	25.258	23.891
Repairs and maintenance	11.808	10.032
Advertising costs	20.485	12.858
Rentals	2.931	1.130
Other	30.234	10.402
	<u>1.112.867</u>	<u>686.687</u>
Total material and services costs	1.611.702	1.072.808

The lease costs refer to vehicles and business partners contracted on one-year contracts.

NOTE 8 – EMPLOYEES’ COSTS*(in thousands of Kuna)*

	2008	2007
Net salaries	226.199	195.486
Taxes and contributions on and from salaries	163.480	152.206
Severance pay expenses	2.735	5.077
Other employees’ costs	11.648	8.374
Remuneration of the members of the Supervisory Board	1.485	442
	<u>405.547</u>	<u>361.585</u>

Taxes and contributions include contributions paid by the compulsory pension funds amounting to 53,615 thousand Kuna (2007: 55,581 thousands of Kuna) for the Group. The contributions are calculated as a percentage of gross employee’s salaries.

Other employees’ costs include gifts, anniversary remunerations and some other fees.

As at 31st December 2008 the Group employed 2,287 persons (2007: 2,190 employees).

NOTE 9 – OTHER OPERATING EXPENDITURES*(in thousands of Kuna)*

	2008	2007
Intellectual services	65.374	57.101
Daily allowances and travel expenses	30.522	29.944
Banking services	15.455	8.579
Entertainment	10.121	9.376
Taxes and contributions	8.841	7.193
Insurance premiums	9.942	6.569
Sponsorships, donations and other aids	6.597	8.652
Removal of real estates, plants and equipment	1.686	2.473
Changes to value adjustments with respect to trade debtors	2.599	800
Stocks depreciation	298	247
Suppliers' interests	3.528	1.274
Other operating expenses	4.190	11.803
	159.153	144.011

NOTE 10 – OTHER (LOSSES)/GAINS – NET*(in thousands of Kuna)*

	2008	2007
Net (loss)/profit from foreign differences from operations	(17.286)	(3.585)
(Losses)/gains from reduction to fair value (note 23)	-	123
Net (loss)/profit from sales of tangible assets (note 31)	(237)	650
	(17.523)	(2.812)

NOTE 11 – FINANCIAL INCOME AND EXPENSES*(in thousands of Kuna)*

	2008	2007
Income from interests with respect to banks' deposits	61	1.162
Net foreign differences from financial activities	1.208	3.120
Financial income	1.269	4.282
Interest costs	(50.884)	(25.228)
Financial expenses	(50.884)	(25.228)
	(49.615)	(20.946)

NOTE 12 - INCOME TAX

The adjustment of accounting and taxable profit is stated below in the table:

<i>(in thousands of Kuna)</i>	2008	2007
Profit before tax	110.517	101.811
Income tax at the rate of 20%	22.103	20.362
Effect of non-taxable income	(1.108)	(503)
Effect of tax unrecognized expenses	2.802	1.834
Effect of taxable rates in some other countries	205	227
Income tax cost	24.002	21.920
Effective tax rate	21,72%	21,53%
Income tax liability as at 31st December	2.841	1.307

In compliance with local regulations of the Republic of Croatia, the Tax Administration may at any time inspect the books and records of the Company during the period of three years after the expiry of the year when the tax liability has been stated and may introduce some additional liabilities and penalties. The same regulations apply to some other regional branches in Croatia. Regional branches abroad are subject to tax regulations of the state where they run operations. The Management Board of the Group is not familiar with circumstances that may lead to potential material liabilities in that respect.

NOTE 13 – BASIC AND DILUTED EARNING BY SHARE

The basic earning by share is calculated on the basis of net profit of the Group and mean weighted number of the existing common shares, reduced by treasury shares. There are no diluted potential common shares.

