INSTITUT IGH, d.d. ZAGREB

FINANCIAL STATEMENTS

for the year ended on 31 December 2011

and the Independent Auditor's Opinion

Zagreb, 26 April 2012

Contents

Management Report

Pursuant to the Accounting Act (Official Gazette 109/07), the Board of Directors is to see that the Financial Statements of the company INSTUTUT IGH d.d. Zagreb ("the Company") are prepared in line with the International Financial Reporting Standards (IFRS) as published in the Official Gazette of the Republic of Croatia (nos. 136/09, 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 Company to dispose of adequate resources in the foreseeable future. Therefore, the Board of Directors produced the Financial Statements assuming the Company'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 Company 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 Company'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

Institut IGH, dioničko društvo za istraživanje i razvoj u graditeljstvu, Zagreb
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25 April 2012

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 Financial Statements of the company INSTITUT IGH, d.d. Zagreb, as provided for by the International Financial Reporting Standards, as follows:

a) Balance Sheet as of 31 December 2011;
b) Profit and Loss Account for the year 2011;
c) Statement of Other Comprehensive Income 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 46 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),
b) International Financial Reporting Standards (Official Gazette 136/09, 8/10, 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 company INSTITUT IGH d.d. Zagreb. 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 49/10). These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial standards are free from material misstatements.

The audit involves performing procedures aimed to obtaining audit evidence abut 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 Financial Statements present realistically and fairly the financial status of the company INSTITUT IGH, d.d. Zagreb, 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.

Emphasizing significant facts in the audited Financial Statements

6. In the Note 54, 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) <u>Exposure to credit risks</u> 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. 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). 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 54.2, where, besides risk descriptions, are also named 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 126 million, of which HRK 98 million in delays of up to one year and HRK 28 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 55. 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.

Report on other statutory or regulators requirements

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 information being contained in the Points 6 and 7 as well.

Split, 26 April 2012

Director - Certified Auditor:
Josip Tomasović

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

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	18,066	19,971
Real estates, plants and equipment	4	180,779	175,002
Investments in real estates	4	34,227	37,932
Financial assets	5	410,827	472,042
Long-term receivables	6	6,117	3,850
Deferred taxation assets	7	2,092	1,807
		652,108	710,604
CURRENT ASSETS			
Stocks	8	26,221	4,274
Receivables from customers	10	125,206	101,163
Financial assets	14	93,812	55,484
Other receivables and calculated revenues	9,11,12,13,16	204,530	264,968
Cash and cash equivalents	15	62,898	12,942
		512,667	438,831
TOTAL ASSETS		1,164,775	1,149,435
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES			
Equity	17	63,432	63,432
Capital reserves	18	13,999	13,999
Statutory reserves	19	3,172	3,172
Reserves for own shares	20	6,343	6,343
Own shares	21	(1,446)	(1,446)
Revaluation reserves	22	57,127	54,432
Profit brought forward	23	274,017	289,268
Current year profit	24	12,985	13,594
TOTAL CAPITAL		429,629	442,794
LIABILITIES			
LONG-TERM LIABILITIES			
Liabilities for loans	26	212,730	224,475
Reservations	25	7,910	5,749
Other long-term liabilities	27-28	1,803	1,865
Deferred tax liabilities		3,906	4,209
		226,349	236,298
SHORT-TERM LIABILITIES			
Liabilities for loans	30	152,017	141327
Liabilities to suppliers	32	116,653	104,127
Liabilities for received prepayments	31	9,604	5,042
Other short-term liabilities	29,34,31	115,385	118,562
Liabilities for issued securities	33	113,791	98,433
Deferred payments and incomes not yet due	35	1,347	2,852
		508,797	470,343
TOTAL CAPITAL AND LIABILITIES		1,164,775	1,149,435

Notes numbers 1 to 56 make integral parts of the Financial Statements.

PROFIT AND LOSS ACCOUNT

for the year ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
Sales revenues	36	423,645	371,482
Other operating revenues	37	34,589	17,470
TOTAL REVENUES FROM CORE ACTIVITY		458,234	388,952
CHANGE OF VALUE OF UNFINISHED AND FINISHED PRODUCT STOCKS	38	6,840	14,319
Costs of raws, materials and services	39-40	148,454	126,625
Staff costs	41	211,144	177,276
Depreciation	42	19,063	14,792
Asset value harmonisation	44	15,859	4,292
Reservations	45	296	1,717
Other operating costs	43,46	24,329	22,092
TOTAL OPERATING COSTS		425,985	361,113
OPERATING PROFIT		32,249	27,839
FINANCIAL REVENUES	47	37,465	40,789
FINANCIAL EXPENSES	48	51,182	49,966
FINANCIAL ACTIVITIES LOSS		(13,717)	(9,177)
PROFIT BEFORE TAXATION		18,532	18,662
PROFIT TAX	49	5,547	5,068
CURRENT YEAR PROFIT		**12,985**	**13,594**
PROFIT PER SHARE (in Kunas and lipas)	50	*82.12*	*86.01*

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
PROFIT OF THE PERIOD		12,985	13,594
Profit from revaluation of financial assets available for sale		4,393	(1,640)
TAX TO OTHER COMPREHENSIVE INCOME OF THE PERIOD		(879)	328
NET OTHER COMPREHENSIVE INCOME OF THE PERIOD		3,514	(1,312)
COMPREHENSIVE INCOME OF THE PERIOD	51	**16,499**	**12,282**

CASH FLOW STATEMENT

for the year ended on 31 December 2011

	NOTE	2010 in HRK 000s	2011 in HRK 000s
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		18,532	18,662
Harmonisations:			
Depreciation		19,063	14,792
Costs of interests		39,201	40,019
Revenues from interests		(13,423)	(11,333)
Increase / (decrease) of reservations		(12,748)	(519)
Receivables value correction		15,859	4,292
Currency exchange gains and losses from assets in accounts (net)		3,017	7,444
Operating activities results before changing the operating capital		69,501	73,357
Decrease / (increase) of current assets:			
(Increase) / decrease of stocks		6,840	21,947
(Increase) / decrease of receivables from customers		19,757	24,042
Increase / (decrease) of liabilities to suppliers		(17,345)	(12,525)
(Increase) / decrease of other receivables		(24,197)	(16,660)
Increase / (decrease) of other liabilities			(70,752)
Net cash flows from operating activities before interests and taxes		54,556	19,410
Interests received		10,355	7,363
Interests paid		(39,201)	(29,758)
Profit tax paid		(18,009)	(4,077)
NET CASH FLOW FROM OPERATING ACTIVITIES		7,701	(7,063)
CASH FLOW FROM INVESTING ACTIVITIES			
Inflows from sale of tangible and intangible fixed assets		421	376
Inflows from sale of ownership instruments and debentures		49,487	35,090
Inflows from dividends		82	0
Other inflows from investing activities		56,273	54,877
Outflows for purchasing fixed tangible and intangible assets		(7,780)	(9,108)
Outflows for acquiring ownership instruments and debentures		(57,336)	(95,956)
Other cash flows from investing activities		(42,805)	(23,755)
NET CASH FLOW FROM INVESTING ACTIVITIES		(1,658)	(38,746)

CASH FLOW STATEMENT

for the year ended on 31 December 2011
(continued)

	NOTE	2010 in HRK 000s	2011 in HRK 000s
CASH FLOW FROM FINANCING ACTIVITIES			
Inflows from issuing of ownership and debt financial instruments		67,164	75,719
Inflows from loan principals, debt instruments and other loans		250,122	87,134
Outflows for loan principals and bond payments		(315,798)	(167,145)
Outflows for dividend payments		(11)	(13)
Outflows for financial leases		(3,025)	(112)
Outflows for purchasing own shares		(1,088)	0
Other outflows from financing activities		0	0
NET CASH FLOW FROM FINANCING ACTIVITIES		(2,636)	(4,417)
Total cash flow increase		**3,407**	**0**
Total cash flow decrease	52	**0**	**(49,956)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	15	59,491	62,898
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15	**62,898**	**12,942**

