

Dalekovod Group  
Marijana Čavića 4  
10 000 Zagreb



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

*Audited, consolidated*

In Zagreb 30th April 2010



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## I. REPORT BY THE MANAGEMENT BOARD

Dalekovod Group consists of the following companies where Dalekovod is a major owner and whose financial statements are disclosed in the Group's consolidated reports.

No.	AFFILIATED COMPANIES – Dalekovod d.d. is a major owner	PORTION
1.	DALEKOVOD CINČAONICA d.o.o. - Dugo Selo	100,00%
2.	DALEKOVOD PROJEKT d.o.o. - Zagreb	100,00%
3.	UNIDAL d.o.o. - Vinkovci	50,54%
4.	DALEKOVOD TIM d.d. - Topusko	92,5%
5.	DALEKOVOD – TKS d.d. DOBOJ – BOSNIA AND HERZEGOVINA	88,83%
6.	DALEKOVOD d.o.o. - LJUBLJANA - SLOVENIA	100,00%
7.	DALCOM GmbH Freilassing – GERMANY	100,00%
8.	DALEKOVOD d.o.o. - Mostar – BOSNIA AND HERZEGOVINA	100,00%
9.	DALEKOVOD – POLSKA S.A. – Warsaw – POLAND	87,18%
10.	DALEKOVOD-NAMIBIJA LTD .- WINDHOEK NAMIBIA	60,00%
11.	DALEKOVOD ESOP d.o.o. - Zagreb	100,00%
12.	CINDAL d.o.o. – Doboj	95,01%
13.	DALEKOVOD ULAGANJA d.o.o. - Zagreb	100,00%
14.	DALEKOVOD - EMU d.o.o. - Vela Luka	100,00%
15.	DALEKOVOD - ADRIA d.o.o. - Zagreb	100,00%
16.	EL-RA d.o.o. - Vela Luka	100,00%

During the last year the GROUP and the Company – principal company have generated significant business results. The accomplished results confirm the continuation of the trend of continuous growth of the Group throughout a longer period.

During the year 2009, the Company generated total income amounting to HRK 2,453.433.226 which constitutes a rise of 6.5% compared to the income generated last year. Out of the this, 28% or HRK 662,327.745 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, Iceland and Slovenia.



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The profit indicated in 2009 amounts to 87,398,233.62 out of which HRK 91,573,399.87 is ascribed to capital holders of the principal company, and the loss amounting to 4,175,166.25 is to be ascribed to minority interest.

On behalf of the Management Board:

  
M.Sc. Luka Milčić,  
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 set of financial statements of the Company prepared by using suitable financial reporting standards, gives 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.

On behalf of the Management Board:

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

### III. BALANCE SHEET

#### Assets

Name of position: 1	AOP	No.	Previous year (net) 4	Current year (net) 5
	designation 2	Note 3		
<b>ASSETS</b>				
<b>A) RECEIVABLES FOR SUBSCRIBED CAPITAL, UNPAID</b>	<b>001</b>		0	0
<b>B) B) FIXED ASSETS (003+010+020+028+032)</b>	<b>002</b>		690.595.028	808.471.436
<b>I. INTANGIBLE ASSETS (004 to 009)</b>	<b>003</b>		<b>21.688.119</b>	<b>22.709.667</b>
1. Development costs	004		0	0
2. Concessions, patents, licenses, merchandize and service trademarks, software and other rights	005		21.688.119	16.197.620
3. Goodwill	006		0	4.559.000
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
<b>II TANGIBLE ASSETS (011 to 019)</b>	<b>010</b>		<b>593.124.049</b>	<b>708.864.076</b>
1. LAND	011		21.270.448	25.843.365
2. Buildings	012		161.125.363	173.445.871
3. Plants and equipment	013		263.994.492	211.542.820
4. Tools, plant inventories and transportation assets	014		0	32.969.874
5. Biological assets	015		0	0
6. Advances for tangible assets	016		683.502	126.683
7. Tangible assets in construction	017		35.203.489	158.094.757
8. Other tangible assets	018		0	0
9. Real estate investment	019		110.846.755	106.840.706
<b>III. LONG-TERM FINANCIAL ASSETS (021 to 027)</b>	<b>020</b>		<b>75.782.860</b>	<b>76.897.693</b>
1. Stakes (shares) in affiliated companies	021		5.439.335	5.439.653
2. Loans granted to affiliated undertakings	022		0	0
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		25.157.205	14.682.656
6. Treasury shares and stakes	026		0	0
7. Other long-term financial assets	027		0	0
<b>IV. DEBTORS (029 to 031)</b>	<b>028</b>		<b>0</b>	<b>0</b>
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
<b>V. DEFERRED TAX ASSETS</b>	<b>032</b>		<b>0</b>	<b>0</b>
<b>C) CURRENT ASSETS (034+042+049+057)</b>	<b>033</b>		<b>1.972.238.605</b>	<b>1.510.276.109</b>
<b>I. INVENTORIES (035 to 041)</b>	<b>034</b>		<b>745.369.469</b>	<b>482.712.214</b>
1. Raw material and material	035		262.966.226	126.182.683
2. Production in construction	036		46.838.785	20.296.285
3. Non-finished products and semi-finished products	037		20.842.957	1.514.691
4. Finished goods	038		412.645.418	331.924.941
5. Commodities	039		2.002.153	1.790.407
6. Advances for stocks	040		73.930	1.003.207
7. Other assets intended for sale	041		0	0
<b>II DEBTORS (043 to 048)</b>	<b>042</b>		<b>1.026.490.955</b>	<b>918.742.794</b>
1. Receivables from affiliated companies	043		0	0
2. Trade debtors	044		938.871.021	879.971.690
3. Amounts owed from participating companies	045		0	0
4. Amounts owed from employees and company members	046		1.311.744	2.471.127
5. Receivables from the Government and other institutions	047		43.053.142	1.316.481
6. Other receivables	048		43.255.048	34.983.496
<b>III. SHORT-TERM FINANCIAL ASSETS (050 to 056)</b>	<b>049</b>		<b>82.176.897</b>	<b>60.383.596</b>
1. Stakes (shares) in affiliated companies	050		0	0
2. Loans granted to affiliated undertakings	051		0	0
3. Participating interests	052		0	276.992
4. Investments in securities	053		416.520	26.023
5. Loans, deposits and etc. granted	054		81.760.377	59.850.036
6. Treasury shares and stakes	055		0	0
7. Other financial assets	056		0	230.545
<b>IV. CASH IN BANK AND IN HAND</b>	<b>057</b>		<b>118.201.284</b>	<b>48.437.505</b>