	2008	2007
Net profit (in thousands of Kuna)	88.815	80.360
Weighted average number of shares	2.272.973	2.268.573
Profit per share (in HRK)	39,07	35,42

NOTE 14 - DIVIDEND PER SHARE

During the year 2008, the payment of dividends from retained profit was approved from previous years to amount to 32,508 thousands of Kuna (2007: 29,017 thousands of Kuna) which account for 14.30 per share (2007:12.65 per share). The dividend by share is calculated on the basis of issued shares reduced by treasury shares at the time of disclosing dividends.

Non-paid dividend for the year 2007 to amount of 1,947 thousand Kuna (2007: 1,312 thousand Kuna) is stated as a liability for dividends within the item "trade creditors and other liabilities" (note 28).

NOTE 15 – INTANGIBLE ASSETS*(in thousands of Kuna)*

	Goodwill	Software	Total
Balance as at 1/01/2007			
Purchase value	-	13.802	13.802
Accumulated depreciation	-	(4.105)	(4.105)
Net book value	-	9.697	9.697
For the year ending as at 31st December 2007			
Initial net book value	-	9.697	9.697
Acquisition of regional branches (Note 30)	3.346	-	3.346
Purchases	-	10.823	10.823
Depreciation	-	(1.141)	(1.141)
Concluding net book position	3.346	19.379	22.725
Balance as at 31/12/2007			
Purchase value	3.346	24.625	27.971
Accumulated depreciation	-	(5.246)	(5.246)
Net book value	3.346	19.379	22.725
For the year ending as at 31st December 2008			
Initial net book value	3.346	19.379	22.725
Purchases	-	3.236	3.236
Depreciation	-	(4.273)	(4.273)
Concluding net book position	3.346	18.342	21.688
Balance as at 31/12/2008			
Purchase value	3.346	27.861	31.207
Accumulated depreciation	-	(9.519)	(9.519)
Net book value	3.346	18.342	21.688

Testing of goodwill on depreciation of value is stated in the note 4.

NOTE 16 REAL ESTATES, PLANTS AND EQUIPMENT

(in thousands of Kuna)

	Land	Buildings	Equipment	Assets in construction	Total
Balance as at 1/01/2007					
Purchase value	45.851	345.574	423.266	5.832	820.523
Accumulated depreciation	-	(172.031)	(236.859)	-	(408.890)
Net book value	45.851	173.543	186.407	5.832	411.633
For the year ending at 31st December 2007					
Balance as at 01 January	45.851	173.543	186.407	5.832	411.633
Increases	-	-	-	105.845	105.845
Transfers	134	39.125	53.274	(92.533)	-
Acquisition of TIM d.d. Topusko (Note 30)	954	22.999	1.515	-	25.468
Decreases	-	(22)	(2.459)	-	(2.481)
Foreign currency differences	11	36	77	-	124
Depreciation	-	(7.645)	(34.437)	-	(42.082)
Balance as at 31/12/	46.950	228.036	204.377	19.144	498.507
Balance as at 31/12/2007					
Purchase value	46.950	407.698	478.055	19.144	951.847
Accumulated depreciation	-	(179.662)	(273.678)	-	(453.340)
Net book value	46.950	228.036	204.377	19.144	498.507
For the year ending at 31st December 2008					
Balance as at 01/01/	46.950	228.036	204.377	19.144	498.507
Increases	-	-	-	141.453	141.453
Transfers	4.627	22.991	97.775	(125.393)	-
Decreases	(1.039)	(244)	(403)	-	(1.686)
Foreign currency differences	(27)	(42)	(57)	-	(126)
Depreciation	-	(8.010)	(37.697)	-	(45.707)
Balance as at 31/12/	50.511	242.731	263.995	35.204	592.441
Balance as at 31/12/2008					
Purchase value	50.511	414.459	519.819	35.204	1.019.993
Accumulated depreciation	-	(171.728)	(255.824)	-	(427.552)
Net book value	50.511	242.731	263.995	35.204	592.441

As at 31st December 2008, the advances paid by the Group for real estates, plants and equipment amounted to 684 thousands of Kuna (2007:129 thousands of Kuna).

Land, buildings and equipment of the Group of the net book value amounted to of 150,338 thousand Kuna as at 31st December 2008 (2007:102,989 thousands of Kuna) pledged as the loan repayment security instrument (note 26).