STATEMENT OF CHANGES IN EQUITY

for the year ended on 31 December 2011

in HRK 000s

	Equity	Statutory reserves	Reserves for own shares	Capital reserves	Other reserves	Revaluation reserves	Profit brought forward	Current year profit	Total
BALANCE on 31 December 2009	**63,432**	**3,172**	**2,442**	**13,376**	**0**	**60,218**	**253,430**	**20,028**	**416,098**
Profit distribution	-	-	-	-	-	-	20,028	(20,028)	0
Capital profit	-	-	-	623	-	-	-	-	623
Acquiring own shares	-	-	(1,089)	-	-	-	-	-	(1,089)
Rewards to managers in own shares	-	-	3,544	-	-	-	-	-	3,544
Fixed financial assets revaluation	-	-	-	-	-	4,392	-	-	4,392
Fixed tangible assets revaluation	-	-	-	-	-	3,083	2,503	-	5,586
Fixed tangible assets decrease	-	-	-	-	-	(10,566)	-	-	(10,566)
Decrease by previous periods expenses	-	-	-	-	-	-	(1,944)	-	(1,944)
Current year profit	-	-	-	-	-	-	-	12,985	12,985
BALANCE on 31 December 2010	**63,432**	**3,172**	**4,897**	**13,999**	**0**	**57,127**	**274,017**	**12,985**	**429,629**
Profit distribution	-	-	-	-	-	-	12,985	(12,985)	0
Long-term financial assets decrease	-	-	-	-	-	(1,639)	-	-	(1,639)
Fixed tangible assets revaluation	-	-	-	-	-	4,255	2,266	-	6,521
Fixed tangible assets decrease	-	-	-	-	-	(5,311)	-	-	(5,311)
Current year profit	-	-	-	-	-	-	-	13,594	13,594
BALANCE on 31 December 2011	**63,432**	**3,172**	**4,897**	**13,999**	**0**	**54,432**	**289,268**	**13,594**	**442,794**

Notes numbers 1 to 56 make integral parts of the Financial Statements.

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

1. GENERAL INFORMATION

1.1. The reporting company

Institut IGH d.d., Zagreb, Janka Rakuše 1, (''the Company''), OIB 79766124714, is registered in the Register of Companies of the Municipal Court at Zagreb, company number 080000959.
The Company shares, ticker: IGH-R-A, ISIN: HRIGH0RA0006, are quoted in the Zagreb Stock Exchange.
The Company performs professional testing, designing and validation of designs, supervision and professional management for architectural and civil-engineering fields of designing, as well as scientific research.

1.2. Staff

On 31 December 2011, the Company employed 848 employees (in 2010 there were **920** employees) of the following qualifications structure:

	2010	2011
Doctors of science	26	18
Masters of science	70	66
University graduates	466	441
Associate degree	88	82
Secondary school	241	219
Skilled labourers	16	13
Non-skilled labourers	13	9
Total	**920**	**848**

1.3. Company Supervising Board and Board of Directors

The Company Supervising Board members are:

Members of the Company Supervising Board:

dr . Franjo Gregurić, B. Sc. Econ., Chairman	from 14 July 2008 to 14 July 2012
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 19 July 2014 latest

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

2. SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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 Financial Statements structure and contents are in line with the IAS 1.

The Company 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. Reporting currency

The Company Financial Statements are prepared in the Croatian Kunas as the Company's operating and reporting currency.

2.3. Recognising of revenues

Revenues from the sales of goods and services are recognised at the moment of their delivery and transferring of 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.

2.4. Loan costs

Loan costs than can be directly related to acquisition, construction or sale of a qualified asset are capitalised. Other costs of loan charge the profit and loss account in the period when accrued.

2.5. 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 7.530420 (31 December 2010: HRK 7.385173).

2.6. 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.

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.

2.7. Tangible and intangible fixed assets

Particular real estates, plants and equipment items satisfying the criteria to be recognised as assets are measured by their costs.

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.

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

Following its initial recognising as asset, particular real estates, plants and equipment items are disclosed by their costs decreased by the accrued depreciation.

According to appraisal performed by an independent appraiser, in 2003 the Company corrected real estates values and created revaluation reserves that are transferred to the profit brought forward in accordance with the adopted depreciation policies.

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, off 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	5
Plants and equipment	10-50
Intangible assets	50

The Company's Board of Directors believes that the above rates re adequate to the degree of economic wear of the assets.
Land and assets under preparations are not depreciated because they are deemed to be of an unlimited duration.
Things and rights of the acquisition costs under HRK 3,500.00 per item are written off immediately.

2.8. Investments in real estates

Investments in real estates are the real estates (land or buildings or a part thereof or both) held by the owner or a financial lease holds in order to make incomes from renting or decrease of the market value or both.

Investments in real estates are initially measured by their costs. The costs of investments in real estates include the purchase price and all the related direct costs.

Following their initial recognising, investments in real estates are measured by their fair values.

2.9. 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.

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

2.10. Investments into subsidiary and associated companies

Subsidiary companies are the companies where the Company controls decision making and implementation of the financial and business policies of the company invested into and for the purpose of gaining from its activities

An associated company is a company in which the Company has a substantial influence, but not the control, by participating in making of decisions on the associated company's financial and business policies.

Investments into subsidiary and associated companies are declared in these Financial Statements by the investment cost method.

2.11. 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.

2.12. 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.

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

2.13. 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.

2.14. 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 overdraws authorised, respectively.

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

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).

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.

2.15. 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.

2.16. 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.

2.17. 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.

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

In the late 2011 and early 2012, translated were material amendments of the IFRS/IAS and their interpretations applicable to period from 1 July 2011 and further on.

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

3. INTANGIBLE FIXED ASSETS

	Right to use third person assets (patents, licences etc.)	Goodwill	Investments into third person assets	Assets under preparation	Total
PROCUREMENT VALUE					
31 December 2010	25,676,085	13,355,595	342,029	3,887,682	43,261,390
Increases		-	-	-	0
Decreases	(66,671)	-	-	-	(66,671)
New acquisitions	2,944,879	-	-	2,918,879	5,863,758
Transferred to utilisation	-	-	-	(2,944,879)	(2,944,879)
Accelerated depreciation (revaluation)	1,567,635	-	-	-	1,567,635
31 December 2011	30,121,928	13,355,595	342,029	3,861,682	47,681,233
VALUE CORRECTION					
31 December 2010	23,623,771	0	303,149	1,268,255	25,195,175
Depreciation in 2011	2,546,135	-	35,889	-	2,582,024
Sold or written off	(66,671)	-	-	-	(66,671)
31 December 2011	26,103,235	0	339,038	1,268,255	27,710,527
NET ACCOUNTING VALUE					
31 December 2010	**2,052,313**	**13,355,595**	**38,880**	**2,619,427**	**18,066,215**
31 December 2011	**4,018,693**	**13,355,595**	**2,991**	**2,593,426**	**19,970,706**

