Dalekovod d.d.
Marijana Čavića 4
10 000 Zagreb

# Report by the Management Board for the period from January to December 2009

*Audited, non-consolidated*

In Zagreb 30th April 2010

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# I. REPORT BY THE MANAGEMENT BOARD

During the year 2009, the Company generated total income amounting to HRK 2,385.747.543 which constitutes a rise of 5% compared to the income generated last year. Out of the this, 26% or HRK 609,458.097 refers to income generated on the international market whereas, the greatest portion of income is generated in Norway, Albania, Montenegro, Macedonia, Kazakhstan and Ukraine, where the Company has opened subsidiaries as well as in Bosnia and Herzegovina and Iceland.

We are especially proud of the growth in export on the market in Norway where we continued cooperation in infrastructural projects and signed a three-year contract for the delivery of the equipment. We have also penetrated the Swedish market which is very attractive for us. We have continued the cooperation on the markets of Bosnia and Herzegovina, Albania, Montenegro, Macedonia, Saudi Arabia, Oman etc.

The most important income is generated with our long-term investors, such as:

- Hrvatske autoceste d.d. Zagreb
- Hrvatska elektroprivreda d.d. Zagreb
- Hrvatske ceste d.d. Zagreb
- Autocesta Rijeka-Zagreb d.d.
- Hrvatske željeznice d.d.Zagreb

The companies on the international market:

- OST-Operatori Sistemit Transmisionit, Albania
- J.P.Elektroprivreda HZ HB D.D, Bosnia and Herzegovina
- KEGOC, Kazakhstan
- Pfisterer SEFAG AG, Switzerland
- Statnett, Norway
- SSEM, Saudi Arabia
- MITAS, Turkey
- NPCC, Saudi Arabia

We should mention that the major contracts are won in international tenders in our country and abroad as well and that the competition is very tough. Our advantage is our previous references, quality and expertise of our employees and meeting agreed deadlines as well.

The sale of equipment, irrespective of economic depression, was rising, so that we recorded a rise in a number of customers (62) compared to 2008 (56).

With an increase in international income and profit generated on the international market, the Company has strengthened its market position abroad, confirmed its reputation as one of the strongest companies in its sector in the region and has ensured a very good position when agreeing on new international projects.

In 2009 a gross profit before taxation was generated to amount of HRK 111,512,730 with a rise of 6% compared to the year 2008. The generated rise in gross profit was greatly affected by the profit generated abroad which is more than 30% than the totally generated gross profit.

During the time of great economic crisis which has been reflected on a decrease in investments and slow down of the performance of contracts already concluded, more expensive and inaccessible financing sources, the Company has accomplished results as forecasted and the best so far which is a direct result of knowledge, skills and readiness to ensure and perform contracts concluded within agreed time ensuring quality on such a demanding market.

During the forthcoming period, considering the doldrums of the local market, the Company is planning to greatly increase exports and expand market niches where it operates and generate the income at the level of 1.0 billion of Kuna. Unfortunately, considering great decrease in business on the local market, the Company is forecasting a great downturn of income on the local market in the next period.

**Expected development of the Company in the future**

Considering the limited market in Croatia, a special emphasis has been placed on a greater and stronger presence on the international market. Besides the concluded contracts, we are expecting a positive outcome in international tenders which are underway.

Dalekovod is competing in the following international tenders in:

- Georgia (Black Sea Transmission Network Project-Georgia (400 and 500 kV transmission lines and, total length of the both transmission lines 282 km)
- Norway, we expect to contract a part of works from the total investor's plan (785 km transmission line in the next 5 years).
- Sweden (continuation of cooperation with the company Vattenfall Services)
- Kazakhstan (we are expecting new projects within the program of reconstruction of lines and substations)
- Ukraine ( passed the pre-qualification for 750 kV line Rivne-Kyiv High Voltage Line)

- Albania ( we are planning to stay on the Albanian market in the projects of reconstruction of power supply grid)
- B&H (project concerning two hydro plants on the Bosna River (connecting lines)
- Kosovo (transmission lines, substation Vaganice and equipment)
- Transmission line 400 kV Priština-Tirana
- Transmission line 400 kV Krško-Ljubljana(Berčevo) etc.

We are expecting to conclude contracts for a few roads in Libya (project of installation of 320 km traffic barriers in the roads (Azzizija-Nalud).

The company's accent, considering the limited market in Croatia, is to generate ever larger income in the international market and increase the present portion of the income from the equipment export and performance of works abroad  from present 26% to 53%.

The export of goods is slightly, but continuously rising.

It is not possible to accomplish full employment in the Activity Production and affiliated production companies as well without a great export and specialization of factories for multi-series production and dislocation of the Factory in Velika Gorica.

The condition for an increase in export is acceptable competitive price, quality and delivery deadlines.

With the existing regular export to traditional customers, this year we are counting on greater increase in export of equipment for contact rail network for the Republic of Poland.

Due to a recent situation of general insolvency, worsening of business conditions, Dalekovod Group has undertaken a series of activities relating to reconstruction of business operation aiming at a decrease in operating costs.

Savings and cost-effectiveness need to be conducted in all segments of the Company. This relates to the Purchasing Department with regard to conditions of purchasing (price, deadlines, quantities etc.) and to the segment of costs by all units.

Aiming at cutting down on costs, we should better analyze activities/projects in the Activity Construction, or better prepare calculations and monitor project costs.

Certain activities have already been undertaken concerning decrease in salaries for all employees by 10% in 2010.

All other costs that may be influenced in the way to be reduced are put under special controlled.

**Forecasted profit**

Since at this moment we have concluded contracts in the year 2010 and partially in 2011, a full attention shall be drawn to execution thereof with reduced expenses as to have at the end of the year generated profit at least 60% of what it was in 2009, not only to absolute, but also to a relative amount.

The work of the Management Board and all employees will be focused on that.

**Company's activities in the area of research and development**

Large activities are invested in the market research, especially on the international markets.
Great efforts are put in improvement of the quality of own production and construction and meeting high standards of employees' working conditions.

**Acquisition of treasury shares**

On 31st December 2009, the Company had 43,934 treasury shares which constitutes 1.9 of total shares. In 2009, the Company acquired 9,726 pieces of treasury shares or 0.4% of total shares.

On behalf of the Management Board:

M.Sc. Luka Miličić,
Board President
„Dalekovod“ d.d., v.r.

## II. REPRESENTATION LETTER

According to Article 410, paragraph 2 and Article 407, paragraph 2, item 3 and paragraph 3 of the Capital Market Act, the persons in charge of the preparation of the reports: Luka Miličić – President of the Management Board, Krešo Kraljević – Deputy President and Tomislav Belamarić – the member of the Management Board submit this

## REPRESENTATION LETTER

According to our best knowledge, the short financial statements of the Company prepared by using suitable financial reporting standards, give a full and a fair presentation of assets and liabilities and operating result of the Company with a short review of causes of disclosed data. Financial statements are audited and non-consolidated.

On behalf of the Management Board:

M.Sc. Luka Miličić,
Board President
Dalekovod d.d.

## III. BALANCE SHEET
### Assets

| Name of position: | AOP designation | No. Note | PREVIOUS YEAR (net) | CURRENT YEAR (net) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| **ASSETS** | | | | |
| **A) RECEIVABLES FOR SUBSCRIBED CAPITAL, UNPAID** | **001** | | 0 | 0 |
| **B) B) FIXED ASSETS (003+010+020+028+032)** | **002** | | 653.177.626 | 678.111.939 |
| **I. INTANGIBLE ASSETS (004 to 009)** | **003** | | **18.156.320** | **18.150.158** |
| 1. Development costs | **004** | | 0 | 0 |
| 2. Concessions, patents, licenses, merchandize and service trademarks, software and other rights | **005** | | 18.156.320 | 16.197.111 |
| 3. Goodwill | **006** | | 0 | 0 |
| 4. Advances for purchase of intangible assets | **007** | | 0 | 0 |
| 5. Intangible assets in construction | **008** | | 0 | 1.953.047 |
| 6. Other intangible assets | **009** | | 0 | 0 |
| **II TANGIBLE ASSETS (011 to 019)** | **010** | | **491.706.508** | **468.458.748** |
| 1. Land | **011** | | 13.521.765 | 13.521.765 |
| 2. Buildings | **012** | | 107.762.676 | 118.319.745 |
| 3. Plants and equipment | **013** | | 231.468.758 | 181.376.004 |
| 4. Tools, plant inventories and transportation assets | **014** | | 0 | 31.133.001 |
| 5. Biological assets | **015** | | 0 | 0 |
| 6. Advances for tangible assets | **016** | | 25.368 | 0 |
| 7. Tangible assets in construction | **017** | | 28.081.187 | 17.267.527 |
| 8. Other tangible assets | **018** | | 0 | 0 |
| 9. Real estate investment | **019** | | 110.846.754 | 106.840.706 |
| **III. LONG-TERM FINANCIAL ASSETS (021 to 027)** | **020** | | **143.314.798** | **191.503.032** |
| 1. Stakes (shares) in affiliated companies | **021** | | 72.647.022 | 119.100.800 |
| 2. Loans granted to affiliated undertakings | **022** | | 5.355.142 | 1.340.688 |
| 3. Participating interests | **023** | | 23.909.020 | 33.665.538 |
| 4. Investments in securities | **024** | | 21.277.300 | 23.109.846 |
| 5. Loans, deposits and etc. granted | **025** | | 20.126.314 | 14.286.161 |
| 6. Treasury shares and stakes | **026** | | 0 | 0 |
| 7. Other long-term financial assets | **027** | | 0 | 0 |
| **IV. DEBTORS (029 to 031)** | **028** | | **0** | **0** |
| 1. Receivables from affiliated companies | **029** | | 0 | 0 |
| 2. Receivables with respect to sale on loan | **030** | | 0 | 0 |
| 3. Other receivables | **031** | | 0 | 0 |
| **V. DEFERRED TAX ASSETS** | **032** | | **0** | **0** |
| **C) CURRENT ASSETS (034+042+049+057)** | **033** | | 1.926.628.731 | 1.456.096.952 |
| **I. INVENTORIES (035 to 041)** | **034** | | **691.663.210** | **444.713.688** |
| 1. Raw material and material | **035** | | 226.143.164 | 100.001.542 |
| 2. Production in construction | **036** | | 42.029.954 | 15.080.785 |
| 3. Non-finished products and semi-finished products | **037** | | 0 | 0 |
| 4. Finished goods | **038** | | 423.490.092 | 329.631.360 |
| 5. Commodities | **039** | | 0 | 0 |
| 6. Advances for stocks | **040** | | 0 | 0 |
| 7. Other assets intended for sale | **041** | | 0 | 0 |
| **II DEBTORS (043 to 048)** | **042** | | **1.077.845.592** | **908.076.264** |
| 1. Receivables from affiliated companies | **043** | | 66.518.589 | 43.889.349 |
| 2. Trade debtors | **044** | | 945.632.326 | 829.309.568 |
| 3. Amounts owed from participating companies | **045** | | 0 | 0 |
| 4. Amounts owed from employees and company members | **046** | | 1.153.576 | 966.184 |
| 5. Receivables from the Government and other institutions | **047** | | 38.381.724 | 557.850 |
| 6. Other receivables | **048** | | 26.159.377 | 33.353.313 |
| **III. SHORT-TERM FINANCIAL ASSETS (050 to 056)** | **049** | | **52.399.523** | **63.014.840** |
| 1. Stakes (shares) in affiliated companies | **050** | | 0 | 0 |
| 2. Loans granted to affiliated undertakings | **051** | | 8.789.771 | 18.335.622 |
| 3. Participating interests | **052** | | 0 | 0 |
| 4. Investments in securities | **053** | | 23.929 | 26.023 |
| 5. Loans, deposits and etc. granted | **054** | | 43.585.823 | 44.653.195 |
| 6. Treasury shares and stakes | **055** | | 0 | 0 |
| 7. Other financial assets | **056** | | 0 | 0 |
| **IV. IV. CASH IN BANK AND IN HAND** | **057** | | **104.720.406** | **40.292.161** |
| **D) PREPAYMENTS AND ACCRUED INCOME** | **058** | | 10.942.838 | 12.052.995 |
| **E) LOSS EXCEEDING THE CAPITAL** | **059** | | 0 | 0 |
| **F) TOTAL ASSETS (001+002+033+058+059)** | **060** | | 2.590.749.195 | 2.146.261.886 |
| **G) OFF-BALANCE ITEMS** | **061** | | 335.792.399 | 406.320.335 |