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D) PREPAYMENTS AND ACCRUED INCOME	058		0	13.861.910
E) LOSS EXCEEDING THE CAPITAL	059		0	0
F) TOTAL ASSETS (001+002+033+058+059)	060		2.662.833.633	2.332.609.455
G) OFF-BALANCE ITEMS	061		0	406.320.335

## Liabilities

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072-073+074-075+076)</b>	<b>62</b>	<b>602.185.287</b>	<b>686.999.363</b>
<b>I. SUBSCRIBED SHARE CAPITAL</b>	<b>63</b>	<b>229.381.200</b>	<b>229.381.200</b>
<b>II CAPITAL RESERVES</b>	<b>64</b>	<b>0</b>	<b>0</b>
<b>III. RESERVES FROM PROFIT (066+067-068+069+070)</b>	<b>65</b>	<b>264.021.373</b>	<b>345.632.495</b>
1. Legal reserves	<b>66</b>	12.236.538	12.522.134
2. Reserves for treasury shares	<b>67</b>	0	0
3. Treasury shares and stakes (deductible item)	<b>68</b>	5.374.370	0
4. Statutory reserves	<b>69</b>	219.999.205	218.400.504
5. Other reserves	<b>70</b>	37.160.000	114.709.857
<b>IV. REVALUATION RESERVES</b>	<b>71</b>	<b>3.591.025</b>	<b>7.224.760</b>
<b>V. RETAINED PROFIT</b>	<b>72</b>	<b>0</b>	<b>2.324.459</b>
<b>VI. LOSS CARRIED FORWARD</b>	<b>73</b>	<b>0</b>	<b>0</b>
<b>VII. PROFIT FOR THE FISCAL YEAR</b>	<b>74</b>	<b>88.816.483</b>	<b>91.573.397</b>
<b>VIII. LOSS FOR THE FISCAL YEAR</b>	<b>75</b>	<b>0</b>	<b>0</b>
<b>IX. MINORITY INTEREST</b>	<b>76</b>	<b>16.375.206</b>	<b>10.863.052</b>
<b>B) PROVISIONS (078 to 080)</b>	<b>77</b>	<b>7.188.536</b>	<b>8.475.988</b>
1. Provisions for pensions, severance pays and related liabilities	<b>78</b>	7.188.536	8.475.988
2. Provisions for tax liabilities	<b>79</b>	0	0
3. Other provisions	<b>80</b>	0	0
<b>C) LONG-TERM LIABILITIES (082 to 089)</b>	<b>81</b>	<b>265.835.926</b>	<b>279.185.838</b>
1. Payables to affiliated companies	<b>82</b>	0	0
2. Liabilities for loans, deposits etc.	<b>83</b>	0	0
3. Amounts owed to banks and other financial institutions	<b>84</b>	265.835.926	125.806.744
4. Amounts owed for advances	<b>85</b>	0	0
5. Trade creditors	<b>86</b>	0	153.379.094
6. Amounts owed with respect to securities	<b>87</b>	0	0
7. Other long-term liabilities	<b>88</b>	0	0
8. Deferred tax liability	<b>89</b>	0	0
<b>D) SHORT-TERM LIABILITIES (091 to 101)</b>	<b>90</b>	<b>1.787.623.884</b>	<b>1.280.098.888</b>
1. Payables to affiliated companies	<b>91</b>	0	7.325.986
2. Liabilities for loans, deposits etc.	<b>92</b>	22.430.332	8.907.329
3. Amounts owed to banks and other financial institutions	<b>93</b>	507.123.429	343.896.704
4. Amounts owed for advances	<b>94</b>	73.317.683	27.894.232
5. Trade creditors	<b>95</b>	899.796.266	595.998.921
6. Amounts owed with respect to securities	<b>96</b>	225.000.000	232.836.403
7. Payables to employees	<b>97</b>	14.662.850	14.636.826
8. Debts for taxes, contributions and other payables	<b>98</b>	20.725.596	19.059.407
9. Liabilities with respect to share in result	<b>99</b>	1.946.577	1.899.762
10. Liabilities with respect to fixed assets intended for sale	<b>100</b>	0	0
11. Other short-term liabilities	<b>101</b>	22.621.151	27.643.318
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>102</b>	<b>0</b>	<b>77.849.378</b>
<b>F) TOTAL – LIABILITIES (062+077+081+090+102)</b>	<b>103</b>	<b>2.662.833.633</b>	<b>2.332.609.455</b>
<b>G) OFF-BALANCE ITEMS</b>	<b>104</b>	<b>0</b>	<b>406.320.335</b>
<b>ANNEX TO THE BALANCE SHEET (to be filled in by a company preparing the consolidated annual financial statements)</b>			
<b>CAPITAL AND RESERVES</b>			
1. Ascribed to capital holders of the principal office	<b>105</b>	585.810.081	676.136.312
2. Ascribed to minority interest	<b>106</b>	16.375.206	10.863.052