As at 31st December 2008, the assets financially leased where the Group lessee amounted to 296,147 thousand Kuna (2007:1,431 thousands of Kuna) - see note 26.

NOTE 17 - INVESTMENT IN SUBSIDIARIES

	2008	2007
Balance as at 01 January	273	253
Decrease	(25)	-
Increases	5.191	20
Balance as at 31 December	<u>5.439</u>	<u>273</u>

At the end of 2008, the Company together with its subsidiary Dalekovd TKS a.d. Doboj established a new company in Bosnia and Herzegovina, Cindal d.o.o., out of which the Company owns 95% of the new company and 5% of the subsidiary. The newly established company did not have operations in 2008.

The regional branches that are not included in consolidation as at 31st December are:

Company name	Country of establishment	2008	2007	2008	2007
		<i>Share in %</i>		<i>(in thousands of Kuna)</i>	
Dalekovod-projekt d.o.o. Zagreb	Croatia	-	100,00	-	25
Dalekovod ESOP d.o.o.	Croatia	100,00	100,00	200	200
Denacco Namibia (PTY) Ltd	Namibia	60,00	60,00	18	18
Dalekovod – ulaganje d.o.o. Zagreb	Croatia	100,00	100,00	20	20
Dalekovod EKO d.o.o. Zagreb	Croatia	50,00	50,00	10	10
Cindal d.o.o. Doboj	Bosnia & Herzegovina	95,01	-	5.191	-
				<u>5.439</u>	<u>273</u>

The regional branches Dalekovod ESOP d.o.o., Dalekovod – ulaganje d.o.o., Dalekovod –EKO d.o.o., Denacco namibia Ltd and Cindal d.o.o. Doboj do not conduct any operating activities, therefore they are not included in the consolidation. The company Dalekovod-projekt d.o.o. was after the commencement of operations included in the consolidation for 2008.

NOTE 18 FINANCIAL ASSETS AVAILABLE FOR SALE

<i>(in thousands of Kuna)</i>	2008	2007
At the beginning of the year	27.435	7.485
Transfer from investments	-	10
Additional investments	19.224	14.876
Reducing to fair value	(1.473)	5.064
At the end of the year	<u>45.186</u>	<u>27.435</u>

The Group possesses 8.57% of shares in close-end investment funds that in the name of the Group conducted acquisition of shares in local companies. The purpose of acquisition of shares is the development of the companies that are invested and improvement of their long-term position on the market and accomplishment of the future benefits for the investors. During the year, the Group additionally invested 3,224 thousand Kuna in the fund (2007:7,666 thousand Kuna).

NOTE 18 - FINANCIAL ASSETS DISPOSABLE FOR SALE (continuation)

In November 2008, the Group paid 10,000 thousand Kuna with respect to share capital in sports joint-stock company accounting for 12% of shares in the newly established company. During the year 2008, the Group converted its deposit to amount of 6,303 thousand Kuna in one Croatian bank in extra capital of this Bank. The total share in capital of the Bank does not exceed 5%.

At 31st December 2008, the Group made an assessment of its financial assets disposable for sale and reduced it to fair value. The decrease of 1,473 thousand Kuna (2007: increase of 5,064 thousand Kuna) is stated in revaluation reserves (Note 25).

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORIES

The accounting policies for financial instruments are applied to the following items:

<i>(in thousands of Kuna)</i>	Note	Loans and receivables	Financial assets at fair value in the profit and loss account	Financial assets available for sale	Total
31 December 2008					
Financial assets					
Receivables from customers and other receivables	22	956.774	-	-	956.774
Loans and deposits granted	20,22	106.883	-	-	106.883
Financial assets available for sale (changes through capital)	18	-	-	45.186	45.186
Financial assets at fair value in the profit and loss account	23	-	417	-	417
Cash and cash equivalents	24	118.201	-	-	118.201
Total		1.181.858	417	45.186	1.227.461

<i>(in thousands of Kuna)</i>	Note	Other Financial liabilities
31. December 2008		
Financial liabilities		
Borrowings	26	943.002
Payables to suppliers	28	862.060
Other payables	28	16.410
Total		1.821.472

Financial instruments do not include business relations with employees, receivables/liabilities for contributions, taxes and receivables/liabilities for advances received.