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

4. TANGIBLE FIXED ASSETS

	Land	Buildings	Plants and equipment	Assets under preparation	Other	Investments in real estates	Total	Prepayments for tangible assets	Total
PROCUREMENT VALUE									
31 December 2010	45,615,549	226,047,661	143,093,938	24,695,835	958,502	34,227,754	474,639,239	95,843	474,735,082
Increases		-	-	-	-	2,298,285	2,298,285	473,368	2,771,653
Direct procurement	-	382,937	1,254,177	6,403,669	-	1,405,706	9,446,489	-	9,446,489
Transferred to utilisation	-	-	-	(1,583,886)			(1,583,886)	-	(1,583,886)
Decreases	-	-	-	-	-	-	0	(480,758)	(480,758)
Accelerated depreciation (revaluation)	-	-	(55,128)	-	-	-	(55,128)	-	(55,128)
Sold or written off	-	-	(832,448)	-	-	-	(832,448)	-	(832,448)
31 December 2011	45,615,549	226,430,598	143,460,540	29,515,618	958,502	37,931,745	483,912,551	88,452	484,001,004
VALUE CORRECTION									
31 December 2010	-	121,284,765	137,865,100	0	579,145	0	259,729,008	-	259,729,008
Depreciation in 2011	-	10,317,427	1,805,032	-	48,013	-	12,170,472	-	12,170,472
Deprec. of for. bran. & not tax recognised	-	-	39,698	-	-	-	39,698	-	39,698
Correct. by foreign branch depreciation	-	-	(39,698)	-	-	-	(39,698)	-	(39,698)
Sold or written off	-	-	(832,448)	-	-	-	(832,448)	-	(832,448)
31 December 2011	-	131,602,192	138,837,681	0	627,158	0	271,067,032	-	271,037,032
NET ACCOUNTING VALUE									
31 December 2010	**45,615,549**	**104,762,896**	**5,228,838**	**24,695,835**	**379,357**	**34,227,754**	**214,910,231**	**95,843**	**215,006,074**
31 December 2011	**45,615,549**	**94,828,406**	**4,622,859**	**29,515,618**	**331,344**	**37,931,746**	**212,845,521**	**88,452**	**212,933,972**

4.1. The Company mortgaged its assets valid HRK 135,736,000 (in 2010: HRK 135,651,000) in collateral 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 and Societe Generale Splitska banka d.d., Split, Privredna banka d.d. Zagreb, Hrvatska poštanska banka d.d., Zagreb, and VABA Banka, Varaždin.

4.2. The property under preparations comprises constructing of a business building at Janka Rakuše 1 in Zagreb.

5. LONG-TERM FINANCIAL ASSETS

	2010	2011
Investments in subsidiaries	246,484,400	252,726,798
Investments in associated companies	36,692,258	67,810,833
Shares	34,818,918	45,621,261
Limited company interests	19,107,129	17,467,314
Loans to subsidiaries	37,204,225	55,982,980
Loans to associated companies	28,120,000	28,120,000
Loans granted	2,048,795	0
Deposits and deposits granted	2,689,917	598,788
Bonds	3,661,563	3,714,290
Total	**410,827,205**	**472,042,265**

The Company Board of Directors believes the financial fixed assets accounting value not to differ significantly from their fair value. Possible effects of credit risk to the far values of receivables is disclosed in the Note 54, point 2.

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

	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) 2010	ACCOUNTING VALUE AT THE END OF THE YEAR 2010	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) 2011	ACCOUNTING VALUE AT THE END OF THE YEAR 2011
5.1. Investments in subsidiaries				
IGH Mostar d.o.o., Mostar	100	6,004,877	100	6,004,877
IGH Energija d.o.o., Zagreb (ex IGH Razum d.o.o.)	100	222,000	100	222,000
INCRO d.o.o., Zagreb (ex Adepto d.o.o.)	100	20,000	100	20,000
IGH TURIZAM d.o.o., Zagreb	100	2,920,990	100	49,103,990
Geotehnika-inženjering d.o.o., Zagreb	100	55,802,873	100	55,802,873
Projekt Šolta d.o.o., Zagreb	100	58,544,436	100	58,544,436
IGH Projektiranje d.o.o., Zagreb	100	6,103,035	100	6,103,035
Projektni Biro Palmotićeva 45 d.o.o., Zagreb	-	-	80,02	18,453,500
IGH KOSOVA SHA, Priština	74,80	39,557	74,80	39,557
IGH d.o.o. Mostar, Mostar	-	-	51	19,263
Radeljević d.o.o., Zagreb	100	116,826,632	50	58,413,267
31 December		**246,484,400**		**252,726,798**

	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) 2010	ACCOUNTING VALUE AT THE END OF THE YEAR 2010	PARTICIPATION IN OWNERSHIP AND VOTING RIGHTS (%) 2011	ACCOUNTING VALUE AT THE END OF THE YEAR 2011
5.2. Investments in associated companies				
Elpida d.o.o., Zagreb	-	-	50	31,300,000
Institute for Infrastructural Projects, Sofia	50	9,292	50	9,292
Institut građevinarstva Sarajevo d.o.o., Sarajevo	49	181,424	49	-
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	37,50	21,533,172	37,50	21,533,172
Gratius Projekt d.o.o., Zagreb	34	34,000	34	34,000
Lux energija d.o.o., Zagreb	30	14,918,186	30	14,918,186
Prvi Crnogorski autoput d.o.o.	25	184	25	184
31 December		**36,692,258**		**67,810,834**
5.3. Shares and company interests - participating interests				
Črnomerec Centar d.o.o., Zagreb	20	34,756,698	20	45,559,041
Grupacija Biotoplifikacija d.o.o., Zagreb	15,00	15,000	15,00	15,000
GP Dubrovnik d.d., Dubrovnik	12,95	-	12,95	-
Viktor Lenac d.d., Rijeka		47,220		47,220
31 December		**34,818,918**		**45,621,261**
5.4. Shares in investment funds				
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
31 December		**19,107,128**		**17,467,314**

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

5.5. Loans to subsidiaries

	INTEREST RATE	2010	2011
Geotehnika-inženjering d.o.o. Zagreb	HNB disc. rate	1,725,276	1,725,276
Incro d.o.o., Zagreb	7,5%	30,562,212	50,562,212
Radeljević d.o.o., Zagreb	9,8%	4,916,734	3,695,492
31 December		**37,204,222**	**55,982,980**

5.6. Loans to associated companies

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

6. LONG-TERM RECEIVABLES

	2010	2011
Receivables for apartments and equipment sold at postponed payment	6,117,447	3,849,560
31 December	**6,117,447**	**3,849,560**

7. DEFERRED TAXATION ASSETS

The deferred taxation assets, amounting to HRK 21,806,961, 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.

	2010	2011
Initial balance	2,759,956	2,091,631
Increase	495,987	236,636
Decrease	(1,164,312)	(521,306)
31 December	**2,091,631**	**1,806,961**

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

8. STOCKS

	2010	2011
Production in progress	501,348	247,493
Finished product stocks	19,033,411	2,646,935
Goods for sale	6,135,426	1,379,577
Prepayments for procurement of goods	550,897	0
Total	**26,221,082**	**4,274,005**

9. RECEIVABLES FROM RELATED COMPANIES

	2010	2011
RECEIVABLES FROM SUBSIDIARIES		
Geotehnika-inženjering d.o.o., Zagreb	474,010	777,093
IGH Mostar d.o.o., Mostar	320,035	431,343
Incro d.o.o., Zagreb	-	21,975
ETZ d.d., Osijek	77,490	52,582
Radeljević d.o.o., Zagreb	1,053,400	1,368,059
Forum centar d.o.o., Zagreb	683	683
Hidroinženjering d.o.o.	154,724	231,872
IGH Projektiranje d.o.o.	11,985,964	16,854,492
Arhitektura Tholos Projektiranje d.o.o.	49,200	13,530
Projektni Biro Palmotićeva 45 d.o.o., Zagreb	-	163,982
IGH TURIZAM d.o.o., Zagreb	-	38,630
Tehničke konstrukcije d.o.o., Zagreb	-	8,979
DP Aqua d.o.o., Zagreb	-	6,765
CTP Projekt d.o.o., Zagreb	-	4,612
Marterra d.o.o.	-	3,167
Total:	14,115,506	19,977,764

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

RECEIVABLES FROM ASSOCIATED COMPANIES	2010.	2011.
Sportski grad TPN d.o.o., Split	424,630	475,060
Centar gradski podrum d.o.o., Zagreb	4,587,298	297,134
Centar Bundek d.o.o., Zagreb	-	766,686
Total	6,011,928	1,538,880
31 December	**20,127,434**	**21,516,644**

10. RECEIVABLES FROM CUSTOMERS

	2010	2011
Receivables from domestic customers	159,084,801	133,996,154
Receivables from foreign customers	20,178,653	15,151,634
Minus: Value correction	(54,057,481)	(47,984,190)
31 December	**125,205,973**	**101,163,598**

The correction of value of receivables from the customers comprises the receivables sued for and those corrected under the valid taxation regulations. The Company Board of Directors deems the corrections to be based on reasonable assessments.