#### IV. REPORT OF OVERALL PROFIT

Name of position:	AOP designation	No. Note	Previous year	Current year 2008
1	2	3	4	5
<b>I. OPERATING INCOME (108 to 110)</b>	<b>107</b>		<b>2.309.388.477</b>	<b>2.451.423.294</b>
1. Income from sales	108		2.289.925.226	2.394.605.008
2. Income from use of own products, goods and services	109			27.112.106
3. Other operating income	110		19.463.251	29.706.180
<b>II OPERATING EXPENSES (112-113+114+118+122+123+124+127+128)</b>	<b>111</b>		<b>2.131.733.441</b>	<b>2.268.309.020</b>
1. Depreciation of value of stocks of unfinished products and finished products	112			127.017.905
2. Appreciation of stocks of unfinished products and finished products	113		356.902.355	
3. Material costs (115 do 117)	114		1.873.955.237	1.509.563.316
a) Costs of raw material and material	115		498.835.079	323.474.299
b) costs of sold goods	116		262.253.138	122.068.551
c) Other external costs	117		1.112.867.020	1.064.020.466
4. Staff costs (119 to 121)	118		389.679.484	367.236.862
a) Net wages and salaries	119		226.199.461	220.854.198
b) Costs for taxes and contributions from salaries	120		109.866.237	95.516.314
c) Contributions on salaries	121		53.613.786	50.866.350
5. Depreciation	122		49.980.430	59.272.335
6. Other costs	123		167.303.055	197.212.753
7. Value adjustment (125+126)	124		0	2.809.141
a) of fixed assets (except for financial assets)	125			208.128
b) current assets (except for financial assets)	126			2.601.013
8. Provisions	127			3.725.919
9. Other operating expenses	128		7.717.590	1.470.790
<b>III. FINANCIAL INCOME (130 to 134)</b>	<b>129</b>		<b>1.269.482</b>	<b>2.009.932</b>
1. Interests, foreign currency differences, dividends and similar revenue from business with affiliated companies	130			
2. Interests, foreign currency differences, dividends and similar revenue from business with non- affiliated companies and other persons	131		1.269.482	503.293
3. A part of income from merged companies and participating interests	132			
4. Non-realized gains (income)	133			
5. Other financial income	134			1.506.639
<b>IV. FINANCIAL EXPENSES (136 to 139)</b>	<b>135</b>		<b>68.407.985</b>	<b>74.270.337</b>
1. Interests, foreign currency differences and other expenses with affiliated companies	136			
2. Interests, foreign currency differences and other expenses with non-affiliated companies and other persons	137		68.407.985	74.270.337
3. Non-realized losses (expenses) of financial assets	138			
4. Other financial expenses	139			
<b>V. EXTRAORDINARY – OTHER INCOME</b>	<b>140</b>			
<b>VI. EXTRAORDINARY – OTHER EXPENSES</b>	<b>141</b>			
<b>VII. TOTAL INCOME (107+129+140)</b>	<b>142</b>		<b>2.310.657.959</b>	<b>2.453.433.226</b>
<b>VIII. TOTAL EXPENSES (111+135+141)</b>	<b>143</b>		<b>2.200.141.426</b>	<b>2.342.579.356</b>
<b>IX. PRE-TAX PROFIT (142-143)</b>	<b>144</b>		<b>110.516.533</b>	<b>110.853.870</b>
<b>X. LOSS BEFORE TAXATION (143-142)</b>	<b>145</b>		<b>0</b>	
<b>XI. INCOME TAX</b>	<b>146</b>		<b>24.002.018</b>	<b>23.455.636</b>
<b>XII. PROFIT FOR THE PERIOD (144-146)</b>	<b>147</b>		<b>86.514.515</b>	<b>87.398.234</b>
<b>XIII. LOSS FOR THE PERIOD (145+146) or (146-144)</b>	<b>148</b>		<b>0</b>	
<b>ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by a company preparing the consolidated annual financial statements)</b>				
<b>XIV.* PROFIT ASCRIBED TO CAPITAL HOLDERS OF THE PRINCIPAL OFFICE</b>	<b>149</b>		<b>88.816.483</b>	<b>91.573.400</b>
<b>XV.* PROFIT ASCRIBED TO MINORITY INTEREST</b>	<b>150</b>			
<b>XVI.*LOSS ASCRIBED TO CAPITAL HOLDERS OF THE PRINCIPAL OFFICE</b>	<b>151</b>			
<b>XVII.* LOSS ASCRIBED TO MINORITY INTEREST</b>	<b>152</b>		<b>2.301.968</b>	<b>4.175.166</b>

