



INSTITUT IGH, d.d. ZAGREB GROUP
CONSOLIDATED FINANCIAL STATEMENTS
for the year ended on 31 December 2011
and the Independent Auditor's Opinion

Zagreb, 26 April 2012

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Pursuant to the Accounting Act (Official Gazette 109/07), the Board of Directors is to see that the Financial Statements of INSTUTUT IGH d.d. Zagreb Group ("The Group") are prepared in line with the International Financial Reporting Standards (IFRS) as published in the Official Gazette of the Republic of Croatia (nos. 139/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) so that they present a true and fair presentation of the position of the Group and its business results, cash flows and equity changes in each fiscal year. Pursuant to Article 34, paragraph 3, of the Accounting Act, until the Republic of Croatia becomes a European Union member, the international standards of financial reporting include the International Accounting Standards (IAS) and their amendments and interpretations, and the International Financial Reporting Standards (IFRS) with their amendments and interpretations, as established by the Committee, and are published in the Official Gazette.

Based upon adequate researches, the Board of Directors justifiably expects the Group to dispose of adequate resources in the foreseeable future. Therefore, the Board of Directors produced the Financial Statements assuming the Group's going concern.

Responsibilities of the Board of Directors in preparing the Financial Statements include the following:

- selection and consistent application of adequate accounting policies;
- producing justified and reasoned opinions and assessments;
- acting in line with the valid accounting standards, and publishing and explaining all materially important deviations in the Financial Statements; and
- producing the Financial Statements assuming a going concern, unless this assumption would not be adequate.

The Board of Directors is responsible about maintaining adequate accounting records that show the financial position of the Group with justified precision at all times, and making the Financial Statements be in line with the Accounting Act. Furthermore, the Board of Directors is responsible about safeguarding the Group's assets and performing of adequate steps to prevent and reveal any frauds and other irregularities.

For the Board of Directors

Prof. Jure Radić, Ph.D. Sc., Director



Institut IGH, d.d. Zagreb

Janka Rakuše 1

10 000 Zagreb

Republic of Croatia

25 April 2012

Grupa Institut IGH, d.d. Zagreb

INSTITUT IGH, d.d.

Zagreb

Janka Rakuše 1

To the Company Shareholders and Managers

INDEPENDENT AUDITOR'S REPORT

Audited reports

1. Pursuant to the Audit Agreement, we have audited the 2011 Consolidated Financial Statements of the INSTITUT IGH, d.d. Zagreb, as provided for by the International Financial Reporting Standards, as follows:

- a) Consolidated Balance Sheet as of 31 December 2011;
- b) Consolidated Profit and Loss Account for the year 2011;
- c) Consolidated Statement of Other Comprehensive Incomes for the year 2011;
- d) Cash Flow Statement for the year 2011;
- e) Equity Changes Statement for the year 2011;
- f) Notes to the 2011 Financial Statements.

The above Statements were approved for publishing on 25 April 2012, and are presented on pages 1 to 49 attached to this Report.

Financial reporting framework

2. The financial reporting framework of the audited Financial Statements are:

- a) Accounting Act (Official Gazette 109/07), and
- b) International Financial Reporting Standards (Official Gazette 139/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11). Pursuant to Article 34, paragraph 3, of the Accounting Act, until the Republic of Croatia becomes a European Union member, the international standards of financial reporting include the International Accounting Standards (IAS) and their amendments and interpretations, and the International Financial Reporting Standards (IFRS) with their amendments and interpretations, as established by the Committee, and are published in the Official Gazette.

Responsibility of the Management

3. The audited financial statements are the responsibility of Management of the INSTITUT IGH d.d. Zagreb Company. The Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the established financial reporting framework. Responsibilities of the Management include:

- a) designing, implementing and maintaining of internal controls relevant to the preparation and fair presentation of the Financial Statements, free of any material misstatements in presentation, whether due to fraud or error,
- b) selecting and applying of appropriate accounting policies and making of accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor

4. Our responsibility is to express an opinion on the Financial Statements, based on our audit. We conducted our audit in accordance with the Auditing Act (Official Gazette 146/05, 139/08) and the International Auditing Standards (Official Gazette 71/09). These 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 misstatements.

The audit involves performing procedures aimed to obtaining audit evidence about the amount and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatements of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the client's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. The audit also includes evaluating of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the Financial Statements.

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

Opinion

5. In our opinion, the presented Consolidated Financial Statements present realistically and fairly the financial status of the INSTITUT IGH, d.d. Zagreb and its subsidiaries, as at 31 December 2011, the business operations results, cash flow and equity changes in the year 2011, in accordance with the financial reporting frameworks stated in the Point 2 above.

Reference to material facts in the audited Statements

6. In the Note 55, the Management, referring to the International Financial Reporting Standard 7, disclosed the key risks contained in the audited Financial Statements, wherefore we are turning the Financial Statement user' attention to the data and facts disclosed in that chapter. Without prejudicing our opinion on the Financial Statements, we are pointing out that we deem the information on the disclosed risks to be particularly sensitive in analysing the financial position of INSTITUT IGH d.d. at the end of 2011, in particular in two key risk aspects:

(a) Exposure to credit risks related to collection of certain receivables and loans, and possible financial losses in case the said receivables cannot be collected. Related to the credit risk, we are emphasizing the events that include significant amounts of receivables and loans with no collateral security, and where assessment of the debtors' credibility indicates their large financial difficulties and/or risks in investment project implementation. The said qualifications relate to the risks of collecting of receivables and loans from the related company TPN Sportski grad, with the additional risk of the granted corporate guarantee for the liabilities of TPN Sportski grad and the liabilities from customer, the related company Geotehnika Inženjering. The risk of collecting the proceeds of sales of interests in the company Radeljević is in the significant relationship with investment project lacking collateral securities. The risk of receivables from Hrvatske ceste is indicated by the fact that these receivables have been sued in court. Risks related to the said receivables were generated in 2011 or end of 2011, that is, by the date of our audit some of the said risks became particularly significant (TPN Sportski grad and receivables from operations of Geotehnika).

Each one of the said business events, and risk related assets, is materially significant. All significant facts related to the said risks are described in the Note 55.2, where, besides risk descriptions, are also described the conditions on which depend implementation of the said financial instruments.

(b) Exposure to liquidity risks related to the company's due and unsettled liabilities, that is, significant delays in paying the liabilities. The total due and unsettled liabilities of various sorts at the end of 2011 amounted to HRK 158 million, of which HRK 120 million in delays of up to one year and HRK 38 million above one year; the delays exceeding a year being concentrated to suppliers. With regard to the solvency risk, we are pointing out relations between difficulties in future payments of due liabilities and statutory and contractual obligations pertaining payment deadlines: the statutory framework contained in the Act on Settling of Pecuniary Liabilities and the consequences therefrom, and the contracted conditions related to termination clauses in financing contracts and contracts where the company's assets are encumbered with mortgages and their fair value that becomes exposed in case of non-liquidity and insolvency. Related to this, and as a response to the described liquidity risks, it is to be pointed out that the Management is implementing business rationalisation measures and has initiated the process of contingent additional capitalisation of the company, as described in the following point of our Report.


Events after the Financial Statements date

7. Based on the difficulties in financing the company and settling its liabilities, the Management has initiated the process of additional capitalisation and, related thereto, has made resolutions explained in the Financial Statements, Note 56. The Company's future ability to pay its liabilities relates to the success in increasing the company equity and the level thereof. The management expects the planned additional capitalisation as the basic model of financial consolidation of the Company to succeed.

8. Pursuant to the Accounting Act (Official Gazette 109/07), the Rules on of the Annual Financial Statements Structure and Contents (Official Gazette 38/08, 12/09, 130/10), the prescribed financial statements presented here, alongside the audited financial reports, by have been made by the Company Management. The said statements comply with the financial statements that we have commented in the Point 5 of our Report, the same statements being also contained in the points 6 and 7.

Split, 26 April 2012

Director - Certified Auditor:
Jošip Tomasović



LIST
revizija i poslovne usluge
Split Hrvojeva 12/11
d.o.o.

CONSOLIDATED BALANCE SHEET
for the year ended on 31 December 2011

	NOTE	31/12/2010 in HRK 000s	31/12/2011 in HRK 000s
ASSETS			
FIXED ASSETS			
Intangible assets	3	33,960	35,695
Real-estates, plants and equipment	4	428,617	417,581
Investments in real estates	4	97,124	100,828
Financial assets	5	166,037	193,959
Long-term receivables	6	6,117	3,850
Deferred tax assets	7	2,282	2,146
		<u>734,137</u>	<u>754,059</u>
CURRENT ASSETS			
Stocks	8	148,297	127,031
Receivables from customers	10	161,474	143,895
Financial assets	13	29,038	32,903
Other receivables and calculated incomes	9,11,12,15	202,390	270,139
Cash and cash equivalents	14	73,680	15,853
		<u>614,879</u>	<u>589,821</u>
TOTAL ASSETS		<u>1,349,016</u>	<u>1,343,880</u>
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES			
Equity	16	63,432	63,432
Capital reserves	17	13,999	13,999
Statutory reserves	18	3,172	3,172
Reserves for own shares	19	6,343	6,343
Own shares	20	(1,446)	(1,446)
Revaluation reserves	21	61,719	58,852
Profit brought forward	22	241,862	251,422
Current year profit	23	8,300	1,673
Minority interest	24	5,167	66,088
Currency exchange losses from foreign operation investments		(30)	21
TOTAL CAPITAL		<u>402,518</u>	<u>463,556</u>
LIABILITIES			
LONG-TERM LIABILITIES			
Liabilities from loans	26	343,965	319,563
Reservations	25	8,280	5,949
Other long-term liabilities	27,28	8,386	5,571
Deferred tax liabilities		3,906	4,209
		<u>364,537</u>	<u>335,292</u>
SHORT-TERM LIABILITIES			
Liabilities from loans	30	181,858	176,073
Liabilities to suppliers	32	143,617	132,343
Liabilities for prepayments received	31	13,901	5,194
Other short-term liabilities	29,31,34	127,409	130,088
Liabilities from securities	33	113,791	98,433
Deferred costs and revenues not yet due	35	1,385	2,901
		<u>581,961</u>	<u>545,032</u>
TOTAL CAPITAL AND LIABILITIES		<u>1,349,016</u>	<u>1,343,880</u>

Notes numbers 1 to 57 make integral part of the Financial Statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year that ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
Revenues from sales	36	517,006	482,335
Other operating revenues	37	34,598	31,673
TOTAL REVENUES FROM CORE ACTIVITY		<u>551,604</u>	<u>514,008</u>
CHANGE OF VALUE OF PRODUCTION IN COURSE AND FINISHED PRODUCTS STOCK	38	6,402	13,856
Costs of materials, raws and services	39-41	170,382	184,592
Staff costs	42	250,366	218,630
Depreciation	43	26,505	21,902
Asset value harmonisation	45	16,906	7,315
Reservations	46	666	1,917
Other operating costs	44,47	29,127	29,891
TOTAL OPERATING COSTS		<u>500,354</u>	<u>478,103</u>
OPERATING PROFIT		<u>51,250</u>	<u>35,905</u>
FINANCIAL REVENUES	48	<u>33,369</u>	<u>34,926</u>
FINANCIAL EXPENSES	49	<u>67,470</u>	<u>63,665</u>
LOSS FROM FINANCIAL ACTIVITIES		<u>(34,101)</u>	<u>(28,739)</u>
PROFIT BEFORE TAXATION		<u>17,149</u>	<u>7,166</u>
PROFIT TAX	50	(7,942)	(5,467)
CURRENT YEAR PROFIT		<u>9,207</u>	<u>1,699</u>
PROFIT CREDITED TO MINORITY INTERESTS		(907)	(26)
LOSS CHARGING MINORITY INTERESTS			
PROFIT OF THE GROUP		<u>8,300</u>	<u>1,673</u>
<i>PROFIT PER SHARE (in Kunas and lipas)</i>	51	52.49	10.59

CONSOLIDATED STATEMENT ON OTHER COMPREHENSIVE INCOMES

for the year that ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
PROFIT OF THE PERIOD		<u>9,207</u>	<u>1,699</u>
Currency exchange differences from operations abroad		(8)	13
Profit from revaluation of financial assets available for sale		4,393	(1,640)
TAX PAYABLE TO OTHER COMPREHENSIVE INCOME OF THE PERIOD		(877)	325
NET OTHER COMPREHENSIVE INCOME OF THE PERIOD	52	<u>3,508</u>	<u>(1,301)</u>
COMPREHENSIVE INCOME OF ROSS OF THE PERIOD	52	12,715	398
Credited to Company shareholders		11,808	372
Credited to minority interests		907	26