10.1. Maturity structure of receivables from customers on 31 December 2011:

ITEM	RECEIVABLES FROM CUSTOMERS	STRUCTURE IN %
Total	101,163,598	100.00
Not yet due	46,713,630	46.18
Due	54,449,968	53.82
- up to 30 days	7,433,084	7.35
- 30 – 60 days	4,131,573	4.08
- 60 – 90 days	2,952,673	2.92
- over 90 days	39,232,638	39.47

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

10.2. The most important customers by turnover in 2011:

	2010	2011
Hrvatske autoceste d.o.o., Zagreb	82,996,797	94,850,317
Hrvatske ceste d.o.o., Zagreb	37,894,107	32,697,917
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
Auto cesta Rijeka-Zagreb d.o.o., Zagreb	10,640,718	6,337,471
Total	**211,538,911**	**209,679,918**

11. RECEIVABLES FROM COMPANIES WHERE THERE ARE PARTICIPATING INTERESTS

	2010	2011
Črnomerec Centar d.o.o., Zagreb	151,412	146,963
31 December	**151,412**	**146,963**

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

12. OTHER SHORT-TERM RECEIVABLES

OTHER SHORT-TERM RECEIVABLES

	2010	2011
Receivables from employees	636,527	622,982
Receivables from government and govern. institutions	5,765,880	2.040,777
Receivables from Trames d.o.o., Mokošica	-	76.590,656
Receivables from Niva Inženjering d.o.o.	29,868,543	30.455,979
Receivables from Zagrebački Holding d.o.o.	33,691,793	34.354,410
Receivables from invoiced interests	16,251,216	16.251,216
Sapunar Igor	35,090,246	-
Reinvest d.o.o.	4,253,860	4.337,522
Other receivables	47,572	882,014
Minus: Value correction	-	(956,620)
Total	125,605,637	164,578,936

RECEIVABLES FROM BRANCHES AND REPRESENTATIONS ABROAD

IGH Albania, Tirana	9,372,687	2,786,008
INSTITUT IGH d.d. Herceg Novi Branch	445,976	674,463
INSTITUT IGH d.d. Kazakhstan Branch	-	254,082
INSTITUT IGH d.d. Moscow Branch	-	150,608
Total	9,818,663	3,865,161
31 December	**135,424,300**	**168,444,097**

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

12.1. Receivables from Niva Inženjering d.o.o. Zagreb comprise receivables for the sold interests in the company Črnomerec Centar d.o.o.

12.2. Receivables from Zagrebački Holding d.o.o. are created by the Statement on Cancellation of Purchase Agreement pertaining indivisible 1/2 of properties in Heinzelova Street in Zagreb, and comprise payment of 10% of the purchase price.

Pending are negotiations with Zabrebački Holding d.o.o. related to repayment of the said funds. The negotiations outcome and possibility of a court procedure cannot be foreseen. It is to be underlined that Institut IGH d.d. has already obtained the important and legally indicative fact of repayment of the property transfer tax related to the agreement in question, in the amount of HRK 16,374,614.70. The receivables related to the property transfer tax were collected on 10 February 2010.

The credit risk related to this receivable is described in the Note 54, point 2, together with other risks

12.3. Receivables from Trames d.o.o. amounting to HRK 76,590,656, comprise receivables for the sold 25% of the company Radeljević d.o.o. The credit risk related to this receivable is described in the Note 54, point 2, together with other risks

13. RECEIVABLES FROM PREPAYMENTS

	2010	2011
Prepayments made in the country	830,060	955,092
Prepayments made abroad	188,480	416,339
Prepayments made to subsidiaries		
DP AQUA d.o.o., Zagreb	26,115	26,115
CTP Projekt d.o.o., Zagreb	14,657	14,657
Tehničke konstrukcije d.o.o.,Zagreb	-	49,802
Total	1,059,312	1,462,005
Minus: Value correction	(651,240)	(730,652)
31 December	**408,072**	**731,353**

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

14. SHORT-TERM FINANCIAL ASSETS

	2010	2011
Loans to subsidiaries	61,139,089	20,713,031
Loans to associated companies	2,280,000	2,280,000
Loans to subjects where there are participating interests	6,937,896	7,371,332
Receivables from interests to loans to associated companies	13,256,352	16,493,542
Loans granted with receivables for interests	1,184,267	1,330,780
Deposits and prepayments made	9,619,279	7,430,514
Minus: Value correction	(604,553)	(135,150)
31 December	**93,812,330**	**55,484,049**

The Company Board of Directors believes the current financial assets accounting value not to differ significantly from their fair value.

14.1. Loans to subsidiary companies (with receivables from accrued interests)

	INTEREST RATE	2010	2011
Geotehnika-inženjering d.o.o., Zagreb	HNB disc. rate	87,979	351,275
IGH ENERGIJA d.o.o., Zagreb	HNB disc. rate	23,810	25,408
ETZ d.d., Osijek	HNB disc. rate	1,160	-
INCRO d.o.o., Zagreb	HNB disc. rate	7,494,334	17,097,704
Radeljević d.o.o., Zagreb	7.5%	368,755	81,058
IGH Turizam d.o.o., Zagreb	HNB disc. rate	43,904,713	232,630
IGH Projektiranje d.o.o.	HNB disc. rate	13,834,706	6,153,038
Slavonija centar V. Kopanica d.o.o., Zagreb	-	4,620	4,620
Forum centar d.o.o., Zagreb	HNB disc. rate	15,066	16,185
IGH KOSOVA Sha, Prishtina¸	HNB disc. rate	1,908,234	3,300,222
PROJEKT ŠOLTA d.o.o., Zagreb	HNB disc. rate	5,275	5,675
IGH MOSTAR d.o.o., Mostar	HNB disc. rate	-	893,234
31 December		**67,648,652**	**28,161,049**

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

14.2. Loans to associated companies (with receivables from accrued interests)

		2010	2011
Sportski grad TPN d.o.o., Split	HNB disc. rate	8,802,031	11,325,522
Centar gradski podrum d.o.o., Zagreb	9,8%	96,657	-
Centar Bundek d.o.o., Zagreb	6%	128,100	-
31 December		**9,026,788**	**11,325,522**

14.3. Loans to companies where there are participating interests (with receivables from accrued interests)

		2010	2011
Črnomerec Centar d.o.o.	HNB disc. rate	6,937,896	7,371,332
31 December		**6,937,896**	**7,371,332**

15. CASH

	2010	2011
Kuna business account balance	5,604,833	1,708,124
Cash in hand	7,804	4,987
Foreign currency account balance	3,095,670	406,052
Shares in investment funds	-	-
Securities	11,993,303	10,823,215
Deposits maturing within 3 months	42,196,394	-
31 December	**62,898,004**	**12,942,378**

16. DEFERRED PAYMENTS AND INCOMES NOT YET DUE

	2010	2011
Expenses paid in advance	4,202,630	3,279,721
Incomes not invoiced	42,780,932	70,382,937
VAT to prepayments received	1,435,135	465,170
31 December	**48,418,697**	**74,127,828**

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

17. EQUITY

The equity is established in the nominal amount of **HRK 63,432,000** (2010: same amount) divided in **158,580** shares nominally valid **HRK 400 each**.