## V. REPORT OF CASH FLOW

Name of position: 1	AOP	No.	Previous year 4	Current year 5
	designation 2	Note 3		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
1. Pre-tax profit	1		110.516.533	110.853.870
2. Depreciation	2		49.980.430	59.272.118
3. Increase in short-term liabilities	3		354.048.332	107.806.837
4. Decrease in short-term receivables	4		0	189.994.519
5. Reduction of stocks	5		0	263.905.621
6. Other increase in cash flow	6		47.496.748	23.324.610
<b>I. Total increase in cash flow from operating activities (001 to 006)</b>	<b>7</b>		<b>562.042.043</b>	<b>755.157.575</b>
1. Decrease in short-term liabilities	8		0	387.656.642
2. Increase in short-term receivables	9		311.837.437	27.058.237
3. Increase in stocks	10		479.101.413	1.872.803
4. Other decrease in cash flow	11		69.827.086	3.880.918
<b>II Total decrease in cash flow from operating activities (008 to 011)</b>	<b>12</b>		<b>860.765.936</b>	<b>420.468.600</b>
<b>A1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (007-012)</b>	<b>13</b>		<b>0</b>	<b>334.688.975</b>
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)</b>	<b>14</b>		<b>298.723.893</b>	<b>0</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
1. Cash receipts from sale of fixed tangible and intangible assets	15		1.449.578	20.741.252
2. Cash receipts from sale of treasury and debt financial instruments	16		0	90.543.029
3. Cash receipts from interests	17		5.596.151	1.095.334
4. Cash receipts from dividends	18		0	0
5. Other cash receipts from investment activities	19		23.550.274	800.307
<b>III. Total cash receipts from investment activities (015 do 019)</b>	<b>20</b>		<b>30.596.003</b>	<b>113.179.922</b>
1. Expenditures for buying fixed assets and intangible assets	21		166.153.750	192.948.891
2. Expenditures for purchasing treasury and debt financial instruments	22		0	146.415.831
3. Other expenditures from investment activities	23		5.191.214	462.169
<b>IV. Total expenditures from investment activities (021 to 023)</b>	<b>24</b>		<b>171.344.964</b>	<b>339.826.891</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (020-024)</b>	<b>25</b>		<b>0</b>	<b>0</b>
<b>b2) NET DECREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES (024-020)</b>	<b>26</b>		<b>140.748.961</b>	<b>226.646.969</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>				
1. Cash receipts from issuance of treasury and debt financial instruments	27		118.000.000	151.181.774
2. Cash receipts from loan principal, bonds, borrowings and other loans	28		578.275.669	742.765.533
3. Total cash receipts from financial activities	29		0	42.972.928
<b>V. Total cash receipts from financial activities (027 To 029)</b>	<b>30</b>		<b>696.275.669</b>	<b>936.920.235</b>
1. Expenditures for repayment of loan principal and bonds	31		288.175.332	1.080.446.859
2. Expenditures for payment of dividends	32		32.507.086	0
3. Expenditures for financial leasing	33		0	29.046.404
4. Expenditures for redemption of treasury shares	34		4.130.270	2.398.700
5. Other expenditures from financial activities	35		0	56.503
<b>VI. Total expenditures from financial activities (031 to 035)</b>	<b>36</b>		<b>324.812.688</b>	<b>1.111.948.466</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)</b>	<b>37</b>		<b>371.462.981</b>	<b>0</b>
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)</b>	<b>38</b>		<b>0</b>	<b>175.028.231</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	39		0	0
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	40		68.009.873	66.986.225
Cash and cash equivalents at the beginning of the period	41		186.211.156	115.423.730
Increase in cash and cash equivalents	42		0	0
Decrease in cash and cash equivalents	43		68.009.873	66.986.225
Cash and cash equivalents at the end of the period	44		<b>118.201.283</b>	<b>48.437.505</b>

## VI. REPORT OF CHANGES TO CAPITAL

Name of position:	AOP designation	Previous period	Current period
1. Subscribed capital	117	229.381.200	229.381.200
2. Capital reserves	118		0
3. Reserves from profit	119	264.021.373	345.632.495
4. Retained profit or loss carried forward	120		2.324.459
5. Profit/loss for the current year	121	88.816.483	91.573.397
6. Revaluation of the fixed tangible assets	122		
7. Revaluation of intangible assets	123		
8. Revaluation of financial assets available for sale	124	3.591.025	7.224.760
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	585.810.081	676.136.311

**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.

## **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.  
Zagreb, 30 April 2010

## DALEKOVOD d.d.

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2009	2008	2009	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)
<b>Operating profit</b>		<b>184,621</b>	<b>160,132</b>	<b>182,142</b>	<b>150,401</b>
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		<b>110,854</b>	<b>110,517</b>	<b>111,513</b>	<b>104,984</b>
Income tax expense	12	(23,456)	(24,002)	(22,578)	(22,469)
<b>Net profit</b>		<b>87,398</b>	<b>86,515</b>	<b>88,935</b>	<b>82,515</b>
<b>Attributable to:</b>					
Equity holders of the Company		91,573	88,815	88,935	82,515
Minority interest		(4,175)	(2,300)	-	-
<b>Net profit</b>		<b>87,398</b>	<b>86,515</b>	<b>88,935</b>	<b>82,515</b>
<b>Earnings per share – basic and diluted (in HRK)</b>	13	<b>40.62</b>	<b>39.07</b>	<b>39.45</b>	<b>36.30</b>

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.