## Liabilities

| | | | | |
|---|---|---|---|---|
| LIABILITIES | | | | |
| A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076) | 062 | | 578.021.443 | 668.191.261 |
| I. SUBSCRIBED SHARE CAPITAL | 063 | | 229.381.200 | 229.381.200 |
| II CAPITAL RESERVES | 064 | | 0 | 0 |
| III. RESERVES FROM PROFIT (066+067-068+069+070) | 065 | | 262.533.975 | 342.650.517 |
| 1. Legal reserves | 066 | | 11.486.600 | 11.486.600 |
| 2. Reserves for treasury shares | 067 | | 0 | 0 |
| 3. Treasury shares and stakes (deductible item) | 068 | | 0 | 0 |
| 4. Statutory reserves | 069 | | 219.999.205 | 218.400.504 |
| 5. Other reserves | 070 | | 31.048.170 | 112.763.413 |
| IV. REVALUATION RESERVES | 071 | | 3.591.025 | 7.224.706 |
| V. RETAINED PROFIT | 072 | | 0 | 0 |
| VI. LOSS CARRIED FORWARD | 073 | | 0 | 0 |
| VII. PROFIT FOR THE FISCAL YEAR | 074 | | 82.515.243 | 88.934.838 |
| VIII. LOSS FOR THE FISCAL YEAR | 075 | | 0 | 0 |
| IX. MINORITY INTEREST | 076 | | 0 | 0 |
| B) PROVISIONS (078 to 080) | 077 | | 7.188.536 | 6.876.000 |
| 1. Provisions for pensions, severance pays and related liabilities | 078 | | 7.188.536 | 6.876.000 |
| 2. Provisions for tax liabilities | 079 | | 0 | 0 |
| 3. Other provisions | 080 | | 0 | 0 |
| C) LONG-TERM LIABILITIES (082 to 089) | 081 | | 183.956.881 | 155.044.094 |
| 1. Payables to affiliated companies | 082 | | 0 | 0 |
| 2. Liabilities for loans, deposits etc. | 083 | | 0 | 0 |
| 3. Amounts owed to banks and other financial institutions | 084 | | 2.497.982 | 1.665.000 |
| 4. Amounts owed for advances | 085 | | 0 | 0 |
| 5. Trade creditors | 086 | | 181.458.899 | 153.379.094 |
| 6. Amounts owed with respect to securities | 087 | | 0 | 0 |
| 7. Other long-term liabilities | 088 | | 0 | 0 |
| 8. Deferred tax liability | 089 | | 0 | 0 |
| D) SHORT-TERM LIABILITIES (091 to 101) | 090 | | 1.744.194.308 | 1.244.995.504 |
| 1. Payables to affiliated companies | 091 | | 11.939.405 | 30.752.638 |
| 2. Liabilities for loans, deposits etc. | 092 | | 22.430.571 | 8.907.329 |
| 3. Amounts owed to banks and other financial institutions | 093 | | 478.526.491 | 335.385.720 |
| 4. Amounts owed for advances | 094 | | 65.682.924 | 27.490.675 |
| 5. Trade creditors | 095 | | 867.653.736 | 557.532.889 |
| 6. Amounts owed with respect to securities | 096 | | 262.736.402 | 232.836.403 |
| 7. Payables to employees | 097 | | 12.064.268 | 11.231.149 |
| 8. Debts for taxes, contributions and other payables | 098 | | 17.211.183 | 13.355.958 |
| 9. Liabilities with respect to share in result | 099 | | 1.946.577 | 1.899.762 |
| 10. Liabilities with respect to fixed assets intended for sale | 100 | | 0 | 0 |
| 11. Other short-term liabilities | 101 | | 4.002.751 | 25.602.980 |
| E) ACCRUALS AND DEFERRED INCOME | 102 | | 77.388.027 | 71.155.027 |
| F) TOTAL – LIABILITIES (062+077+081+090+102) | 103 | | 2.590.749.195 | 2.146.261.886 |
| G) OFF-BALANCE ITEMS | 104 | | 335.792.399 | 406.320.335 |
| ANNEX TO THE BALANCE SHEET (to be filled in by a company preparing the consolidated annual financial statements) | | | | |
| CAPITAL AND RESERVES | | | | |
| 1. Ascribed to capital holders of the principal office | 105 | | | |
| 2. Ascribed to minority interest | 106 | | | |

## IV. PROFIT AND LOSS ACCOUNT

| Name of position: | AOP designation | No. Note | Previous year | Current year |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| I. OPERATING INCOME (108 to 110) | 107 | | 2.255.457.479 | 2.384.177.626 |
| 1. Income from sales | 108 | | 2.195.923.359 | 2.311.628.190 |
| 2. Income from use of own products, goods and services | 109 | | 21.725.700 | 25.211.585 |
| 3. Other operating income | 110 | | 37.808.420 | 47.337.851 |
| II OPERATING EXPENSES (112-113+114+118+122+123+124+127+128) | 111 | | 2.096.854.821 | 2.203.543.518 |
| 1. Depreciation of value of stocks of unfinished products and finished products | 112 | | 0 | 120.784.589 |
| 2. Appreciation of stocks of unfinished products and finished products | 113 | | 349.798.280 | 0 |
| 3. Material costs (115 do 117) | 114 | | 1.918.534.990 | 1.547.600.091 |
| a) Costs of raw material and material | 115 | | 503.550.391 | 352.610.080 |
| b) costs of sold goods | 116 | | 250.318.339 | 104.766.649 |
| c) Other external costs | 117 | | 1.164.666.260 | 1.090.223.362 |
| 4. Staff costs (119 to 121) | 118 | | 314.469.390 | 294.329.380 |
| a) Net wages and salaries | 119 | | 181.913.484 | 178.184.301 |
| b) Costs for taxes and contributions from salaries | 120 | | 91.946.347 | 78.213.640 |
| c) Contributions on salaries | 121 | | 40.609.559 | 37.931.439 |
| 5. Depreciation | 122 | | 44.028.194 | 51.930.614 |
| 6. Other costs | 123 | | 155.672.300 | 179.474.159 |
| 7. Value adjustment (125+126) | 124 | | 2.289.696 | 415.673 |
| a) of fixed assets (except for financial assets) | 125 | | 0 | 0 |
| b) current assets (except for financial assets) | 126 | | 2.289.696 | 415.673 |
| 8. Provisions | 127 | | 0 | 0 |
| 9. Other operating expenses | 128 | | 11.658.531 | 9.009.012 |
| III. FINANCIAL INCOME (130 to 134) | 129 | | 24.600.627 | 1.569.917 |
| 1. Interests, foreign currency differences, dividends and similar revenue from business with affiliated companies | 130 | | 161.368 | 0 |
| 2. Interests, foreign currency differences, dividends and similar revenue from business with non- affiliated companies and other persons | 131 | | 20.859.674 | 63.278 |
| 3. A part of income from merged companies and participating interests | 132 | | 0 | 0 |
| 4. Non-realized gains (income) | 133 | | 3.579.585 | 0 |
| 5. Other financial income | 134 | | 0 | 1.506.639 |
| IV. FINANCIAL EXPENSES (136 to 139) | 135 | | 78.218.257 | 70.691.295 |
| 1. Interests, foreign currency differences and other expenses with affiliated companies | 136 | | 34.185 | 134.534 |
| 2. Interests, foreign currency differences and other expenses with non-affiliated companies and other persons | 137 | | 77.823.585 | 70.556.761 |
| 3. Non-realized losses (expenses) of financial assets | 138 | | 360.487 | 0 |
| 4. Other financial expenses | 139 | | 0 | 0 |
| V. EXTRAORDINARY – OTHER INCOME | 140 | | 0 | 0 |
| VI. EXTRAORDINARY – OTHER EXPENSES | 141 | | 0 | 0 |
| VII. TOTAL INCOME (107+129+140) | 142 | | 2.280.058.106 | 2.385.747.543 |
| VIII. TOTAL EXPENSES (111+135+141) | 143 | | 2.175.073.078 | 2.274.234.813 |
| IX. PRE-TAX PROFIT (142-143) | 144 | | 104.985.028 | 111.512.730 |
| X LOSS BEFORE TAXATION (143-142) | 145 | | 0 | 0 |
| XI. INCOME TAX | 146 | | 22.469.785 | 22.577.892 |
| XII. PROFIT FOR THE PERIOD (144-146) | 147 | | 82.515.243 | 88.934.838 |
| XIII. LOSS FOR THE PERIOD (145+146) or (146-144) | 148 | | 0 | 0 |
| ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by a company preparing the consolidated annual financial statements) | | | | |
| XIV.* PROFIT ASCRIBED TO CAPITAL HOLDERS OF THE PRINCIPAL OFFICE | 149 | | | |
| XV.* PROFIT ASCRIBED TO MINORITY INTEREST | 150 | | | |
| XVI.*LOSS ASCRIBED TO CAPITAL HOLDERS OF THE PRINCIPAL OFFICE | 151 | | | |
| XVII.* LOSS ASCRIBED TO MINORITY INTEREST | 152 | | | |

## V. REPORT OF CASH FLOW

| Name of position: | AOP designation | No. Note | Previous year | Current year |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| 1. Pre-tax profit | 001 | | 104.985.029 | 111.512.733 |
| 2. Depreciation | 002 | | 44.028.194 | 45.719.526 |
| 3. Increase in short-term liabilities | 003 | | 204.422.998 | 0 |
| 4. Decrease in short-term receivables | 004 | | 0 | 154.172.471 |
| 5. Reduction of stocks | 005 | | 0 | 246.949.519 |
| 6. Other increase in cash flow | 006 | | 0 | 15.364.385 |
| **I. Total increase in cash flow from operating activities (001 to 006)** | 007 | | **353.436.221** | **573.718.634** |
| 1. Decrease in short-term liabilities | 008 | | 0 | 343.889.180 |
| 2. Increase in short-term receivables | 009 | | 280.562.286 | 0 |
| 3. Increase in stocks | 010 | | 462.640.693 | 0 |
| 4. Other decrease in cash flow | 011 | | 2.131.861 | 0 |
| **II Total decrease in cash flow from operating activities (008 to 011)** | 012 | | **745.334.840** | **343.889.180** |
| **A1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (007-012)** | 013 | | **0** | **229.829.454** |
| **A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)** | 014 | | **391.898.619** | **0** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | | |
| 1. Cash receipts from sale of fixed tangible and intangible assets | 015 | | 130.545.184 | 26.941.133 |
| 2. Cash receipts from sale of treasury and debt financial instruments | 016 | | 975.972.080 | 90.543.029 |
| 3. Cash receipts from interests | 017 | | 2.825.969 | 1.046.045 |
| 4. Cash receipts from dividends | 018 | | | |
| 5. Other cash receipts from investment activities | 019 | | | |
| **III. Total cash receipts from investment activities (015 do 019)** | 020 | | **1.109.343.233** | **118.530.207** |
| 1. Expenditures for buying fixed assets and intangible assets | 021 | | 184.115.593 | 55.665.105 |
| 2. Expenditures for purchasing treasury and debt financial instruments | 022 | | 875.237.396 | 145.712.894 |
| 3. Other expenditures from investment activities | 023 | | | |
| **IV. Total** expenditures **from investment activities (021 to 023)** | 024 | | **1.059.352.989** | **201.377.999** |
| **B1) NET INCREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)** | 025 | | **49.990.244** | **0** |
| **b2) NET DECREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)** | 026 | | **0** | **82.847.792** |
| **CASH FLOW FROM FINANCIAL ACTIVITIES** | | | | |
| 1. Cash receipts from issuance of treasury and debt financial instruments | 027 | | 225.000.000 | 151.181.774 |
| 2. Cash receipts from loan principal, bonds, borrowings and other loans | 028 | | 1.061.848.005 | 735.696.692 |
| 3. Total cash receipts from financial activities | 029 | | | |
| **V. Total cash receipts from financial activities (027 To 029)** | 030 | | **1.286.848.005** | **886.878.466** |
| 1. Expenditures for repayment of loan principal and bonds | 031 | | 783.210.347 | 1.066.843.268 |
| 2. Expenditures for payment of dividends | 032 | | 28.378.979 | 0 |
| 3. Expenditures for financial leasing | 033 | | 57.393.449 | 29.046.404 |
| 4. Expenditures for redemption of treasury shares | 034 | | 4.130.270 | 2.398.700 |
| 5. Other expenditures from financial activities | 035 | | | |
| **VI. Total** expenditures **from financial activities (031 to 035)** | 036 | | **873.113.045** | **1.098.288.372** |
| **C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)** | 037 | | **413.734.960** | **0** |
| **C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)** | 038 | | **0** | **211.409.906** |
| Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038) | 039 | | 71.826.585 | 0 |
| Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037) | 040 | | 0 | 64.428.244 |
| Cash and cash equivalents at the beginning of the period | 041 | | 32.893.821 | 104.720.406 |
| Increase in cash and cash equivalents | 042 | | 71.826.585 | 0 |
| Decrease in cash and cash equivalents | 043 | | 0 | 64.428.244 |
| Cash and cash equivalents at the end of the period | 044 | | **104.720.406** | **40.292.162** |

## VI. REPORT OF CHANGES TO CAPITAL

| Name of position: | AOP designation | Previous period | Increase | Decrease | Current period |
|---|---|---|---|---|---|
| 1. Subscribed capital | 117 | 229.381.200 | | | 229.381.200 |
| 2. Capital reserves | 118 | 0 | | | |
| 3. Reserves from profit | 119 | 262.533.975 | 82.515.243 | 2.398.701 | 342.650.517 |
| 4. Retained profit or loss carried forward | 120 | | | | |
| 5. Profit/loss for the current year | 121 | 82.515.243 | 88.934.838 | 82.515.243 | 88.934.838 |
| 6. Revaluation of the fixed tangible assets | 122 | 3.591.025 | | | 3.591.025 |
| 7. Revaluation of intangible assets | 123 | | | | |
| 8. Revaluation of financial assets available for sale | 124 | | 3.633.681 | | 3.633.681 |
| 9. Other revaluation | 125 | | | | |
| 10. Foreign currency differences with respect to investment in foreign business | 126 | | | | |
| 11. Current and deferred taxes (part) | 127 | | | | |
| 12. Protection of cash flow | 128 | | | | |
| 13. Changes to accounting policies | 129 | | | | |
| 14. Adjustment of significant errors for the previous period | 130 | | | | |
| 15. Other changes to capital | 131 | | | | |
| 16. Total Increase or decrease in subscribed capital | 132 | 578.021.443 | | | 668.191.261 |

## VII. ADDITIONAL NOTES

### 1. MEMBERS OF THE COMPANY MANAGEMENT BOARD

1. Board President: M.Sc. Luka Miličić, Master of Civil Eng.
2. Deputy President -Member: Krešo Kraljević, Master of Electrical Eng.
3. Member: Tomislav Belamarić, Master of Electrical Eng.