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

	2010		2011	
	No. of shares	Percentage	No. of shares	Percentage
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 FINANCIAL STATEMENTS
for the year ended on 31 December 2011
(continued)

13. CAPITAL RESERVES

The capital reserves, amounting to **HRK 13,998,640** (2010: same amount), comprise profits from acquisition and sale of own shares.

14. STATUTORY RESERVES

The statutory reserves, amounting to **HRK 3,171,600** (2010: same amount), comprise the reserves appropriated from the previous years profits.

15. RESERVES FOR OWN SHARES

The reserves for own shares, amounting to **HRK 6,343,200** (2010: same amount), comprise the reserves appropriated from previous years profits.

16. OWN SHARES

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

18. REVALUATION RESERVES

31 December 2010	57,127,602
Fixed tangible assets decrease	(5,311,102)
Long-term financial assets decrease	(1,639,814)
Fixed tangible assets increase	4,255,559
Long-term financial assets increase	-
31 December 2011	**54,432,245**

Changes in the revaluation reserves comprise harmonisation of the fixed tangible and intangible 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 deferred taxes.

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

19. PROFIT BROUGHT FORWARD

31 December 2010	274,016,878
2010 profit (see Note 24)	12,985,386
Fixed tangible asset revaluation	2,265,549
31 December 2011	**289,267,813**

20. FISCAL YEAR PROFIT

In the year 2011, the Company made profit amounting to **HRK 13,593,638** (2010: **HRK 12,985,385**).

The Company profit made in 2010, amounting to HRK 12,985,385, was distributed by the Company Members Meeting as follows:

Profit brought forward (see Note 23)	12.985.385
Total	**12.985.385**

21. RESERVATIONS

	warranty periods	severances and bonuses	litigations	Total
31 December 2010.	3,202,549	3,257,923	1,449,279	7,909,751
Additional reservations	-	-	75,000	75,000
Reservation revenues	(1,338,128)	(897,316)	-	(2,235,444)
31 December 2011	**1,864,421**	**2,360,607**	**1,524,279**	**5,749,307**

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

22. LONG-TERM LIABILITIES FROM LOANS

	INTEREST RATE	2010	2011
Zagrebačka banka d.d., Zagreb	EURIBOR+6,5-6,95 p.p.	136,062,580	134,417,997
Erste & Steiermärkische bank d.d., Rijeka	EURIBOR+2,95-6,75 p.p.	62,765,319	54,752,501
Adria bank AG, Vienna, Austria	3 m. EURIBOR+6,16 p.p.	26,254,290	25,754,036
Hypo Alpe Adria Bank, Zagreb	6 m EURIBOR+6,0 p.p.	30,644,560	31,247,163
Hrvatska poštanska banka d.d., Zagreb	3 m. EURIBOR+6,75 p.p.	15,555,555	11,555,556
Vaba Banka d.d., Varaždin	8%	-	11,737,415
Total		271,282,304	269,464,668
Minus: Current dues (see Note 30)	(58.552.577)	(44,989,470)	
31 December		**212,729,727**	**224,475,198**

26.1 Changes in long-term liabilities from loans in the year:

31 December 2010	212,729,727
Loan repayment	(20,935,688)
New loans	13,812,720
Loan repayment postponement	58,552,577
Currency exchange differences	5,305,332
Total	269,464,668
Minus: Current dues	(44,989,470)
31 December 2011	**224,475,198**

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

26.2. Long-term liabilities for loans are maturing as follows:

Maturing in one to two years	186,242,116
Maturing in two to three years	9,363,754
Maturing in three and more years	28,869,328
31 December	**224,475,198**

23. LONG-TERM LIABILITIES TO SUPPLIERS

	2010	2011
PBZ leasing d.o.o., Zagreb	321,844	202,869
Other suppliers	-	171,920
31 December	**321,844**	**374,789**

24. OTHER LONG-TERM LIABILITIES

	2010	2011
Liabilities for securities	1,401,018	1,428,572
Liabilities for guarantees and deposits	79,732	60,695
31 December	**1,480,750**	**1,489,267**

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

25. LIABILITIES TO RELATED COMPANIES

	2010	2011
LIABILITIES TO SUBSIDIARIES AND ASSOCIATED COMPANIES		
IGH Projektiranje d.o.o., Zagreb	2,836,494	180,192
Geotehnika-inženjering d.o.o., Zagreb	2,451,684	1,839,247
CTP Projekt d.o.o., Zagreb	1,838,817	617,964
ETZ d.d.,Osijek	1,251,919	1,015,508
Projektni biro Palmotićeva 45 d.o.o., Zagreb	480,756	302,487
Arhitektura Tholos Projektiranje d.o.o., Zagreb	405,900	150,920
IGH Mostar d.o.o., Mostar	13,862	121,561
MBM Termoprojekt d.o.o., Zagreb	35,055	74,449
Tehničke konstrukcije	-	129,113
Centar Gradski podrum d.o.o., Zagreb	1,905	1,305
31 December	**9,316,392**	**4,432,746**

26. SHORT-TERM LIABILITIES FROM LOANS

	INTEREST RATE	2010	2011
Zagrebačka banka d.d., Zagreb	3 m EURIBOR+5.5-7 p.p.	47,820,317	48,760,817
SG Splitska banka d.d., Split	EURIBOR+5.0 p.p.	14,770,346	15,060,840
PBZ D.D., Zagreb	3 m EURIBOR+7.5 p.p.	14,770,346	15,023,188
Hrvatska poštanska banka d.d., Zagreb	3 m EURIBOR+6.75 p.p.	7,251,733	7,251,733
Agrokor d.d., Zagreb	4%	6,277,397	6,400,857
Paktor d.o.o., Split	8%	2,523,778	3,741,469
Other short-term liabilities from loans		50,394	98,777
Total		93,464,311	96,337,681
Plus: Current dues (see Notes 25 and 26)		58,552,578	44,989,470
31 December		**152,016,889**	**141,327,151**

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

30.1. Changes in short-term liabilities from loans in the year:

31 December 2010	152,016,889
New loans	73,321,499
Repayments	(71,348,896)
Repayment postponement	(58,552,578)
Exchange rate differences	900,767
Total	96,337,681
Plus: Current dues	44,989,470
31 December 2011	**141,327,151**

27. LIABILITIES FROM PREPAYMENTS AND DEPOSITS

	2010	2011
From domestic customers	6,688,779	1,539,249
From foreign customers	2,915,411	3,503,417
Deposits and guarantees received	37,646,310	39,142,255
31 December	**47,250,500**	**44,184,921**

28. LIABILITIES TO SUPPLIERS

	2010	2011
Liabilities to domestic suppliers	111,268,257	102,276,607
Liabilities to foreign suppliers	3,483,858	1,850,872
Liabilities for goods and services not invoiced	1,900,642	0
31 December	**116,652,757**	**104,127,479**

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

32.1. Structure of maturing of liabilities to suppliers as at 31 December 2011:

ITEM	LIABILITIES TO SUPPLIERS	STRUCTURE IN %
Total	104,127,479	100.00
Not yet due	15,912,296	15.28
Due	88,215,183	84.72
- up to 30 days	10,299,758	9.89
- 30 – 60 days	7,187,239	6.90
- 60 – 90 days	9,108,564	8.75
- 90 days – one year	33,435,421	32.11
- over one year	28,184,201	27.07

32.2. Most important suppliers by turnover in 2011:

	2010	2011
PBZ Leasing d.o.o., Zagreb	7,920,143	6,611,770
Konstruktor Inženjering d.d., Split	1,958,437	5,907,485
Ina Kartica – Industrija nafte d.d., Zagreb	6,122,961	5,788,924
Dalekovod Projekt d.o.o., Zagreb	4,463,542	5,393,891
ZG Projekt d.o.o, Zagreb	3,565,233	5,240,480
IPRO – 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
Geodetski zavod d.d., Split	1,228,936	3,057,827
Zavod za fotogrametriju d.d., Zagreb	2,433,594	2,767,814
Total	**41,504,482**	**47,941,282**

NOTES TO FINANCIAL STATEMENTS
for the year ended on 31 December 2011
(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. On 31 December 2011, the liabilities from these bills of exchange amounted to HRK 5,105,094.

