INSTITUT IGH, d.d., Zagreb

Separate financial statements
for the year ended 31 December 2014
together with the Independent Auditor's Report

MANAGEMENT'S RESPONSIBILITY FOR THE SEPARATE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Act, the Management Board is responsible for ensuring that separate financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS), which give a true and fair view of the financial position and financial performance of the company Institut IGH d.d. for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the separate financial statements.

In preparing the separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the separate financial statements; and
- the separate financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act in force. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company together with the separate and consolidated financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated financial statements of the Company are published separately and issued simultaneously with these separate financial statements.

The separate financial statements were authorised by the Management Board for issue to the Supervisory Board and are signed below to signify this:

Ivan Paladina
President of the Management Board

Institut IGH d.d.

Janka Rakuše 1
10 000 Zagreb
Republic of Croatia

Zagreb, 27 April 2015

Independent Auditor's Report

To the Shareholders and Management of Institut IGH d.d.

We have audited the accompanying financial statements of Institut IGH d.d. (the "Company"), which comprise the balance sheet as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Company has not applied the provisions of International Accounting Standard 11 *Construction contracts* ("IAS 11"), which requires an assessment of contract revenue and costs, which are recognised according to the stage of completion of the project. IAS 11 also requires fully recognising losses expected on long-term projects, regardless of the stage of completion, immediately after being identified. Given the aforementioned, we were unable to assess the impact of not applying IAS 11 on the Company's financial statements for the year ended 31 December 2014. Also, since the Company did not apply the above provisions of IAS 11 in previous periods, we were unable to assess the impact on comparative figures for the year ended 31 December 2013.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of Matter

We draw attention to Note 2 (v) *Going concern* and the fact that the Company entered into a pre-bankruptcy settlement agreement, which became legally valid in late 2013, with the aim of restructuring commitments and being able to continue as a going concern. Note 39 *Effects of the pre-bankruptcy settlement agreement* sets out the Company's activities for the purpose of realising the pre-bankruptcy settlement plan.

PricewaterhouseCoopers d.o.o.
Zagreb, 27 April 2015

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
		(in thousands of HRK)	
Revenues	7	194,540	226,545
Other operating income	8	28,514	17,212
Total income		**223,054**	**243,757**
Change in inventories		(482)	-
Raw materials, consumables and services used	9	(56,982)	(74,954)
Employee expenses	10	(105,693)	(116,570)
Depreciation and amortisation		(5,397)	(11,727)
Impairments	11	(23,975)	(68,799)
Other operating expenses	12	(14,953)	(18,370)
Total operating expenses		**(207,482)**	**(290,420)**
Operating profit/(loss)		**15,572**	**(46,663)**
Finance income		10,690	47,883
Finance expenses		(21,226)	(47,660)
Net finance (expense)/income	13	**(10,536)**	**223**
Profit/(loss) before tax		**5,036**	**(46,440)**
Tax expense	14	1,229	1,114
Profit/(loss) for the year		**6,265**	**(45,326)**
Other comprehensive income			
Revaluation of land and buildings, net of tax		(715)	(23,302)
Change in fair value of financial asstes, net of tax		-	(1,988)
Other comprehensive (loss) income for the year, net of tax		**(715)**	**(25,290)**
Total comprehensive (loss)/income for the year		**5,550**	**(70,616)**
Basic profit/(loss) per share (in HRK)	40	12.68	(174.35)

The accompanying accounting policies and notes form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	2014	2013
		(in thousands of HRK)	
ASSETS			
Intagible assets and goodwill	15	4,566	4,955
Property,plant and equipment	16	162,832	166,452
Investment proprety	17	10,986	10,986
Investments in related parties and other investments	18	284,761	286,350
Loans given	21	44,024	17,074
Trade receivables and other receivables	20	1,681	2,290
NON-CURRENT ASSETS		508,850	488,107
Inventories	19	963	1,445
Trade receivables and other receivables	20	64,135	77,186
Loans given	21	6,211	9,197
Accrued income and prepaid expenses	24	3,930	942
Cash and cash equivalents	22	5,762	4,022
Non-current assets held for sale	23	116,616	4,022
CURRENT ASSETS		197,617	254,147
TOTAL ASSETS		**706,467**	**742,254**
EQUITY AND LIABILITIES			
Share capital	25	116,605	105,668
Share premium	26	-	23,506
Shares	27	(1,446)	(1,446)
Reserves for own shares	27	1,446	1,446
Revaluation reserves	28	126,007	131,637
(Accumulated losses)		(123,638)	(199,647)
TOTAL EQUITY		118,974	61,164
Borrowings	29	300,827	303,552
Provisions	30	11,483	9,685
Deferred tax liabilites	14	31,502	32,909
Trade and other payables	31	29,423	43,154
NON-CURRENT LIABILITIES		373,235	389,300
Borrowings	29	139,406	189,951
Trade and other payables	31	58,439	84,984
Provisions	32	2,398	3,791
Advances received	30	5,045	5,403
Accrued expenses and deferred income	33	8,970	7,661
CURRENT LIABILITIES		214,258	291,790
TOTAL EQUITY AND LIABILITIES		**706,467**	**742,254**

The accompanying accounting policies and notes form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	Share capital	Share premium	Statutory reserves	Own shares	Reserves for own shares	Revaluation reserves	Accumulated losses	Total
At 1 January 2013	**105,668**	**52,011**	**3,172**	**(1,446)**	**6,343**	**161,382**	**(219,239)**	**107,891**
Transactions with the owners								
Transfer from liabilities	-	-	-	-	-	-	383	383
Conversion of liabilities (*note 39*)	-	23,506	-	-	-	-	-	23,506
Total transactions with the owners	-	23,506	-	-	-	-	383	23,889
Comprehensive income								
Transfer from revaluation reserves	-	-	-	-	-	(4,455)	4,455	-
Loss for the year	-	-	-	-	-	-	(45,326)	(45,326)
Revaluation od land and buildings, net of tax	-	-	-	-	-	(23,302)	-	(23,302)
Transfer	-	(52,011)	(3,172)	-	(4,897)	-	60,080	-
Net change in fair value of financial assets available for sale	-	-	-	-	-	(1,988)	-	(1,988)
Total comprehensive loss	-	(52,011)	(3,172)	-	(4,897)	(29,745)	19,209	(70,616)
At 31 December 2013	**105,668**	**23,506**	**-**	**(1,446)**	**1,446**	**131,637**	**(199,647)**	**61,164**
Transactions with the owners								
Decrease of share capital	(64,829)	-	-	-	-	-	64,829	-
Increase of share capital (*note 25*)	57,950		-	-	-	-	-	57,950
Conversion of liabilities (*note 39*)	17,816	(23,506)	-	-	-	-	-	(5,690)
Total transactions with the owners	10,937	(23,506)	-	-	-	-	64,829	52,260
Comprehensive income								
Transfer from revaluation reserves	-	-	-	-	-	(1,812)	1,812	-
Profit for the year	-	-	-	-	-		6,265	6,265
Revaluation od land and buildings, net of tax	-	-	-	-	-	(715)	-	(715)
Sale of revalued assets, net of tax	-	-	-	-	-	(3,103)	3,103	-
Total comprehensive profit	-	-	-	-	-	(5,630)	11,180	5,550
At 31 December 2014	**116,605**	**-**	**-**	**(1,446)**	**1,446**	**126,007**	**(123,638)**	**118,974**