### 2. MEMBERS OF THE SUPERVISORY BOARD

President: Marijan Pavlović
Member: Anđa Bošković
Member: Velimir Đurđević
Member: Ivan Radotić
Member: Alda Zaninović
Member: Dinko Markoljević
Member: Željko Poljak

### 3. TEN MAJOR SHAREHOLDERS:

| | | | |
|---|---|---|---|
| CTG d.o.o. | Zagreb, Zadarska 80/III | 352.474 | 15,37% |
| HPB d.d./Kapitalni fond d.d. | Zgb, Jurišićeva 4 | 44.071 | 1,92% |
| PBZ d.d. Collective custodial account | Zgb, Račkog 6 | 40.601 | 1,77% |
| Zagrebačka banka / Collective custodial account | Zagreb, Paromlinska 2 | 28.197 | 1,23% |
| Societe generale - Splitska banka d.d. | Split, R. Boškovića 16 | 26.348 | 1,49% |
| Miličić Luka | Zagreb, Čačkovićeva 7a | 22.469 | 0,98% |
| PBZ d.d. Street client account | Zgb, Račkog 6 | 21.341 | 0,93% |
| Kraljević Krešo | Zagreb, Milana Rešetara 26 | 21.029 | 0,92% |
| Belamarić Tomislav | Zgb, Lastovska 5 | 20.669 | 0,90% |
| Mirošević Gordan | Zgb, Papova 10 | 19.463 | 0,85% |

| | | | |
|---|---|---|---|
| Dalekovod d.d. trezor | | 43.934 | 1,91% |

### 4. DIVISION OF SHARES:

There was no new issue of shares.

## 5. EARNING PER SHARE

Earning per share for the year 2009 amounted to HRK 39.45.

## 6. ACQUISITION AND MERGER

During the year 2009 there were no acquisitions or mergers.

## 7. UNCERTAINTY

During the year 2009 there were no identified bad and doubtful debts affecting the continuity of business.

## 8. DESCRIPTION OF PRODUCTS AND SERVICES

Dalekovod d.d with time has specialized for performance of contracts based on „turnkey“solution in the following areas:

- Electrical power facilities, especially transmission lines from 0.4 to 500 kV
- Substations of all levels and voltage levels up to 500 kV
- Air, underground and marine cables up to 110 kV
- Telecommunication facilities
- All types of networks and antennas
- Production of suspension and jointing equipment for all types of transmission lines and substations from 0.4 to 500 kV
- Production and installation of all metal parts for traffic roads, especially for road lighting, protective fencing and traffic signalization
- Tunnel lighting and traffic control
- Electrification of railway and trams

## 9. CHANGES TO ACCOUNTING POLICIES

There are no new accounting policies.

## 10. LEGAL ISSUES

There are no unresolved issues greatly affecting the Company's business.

# DALEKOVOD d.d.

# AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2009

This version of the accompanying documents is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers d.o.o.**
Alexandera von Humboldta 4
HR-10000 Zagreb
CROATIA
Telephone (385 1) 63 28 888
Facsimile (385 1) 61 11 556

**Independent auditor's report**

**To the Shareholders of DALEKOVOD d.d.**

We have audited the accompanying financial statements of DALEKOVOD d.d. and its subsidiaries (the 'Group') and of DALEKOVOD d.d. (the 'Company') which comprise the balance sheet as of 31 December 2009 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In our opinion, the accompanying consolidated and non-consolidated financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 30 April 2010

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## INCOME STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2009

| *(all amounts are expressed in thousands of HRK)* | Note | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|---|
| Sales | 5 | 2,421,717 | 2,289,925 | 2,336,839 | 2,217,649 |
| Other income | 6 | 29,706 | 19,463 | 47,337 | 40,349 |
| Change in work in progress and finished goods | | (127,018) | 356,902 | (120,785) | 349,798 |
| Cost of goods sold | | (122,069) | (262,253) | (104,767) | (250,318) |
| Cost of materials and services | 7 | (1,387,495) | (1,611,702) | (1,442,833) | (1,668,217) |
| Staff costs | 8 | (384,220) | (405,547) | (304,387) | (325,305) |
| Depreciation and amortisation | 15,16,17 | (59,272) | (49,980) | (51,930) | (44,028) |
| Other operating expenses | 9 | (186,766) | (159,153) | (177,244) | (152,094) |
| Other gains/(losses) – net | 10 | 38 | (17,523) | (88) | (17,433) |
| **Operating profit** | | **184,621** | **160,132** | **182,142** | **150,401** |
| Finance income | 11 | 503 | 1,269 | 63 | 1,712 |
| Finance costs | 11 | (74,270) | (50,884) | (70,692) | (47,129) |
| | | (73,767) | (49,615) | (70,629) | (45,417) |
| Profit before tax | | **110,854** | **110,517** | **111,513** | **104,984** |
| Income tax expense | 12 | (23,456) | (24,002) | (22,578) | (22,469) |
| **Net profit** | | **87,398** | **86,515** | **88,935** | **82,515** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | 91,573 | 88,815 | 88,935 | 82,515 |
| Minority interest | | (4,175) | (2,300) | - | - |
| **Net profit** | | **87,398** | **86,515** | **88,935** | **82,515** |
| **Earnings per share – basic an diluted (in HRK)** | 13 | **40.62** | **39.07** | **39.45** | **36.30** |

The financial statements set out on pages 2 to 57 were approved by the Management Board on 22 April 2010.

President of the Board/General Manager:

Luka Miličić, M. Sc. C. E.

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2009

| *(all amounts are expressed in thousands of HRK)* | Note | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|---|
| **Net profit** | | **87,398** | **86,515** | **88,935** | **82,515** |
| **Other comprehensive income:** | | | | | |
| Foreign exchange differences | | (2,886) | (1,909) | - | - |
| Assets at fair value | 26 | 3,634 | (1,473) | 3,634 | (1,473) |
| Total other comprehensive income | | 748 | (3,382) | 3,634 | (1,473) |
| **Total comprehensive income** | | **88,146** | **83,133** | **92,569** | **81,042** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | 92,727 | 85,878 | 92,569 | 81,042 |
| Minority interest | | (4,581) | (2,745) | - | - |
| **Total comprehensive income** | | **88,146** | **83,133** | **92,569** | **81,042** |

The accompanying notes form an integral part of these consolidated financial statements.

**DALEKOVOD d.d.**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2009**

| *(all amounts are expressed in thousands of HRK)* | Note | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 15 | 22,709 | 21,688 | 18,150 | 18,156 |
| Property, plant and equipment | 16 | 708,737 | 592,441 | 361,618 | 381,924 |
| Prepayments for property, plant and equipment | 16 | 127 | 684 | - | 25 |
| Investment property | 17 | - | - | 106,841 | 109,758 |
| Investments in subsidiaries | 18 | 5,439 | 5,439 | 119,101 | 72,648 |
| Available-for-sale financial assets | 19 | 56,775 | 45,186 | 56,775 | 45,186 |
| Loans and receivables | 21 | 14,683 | 25,157 | 15,627 | 25,481 |
| | | 808,470 | 690,595 | 678,112 | 653,178 |
| **Current assets** | | | | | |
| Inventories | 22 | 482,712 | 745,369 | 444,714 | 691,662 |
| Trade and other receivables | 23 | 991,946 | 1,108,251 | 983,088 | 1,137,418 |
| Financial assets at fair value through profit or loss | 24 | 534 | 417 | 26 | 24 |
| Cash and cash equivalents | 25 | 48,947 | 118,201 | 40,322 | 104,720 |
| | | 1,524,139 | 1,972,238 | 1,468,150 | 1,933,824 |
| **Total assets** | | **2,332,609** | **2,662,833** | **2,146,262** | **2,587,002** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | | |
| **Shareholders' equity** | 26 | | | | |
| Share capital | | 229,381 | 229,381 | 229,381 | 229,381 |
| Legal reserves | | 12,522 | 12,236 | 11,487 | 11,487 |
| Treasury shares | | (7,773) | (5,374) | (7,773) | (5,374) |
| Statutory reserves | | 218,400 | 219,999 | 218,400 | 219,999 |
| Revaluation reserves | | 7,225 | 3,591 | 7,225 | 3,591 |
| Other reserves | | 124,808 | 37,160 | 120,536 | 36,422 |
| Retained earnings | | 91,573 | 88,815 | 88,935 | 82,515 |
| | | 676,136 | 585,808 | 668,191 | 578,021 |
| **Minority interest** | | 10,863 | 16,375 | - | - |
| **Total equity** | | **686,999** | **602,183** | **668,191** | **578,021** |
| **Non-current liabilities** | | | | | |
| Borrowings | 27 | 185,203 | 188,448 | 155,044 | 183,957 |
| Provisions | 30 | 7,929 | 6,601 | 6,876 | 6,728 |
| Deferred income | 28 | 71,155 | 77,388 | 71,155 | 77,388 |
| | | 264,287 | 272,437 | 233,075 | 268,073 |
| **Current liabilities** | | | | | |
| Provisions | 30 | 547 | 588 | 447 | 461 |
| Borrowings | 27 | 535,269 | 754,554 | 496,780 | 714,322 |
| Trade and other payables | 29 | 843,328 | 1,030,230 | 745,538 | 1,023,687 |
| Income tax payable | 12 | 2,179 | 2,841 | 2,231 | 2,438 |
| | | 1,381,323 | 1,788,213 | 1,244,995 | 1,740,908 |
| **Total liabilities** | | **1,645,610** | **2,060,650** | **1,478,070** | **2,008,981** |
| **Total shareholders' equity and liabilities** | | **2,332,609** | **2,662,833** | **2,146,262** | **2,587,002** |

The accompanying notes form an integral part of these consolidated financial statements.

## DALEKOVOD d.d.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2009

**Dalekovod Group**

| *(all amounts are expressed in thousands of HRK)* | **Note** | **Share capital** | **Legal reserves** | **Treasury shares** | **Statutory reserves** | **Revaluation reserves** | **Other reserves** | **Retained earnings** | **Minority interest** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | | | | | | | | | | |
| At 1 January 2008 | | 229,381 | 12,236 | (1,244) | 173,309 | 5,064 | 37,462 | 80,360 | 19,304 | 555,872 |
| Net profit | | - | - | - | - | - | | 88,815 | (2,300) | 86,515 |
| Other comprehensive income | | | | | | (1,473) | (1,464) | - | (445) | (3,382) |
| Total comprehensive income | | - | - | - | - | (1,473) | (1,464) | 88,815 | (2,745) | 83,133 |
| **Transactions with owners:** | | | | | | | | | | |
| Purchase of treasury shares | 26 | - | - | (4,130) | - | - | - | - | - | (4,130) |
| Additional acquisition of TIM d.d. | 18 | - | - | - | - | - | - | - | (184) | (184) |
| Transfer to reserves | 26 | - | - | - | 46,690 | - | 1,162 | (47,852) | - | - |
| Dividend relating to 2007 | 14 | - | - | - | - | - | - | (32,508) | - | (32,508) |
| **At 31 December 2008** | | **229,381** | **12,236** | **(5,374)** | **219,999** | **3,591** | **37,160** | **88,815** | **16,375** | **602,183** |
| **Year ended 31 December 2009** | | | | | | | | | | |
| At 1 January 2009 | | 229,381 | 12,236 | (5,374) | 219,999 | 3,591 | 37,160 | 88,815 | 16,375 | 602,183 |
| Net profit | | - | - | - | | | | 91,573 | (4,175) | 87,398 |
| Other comprehensive income | | | | | | 3,634 | (2,480) | - | (406) | 748 |
| | | - | - | - | - | 3,634 | (2,480) | 91,573 | (4,581) | 88,146 |
| **Transactions with owners:** | | | | | | | | | | |
| Purchase of treasury shares | | - | - | (2,399) | - | - | - | - | - | (2,399) |
| Minority interests – additional acquisition of TIM d.d. | | | - | - | - | - | | | (931) | (931) |
| Transfer to reserves | | - | 286 | - | (1,599) | - | 90,128 | (88,815) | | - |
| **At 31 December 2009** | | **229,381** | **12,522** | **(7,773)** | **218,400** | **7,225** | **124,808** | **91,573** | **10,863** | **686,999** |

The accompanying notes form an integral part of these consolidated financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2009

| **Dalekovod d.d.** *(all amounts are expressed in thousands of HRK)* | **Note** | **Share capital** | **Legal reserves** | **Treasury shares** | **Revaluation reserves** | **Statutory reserves** | **Other reserves** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | | | | | | | | | |
| At 1 January 2008 | | 229,381 | 11,487 | (1,244) | 5,064 | 173,309 | 36,422 | 79,198 | 533,617 |
| Net profit | | - | - | - | - | - | - | 82,515 | 82,515 |
| Other comprehensive income | | - | - | - | (1,473) | - | - | - | (1,473) |
| Total comprehensive income | | - | - | - | (1,473) | - | - | 82,515 | 81,042 |
| Transactions with owners: | | | | | | | | | |
| Dividend relating to 2007 | 14 | - | - | - | - | - | - | (32,508) | (32,508) |
| Purchase of treasury shares | 26 | - | - | (4,130) | - | - | - | - | (4,130) |
| Statutory reserves | 26 | - | - | - | - | 46,690 | - | (46,690) | - |
| **At 31 December 2008** | | **229,381** | **11,487** | **(5,374)** | **3,591** | **219,999** | **36,422** | **82,515** | **578,021** |
| Net profit | | - | - | - | - | - | - | 88,935 | 88,935 |
| Other comprehensive income | | - | - | - | 3,634 | - | - | - | 3,634 |
| Total comprehensive income | | | | | 3.634 | | | 88.935 | 92.569 |
| Transactions with owners: | | | | | | | | | |
| Purchase of treasury shares | | - | - | (2,399) | - | - | - | - | (2,399) |
| Transfer to statutory reserves | | - | - | - | - | 800 | - | (800) | - |
| Transfer to other reserves | | - | - | - | - | (2,399) | 84,114 | (81,715) | - |
| **At 31 December 2009** | | **229,381** | **11,487** | **(7,773)** | **7,225** | **218,400** | **120,536** | **88,935** | **668,191** |

The accompanying notes form an integral part of these consolidated financial statements.