CONSOLIDATED CASH FLOW STATEMENT

for the year that ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		17,149	7,166
Harmonisations:			
Depreciation		26,505	21,902
Expenses from interests		49,607	47,600
Revenues from interests		(8,800)	(6,857)
Increase / (decrease) of reservations		(12,528)	(688)
Value correction of receivables		16,906	7,315
Currency exchange differences from assets in accounts (net)		5,190	11,125
Result from operating activities before operative capital change		94,029	87,563
Decrease (increase) of current assets:			
(Increase) / decrease of stocks		355,223	21,266
(Increase) / decrease of receivables from customers		22,539	17,579
Increase / (decrease) liabilities to suppliers		(41,735)	(11,273)
(Increase) / decrease of other receivables			(23,969)
Increase / (decrease) other liabilities		(378,404)	(68,328)
Net cash flow from operating activities before interests and taxes		51,652	22,838
Interests paid		(49,607)	(37,338)
Profit tax paid		(18,856)	(4,739)
NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES		<u>(16,811)</u>	<u>(19,239)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Inflows from sale of fixed tangible and intangible assets		443	900
Inflows from sale of ownership instruments and debentures		58,848	40,509
Inflows from interests		0	0
Other inflows from investing activities		41,529	3,056
Outflows from purchasing fixed tangible and intangible assets		(11,341)	(14,529)
Outflows from acquiring ownership instruments and debentures		(62,102)	(31,319)
NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES		<u>27,377</u>	<u>0</u>
NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES		<u>0</u>	<u>(1,383)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Inflows from issuing financial ownership instruments and debentures		67,164	75,719
Inflows from loan principals, debentures and other loans		279,023	111,535
Outflows from repayment of loan principals and bonds		(355,916)	(220,896)
Outflows from payment of dividends		(199)	(157)
Outflows from financial leases		(6,464)	(3,406)
Outflows from purchasing own shares		(1,089)	0
Other outflows from financing activities		(9)	0
NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES		<u>(17,490)</u>	<u>(37,205)</u>
NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES		<u>(17,490)</u>	<u>(37,205)</u>
Total increase of cash flow			
Total decrease of cash flow		(6,924)	(57,827)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14	<u>80,604</u>	<u>73,680</u>
Decrease of cash and cash equivalents	54	(6,924)	(57,827)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14	<u>73,680</u>	<u>15,853</u>

Notes numbers 1 to 57 make integral part of the Financial Statements.

CONSOLIDATED EQUITY CHANGE STATEMENT

for the year that ended on 31 December 2011

	Equity	Statutory reserves	Reserves decr. by own shares	Capital reserves	Other reserves	Revaluation reserves	Profit brought forward	Current year profit	Total
31 December 2009	63,432	3,172	2,398	13,376	0	68,825	228,168	10,570	389,941
Profit distribution	-	-	-	-	-	-	10,570	(10,570)	0
Capital income from selling own shares	-	-	-	623	-	-	-	-	623
Acquiring own shares	-	-	(1,089)	-	-	-	-	-	(1,089)
Rewards to managers in shares	-	-	3,588	-	-	-	-	-	3,588
Increase of long-term financial assets	-	-	-	-	-	4,393	-	-	4,393
Revaluation of long-term financial assets	-	-	-	-	-	3,084	2,504	-	5,588
Decrease of long-term financial assets	-	-	-	-	-	(13,257)	-	-	(13,257)
Decrease by previous period expenses	-	-	-	-	-	-	(1,945)	-	(1,945)
Exit and consolidation of new companies	-	-	-	-	-	(1,326)	2,565	-	1,239
Currency exchange differences - investments abroad	-	-	-	-	-	-	-	(30)	(30)
Current year profit	-	-	-	-	-	-	-	8,300	8,300
31 December 2010	63,432	3,172	4,897	13,999	0	61,719	241,862	8,270	397,351
Profit distribution	-	-	-	-	-	-	8,270	(8,270)	0
Decrease of long-term financial assets	-	-	-	-	-	(1,640)	-	-	(1,640)
Revaluation of fixed tangible assets	-	-	-	-	-	4,256	-	-	4,256
Decrease of fixed tangible assets	-	-	-	-	-	(5,483)	2,266	-	(3,217)
Exit and consolidation of new companies	-	-	-	-	-	-	(976)	-	(976)
Currency exchange differences - investments abroad	-	-	-	-	-	-	-	21	21
Current year profit	-	-	-	-	-	-	-	1,673	1,673
31 December 2011	63,432	3,172	4,897	13,999	0	58,852	251,422	1,695	397,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year that ended on 31 December 2011

1. GENERAL INFORMATION

1.1. Activities

The company INSTITUT IGH d.d. and its subsidiaries ("the Company") perform professional testing, designing and validation of designs, supervision and professional management for architectural and civil-engineering fields of designing, as well as scientific research.

The company Institut IGH d.d. holds shares in 19 subsidiary and 11 affiliated companies performing the same and similar activities, except for one subsidiary company engaged in hotel and tourism business.

The registered office of Institut IGH d.d., OIB 79766124714, is in Zagreb, at Janka Rakuše 1. The Company is registered in the Register of Companies of the Municipal Court at Zagreb, company number 080000959.

The Company shares, ticker: IGH-R-A, ISIN: HRIGHORA0006, are quoted in the Zagreb Stock Exchange.

1.2. Staff

On 31 December 2011, the Company and its subsidiaries employed **1,105** employees (in 2010 there were **1,174** employees). Based on working hours, the average number of employees in 2011 was **999** (in 2010: **1,064**).

1.3. Company Supervising Board and Board of Directors

dr . Franjo Gregurić, B. Sc. Econ., Chairman	from 14 July 2008 to 14 July 2012 latest
Dinko Tvrtković, B. Sc. Civ. Eng., Member	from 2 April 2009 to 1 April 2013
Branko Kincl, Academy Member, Member	from 19 July 2010 to 19 July 2014 latest
Prof. Vlatka Rajčić, Ph.D. Sc., Member	from 19 July 2010 to 19 July 2014 latest
Ante Stojan, B. Sc. Civ. Eng., Member	from 19 July 2010 to 19 July 2014 latest

The Company Director is:

Prof. Jure Radić, Ph.D. Sc. Civ. Eng., Director	from 19 July 2010 to end July 2015 latest
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

1.4. Consolidation

The consolidation includes the Company and the following subsidiary companies:

	<u>PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%)</u>	
	<u>2010</u>	<u>2011</u>
Geotehnika-inženjering d.o.o., Zagreb	100	100
IGH Mostar d.o.o., Mostar	100	100
IGH Energija d.o.o. (ex IGH Razum d.o.o.), Zagreb	100	100
Incro d.o.o. (ex Adepto d.o.o.), Zagreb	100	100
Forum centar d.o.o., Zagreb	100	100
IGH Turizam d.o.o. (ex Dubrovačka investicijska grupa d.o.o.), Zagreb	100	100
Projekt Šolta d.o.o., Zagreb	100	100
IGH Projektiranje d.o.o., Zagreb	100	100
Vođenje projekata d.o.o., Zagreb	90	90
ETZ d.d., Osijek	80.20	80.20
Projektni biro Palmotićeva 45 d.o.o., Zagreb	80.08	80.08
IGH Kosova Sha	74.80	74.80
Arhitektura Tholos projektiranje d.o.o., Zagreb	66	66
Tehničke konstrukcije d.o.o., Zagreb	60	60
DP AQUA d.o.o., Zagreb	60	60
MBM Termoprojekt d.o.o., Zagreb	60	60
CTP Projekt d.o.o., Zagreb	56	56
Hidroinženjering d.o.o., Zagreb	55	55
Radeljević d.o.o., Zagreb	100	50

The consolidation does not include the subsidiaries whose financial position and business result do not affect the financial position and business result of the Company in 2011:

	<u>PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%)</u>	
	<u>2010</u>	<u>2011</u>
Slavonija Centar, Industrial Zone, Velika Kopanica d.o.o., Zagreb	100	100
Marterra d.o.o., Zagreb	-	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

The affiliated companies are as follows:

	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%)	
	<u>2010</u>	<u>2011</u>
Elpida d.o.o.	-	50
Infrastructural Projects Institute, Sophia	50	50
Institut građevinarstva Sarajevo d.o.o., Sarajevo	49	-
Sportski grad TPN d.o.o., Split	40	40
Auto cesta Bar Boljare d.o.o., Split	40	40
Centar Gradski podrum d.o.o., Zagreb	37.5	37.5
Centar Bundek d.o.o. , Zagreb	40	35
Gratius Projekt d.o.o., Zagreb	34	34
IGH Lux energija d.o.o. (ex Lux energija d.o.o.) , Zagreb	30	30
Črnomerec Centar d.o.o., Zagreb	20	-
Prvi crnogorski autoput d.o.o., Podgorica	25	25

The long-term financial assets - 20% of interests in the company Črnomerec Centar d.o.o., have been reclassified in line with the IAS 39 into the participating interests category, because of a significant loss of control in this company, subsequently measured by its fair value in the Profit and Loss Account.

The Municipal Court at Sarajevo, by their Ruling number 65 0 L 203335 112 of 15 December 2011, completed the process of liquidation of the company Institut građevinarstva Sarajevo d.o.o., and the value of interests in this company was harmonised on 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

2. THE MOST IMPORTANT ACCOUNTING POLICIES SUMMARY

Summary of the significant accounting policies, strictly adhered to in the current and the last years, are presented hereafter.

2.1. Basis of presentation

The Company Financial Statements are made pursuant to the Accounting Act (Official Gazette no. 109/07) and the International Financial Reporting Standards (Official Gazette nos. 136/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) as issued by the Financial Reporting Standards Committee. Pursuant to Article 34, paragraph 3, of the Accounting Act, until the Republic of Croatia becomes a European Union member, the international standards of financial reporting include the International Accounting Standards (IAS) and their amendments and interpretations, and the International Financial Reporting Standards (IFRS) with their amendments and interpretations, as established by the Committee, and published in the Official Gazette. The Financial Statements are prepared by application of the basic accounting assumption of a transaction occurrence, whereby the transaction effects are recognised when occurred and declared in the financial statements for the period they relate to, and with application of the basic accounting assumption of going concern.

The Consolidated Financial Statements present total amounts of the Company's assets, liabilities, equity and reserves as at 31 December 2011, and the business results, equity changes and cash flows for the year ended that date.

2.2. Basis of consolidation

The Consolidated Financial Statements comprise Financial Statements of the Company and the Financial Statements of the companies controlled by the Company (subsidiary companies), made as at 31 December 2011. Controlled by the Company are the companies in which the Company has the power to manage their financial and business policies and in which it invested in order to profit from the companies' activities.

The subsidiary company results acquired or disposed of in the course of the year are entered in the Profit and Loss Account on the date of their acquisition or disposing of, respectively.

All material transactions and positions between the companies in the Group are eliminated in consolidation.

2.3. Investing in the affiliated companies

Affiliated companies are the companies where the Company holds 20-50% of voting rights and where the Company has a significant influence, but not the control, by participating in making the decisions concerning their financial and business policies. In the Consolidated Financial Statements, the affiliated companies' business results, assets and liabilities are disclosed by the share method, that is, investments into the affiliated companies are disclosed by the investment costs harmonised by all the changes of the Company's share in the affiliated company's net assets after the acquisition, as well as by any decrease of a particular investment value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

2.4. Reporting currency

The Company Financial Statements are prepared in the Croatian Kunas as the Company's operating and reporting currency. The foreign companies Financial Statements are converted by the exchange rates stated in the Point 2.7, whereas the differences are disclosed in a separate item of the Consolidated Balance Sheet.

2.5. Recognising of revenues

Revenues from the sales of goods and services are recognised at the moment of delivery of the goods and services and transferring of the risks and benefits. Revenues from interests are calculated against the outstanding receivables and by the applicable interest rates.

Revenues from dividends or participation in the profit are recognised at the moment of establishing of the right to receiving the dividend or participation in the profit.

2.6. Loan costs

The loan costs that may be directly related to acquisition, construction or production of a qualified item are capitalised. Other loan costs charge the Profit and Loss Account of the period of creation.

2.7. Transactions in foreign currencies

Transactions in foreign currencies are initially converted into Croatian Kunas by the exchange rates valid on the transaction date. Money, receivables and payables disclosed in foreign currencies are subsequently converted by the Croatian National Bank mean exchange rate on the Balance Sheet date. Gains and losses resulting from the conversion are included in the Profit and Loss Account for the current year.

On 31 December 2011, the Croatian Kuna exchange rate was EUR 1 = HRK 7.53042 (31 December 2010: HRK 7.385173). The average EUR exchange rate used for conversing the foreign companies' Financial Statements was EUR 1 = HRK 7.433872.

For the consolidation purposes, the assets and liabilities of foreign entities of the Group are converted by the exchange rates valid on the Balance Sheet date. The revenues and expenses are converted by applying the average rate of the period, and the difference are recognised into the principal amount. All such currency exchange differences are recognised as the revenues or the losses of the period in which the entity was disposed of.

2.8. Profit tax

The profit tax liability is determined according to the results achieved in the year, harmonised by the amounts not included in the tax base or tax non-deducted expenses (70% of the entertainment expenses, 30% of the personal car use expenses, etc.). The profit tax is calculated by applying the tax rates in force on the Balance Sheet date. The calculations making the base of tax reporting may be inspected by the tax authorities.