The accompanying accounting policies and notes form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
		(in thousands of HRK)	
Cash generated from operations			
Profit/(loss) for the year		6,265	(45,326)
Adjustments:			
Taxation	14	(1,229)	(1,114)
Depreciation and amortisation	15,16	5,397	11,727
Impairment losses	11	23,975	63,842
Interest income	13	(2,775)	(10,087)
Interest expense	13	14,035	30,669
Increases/ (decreases) in provisions	30	1,440	(6,384)
Unrealised exchange differences (net)	13	966	5,499
Remeasurement of investment property at fair value		-	4,957
Unrealised losses from financial assets	13	1,379	5,562
Gain/(loss) from sale of tangible and intangible assets		(122)	(927)
Income from collection of written off receivables and write off of liabilities		(33,373)	(25,487)
Discount of long term liabilities		4,331	(11,316)
Expenses from previous periods		1,377	825
Cash generated from operations before working capital adjustments		**21,666**	**22,440**
(Increase)/decrease in inventories		482	811
(Increase)/decrease in trade receivables		(2,140)	(12,100)
Increase/(decrease) in trade payables		(37,741)	4,792
Cash generated from operations before interest and taxes		**(17,733)**	**15,943**
Income taxes paid		-	-
Interest paid		(15,261)	(3,666)
Net cash from operating activities		**(32,994)**	**12,277**
Cash flows from investing activities			
Proceeds from sale of tangible and intangible assets		43,873	10
Proceeds from sale of equity and debt instruments		265	774
Other cash inflows from investing activities		4,007	734
Purchase of tangible and intangible assets		(670)	(1,981)
Other cash outflows from investing activities		(32,617)	(2,968)
Net cash from investing activities		**14,858**	**(3,431)**
Cash flows from financing activities			
Proceeds from issue of equity and debt financial instruments		57,950	-
Proceeds from loans, debentures, borrowings and other		4,322	2,368
Repayment of borrowings and bonds		(42,345)	(7,834)
Repayment of financial leases		(51)	(171)
Net cash from financing activities		**19,876**	**(5,637)**
Total cash flow increase		1,740	3,209
Total cash flow decrease		-	-
Cash and cash equivalents at beginning of year	22	**4,022**	**813**
Cash and cash equivalents at the end of year	22	**5,762**	**4,022**

The accompanying accounting policies and notes form an integral part of these separate financial statements.

NOTE 1 – GENERAL INFORMATION

History and incorporation

Institut IGH d.d., Zagreb, Janka Rakuše 1, ("the Company"), OIB 79766124714, is registered in the Register of Companies of the Commercial Court in Zagreb under the entity number 080000959.

The Company shares, ticker IGH-R-A, ISIN: HRIGH0RA0006 are quoted on the Zagreb Stock Exchange.

The Company is engaged in the professional and scientific research in the field of construction, which includes: designing, conducting studies, supervision, counselling, investigations, detection, laboratory testing and calibration. The Company is certified for these activities in accordance with the standards of sustainable development, namely: EN ISO 9001, EN ISO 14001, OHSAS 18001 certified.

The Company's registered office is in Zagreb, Croatia, Janka Rakuše 1.

Management Board

General Assembly

President	Jure Radić

Members of the General Assembly are individual Company shareholders or their proxies.

Supervisory Board

Members of the Supervisory Board at 31 December 2014 are as follows:

Jure Radić, president	from 7 May 2014 - until 7 May 2018
Veniamin Mezhibovskiy, vice president	from 7 May 2014 - until 7 May 2018
Dušica Kerhač, member	from 2 April 2013 - until 11 April 2017
Vlado Čović, member	from 20 December 2012 - until 20 December 2016
Sergej Gljadelkin, member	from 7 May 2014 - until 7 May 2018
Sergej Gljadelkin, member	from 28 August 2014 - until 28 August 2018
Igor Tkach, member	from 28 August 2014 - until 28 August 2018

On 28 August 2014, the General Assembly made the following decisions:

- the Supervisory Board members, Tomislav Alpeza and Branka Kincl, are revoked
- two new Supervisory Board members, Sergej Gljadelkin and Igor Tkach, are appointed.

NOTE 1 – GENERAL INFORMATION (CONTINUED)

Management Board (continued)

As at 31 December 2014, the Management Board consists of three members:

President	Željko Grzunov, from 7 May 2014
Member	Jelena Bleiziffer, from 16 December 2013
Member	Ivan Paladina, from 2 October 2014

On 13 February 2015, the Supervisory Board issued a decision, based on which as of 1 March 2015 the Management Board consists of four members as follows:

President	Ivan Paladina, from 1 March 2015
Member	Željko Grzunov, from 1 March 2015
Member	Jelena Bleiziffer, from 16 December 2013
Member	Oliver Kumrić, from 1 March 2015

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The consolidated financial statements of the Company and its subsidiaries, which the Company prepares in accordance with IFRS and Croatian legislation, are published separately and issued simultaneously with the separate annual financial statements. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The consolidated financial statements as at and for the year ended 31 December 2014 are available together with these separate financial statements directly at the registered address of the Company stated above.

The Company maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia.

These separate financial statements were authorised for issue by the Management Board on 27 April 2015.

Balance sheet items were recorded as at 31 December 2014 unless otherwise stated.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- Revaluation of land and buildings as stated in Note 3.9 (i)
- Investment property as stated in Note 3.11.
- Assets available for sale as stated in note 3.19

The methods used for fair value measurement are set out in Note 6.

(iii) Functional and presentation currency

These financial statements are presented in Croatian kuna ("HRK"), which is the Company's functional currency, rounded to the nearest thousand.

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis.

The impact of the correction is recognized for the period in which the estimate has been corrected, if the correction impacts the current period, or for the current and future periods, if the correction impacts both current and future accounting periods.

Judgments made by Management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 5.

(v) Going concern

In the year ended 31 December 2014, the Company incurred a net profit of HRK 6,265 thousand (2013: loss of HRK 45,326 thousand) and at year-end, the Company's current liabilities exceeded its current assets by HRK 16,641 thousand (2013: HRK 37,643 thousand).