**DALEKOVOD d.d.**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2009**

| *(all amounts are expressed in thousands of HRK)* | Note | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 32 | 454,785 | (228,895) | 370,349 | (240,888) |
| Interest paid | | (77,626) | (47,360) | (73,716) | (43,738) |
| Income tax paid | | (26,297) | (22,468) | (25,017) | (21,066) |
| **Net cash (used in)/ from operating activities** | | **350,862** | **(298,723)** | **271,616** | **(305,692)** |
| **Cash flows from investing activities** | | | | | |
| Purchase of intangible assets | 15 | (5,023) | (3,236) | (5,023) | (3,050) |
| Purchase of property, plant and equipment | | (166,659) | (143,694) | (27,402) | (128,558) |
| Proceeds from sale of property, plant and equipment | 32 | 850 | 1,449 | 848 | 178 |
| Deposits during the year | | (35,378) | 18,083 | (37,216) | 24,144 |
| Loan repayments received | | 14,815 | 4,968 | 16,789 | 4,255 |
| Investment in subsidiaries and associate | | (9,462) | (5,191) | (9,462) | (12,005) |
| Investment in available-for-sale financial assets | 19 | (115) | (19,224) | (49,050) | (19,224) |
| Acquisition of subsidiary | 31 | (9,990) | - | - | - |
| Sale of/investment in financial assets | | 1,507 | 499 | 1,507 | 870 |
| Interest received | | 22,626 | 5,596 | 22,334 | 5,615 |
| **Net cash used in investing activities** | | **(186,829)** | **(140,750)** | **(86,675)** | **(127,775)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 178,805 | 578,276 | 152,240 | 538,097 |
| Issue of commercial papers - net | 27 | (72,462) | 118,000 | (72,462) | 118,000 |
| Purchase of treasury shares | 26 | (2,399) | (4,130) | (2,399) | (4,130) |
| Repayments of borrowings | | (337,184) | (288,175) | (326,671) | (258,767) |
| Dividends paid | | (47) | (32,508) | (47) | (32,508) |
| **Net cash (used in)/from financing activities** | | **(233,287)** | **371,463** | **(249,339)** | **360,692** |
| **Net(decrease) in cash and cash equivalents** | | **(69,254)** | **(68,010)** | **(64,398)** | **(72,775)** |
| Cash and cash equivalents at beginning of year | | 118,201 | 186,211 | 104,720 | 177,495 |
| Cash and cash equivalents at end of year | 25 | 48,947 | 118,201 | 40,322 | 104,720 |
| **Net (decrease) in cash and cash equivalents** | | **(69,254)** | **(68,010)** | **(64,398)** | **(72,775)** |

The accompanying notes form an integral part of these consolidated financial statements.

## NOTE 1 – GENERAL INFORMATION

The Dalekovod Group (the Group) comprises the parent company Dalekovod d.d., Zagreb and fourteen subsidiaries (2008: fourteen) – Note 18.

Dalekovod d.d., Zagreb (the Company) is privately owned and was incorporated in compliance with the laws and regulations of the Republic of Croatia. The registered office of the Company is in Zagreb, Marijana Čavića 4. The Company's shares are listed on the public joint stock company listing on the Zagreb Stock Exchange.

The Company's principal activity is the engineering, production, construction and installation of electric power facilities, facilities for road, railroad and mass transit and telecommunication infrastructure.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. All policies applicable to the Group are also applicable to the Company, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by financial assets at fair value through profit or loss and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

*(a) New and amended standards adopted by the Group and the Company*

- IFRS 7 Financial instruments – Disclosures (amendment) (effective from 1 January 2009). The amendment requires enhanced disclosures on fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 1 (revised) Presentation of financial statements (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As the result, the group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

*(a) New and amended standards adopted by the Group and the Company (continued)*

- *IFRS 2 (amendment), Share-based payment (effective 1 January 2009).* The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features should be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation of the subsequent to grant date. All cancellations, whether by entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

- With respect to borrowing costs related to qualifying assets with the commencement date for capitalization on or after 1 January 2009, the Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of the qualifying assets as part of the cost of that asset. The Group previously recognized all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of *IAS 23, 'Borrowing costs'* (2007) in accordance with transition provisions of the standard. The change in accounting policy had no impact on the Group's financial statements as the Group has no qualifying assets.

- *IAS 31 (Amendment), Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)* the amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures'. The application of the amendment does not have a material impact on the Group's financial statements.

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and the Company*

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not adopted them earlier:

- *IFRIC 17, Distribution of non-cash assets to owners (effective for annual periods beginning on or after 1 July 2009).* The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from 1 January 2010. The application of the IFRIC 17 is not expected to have a material impact on the Group financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and the Company (continued)*

- *IAS 27 (revised), Consolidated and separate financial statements, (effective from 1 July 2009).* The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- *IFRS 3 (revised), Business combinations (effective from 1 July 2009).* The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- *IAS 38 (amendment), Intangible Assets.* The amendment is a part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date when IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination, while permitting the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The application of the amendment is not expected to have a material impact on the Group's financial statements.

- *IFRS 5 (amendment), Measurement of non-current assets (or disposal groups) classified as held-for-sale.* The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still applies, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group will apply IFRS 5 (amendment) from 1 January 2010. The application of the amendment is not expected to have a material impact on the Group financial statements.

- *IAS 1 (amendment), Presentation of financial statements.* The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. The application of the amendment is not expected to have a material impact on the Group financial statements.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation

*(a) Subsidiaries*

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

In the non-consolidated financial statements, the Company carries investments in subsidiaries at acquisition cost.

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

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in consolidation. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of the Company.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Foreign currencies

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Group's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

*(c) Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to 'Cumulative foreign exchange differences' within shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

### 2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment (continued)

Land and work in progress are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | Useful lives in years |
|---|---|
| Buildings | 20 – 40 |
| Plant, machinery and equipment | 8 – 10 |
| Transportation vehicles | 5 – 8 |
| Leasehold improvements | Over the term of the underlying lease |
| Other | 5 – 10 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the line item "other (losses)/gains – net" in the income statement.

### 2.6 Investment properties

Investment property, principally comprising office buildings and land, is held for long-term rental yields or appreciation and is not occupied by the Group. Investment property is treated as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified in which case it is classified within current assets.

Investment property is carried at historical cost less accumulated depreciation and provision for impairment, where required. Depreciation for buildings is calculated using the straight-line method to allocate cost over estimated useful life (20 to 40 years).

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Intangible assets

*(a) Goodwill*

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

*(b) Licences*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land or goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Financial assets

The Group and the Company classify their financial assets in the following categories: at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within the line item 'other (losses)/gains – net' in the period in which they arise.

*(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in equity.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

*(b) Available-for-sale financial assets (continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in line item 'other (losses)/gains – net'.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the right to receive payment is established.

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Financial assets (continued)

*(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method. Impairment testing of loans and receivables is described in Note 2.12.

### 2.10 Leases

*The Group and the Company are the lessee*

The Group and the Company lease certain property, plant and equipment. Leases of property, plant and equipment, where the Group or the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

*The Group and the Company are the lessor*

Assets under an operating lease are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, even if the proceeds are not balanced, unless there is an alternative basis representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

### 2.11 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Small inventory and tools are expensed when put into use.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### 2.12 Trade and loan receivables

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "other operating expenses".

### 2.13 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group and the Company use the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group and the Company present as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses.

### 2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Group and the Company do not capitalise borrowing costs.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.17 Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### 2.18 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Employee benefits

*(a) Pension obligations and post-employment benefits*

In the normal course of business through salary deductions, the Group and the Company make payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred.

Furthermore, according to Collective bargaining agreement the Group and the Company have an obligation to make severance payments to employees at the time of the employees' retirement. The liability recognised in the balance sheet is the present value of defined benefit obligation at the balance sheet date less past service costs with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of governmental bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement severance payment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employee's expected average remaining working lives.

Past-service costs are amortised on a straight-line basis over the employee's expected average remaining working life.

In addition, the Group is not obliged to provide any other post-employment benefits.

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

*(c) Long-term employee benefits*

The Group recognises a liability for long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts. The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's and the Company's activities as described below.

*(a) Revenue from construction contracts*

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract (Note 2.13).

*(b) Sales of finished products and goods*

Sales of finished products and goods are recognised when the Group and the Company have delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

*(c) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

*(d) Dividend income*

Dividend income is recognised when the right to receive payment is established.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

### 2.23 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

### 2.24 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

(a) Market risk

*(i) Foreign exchange risk*

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

At 31 December 2009, if the EURO had weakened/strengthened by 0.5% against the HRK (2008: 0.5%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 2,124 thousand (2008: HRK 1,355 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated trade receivables, trade payables, borrowings and foreign cash funds.

At 31 December 2009, if the USD had weakened/strengthened by 1.5% against the HRK (2008: 5%), with all other variables held constant, the net profit for the reporting period after tax would have been HRK 577 thousand (2008: HRK 5,449 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of USD-denominated trade receivables, prepayments, deposits, trade payables and foreign cash funds.

*(ii) Equity securities risk*

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

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

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

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

The Group's and the Company's interest rate risk arises from long-term borrowings and commercial papers. Borrowings issued at variable rates expose the Group and the Company to cash flow interest rate risk. Borrowings and commercial papers issued at fixed rates expose the Group to fair value interest rate risk (Note 27).

The Group and the Company analyse their interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group and the Company calculate the impact on profit and loss of a defined interest rate shift. As at 31 December 2009, if the effective interest rate on borrowings had increased/decreased by 1% on an annual level (2008: 1%), the profit after tax would be lower/higher by HRK 4,314 thousand (2008: HRK 1,735 thousand).

*(b) Credit risk*

The Group's assets, which potentially subject the Group to concentrations of credit risk, primarily include cash, trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. A favourable structure of buyers and the fact that, if necessary, collection from buyers is regulated by bank payment guarantees, bills of exchange, letters of credit and other types of security, almost completely diminishes the risk arising from the collection of trade receivables. A detailed analysis and maximum exposure to credit risk are shown in Note 23.

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

*(c) Liquidity risk*

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

Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 27.

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

*(c) Liquidity risk (continued)*

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows.

| *(in thousands of HRK)* | **Less than 1 year** | **Between 1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| Trade payables | 660,537 | - | - | 660,537 |
| Other payables | 22,696 | - | - | 22,696 |
| Borrowings | 571,646 | 175,219 | 51,495 | 798,360 |

| *(in thousands of HRK)* | **Less than 1 year** | **Between 1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| Trade payables | 862,060 | - | - | 862,060 |
| Other payables | 51,190 | - | - | 51,190 |
| Borrowings | 782,705 | 150,472 | 86,627 | 1,019,804 |

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

### 3.2 Capital risk management

The Company and the Group monitor capital on the basis of laws and regulations of the countries in which they operate. Croatian laws and regulations require minimum paid in capital of HRK 200 thousand for joint stock companies. There are no specific objectives required by the owners in managing capital. The Company and the Group are not subject to externally imposed capital requirements. In addition, there are no internally monitored capital objectives.

## NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Fair value estimation

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments is based on quoted market prices at the balance sheet date (level 1) while the available-for-sale financial instruments are included in level 3.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

*(a) Revenue recognition*

The Group uses the percentage-of-completion method in accounting for its revenue from construction contracts to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. If the estimated stage of completion would differ by 10% from management's estimates, the amount of revenue recognized in the year would be increased by HRK 16,300 thousand if the percentage of completion were increased, or would be decreased by HRK 14,100 thousand if the percentage of completion were decreased.

*(b) Long-term employee benefits*

The Group recognises non-current liabilities to employees including liabilities for jubilee awards and retirement benefits in the amount of the estimated present value of future expenses. Each year a certified actuary revaluates the present value of these liabilities based on new information.

*(c) Impairment test for goodwill*

Provisionally determined goodwill resulting from the business combinations during the year 2007 has been restated upon completion of the valuation of acquired net assets (Notes 15 and 31).