The bills of exchange issued in favour of Adriatic Zagreb d.o.o., totalling to HRK 4,000,000, will mature in the first quarter of 2012.

On 31 December 2011, balance of the bills of exchange issued in favour of other creditors amounted to HRK 9,740,000.

34. OTHER SHORT-TERM LIABILITIES

	2010	2011
Liabilities to government and govern. institutions	15,630,518	28,156,106
Liabilities to employees	8,276,060	10,747,136
Liabilities for dividends	431,377	418,052
Liabilities for management bonuses	1,733,004	1,733,004
Liabilities for assignations	28,256,504	11,326,685
Liabilities for interests	5,671,607	9,943,780
City of Split - liabilities for utility duties	2,786,678	2,786,678
Liabilities for company interests purchased	-	4,187,209
Other liabilities	5,637,865	5,688,622
31 December	**68,423,613**	**74,987,272**

35. DEFERRED PAYMENTS AND INCOMES NOT YET DUE

	2010	2011
Deferred payment of costs	534,121	465,382
Incomes not yet due	813,329	744,829
Reservations for severance pays due in 2012	-	1,641,559
31 December	**1,347,450**	**2,851,770**

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

36. SALE REVENUES

	2010	2011
Revenues fro sale of goods and services	346,713,881	323,198,343
Revenues from sales abroad	76,931,260	48,283,221
Total	**423,645,141**	**371,481,564**

37. OTHER OPERATING REVENUES

	2010	2011
Revenues from cancellation of reservations	13,044,220	2,235,444
Revenues from sale of assets	428,363	22,097
Revenues from rentals	5,923,161	780,338
Revenues from collecting of receivables	8,666,157	9,362,791
Revenues from collection of damages	83,391	3,115,990
Revenues from compensations, subsidies, refunds	1,415,177	680,670
Revenues from liability write off	3,332,643	124,890
Other revenues	1,696,012	1,147,501
Total	**34,589,124**	**17,469,721**

38. CHANGES IN STOCKS OF FINISHED PRODUCTS AND PRODUCTION IN PROGRESS

The decrease of value of stocks of finished products and production in progress relative to the previous reporting period, amounts to **HRK 14,319,083** (2010: decrease amounting to **HRK 6,840,119**).

39. COSTS OF RAWS AND MATERIALS

	2010	2011
Costs of raws and materials	3,916,545	3,663,122
Energy costs	8,949,920	8,337,301
Small inventory and spare parts costs	1,066,180	945,629
Total	**13,932,645**	**12,946,052**

The costs of procurement values of the goods sold amount to **HRK 5,202,736** (2011: **HRK 148,807**).

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

40. OTHER EXTERNAL COSTS

	2010	2011
Costs of transportation, telephone, mail	4,388,484	3,481,928
Costs of subcontractors	99,323,150	75,795,509
Costs of production services	7,568,180	10,161,331
Costs of utilities	2,203,122	1,847,099
Costs of maintenance	4,684,320	4,012,872
Costs of rental	10,527,372	7,744,454
Other external costs	5,676,974	5,432,849
Total	**134,371,602**	**108,476,042**

41. STAFF COSTS

	2010	2011
Net wages	96,906,291	86,556,884
Taxes, contributions and other levies	81,847,742	69,045,687
Reimbursed costs to employees (travel costs, per diem etc,)	15,732,841	12,333,691
Loyalty bonuses, severance pays etc,	4,938,769	5,873,582
Reimbursements, severances, and supports above tax recogn,	11,718,532	3,466,438
Total	**211,144,175**	**177,276,282**

41.1. Wages of the Company management, amounting to HRK 881,229 gross (2010: HRK 893,724) make part of the disclosed staff costs.

42. DEPRECIATION

	2010	2011
Tangible assets depreciation	16,809,687	12,210,170
Intangible assets depreciation	2,253,487	2,582,024
Total	**19,063,174**	**14,792,194**

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

43. OTHER EXPENSES

	2010	2011
Legal, counselling and other services expenses	2,015,940	4,562,395
Entertainment expenses	1,680,235	1,627,768
Insurance premiums	2,529,798	2,641,199
Training expenses	2,004,751	1,509,488
Banking fees and commissions	4,644,626	3,762,131
Contributions to public bodies	2,135,402	988,795
Withholding taxes paid abroad	1,346,319	799,910
Expenses related to VAT reclaim distribution	1,689,440	1,659,538
Other expenses	3,783,362	2,394,019
Total	**21,769,873**	**19,945,243**

In the other expenses 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 250,000.

44. CURRENT-ASSET VALUE HARMONISATION

	2010	2011
Other receivables	99,331	116,014
Receivables from customers	13,610,387	4,175,891
Stock value harmonisation	2,149,356	-
Total	**15,859,074**	**4,291,905**

45. COST AND RISK RESERVATIONS

	2010	2011
Reservations for severance pays and loyalty bonuses	-	1,641,559
Reservations for litigation costs	296,150	75,000
Total	**296,150**	**1,716,559**

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 to lower amount. Therefore, in 2011 no reservations for risks in warranty periods were made.

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

Reservations for severance pays and loyalty bonuses, made in line with the IAS 19, are lesser than in 2011 by HRK 897,316 because some of these liabilities were settled in 2011.

The Company made reservations for severance pays to employees that are to be dismissed for business reasons in line with the Programme on Providing for Labour Redundancies adopted on 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.

46. OTHER OPERATING EXPENSES

	2010	2011
Previous period expenses	1,850,072	1,486,141
Contractual penalties and damages	709,395	609,395
Other expenses not mentioned above	-	51,066
Total	**2,559,467**	**2,146,602**

47. FINANCIAL REVENUES

	2010	2011
Currency exchange gains	5,799,252	536,559
Revenues from interests	13,423,017	13,982,823
Revenues from participation in related-company profits	82,500	-
Revenues from sale of shares	18,019,632	15,355,643
Unrealized gains (revenues)	-	10,802,342
Other financial revenues	140,948	111,577
Total	**37,465,349**	**40,788,944**

The long-term financial assets comprising 20% of interests in the company Črnomerec Centar d.o.o. has been reclassified in line with the IAS 39 into the participating interests category, given the significant loss of control in the company, whereafter it is measured by fair value through the Profit and Loss Account. Resulting from the assessed fair value of the said interests, in the 2011 Profit and Loss Account recognised are unrealised gains amounting to HRK 10,820,342. This fair value is established in line with the agreement reached with the buyer of selling the interests in the year 2012.

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

48. FINANCIAL EXPENSES

	2010	2011
Currency exchange losses - net	8,815,511	8,848,362
Expenses from interests	39,201,069	40,019,466
Unrealised losses from financial assets	2,694,274	181,424
Other financial expenses	470,773	916,249
Total	**51,181,627**	**49,965,501**

49. PROFIT TAX

Turning the accounting profit into taxable profit has been made as follows:

	2011
Accounting profit (profit before taxation)	18,662,031
Expenses not recognised as tax relief	8,472,442
Taxable profit decrease	(2,606,529)
Tax relieves	(609,327)
Taxable profit adjusted by not recognised expenses and tax relieves	23,918,617
Tax at the applicable rate of 20%	**4,783,723**
Tax effect from cancelled temporary differences	284,669
Profit tax expense	**5,068,392**
Effective tax rate	**27.16%**

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

50. PROFIT PER SHARE

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

	2010	2011
Net profit (in HRK)	12,985,385	13,593,638
Weighted average number of shares	158,127	158,041
Profit per share (in HRK)	**82.12**	**86.01**

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

51. OTHER COMPREHENSIVE INCOME

Other comprehensive income made in 2011 relates to the incomes resulting from repeated measuring of the financial assets available for sales. The loss, amounting to HRK 1,639,814, or after taxation to HRK 1,311,851, results from the decrease of value of investment fund shares.