The Company`s Management Board considers that the Company has met the requirements to continue as a going concern. In previous periods, the Company has operated in difficult liquidity conditions and are at risk of a permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company, by means of a pre-bankruptcy settlement, reached an agreement with its creditors and restructured its debt. The going concern basis is certainly affected by the fact that, as part of the pre-bankruptcy settlement, the Company limited its exposure arising from co-debtorship towards certain related companies which, if activated, would prevent the Company's operational business activities. Regardless of the financial restructuring, the Company performed a capital increase by issuing new shares and is in the process of selling certain assets in order to ensure the necessary liquidity.

During 2013, the Company initiated the pre-bankruptcy settlement procedure which was successfully completed with Decision of the Commercial Court in Zagreb no. 72. Stpn-305/13 dated 5 December 2013 approving the pre-bankruptcy agreement between the debtor IGH d.d. and creditors of the pre-bankruptcy settlement. The pre-bankruptcy settlement became legally valid as of 28 December 2013. A summary of the effects of the pre-bankruptcy settlement plan is set out in Note 39.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Investments in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to exercise control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in activities are accounted for initially at cost and subsequently at cost less impairment losses. Impairment testing for investments in subsidiaries is conducted on an annual basis.

3.2 Investments in associates

Associates are companies in which the Company has a significant influence, but not the control. Significant influence comprises the power of participating in making decisions on financial and operating policies of an associate, but does not represent control or joint control. Investments in associates are accounted for initially at cost and subsequently at cost less impairment losses. Impairment testing for investments in associates is conducted on an annual basis.

3.3 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, volume rebates and sales discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(i) Service revenues

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(ii) Finance income and costs

Finance income and costs comprise interest payable on loans and borrowings using the effective interest method, interest receivable on funds invested, dividend income and gains and losses from foreign exchange differences.

Interest income is recognised in the income statement on an accrual basis using the effective interest rate. Dividend income is recognised in the income statement at the date when the Company's right to receive payment is established.

Finance costs comprise interest on loans, changes of fair value of financial assets at fair value through the profit and loss, impairment losses of financial assets and foreign exchange losses. Borrowing costs are recognised in profit or loss using the effective interest method.

3.3 Revenue (continued)

(iii) Rental income

Revenues from rental services are recognised when the rental services are provided.

3.4 Leases

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

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

3.5 Foreign currencies

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the foreign exchange rate prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost are translated into the functional currency at the foreign exchange rate prevailing at the date of the transaction.

As at 31 December 2014, the official exchange rate was HRK 7.661471 for EUR 1 (2013: HRK 7.637643 for EUR 1).

3.6 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

3.7 Dividend

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

3.8 Taxation

Income tax

The income tax charge comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

(i) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit as well as differences relating to investments in subsidiaries and jointly controlled companies when it is likely that the situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Value added tax (VAT)

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

3.9 Property, plant and equipment

(i) Land and buildings

Following initial recognition at cost, land and buildings are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is based on the market value, being the estimated amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

When the carrying amount is increased as a result of revaluation, the increase should be recognised in equity under revaluation reserves. The revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When the carrying amount is decreased as a result of revaluation, this decrease is recognised as an expense. The revaluation decrease is recognised directly in the revaluation reserves to the extent that the decrease does not exceed the amount held in the revaluation reserve for the same asset.

A valuation is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Certain land and buildings are derecognised upon disposal or when no future benefits are expected from its use or disposal. Gains or losses arising from derecognition of lands and buildings (calculated as the difference between the net disposal proceeds and the carrying amount of the item) are included in profit or loss when they are derecognised.

The relevant portion of the revaluation surplus realised in the previous valuation is released to profit or loss from the surplus of the valued assets, on the disposal of the revaluated asset and during its use.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Based on the revaluation performed by independent evaluators, the Company has revalued its properties and created revaluation reserves that are transferred to retained earnings/accumulated losses in accordance with the adopted depreciation policy.

Gains and losses on the disposal of land and buildings are recognised within other income or expenses in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

(ii) Plant and equipment

Plant and equipment are included in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

3.9 Property, plant and equipment (continued)

(iii) Subsequent costs

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

(iv) Depreciation

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Buildings	20 years
Plant and equipment	1 to 5 years
Other	10 years

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.12).

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amount of the asset disposed, and are recognised in profit or loss within other income/expenses.

3.10 Intangible assets

Patents, licenses and software

(i) Ownership of intangible assets

Patents, licenses and software are capitalised on the basis of the costs incurred to acquire and bring to use the specific asset.

(ii) Subsequent costs

Subsequent costs are capitalised only if they increase future economic benefits arising from the asset. All other costs are treated as costs in the income statement as incurred.

(iii) Amortisation

Intangible assets under construction are not amortised. Amortisation of other intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Right to use third-party property	1 to 2 years

3.11 Investment property

Investment property is recognised as an asset when it is likely that future economic benefits will arise from the investment and when the cost of investment can be reliably measured. Investment property includes property held either to earn rental income or for capital appreciation or both.

Investment property is initially recognised at cost including transaction costs incurred. Subsequently investment property is measured at fair value reflecting market conditions at the balance sheet date. Profit or loss from changes in fair value of investment property is recognised in the income statement of the period in which they are incurred.

3.12 Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Company assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

3.13 Inventories

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

Trade goods are carried at the lower of purchase cost and selling price (less applicable taxes and margins).

Small inventory and tools are expensed when put into use.

3.14 Trade receivables

Trade receivables are recognised initially at cost which is equal to fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, if material, and if not at par value less an allowance for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at the date of initial recognition. The collection of previously written off receivables is recognised in other operating income.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. In the consolidated statement of financial position, bank overdrafts are included within borrowings in current liabilities.

3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

3.17 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Regular retirement benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate of the Croatian National Bank. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(iv) Long-term employee benefits

Up to October 2012, the Company recognised a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the weighted average interest rate on the Company’s debt. Upon the expiry of the collective agreement in October 2012, during 2013 and 2014 the Company is no longer obliged to pay jubilee awards to employees and ceased to recognize a liability for long-term employee benefits.

3.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3.19 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in shares and bonds, trade and other receivables, cash and cash equivalents, loans and borrowings, commercial papers and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, increased by transaction costs, in the case of financial instruments not measured at fair value through profit or loss. Non-derivative financial instruments are subsequently measured in a way described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of investments are recognised on trade-date, i.e. the date on which the Company commits to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Available-for- sale financial assets (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 6. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and loss on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or losses previously recognised in the investments revaluation reserve are included in the statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the right to receive the dividends is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and loss that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in equity.

3.19 Financial instruments (continued)

Loans given and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans, trade receivables and other receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

Interest income is recognised by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial restructuring; or
- the disappearance of an active market for that financial asset due to financial difficulties.