Goodwill is tested annually for impairment as stated in Note 2.8.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The terminal growth rate used to extrapolate the cash flows beyond the five-year period is 5%, and present value of future cash flows is calculated using a  discount rate of 10%. Growth rate assumption was based on the historical data and the management's expectations for market development. Discount rate used is based on the Group's weighted average cost of capital.

At the balance sheet date the recoverable amount of cash generating units was higher than carrying value and there were no impairment losses.

## NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

*(d) Recent volatility in global and Croatian financial markets*

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

It is impossible to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

## NOTE 5 – SEGMENT INFORMATION

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

1. The segment of Production includes the forging works, the casting plant and the laboratory for quality control and the production of metal frames/structures.

2. The segment of Construction includes the construction of power and distribution facilities, transformer stations, laying submarine, subterranean and telecommunication cables, posting public lighting, installing antenna, television and telecommunication posts as well as work relating to the construction of motorways.

3. Other business segments includes separately Project design, Zinc coating facility and other activities (subsidiary activities, restaurant and common services).

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross operating income and realised operating profit as explained in the following table. Group financing (including finance costs and finance income), share of profit of a joint venture and income taxes are managed on a group basis and are not allocated to operating segments.

*The Group's Operating results by business segments*

| *(in thousands of HRK)* | **Construction** | **Production** | **Other** | **Total** |
|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | |
| Gross segment revenues | 1,890,864 | 602,001 | 119,062 | 2,611,927 |
| Inter-segment sales /i/ | (26,200) | (122,024) | (12,280) | (160,504) |
| Total revenues | 1,864,664 | 479,977 | 106,782 | 2,451,423 |
| Operating profit before depreciation and amortisation | 109,669 | 95,588 | 38,636 | 243,893 |
| Depreciation and amortisation | (11,966) | (20,606) | (26,700) | (59,272) |
| Operating profit | **97,703** | **74,982** | **11,936** | **184,621** |
| Capital expenditure /ii/ | 2,651 | 4,207 | 32,229 | 39,087 |
| Total assets/iii/ | **910,288** | **412,317** | **300,498** | **1,623,103** |
| **Year ended 31 December 2008** | | | | |
| Gross segment revenues | 1,951,405 | 461,344 | 70,063 | 2,482,812 |
| Inter-segment sales /i/ | (18,548) | (140,269) | (14,607) | (173,424) |
| **Total revenues** | **1,932,857** | **321,075** | **55,456** | **2,309,388** |
| Operating profit before depreciation and amortisation | 151,874 | 35,878 | 22,360 | 210,112 |
| Depreciation and amortisation | (12,755) | (27,267) | (9,958) | (49,980) |
| Operating profit | **139,119** | **8,611** | **12,402** | **160,132** |
| Capital expenditure /ii/ | 18,843 | 105,475 | 20,371 | 144,689 |
| Total assets/iii/ | **753,644** | **545,340** | **339,832** | **1,638,816** |

## NOTE 5 – SEGMENT INFORMATION (continued)

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

/ii/ Capital expenditure consists of additions of property, plant and equipment (Note 16) and intangible assets (Note 17) excluding the Company's additions and assets from the acquisitions of subsidiaries.

/iii/ Inter-segment receivables are eliminated on consolidation. Reportable segment assets are reconciled to total consolidated assets as follows:

| | **2009** | **2008** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Segment assets for reportable segments | 1,623,103 | 1,638,816 |
| Inter-segment receivables | (72,716) | (130,171) |
| **Unallocated:** | | |
| Property, plant and equipment | 282,491 | 318,164 |
| Intangible assets | 1,953 | 18,150 |
| Trade and other receivables | 332,166 | 613,778 |
| Available-for-sale financial assets | 56,775 | 45,186 |
| Short term deposits given | 62,989 | 40,709 |
| Cash and cash equivalents | 48,947 | 118,201 |
| Total assets per the balance sheet | **2,333,757** | **2,662,833** |

The measure of liabilities has not been disclosed for reportable segments as liabilities are provided to the chief operating decision maker on a Group basis only.

## NOTE 5 – SEGMENT INFORMATION (continued)

The total of non-current assets other than financial instruments, located in Croatia is HRK 691,689 thousand (2008: HRK 595,912 thousand), and the total of these non-current assets located in other countries is HRK 16,663 thousand (2008: HRK 15,370 thousand).

Sales among geographical segments are allocated based on the country in which the customer is located.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | *(in thousands of HRK)* | % | *(in thousands of HRK)* | % |
| Croatia | 1,737,643 | 71.68 | 1,627,669 | 71.08 |
| Bosnia and Herzegovina | 74,444 | 3.08 | 133,953 | 5.85 |
| Norway | 64,460 | 2.67 | 113,599 | 4.96 |
| Albania | 87,700 | 3.63 | 125,787 | 5.49 |
| Slovenia | 9,161 | 0.38 | 69,812 | 3.05 |
| Kazakhstan | 230,272 | 9.53 | 48,217 | 2.11 |
| Other | 218,037 | 9.03 | 170,888 | 7.46 |
| **Total** | **2,421,717** | **100.00** | **2,289,925** | **100.00** |

Income by geographical segments is determined geographical location of the customer.

## NOTE 6 – OTHER INCOME

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Interest income | 22,580 | 6,616 | 22,288 | 6,635 |
| Proceeds from insurance claims | 644 | 458 | 504 | 373 |
| Rental income | 76 | 77 | 21,439 | 26,535 |
| Income from reversal of provisions | 725 | 33 | 26 | 33 |
| Other operating income | 5,681 | 12,072 | 3,080 | 6,773 |
| | **29,706** | **19,463** | **47,337** | **40,349** |

Rental income mainly relates to the lease of property to the subsidiary Dalekovod-Cinčaonica d.o.o. which reimburses the depreciation charge, the interest expense of long-term borrowings used to finance the construction of leased assets and the expense of common departments (accounting, legal affairs, etc.) providing services to the subsidiary.

## NOTE 7 – COST OF MATERIALS AND SERVICES

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| **Raw materials and supplies** | | | | |
| Raw materials and supplies | 293,371 | 464,629 | 342,224 | 493,554 |
| Energy | 19,297 | 22,596 | 11,309 | 13,631 |
| Spare parts and small inventory | 10,806 | 11,610 | 10,386 | 9,997 |
| | 323,474 | 498,835 | 363,919 | 517,182 |
| **External services** | | | | |
| Subcontractor services | 1,000,307 | 1,022,151 | 1,031,428 | 1,072,749 |
| Transportation | 16,051 | 25,258 | 15,200 | 23,952 |
| Repairs and maintenance | 19,256 | 11,808 | 12,941 | 9,002 |
| Advertising and promotion | 9,737 | 20,485 | 9,202 | 20,351 |
| Rental expense | 3,483 | 2,931 | 4,566 | 2,412 |
| Other | 15,187 | 30,234 | 5,577 | 22,569 |
| | 1,064,021 | 1,112,867 | 1,078,914 | 1,151,035 |
| **Total cost of materials and services** | **1,387,495** | **1,611,702** | **1,442,833** | **1,668,217** |

Rental expenses relate to the lease of vehicles and office premises based on one-year agreements.

## NOTE 8 – STAFF COSTS

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Net salaries | 220,854 | 226,199 | 178,184 | 181,914 |
| Taxes and contributions on and from salaries | 146,382 | 163,480 | 116,145 | 132,555 |
| Severance costs | 3,763 | 2,735 | 3,284 | 2,564 |
| Other staff costs | 11,447 | 11,648 | 5,732 | 7,166 |
| Supervisory Board compensation | 1,774 | 1,485 | 1,042 | 1,106 |
| | **384,220** | **405,547** | **304,387** | **325,305** |

Taxes and contributions include contributions paid into mandatory pension funds in the amount of HRK 53,703 thousand (2008: HRK 53,615 thousand) for the Group, and HRK 43,731 thousand for the Company (2008: HRK 47,220 thousand). Contributions are calculated as a percentage of the employees' gross salaries.

Other staff costs include gifts, jubilee awards and other benefits.

As at 31 December 2009, the Group had 2,125 employees (2008: 2,287 employees), and the Company had 1,508 (2008: 1,537).

## NOTE 9 – OTHER OPERATING EXPENSES

| *(in thousands of HRK)* | **Dalekovod Group** 2009 | 2008 | **Dalekovod d.d.** 2009 | 2008 |
|---|---|---|---|---|
| Intellectual services | 93,209 | 65,374 | 95,969 | 67,640 |
| Daily allowances and travel cost | 25,822 | 30,522 | 23,222 | 26,804 |
| Bank charges | 10,588 | 15,455 | 9,864 | 14,461 |
| Entertainment | 6,996 | 10,121 | 6,367 | 9,365 |
| Taxes and contributions | 9,479 | 8,841 | 8,422 | 8,056 |
| Insurance | 8,249 | 9,942 | 7,383 | 9,195 |
| Sponsorships, donations and other aids | 10,422 | 6,597 | 10,061 | 6,468 |
| Write-off of property, plant and equipment | 208 | 1,686 | 81 | 325 |
| Impairment of investment in subsidiary (Note 18) | - | - | 2,597 | - |
| Change in provision for impairment of receivables and loans (Note 23) | 5,109 | 2,599 | 3,060 | 1,995 |
| Write-off of inventories | 707 | 298 | 185 | 295 |
| Interest from suppliers | 4,247 | 3,528 | 4,173 | 3,434 |
| Other operating expenses | 11,730 | 4,190 | 5,860 | 4,056 |
| | **186,766** | **159,153** | **177,244** | **152,094** |

## NOTE 10 – OTHER (LOSSES)/GAINS – NET

| *(in thousands of HRK)* | **Dalekovod Group** 2009 | 2008 | **Dalekovod d.d.** 2009 | 2008 |
|---|---|---|---|---|
| Net foreign exchange (loss)/gain from operating activities | (584) | (17,285) | (583) | (17,285) |
| Gains on sale of interest in available-for-sale financial assets (Note 24) | 1,507 | - | 1,507 | - |
| Fair value gains/(losses) (Note 24) | 2 | (1) | 2 | (1) |
| Net (loss)/gain on sale of tangible assets (Note 32) | (887) | (237) | (1,014) | (147) |
| | **38** | **(17,523)** | **(88)** | **(17,433)** |

## NOTE 11 – FINANCE INCOME AND COSTS

| *(in thousands of HRK)* | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|
| Interest income on bank deposits | 60 | 61 | - | - |
| Net foreign exchange differences (financing activities) | 443 | 1,208 | 63 | 1,712 |
| Finance income | 503 | 1,269 | 63 | 1,712 |
| Interest expense | (74,270) | (50,884) | (70,692) | (47,129) |
| Finance costs | (74,270) | (50,884) | (70,692) | (47,129) |
| | **(73,767)** | **(49,615)** | **(70,629)** | **(45,417)** |

## NOTE 12 – INCOME TAX

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

| *(in thousands of HRK)* | Dalekovod Group 2009 | Dalekovod Group 2008 | Dalekovod d.d. 2009 | Dalekovod d.d. 2008 |
|---|---|---|---|---|
| **Profit before tax** | **110,854** | **110,517** | **111,513** | **104,984** |
| Tax calculated at a rate of 20% | 22,171 | 22,103 | 22,303 | 20,997 |
| Effect of income not subject to tax | (3,027) | (1,108) | (2,131) | (1,064) |
| Effect of expenses not deductible for tax purposes | 4,307 | 2,802 | 2,406 | 2,536 |
| Effect of tax rates in other countries | 5 | 205 | - | - |
| **Income tax charge** | **23,456** | **24,002** | **22,578** | **22,469** |
| Effective tax rate | 21.60% | 21.72% | 20.25% | 21.36% |
| Income tax payable as at 31 December | 2,179 | 2,841 | 2,231 | 2,438 |

In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The same regulations apply to other subsidiaries of the Group in Croatia. Foreign subsidiaries abroad must comply with tax regulations of the country in which they operate. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

## NOTE 13 – BASIC AND DILUTED EARNINGS PER SHARE

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

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Net profit *(in thousands of HRK)* | 91,573 | 88,815 | 88,935 | 82,515 |
| Weighted average number of shares | 2,254,112 | 2,272,973 | 2,254,112 | 2,272,973 |
| **Earnings per share** *(in HRK)* | **40.62** | **39.07** | **39.45** | **36.30** |

## NOTE 14 – DIVIDENDS PER SHARE

In 2009, the General Assembly did not approve the dividend distribution from retained earnings of previous years, while in 2008, dividends were granted in the amount of HRK 32,508 thousand, which amounted to HRK 14.30 per share. Dividend per share was calculated based on issued shares less treasury shares at the time the dividend was declared.

Unpaid dividends in the amount of HRK 1,900 thousand (2008: HRK 1,947 thousand) are included as dividends payable in "trade and other payables" (Note 29) and relate to dividends from previous years.