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

**DALEKOVOD d.d.****STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2009**

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<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Net profit</b>		<b>87,398</b>	<b>86,515</b>	<b>88,935</b>	<b>82,515</b>
<b>Other comprehensive income:</b>					
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)
<b>Total comprehensive income</b>		<b>88,146</b>	<b>83,133</b>	<b>92,569</b>	<b>81,042</b>
<b>Attributable to:</b>					
Equity holders of the Company		92,727	85,878	92,569	81,042
Minority interest		(4,581)	(2,745)	-	-
<b>Total comprehensive income</b>		<b>88,146</b>	<b>83,133</b>	<b>92,569</b>	<b>81,042</b>

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

**DALEKOVOD d.d.**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2009**

<i>(all amounts are expressed in thousands of HRK)</i>	<b>Note</b>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
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
		<u>808,470</u>	<u>690,595</u>	<u>678,112</u>	<u>653,178</u>
<b>Current assets</b>					
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
		<u>1,524,139</u>	<u>1,972,238</u>	<u>1,468,150</u>	<u>1,933,824</u>
<b>Total assets</b>		<b><u>2,332,609</u></b>	<b><u>2,662,833</u></b>	<b><u>2,146,262</u></b>	<b><u>2,587,002</u></b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>					
Share capital	26	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
		<u>676,136</u>	<u>585,808</u>	<u>668,191</u>	<u>578,021</u>
<b>Minority interest</b>		10,863	16,375	-	-
<b>Total equity</b>		<b><u>686,999</u></b>	<b><u>602,183</u></b>	<b><u>668,191</u></b>	<b><u>578,021</u></b>
<b>Non-current liabilities</b>					
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
		<u>264,287</u>	<u>272,437</u>	<u>233,075</u>	<u>268,073</u>
<b>Current liabilities</b>					
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
		<u>1,381,323</u>	<u>1,788,213</u>	<u>1,244,995</u>	<u>1,740,908</u>
<b>Total liabilities</b>		<b><u>1,645,610</u></b>	<b><u>2,060,650</u></b>	<b><u>1,478,070</u></b>	<b><u>2,008,981</u></b>
<b>Total shareholders' equity and liabilities</b>		<b><u>2,332,609</u></b>	<b><u>2,662,833</u></b>	<b><u>2,146,262</u></b>	<b><u>2,587,002</u></b>

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)*

	<b>Note</b>	<b>Share capital</b>	<b>Legal reserves</b>	<b>Treasury shares</b>	<b>Statutory reserves</b>	<b>Revaluation reserves</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Minority interest</b>	<b>Total</b>
<b>Year ended 31 December 2008</b>										
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
<b>Transactions with owners:</b>										
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)
<b>At 31 December 2008</b>		<b>229,381</b>	<b>12,236</b>	<b>(5,374)</b>	<b>219,999</b>	<b>3,591</b>	<b>37,160</b>	<b>88,815</b>	<b>16,375</b>	<b>602,183</b>
<b>Year ended 31 December 2009</b>										
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
<b>Transactions with owners:</b>										
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)		-
<b>At 31 December 2009</b>		<b>229,381</b>	<b>12,522</b>	<b>(7,773)</b>	<b>218,400</b>	<b>7,225</b>	<b>124,808</b>	<b>91,573</b>	<b>10,863</b>	<b>686,999</b>

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 d.d.**

*(all amounts are expressed in thousands of HRK)*

	<u>Note</u>	<u>Share capital</u>	<u>Legal reserves</u>	<u>Treasury shares</u>	<u>Revaluation reserves</u>	<u>Statutory reserves</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Year ended 31 December 2008</b>									
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)	-
<b>At 31 December 2008</b>		<b>229,381</b>	<b>11,487</b>	<b>(5,374)</b>	<b>3,591</b>	<b>219,999</b>	<b>36,422</b>	<b>82,515</b>	<b>578,021</b>
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)	-
<b>At 31 December 2009</b>		<b>229,381</b>	<b>11,487</b>	<b>(7,773)</b>	<b>7,225</b>	<b>218,400</b>	<b>120,536</b>	<b>88,935</b>	<b>668,191</b>

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**

<i>(all amounts are expressed in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
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)
<b>Net cash (used in)/ from operating activities</b>		<b>350,862</b>	<b>(298,723)</b>	<b>271,616</b>	<b>(305,692)</b>
<b>Cash flows from investing activities</b>					
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
<b>Net cash used in investing activities</b>		<b>(186,829)</b>	<b>(140,750)</b>	<b>(86,675)</b>	<b>(127,775)</b>
<b>Cash flows from financing activities</b>					
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)
<b>Net cash (used in)/from financing activities</b>		<b>(233,287)</b>	<b>371,463</b>	<b>(249,339)</b>	<b>360,692</b>
<b>Net(decrease) in cash and cash equivalents</b>		<b>(69,254)</b>	<b>(68,010)</b>	<b>(64,398)</b>	<b>(72,775)</b>
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
<b>Net (decrease) in cash and cash equivalents</b>		<b>(69,254)</b>	<b>(68,010)</b>	<b>(64,398)</b>	<b>(72,775)</b>

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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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:

	<u>Useful lives in years</u>
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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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.