For certain categories of financial assets, such as trade receivables, i.e. assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with the default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss for the period.

3.19 Financial instruments (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised under investments revaluation reserve. In respect of AFS debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.20 Financial liabilities and equity instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract under which the issuer is obliged to pay the holder a certain sum as compensation for losses suffered by the owner because the borrower has not fulfilled its obligation to pay under the terms of a debt instrument.

Financial guarantee contracts issued by the Company are initially measured at fair value and subsequently, if they are not designated to be measured at fair value through profit or loss, by the higher of:

- the amount of the obligation under the contract, which is determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”,
- the original amount less the accumulated amortisation, if any, are recognised in accordance with revenue recognition policies.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

3.21 Segment reporting

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker (which was identified as being the Company's Management Board) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in Note 7 to the financial statements.

3.22 Earnings per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic and diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

This note includes details on (a) new and amended standards, which are effective for the first time for periods beginning on 1 January 2014 and (b) forthcoming requirements - that is, new and amended standards that have been issued and are not effective for periods beginning on 1 January 2014, but will be in effect in subsequent periods.

a) New and amended standards

Below is a list of standards/interpretations that have been issued and are effective for periods beginning on or after 1 January 2014.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)
The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance sheet vehicles.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)
IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)
IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014)
These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)
These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

Amendment to IAS 32, 'Financial Instruments: Presentation' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)
These amendments are to the application guidance in *IAS 32, 'Financial instruments: Presentation'*, and clarify some of the requirements for offsetting financial assets and financial liabilities at the balance sheet date.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)
This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)
This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

IFRIC 21, 'Levies' (effective for annual periods beginning on or after 1 January 2014)
This is an interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised.

b) Forthcoming requirements

Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2014, but will be effective for later periods

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014)

These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:

- IFRS 2 'Share based payments,' and clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.
- IFRS 3, 'Business combinations,' and clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'. It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss.
- IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

- IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts where the effect of discounting is immaterial.
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014)

These annual improvements amend standards from the 2011 - 2013 reporting cycle. It includes changes to:

- IFRS 1, 'First time adoptions of IFRSs,' basis of conclusions is amended to clarify that where a new standard is not mandatory but is available for early adoption a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3, 'Business combinations' is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint venture under IFRS 11.
- IFRS 13, 'Fair value measurement' is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
- IAS 40, 'Investment property' is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014)
The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period.

The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary.

Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over the employees' working lives.

Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 July 2016)
This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016)
This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are correlated.

Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)
These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41.

The produce on bearer plants will remain in the scope of IAS 41.

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)
These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)
The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS 14, 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016)
This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016)

These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:

- IFRS 5, ‘Non-current assets held for sale and discontinued operations’ – The amendment clarifies that, when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution,’ or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as ‘held for sale’ or ‘held for distribution’ simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as ‘held for sale’.
- IFRS 7, ‘Financial instruments: Disclosures’ – There are two amendments:
  - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
  - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, ‘Disclosure – Offsetting financial assets and financial liabilities’ is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.
- IAS 19, ‘Employee benefits’ – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
- IAS 34, ‘Interim financial reporting’ – the amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. This amendment is retrospective.

IFRS 15, ‘Revenue from contracts with customers’ (effective for annual periods beginning on or after 1 January 2017)
This is the converged standard on revenue recognition. It replaces IAS 11, ‘Construction contracts,’ IAS 18, ‘Revenue’ and related interpretations.

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception:
Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Recognition of deferred tax assets

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

(ii) Consequences of certain legal disputes

There are a number of legal disputes which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal disputes, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis.

(iii) Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. There were no changes in estimated useful lives of non-current assets.

(iv) Impairment of assets

The Company regularly reviews the recoverability of each asset individually and if there is any indication of impairment, it shall be impaired to the estimated recoverable amount.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(vi) Investment property

Investment property is initially carried at cost. After initial recognition, investment property is carried at fair value. Profit or loss from changes in fair value of investment property is recognised in profit or loss in the period in which they are incurred.

(vii) Going concern

The Company considers all relevant information on all the key risk factors, assumptions and uncertainties that it is aware of and that are essential to the ability of the Company to continue as going concern.

NOTE 6 – DETERMINATION OF FAIR VALUE

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and the Finance Department in relation to monitoring all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Management Board and the Finance Department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board.

Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows:

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

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

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

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

In preparing these financial statements, the Company has made the following significant fair value estimates while preparing the financial statements as further explained in detail in the following notes:

- Note 16: Property, plant and equipment
- Note 17: Investment property
- Note 18: Investments in related parties and other investments
- Note 23: Non-current assets held for sale

NOTE 7 – SEGMENT INFORMATION

Sales revenue

	2014	**2013**
	(in thousands of HRK)	
Revenue from services	194,147	225,369
Revenue from sale of apartments	393	122
Revenue from sale of goods	-	1,054
	194,540	**226,545**

The Company is organised into business units according to sectors of construction industry based on the principles of team (project) organisation in which individuals from different business units form the project team in order to realise a particular project. Business units are engaged in designing, performing studies, supervising, advisory services, laboratory testing, research work and scientific research. These operations represents the Company's reportable segments.

Reportable segments are an integral part of the internal financial statements. The internal reports are regularly reviewed by the Company's management that is also the chief operating decision maker, and that assess the effectiveness of operations and makes business decisions.

During 2014, the Company recorded revenue in the amount of HRK 40,202 thousand by rendering services to its most significant customer.

Segment revenues and results

Set out below is an analysis of the Company's revenue and results by its reporting segments, presented in accordance with IFRS 8 and also a reconciliation of segment financial performance with the profit or loss before taxation. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated when reporting.

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

	Segment revenue		Segment profit	
SEGMENTS	**2014**	**2013**	**2014**	**2013**
	(in thousands of HRK)			
Designing	66,496	62,278	22,672	8,444
Studies	7,847	11,263	2,199	4,283
Supervision	67,937	98,486	25,631	40,696
Advisory services	7,126	9,473	2,337	3,387
Labaratory testing	27,490	33,141	9,461	12,248
Research	16,664	11,374	3,005	26
Geotechnical research	980	530	(614)	(201)
Total revenue generated by segements	**194,540**	**226,545**	**64,691**	**68,883**
Revenue from sale of apartments	393	122		
Revenue from sale of goods	-	1,054		
Revenue from write off of liabilities	13,196	-		
Other operating income	14,925	16,036		
Total revenue	**28,514**	**17,212**		
Central and administrative expenses	(32,240)	(34,221)		
Depreciation	(5,397)	(11,727)		
Impairments	(20,948)	(68,799)		
Provisions	(2,296)	(1,574)		
Changes in inventories	(482)	-		
Cost of goods sold	-	(811)		
Other operating expenses	(16,271)	(15,626)		
Finance income	10,691	47,883		
Finance expenses	(21,226)	(47,660)		
Profit/(loss) before tax	**5,036**	**(46,440)**		
Income tax	1,229	1,114		
Profit/(loss) for the year	**6,265**	**(45,326)**		

The *Designing and architectural planning segment* includes the creation of projects, project validation and control (revision) of projects in the areas of roads, geotechnical and hydraulic engineering and construction building.