NOTE 19a – FINANCIAL INSTRUMENTS BY CATEGORIES (continuation)

<i>(in thousands of Kuna)</i>	Note	Loans and receivables	Financial assets at fair value in Profit and loss account	Financial assets disposable for sale	Total
31 December 2007					
Financial assets					
Receivables from customers and other receivables	22	681.073	-	-	681.073
Loans and deposits granted	20,22	124.032	-	-	124.032
Financial assets available for sale (changes through capital)	18	-	-	27.435	27.435
Financial assets at fair value in the profit and loss account	23	-	916	-	916
Cash and cash equivalents	24	186.211	-	-	186.211
Total		991.316	916	27.435	1.019.667

<i>(in thousands of Kuna)</i>	Note	Other financial liabilities
31 December 2007		
Financial liabilities		
Borrowings	26	535.199
Payables to suppliers	28	443.941
Other payables	28	21.436
Total		1.000.576

NOTE 19b- CREDIT WORTHINESS OF THE FINANCIAL ASSETS

Credit worthiness of outstanding and non-corrected financial assets is evaluated on the basis of historic data.

	2008	2007
	<i>(in thousands of Kuna)</i>	
Receivables from customers – outstanding and non-corrected		
Old customers that pay within maturity date	128.672	146.144
Old customers that pay with delay	266.220	183.604
	394.892	329.748

NOTE 19b- CREDIT WORTHINESS OF THE FINANCIAL ASSETS (continuation)

The Group mainly deposits cash with local banks that have no credit rating, but are in major ownership of large foreign banking, while during 2007, a major part of cash was deposited with local banks with rating BBB-.

IV. Cash in bank and in hand	2008	2007
	<i>(in thousands of Kuna)</i>	
BBB -	13.215	172.349
No rating	104.986	13.862
	118.201	186.211

NOTE 20 - LOANS AND RECEIVABLES

<i>(in thousands of Kuna)</i>	2008	2007
Long-term deposits	34	6.034
Liabilities with respect to long-term loans:		
- merchandize loan	15.188	18.341
- Housing and other loans to employees	4.563	5.666
- Loans to other companies	11.300	-
- loans from ESOP program (employees' shareholding program)	8	84
Total long-term deposits and loans granted	31.093	30.125
Current maturity of long-term loans and deposits (note 22)	(5.936)	(8.363)
Long-term loans and deposits granted	25.157	21.762

Deposits

Deposits are stated in HRK with foreign currency clause (EURO).

Merchandize loan

The merchandize loans represent trade debtors in Bosnia and Herzegovina on the basis of sale of equipment and provision of services converted into loan with the repayment maturity time of 2 years with an interest rate of 4.5% p.a.

NOTE 20 . - LOANS AND RECEIVABLES (continuation)

Housing loans

The average effective interest rate on housing loans is 6% and they are to be repaid within the time of 2 to 25 years through cancellation of employees salaries. Housing loans are stated in HRK with foreign currency clause (EURO).

Loans to other companies

During the year 2008, the Group concluded the Loan Contract with TPN Sportski Grad from Split according to which the total frame loan amounting to 9,000 thousand Kuna has been agreed. Till 31st December 2008, the creditor withdrew 8,551 thousand Kuna. The loan was placed with discount rate that on the date of concluding the Contract amounted 9%. The loan matures on a one-time basis on 2028, while the interests are accrued with commencement of payment on 31st December 2010.

Fair value of long-term loans approximates the book value since the interest rates for loans are in compliance with market rates.