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

<i>(in thousands of HRK)</i>	<b>Less than 1 year</b>	<b>Between 1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2008</b>				
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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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*

<i>(in thousands of HRK)</i>	<u>Construction</u>	<u>Production</u>	<u>Other</u>	<u>Total</u>
<b>Year ended 31 December 2009</b>				
Gross segment revenues	1,890,864	602,001	119,062	2,611,927
Inter-segment sales /i/	<u>(26,200)</u>	<u>(122,024)</u>	<u>(12,280)</u>	<u>(160,504)</u>
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	<b>97,703</b>	<b>74,982</b>	<b>11,936</b>	<b>184,621</b>
Capital expenditure /ii/	2,651	4,207	32,229	39,087
Total assets/iii/	<b>910,288</b>	<b>412,317</b>	<b>300,498</b>	<b>1,623,103</b>
<b>Year ended 31 December 2008</b>				
Gross segment revenues	1,951,405	461,344	70,063	2,482,812
Inter-segment sales /i/	<u>(18,548)</u>	<u>(140,269)</u>	<u>(14,607)</u>	<u>(173,424)</u>
<b>Total revenues</b>	<b>1,932,857</b>	<b>321,075</b>	<b>55,456</b>	<b>2,309,388</b>
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	<b>139,119</b>	<b>8,611</b>	<b>12,402</b>	<b>160,132</b>
Capital expenditure /ii/	18,843	105,475	20,371	144,689
Total assets/iii/	<b>753,644</b>	<b>545,340</b>	<b>339,832</b>	<b>1,638,816</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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## 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:

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of HRK)</i>	
Segment assets for reportable segments	1,623,103	1,638,816
Inter-segment receivables	(72,716)	(130,171)
<b>Unallocated:</b>		
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	<u>2,333,757</u>	<u>2,662,833</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
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
<b>Total</b>	<b>2,421,717</b>	<b>100.00</b>	<b>2,289,925</b>	<b>100.00</b>

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

## NOTE 6 – OTHER INCOME

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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
	<b>29,706</b>	<b>19,463</b>	<b>47,337</b>	<b>40,349</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 7 – COST OF MATERIALS AND SERVICES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2009	2008	2009	2008
<b>Raw materials and supplies</b>				
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
	<u>323,474</u>	<u>498,835</u>	<u>363,919</u>	<u>517,182</u>
<b>External services</b>				
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
	<u>1,064,021</u>	<u>1,112,867</u>	<u>1,078,914</u>	<u>1,151,035</u>
<b>Total cost of materials and services</b>	<b><u>1,387,495</u></b>	<b><u>1,611,702</u></b>	<b><u>1,442,833</u></b>	<b><u>1,668,217</u></b>

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

## NOTE 8 – STAFF COSTS

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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
	<u>384,220</u>	<u>405,547</u>	<u>304,387</u>	<u>325,305</u>

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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 9 – OTHER OPERATING EXPENSES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2009	2008	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
	<b>186,766</b>	<b>159,153</b>	<b>177,244</b>	<b>152,094</b>

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2009	2008	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)
	<b>38</b>	<b>(17,523)</b>	<b>(88)</b>	<b>(17,433)</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 11 – FINANCE INCOME AND COSTS

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

## NOTE 12 – INCOME TAX

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Profit before tax</b>	<b><u>110,854</u></b>	<b><u>110,517</u></b>	<b><u>111,513</u></b>	<b><u>104,984</u></b>
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	<u>5</u>	<u>205</u>	<u>-</u>	<u>-</u>
<b>Income tax charge</b>	<b><u>23,456</u></b>	<b><u>24,002</u></b>	<b><u>22,578</u></b>	<b><u>22,469</u></b>
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.

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009**

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**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.

	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net profit ( <i>in thousands of HRK</i> )	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
<b>Earnings per share (<i>in HRK</i>)</b>	<b>40.62</b>	<b>39.07</b>	<b>39.45</b>	<b>36.30</b>

**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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 15 – INTANGIBLE ASSETS

**Group***(in thousands of HRK)*

	<u>Goodwill</u>	<u>Software</u>	<u>Total</u>
<b>At 31 December 2007</b>			
Cost	3,346	24,625	27,971
Accumulated amortisation	-	(5,246)	(5,246)
<b>Net book amount</b>	<b>3,346</b>	<b>19,379</b>	<b>22,725</b>
<b>Year ended 31 December 2008</b>			
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
<b>At 31 December 2008</b>			
Cost	3,346	27,861	31,207
Accumulated amortisation	-	(9,519)	(9,519)
<b>Net book amount</b>	<b>3,346</b>	<b>18,342</b>	<b>21,688</b>
<b>Year ended 31 December 2008</b>			
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
<b>At 31 December 2009</b>			
Cost	4,559	32,698	37,257
Accumulated amortisation	-	(14,548)	(14,548)
<b>Net book amount</b>	<b>4,559</b>	<b>18,150</b>	<b>22,709</b>

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)
<b>Net book amount</b>	<b>19,379</b>

**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)
<b>Net book amount</b>	<b>18,156</b>

**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)
<b>Net book amount</b>	<b>18,150</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