The *Study segment* includes the development of study and planning documents relating to spatial planning, sustainable development and environmental protection, waste management and transport.

The *Supervision segment* includes monitoring the implementation during the construction of roads, engineering, geotechnical and hydraulic structures and building construction.

The *Advisory services segment* covers specific services for participants in the process of realisation of a particular construction project, in the field of construction project management, consultancy and other services to the Croatian Chamber of Civil Engineering and technical consulting.

The *Laboratory testing segment* includes laboratory and field testing in the area of hydraulic engineering, geotechnics, construction, road building, materials and building physics.

The *Investigative services segment* includes performing investigations and preparing diagnostic reports.

The *Geotechnical research segment* includes work on international research projects and work on research projects funded by the Ministry of Science, Education and Sports of the Republic of Croatia.

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

The accounting policies of the reportable segments are the same accounting policies as described in Note 3.21. Segment profit represents the profit earned by each segment without allocating central administration costs, depreciation, provisions, impairment, other income and other finance income and costs.

The Company does not allocate assets and liabilities by segments.

NOTE 8 – OTHER OPERATING INCOME

	2014	2013
	(in thousands of HRK)	
Income from reversal of provisions	857	7,958
Gain on sale of property,plant and equipment	122	10
Rental income	942	601
Income from recovery of receivables previously written off	9,419	2,335
Income form reimbursement of damages	402	870
Compensation and grant income	384	38
Income from liabilites written off	13,164	4,006
Other income	3,224	1,394
	28,514	**17,212**

NOTE 9 – RAW MATERIALS, CONSUMABLES AND SERVICES USED

	2014	2013
	(in thousands of HRK)	
Raw materials and consumables used	2,281	2,894
Energy costs	6,218	7,947
Small inventory and spare parts used	599	815
Transportation, telephone, postal services	3,035	2,595
Subcontractors	25,489	39,760
Manufacturing services	6,041	5,822
Municipal services and fees	1,815	1,826
Maintenance costs	3,524	3,950
Rental expense	5,658	5,008
Other external expenses	2,322	3,526
Cost of goods sold	-	811
	56,982	**74,954**

NOTE 10 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Net salaries	53,768	59,659
Tax, contributions and other charges	40,133	43,271
Reimbursement of expenses (travel expenses, wages, transportation)	10,485	11,889
Termination, support and other benefits	1,279	1,751
Compensations, termination and support benefits in the excess of tax allowable amount	28	-
	105,693	**116,570**

At 31 December 2014, the Company had 599 employees (*2013: 655 employees*). In 2014, non-taxable termination benefits were accrued in the amount of HRK 872 thousand for 20 employees *(2013: for 29 employees in the amount of HRK 1,679 thousand).*

During 2014, the Company accounted for contributions for the compulsory pension fund for 644 employees amounting to HRK 15,881 thousand *(2013: for 693 employees amounting to HRK 17,512 thousand).*

NOTE 11 – IMPAIRMENT

	2014	2013
	(in thousands of HRK)	
Impairment of trade receivables	20,261	12,636
Impairement of other receivables	687	5,438
Impairment of investments in related parties	341	-
Impairment of joint venture investments	-	383
Impairment of loans given and other financial assets	2,686	40,280
Impairment of inventories	-	2,017
Fair value adjustments of investment property	-	4,957
Impairment of property, plant and equipment	-	3,088
	23,975	**68,799**

NOTE 12 – OTHER OPERATING EXPENSES

	2014	2013
	(in thousands of HRK)	
Legal, consultancy and other services	4,884	4,377
Entertainment	623	635
Insurance premiums	769	1,162
Education and training expenses	340	1,455
Bank fees and charges	1,801	2,803
VAT	335	948
Contributions to public bodies	811	915
Other expenses	1,717	3,526
Prior periods expenses	563	825
Penalties and similar expenses	101	148
Provisions for unused holiday	690	-
Provisions for retirement and jubilee awards	632	355
Provisions for legal cases	974	1,219
Other costs	713	2
	14,953	**18,370**

NOTE 13 – FINANCE INCOME/(COSTS)

Finance income	**2014**	**2013**
	(in thousands of HRK)	
Gain on foreign exchange differences	515	6,416
Interest income	2,775	10,087
Income from the sale of shares	-	918
Income from interest liabilities	7,396	19,146
Other finance income	4	11,316
	10,690	**47,883**
Finance expenses		
Loss on foreign exchange differences	1,481	11,064
Interest expense	14,035	30,669
Change in fair value of financial assets	1,379	5,562
Other finance expense	4,331	365
	21,226	**47,660**
Net finance (expense)/income	**(10,536)**	**223**

During 2014 and 2013, the Company did not have any investments for which interest could be capitalised.

NOTE 14 – INCOME TAX

Tax income consists of:

	2014	2013
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax	1,229	1,114
	1,229	**1,114**

Reconciliation of the effective tax rate

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2014	2013
	(in thousands of HRK)	
Profit/(loss) before taxation	**5,036**	**(46,440)**
Income tax at 20% (2013: 20%)	1,007	(9,288)
Non-deductible expenses and non-taxable income	1,234	16,494
Tax losses not recognised as deferred tax assets	-	(6,092)
Tax from realised profit	(1,013)	-
Income tax	**1,229**	**1,114**
Effective tax rate	24%	-2%

Unused gross tax losses amounting to HRK 62,767 thousand relate to the tax loss incurred in 2012 (31 December 2013: HRK 67,837 thousand) that are available for use until 2017. In 2014, the Company utilised available tax losses amounting to HRK 5,070 thousand. Unused tax losses are not recognised as deferred tax assets in the statement of financial position, as it is unlikely that there will be sufficient taxable profits realised for the utilisation of these deferred tax assets.

NOTE 14 – INCOME TAX (CONTINUED)

The Company did not recognise deferred tax assets in the total amount of HRK 90,397 thousand which is based on:

- unused tax losses generated in 2013 in the amount of HRK 12,554 thousand,
- impairment of non-current and current financial assets and receivables in the total amount of HRK 77,843 thousand.