The profit tax of a year comprises the current tax and the deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year that ended on 31 December 2011

(continued)

The current tax is the expected tax liability calculated to the taxable profit of the year, by applying the tax rate valid on the Balance Sheet date and all the tax liability harmonisations from the previous periods.

The deferred tax amount is calculated by the balance liability method, taking into account the temporary differences between the asset and liability accounting values for the taxation reporting purposes and the amounts used for the tax calculation purposes. The deferred tax amount is based on the expected realisation or settlement of the asset and liability accounting value, by applying the tax rates in force on the Balance Sheet date.

The deferred taxation assets are recognised in the amount of the probable future taxable profit sufficient for utilisation of the assets. Deferred taxation assets are decreased by the amount that is now unlikely to be allowed as a taxation relief.

2.9. Tangible and intangible fixed assets

Tangible and intangible fixed asset procurement expenses include their procurement value, import duties and non-refundable taxes, as well as any other expense that may be directly related to bringing the asset into the condition for its intended utilisation. Expenses of current maintenance and repairs, replacement and investment maintenance of a lesser extent are recognised as expenses of the period when occurred. Where it is clear that the expenses resulted in increased expectations of future economic benefits that are to be implemented by utilisation of the tangible or intangible fixed assets beyond their initially assessed potentials, they are capitalised, that is, included in the accounting value of the asset. Gains and losses resulting from writing off or disposal of a tangible or intangible fixed asset are declared by the net principle in the Profit and Loss Account in the period when occurred.

Calculation of depreciation is started at bringing an asset to its use. Depreciation is calculated by writing off the expenses of procurement or the appraised value of an asset, except land and tangible and intangible fixed assets in the course of preparation, during the assessed period of use of the asset, by applying the linear method and the maximum annual rate recognised by tax regulations as follows:

	Depreciation rate
Buildings – hotels.....	2%
Buildings.....	5%
Plants and equipment.....	10-50%
Intangible assets	50%

The Company's Board of Directors believes that the above rates are adequate to the degree of economic wear of the assets.

Assets intended for sale are disclosed at their acquisition value and are not depreciated. They comprise real estates, plants and equipment that are not being used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year that ended on 31 December 2011

(continued)

2.10. Investments in real-estates

Investments in real-estates are the real-estates (lands, houses or parts thereof or both) that the owner or the lessee holding them in a financial lease holds in order to make incomes from rental or because of the rise of their market value or both.

Initially, investments into real-estates are measured by costs. Costs of investing into real-estates include the purchase price and all the related direct costs.

Following the initial recognition, investments in real-estates are measured by their fair values.

2.11. Decreases

On every Balance Sheet date, the Company checks accounting values of its assets in order to establish if there are indications of any losses incurred due to decreasing of the asset values. If there are such indications, the recoverable value of the assets is assessed in order to establish any loss resulting from the decrease. If the recoverable value of an asset is assessed to an amount lesser than the accounting one, the accounting value of the asset is decreased to the recoverable amount. Losses resulting from asset decrease are disclosed in the Profit and Loss Account.

2.12. Stocks

Stocks are declared by their cost or the net expected sales value that can be achieved, whichever is lesser. This cost includes direct material and, if applicable, direct labour costs and all overhead/indirect costs related to bringing the stocks to their present location and present condition. The cost is established by applying the method of specific identification of particular costs. The net expected sales value that may be achieved forms the assessed sales price decreased by all assessed finishing, marketing, sales and distribution costs.

Where the stock value is to be brought to the net expected sales value, the stock value is corrected by charging the Profit and Loss Account of the current year.

Small inventory, packaging and car tyres are written off 100% when entered into use.

2.13. Receivables from customers and receivables from prepayments

Receivables from customers and receivables from prepayments are declared in their nominal amounts decreased by the adequate value harmonisation by the assessed bad debts. The Company Board of Directors establishes values of the receivables that are bad in terms of the possibility of their collection by the age structure of all receivables and analysis of particular significant amounts. Value of the bad debts is harmonised by charging the Profit and Loss Account of the current year.

2.14. Cash and cash equivalents

Cash consists of the balances at bank accounts and the cash in hand, and of the deposits and securities convertible into money at call or within three months latest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year that ended on 31 December 2011

(continued)

2.15. Financial instruments

Financial instruments are categorised as assets and liabilities or the principal, pursuant to the essence of the contractual deal. Interests, dividends, gains and losses related to a financial instrument categorised as a liability are declared as a revenue or an expense when occurred. Financial instruments are offset when the Company is entitled to offset under the law, or when there are simultaneous incomes and liability settlements in the net amount.

Financial assets and financial liabilities are recognised in the Company Balance Sheet when the Company became party to a financial-instrument contract.

Receivables from customers

Receivables from customers are declared in their nominal amounts decreased by the value harmonisation by the assessed bad debts.

Liabilities to suppliers

Liabilities to suppliers are declared in their nominal amounts.

Financial assets

At the initial recognising, financial assets are measured by their fair value increased, in case of financial assets registered by their fair value in the Profit and Loss Account, by the transaction costs.

After the initial recognition, financial assets are categorised pursuant to the revised IAS 39 into the following categories: financial assets by fair value in the Profit and Loss Account, investments held until mature, loans and receivables and financial assets available for sale.

Own shares

Own shares are declared by their acquisition cost, and their sale by the prices achieved. Profit and loss from sales of own shares are declared in the capital reserves account.

Banking loans

Interest bearing banking loans, as well as overdrafts, are declared in the amounts of the proceeds received or the overdrafts authorised, respectively.

Reservations

A reservation is recognised only where the Company has a present liability resulting from a past event and where it is probable that settlement of the liability will require outflow of the resources with economic benefits and where the amount of the liability can be established by a reliable method. Reservations are checked on every Balance Sheet date and harmonised in line with the latest best assessments.

Reservations are established for the costs of repairs in warranty periods, costs of court procedures and costs of rewards to employees for their long-time employment and retirement (regular loyalty and severance bonuses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year that ended on 31 December 2011

(continued)

Reservations for the costs of the rewards to employees for their long-time employment and retirement (regular loyalty and severance bonuses) are established as current value of future outflows by applying the discount rate corresponding to the state bond interest rate.

2.16. Contingent liabilities and assets

Contingent liabilities are not recognised in the Financial Statements. They are recognised in the Financial Statements only if the possibility of an outflow or resources forming economic benefits is not distant.

Contingent assets are not recognised in the Financial Statements, but are recognised at the moment when an inflow of economic benefits becomes probable.

2.17. Events after the Balance Sheet date

Events after the Balance Sheet date providing additional information on the Company position on the Balance Sheet date (events effecting the harmonisation) are recognised in the Financial Statements. Events not effecting the harmonisation are disclosed in the Notes to the Financial Statements if they are of a material importance.

2.18. Comparison data

Wherever necessary, the comparison data are reclassified in order to achieve consistency in disclosing of data with the current financial year and other data.

2.19. Standards, interpretations and published amendments of the standards not yet in force

In the late 2011 and early 2012, there were published translations of significant amendments of the IFRS/IAS and their interpretations, applicable since 1 July 2011 and further on.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

3. FIXED INTANGIBLE ASSETS

	Right to use third person assets (patents, licences etc.)	Assets under preparations	Goodwill	Total
PROCUREMENT VALUE				
<u>31 December 2010</u>	<u>30,076,280</u>	<u>3,887,682</u>	<u>28,719,956</u>	<u>62,683,918</u>
Increases	66,104	-	733	66,837
Decreases	(66,671)	-	-	(66,671)
New procurement	2,944,879	2,918,879	-	5,863,758
Revaluation (accelerated depreciation)	1,567,635	-	-	1,567,635
Carried forward	-	(2,944,879)	-	(2,944,879)
<u>31 December 2011</u>	<u>34,588,227</u>	<u>3,861,682</u>	<u>28,720,689</u>	<u>67,170,598</u>
VALUE CORRECTION				
<u>31 December 2010</u>	<u>27,456,117</u>	<u>1,268,255</u>	-	<u>28,724,372</u>
2011 depreciation	2,817,476	-	-	2,817,476
Sales or write off	(66,671)	-	-	(66,671)
<u>31 December 2011</u>	<u>30,206,921</u>	<u>1,268,255</u>	-	<u>31,475,176</u>
NET ACCOUNTING VALUE				
31 December 2010	2,620,163	2,619,427	28,719,956	33,959,546
31 December 2011	4,381,306	2,593,427	28,720,689	35,695,422

4. FIXED TANGIBLE ASSETS

	Land	Buildings	Plants and equipment	Assets in preparation	Other	Investments in real estates	Total	Prepayments for tangible assets	Total
PROCUREMENT VALUE									
<u>31 December 2010</u>	<u>91,866,992</u>	<u>416,525,997</u>	<u>203,258,176</u>	<u>24,627,461</u>	<u>5,531,048</u>	<u>97,123,970</u>	<u>838,933,644</u>	<u>128,339</u>	<u>839,061,983</u>
Increases		1,494,436	1,193,488		-	2,298,285	4,986,209	592,351	5,578,560
Direct procurement	-		2,180,735	7,524,962	-	1,405,706	11,111,403		11,111,403
Carried forward	-		-	(3,223,422)	-	-	(3,223,422)		(3,223,422)
Decreases	-	-	(969,153)	-	-	-	(969,153)	(548,732)	(1,517,885)
Sale or write off	-	-	(878,161)	-	-	-	(878,161)	-	(878,161)
<u>31 December 2011</u>	<u>91,866,992</u>	<u>418,020,433</u>	<u>204,785,085</u>	<u>28,929,001</u>	<u>5,531,048</u>	<u>100,827,961</u>	<u>849,960,520</u>	<u>171,958</u>	<u>850,132,478</u>
VALUE CORRECTION									
<u>31 December 2010</u>	-	<u>139,036,380</u>	<u>170,069,385</u>	-	<u>4,214,746</u>	<u>0</u>	<u>313,320,511</u>	-	<u>313,320,511</u>
2011 depreciation	-	13,914,253	5,209,411	-	157,111	-	19,280,775	-	19,280,775
Depreciation of foreign branches	-	-	39,698	-	-	-	39,698	-	39,698
Correction - deprec. of foreign branches	-		(39,698)	-	-	-	(39,698)	-	(39,698)
Sale or write off	-	-	(878,161)	-	-	-	(878,161)	-	(878,161)
<u>31 December 2011</u>	-	<u>152,950,633</u>	<u>174,400,635</u>	-	<u>4,371,857</u>	<u>0</u>	<u>331,723,125</u>	-	<u>331,723,125</u>
NET ACCOUNTING VALUE									
31 December 2010	91,866,992	277,489,617	33,188,791	24,627,461	1,316,302	97,123,970	525,613,132	128,339	525,741,472
31 December 2011	91,866,992	265,069,800	30,384,450	28,929,001	1,159,191	100,827,961	518,237,395	171,958	518,409,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
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- 4.1.** The Company mortgaged its assets valid HRK 407,241,000 in securing repayment of the loans and using the bank guarantees from the banks Zagrebačka banka d.d., Zagreb, Erste & Steiermärkische bank d.d., Rijeka, Hypo Group Alpe Adria, Zagreb, HPB d.d. Zagreb and VABA Banka d.d. Varaždin.
- 4.2.** In the account of investment in real estates it is entered procurement of 56,364 m² of land in the cadastral District of Grohote, appraised to HRK 81,812,000, investment in land in the Business Zone Velika Kapanica amounting to HRK 13,101,000, and investment in building land in Rijeka, Zamet location, and Novaki Motovunski, amounting to HRK 3,617,000, as well as investments in business premises intended for rent, amounting to HRK 2,298,000.
- 4.3.** Assets under preparation comprise investments in constructing a business building at Janka Rakuše 1, Zagreb.