<b>Group</b>	<b>Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Work in progress</b>	<b>Total</b>
<i>(in thousands of HRK)</i>					
<b>At 31 December 2007</b>					
Cost	46,950	407,698	478,055	19,144	951,847
Accumulated depreciation	-	(179,662)	(273,678)	-	(453,340)
<b>Net book amount</b>	<b>46,950</b>	<b>228,036</b>	<b>204,377</b>	<b>19,144</b>	<b>498,507</b>
<b>Year ended 31 December 2008</b>					
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
<b>At 31 December 2008</b>					
Cost	50,511	414,459	519,819	35,204	1,019,993
Accumulated depreciation	-	(171,728)	(255,824)	-	(427,552)
<b>Net book amount</b>	<b>50,511</b>	<b>242,731</b>	<b>263,995</b>	<b>35,204</b>	<b>592,441</b>
<b>Year ended 31 December 2009</b>					
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
<b>At 31 December 2009</b>					
Cost	55,430	431,712	536,743	158,095	1,181,980
Accumulated depreciation	-	(181,139)	(292,104)	-	(473,243)
<b>Net book amount</b>	<b>55,430</b>	<b>250,573</b>	<b>244,639</b>	<b>158,095</b>	<b>708,737</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

## Company

*(in thousands of HRK)*

	Land	Buildings	Equipment	Work in progress	Total
<b>At 31 December 2007</b>					
Cost	13,521	204,226	375,476	17,834	611,057
Accumulated depreciation	-	(125,871)	(203,681)	-	(329,552)
<b>Net book amount</b>	<b>13,521</b>	<b>78,355</b>	<b>171,795</b>	<b>17,834</b>	<b>281,505</b>
<b>Year ended 31 December 2008</b>					
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
<b>At 31 December 2008</b>					
Cost	13,521	239,300	442,338	28,081	723,240
Accumulated depreciation	-	(130,450)	(210,866)	-	(341,316)
<b>Net book amount</b>	<b>13,521</b>	<b>108,850</b>	<b>231,472</b>	<b>28,081</b>	<b>381,924</b>
<b>Year ended 31 December 2009</b>					
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
<b>At 31 December 2009</b>					
Cost	13,521	254,700	454,513	17,269	740,003
Accumulated depreciation	-	(136,381)	(242,004)	-	(378,385)
<b>Net book amount</b>	<b>13,521</b>	<b>118,319</b>	<b>212,509</b>	<b>17,269</b>	<b>361,618</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 17 – INVESTMENT PROPERTY

*(in thousands of HRK)*

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<b>As at 31 December 2007</b>			
Cost	24,614	105,590	130,204
Accumulated depreciation	-	(8,201)	(8,201)
<b>Net book amount</b>	<b>24,614</b>	<b>97,389</b>	<b>122,003</b>
<b>Year ended 31 December 2008</b>			
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	<b>80,517</b>	<b>109,758</b>
<b>As at 31 December 2008</b>			
Cost	29,241	81,606	110,847
Accumulated depreciation	-	(1,089)	(1,089)
<b>Net book amount</b>	<b>29,241</b>	<b>80,517</b>	<b>109,758</b>
<b>Year ended 31 December 2009</b>			
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
<b>As at 31 December 2009</b>			
Cost	29,588	81,606	111,194
Accumulated depreciation	-	(4,353)	(4,353)
<b>Net book amount</b>	<b>29,588</b>	<b>77,253</b>	<b>106,841</b>

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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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	<b>5,439</b>	<b>5,439</b>	<b>119,101</b>	<b>72,648</b>

The principal subsidiary undertakings at 31 December are as follows:

Name	Country of incorporation	2009		2008	
		2009	2008	2009	2008
		<i>Holding in %</i>		<i>(in thousands of HRK)</i>	
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., Dobož	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. Dobož	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)	-
				<b>119,101</b>	<b>72,648</b>

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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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. Dobož	Bosnia and Herzegovina	95.01	95.01	5,191	5,191
				<b>5,439</b>	<b>5,439</b>

Subsidiaries Dalekovod ESOP d.o.o., Dalekovod –EKO d.o.o., Denacco namibia Ltd, Cindal d.o.o. Dobož 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

(in thousands of HRK)	Dalekovod Group		Dalekovod d.d.	
	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	<b>56,775</b>	<b>45,186</b>	<b>56,775</b>	<b>45,186</b>

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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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)*

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

*(in thousands of HRK)*

	<b>Note</b>	<b>Other financial liabilities</b>
<b>31 December 2009</b>		
<b>Financial liabilities</b>		
Borrowings	27	720,472
Trade payables	29	660,357
Other payables	29	108,094
<b>Total</b>		<b>1,488,923</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

## Group

<i>(in thousands of HRK)</i>	Note	Loans and receivables	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
<b>31 December 2008</b>					
<b>Financial assets</b>					
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
<b>Total</b>		<b>1,192,831</b>	<b>417</b>	<b>45,186</b>	<b>1,238,434</b>

<i>(in thousands of HRK)</i>	Note	Other financial liabilities
<b>31 December 2008</b>		
<b>Financial liabilities</b>		
Borrowings	27	943,002
Trade payables	29	862,060
Other payables	29	51,990
<b>Total</b>		<b>1,857,052</b>