## NOTE 15 – INTANGIBLE ASSETS

### Group

| *(in thousands of HRK)* | **Goodwill** | **Software** | **Total** |
|---|---|---|---|
| **At 31 December 2007** | | | |
| Cost | 3,346 | 24,625 | 27,971 |
| Accumulated amortisation | - | (5,246) | (5,246) |
| **Net book amount** | **3,346** | **19,379** | **22,725** |
| | | | |
| **Year ended 31 December 2008** | | | |
| Opening net book amount | 3,346 | 19,379 | 22,725 |
| Additions | - | 3,236 | 3,236 |
| Amortisation | - | (4,273) | (4,273) |
| Closing net book amount | 3,346 | 18,342 | 21,688 |
| | | | |
| **At 31 December 2008** | | | |
| Cost | 3,346 | 27,861 | 31,207 |
| Accumulated amortisation | - | (9,519) | (9,519) |
| **Net book amount** | **3,346** | **18,342** | **21,688** |
| | | | |
| **Year ended 31 December 2008** | | | |
| Opening net book amount | 3,346 | 18,342 | 21,688 |
| Additions (Note 31) | 1,213 | 5,023 | 6,236 |
| Disposals | - | (186) | (186) |
| Amortisation | - | (5,029) | (5,029) |
| Closing net book amount | 4,559 | 18,150 | 22,709 |
| | | | |
| **At 31 December 2009** | | | |
| Cost | 4,559 | 32,698 | 37,257 |
| Accumulated amortisation | - | (14,548) | (14,548) |
| **Net book amount** | **4,559** | **18,150** | **22,709** |

In 2007, the Company acquired a subsidiary and recorded goodwill in the amount of HRK 3,346 thousand. Impairment testing of goodwill is disclosed in Note 4.

## NOTE 15 – INTANGIBLE ASSETS (continued)

**Company**

| *(in thousands of HRK)* | **Software** |
|---|---|
| **At 31 December 2007** | |
| Cost | 24,625 |
| Accumulated amortisation | (5,246) |
| **Net book amount** | **19,379** |
| | |
| **Year ended 31 December 2008** | |
| Opening net book amount | 19,379 |
| Additions | 3,050 |
| Amortisation | (4,273) |
| Closing net book amount | 18,156 |
| | |
| **At 31 December 2008** | |
| Cost | 27,675 |
| Accumulated amortisation | (9,519) |
| **Net book amount** | **18,156** |
| | |
| **Year ended 31 December 2009** | |
| Opening net book amount | 18,156 |
| Additions | 5,023 |
| Amortisation | (5,029) |
| Closing net book amount | 18,150 |
| | |
| **At 31 December 2009** | |
| Cost | 32,698 |
| Accumulated amortisation | (14,548) |
| **Net book amount** | **18,150** |

## NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

### Group

| *(in thousands of HRK)* | Land | Buildings | Equipment | Work in progress | Total |
|---|---|---|---|---|---|
| **At 31 December 2007** | | | | | |
| Cost | 46,950 | 407,698 | 478,055 | 19,144 | 951,847 |
| Accumulated depreciation | - | (179,662) | (273,678) | - | (453,340) |
| **Net book amount** | **46,950** | **228,036** | **204,377** | **19,144** | **498,507** |
| **Year ended 31 December 2008** | | | | | |
| At 1 January | 46,950 | 228,036 | 204,377 | 19,144 | 498,507 |
| Additions | - | - | - | 141,453 | 141,453 |
| Transfers | 4,627 | 22,991 | 97,775 | (125,393) | - |
| Disposals | (1,039) | (244) | (403) | - | (1,686) |
| Exchange differences | (27) | (42) | (57) | - | (126) |
| Depreciation | - | (8,010) | (37,697) | - | (45,707) |
| At 31 December | 50,511 | 242,731 | 263,995 | 35,204 | 592,441 |
| **At 31 December 2008** | | | | | |
| Cost | 50,511 | 414,459 | 519,819 | 35,204 | 1,019,993 |
| Accumulated depreciation | - | (171,728) | (255,824) | - | (427,552) |
| **Net book amount** | **50,511** | **242,731** | **263,995** | **35,204** | **592,441** |
| **Year ended 31 December 2009** | | | | | |
| At 1 January | 50,511 | 242,731 | 263,995 | 35,204 | 592,441 |
| Additions | 637 | - | 3,147 | 160,330 | 164,114 |
| Transfers | - | 13,573 | 23,866 | (37,439) | - |
| Acquisition of subsidiary | 4,332 | 2,603 | 823 | - | 7,758 |
| Disposals | - | (12) | (1,725) | - | (1,737) |
| Exchange differences | (50) | 128 | 326 | - | 404 |
| Depreciation | - | (8,450) | (45,793) | - | (54,243) |
| At 31 December | 55,430 | 250,573 | 244,639 | 158,095 | 708,737 |
| **At 31 December 2009** | | | | | |
| Cost | 55,430 | 431,712 | 536,743 | 158,095 | 1,181,980 |
| Accumulated depreciation | - | (181,139) | (292,104) | - | (473,243) |
| **Net book amount** | **55,430** | **250,573** | **244,639** | **158,095** | **708,737** |

## NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

| *(in thousands of HRK)* | **Land** | **Buildings** | **Equipment** | **Work in progress** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2007** | | | | | |
| Cost | 13,521 | 204,226 | 375,476 | 17,834 | 611,057 |
| Accumulated depreciation | - | (125,871) | (203,681) | - | (329,552) |
| **Net book amount** | **13,521** | **78,355** | **171,795** | **17,834** | **281,505** |
| **Year ended 31 December 2008** | | | | | |
| At 1 January | 13,521 | 78,355 | 171,795 | 17,834 | 281,505 |
| Transfer from investment property (Note 17) | - | 15,783 | - | - | 15,783 |
| Additions | - | 21,575 | 91,805 | 10,247 | 123,627 |
| Disposals | - | - | (325) | - | (325) |
| Depreciation | - | (6,863) | (31,803) | - | (38,666) |
| At 31 December | 13,521 | 108,850 | 231,472 | 28,081 | 381,924 |
| **At 31 December 2008** | | | | | |
| Cost | 13,521 | 239,300 | 442,338 | 28,081 | 723,240 |
| Accumulated depreciation | - | (130,450) | (210,866) | - | (341,316) |
| **Net book amount** | **13,521** | **108,850** | **231,472** | **28,081** | **381,924** |
| **Year ended 31 December 2009** | | | | | |
| At 1 January | 13,521 | 108,850 | 231,472 | 28,081 | 381,924 |
| Additions | - | , | - | 25,268 | 25,268 |
| Transfers | - | 15,400 | 20,680 | (36,080) | - |
| Disposals | - | - | (1,937) | - | (1,937) |
| Depreciation | - | (5,931) | (37,706) | - | (43,637) |
| At 31 December | 13,521 | 118,319 | 212,509 | 17,269 | 361,618 |
| **At 31 December 2009** | | | | | |
| Cost | 13,521 | 254,700 | 454,513 | 17,269 | 740,003 |
| Accumulated depreciation | - | (136,381) | (242,004) | - | (378,385) |
| **Net book amount** | **13,521** | **118,319** | **212,509** | **17,269** | **361,618** |

As at 31 December 2009, the Group's advances for property, plant and equipment amounted to HRK 127 thousand (2008: HRK 684 thousand), while the Company has no advances (2008: HRK 25 thousand).

As at 31 December 2009, land, buildings and equipment of the Group and the Company with a net book value of HRK 45,507 thousand (2008: HRK 150,338 thousand) were pledged as security for borrowings received (Note 27).

As at 31 December 2009, assets leased under finance leases where the Group and the Company are the lessee amounted to HRK 192,200 thousand (2008: HRK 206,147 thousand) – see Note 27.

## NOTE 17 – INVESTMENT PROPERTY

| *(in thousands of HRK)* | **Land** | **Buildings** | **Total** |
|---|---|---|---|
| **As at 31 December 2007** | | | |
| Cost | 24,614 | 105,590 | 130,204 |
| Accumulated depreciation | - | (8,201) | (8,201) |
| **Net book amount** | **24,614** | **97,389** | **122,003** |
| **Year ended 31 December 2008** | | | |
| As at 1 January | 24,614 | 97,389 | 122,003 |
| Transfer to property, plant and equipment (Note 16) | - | (15,783) | (15,783) |
| Additions | 4,627 | - | 4,627 |
| Depreciation | - | (1,089) | (1,089) |
| As at 31 December | 29,241 | **80,517** | **109,758** |
| **As at 31 December 2008** | | | |
| Cost | 29,241 | 81,606 | 110,847 |
| Accumulated depreciation | - | (1,089) | (1,089) |
| **Net book amount** | **29,241** | **80,517** | **109,758** |
| **Year ended 31 December 2009** | | | |
| As at 1 January | 29,241 | 80,517 | 109,758 |
| Additions | 347 | - | 347 |
| Depreciation | - | (3,264) | (3,264) |
| As at 31 December | 29,588 | 77,253 | 106,841 |
| **As at 31 December 2009** | | | |
| Cost | 29,588 | 81,606 | 111,194 |
| Accumulated depreciation | | (4,353) | (4,353) |
| **Net book amount** | **29,588** | **77,253** | **106,841** |

Based on the current market prices and location of the property, Management determined that the fair value of investment property approximates its net carrying amount.

All land and buildings have been pledged as security for borrowings received (Note 27).

## NOTE 18 – INVESTMENTS IN SUBSIDIARIES

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| At 1 January | 5,439 | 273 | 72,648 | 60,643 |
| Decrease | (20) | (25) | (2,597) | - |
| Additions | 20 | 5,191 | 49,050 | 12,005 |
| At 31 December | **5,439** | **5,439** | **119,101** | **72,648** |

The principal subsidiary undertakings at 31 December are as follows:

| **Name** | **Country of incorporation** | **2009** | **2008** | **2009** | **2008** |
|---|---|---|---|---|---|
| | | *Holding in %* | | *(in thousands of HRK)* | |
| Dalekovod d.o.o., Ljubljana | Slovenia | 100.00 | 100.00 | 2,075 | 2,075 |
| Dalekovod d.o.o., Mostar | Bosnia and Herzegovina | 100.00 | 100.00 | 210 | 210 |
| Dalekovod-Cinčaonica d.o.o., Dugo Selo | Croatia | 100.00 | 100.00 | 1,000 | 1,000 |
| Dalekovod-projekt d.o.o., Zagreb | Croatia | 100.00 | 100.00 | 25 | 25 |
| Dalcom Engineering GmbH, Freilassing | Germany | 100.00 | 100.00 | 372 | 372 |
| Dalekovod-Polska S.A., Warsaw | Poland | 87.18 | 87.18 | 2,597 | 2,597 |
| Dalekovod TKS a.d., Doboj | Bosnia and Herzegovina | 88.83 | 88.83 | 18,564 | 18,564 |
| Unidal d.o.o., Vinkovci | Croatia | 50.54 | 50.54 | 16,185 | 16,185 |
| Dalekovod ESOP d.o.o., Zagreb | Croatia | 100.00 | 100.00 | 200 | 200 |
| Denacco Namibia (PTY) Ltd | Namibia | 60.00 | 60.00 | 18 | 18 |
| Dalekovod TIM Topusko d.d. | Croatia | 92.51 | 89.28 | 27,111 | 26,181 |
| Dalekovod – ulaganje d.o.o. Zagreb | Croatia | 100.00 | 100.00 | 38,120 | 20 |
| Dalekovod EKO d.o.o. Zagreb | Croatia | 50.00 | 50.00 | 10 | 10 |
| Cindal d.o.o. Doboj | Bosnia and Herzegovina | 95.01 | 95.01 | 5,191 | 5,191 |
| Dalekovod-Adria d.o.o. Zagreb | Croatia | 100.00 | - | 20 | |
| Dalekovod EMU d.o.o. Zagreb | Croatia | 100.00 | - | 10,000 | - |
| Impairment of investment | | | | (2,597) | - |
| | | | | **119,101** | **72,648** |

During 2009, the Company additionally purchased 3.23% shares of Dalekovod TIM Topusko from small shareholders in the amount of HRK 931 thousand (2008: 0.37% shares in the amount of HRK 184 thousand).

In 2009, the Company performed a capital contribution to its subsidiary Dalekovod ulaganje d.o.o. in the amount of HRK 38,100 thousand and founded the subsidiary Adria d.o.o. for the amount of HRK 20 thousand. In October 2009, the Company acquired 100% ownership in the company ELRA d.o.o. specialised for the sale of special measurement devices (Note 31). Upon the transaction, the name of the acquired company was changed to Dalekovod EMU.

As a result of operating losses that exceed the subsidiary's founding capital, the Company impaired its investment in the subsidiary in Poland in the total amount of HRK 2,597 thousand (Note 9).

## NOTE 18 – INVESTMENTS IN SUBSIDIARIES (continued)

Subsidiaries not included in consolidation as at 31 December are as follows:

| Name | Country of incorporation | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|---|
| | | *Holding in %* | | *(in thousands of HRK)* | |
| Adria d.o.o. | Croatia | 100.00 | - | 20 | - |
| 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 |
| Dalekovod EKO d.o.o. Zagreb | Croatia | 50.00 | 50.00 | 10 | 10 |
| Cindal d.o.o. Doboj | Bosnia and Herzegovina | 95.01 | 95.01 | 5,191 | 5,191 |
| | | | | **5,439** | **5,439** |

Subsidiaries Dalekovod ESOP d.o.o., Dalekovod –EKO d.o.o., Denacco namibia Ltd, Cindal d.o.o. Doboj and Adria d.o.o. do not perform any operating activities and are therefore not included in consolidation. The company Dalekovod-ulaganje d.o.o. is included in the consolidation for 2009, following the commencement of its operating activities.

## NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| At beginning of year | 45,186 | 27,435 | 45,186 | 27,435 |
| Additional investments | 19,090 | 19,224 | 19,090 | 19,224 |
| Decrease | (11,135) | - | (11,135) | - |
| Fair value adjustment | 3,634 | (1,473) | 3,634 | (1,473) |
| At end of year | **56,775** | **45,186** | **56,775** | **45,186** |

During 2009, the Company performed a capital contribution to its associate in the amount of HRK 16,000 thousand and retained the same share in ownership of 20%. At the end of 2009, the Company purchased in the market bonds of another company in the amount of HRK 3,090 thousand.