5. LONG-TERM FINANCIAL ASSETS

	<u>2010</u>	<u>2011</u>
Investments in related companies	109,013,756	99,830,639
Shares	64,790	64,790
Shares in investment funds	19,107,129	17,467,314
Participating interests	25,000	45,584,041
Loans granted to affiliated companies	28,120,000	28,120,000
Loans granted	2,048,795	0
Bonds	3,661,564	3,714,290
Deposits and advances paid	7,538,939	5,424,436
Minus: value harm. of investments in affiliated comp.	(3,542,391)	(6,246,865)
Total	166,037,582	193,958,645

The Company Board of Directors believes the financial fixed assets accounting value not to differ significantly from their fair value. Possible credit risk effects to the receivables fair values is disclosed in the Note 55, point 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011

	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%)	ACCOUNTING VALUE AT THE END OF THE PERIOD	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%)	ACCOUNTING VALUE AT THE END OF THE PERIOD
	<u>2010</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>
5.1. Investments in related companies				
Slavonija centar, Industrial Zone, Velika Kopanica d.o.o., Zagreb	100	20,000	100	20,000
Marterra d.o.o., Zagreb	-	-	100	20,000
IGH d.o.o. Mostar, Mostar	-	-	51	19,263
31 December		20,000		59,263
5.2. Investments in affiliated companies				
Elpida d.o.o., Zagreb	-	-	50	31,300,000
Infrastructural Projects Institute, Sophia	50	9,292	50	9,292
Institut građevinarstva Sarajevo d.o.o., Sarajevo	49	181,424	49	-
Centar Bundek d.o.o., Zagreb	40	36,526,331	40	31,960,540
Sportski grad TPN d.o.o.Split	40	8,000	40	8,000
Auto cesta Bar Boljare d.o.o., Split	40	8,000	40	8,000
Centar Gradski podrum d.o.o., Zagreb	37,5	21,533,172	37,5	21,533,172
Gratius Projekt d.o.o., Zagreb	34	34,000	34	34,000
Črnomerec Centar d.o.o., Zagreb	20	35,775,167	-	-
IGH Lux energija d.o.o., Zagreb	30	14,918,186	30	14,918,186
Prvi Crnogorski autoput d.o.o.	25	184	25	184
<i>Minus: Value correction</i>		<i>(3,542,391)</i>		<i>(6,246,865)</i>
31 December		105,451,365		93,524,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) <u>2010</u>	ACCOUNTING VALUE AT THE END OF THE YEAR <u>2010</u>	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) <u>2011</u>	ACCOUNTING VALUE AT THE END OF THE YEAR <u>2011</u>
5.3. Shares				
Viktor Lenac d.d., Rijeka	-	47,220	-	47,220
Hrvatski farmer d.d., Zagreb	-	1,230	-	1,230
GP Dubrovnik d.d., Dubrovnik	12.95	2,694,274	12.95	2,694,274
Zagrebačka banka d.d., Zagreb	-	16,340	-	16,340
Jadranska autocesta d.d., Zagreb	-	1,665	-	1,665
Minus: Value correction		(2,695,939)		(2,695,939)
31 December		64,790		64,790
5.4. Participating interests				
Čnomerec centar d.o.o., Zagreb	-	-	20	45,559,041
Nexus ALPHA	11.79	1,390,307	11.79	1,390,307
Questus private Equity Kapital	5.71	17,716,821	5.71	16,077,007
Grupacija biotoplifikacija d.o.o., Zagreb	15	15,000	15	15,000
Adriastar hoteli i ljetovališta d.o.o.	5	10,000	5	10,000
31 December		19,132,128		63,051,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
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5.5. Loans granted to related companies

	INTEREST RATE	<u>2010</u>	<u>2011</u>
Sportski grad TPN d.o.o., Split	HNB disc.rate	28,120,000	28,120,000
31 December		28,120,000	28,120,000

5.6. Investments in securities

	<u>2010</u>	<u>2011</u>
Investments in government bonds - old and current		
Foreign currency savings for apartment purchase	2,657,596	2,710,322
Debentures Metronet telekomunikacije d.d.	2,151,439	2,151,439
Bonds of the City of Split	99,660	99,660
Minus: Value correction	(1,247,131)	(1,247,131)
31 December	3,661,564	3,714,290

5.7. Deposits paid

	<u>2010</u>	<u>2011</u>
Konstruktor d. d., Split	3,653,249	3,701,885
Autocesta Rijeka Zagreb d.d., Zagreb	1,976,273	12,075
Other	1,909,417	1,710,476
31 December	7,538,939	5,424,436

The long-term deposits paid mostly comprise the funds retained by developers in performance bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

6. LONG-TERM RECEIVABLES

	<u>2010</u>	<u>2011</u>
Receivables for apartments sold	6,117,447	2,343,476
Postponed payment receivables from customers	-	1,506,084
31 December	6,117,447	3,849,560

7. DEFERRED TAX ASSETS

The deferred tax assets, amounting to HRK 2,146,460, result from the temporary differences resulting in paying of larger taxes than the tax assessed to the accounting profit increased by the permanent differences. Disclosing the deferred taxation property results from correcting of the receivables and the financial assets and of long-term reservations not recognised for taxation purposes in the same period of time.

	<u>2010</u>	<u>2011</u>
Initial balance	4,551,498	2,281,661
Increase	495,987	236,636
Increase from not realised stocks	111,783	149,469
Cancellation of temporary differences	(1,713,295)	-
Decrease	(1,164,312)	(521,306)
31 December	2,281,661	2,146,460

8. STOCKS

	<u>2010</u>	<u>2011</u>
Stocks of raws and materials	101,256	900,186
Production in progress	119,611,959	120,335,411
Stocks of finished products	20,872,844	2,646,935
Goods for sale	6,160,227	2,148,565
Prepayments for stocks	1,550,897	1,000,000
Total	148,297,183	127,031,097

The Company mortgaged its real estates, disclosed in stocks in the amount of HRK 120,335,000 (2010: HRK 119,612,000), to secure repayment of the loans received from Zagrebačka banka d.d., Zagreb.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

9. RECEIVABLES FROM RELATED COMPANIES

	<u>2010</u>	<u>2011</u>
RECEIVABLES FROM AFFILIATED COMPANIES		
Centar Bundek d.o.o.	-	766,687
Sportski grad TPN d.o.o., Split	424,630	475,060
Centar Gradski podrum d.o.o.	5,587,298	297,134
Marterra d.o.o., Zagreb	-	3,167
Total	6,011,928	1,542,048

10. RECEIVABLES FROM CUSTOMERS

	<u>2010</u>	<u>2011</u>
Receivables from domestic customers	192,306,868	175,866,788
Receivables from foreign customers	23,594,890	16,018,906
Minus: Value correction	(54,427,204)	(47,990,794)
31 December	161,474,554	143,894,900

The receivables from customers value correction comprises sued receivables and receivables corrected in line with the collection assessment prudence method. The Board of Directors deems these corrections are made under reasonable assessments.

10.1. Here is disclosed structure of maturity of receivables from customers on 31 December 2011.

<u>ITEM</u>	<u>RECEIVABLES FROM CUSTOMERS</u>	<u>STRUCTURE IN %</u>
Total	143,894,900	100.00
Not due	63,189,517	43.91
Due	80,705,383	56.09
- up to 30 days	9,545,462	6.63
- 30 – 60 days	6,097,633	4.24
- 60 – 90 days	5,117,856	3.56
- over 90 days	59,944,431	41.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
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10.2. Most significant customers by turnovers in 2011:

	<u>2010</u>	<u>2011</u>
Hrvatske autoceste d.o.o., Zagreb	82,996,797	94,850,317
Hrvatske ceste d.o.o., Zagreb	37,894,107	32,697,917
JP Elektroprivreda HZ Herceg Bosne, BiH	-	23,921,055
Bechtel Enka GP, Priština	26,904,778	17,068,193
Hrvatske vode, Zagreb	10,137,166	13,545,326
Zagrebački holding d.o.o., Zagreb	10,193,188	11,218,075
HŽ Infrastruktura d.o.o., Zagreb	4,106,343	9,950,002
Konzum d.d., Zagreb	8,449,288	8,278,274
Zvijezda d.d., Zagreb	710,104	8,090,032
ARKA 96 d.o.o., Zagreb	19,506,422	7,644,311
Total	200,898,193	227,263,502

11. RECEIVABLES FROM PARTICIPATING COMPANIES

	<u>2010</u>	<u>2011</u>
Črnomerec Centar d.o.o.	151.412	146.963
Total	151.412	146.963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

12. OTHER SHORT-TERM RECEIVABLES

	<u>2010</u>	<u>2011</u>
Receivables from government and gov. institutions	6,372,217	2,377,291
Receivables from employees	664,664	687,947
Receivables from Trames d.o.o., Mokošica	-	76,590,656
Receivables from Zagrebački Holding d.o.o., Zagreb	33,691,793	34,354,410
Receivables from Niva Inženjering d.o.o., Zagreb	29,868,543	30,455,979
Receivables from invoiced interests	16,251,216	16,251,216
Receivables from Igor Sapunar	35,090,246	-
Receivables from Reinvest d.o.o.	4,253,860	4,337,522
Receivables from branches abroad	9,818,663	3,865,161
Receivables from prepayments paid	1,281,665	1,759,587
Receivables from damage claims	-	4,380,741
Other receivables	5,115,081	4,624,534
Minus: Value correction	-	(1,501,271)
31 December	142,407,948	178,183,773

- 12.1.** Receivables from Trames d.o.o., amounting to HRK 76,590,656, comprise receivables for the sold 50% of interests in Radeljević d.o.o. The credit risk related hereto is described in the Note 55, with other risks.
- 12.2.** Receivables from Niva Inženjering d.o.o. Zagreb comprise receivables for the sold interests in Črnomerec Centar d.o.o.
- 12.3.** Receivables from Zagrebački holding d.o.o. are created by the statement on cancelling the contract on purchasing indivisible 1/2 of the properties in Heinzlova ulica in Zagreb, and comprise claim of the paid 10% of the purchase price.

Pending are negotiations with Zagrebački holding d.o.o. about repayment of the above funds. Negotiations or a possible litigation outcomes cannot be foreseen. It is to be emphasized here that Institut IGH d.d. has already obtained important and legally indicative repayment of the paid property transfer tax related to the said agreement, in the amount of HRK 16,374,614.70. The claimed property transfer tax is collected on 10 February 2010. The credit risk related to this receivable is described in the Note 55, with other risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

13. SHORT-TERM FINANCIAL ASSETS

	<u>2010</u>	<u>2011</u>
Loans granted to affiliated companies	9,031,409	11,330,142
Loans granted to companies having participating interests	6,937,896	7,371,332
Loans granted	4,005,596	6,904,866
Deposits and prepayments paid	9,668,117	7,432,164
Minus: Value correction	(604,523)	(135,150)
31 December	29,038,495	32,903,354

The Board believes that the short-term financial assets accounting value as disclosed in the Balance Sheet does not differ materially from its fair value.

13.1. Loans paid to affiliated companies (including receivables for the interests accrued)

	<u>2010</u>	<u>2011</u>
Sportski grad TPN d.o.o., Split	8,802,031	11,325,522
Slavonija centar, Industrial Zone, V. Kapanica	4,620	4,620
Centar Bundek d.o.o.	128,100	-
Centar Gradski podrum d.o.o.	96,658	-
31 December	9,031,409	11,330,142

13.2. Loans paid to affiliated companies with participating interests (including receivables for the interests accrued)

	<u>2010</u>	<u>2011</u>
Črnomerec Centar d.o.o.	6,937,896	7,371,332
31 December	6,937,896	7,371,332

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

14. CASH

	<u>2010</u>	<u>2011</u>
Kuna business account balance	14,389,215	3,659,584
Cash in hand	41,773	22,099
Foreign currency accounts balance	5,017,248	1,348,183
Securities	12,035,303	10,823,215
Deposits maturing within 3 months	42,196,394	-
31 December	73,679,933	15,853,081

15. PAYABLES AND RECEIVABLES NOT YET DUE

	<u>2010</u>	<u>2011</u>
Costs paid in advance	4,202,630	3,279,721
Calculated not invoiced incomes (IAS 11)	48,179,708	86,510,981
VAT to prepayments received	1,435,135	474,790
31 December	53,817,473	90,265,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

16. EQUITY

The share capital is established in the amount of **HRK 63,432,000** (2010: same amount) divided into **158.580** shares nominally valid **HRK 400 each**.

The Company ownership structure on 31 December 2011 was as follows:

	<u>2010</u>		<u>2011</u>	
	No. of shares	Ownership %	No. of shares	Ownership %
Akcionar d.o.o, Zagreb	20,086	12,67	20,086	12,67
Zagrebačka banka d.d., Zagreb – joint escrow account-I	4,571	2,88	3,431	2,16
RAIFFEISEN BANK AUSTRIA d.d.	3,178	2,00	3,001	1,89
Privredna banka Zagreb d.d., Zagreb – joint escrow account -I	3,429	2,16	2,483	1,57
Hrvatska poštanska banka d.d., Zagreb	1,929	1,22	2,149	1,35
Dešković Žarko, Split	1,293	0,82	2,008	1,27
Societe Generale Splitska banka d.d., Split – joint escrow account	1,966	1,24	1,966	1,24
Petar Đukan, Zagreb	2,616	1,65	1,916	1,21
Erste & Steiermarkische Bank d.d., Zagreb	1,529	0,96	1,818	1,15
Stojan Ante, Mokošica	1,525	0,96	1,525	0,96
Other small shareholders	115,919	73,10	117,658	74,19
Own shares	539	0,34	539	0,34
Total	158,580	100	158,580	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

17. CAPITAL RESERVES

The capital reserves, amounting to **HRK 13,998,640** (2010: same amount) are formed from the operating profits resulting from sales and purchases of own shares.

18. STATUTORY RESERVES

The statutory reserves, amounting to **HRK 3,171,600** (2009: same amount) comprise the reserves appropriated from the previous years profits.

19. RESERVES FOR OWN SHARES

The reserves for own shares, amounting to **HRK 6,343,200** (2009: same amount) comprise the reserves appropriated from the previous years profits.

20. OWN SHARES AND COMPANY INTERESTS

On 31 December 2011 the Company held 539 of own shares, the acquisition cost of which is **HRK 1,446,309** (in 2010 it had the same number of own shares).