The deferred tax liability arises from the following:

2014	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
Temporary differences:				
Revaluation of non-current assets	32,909	(178)	(1,229)	31,502
	32,909	**(178)**	**(1,229)**	**31,502**

2013	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
Temporary differences:				
Revaluation of non-current assets	39,849	(5,826)	(1,114)	32,909
	39,849	**(5,826)**	**(1,114)**	**32,909**

NOTE 15 – INTANGIBLE ASSETS

(in thousand of HRK)	Right to use property of third parties (Patents, licences and similar)	Assets under construction	Total
Cost			
As at 1 January 2013	32,000	3,862	35,862
Additions	879	-	879
Disposals	(461)	-	(461)
Sale or write off	(165)	-	(165)
As at 31 December 2013	**32,253**	**3,862**	**36,115**
Accumulated amortization			
As at 1 January 2013	(28,471)	(1,268)	(29,739)
Charge for the year	(1,586)	-	(1,586)
Disposal or write off	165	-	165
As at 31 December 2013	**(29,892)**	**(1,268)**	**(31,160)**
Cost			
As at 1 January 2014	32,253	3,862	36,115
Additions	-	1,217	1,217
Disposal or write off	(717)	-	(717)
Transfer	1,214	(1,214)	-
As at 31 December 2014	**32,750**	**3,865**	**36,615**
Accumulated amortization			
As at 1 January 2014	(29,892)	(1,268)	(31,160)
Charge for the year	(889)	-	(889)
As at 31 December 2013	**(30,781)**	**(1,268)**	**(32,049)**
Net book value			
As at 31 December 2013	2,361	2,594	4,955
As at 31 December 2014	**1,969**	**2,597**	**4,566**

Assets under construction relate to investments in an access road as a leasehold improvement.

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

(in thousand of HRK)	Land	Buildings	Plant and equipment	Assets under construction	Other	Advances for tangibles	Total
Cost or fair value							
As at 1 January 2013	106,778	189,596	142,218	29,347	959	24	468,922
Increase due to revaluation	201	1,281	-	-	-	-	1,482
Additions	-	-	2	1,057	-	1,276	2,335
Decrease due to revaluation	(3,514)	(7,125)	-	-	-	-	(10,639)
Reclassification	264	1,585	(2,020)	171	-	-	-
Transfer	-	380	728	(1,108)	-	-	-
Decreases	-	-	(349)	-	-	(1,233)	(1,582)
Disposal or write off	-	-	(967)	-	-	-	(967)
Transfer to tangible assets held for sale	(39,970)	(109,577)	-	-	-	-	(149,547)
As at 31 December 2013	**63,759**	**76,140**	**139,612**	**29,467**	**959**	**67**	**310,004**
Accumulated depreciation							
As at 1 January 2013	-	(2,431)	(138,016)	-	(655)	-	(141,102)
Charge for the year	-	(9,511)	(630)	-	-	-	(10,141)
Decrease due to revaluation (disposals)	3,514	7,125	-	-	-	-	10,639
Decrease due to revaluation	(6,042)	(7,378)	-	(2,918)	-	-	(16,338)
Decrease due to secured rights	(5,402)	(11,148)	-	-	-	-	(16,550)
Reclassification to investment property	-	(67)	67	-	-	-	-
Disposal or write off	-	-	967	-	-	-	967
Transfer to tangible assets held for sale	7,930	21,043	-	-	-	-	28,973
As at 31 December 2012	**-**	**(2,367)**	**(137,612)**	**(2,918)**	**(655)**	**-**	**(143,552)**
Cost or fair value							
As at 1 January 2014	63,759	76,140	139,612	29,467	959	67	310,004
Increase due to revaluation	-	-	-	-	-	-	-
Additions	-	-	-	963	-	830	1,793
Transfer	-	-	963	(963)	-	-	-
Decreases	-	-	(178)	-	-	(727)	(905)
Disposal or write off	-	-	(2,224)	-	-	-	(2,224)
As at 31 December 2014	**63,759**	**76,140**	**138,173**	**29,467**	**959**	**170**	**308,668**
Accumulated depreciation							
As at 1 January 2014	-	(2,367)	(137,612)	(2,918)	(655)	-	(143,552)
Charge for the year	-	(3,967)	(539)	-	-	-	(4,506)
Disposal or write off	-	-	2,222	-	-	-	2,222
As at 31 December 2014	**-**	**(6,334)**	**(135,929)**	**(2,918)**	**(655)**	**-**	**(145,836)**
Net book value							
As at 31 December 2013	63,759	73,773	2,000	26,549	304	67	166,452
As at 31 December 2014	**63,759**	**69,806**	**2,244**	**26,549**	**304**	**170**	**162,832**

Land and buildings of the Company with a net carrying amount of HRK 159,831 thousand (*2013: HRK 163,798 thousand*) have been pledged as security for borrowings from commercial banks (Note 29).

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

The cost of property, plant and equipment that is fully depreciated amounts to HRK 164,851 thousand (*2013: HRK 167,075 thousand*). As at 31 December 2014, the net carrying amount of revalued assets before revaluation would have amounted to HRK 87,145 thousand (*31 December 2013: HRK 89,410 thousand*).

Assets under construction relate to the investment in the construction of commercial buildings at Janka Rakuše 1 in Zagreb.

The estimated market value for revaluation purposes was determined based on the independent valuer's report that was based on the cost method, the comparative method and/or the income method depending on the type of property.

In the current year, the Company had no equipment under finance lease.

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	Significant unobservable inputs
Land and buildings	
The fair value measurement of land and buildings was performed by certified property valuers. Depending on the intended use of the assets the methods used were the market value method (by further developing the cost method), the income method and the residual method.	Correction factors used in calculating the market price. Average yield: 7-9%
The calculation of the market value by further developing the cost method is performed by calculating the value of a newly built property and its impairment due to the passage of time, construction. furnishing, etc. The resulting price is adjusted to the market price through a number of factors specific to the observed building or land.	Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property.
The income method considers the present value of net cash flows that the assets could generate from rent taking into account the expected net rent based on comparable transactions.	Specific expenses used in determining the net cash flow in the income method.
The residual method is based on an analysis of a specific investment and is focused on determining the value of land planned for development. The method is applied in the context of developing a project, if the investor wishes to determine the maximum price to pay for land in order to profitably realise a project.	Specific information related to costs of construction, periods of financing, interest rates, required profit margins and other expenses in calculating the residual method.

NOTE 17 – INVESTMENT PROPERTY

	2014	2013
	(in thousands of HRK)	
Cost		
As at 1 January	10,986	56,724
Transfer	-	(40,781)
Fair value adjustment	-	(4,957)
As at 31 December	**10,986**	**10,986**

Investment property with a net carrying amount of HRK 7,369 thousand (2013: HRK 7,369 thousand) has been pledged as security for borrowings from commercial banks. The cost of investment property amounts to HRK 18,263 thousand. Since the property is encumbered by a lien on third-party borrowing liabilities, the fair value of the property was reduced by the amount of the subscribed lien to the carrying amount amounting to HRK 7,369 thousand.