## 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.

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2009	2008	2009	2008
<b>Trade receivables – neither past due nor impaired</b>				
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
	<b>275,550</b>	<b>394,892</b>	<b>293,962</b>	<b>483,662</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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
	<i>(in thousands of HRK)</i>	
BBB -	13,387	13,215
Without rating	35,560	104,986
	<b>48,947</b>	<b>118,201</b>

## NOTE 21 – LOANS AND RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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)
<b>Long-term loans and deposits</b>	<b>14,683</b>	<b>25,157</b>	<b>15,627</b>	<b>25,481</b>

**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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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
	<b>482,712</b>	<b>745,369</b>	<b>444,714</b>	<b>691,662</b>

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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 23 – TRADE AND OTHER RECEIVABLES

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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)
	<b>634,535</b>	<b>775,308</b>	<b>627,751</b>	<b>812,104</b>
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)	-
	<b>991,946</b>	<b>1,108,251</b>	<b>983,088</b>	<b>1,137,418</b>

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:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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
	<b>358,985</b>	<b>380,416</b>	<b>333,789</b>	<b>380,993</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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:

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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	<b>991,946</b>	<b>1,108,251</b>	<b>983,008</b>	<b>1,137,418</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

## 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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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	-
	<b>48,947</b>	<b>118,201</b>	<b>40,322</b>	<b>104,720</b>

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:

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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	<b>34,250</b>	<b>113,112</b>	<b>27,536</b>	<b>101,756</b>

**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:

	<u>2009</u>	<u>2008</u>
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%
	<u>100.00%</u>	<u>100.00%</u>

**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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 27 – BORROWINGS

<i>(in thousands of HRK)</i>	Average interest rates	Dalekovod Group		Dalekovod d.d.	
		2009	2008	2009	2008
<b>Long-term</b>					
Bank borrowings	4.09%	33,256	6,989	3,116	2,498
Finance lease	2.82%	151,947	181,459	151,928	181,459
		<b>185,203</b>	<b>188,448</b>	<b>155,044</b>	<b>183,957</b>
<b>Short-term</b>					
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
		<b>535,269</b>	<b>754,554</b>	<b>496,780</b>	<b>714,322</b>
<b>Total borrowings</b>		<b>720,472</b>	<b>943,002</b>	<b>651,824</b>	<b>898,279</b>

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

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).

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

## 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):

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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
	<b>339,976</b>	<b>388,803</b>	<b>276,577</b>	<b>380,638</b>

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:

	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
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
	<b>720,472</b>	<b>943,002</b>	<b>651,824</b>	<b>898,279</b>

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

## 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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	2009	2008	2009	2008
Domestic suppliers	582,384	605,835	513,429	626,959
Foreign suppliers	77,973	256,225	62,677	244,032
	<b>660,357</b>	<b>862,060</b>	<b>576,106</b>	<b>870,991</b>
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
	<b>843,328</b>	<b>1,030,230</b>	<b>745,538</b>	<b>1,023,687</b>

- (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:

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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	<b>843,328</b>	<b>1,030,230</b>	<b>745,985</b>	<b>1,023,687</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 30 – PROVISIONS

## Group

<i>(in thousands of HRK)</i>	<b>Jubilee awards</b>	<b>Retirement severance payment</b>	<b>Other</b>	<b>Total</b>
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)
<b>At 31 December 2009</b>	<b>5,396</b>	<b>3,080</b>	<b>-</b>	<b>8,476</b>
Non-current portion	4,995	2,934	-	7,929
Current portion	401	146	-	547

## Company

<i>(in thousands of HRK)</i>	<b>Jubilee awards</b>	<b>Retirement severance payment</b>	<b>Other</b>	<b>Total</b>
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)
<b>At 31 December 2009</b>	<b>4,323</b>	<b>2,553</b>	<b>-</b>	<b>6,876</b>
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).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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	<u>(8,787)</u>
Goodwill	1,213

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

<i>(in thousands of HRK)</i>	<u>Carrying amount</u>	<u>Fair value</u>
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	<u>(7,873)</u>	<u>(7,873)</u>
<b>Net assets acquired</b>	<b>2,150</b>	<b>8,787</b>
		<u>10,000</u>
Purchase consideration settled in cash		10,000
Cash and cash equivalents acquired		<u>(10)</u>
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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## NOTE 32 – CASH GENERATED FROM OPERATIONS

<i>(in thousands of HRK)</i>	Note	Dalekovod Group		Dalekovod d.d.	
		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
<b>Net cash (used in) /generated from operations</b>		<b>454,785</b>	<b>(228,895)</b>	<b>370,349</b>	<b>(240,888)</b>

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

<i>(in thousands of HRK)</i>	Dalekovod Group		Dalekovod d.d.	
	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)
<b>Proceeds from sale of property, plant and equipment</b>	<b>850</b>	<b>1,449</b>	<b>848</b>	<b>178</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

## 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**

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

**Receivables, payables and loans**

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

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

<i>(in thousands of HRK)</i>	<b>Dalekovod Group</b>		<b>Dalekovod d.d.</b>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenues and expenses</b>				
Salaries	12,890	10,371	10,203	8,565
Contributions	5,581	4,819	4,310	3,981
	<u>18,471</u>	<u>15,190</u>	<u>14,513</u>	<u>12,546</u>
Interest income	42	43	31	32
<b>Loans</b>				
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.