21. REVALUATION RESERVES

<u>31 December 2010</u>	<u>61,719,327</u>
Decrease of fixed tangible and intangible assets	(5,482,875)
Increase of fixed tangible and intangible assets	4,255,558
Decrease of long-term financial assets	(1,639,814)
31 December 2011	58,852,196

Changes in the revaluation reserves comprise harmonisation of the tangible and intangible fixed assets value by the depreciation amount calculated by the rates higher than the economic duration of the assets, and are not disclosed in the Comprehensive Income Statement. On this base, the 2011 depreciation was increased by HRK 1.5 million, of which HRK 1.2 million relate to the current profit and HRK 0.3 million to the deferred taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

22. PROFIT BROUGHT FORWARD

<u>31 December 2010</u>	<u>241,975,813</u>
2010 profit (see Note 22)	8,300,652
Fixed tangible assets revaluation	2,265,549
Companies exiting the consolidation	(976,276)
Currency exchange differences from investments in operations abroad	(144,188)
31 December 2011	251,421,550

23. FISCAL YEAR PROFIT

In the year 2011 operations of the Company resulted in the profit belonging to the Company shareholders, amounting to **HRK 1,673,409** (2010: **HRK 8,300,652**).

24. MINORITY INTERESTS

The minority interests, amounting to **HRK 66,088,097** (2010: **HRK 5,167,372**) comprises participation of the shareholders and the company interest holders constituting the minorities in the subsidiary companies capitals. Changes of the minority interests are the following:

<u>31 December 2010</u>	<u>5,167,372</u>
Sale of company interests	60,894,777
Fiscal year profit credited to minority interests	25,948
31 December 2011	66,088,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

25. RESERVATIONS

	warranty period	severance and bonuses	litigations	total
<u>31 December 2010</u>	<u>3,572,549</u>	<u>3,257,924</u>	<u>1,449,279</u>	<u>8,279,752</u>
Additional reservations	200,000	-	75,000	275,000
Reservation revenues	(1,708,128)	(897,317)	-	(2,605,445)
31 December 2011	2,064,421	2,360,607	1,524,279	5,949,307

26. LONG-TERM LIABILITIES FROM LOANS

	INTEREST RATE	<u>2010</u>	<u>2011</u>
Zagrebačka banka d.d., Zagreb	3 m EURIBOR+4.0-7.0 p.p.	149,557,107	143,910,013
Erste & Steiermärkische bank d.d., Rijeka	3 m EURIBOR+1.80-6.75 p.p.	151,365,491	145,095,206
Adria bank AG, Beč, Austrija	3 m EURIBOR+6.16 p.p.	26,254,290	25,754,036
Hypo Alpe Adria Bank, Austrija	6 m EURIBOR+6.0 p.p.	30,644,560	31,747,256
Unicredit Zagrebačka banka d.d. Mostar	8-8.5% floating	3,876,357	3,199,756
Societe Generale Splitska banka d.d., Split	3 m EURIBOR+5.0 p.p.	800,000	382,512
Hrvatska poštanska banka d.d.	3 m EURIBOR+6.75 p.p.	15,555,555	11,555,556
VABA Banka d.d., Varaždin	8%	-	11,737,416
Centar Bundek d.o.o., Zagreb	3 m EURIBOR+6.6 p.p.	30,168,432	-
<u>total</u>		<u>408,221,792</u>	<u>373,381,751</u>
Minus: Current dues (see Note 30)		(64,256,358)	(53,818,270)
31 December		343,965,434	319,563,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

26.1 Changes of long-term liabilities from loans in the course of the year were as follows:

<u>31 December 2010</u>	<u>343,965,434</u>
Repayments	(51,421,507)
New loans	13,812,720
Repayment deadline extension	64,256,358
Currency exchange differences	2,768,746
Total	<u>373,381,751</u>
Minus: Current dues	(53,818,270)
31 December 2011	319,563,481

26.2. Long-term liabilities from loans mature as follows:

Maturing in one to two years	199,519,412
Maturing in two to three years	22,514,284
Maturing in three to four years	39,710,555
maturing in four or more years	57,819,230
31 December	319,563,481

27. LONG-TERM LIABILITIES TO SUPPLIERS

	<u>2010</u>	<u>2011</u>
Raiffeisen leasing d.o.o., Zagreb	7,705,693	5,558,950
PBZ leasing d.o.o., Zagreb	321,844	202,869
Other suppliers	714,145	964,942
Minus: Current dues (see Note 29)	(2,286,136)	(2,665,460)
31 December	6,455,546	4,061,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

28. OTHER LONG-TERM LIABILITIES

	<u>2010</u>	<u>2011</u>
Liabilities from securities	1,401,018	1,428,573
Liabilities for guarantees and deposits	99,824	80,788
Other long-term liabilities	428,341	-
31 December	1,929,183	1,509,361

29. LIABILITIES TO RELATED COMPANIES

	<u>2010</u>	<u>2011</u>
Centar Bundek d.o.o.	818,771	-
Centar gradski podrum d.o.o.	1,905	1,305
31 December	820,676	1,305

30. SHORT-TERM LIABILITIES FROM LOANS

	INTEREST RATE	<u>2010</u>	<u>2011</u>
Zagrebačka banka d.d., Zagreb	3m EURIBOR+5.0-7.0 p.p.	66,447,419	69,605,315
SG Splitska banka d.d., Split	EURIBOR+6.16 p.p.	15,513,120	15,060,840
Erste Bank d.d., Rijeka	3m EURIBOR+8.0 p,p,	184,652	-
Privredna banka Zagreb d.d., Zagreb	3m EURIBOR+7.5 p.p.	14,770,346	15,023,188
Hypo Alpe Adria Bank d.d., Zagreb	9.5%	500,000	-
Hrvatska poštanska banka d.d., Zagreb	3m EURIBOR+6.75 p.p.	7,251,733	7,251,733
Unicredit Zagrebačka Banka d.d., Mostar	7.5%	1,132,800	1,155,073
Hypo Alpe Adria Bank d.d., Mostar	10.00%	113,280	115,507
Agrokor d.d., Zagreb	4%	6,277,397	6,400,857
Paktor d.o.o., Split	8%	2,523,778	3,741,469
Raiffeisen Leasing d.o.o., Zagreb		-	502,903
Other loans		601,265	732,628
<u>total</u>		<u>115,315,790</u>	<u>119,589,513</u>
Plus: Current dues (see Notes 26 and 27)		66,542,494	56,483,730
31 December		181,858,284	176,073,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

30.1. Changes of the short-term liabilities from loans in the course of the year were as follows:

<u>31 December 2010</u>	<u>181,858,284</u>
Repayments	(98,020,063)
New loans	97,722,508
Repayment deadline extension	(64,256,358)
Currency exchange differences	2,285,142
<u>Total</u>	<u>119,589,513</u>
Plus: Current dues	56,483,730
31 December 2011	176,073,243

31. LIABILITIES FROM PREPAYMENTS AND DEPOSITS

	<u>2010</u>	<u>2011</u>
From domestic customers	10,986,079	1,690,903
From foreign customers	2,915,411	3,503,417
Deposits and guarantees received	39,734,641	41,364,997
31 December	53,636,131	46,559,317

32. LIABILITIES TO SUPPLIERS

	<u>2010</u>	<u>2011</u>
Liabilities to domestic suppliers	136,811,944	128,079,296
Liabilities to foreign suppliers	5,269,813	4,263,948
Liabilities for goods and services not invoiced	1,534,944	-
31 December	143,616,701	132,343,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year that ended on 31 December 2011
 (continued)

32.1. Structure of maturity of liabilities to suppliers on 31 December 2011:

<u>ITEM</u>	<u>LIABILITIES TO SUPPLIERS</u>	<u>STRUCTURE IN %</u>
Total	132,343,244	100,00
Mot due	19,715,213	14,90
Due	112,628,031	85,10
- up to 30 days	12,626,845	9,54
- 30 – 60 days	8,579,207	6,48
- 60 – 90 days	11,395,725	8,61
- 90 – one year	41,426,397	31,30
- over one year	38,599,856	29,17

32.2. Most significant suppliers by turnovers in 2011:

	<u>2010</u>	<u>2011</u>
Geosonda d.o.o., Zenica	-	14,320,678
Ina Kartica – Industrija nafte d.d., Zagreb	8,241,008	9,209,465
PBZ Leasing d.o.o., Zagreb	7,920,143	6,611,770
Konstruktor Inženjering d.d., Split	3,494,284	6,191,725
Dalekovod Projekt d.o.o., Zagreb	4,463,542	5,393,891
ZG Projekt d.o.o. Zagreb	3,565,233	5,240,480
GP Delta d.o.o., Klinča Sela	-	5,020,729
I PRO – Inženjering d.o.o., Zagreb	3,226,217	4,887,405
Investinženjering d.d., Zagreb	6,191,633	4,777,338
Topoing d.o.o., Kastav	4,393,786	3,508,348
Total	41,495,846	65,161,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(continued)

33. LIABILITIES FROM SECURITIES

In line with its Programme of Issuing of Commercial Bills, on 10 June 2011, the Company issued the fourth set of commercial bills amounting to the Kuna equivalent of EUR 11,100,000, maturing in 364 days. The issuance agent is Zagrebačka banka d.d.

On 21 November 2011, the Company issued bills of exchange totalling to HRK 6,150,000 in favour of Erste Factoring d.o.o. As at 31 December 2011, the balance of the liabilities under the said bills of exchange amounted to HRK 5,105,094.

The bills of exchange issued in favour of Konstruktor Inženjering d.d., in the amount of HRK 4,000,000, will mature in the first quarter of 2012.

On 31 December 2012, the balance of liabilities from bills of exchange issued to other creditors amounted to HRK 9,740,000.

34. OTHER SHORT-TERM LIABILITIES

	<u>2010</u>	<u>2011</u>
Liabilities to government and governmental institutions	18,585,194	34,053,799
Liabilities to employees	10,175,100	14,289,387
Liabilities from particip. in profit and rewards to Management	4,143,452	2,151,055
Liabilities from assignments	29,036,504	15,218,378
Liabilities from interests	7,487,143	10,720,650
Liabilities from purchasing of company interests	9,070,300	4,187,209
Liabilities from utility duties payable to the City of Split	2,786,678	2,786,678
Other liabilities	5,570,353	5,313,417
31 December	86,854,724	88,720,573

35. DEFERRED PAYMENTS AND REVENUES NOT YET DUE

The deferred payments, amounting to **HRK 2,901,570** (2010: **HRK 1,384,895**) comprise the deferred payments of costs and revenues not yet due.

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for the year that ended on 31 December 2011
(continued)

36. REVENUES FROM SALES

	<u>2010</u>	<u>2011</u>
Revenues from sales	419,055,528	393,136,330
Revenues from sales abroad	97,950,708	89,199,135
Total	517,006,236	482,335,465

37. OTHER OPERATING REVENUES

	<u>2010</u>	<u>2011</u>
Revenues from cancellation of reservations	13,194,220	2,605,444
Revenues from sale of assets	469,969	295,699
Revenues from rentals	2,705,171	3,144,792
Revenues from collecting written-off receivables	9,858,069	9,444,305
Revenues from collecting damages	83,391	7,526,972
Revenues from compensations, subsidies	1,415,177	1,575,006
Revenues from liabilities written off	3,471,825	5,308,539
Other revenues	3,400,850	1,771,751
Total	34,598,672	31,672,508

38. CHANGES OF STOCKS OF FINISHED GOODS AND PRODUCTION IN COURSE

The decrease of value of the stocks of finished products and production in course relative to the previous reporting period, amounts to **HRK 13,855,954** (2010: increase amounting to **HRK 6,402,220**).

39. MATERIALS AND RAW COSTS

	<u>2010</u>	<u>2011</u>
Costs of raws and materials	11,951,275	18,375,723
Energy costs	11,756,151	12,554,237
Small inventory and spare parts costs	2,657,390	2,065,096
Total	26,364,816	32,995,056

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for the year that ended on 31 December 2011
(continued)

40. SOLD GOODS COSTS

The sold goods costs, amounting to HRK **7,308,636** (2010: HRK **211,172**) comprise the procurement value of the goods sold.

41. OTHER EXTERNAL COSTS

	<u>2010</u>	<u>2011</u>
Transportation, telephone, mail costs	4,806,167	5,444,446
Subcontractors costs	99,171,524	100,242,144
Production services costs	7,568,180	12,392,211
Utility services costs	2,203,122	1,951,738
Maintenance costs	6,549,859	5,559,986
Rental costs	14,257,486	12,897,662
Other external costs	9,249,274	5,800,626
Total	143,805,612	144,288,813

42. STAFF COSTS

	<u>2010</u>	<u>2011</u>
Net salaries	115,717,299	107,228,715
Taxes, contributions and other levies	97,704,269	84,398,673
Severance pays, per diems and employees' rights	36,944,303	27,003,674
Total	250,365,871	218,631,062

42.1. The costs of incomes of the Company Director, amounting to HRK 881,229 (2010: HRK 893,724), make part of the disclosed staff costs.