The Company owns 8.46% of shares in a closed-ended investment fund. On behalf of the Company, this fund acquires shares in domestic companies, with the purpose of developing such companies and improving their long-term market position, as well as realising future benefits for the investors. During the year, the Company sold a portion of its share and realised profit in the amount of HRK 1,507 thousand (Note 10).

As at 31 December 2009, the Company performed a valuation of its available-for-sale financial assets and adjusted them to fair value. The increase of HRK 3,634 thousand (2008: decrease of HRK 1,473 thousand) is recognised within revaluation reserves (Note 26).

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

### Group

| *(in thousands of HRK)* | Note | Loans and receivables | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|---|---|
| **31 December 2009** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | 23 | 866,189 | | | **866,189** |
| Loans and deposits given | 21,23 | 124,596 | | | **124,596** |
| Available-for-sale financial assets (changes through capital) | 19 | | | 56,775 | **56,775** |
| Financial assets at fair value through profit or loss | 24 | - | 534 | - | **534** |
| Cash and cash equivalents | 25 | 48,947 | - | - | **48,947** |
| **Total** | | **1,039,732** | **534** | **56,775** | **1,097,041** |

| *(in thousands of HRK)* | Note | Other financial liabilities |
|---|---|---|
| **31 December 2009** | | |
| **Financial liabilities** | | |
| Borrowings | 27 | 720,472 |
| Trade payables | 29 | 660,357 |
| Other payables | 29 | 108,094 |
| **Total** | | **1,488,923** |

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

## NOTE 20a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Group

| *(in thousands of HRK)* | Note | Loans and receivables | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | 23 | 967,747 | - | - | **967,747** |
| Loans and deposits given | 21,23 | 106,883 | - | - | **106,883** |
| Available-for-sale financial assets (changes through capital) | 19 | - | - | 45,186 | **45,186** |
| Financial assets at fair value through profit or loss | 24 | - | 417 | - | **417** |
| Cash and cash equivalents | 25 | 118,201 | - | - | **118,201** |
| **Total** | | **1,192,831** | **417** | **45,186** | **1,238,434** |

| *(in thousands of HRK)* | Note | Other financial liabilities |
|---|---|---|
| **31 December 2008** | | |
| **Financial liabilities** | | |
| Borrowings | 27 | 943,002 |
| Trade payables | 29 | 862,060 |
| Other payables | 29 | 51,990 |
| **Total** | | **1,857,052** |

## NOTE 20b – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| **Trade receivables – neither past due nor impaired** | | | | |
| Existing customers – payments within maturity period | 112,543 | 128,672 | 106,936 | 199,505 |
| Existing customers – with some defaults in the past | 163,007 | 266,220 | 187,026 | 284,157 |
| | **275,550** | **394,892** | **293,962** | **483,662** |

## NOTE 20b – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

The Group mainly deposits its cash with local banks without credit ratings, whose majority ownership is held by large foreign banking groups.

| **Cash at bank and deposits** | **2009** | **2008** |
|---|---|---|
| | *(in thousands of HRK)* | |
| BBB - | 13,387 | 13,215 |
| Without rating | 35,560 | 104,986 |
| | **48,947** | **118,201** |

## NOTE 21 – LOANS AND RECEIVABLES

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Long-term deposits | 67 | 34 | 41 | 34 |
| Long-term loans receivable: | | | | |
| - loans to subsidiaries | - | - | 3,307 | 5,355 |
| - consumer goods loans | 1,422 | 15,188 | 1,422 | 15,188 |
| - housing loans and other loans to employees | 3,518 | 4,563 | 3,287 | 4,348 |
| - loans to other companies | 18,719 | 11,300 | 18,666 | 8,626 |
| - ESOP (Employee Share Ownership Plan) | 4 | 8 | 4 | 8 |
| Total long-term loans and deposits | 23,730 | 31,093 | 26,727 | 33,559 |
| Current portion of long-term loans and deposits (Note 23) | (9,047) | (5,936) | (11,100) | (8,078) |
| **Long-term loans and deposits** | **14,683** | **25,157** | **15,627** | **25,481** |

### Deposits

Deposits are denominated in HRK with currency clauses (EURO).

### Consumer goods loans

Consumer goods loans represent trade receivables from customers in Bosnia and Herzegovina based on the sale of equipment and the provision of services, which were transformed into a loan repayable within a period of 2 years with an interest rate set at 4.5% p.a.

## NOTE 21 – LOANS AND RECEIVABLES (continued)

### Housing loans

Housing loans to employees carry an average effective interest rate of 6%, and are repayable over 2 to 25 years through deductions from employee salaries. Housing loans are denominated in HRK with currency clauses (EURO).

### Loans to subsidiaries and related parties

Of the total amount of loans given, the majority relates to a loan granted to Dalekovod TIM Topusko in October 2008 in the total amount of HRK 4,222 thousand, which is repayable over 5 years and bears an interest rate of 1-month EURIBOR + 2.5% annually. As at 31 December 2009 the loan amounts to HRK 3,307 thousand.

### Loans to other companies

During 2008, the Company concluded a Loan Agreement with TPN Sportski grad from Split, according to which a revolving loan facility was agreed in the total amount of HRK 9,000 thousand. Until 31 December 2008, the debtor drew down HRK 8,551 thousand on this facility. The loan was granted with a discount rate which was 9% annually at the date of Agreement. The loan matures in one instalment in 2028, while interest is calculated over the entire period and will be repaid from 31 October 2010.

The fair value of long-term loans approximates their carrying amount, since loan interest rates reflect market rates.

## NOTE 22 – INVENTORIES

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Raw materials | 120,310 | 256,092 | 94,978 | 220,053 |
| Finished goods, semi-finished goods and work in progress | 353,835 | 480,327 | 343,808 | 465,164 |
| Spare parts and small inventories | 5,873 | 6,874 | 5,025 | 6,089 |
| Trade goods | 2,694 | 2,076 | 903 | 356 |
| | **482,712** | **745,369** | **444,714** | **691,662** |

Total construction costs incurred and recognised profits (less recognised losses to date) for all active construction contracts amounted to HRK 5,705,615 thousand (2008: HRK 4,121,027 thousand).

## NOTE 23 – TRADE AND OTHER RECEIVABLES

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Domestic trade receivables | 540,254 | 551,770 | 524,349 | 590,493 |
| Foreign trade receivables | 106,774 | 234,041 | 113,258 | 231,526 |
| Provisions for impairment | (12,493) | (10,503) | (9,856) | (9,915) |
| | **634,535** | **775,308** | **627,751** | **812,104** |
| Receivable from customers for contract work | 212,829 | 163,563 | 212,829 | 163,563 |
| Retentions | 65,120 | 40,709 | 64,892 | 40,709 |
| Current portion of long-term loans (Note 21) | 9,047 | 5,936 | 11,100 | 8,078 |
| Loans to subsidiary (Note 33) | - | - | 3,307 | 3,340 |
| Other short-term loans | 35,746 | 35,115 | 35,746 | 35,115 |
| Advances | 14,146 | 14,379 | 14,066 | 14,230 |
| Receivable from employees | 2,471 | 1,312 | 966 | 1,154 |
| VAT receivable | 759 | 43,053 | - | 33,259 |
| Prepaid expenses | 13,196 | 11,027 | 11,387 | 10,943 |
| Other current assets | 6,927 | 17,849 | 3,874 | 14,923 |
| Impairment of other receivables | (2,830) | - | (2,830) | - |
| | **991,946** | **1,108,251** | **983,088** | **1,137,418** |

Other short-term loans and a loan to subsidiary represent primarily trade receivables converted to loans and loans given to sports organisations with annual interest rates from 3%-6%. The loans are generally granted for periods of 3 to 9 months and are secured by bills of exchange and promissory notes.

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

As at 31 December 2009, the Group recognised trade receivables in the amount of HRK 358,985 thousand (2008: HRK 380,416 thousand) that were past due, but not impaired, while the Company recognises HRK 333,789 thousand (2008: HRK 380,993 thousand) of such receivables. They mainly compose of receivables from customers owned by the state which pay with certain delays. The ageing of these receivables is based on the number of days outstanding after the maturity date:

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Up to 90 days | 166,526 | 183,919 | 150,697 | 184,116 |
| From 91 to 180 days | 93,126 | 63,352 | 88,904 | 85,720 |
| Over 180 days | 99,333 | 133,145 | 94,188 | 111,157 |
| | **358,985** | **380,416** | **333,789** | **380,993** |

## NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

Movements on the provision for impairment of trade receivables are as follows:

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| At 1 January | 10,503 | 10,129 | 9,915 | 9,866 |
| Provision for receivables impairment (Note 9) | 2,279 | 2,599 | 230 | 1,955 |
| Collected amounts | - | (207) | - | - |
| Receivables eliminated during the year as uncollectible | (289) | (2,018) | (289) | (1,906) |
| At 31 December | 12,493 | 10,503 | 9,856 | 9,915 |

Due to the inability to collect other receivables (loans and advances given), the Company performed the impairment in the amount of HRK 2,830 thousand (Note 9).

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| EUR | 121,490 | 182,371 | 114,248 | 175,576 |
| USD | 33,420 | 88,431 | 15,440 | 88,431 |
| HRK | 837,036 | 837,449 | 853,320 | 873,411 |
| Total | **991,946** | **1,108,251** | **983,008** | **1,137,418** |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group or the Company hold collaterals as security.

The fair value of trade receivables approximates their carrying amount.

## NOTE 24 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2009, the Group invested in domestic cash funds. As at 31 December 2009, fair value of these assets in the Group amounted to HRK 534 thousand (2008: HRK 417 thousand), and in the Company to HRK 26 thousand (2008: HRK 24 thousand). The Company realised profit of HRK 2 on fair valuation (2008: loss – HRK 1 thousand - Note 10).

## NOTE 25 – CASH AND CASH EQUIVALENTS

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Cash at banks and in hand – domestic currency | 14,188 | 5,089 | 12,756 | 2,964 |
| Cash at banks and in hand – foreign currency | 34,250 | 113,112 | 27,536 | 101,756 |
| Short-term deposits at bank | 509 | - | 30 | - |
| | **48,947** | **118,201** | **40,322** | **104,720** |

Depending on the availability of cash, the Company places short-term deposits (with maturities of three months or less) with various banks for the purpose of realising additional interest income.

As at 31 December 2009, the average effective interest rate for short-term deposits with banks was 2.7% (2008: 7.6%).

Cash and cash equivalents are denominated in the following currencies:

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| EUR | 13,575 | 66,457 | 9,389 | 62,034 |
| USD | 17,519 | 36,854 | 17,519 | 36,854 |
| Other | 3,156 | 9,801 | 628 | 2,868 |
| Total | **34,250** | **113,112** | **27,536** | **101,756** |

## NOTE 26 – SHAREHOLDERS' EQUITY

### Share capital

As at 31 December 2009, the share capital of the Company consisted of 2,293,812 ordinary shares, authorised and issued, with a nominal value of HRK 100 per share. All issued shares are fully paid.

As at 31 December 2009, the Company owns 40,199 treasury shares (2008: 34,208).

The structure of shareholders as at 31 December:

| | 2009 | 2008 |
|---|---|---|
| Natural persons | 65.29% | 38.93% |
| BMK i Partneri d.o.o. | - | 13.11% |
| KLT i Partneri d.o.o. | - | 12.79% |
| CTG d.o.o. | 15.37% | 15.64% |
| Treasury shares | 1.92% | 1.49% |
| Other | 17.42% | 18.04% |
| | 100.00% | 100.00% |

### Legal, statutory and other reserves

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. Legal reserves are not distributable.

During 2009, statutory reserves were decreased by HRK 1,598 thousand (2008: increase – HRK 46,690 thousand). These reserves are distributable.

Based on the decision of the General Meeting, profit for 2008 in the amount of HRK 82,515 thousand was transferred to other reserves. Other reserves consist of reserves formed by setting aside profits from previous periods by the decision of the General Meeting (these reserves are distributable) and treasury shares reserves. At the end of 2009, the Company purchased on the stock exchange 5,191 treasury shares in the total amount of HRK 2,399 thousand for which, according to Croatian regulations, reserves were formed (in earlier years HRK 5,374 thousand).

### Revaluation reserves

As at 31 December 2009, the Group and the Company performed a valuation of fair value of available-for-sale financial assets (shares and interests in the investment fund – Note 19) and, in accordance with the applicable accounting policy, a increase was performed in revaluation reserves in the amount of HRK 3,634 thousand (2008: a decrease of HRK 1,473 thousand).