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	Significant unobservable inputs
Land and buildings Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in Note 16 (i).	Significant unobservable inputs are described in Note 16 (i).

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS

	2014	2013
	(in thousands of HRK)	
Investment in subsidiaries	226,983	227,265
Investment in associates	51,451	51,451
Investment in private equity funds	3,099	4,478
Other equity investments	1,063	126
Bonds	688	2,151
Deposits and guarantees given	1,477	879
	284,761	**286,350**

Investments in subsidiaries

	2014		2013	
(in thousands of HRK)	% of ownership and voting rights	Acquisition cost	% of ownership and voting rights	Acquisition cost
Geotehnika-inženjering d.o.o., Zagreb	100	62,790	100	55,803
IGH Mostar d.o.o., Mostar	100	6,004	100	6,004
IGH Energija d.o.o. (ex IGH Razum d.o.o.), Zagreb	100	222	100	222
Incro d.o.o. (ex Adepto d.o.o.), Zagreb	100	20	100	20
IGH Turizam d.o.o. (ex Dubrovačka investicijska grupa d.o.o.)	100	-	100	49,104
Projekt Šolta d.o.o., Zagreb	100	58,544	100	58,544
IGH Projektiranje d.o.o., Zagreb	100	6,103	100	6,103
Radeljević d.o.o., Zagreb	100	116,828	100	116,828
Gratius Projekt d.o.o., Zagreb	100	100	100	100
Novi Črnomerec centar d.o.o., Zagreb	100	151,988	100	151988
DP AQUA d.o.o., Zagreb	100	451	100	451
ETZ Ekonomsko tehnički zavod d.d., Osijek	80.2	6511	80.2	6511
IGH Kosova Sha Priština	74.8	39	74.8	39
Projektni biro Palmotićeva 45 d.o.o., Zagreb	77.3	15,634	77.3	15,634
MBM Termoprojekt d.o.o., Zagreb	60	1200	60	1200
Impairment of investments in subsidiaries		(199,451)		(241,286)
		226,983		**227,265**

In 2014, the Company sold shares in the subsidiary IGH Turizam d.o.o.

(i) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	Significant unobservable inputs
The fair value of investments in related parties was estimated using methods applicable to each individual company. The following methods were used: • The valuation of properties was carried out by authorised independent valuers (methods described in Note *16 (i)*) • The estimation of the recoverable amount of assets, liabilities and equity of the Company as at 31 December Future cash flow projections	• Significant unobservable inputs are described in Note 16 (i). • Future cash flow projections with a growth rate of 5%

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS (CONTINUED)

Investments in associates

(in thousands of HRK)	2013		2012	
	% of ownership and voting rights	**Acquisition cost**	**% of ownership and voting rights**	**Acquisition cost**
Elpida d.o.o. Zagreb	50	31,300	50	31,300
Institut za infrastrukturne projekte, Sofija	50	9	50	9
Sportski grad TPN d.o.o. u stečaju, Split	40	8	40	8
Auto cesta Bar Boljare d.o.o., Split	40	8	40	8
Centar Gradski podrum d.o.o., Zagreb	37.5	21,533	37.5	21,533
IGH Lux energija d.o.o. (ex Lux energija d.o.o.) , Zagreb	30	14,918	30	14,918
Prvi crnogorski autoput d.o.o., Podgorica	25	-	25	-
Impairment of investments in associates		(16,325)		(16,325)
		51,451		**51,451**

Valuation methods and techniques used together with significant unobservable inputs are identical to those in investments in subsidiaries.

Investments in Centar Gradski Podrum d.o.o. were pledged by the Company as a security for borrowings from commercial banks (Note 29).

Shares in investment funds

	2014	**2013**
	(in thousands of HRK)	
Quaestus private equity kapital	2,825	4,195
Nexus private equity	274	283
	3,099	**4,478**

The decrease in fair value of investments funds was recognised as part of finance cost in the amount of HRK 1,379 thousand.

The fair valuation of shares in investment funds classified as available-for-sale financial assets was carried out using quoted market prices (unadjusted) in an active market - Level 1.

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS (CONTINUED)

Other equity investments

	2014	2013
	(in thousands of HRK)	
Grupacija Biotoplifikacija d.o.o. u likvidaciji, Zagreb	15	15
Viktor Lenac d.d. Rijeka	47	47
GP Dubrovnik d.d. u stečaju, Dubrovnik	2,694	2,694
Međimurje beton d.d., Čakovec	383	383
Projektgradnja d.d., Slavonski Brod	-	126
Industrogradnja Grupa d.d.	372	-
Metronet Telekomunikacije d.d.	1,062	-
Impairment of other equity investments	(3,511)	(3,139)
	1,063	126

NOTE 19 – INVENTORIES

	2014	2013
	(in thousands of HRK)	
Work in progress	247	247
Finished goods	2,704	3,238
Merchandise	568	568
Less: Impairment of inventories	(2,556)	(2,608)
	963	**1,445**

Inventories of finished goods relate to unsold commercial property. All inventories are pledged as security for borrowings (Note 29).

NOTE 20 – TRADE AND OTHER RECEIVABLES

	2014	2013
Non current receivables	*(in thousands of HRK)*	
Receivables for apartments sold and equipment with deferred payment	1,665	1,890
Receivables from pre-bankruptcy settlement	9,214	13,425
Less: impairment	(9,198)	(13,026)
	1,681	**2,289**
Current receivables		
Domestic trade receivables	98,023	106,170
Foreign trade receivables	24,369	14,700
Less: Impairment of trade receivables	(65,932)	(51,682)
Receivables from state and other institutions	1,504	2,338
Receivables from employees	765	709
Receivables form related parties	5,991	6,736
Receivables from recharged interest	7,444	7,444
Advances given	1,622	3,140
Receivables for investments sold	-	1,119
Other receivables	4,192	2,246
Less: Impairment of other receivables	(13,843)	(15,734)
	64,135	**77,186**

Movements in provisions for impairment of trade receivables are as follows:

	2014	2013
	(in thousands of HRK)	
As at 1 January	51,682	55,595
Increase	19,995	12,636
Amounts collected	(2,763)	(2,335)
Written off as uncollectible	(2,982)	(14,214)
As at 31 December	**65,932**	**51,682**

The ageing analysis of trade receivables that were not impaired was as follows:

	2014	2013
	(in thousands of HRK)	
Undue	33,258	29,132
0-60 days	10,200	13,588
60-120 days	2,585	4,292
120-180 days	4,918	13,358
180-360 days	4,573	8,703
over 360 days	926	115
	56,460	**69,188**

During 2014, other receivables in the amount of HRK 9 thousand (*2013: HRK 900 thousand*) were permanently written off.