43. DEPRECIATION

	<u>2010</u>	<u>2011</u>
Tangible assets depreciation	23,892,326	19,085,021
Intangible assets depreciation	2,612,542	2,817,476
Total	26,504,868	21,902,497

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(continued)

44. OTHER COSTS

	<u>2010</u>	<u>2011</u>
Legal, consulting and other services costs	4,349,335	4,756,124
Entertainment costs	2,100,304	2,078,002
Insurance premiums	3,129,948	3,480,558
Education and training costs	2,785,489	1,509,488
Banking fees and commissions	7,398,108	4,635,968
Withholding tax paid abroad	1,346,319	843,280
VAT reclaim distribution	1,689,440	1,659,538
Contribution to public authorities	2,683,573	2,137,933
Other costs	714,264	5,072,634
Total	26,196,780	26,173,525

In the other costs account, the Company has disclosed the total fees paid to the auditors for the compulsory audit of its annual financial statements, in the year 2011 amounting to HRK 551,974.

45. CURRENT ASSET VALUE HARMONISATION

	<u>2010</u>	<u>2011</u>
Other receivables	111,060	116,014
Receivables from customers	14,646,096	7,198,792
Stock value harmonisation	2,149,356	-
Total	16,906,512	7,314,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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46. RESERVATION FOR COSTS AND RISKS

	<u>2010</u>	<u>2011</u>
Reservations for costs of repairs and complaints in the warranty period	370,000	200,000
Reservations for severance pays and loyalty bonuses	-	1,641,559
Reservations for litigations	296,150	75,000
Total	666,150	1,916,559

Based on analyses of previous experiences of the Company and other companies performing similar activities in similar circumstances, and by assessing future costs, reservations for repairs and complaints in the warranty periods have been reduced.

Reservations of the costs of severance pays and loyalty bonuses, pursuant to the IAS 19, in 2011 are lesser by HRK 897,316, because some of these costs were made in 2011.

The Company reserved funds for payment of severance pays to employees that were to be discharged for business reasons in line with the Programme of Supporting the Labour Redundancies of 7 June 2011.

Reservations for risks and contingent losses in litigations, to include principals and default interests, have been made in line with the lawyers' assessment of litigation success. Reservation for default interests claimed by the plaintiff in the labour dispute pending before the Municipal Court at Zagreb has not been made since the interests cannot be estimated with certainty, however, compared to a similar case, the contingent loss from default interests is estimated up to HRK 3.8 million. With regard to this litigation, reservations are made for the principal payment and legal costs.

47. OTHER OPERATING EXPENSES

	<u>2010</u>	<u>2011</u>
Alienated assets value not written off	654	242,517
Previous periods costs	1,855,093	2,150,348
Contractual penalties, etc.	1,076,495	1,323,308
Total	2,932,242	3,716,173

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(continued)

49. FINANCIAL REVENUES

	<u>2010</u>	<u>2011</u>
Currency exchange differences	6,354,620	753,908
Revenues from interests	8,202,045	6,856,862
Revenues from not realised profits	-	10,802,342
Revenues from profits from sale of company interests	18,622,807	16,208,381
Negative goodwill	49,057	-
Other financial revenues	140,948	304,857
Total	33,369,477	34,926,350

The long-term financial assets - 20% of interests in the company Črnomerac Centar d.o.o., have been reclassified in line with the IAS 39 into the participating interests category, because of a significant loss of control in this company, subsequently measured by its fair value in the Profit and Loss Account. The fair value is established in line with the agreement made with the buyer on selling the company interests in 2012.

Related to the assessed fair value of the company interests in question, in the 2011 Profit and Loss Account not realised profit is disclosed in the amount of HRK 10,802,342.

50. FINANCIAL EXPENSES

	<u>2010</u>	<u>2011</u>
Currency exchange losses	11,544,694	11,889,319
Expenses from interests	49,201,842	47,599,759
Not realised losses from financial assets	4,399,274	181,424
Other financial expenses	-	1,086,877
Participation in related companies' losses	2,323,100	2,907,998
Total	67,468,910	63,665,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

50. PROFIT TAX

The Company and the subsidiary companies are tax liable under the tax regulations of their countries of registration.

The profit tax rate valid in the Republic of Croatia in the year 2011 was 20%.

The profit tax liabilities were as follows:

	<u>2010</u>	<u>2011</u>
The Company	5,547,518	5,068,393
Subsidiaries	792,556	547,585
Temporary difference - tax to the profits made within the Group	(111,784)	(149,468)
Cancellation of temporary differences	1,713,295	-
Total	7,941,585	5,466,510

51. PROFIT PER SHARE

The basic profit per share is calculated by dividing the net profit with the average number of ordinary shares.

	<u>2010</u>	<u>2011</u>
Net profit credited to the Company shareholders	8,300,652	1,673,409
Weighted average number of shares	158,123	158,041
Profit per share	52.49	10.59

52. OTHER COMPREHENSIVE INCOMES

Other comprehensive incomes made in 2011 comprise incomes resulting from revaluation of the financial assets available for sale and the currency exchange differences resulting from recalculation of foreign operations. The loss amounting to HRK 1,639,814 results from the decrease of values of shares held in investment funds and is corrected by the currency exchange gains from foreign operations amounting to HRK 13,566 and the proportional part of the tax to other comprehensive incomes assessed to the comprehensive income of the previous period. The total comprehensive income of the period amounts to HRK 398,359, of which the Company shareholders are credited HRK 372,411.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(continued)

53. INFORMATION ON SEGMENTS

The starting point in establishing reporting segments of the Company and its subsidiary companies business system - expert and scientific research in the field of civil engineering, to include designing, studies, expert supervision, counselling, usability proofs, laboratory tests and measurements, research activities and scientific researches. Three subsidiary and three affiliated companies are incorporated as designing companies with real estates entered in to their share capitals, aimed to constructing in the residential and business houses market. One subsidiary company deals with hotel and tourist business.

Organisationally, in 2011 the Company was divided into Institutes that performed the above activities, the operative results of which are supervised by the management, aimed to making of business decisions.

Financial information are available for all of the above activities. Some of the activities comply with the criteria stated in the point 12 of the IFRS 8, since they have similar economic characteristics and are similar with regard to the services they render, the sorts and categories of their clients, and the methods they use in rendering the Group services, wherefore they are grouped into six primary segments:

- LABORATORY TESTING
- SUPERVISION
- DESIGNING
- GEOTECHNICAL RESEARCH
- REAL-ESTATE DEALINGS
- HOTEL AND TOURISM BUSINESS

The activities that can be included in none of the above segments, because they do not exceed any one of the 10 percentage quantitative limits, and are therefore not required to report by segments, are categorised as OTHER.

Segment performance is assessed by their operating profits and losses. The financing revenues and expenses are managed at the particular companies level.

Revenues from the four most important customers, totalling to HRK 145 million, are implemented in the Supervision and Designing segments.

The Company monitors the fixed assets at the Company level, and the current ones by the operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

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	LABORATORY TESTING	SUPERVISION	DESIGNING	GEOTECHNICAL RESEARCH	REAL-ESTATE DEALING	HOTEL AND TOURISM	OTHER AND GROUP LEVEL	TOTAL
Operating revenues	42,359	121,575	226,650	69,841	6,264	15,981	31,338	514,008
Operating expenses	37,354	102,768	201,492	68,906	654	14,736	52,193	478,103
OPERATING ACTIVITIES RESULT	<u>5,005</u>	<u>18,807</u>	<u>25,158</u>	<u>935</u>	<u>5,610</u>	<u>1,245</u>	<u>(20,855)</u>	<u>35,905</u>
FINANCING ACTIVITIES RESULT	<u>(219)</u>	<u>(332)</u>	<u>-1,464</u>	<u>(2,224)</u>	<u>(4,087)</u>	<u>(6,443)</u>	<u>(13,970)</u>	<u>(28,739)</u>
RESULT BEFORE TAXATION	<u>4,786</u>	<u>18,475</u>	<u>23,694</u>	<u>(1,289)</u>	<u>1,523</u>	<u>(5,198)</u>	<u>(34,825)</u>	<u>7,166</u>
Profit tax							5,466	5,466
NET PROFIT / (LOSS)	<u>4,786</u>	<u>18,475</u>	<u>23,694</u>	<u>(1,289)</u>	<u>1,523</u>	<u>(5,198)</u>	<u>(40,291)</u>	<u>1,700</u>
LOSS CHARGING MINORITY INTERESTS							<u>26</u>	<u>26</u>
PROFIT CREDITED TO COMPANY SHAREHOLDERS								<u>1,674</u>
ASSETS	<u>22,805</u>	<u>61,105</u>	<u>147,170</u>	<u>104,032</u>	<u>307,427</u>	<u>113,868</u>	<u>587,471</u>	<u>1,343,878</u>
fixed	6,193	1,858	34,642	63,966	184,836	111,759	350,0805	754,059
current	16,612	59,247	112,528	40,066	122,591	2,109	236,666	589,819
LIABILITIES	<u>6,968</u>	<u>18,559</u>	<u>43,453</u>	<u>50,144</u>	<u>19,191</u>	<u>93,944</u>	<u>684,064</u>	<u>880,323</u>
long-term	1,705	511	1,259	10,059	1,206	86,729	233,823	335,292
short-term	5,263	18,048	42,194	40,085	17,985	7,215	414,241	545,031

Notes numbers 1 to 57 make integral part of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

54. CASH FLOW

The Cash Flow Statement has been made by the indirect method.

At the beginning of the period, cash and cash equivalents amounted to HRK 73,679,933.

At the end of the period, cash and cash equivalents amounted to HRK 15,853,145. Cash equivalents include, besides securities, investments that can be converted into cash in three months or sooner. Therefore, the funds in accounts and securities at the end of the period have been added also short-term time deposits maturing in less than three months. The distribution of cash flows to operating, investing and financing is disclosed and explained in the report.

The cash flows show decrease of cash on the Balance Sheet date relative to the initial balance by HRK 57,826,788.

55. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various risk related to currency, interest, credit and liquidity risks. The Company monitors the said risks and is trying to lessen their possible effects to the Company's financial exposure. The Company does not use derivative financial instruments to actively protect it from financial risk exposure.

55.1. Market risk

Market risk relates to financial instruments. The IFRS define the market risk as the risk of fluctuation of fair value or future cash flows of a financial instrument due to changes in market prices. The market risk includes three sorts of risks: currency risk, interest risk and other price risks.

The Company and its subsidiaries operate in the Croatian and international markets. The Management determines its prices based on the market prices prevailing in a particular market.

a) Currency risk

The Company's official currency is the Croatian Kuna. However, the Company invested in financial instruments and entered transactions denominated in currencies other than its functioning currency. Therefore, the Company is exposed to the risk of change of exchange rate of its currency relative to other currencies in a way that may adversely affect the Company's profit and value.

Transactions in foreign currencies are converted into Kunas by application of exchange rates valid on the Balance Sheet date. Any currency exchange gains or losses are entered to credit or charge respectively in the Profit and Loss Account. Currency exchange rates may effect the profit mostly as results of the currency exchange gains or losses resulting from conversion into Kunas of the receivables in the foreign currency (EUR) and of the borrowed loans and liabilities contracted with the foreign currency clause (EUR).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

Due to the portion of incomes made in international markets and the liabilities determined in other currencies, the Company is exposed to changes of the exchange rate of, firstly, the Euro, wherefore the expected changes are not great.

The total Company exposure to changes of foreign currency exchange rates on the reporting date was as follows:

ASSETS	<u>2010</u>		<u>2011</u>	
	in HRK 000s	%	in HRK 000s	%
Croatian Kuna	1,181,071	87.55	1,164,583	86.65
Euro	167,946	12.45	179,297	13.35
TOTAL	1,349,017	100.00	1,343,880	100.00

LIABILITIES	<u>2010</u>		<u>2011</u>	
	in HRK 000s	%	in HRK 000s	%
Croatian Kuna	708,513	52.52	765,216	56.94
Euro	640,504	47.48	578,664	43.06
TOTAL	1,349,017	100.00	1,343,880	100.00

b) Interest risk

Interest risk is the risk of changes of a financial instrument value due to changes in market rates relative to the interest rates applied to the financial instrument in question. Cash flow risk is the risk of possible changes in the interest expenses of a financial instrument in the course of time. The Company has significant long-term loans contracted with floating interest rates, this exposing the Company to the cash flow risk. Details on interest rates applicable to long-term loans borrowed by the Company are stated in the Note 26.

Cash flow risk is the risk of possible changes in the interest expenses of a financial instrument in the course of time. The Company has liabilities resulting from short-term loans amounting to HRK 176,073,000 (2010: HRK 181,858,000), and long-term loans amounting to HRK 319,563,000 (2010: HRK 343,965,000), contracted mostly with floating interest rates, this exposing the Company to the cash flow risk. Details on interest rates applicable to the short-term loans borrowed by the Company are stated in the Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

55.2. Credit risk

Credit risk is the risk of one party to a financial instrument causing financial losses to the other party by not honouring its obligations, fully or partly, at the moment of maturity. Failing to honour an obligation would endanger the Company and decrease its assets value. On 31 December 2011, the financial assets that could expose the Company to credit risk comprised mostly loans granted to others, receivables from customers, and other receivables.