52. 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 62,898,004.

At the end of the period, cash and cash equivalents amounted to HRK 12,942,441. 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 then 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 49,955,563.

53. AFFILIATED PARTIES

Pursuant to the IAS 24.9, the affiliated parties are the companies of the IGH Group stated in the Note 5, and the Company Board of Directors. Transactions with affiliated parties are disclosed in the Notes to the Financial Statements nos. 5, 9, 13, 14 and 29.
The prices applied in trading between the affiliated parties were equal to those in the market.

54. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various financial risks, related to the currency, interest, credit and solvency risks. The Company is following the said risks up and trying to limit their possible influence to the financial exposure of the Company. The Company does not use derivative financial instrument for active protection from the financial risk exposure.

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

54.1. *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). 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	2010		2011	
	in HRK 000s	%	in HRK 000s	%
Croatian Kuna	996,829	85.58	970,137	84.40
Euro	167,946	14.42	179,297	15.60
TOTAL	1,164,775	100.00	1,149,434	100.00

LIABILITIES	2010		2011	
	in HRK 000s	%	in HRK 000s	%
Croatian Kuna	665,219	57.11	674,102	58.65
Euro	499,556	42.89	475,332	41.35
TOTAL	1,164,775	100.00	1,149,434	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 liabilities resulting from short-term loans amounting to HRK 141,327,000 (2010: HRK 152,017,000), and long-term loans amounting to HRK 224,475,000 (2010: HRK 212,730,000), contracted mostly with changing interest rates, this exposing the Company to the cash flow risk. Details on interest rates applicable to the loans borrowed by the Company are stated in the Notes 26 and 30.

54.2. Credit risk

Credit risk is the risk of one party to a financial instrument causing financial losses to the other party by non-fulfilling its obligations, fully or partly, at the moment of the instrument maturity. Non-fulfilment of the obligation would jeopardize the Company's liquidity and decrease its asset value. On 31 December 2011, the financial assets that may expose the Company to the credit risk mostly comprised loans granted to others, receivables from customers and other receivables.

The loans granted to others comprise long- and short-term loans to related and participating companies, totalling to HRK 130,960,000 (2010: HRK 148,937,000). The financial asset value on the reporting date shows maximum exposure to the credit risk. The Company monitors the risk of the other party not fulfilling their obligations regularly.

Receivables from customers are adjusted to include the bad debts reservations.

On 31 December 2011, the asset items exposed to the credit risk, collection of loans and potential financial losses in case of impossibility of collection, are the following.

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-Libertas" 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.

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.

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

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.

INSTITUT IGH, d.d., as well as other partners in thus 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 Spalatium 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 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.

d) 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 FINANCIAL STATEMENTS
for the year ended on 31 December 2011
(continued)

e) 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 suit 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 was able to pay its liabilities timely, and on 31 December 2011 had HRK 126 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 37.7 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 12.5 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 55.

54.4. 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 FINANCIAL STATEMENTS
for the year 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 deemed by the management to be 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.

55. 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.

56. ADOPTING THE FINANCIAL STATEMENTS

The Financial Statements presented on the pages 1 to 53 above are adopted and approved by the Board of Directors of Institut IGH, d.d., Zagreb, on 25 April 2012.

Institut IGH, dionička društvo za istraživanje i razvoj u graditeljstvu, Zagreb
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For **Institut IGH, d.d.,** Zagreb:

Prof. Ph.D.Sc. Jure Radić, director

BALANCE SHEET

Pursuant to the Accounting Act and the accompanying Directive
as at 31 December 2011

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
ASSETS			
RECEIVABLES FOR CAPITAL SUBSCRIBED AND NOT YET PAID FOR			
FIXED ASSETS		652,108,571	710,603,464
INTANGIBLE ASSETS	3	18,066,215	19,970,706
Development expenses		0	0
Concessions, patents, licences, trademarks, software and other rights		2,091,193	4,021,684
Goodwill		13,355,595	13,355,595
Intangible assets under preparation		2,619,427	2,593,427
TANGIBLE ASSETS	4	215,006,072	212,933,972
Land and forests		45,615,550	45,615,550
Buildings		104,762,894	94,828,405
Plants and equipment		3,238,984	2,675,605
Tools, plant inventory and transportation means		1,989,856	1,947,253
Prepayments for tangible assets		95,843	88,452
Tangible assets under preparation		24,695,834	29,515,618
Other tangible assets		379,356	331,343
Investments in real estates		34,227,755	37,931,746
FINANCIAL ASSETS	5	410,827,205	472,042,265
Interests (shares) in related companies		317,933,356	320,537,632
Loans granted to related companies		65,324,225	84,102,981
Participating interests (shares)		62,220	45,621,261
Granted loans, deposits and like		4,738,712	598,787
Other long-term financial assets		22,768,692	21,181,604
RECEIVABLES	6	6,117,448	3,849,560
Receivables from sale on credit		6,117,448	3,849,560
DEFERRED TAXATION ASSETS	7	2,091,631	1,806,961

BALANCE SHEET

Pursuant to the Accounting Act and the accompanying Directive
as at 31 December 2011
(continued)

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
CURRENT ASSETS		464,248,608	364,703,151
STOCKS	8	26,221,082	4,274,005
Production in progress		501,348	247,493
Finished products		19,033,411	2,646,935
Commodities for sale		6,135,426	1,379,577
Prepayments for stocks		550,897	0
RECEIVABLES		281,317,191	292,002,656
Receivables from related companies	9	20,127,435	21,516,646
Receivables from customers	10	125,205,972	101,163,598
Receivables from participating companies	11	151,412	146,963
Receivables from employees and company members	12	636,527	622,982
Receivables from government and other institutions	12	5,765,880	2,040,777
Other receivables	12,13	129,429,965	166,511,690
FINANCIAL ASSETS		148,002,027	66,307,264
Loans granted to related companies	14	76,675,441	39,486,573
Loans to companies where there are participating interests	14	6,937,896	7,371,332
Investments in securities	15	11,993,303	10,823,215
Granted loans, deposits and like	14	10,198,993	8,626,144
Other financial assets	15	42,196,394	0
MONEY AT BANK AND IN HAND	15	8,708,308	2,119,226
PREPAYMENTS AND RECEIVABLES NOT YET DUE	16	48,418,697	74,127,828
TOTAL ASSETS		1,164,775,876	1,149,434,443
OFF BALANCE SHEET EVIDENCE		128,346,842	81,406,022

BALANCE SHEET

Pursuant to the Accounting Act and the accompanying Directive
as at 31 December 2011
(continued)