NOTE 21 – STOCKS

<i>(in thousands of Kuna)</i>	2008	2007
Raw material	256.092	138.614
Finished products, semi-finished products and production in progress	480.327	118.198
<hr/>		
Spare parts and stationary	6.874	5.666
Commodities	2.076	4.088
	745.369	266.566

Total construction costs as well as recognized gains (reduced by recognized losses) for all active contracts amount to 4,121,027 thousands of Kuna (2007:3,144,582 thousands of Kuna).

RECEIVABLES FROM CUSTOMERS AND OTHER RECEIVABLES*(in thousands of Kuna)*

	2008	2007
Local debtors	551.770	446.655
Foreign debtors	234.041	171.327
Value adjustment for trade debtors	(10.503)	(10.129)
	775.308	607.853
Trade debtors for contractual works	163.563	48.926
Guarantee deposits	40.709	72.068
Current maturity of long-term loans (note 20)	5.936	8.363
Other short-term loans	35.115	21.839
Advances given	14.379	35.672
Receivables from employees	1.312	1.294
Receivables for VAT	43.053	-
Prepayments	11.027	-
Other current assets	17.849	24.294
	1.108.251	820.309

Other short-term loans mainly relate to trade debtors whereas debts are converted into loans and loans granted to sports organizations together with accrued interest at rate of 3%-6% p.a. Loans are granted for the period from 3 to 9 months and are secured by bills of exchange and promissory notes.

Advances are granted to suppliers for purchase of material and equipment and for provision of project designing services.

At 31st December 2008 the Group stated trade debtors whereas debts amounted to 380,416 thousand Kuna (2007:278,105 thousand Kuna) that are matured are not adjusted. They mainly consists of trade debtors whereas debts are owned by the state that pay with some delay. The debt age is based on the days of delay after the maturity dates and are stated in the following way:

	2008	2007
	<i>(in thousands of Kuna)</i>	
Up to 90 days	183.919	199.049
From 91 to 180 days	63.352	25.498
Over 180 days	133.145	53.558
	380.416	278.105

**NOTE 22 - RECEIVABLES FROM CUSTOMERS AND OTHER RECEIVABLES
(continuation)**

Changes to provisions for devaluated receivables from customers are presented in the below text:

<i>(in thousands of Kuna)</i>	2008	2007
Balance as at 01 January	10.129	10.033
Provisions for devaluated receivables from customers (note 9)	2.599	800
Collected amounts	(207)	(364)
Receivables removed from books as non-collectible during the year	(2.017)	(340)
Balance as at 31/12/	<u>10.504</u>	<u>10.129</u>

The book value of receivables from customers and other Group's receivables by currency is presented in the below text:

<i>(in thousands of Kuna)</i>	2008	2007
EURO	182.371	120.847
USD	88.431	124.990
Kuna	837.449	574.472
Total	1.108.251	820.309

The maximum exposure to credit risk on the reporting date equals the book value of every group of the aforementioned receivables. The Group possesses no repayment security instruments.

Fair value of receivables from customers does not significantly differ from their book value.

NOTE 23 - FINANCIAL ASSETS AT FAIR VALUE IN THE PROFIT AND LOSS ACCOUNT

During the year 2008, the Group invested in local monetary funds. On 31st December 2008, the fair value of such assets in the Group amounted to 417 thousand Kuna (2007:916 thousand Kuna). After reducing the assets to fair value, the Group generated a loss lower than 1 thousand Kuna (2007:profit 123 thousand Kuna - Note 10).

NOTE 24 CASH AND CASH EQUIVALENTS

(in thousands of Kuna)

	2008.	2007.
Cash in banks and in hand in local currency	5.089	18.699
Cash in banks and in hand in foreign currency	113.112	22.326
Short-term deposit with banks	-	145.186
	118.201	186.211

Depending on availability of cash, the Groups places short-term deposits (with three months' collection maturity or shorter) with different banks for the purpose of generating additional income from interests.

As at 31 December 2008, the average effective interest rate on short-term deposits with banks amounted to 7.6% (2007:7.6).

NOTE 25 – EQUITY PRINCIPAL

Equity capital

On 31st December 2008, the equity capital of the Company consisted of 2,293,812 common registered shares with nominal value of 100 Kuna per share. All issued shares are paid in whole.