The Company has its cash at Zagrebačka banka d.d., Zagreb, SG Splitska banka d.d., Split, Erste & Steiermärkische bank d.d., Zagreb, Hypo Group Alpe Adria, Zagreb, Hrvatska poštanska banka d.d., Zagreb and Privredna banka d.d., Zagreb.

Receivables from customers are harmonised by the bad debt reservations.

On 31 December 2011, exposed to the risk of non-collection of receivables and loans, and to certain financial losses in case of such non-collection, are the following asset items.

a) RADELJEVIĆ d.o.o. Project

On 8 April 2011 with the company TRAMES d.o.o. was made the Company Interest Transfer Agreement, with the Annex thereto of 30 December 2011. Since RADELJEVIĆ d.o.o. is a designing company, founded only for the purpose of completing the Radeljević Project, the possibility of collecting of receivables under this Agreement and its Annex mostly depends on implementation of all the legal actions required to commence implementation of the said Project. Therefore, we are stating here the events that took place in 2011 and are of importance to the Project implementation:

- The Dubrovnik City Council adopted the "Radeljević-Livertas" Urban Arrangement Plan (Dubrovnik City Gazette 3/11).
- The Ed Jenkins Architecture Firm, specialised in designing trading centres, produced a pre-preliminary architectural study for the said project.
- Preparations are done to run the International Urbanistic and Architectural Tender.
- Obtained are encumbrance erasure approvals related to previous loan liabilities, and the properties included in the Radeljević Project are still encumbered with the lien burdening two plots and totalling to around EUR 14,770,000.
- Produced is the pre-investment study of the Radeljević Project, to assess the investment justification.

Since this is a complex project, in the year 2012 is to be completed the International Urbanistic and Architectural Tender and preparations of the documentation required for applying for the zoning permit. Therefore, the Transferee's payment deadline is extended, also acknowledging doubtless contractual damages amounting to EUR 374,700. The above mentioned Annex extended the payment deadline built also clearly defined the obligations: the Transferor's to implement and complete the International Urbanistic and Architectural Tender, and the Transferee's to do everything that is required to apply for and obtain the zoning permit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

Since this is a designing firm, completing the above activities make unavoidable conditions for any developer (including the present Transferee) to obtain financing the transfer price, but also to obtain project financing in general. The credit risk is in assessing the current credit abilities of the debtor and in the lack of a payment guarantee that is independent from the project success. An additional risk is the possible decrease of the acknowledged sale price in case the remaining interests in Radeljević are sold before payment deadline at a lesser price, which the management believes will not happen.

INSTITUT IGH d.d. has not issued land-book registration approval to the Transferee, this way preventing loss of assets in case of impossibility to collect the contracted price timely. If the Transferee does not pay the contracted price timely, INSTITUT IGH d.d. will have to correct its receivables and the accounting profit acknowledged at selling the interests and amounting to HRK 15.3 million, whereas justification and collecting of the contractual damages in the amount of EUR 374,700 remains undisputed. The current assets receivables shown in the above presented scenario would be replaced once again with fixed assets in the form of company interests and the adequate minority interest in the Group statements would be cancelled.

b) SPORTSKI GRAD TPN d.o.o., SPLIT

The Spaladium Centar Project has been initiated by the Croatian Government and the City of Split in 2007, its direct motive being the World Handball Championships that took place in January 2009 in Croatia. The project was to be implemented in a private-public partnership model where the private partner would fund the project that comprised a city sports hall with an 12,000 auditorium, commercial premises and garage for 1,500 cars.

In order to identify the private partner, the City of Split published a tender where the only acceptable bid was submitted by the consortium comprising Konstruktor-Inženjering d.d., Institut IGH d.d. and Dalekovod d.d. (hereinafter: the Consortium, each of them Consortium Member and members of the company SPORTSKI GRAD TPN d.o.o.) of 18 May 2007.

Participation of the Consortium members in the Project was planned through incorporating a special vehicle company that would participate in the Project as the private partner. For this purpose, on 20 August 2007 was incorporated the company SPORTSKI GRAD TPN d.o.o. , Split, Zrinsko-Frankopanska 211, entered in the Register of Companies of the Court of Commerce at Split, company number 060234366 (hereinafter: TPN). The latest TPN Company Articles, of 5 March 2009, shows that the company incorporators are Konstruktor-Inženjering d.d., holding company interests nominally valid HRK 9,000 or 45% of the company equity, IGH, holding interests nominally valid HRK 8,000 or 40% of the equity, and Dalekovod d.d., holding interests nominally valid HRK 3,000 or 15% of the equity.

On 15 April 2012, TPN was frozen its account due to irregular collection of receivables from the City of Split, but also the incomes significantly lesser than planned. Besides insolvency, obvious is also the Company's illiquidity. We are therefore emphasizing the risk of collecting of around HRK 39.4 million in receivables of INSTITUT IGH d.d. from TPN d.o.o., as well as the risk of collection of EUR 1,600,000 in guarantee. We understand the largest partner in the company SPORTSKI GRAD TPN d.o.o. - Konstruktor-Inženjering d.d. is unable to pay, that further increases the risk for other Consortium Members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

INSTITUT IGH, d.d., as well as other partners in this private-public partnership (incorporators, City of Split, Croatian Government and banks) deem the current Private-Public Partnership Agreement is to be redefined, in order to create a business efficient and sustainable model. It is obvious that the City of Split has already made certain steps to this end, by expressing its interest to build an administrative-business complex in the undeveloped part of the Spaladium Centre that would protect interests of the City and companies owned by the City and the public interests in general. The basic condition of such a project is the City acquiring title to the land on which the administrative-business complex would be built, whereupon the Government by their resolution supported further development of the project as proposed and transferring of a part of the land to permanent ownership of the City of Split. On 22 September 2011, the City of Split adopted amendments to the general Urban Plan that enable formation of two or more plots, which again creates conditions for continuation of the project as described above.

Therefore, INSTITUT IGH, d.d. holds redefining the existing private-public partnership certain, discloses possibility to collect its receivables and does not activate corporate banking guarantees amounting to EUR 1,600,000. The above analysis does not include analyses of other forms of mutual damages that could result from termination of the Private-Public Partnership Agreement, except the risk of collection of receivables and protesting the guarantees, since the management deems their occurrence unreal and not legally founded.

c) Receivables of INSTITUT IGH d.d. and GEOTEHNIKA INŽENJERING d.o.o. from KONSTRUKTOR-INŽENJERING d.d.

INSTITUT IGH d.d. and its 100% held subsidiary company, GEOTEHNIKA-INŽENJERING d.o.o., are claiming from KONSTRUKTOR-INŽENJERING d.d., against validly issued and approved invoices and deposits, a total of HRK 10.42 million, of which on 31 December 2012 were due HRK 10.37 million. INSTITUT IGH d.d. and GEOTEHNIKA-INŽENJERING d.o.o. have knowledge of current insolvency and difficulties in business operations of KONSTRUKTOR-INŽENJERING d.d. GEOTEHNIKA-INŽENJERING d.o.o. is negotiating the a contract aimed to securing their receivables in a way provide by law. GEOTEHNIKA-INŽENJERING d.o.o. deems obtaining this contract certain, but there is the risk of possible not obtaining the contract and complete insolvency of KONSTRUKTOR-INŽENJERING-a d.d. and, therefore, impossibility to collect the said receivables.

d) Receivables by INSTITUT IGH d.d. from HRVATSKE AUTOCESTE d.o.o.

INSTITUT IGH d.d., has, among others, valid receivables from the company HRVATSKE AUTOCESTE d.o.o., amounting to HRK 25.6 million. These are calculated but not invoiced revenues based on undoubtedly rendered services. INSTITUT IGH d.d. has instituted litigation against HRVATSKE AUTOCESTE d.o.o., and does not deem these receivables to be risky in any part thereof, but deems them realistically collectible.

e) Possible receivables by ČRNOMEREC CENTAR d.o.o.

By virtue of the Agreement made on 30 December 2011 with the company NIVA-INŽENJERING d.o.o., INSTITUT IGH d.d. committed itself, in case KONSTRUKTOR-INŽENJERING d.d. is by a valid court judgment awarded the right to collect any receivables from ČRNOMEREC CENTAR d.o.o., to pay to ČRNOMEREC CENTAR d.o.o. up to one half of such amount, but not above HRK 8,000,000. The Management discloses this risk but does not hold it realistically possible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year that ended on 31 December 2011
(continued)

f) Zagrepčanka Project

The Company Management has obtained a legal opinion that it insists upon, and deems that in case of a dispute the Company has chances to win the litigation. In 2012 the Company Management will decide whether to sue or settle about collecting the HRK 34.3 million in receivables.

Related to the last year Statement, of the essential events that occurred, we are emphasizing the Ruling made by the Constitutional Court of the Republic of Croatia, number U-III-2677/2007 of 14 February 2012, that further strengthened the legal position of Institut IGH d.d. in case of a dispute with Zagrebački Holding d.o.o.

54.3. Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties about settling its liabilities. The liquidity risk is created in general funding of the Company's activities and managing the asset items. It includes the risk of impossibility of funding the assets when due and at the prices, and the risk of impossibility to sell the assets at reasonable prices and within adequate time frames. Financial instruments also include investments that may be illiquid and that the Company cannot turn into cash promptly in order to satisfy its liquidity requirements.

Tables showing Company liquidity based on maturity of receivables from customers and liabilities to suppliers are in the Notes 10 and 32.

In the reported period, the Company and its subsidiaries were able to pay their liabilities timely, and on 31 December 2011 had HRK 158 million in unsettled liabilities, where unsettled and due liabilities for taxes and contributions, liabilities to banks and other liabilities that became due one to three months ago, amount to HRK 30 million. Other liabilities falling due in three months to one year amount to HRK 16 million. The structure of maturity of liabilities to suppliers is presented in the Note 32.1.

The risk of inability to settle liabilities in the future results from the contracted and statutory conditions of settling of liabilities in case of illiquidity, and requires financial consolidation of the Company.

In the reported period, the Management managed the said liquidity risk by taking business rationalisation measures, such as providing for redundant labour, rationalisation of management costs, especially the costs of external services, that has resulted in decreasing the liabilities to suppliers by HRK 11 million relative to the last year.

Aimed to implementing of financial consolidation and creating conditions for a new cycle of organic growth and continuous profitability growth, the Company Management initiated the process of additional capitalisation as stated in the Note 56.

55.4. Financial instruments fair value

The financial instruments, till their maturity, are entered by their cost, or by the net amount deducted by the part paid off, whichever is lesser. The fair value is the amount at which the financial instrument may be exchanged between known and willing parties at market conditions, except in case of forced sales or sales for liquidation. A financial instrument fair value is the value that is published in the security market and obtained by the discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year that ended on 31 December 2011

(continued)

On 31 December 2011, the accounting amounts of cash, short-term deposits, receivables, short-term liabilities and the included costs, and of short-term borrowed loans are close to their fair values due to the short-term nature of these financial instruments. Effects of the credit risk to possible losses of the assets fair value is described in the point 2 of this Note.

56. EVENTS AFTER THE REPORTING PERIOD

The Company Management convened the Company Members Meeting on 26 April 2012. The members Meeting is proposed to resolve on increasing the equity and issuing ordinary shares through a public offer. By the proposed resolution the equity is increased from HRK 63,432,000 by up to HRK 106,000,000 to up to HRK 169,432,000. The equity will be increased by cash payments and issuing up to 265,000 new ordinary shares to holder, nominally valid HRK 400.00.

Furthermore, with consent by the Supervising Board, the Management convened the Company Members Meeting for 25 May 2012, where, among other, will be proposed resolving on issuing of convertible bonds and conditional increasing the equity.

Aimed to completing the financial restructuring process and creating conditions for a new cycle of organic growth and continuous growth of profitability and value for the shareholders, the Management and the Supervisory Board are proposing to the Members Meeting to resolve on issuing of convertible bonds with the right to convert these for shares, up to the amount of the convertible bond value, amounting to EUR equivalent to HRK 195,000,000 (one hundred ninety-five million Kunas), calculated by the Croatian National Bank mean exchange rate valid on the date of issuing the convertible bonds. Therefore, the Members Meeting is proposed to resolve on conditional increase of the equity, in order to implement the Company's creditors to convert bonds into the Company's ordinary shares. The equity is increased by the amount equivalent to the total nominal value of the regular shares into which the convertible bonds are converted, but up to the amount equivalent to one half of the Company's total equity. For the purpose of increasing the equity, the Company will issue the adequate number of ordinary shares to holder, in immaterial form, of HRK 400.00 in nominal value each, at the price of HRK 760.00 per share. The shares may be subscribed by holders of convertible and fully paid bonds.

57. ADOPTING THE FINANCIAL STATEMENTS

The Financial Statements presented on the pages 1 to 54 above are adopted and approved by the Board of Directors of Institut IGH, d.d., Zagreb, on 25 April 2012.