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES		429,628,995	442,792,826
EQUITY (SUBSCRIBED)	17	63,432,000	63,432,000
CAPITAL RESERVES	18	13,998,640	13,998,640
RESERVES FROM PROFIT		8,068,491	8,068,491
Statutory reserves	19	3,171,600	3,171,600
Reserves for own shares	20	6,343,200	6,343,200
Own shares and interests	21	(1,446,309)	(1,446,309)
REVALUATION RESERVES	22	57,127,602	54,432,245
PROFIT BROUGHT FORWARD	23	274,016,877	289,267,812
FISCAL YEAR PROFIT	24	12,985,385	13,593,638
RESERVATIONS	25	7,909,751	5,749,307
Reservations for pensions, severance pays and similar liabilities		3,257,923	2,360,607
Other reservations		4,651,828	3,388,700
LONG-TERM LIABILITIES		218,438,778	230,548,214
Liabilities for loans, deposits and like		0	0
Liabilities to banks and other financial institutions	26	212,729,727	224,475,198
Liabilities to suppliers	27	321,844	374,789
Liabilities from securities	28	1,401,018	1,428,572
Other long-term liabilities	28	79,732	60,695
Deferred taxation liability		3,906,457	4,208,959
SHORT-TERM LIABILITIES		507,450,902	467,492,326
Liabilities to related companies	29	9,316,392	4,432,746
Liabilities for loans, deposits and like	30,31	46,463,807	49,383,358
Liabilities to banks and other financial institutions	30	143,199,392	131,086,049
Liabilities from prepayments	31	9,604,190	5,042,667
Liabilities to suppliers	32	116,652,758	104,127,479
Liabilities from securities	33	113,790,751	98,432,756
Liabilities to employees		8,276,060	10,747,136
Liabilities for taxes, contributions and other levies	34	15,630,518	28,156,106
Liabilities depending on business result		431,377	418,052
Other short-term liabilities		44,085,657	35,665,978
DEFERRED PAYMENTS AND INCOMES NOT YET DUE	35	1,347,450	2,851,770
TOTAL LIABILITIES		1,164,775,876	1,149,434,443
OFF BALANCE SHEET EVIDENCE		128,346,842	81,406,022

Notes 1 to 56 make integral parts of the Financial Statements.

PROFIT AND LOSS ACCOUNT

Pursuant to the Accounting Act and the accompanying Directive
for the period from 1 January to 31 December 2011

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
OPERATING REVENUES		458,234,265	388,951,285
Revenues from sales	36	423,645,141	371,481,564
Other operating revenues	37	34,589,124	17,469,721
OPERATING EXPENSES		425,985,084	361,112,698
Changes of values of production in progress and finished product stocks	38	6,840,119	14,319,083
Material expenses		148,453,054	126,624,830
Expenses of raws and materials	39	13,932,645	12,946,052
Expenses of sold goods		148,807	5,202,736
Other external expenses	40	134,371,602	108,476,042
Staff expenses	41	178,754,032	155,602,571
New wages and salaries		96,906,291	86,556,884
Taxes and contributions payable from salaries		56,126,828	46,426,010
Contributions payable to salaries		25,720,913	22,619,677
Depreciation	42	19,063,174	14,792,194
Other expenses	43	54,160,015	41,618,953
Value harmonisation	44	15,859,074	4,291,905
of fixed assets (except financial assets		0	0
of current assets (except financial assets		15,859,074	4,291,905
Reservations	45	296,150	1,716,559
Other operating expenses	46	2,559,467	2,146,603
FINANCIAL REVENUES	47	37,465,349	40,788,944
Interests, currency exchange, dividends etc. from relations with related companies		5,967,147	6,943,136
Interests, currency exchange, dividends etc. from relations with non-related comp.		7,405,192	4,713,308
Part of revenues from associated companies and participating interests		5,932,430	2,862,938
Unearned revenues		0	10,802,342
Other financial revenues		18,160,580	15,467,220
FINANCIAL EXPENSES	48	51,181,627	49,965,501
Interests, currency exchange, dividends etc. from relations with non-related companies and other persons		48,016,581	48,867,828
Paper losses (expenses) from financial assets		2,694,274	181,424
Other financial expenses		470,772	916,249
TOTAL REVENUES		495,699,614	429,740,229
TOTAL EXPENSES		477,166,711	411,078,199
PROFIT BEFORE TAXATION		18,532,903	18,662,030
PROFIT TAX	49	5,547,518	5,068,392
PROFIT AFTER TAXATION	**50**	**12,985,385**	**13,593,638**

Notes 1 to 56 make integral parts of the Financial Statements.

OTHER COMPREHENSIVE INCOME STATEMENT

for the year ended on 31 December 2011

	NOTE	2010 in HRK	2011 in HRK
PROFIT OR LOSS OF THE PERIOD		12,985,385	13,593,637,68
OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXATION		4,392,598	(1,639,814)
Currency exchange differences from international operation conversions			
Changes of fixed tangible- and intangible asset revaluation reserves			
Profit or loss from revaluation of financial assets available for sales		4,392,598	(1,639,814)
Profit or loss from efficient protection of cash flow			
Profit or loss from efficient protection of net investments abroad			
Participation in related companies' other comprehensive income/expense			
Actuary profits/losses by defined revenue plans			
TAX TO OTHER COMPREHENSIVE INCOME OF THE PERIOD		878,520	(327,963)
NET OTHER COMPREHENSIVE INCOME OR LOSS OF THE PERIOD	51	3,514,078	(1,311,851)
COMPREHENSIVE INCOME OR LOSS OF THE PERIOD	51	**16,499,463**	**12,281,786**

Notes 1 to 56 make integral parts of the Financial Statements.

CASH FLOW STATEMENT

By indirect method for the period from 1 January to 31 December 2011

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		18,532,903	18,662,061
Depreciation		19,063,174	14,792,194
Short-term liability increase		8,871,707	0
Short-term receivable decrease		15,280,750	0
Stock decrease		6,840,119	23,947,077
Other cash flow increase		0	0
Total increase of cash flow from operating activities		68,588,653	57,401,331
Short-term liability decrease		0	(39,611,570)
Short-term receivable increase		0	(10,279,428)
Other cash flow decrease		(60,887,708)	(14,572,774)
Total decrease of cash flow from operating activities		(60,887,708)	(64,463,772)
NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES		7,700,945	0
NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES		0	(7,062,441)
CASH FLOW FROM INVESTING ACTIVITIES			
Inflows from sale of fixed tangible and intangible assets		421,600	375,664
Inflows from sale of ownership and debt instruments		49,486,690	35,090,246
Inflows from interests		10,354,934	7,363,373
Inflows from dividends		82,500	0
Other inflows from investing activities		56,272,883	54,877,425
Total inflows from investing activities		116,618,607	97,706,708
Outflows for procuring fixed tangible and intangible assets		(7,780,160)	(9,108,216)
Outflows for acquiring ownership and debt instruments		(57,336,484)	(95,955,763)
Other outflows from investing activities		(53,159,610)	(31,118,582)
Total outflow from investing activities		(118,276,254)	(136,182,561)
NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES		(1,657,647)	(38,475,853)
CASH FLOW FROM FINANCING ACTIVITIES			
Inflows from issuing own ownership and debt financial instruments		67,163,618	75,719,108
Inflows from loan principals, debentures and other loans		250,122,359	87,134,219
Total inflows from financing activities		317,285,977	162,853,327
Outflows from loan principal and bond repayments		(315,797,939)	(167,144,846)
Outflows from dividend payments		(11,550)	(13,325)
Outflows from financial leases		(3,024,765)	(112,425)
Outflows from purchasing own shares		(1,088,615)	0
Other outflows from financing activities		0	0
Total outflows from financing activities		(319,922,869)	(167,270,596)

CASH FLOW STATEMENT

for the year ended on 31 December 2011
(continued)

	NOTE	31/12/2010 in HRK	31/12/2011 in HRK
NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES		0	0
NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES		(2,636,892)	(4,417,269)
Total cash flow increase		3,406,406	0
Total cash flow decrease		0	(49,955,563)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**59,491,598**	**62,898,004**
Cash and cash equivalent increase		3,406,406	0
Cash and cash equivalent decrease	52	0	(49,955,563)
CASH AND CASH EQUIVALENTS AT THE AND OF THE PERIOD	15	**62,898,004**	**12,942,441**