As at 31 December 2008 the Company possesses 34,208 pieces of treasury shares (2007:24,828).
Structure of shareholders as at 31 December:

	2008	2007
Natural persons	38,93%	28,55%
BMK i Partneri d.o.o.	13,11%	17,92%
KLT i Partneri d.o.o.	12,79%	17,86%
CTG d.o.o.	15,64%	16,83%
Treasury shares	1,49%	1,08%
Other	18,04%	17,76%
	100,00%	100,00%

Legal, statutory and other reserves

According to Croatian laws, the legal reserve is formed as at least 5% of profit for the year by the moment when the total amount of the reserve reaches 5% of the Company's equity capital. The legal reserves are not distributable.

According to the Decision by the Assembly during the year 2008, the statutory reserves increased by 46,690 thousand Kuna (2007:45,850 thousand Kuna). These reserves are distributable.

Other reserves consist of reserves generated by distribution of profit from the previous periods according to the Decision by the Assembly (they are distributable) and from the reserves for treasury shares. By the end of the year 2008, the Company redeemed 9,380 treasury shares on the exchange stock evaluated at 4,130 thousand Kuna for which, according to Croatian laws, provisions for such shares were allocated (during the previous years amounting to 1,244 thousand Kuna).

Revaluation reserves

As at 31st December 2008, the Group made an evaluation of the fair value disposable for sale (shares and stocks in the investment fund – note 19) and reduction of revaluation reserves by 1,473 thousand Kuna (2007:increase by 5,064 thousand Kuna) was made according to the accounting policy.

NOTE 26 – LOANS
(in thousands of Kuna)

	Average interest rate	2008	2007
Long-term loans			
Bank loans	6,11%	6.989	194.090
Financial lease	7,27%	181.459	1.137
		188.448	195.227
Short-term loans			
Bank loans	6,29%	507.711	232.217
Commercial bills	8,4%	225.000	107.000
Financial lease	6,5%	21.843	755
		754.554	339.972
Total loans		943.002	535.199

During the year 2008, the Group concluded the Agreement of Sale of Assets (plant in Dugo Selo) and on lease back of these assets within the financial lease where the Group is the lessee. The total value of this lease is 215,774 thousand Kuna. The lease maturity is 2016. The interest rate is 3-month Euribor + 1.6%. The entire assets are pledged as a security instrument.

The gross liabilities according to financial lease – minimum lease payment:

	2008	2007
	<i>(in thousands of Kuna)</i>	
Up to 1 year	35.366	755
Between 1 and 5 years	141.465	1.265
Over 5 years	131.107	-
	307.938	2.020
Future financial costs of financial lease	(105.075)	(128)
Current value of liabilities for financial lease	202.683	1.892

During the year 2008, the Group issued commercial bills to amount of 225 million Kuna denominated in 1.00 Kuna for the period of 364 days from the date of issuance thereof with an average nominal yield of 8.4% (2007:4.13%) per annum.

Bank loans are secured by bills of exchange and mortgaged real estates, plants and equipment and investments in real estates (note 16).

On 31st December 2008, the liabilities for interests for long-term and short-term loans amounted to 8,367 thousand Kuna (2007:4,843 thousand Kuna), (note 28).

NOTE 26 – LOANS (continuation)

The Group's loans amounting to 388,803 thousand Kuna (2007.: 403,562 thousand Kuna) are exposed to changes to interest rates, since the contractual interest rate is variable. Other loans have fixed interest rates and are exposed to changes of interest rates upon maturity of the principal.

The exposure of the loans to changes of interest rates on the balance date is as it follows below (the remaining loans are stated at fixed rates):

<i>(in thousand of Kuna)</i>	2008	2007
1 month	205.022	-
3 months	105.978	248.103
6 months	67.803	40.104
12 months	10.000	10.000
5 years	-	105.355
	388.803	403.562

The book value of long-term loans of the Group approximates the fair value since the stated interest rates approximate current market interest rates.