For Institut IGH d.d., Zagreb
J. Radić
Prof. Ph.D. sc. Jure Radić, Director

CONSOLIDATED BALANCE SHEET

Pursuant to the Accounting Act and the accompanying Directive
for the year that ended on 31 December 2011

	Note	31/12/2010 in HRK	31/12/2011 in HRK
ASSETS			
RECEIVABLES FROM EQUITY SUBSCRIBED AND NOT PAID			
FIXED ASSETS (PERMANENT ASSETS)			
		<u>734,137,704</u>	<u>754,059,440</u>
INTANGIBLE ASSETS	3	33,959,545	35,695,420
Concessions, patents, licences, trademarks, software and other rights		2,620,163	4,381,304
Goodwill		28,719,956	28,720,689
Intangible assets under preparation		2,619,426	2,593,427
TANGIBLE ASSETS	4	525,741,470	518,409,355
Land and forests		91,866,993	91,866,993
Buildings		277,489,617	265,069,800
Plants and equipment		26,135,735	23,971,526
Tools, plant inventory and transportation means		7,053,055	6,412,924
Prepayments for tangible assets		128,338	171,958
Tangible assets under preparation		24,627,461	28,929,001
Other tangible assets		1,316,301	1,159,191
Investment in real estates		97,123,970	100,827,961
FINANCIAL ASSETS	5	166,037,581	193,958,645
Loans granted to related companies		28,120,000	28,120,000
Participating interests		89,790	45,648,831
Loans, deposits and like granted		13,249,298	5,424,438
Other long-term financial assets		19,107,129	21,181,604
Investments calculated by the share method		105,471,364	93,583,771
RECEIVABLES	6	6,117,447	3,849,560
Receivables from sales on credit		6,117,447	3,849,560
DEFERRED TAX ASSETS	7	2,281,661	2,146,460
CURRENT ASSETS (OPERATING ASSETS)		<u>561,061,453</u>	<u>499,555,279</u>
STOCKS	8	148,297,182	127,031,097
Raws and materials		101,256	900,186
Production in course		119,611,958	120,335,411
Finished products		20,872,844	2,646,935
Commodities		6,160,227	2,148,565
Prepayments for stocks		1,550,897	1,000,000
RECEIVABLES		310,045,843	323,767,684
Receivables from related companies	9	6,011,928	1,542,048
Receivables from customers	10	161,474,555	143,894,900
Receivables from participating companies	11	151,412	146,963
Receivables from employees and shareholders	12	664,664	687,947
Receivables from government and other institutions	12	6,372,217	2,377,292
Other receivables	12	135,371,067	175,118,534
FINANCIAL ASSETS	13	83,270,192	43,726,570
Loans granted to related companies		9,031,408	11,330,142
Loans granted to companies with participating interests		6,937,896	7,371,332
Investments in securities		12,035,303	10,823,215
Loans and deposits paid		13,069,191	14,201,881
Other financial assets		42,196,394	0
CASH AT BANK AND IN HAND	14	19,448,236	5,029,930
PREPAYMENTS AND RECEIVABLES NOT YET DUE	15	<u>53,817,473</u>	<u>90,265,492</u>
TOTAL ASSETS		<u>1,349,016,630</u>	<u>1,343,880,211</u>
OFF BALANCE-SHEET EVIDENCE		128,346,841	91,616,308

Notes numbers 1 to 57 make integral part of the Financial Statements.

CONSOLIDATED BALANCE SHEET

Pursuant to the Accounting Act and the accompanying Directive
for the year that ended on 31 December 2011
(continued)

	Note	31/12/2010 in HRK	31/12/2011 in HRK
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES		<u>402,518,107</u>	<u>463,555,790</u>
EQUITY (SUBSCRIBED)	16	63,432,000	63,432,000
CAPITAL RESERVES	17	13,998,640	13,998,640
RESERVES FROM PROFIT		8,068,491	8,068,491
Statutory reserves	18	3,171,600	3,171,600
Reserves for own shares	19	6,343,200	6,343,200
Own shares and company interests	20	(1,446,309)	(1,446,309)
REVALUATION RESERVES	21	61,719,327	58,852,195
PROFIT BROUGHT FORWARD	22	241,862,056	251,421,550
FISCAL YEAR PROFIT	23	8,300,652	1,673,409
MINORITY INTEREST	24	5,167,372	66,088,097
CURRENCY EXCH. DIFF. FROM NET INVESTMENTS IN OPERATIONS ABROAD		(30,431)	21,407
RESERVATIONS	25	<u>8,279,751</u>	<u>5,949,307</u>
Reservations for pensions, severance pays and similar liabilities		3,257,923	2,360,607
Other reservations		5,021,828	3,588,700
LONG-TERM LIABILITIES		<u>356,256,618</u>	<u>329,343,101</u>
Liabilities for loans, deposits and like	26	30,168,432	0
Liabilities to banks and other financial institutions	26	313,796,999	319,563,481
Liabilities to suppliers	27	6,455,547	4,061,301
Liabilities from securities	28	1,401,018	1,428,572
Other long-term liabilities	28	528,165	80,788
Deferred tax liability		3,906,457	4,208,959
SHORT-TERM LIABILITIES		<u>580,577,259</u>	<u>542,130,443</u>
Liabilities to related companies	29	820,676	1,305
Liabilities for loans, deposits and like	30	52,131,918	55,408,315
Liabilities to banks and other financial institutions	30	169,460,999	162,029,926
Liabilities from prepayments	31	13,901,490	5,194,320
Liabilities to suppliers	32	143,616,701	132,343,244
Liabilities from securities	33	113,790,751	98,432,756
Liabilities to employees	34	10,175,100	14,289,387
Liabilities for taxes, contributions and other levies	34	18,585,194	34,053,799
Liabilities from participation in business result	34	2,410,448	418,052
Other short-time liabilities	34	55,683,982	39,959,339
DEFERRED INCOMES AND PAYMENTS NOT YET DUE	35	<u>1,384,895</u>	<u>2,901,570</u>
TOTAL ASSETS		<u>1,349,016,630</u>	<u>1,343,880,211</u>
OFF BALANCE-SHEET EVIDENCE		128,346,841	91,616,308
CREDITED TO COMPANY SHAREHOLDERS		<u>397,350,735</u>	<u>397,467,693</u>
CREDITED TO MINORITY INTEREST		<u>5,167,372</u>	<u>66,088,097</u>

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Pursuant to the Accounting Act and the accompanying Directive
for the year that ended on 31 December 2011

	Note	2010. in HRK	2011. in HRK
OPERATING REVENUES		<u>551,604,908</u>	<u>514,007,974</u>
Revenues from sales	36	517,006,236	482,335,465
Other operating revenues	37	34,598,672	31,672,508
OPERATING EXPENSES		<u>500,356,245</u>	<u>478,103,082</u>
Change of value of products in course and finished products on stock	38	6,402,220	13,855,954
Material expenses		170,381,601	184,592,505
Costs of raws and materials	39	26,364,816	32,995,056
Costs of sold commodities	40	211,172	7,308,636
Other external costs	41	143,805,612	144,288,813
Costs of staff	42	213,421,568	191,627,389
Net salaries and wages		115,717,299	107,228,715
Costs of taxes and contributions payable from salaries		65,696,619	56,516,608
Contributions payable to salaries		32,007,651	27,882,065
Depreciation	43	26,504,868	21,902,497
Other costs	44	63,141,083	53,177,199
Value harmonisation	45	16,906,512	7,314,806
fixed assets (except financial assets)		0	0
current assets (except financial assets)		16,906,512	7,314,806
Reservations	46	666,150	1,916,559
Other operating revenues	47	2,932,243	3,716,173
FINANCIAL REVENUES	48	<u>33,369,477</u>	<u>34,926,350</u>
Interests, currency exchange differences, dividends, and similar revenues from relationships with unrelated companies and other persons		8,764,369	4,747,832
Part of revenue from related companies and participating interests		5,933,244	2,862,938
Not realised profits (revenues)		0	10,802,342
Other financial revenues		18,671,864	16,513,238
FINANCIAL EXPENSES	49	<u>65,145,811</u>	<u>60,757,376</u>
Interests, currency exchange differences, dividends, and similar revenues from relationships with unrelated companies and other persons		60,746,537	59,489,075
Not realised losses (expenses) from financial assets		4,399,274	181,424
Other financial expenses		0	1,086,877
PARTICIPATION IN RELATED COMPANIES PROFITS		0	0
PARTICIPATION IN RELATED COMPANIES LOSSES		2,323,100	2,907,998
TOTAL REVENUES		<u>584,974,385</u>	<u>548,934,324</u>
TOTAL EXPENSES		<u>567,825,156</u>	<u>541,768,456</u>
PROFIT BEFORE TAXATION		<u>17,149,230</u>	<u>7,165,868</u>
PROFIT TAX	50	7,941,585	5,466,510
PROFIT OF THE PERIOD		<u>9,207,644</u>	<u>1,699,358</u>
PROFIT CREDITED TO COMPANY SHAREHOLDERS		<u>8,300,652</u>	<u>1,673,409</u>
PROFIT CREDITED TO MINORITY INTERESTS		<u>906,992</u>	<u>25,948</u>

Notes numbers 1 to 57 make integral part of the Financial Statements.

CONSOLIDATED OTHER COMPREHENSIVE INCOME STATEMENT
 for the year that ended on 31 December 2011

	NOTE	2010 in HRK	2011 in HRK
PROFIT OR LOSS OF THE PERIOD		<u>9,207,644</u>	<u>1,699,358</u>
Currency exchange differences from operations abroad		<u>(7,840)</u>	<u>13,566</u>
Profit from revaluation of financial assets available for sale		4,392,598	(1,639,814)
TAX PAYABLE TO OTHER COMPREHENSIVE INCOME OF THE PERIOD		(876,952)	325,250
NET OTHER COMPREHENSIVE INCOME OF THE PERIOD		<u>3,507,806</u>	<u>(1,300,998)</u>
COMPREHENSIVE INCOME OF THE PERIOD	52	<u>12,715,450</u>	<u>398,359</u>
COMPREHENSIVE INCOME OR LOSS OF THE PERIOD			
Credited to Company shareholders	52	<u>11,808,458</u>	<u>372,411</u>
Credited to minority interests		<u>906,992</u>	<u>25,948</u>

CONSOLIDATED CASH FLOW STATEMENT - Indirect method

for the period from 1 January 31 December 2011

	Note	2010. in HRK	2011. in HRK
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		17,149,230	7,165,868
Depreciation		26,504,868	21,902,497
Short-term liabilities increase		0	0
Short-term liabilities decrease		13,082,664	0
Stock decrease		355,223,377	21,266,086
Other cash-flow increase		0	0
Total increase of cash flow from operating activities		411,960,139	50,334,452
Short-term liabilities decrease		(289,762,097)	(38,099,814)
Short-term receivables increase		0	(14,068,846)
Stock increase		0	0
Other cash-flow decrease		(139,009,649)	(17,404,297)
Total decrease of cash flow from operating activities		(428,771,746)	(69,572,958)
NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES		<u>0</u>	<u>0</u>
NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES		<u>(16,811,607)</u>	<u>(19,238,506)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Inflows from sale of fixed tangible and intangible assets		442,839	899,518
Inflows from sale of ownership and debt instruments		58,848,133	40,508,775
Inflows from interests		10,831,478	1,007,957
Other inflows from investing activities		35,638,000	2,048,795
Total inflows from investing activities		105,760,450	44,465,045
Outflows for purchasing fixed tangible and intangible assets		(11,340,677)	(14,529,203)
Outflows for acquiring ownership and debt instruments		(62,101,395)	(31,319,263)
Other outflows from investing activities		(4,940,730)	0
Total outflows from investing activities		(78,382,802,473)	(45,848,466)
NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES		<u>27,377,648</u>	<u>0</u>
NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES		<u>0</u>	<u>(1,383,421)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Inflows from issuing own ownership and debt instruments		67,163,618	75,719,107
Inflows from loan principals, debentures and other loans		279,023,741	111,535,228
Total inflows from financing activities		346,187,359	187,254,335
Outflows for payments of loan and bond principals		(355,915,729)	(220,895,699)
Outflows for payments of dividends		(199,050)	(157,325)
Outflows for financial leases		(6,464,533)	(3,406,172)
Outflows for purchasing own shares		(1,088,615)	0
Other outflows from financing activities		(9,605)	0
Total outflows from financing activities		(363,677,532)	(224,459,196)
NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES		<u>0</u>	<u>0</u>
NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES		<u>(17,490,173)</u>	<u>(37,204,861)</u>
Total cash flow increase		<u>0</u>	<u>0</u>
Total cash flow decrease		<u>(6,924,132)</u>	<u>(57,826,788)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14	80,604,065	73,679,933
Cash and cash equivalent increase		0	0
Cash and cash equivalent decrease	54	(6,924,132)	(57,826,788)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14	<u>73,679,933</u>	<u>15,853,145</u>

Notes numbers 1 to 57 make integral part of the Financial Statements.