## NOTE 27 – BORROWINGS

| | | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|---|
| *(in thousands of HRK)* | **Average interest rates** | **2009** | **2008** | **2009** | **2008** |
| **Long-term** | | | | | |
| Bank borrowings | 4.09% | 33,256 | 6,989 | 3,116 | 2,498 |
| Finance lease | 2.82% | 151,947 | 181,459 | 151,928 | 181,459 |
| | | **185,203** | **188,448** | **155,044** | **183,957** |
| **Short-term** | | | | | |
| Bank borrowings | 8.29% | 374,796 | 507,711 | 336,307 | 467,532 |
| Commercial papers | 9.46% | 152,538 | 225,000 | 152,538 | 225,000 |
| Finance lease | 2.82% | 7,935 | 21,843 | 7,935 | 21,790 |
| | | **535,269** | **754,554** | **496,780** | **714,322** |
| **Total borrowings** | | **720,472** | **943,002** | **651,824** | **898,279** |

During 2008, the Company concluded an agreement on the sale of assets (the plant in Dugo Selo) and on the lease-back of the same assets under a finance lease where the Company is the lessee. The total amount of this lease is HRK 215,774 thousand. The lease matures in 2016. The interest rate is 3-month Euribor + 1.6%. All assets have been pledged as collateral.

Gross liabilities under the finance lease – minimum lease payments:

| | **2009** | **2008** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 36,377 | 37,151 |
| 1 to 5 years | 141,963 | 143,483 |
| Over 5 years | 51,495 | 86,627 |
| | 229,835 | 267,261 |
| Future finance costs under finance lease | (37,708) | (49,800) |
| **Present value of liabilities under finance lease** | **192,127** | **217,461** |

During 2009, the Company issued commercial papers in the amount of HRK 152.5 million in denominations of HRK 1.00 for a period of 364 days from the day of issuance with a nominal yield of 9.46% (2008: 8.4%) p.a.

The bank borrowings are secured with bills of exchange and by mortgage over property, plant and equipment and investment property (Note 16).

As at 31 December 2009, interest payable on long-term and short-term borrowings amounted to HRK 4,857 thousand (2008: HRK 8,367 thousand), (Note 29).

## NOTE 27 – BORROWINGS (continued)

The Group's borrowings in the amount of HRK 339,976 thousand (2008: HRK 388,803 thousand) are exposed to interest rate changes, since the contracted interest rate is variable. Other borrowings have fixed interest rates and are exposed to interest rate changes upon maturity of the principal.

The exposure of the borrowings to interest rate changes at the balance sheet date is as follows (other borrowings are stated at fixed rates):

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| 1 month | 72,603 | 205,022 | 72,603 | 205,022 |
| 3 months | 238,588 | 105,978 | 201,476 | 103,286 |
| 6 months | 28,785 | 67,803 | 2,498 | 62,330 |
| 12 months | - | 10,000 | - | 10,000 |
| | **339,976** | **388,803** | **276,577** | **380,638** |

The carrying amount of the Group's long-term borrowings approximates their fair value, since the stated interest rates reflect current market interest rates.

The borrowings are denominated in the following currencies:

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| EUR | 539,297 | 369,525 | 478,718 | 364,713 |
| CHF | 2,820 | 5,229 | - | - |
| USD | - | 99,501 | - | 99,501 |
| HRK | 178,355 | 468,747 | 173,106 | 434,065 |
| | **720,472** | **943,002** | **651,824** | **898,279** |

## NOTE 28 – DEFERRED INCOME

Deferred income arose during 2008 at finance lease (Note 27) in which the Company sold its assets in the present carrying amount of HRK 126,440 thousand for the amount of HRK 215,774 thousand and realised profit of HRK 89,334 thousand, which is decreased over the lease period by the depreciation charge for these assets. As at 31 December 2009, the total amount of HRK 77,388 thousand (2008: HRK 83,599 thousand) was recorded, of which HRK 6,233 thousand (2008: HRK 6,211 thousand) relates to the current portion of deferred income.

## NOTE 29 – TRADE AND OTHER PAYABLES

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Domestic suppliers | 582,384 | 605,835 | 513,429 | 626,959 |
| Foreign suppliers | 77,973 | 256,225 | 62,677 | 244,032 |
| | **660,357** | **862,060** | **576,106** | **870,991** |
| Advances received for construction work | 23,488 | 50,624 | 23,488 | 50,624 |
| Advances | 11,783 | 22,694 | 11,379 | 21,342 |
| Salaries | 13,661 | 14,663 | 10,256 | 11,120 |
| Taxes and contributions | 16,625 | 17,885 | 10,013 | 10,967 |
| Dividend payable (Note 14) | 1,900 | 1,947 | 1,900 | 1,947 |
| Interest payable | 5,011 | 8,367 | 4,857 | 7,881 |
| VAT payable | 2,410 | - | 1,087 | - |
| Bills of exchange (i) | 80,299 | 37,736 | 80,299 | 37,736 |
| Liabilities arising from acquisition (Note 31) | 3,787 | - | 3,787 | - |
| Deferred income (Note 28) | 6,233 | 6,211 | 6,233 | 6,211 |
| Other accruals and liabilities | 17,774 | 8,043 | 16,133 | 4,868 |
| | **843,328** | **1,030,230** | **745,538** | **1,023,687** |

(i) Bills of exchange relate to financing at a discount of 6% (2008: 4.31%) with maturity at the beginning of 2010, when the liability was settled.

The carrying amounts of the Groups' and the Company's trade and other payables are denominated in the following currencies:

| | **Dalekovod Group** | | **Dalekovod d.d.** | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| EURO | 126,804 | 289,736 | 83,159 | 241,056 |
| USD | 23,640 | 52,476 | 17,660 | 52,476 |
| Other foreign currencies | 654 | 1,548 | 654 | 1,548 |
| HRK | 692,230 | 686,470 | 644,512 | 728,607 |
| Total | **843,328** | **1,030,230** | **745,985** | **1,023,687** |

## NOTE 30 – PROVISIONS

### Group

| *(in thousands of HRK)* | Jubilee awards | Retirement severance payment | Other | Total |
|---|---|---|---|---|
| At 1 January 2009 | **4,458** | **2,444** | **287** | **7,189** |
| Additional provisions | 1,848 | 827 | - | 2,675 |
| Reversal of provision | (26) | - | (287) | (313) |
| Used during the period | (884) | (191) | | (1,075) |
| **At 31 December 2009** | **5,396** | **3,080** | **-** | **8,476** |
| Non-current portion | 4,995 | 2,934 | - | 7,929 |
| Current portion | 401 | 146 | - | 547 |

### Company

| *(in thousands of HRK)* | Jubilee awards | Retirement severance payment | Other | Total |
|---|---|---|---|---|
| At 1 January 2009 | **4,458** | **2,444** | **287** | **7,189** |
| Additional provisions | 502 | 173 | - | 675 |
| Reversal of provision | - | - | (287) | (287) |
| Used during the period | (637) | (64) | - | (701) |
| **At 31 December 2009** | **4,323** | **2,553** | **-** | **6,876** |
| Non-current portion | 3,999 | 2,430 | - | 6,429 |
| Current portion | 324 | 123 | - | 447 |

*Retirement severance payment*

According to the Collective bargaining agreement, the Group has an obligation to make severance payments to employees at the time of the employees' retirement. The liability is calculated by independent actuaries. Significant assumptions used by the actuary are as follows: an annual leaver's rate for the Group of 4.81%, and for the Company 1.31% (2008: Group 4.15%, Company 0.89%), an annual discount rate of 6.2% (2008: 6.4%); the age of retirement is determined for each individual employee taking into account their present age and the overall realised years of service (the average age of retirement used in the calculation is 62 years for men and 58 years for women).

## NOTE 30 – PROVISIONS (continued)

*Jubilee awards*

This provision relates to estimated long-term employee benefits (jubilee awards) as defined in the Collective bargaining agreement.

## NOTE 31 – ACQUISITION

In October 2009, the Company acquired 100 % share in the company ELRA d.o.o. Vela Luka, specialised for the sale of measurement devices on medium and high voltage. The acquired company contributed revenues of HRK 2,471 thousand and losses for the year of HRK 734 thousand to the consolidated result for the year ended 31 December 2009. If the acquisition had occurred on 1 January 2009, the consolidated revenues for the year ended 31 December 2009 would have been HRK 9,460 thousand higher, while the profit before tax would have been HRK 1,548 thousand lower than the one realised.

Details of net assets and goodwill are as follows:

| | |
|---|---|
| Purchase consideration | 10,000 |
| Fair value of net assets acquired | (8,787) |
| Goodwill | 1,213 |

The assets and liabilities as at 30 September 2009 arising from the acquisition are as follows:

| *(in thousands of HRK)* | **Carrying amount** | **Fair value** |
|---|---|---|
| Cash | 10 | 10 |
| Tangible assets | 1,121 | 7,758 |
| Inventories | 5,800 | 5,800 |
| Trade and other receivables | 7,036 | 7,036 |
| Trade and other payables | (3,944) | (3,944) |
| Borrowings | (7,873) | (7,873) |
| **Net assets acquired** | **2,150** | **8,787** |
| | | |
| Purchase consideration settled in cash | | 10,000 |
| Cash and cash equivalents acquired | | (10) |
| Cash outflow on acquisition | | 9,990 |

The fair value of net assets acquired is provisional pending receipt of the final valuations for those acquired assets and liabilities and therefore, the Company did not pay the entire contracted price of HRK 10,000 thousand, but kept an amount of HRK 3,787 thousand (Note 29) as security until the prior owner settles the ownership and legal status of the property. This should be done until the end of 2011.

## NOTE 32 – CASH GENERATED FROM OPERATIONS

| | | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|---|
| *(in thousands of HRK)* | **Note** | **2009** | **2008** | **2009** | **2008** |
| Profit before tax | | 110,854 | 110,517 | 111,513 | 104,984 |
| Adjustments for: | | | | | |
| Depreciation and amortisation | 15,16,17 | 59,272 | 49,980 | 51,930 | 44,028 |
| Unrealised foreign exchange differences | | (2,044) | (2,082) | 438 | (299) |
| Property, plant and equipment written off | | 1,737 | 1,686 | 1,862 | 325 |
| Impairment of trade and loan receivables | 9 | 5,109 | 2,599 | 3,060 | 1,995 |
| Impairment of inventories | 9 | 707 | 298 | 185 | 295 |
| Impairment of investments in subsidiaries | 18 | - | - | 2,597 | - |
| Provision for long-term employee benefits | | 1,287 | 649 | (313) | 649 |
| Loss/(gain) on sale of property, plant and equipment | | 887 | 237 | 1,014 | 147 |
| Minority interest | | (931) | (184) | - | - |
| Fair value (gains)/losses | 10 | (2) | 1 | (2) | 1 |
| Interest income | 6 | (22,580) | (6,616) | (22,288) | (6,635) |
| Interest expense | 11 | 74,270 | 50,884 | 70,692 | 47,129 |
| Other | | - | 25 | - | - |
| | | 117,712 | 97,477 | 109,175 | 87,635 |
| Changes in working capital: | | | | | |
| Trade and other receivables | | 149,966 | (311,837) | 181,530 | (329,506) |
| Inventories | | 267,750 | (479,101) | 246,763 | (462,934) |
| Trade and other payables | | (191,497) | 354,049 | (278,632) | 358,933 |
| **Net cash (used in) /generated from operations** | | **454,785** | **(228,895)** | **370,349** | **(240,888)** |

In the cash flow statement, proceeds from the sale of property, plant and equipment comprise:

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | **2009** | **2008** | **2009** | **2008** |
| Net book amount | 1,737 | 1,686 | 1,862 | 325 |
| Net (loss)/gain on sale of property, plant and equipment (Note 10) | (887) | (237) | (1,014) | (147) |
| Proceeds from sale of property, plant and equipment | **850** | **1,449** | **848** | **178** |

## NOTE 33 – RELATED PARTY TRANSACTIONS

In the ordinary course of business operations, the Company enters into related party transactions, which include the purchase of goods and services and loans. In addition to the subsidiaries presented in Note 18, the Company's related parties include its Management Board and executive directors.

*Year-end balances resulting from transactions with subsidiaries are as follows:*

**Revenues and expenses**

| | 2009 | 2008 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Sales | 234,779 | 300,581 |
| Rental income | 24,692 | 26,548 |
| Sale of properties | - | 4,685 |
| | 259,471 | 331,814 |
| Cost of materials and services | 129,485 | 154,575 |
| Subcontractor services | 65,539 | 93,001 |
| Other operating expenses | 13,434 | 20,007 |
| | 208,458 | 267,583 |

**Receivables, payables and loans**

| | 2009 | 2008 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Trade receivables | 72,716 | 130,171 |
| Other receivables | 96 | 28 |
| Short-term loans given | 3,307 | 3,340 |
| | 76,119 | 133,539 |
| Trade payables | 72,812 | 130,219 |

*Year-end balances resulting from transactions with key management are as follows:*

| | Dalekovod Group | | Dalekovod d.d. | |
|---|---|---|---|---|
| *(in thousands of HRK)* | 2009 | 2008 | 2009 | 2008 |
| **Revenues and expenses** | | | | |
| Salaries | 12,890 | 10,371 | 10,203 | 8,565 |
| Contributions | 5,581 | 4,819 | 4,310 | 3,981 |
| | 18,471 | 15,190 | 14,513 | 12,546 |
| Interest income | 42 | 43 | 31 | 32 |
| **Loans** | | | | |
| Housing loans | 1,025 | 1,166 | 725 | 828 |

## NOTE 34 – CONTINGENCIES AND COMMITMENTS

As at 31 December 2009, the Group has numerous contracts for the provision of construction services which have commenced, but have not been completed. Costs to be incurred in the future arising from these contracts are estimated in the amount of HRK 3,430,790 thousand (2008: HRK 3,883,680 thousand). The Group guarantees adhering to deadlines and ensures quality for all work performed.

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Management and legal counsel believe that these legal disputes will not result in significant losses.