The repayment plan of long-term loans and financial lease is the following:

<i>(in thousand of Kuna)</i>	2008	2007
Loans in use	-	48.710
Between 1 and 2 years	50.128	48.494
Between 2 and 5 years	88.989	58.380
Over 5 years	49.331	39.643
	188.448	195.227

Loans are denominated in currencies as follows:

	2008	2007
EUR	369.525	251.590
CHF	5.229	6.800
USD	99.501	-
HRK	468.747	276.809
	943.002	535.199

Loans with foreign currency clause are included in Kuna loans.

NOTE 27 – DEFERRED INCOME

The deferred income generated during 2008 for financial lease (note 26) when the Group sold the assets of current book value amounting to 126,440 thousand Kuna for 215,774 thousand Kuna and generated profit amounting to 89,334 thousand Kuna that are during the lease reduced by accompanied depreciation amount for such assets. A total of 83,599 thousand Kuna was stated as at 31st December 2008, out of a which short-term part of deferred income refers to 6,211 thousand Kuna.

NOTE 28 - PAYABLES TO SUPPLIERS AND OTHER PAYABLES

<i>(in thousands of Kuna)</i>	2008	2007
Payables to local suppliers	605.835	318.286
Payables to foreign suppliers	256.225	125.655
	862.060	443.941
Advances received for construction agreements	50.624	176.158
Advances	22.694	52.793
Salaries	14.663	16.532
Taxes and contributions	17.885	12.008
Dividends (note 14)	1.947	1.312
Liabilities for loans	8.367	4.843
Liabilities for value added tax	-	25.865
Liabilities for bills of exchange (i)	37.736	-
Deferred income (note 27)	6.211	-
Other accrued and other liabilities	8.043	16.593
	1.030.230	750.045

- (i) Liabilities for bills of exchange relate to financing with a discount of 4.31% with a maturity date in January 2009 when the liability was settled.

NOTE 29 - PROVISIONS*(in thousands of Kuna)*

	Anniversary remuneration	Severance pays	Other	Total
As at 1 st January 2008	4.090	2.450	-	6.540
New provisions	829	121	287	1.237
Cancellation of provisions	-	(33)	-	(33)
Utilized during the period	(461)	(94)	-	(555)
Balance as at 31/12/2008	4.458	2.444	287	7.189

Severance pays for pensions

According to the Collective Agreement, the Group is liable to pay severance pays to employees at the time of their retirement. The liability is calculated by independent actuaries. There are some important assumptions used by an actuary in the below text: An annual rate for employees' resignation of 0,89% (2007: 0.88%), a discount rate of 6.4% p.a. (2007: 5,4%); the retirement age is determined for every employee separately taking into account his present age and total employment service (on average, the age of retirement for men used in calculation is 62 years, and 58 years of age for women).

Anniversary remunerations

This provision refers to evaluated long-term income of employees related with anniversary remunerations as specified by the Collective Agreement.

Other provisions

Such provisions are related to contingent liabilities for guarantees granted for quality of works with regard to works carried out in Montenegro.

NOTE 30 – ACQUISITION

In February 2007, the Group acquired 88.83% in the company Tvornica istegnutih metala d.d., Topusko (TIM d.d., Topusko), specialized for production of expanded metal and fencings. The acquired company contributed to the consolidated result for the year ending at 31st December 2007 with the income amounting to 30,616 thousand Kuna and profit for the year amounting to 513 thousands of Kuna. If the Company had been acquired on 1st January 2007, the consolidated income for the year ending as at 31st December 2007 would have been 2,271 thousand Kuna greater, while the profit before tax would have been 1,040 thousand Kuna smaller than the generated one.

The details of the net assets and goodwill are the following:

Acquisition cost	25.997
Fair value of net assets acquired	(22.651)
Goodwill	3.346

Assets and liabilities as at 31st December were derived from acquisition in the following way:

<i>(in thousands of Kuna)</i>	Book value	Fair value
Cash	2.220	<u>2.220</u>
Tangible assets	11.686	25.468
Inventories	9.537	9.537
Receivables from customers and other receivables	9.621	9.530
Payables to suppliers and other payables	(8.318)	(8.318)
Borrowings	<u>(12.938)</u>	<u>(12.938)</u>
Net assets	11.808	25.499
Minority share (11.17%)		<u>(2.848)</u>
Net assets acquired		22.651
Acquisition cost paid in cash		25.997
Acquired cash and cash equivalents		<u>(2.220)</u>
Cash used in acquisition		<u>23.777</u>

CASH FLOW GENERATED FROM ORDINARY OPERATIONS*(in thousands of Kuna)*

	Note	2008	2007
Profit before tax		110.517	101.811
Adjustments for:			
Depreciation	15,16	49.980	42.082
Non-realized foreign currency differences		(2.081)	(3.028)
Removal of real estates, plants and equipment	9	1.686	2.473
Reduction of value adjustment for trade debtors	9	2.599	800
Stocks depreciation	9	298	247
Provisions for long-term employees' income		649	(733)
Loss/(profit) from sale of real estates, plants and equipment		237	(650)
Minority interest		(184)	6.322
Gains from reduction to fair value	10	-	(123)
Income generated from interests		(6.616)	(6.723)
Expenses from interests	11	50.884	25.228
Other		25	-
		97.477	<u>65.895</u>
Changes to current capital:			
Trade debtors and other receivables		(311.837)	(191.990)
Stocks		(479.101)	(62.272)
Trade creditors and other payables		354.049	428.225
Net cash flow (used in)/generated from operations		(228.895)	341.669
Sale of real estates, plants and equipment in cash flow consists of the following:			
<i>(in thousands of Kuna)</i>			
Net book value		2008. 1.686	2007. 2.473
Net (loss)/profit from sale of real estates, plants and equipment (note 10)		(237)	650
Receipts from sale of real estates, plants and equipment		<u>1.449</u>	<u>3.123</u>

NOTE 32: - TRANSACTIONS WITH AFFILIATED PARTIES

Within the core business activity, the Company conducts activities with affiliated companies including purchase and sale of goods and services and lending. Apart from regional branches stated in the note 18, the affiliated parties of the Company are the Management Board and executive directors of the Company.

Positions at the end of the year that are a result of transactions with regional branches in the following way:

Income and expenses

	2008	2007
	<i>(in thousands of Kuna)</i>	
Income from sales	300.581	143.753
Income from rentals	26.548	15.540
Income from sale of real estates	4.685	-
	<hr/>	<hr/>
	331.814	159.293
Material and services costs	154.575	31.456
Subcontractors' services	93.001	103.451
Other operating expenses	20.007	1.808
	<hr/>	<hr/>
	267.583	136.715

Receivables, liabilities and loans

	2008	2007
	<i>(in thousands of Kuna)</i>	
Trade debtors	130.171	76.793
Other receivables	28	1.105
Short-term loans granted	3.340	9.402
	<hr/>	<hr/>
	133.539	87.300
Trade creditors	130.219	76.599
	<hr/>	<hr/>
	130.219	76.599

Positions at the end of the year that are a result of transactions with managers in the following way:
(in thousands of Kuna)

	2008	2007
Income and expenses		
Salaries	10.371	8.834
Contributions	4.819	3.932
	<hr/>	<hr/>
	15.190	12.766
Income generated from interests	43	41
Loans granted		
ESOP and housing loans	1.166	1.045

NOTE 33 - CONTINGENT AND ASSUMED LIABILITIES

At 31st December 2008 the Group had concluded contracts the execution of which started, but was not completed. Costs to be generated according to these contracts are evaluated to the amount of 3,883,680 thousands of Kuna (2007: 2,231,398 thousand Kuna). The Group guarantees deadlines and quality of execution for all works carried out.

During the ordinary operations, the Group had several litigations, both as a plaintiff and a defendant. According to the opinion of the Management Board and legal advisor, such litigations will not result in any material losses.