NOTE 21 – LOANS GIVEN

Non current	**2014**	**2013**
	(in thousands of HRK)	
Loans given to subsidiaries	58,571	60,281
Loans given to associates	28,120	28,120
Loans given to third parties	26,934	-
Less: Impairment of loans given	(69,601)	(71,327)
	44,024	**17,074**
Current		
Loans given to subsidiaries	29,101	31,486
Loans given to associates	2,320	2,290
Loans given	39	715
Deposits given	2,039	4,947
Receivables for interests	11	9,102
Less: Impairment of loans given	(27,299)	(39,343)
	6,211	**9,197**
	50,235	**26,271**

Loans to related parties were granted interest-free or at an interest rate of 7% or 9% for certain loans.

Loans to unrelated parties were granted at an interest rate of 4.5% per year, with a maturity of three years and a pledge over the property registered as collateral for the loan.

NOTE 22 – CASH AND CASH EQUIVALENTS

	2014	**2013**
	(in thousands of HRK)	
Current accounts	3,900	3,380
Cash in hand	3	4
Foreign currency account	496	638
Cash deposits	1,363	-
	5,762	**4,022**

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE

	2014	2013
	(in thousands of HRK)	
As at 1 January	161,355	-
Transfer from property, plant and equipment	-	120,574
Transfer from investment property	-	40,781
Sale	(44,739)	-
As at 31 December	**116,616**	**161,355**

Non-current assets held for sale are intended to settle the secured debt of financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. During 2014, properties were sold in the amount of HRK 44,739 thousand, whereby liabilities were settled with respect to a borrowing from a commercial bank.

Liabilities to secured creditors (Note 29) increased by underlying interest in the amount of HRK 3,700 thousand carry a total amount of HRK 116,616 thousand.

(ii) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value and significant inputs used in the valuation:

Valuation methods and techniques	Significant unobservable inputs
The fair value of investments was estimated using methods applicable to each individual company. The following methods were used: • The valuation of properties was carried out by authorised independent valuers (methods described in Note *16 (i)*)	Significant unobservable inputs are described in Note 16 (i).
• Review of rights of secured creditors	Amount of secured debt

NOTE 24 – ACCRUED INCOME AND PREPAID EXPENSES

	2014	2013
	(in thousands of HRK)	
Prepaid expenses	1,504	658
Accrued income (percentage of completion)	2,230	12
VAT on advances received	196	272
	3,930	**942**

At 31 December 2014, the Company has accrued revenues arising from construction contracts in the amount of HRK 2,230 thousand (*2013: HRK 12 thousand*).

NOTE 25 – SHARE CAPITAL

	Number of shares 2014	% of ownership 2014	Number of shares 2013	% of ownership 2013
	(in thousands of HRK)		*(in thousands of HRK)*	
Gljadelkin Sergej	315,000	51.33%	0	0.00%
Mezhibovskiy Veniamin	50,000	8.15%	60,000	22.71%
Akcionar d.o.o.	20,086	3.27%	20,086	7.60%
ZM d.o.o. (ex Zagreb-Montaža d.o.o.)	15,000	2.44%	15,000	5.68%
Zm-Montag d.o.o.	15,000	2.44%	15,000	5.68%
IGH-Esop d.o.o.	2,840	0.46%	3,715	1.41%
Dalekovod-Projekt d.o.o.	2,661	0.43%	0	0.00%
IPRO-INŽENJERING d.o.o.	2,512	0.41%	2,000	0.76%
Owns shares	539	0.09%	539	0.20%
Other shareholders	190,071	30.97%	147,830	55.96%
	613,709	**100%**	**264,170**	**100%**

At the Management Board meeting held on 15 April 2014, the decision was made on increasing share capital. This decision was supported by the Supervisory Board at its meeting held on the same day. The share capital increase arose from the legally valid pre-bankruptcy settlement as of 28 December 2013 whereby 30% of total supplier claims in the amount of HRK 23,506 thousand are settled through Company shares. Suppliers have subscribed shares in the amount of HRK 17,815 thousand, and the Company share capital was increased from HRK 105,668 thousand by the amount of HRK 17,815 thousand to the amount of HRK 123,486 thousand by issuing 44,539 new ordinary shares, ticker IGH-R-C, with a nominal amount of HRK 400.00 per share.

After the share capital increase the Company's share capital amounts to HRK 123,483 thousand and is divided among 264,170 ordinary shares, ticker IGH-R-A, and 44,539 ordinary shares, ticker IGH-R-C, in the nominal amount of HRK 400.00 per share.

At the General Assembly held on 7 May 2014, the Company made a decision to reduce the share capital from the amount of HRK 123,483 thousand by the amount of HRK 64,829 thousand to the amount of HRK 58,755 thousand by reducing the nominal amount of ordinary shares, ticker IGH-R-A and IGH-R-C, from the amount of HRK 400.00 by the amount of HRK 210.00 to the amount of HRK 190.00 per share.

At the same meeting, the decision was made on increasing the share capital from the amount of HRK 58,655 thousand by the amount of HRK 57,950 thousand to the amount of HRK 116,605 thousand by issuing 305,000 thousand ordinary shares, ticker IGH-R-C with a nominal amount of HRK 190.00 per share.

After the share capital increase the Company's share capital amounts to HRK 116,605 thousand and is divided among 264,170 ordinary shares, ticker IGH-R-A, and 349,539 ordinary shares, ticker IGH-R-C, in the nominal amount of HRK 190.00 per share.

On 21 January 2015, 349,539 shares, ticker: IGH-R-C ISIN HRIGH0RC00004 with a nominal amount of HRK 190.00 per share were converted to 349,539 shares, ticker: IGH-R-A ISIN HRIGH0RC00006 with a nominal amount of HRK 190.00 per share.

Based on the decision of the Zagreb Stock Exchange Class:UP/I-451-01/15-01/12 Reg. no.: 536-15-2 dated 19 January 2015, 349,539 shares with a nominal amount of HRK 190.00 per share, ticker IGH-R-A, ISIN: HRIGH0RA00006 were listed on the Official ZSE quotation. The listing was performed on 21 January 2015.

After the listing, the Company's share capital comprises 613,709 shares, ticker IGH-R-A, ISIN: HRIGH0RA0006 and amounts to HRK 116,605 thousand.

Each share holds voting and dividend rights.

NOTE 26 – CAPITAL RESERVES

Based on the final pre-bankruptcy settlement agreement of 28 December 2013 creditors transferred into the PIK and junior debt have the right, upon the maturity period of six years, to convert its remaining claims into share capital and thus become a part of the ownership structure of the Company. The PIK debt represents 63.6 % of debt towards banks in the pre-bankruptcy settlement and is to be paid in one instalment after six years at a fixed interest rate of 4.5% per annum, which will also be paid upon maturity. After three years, creditors have the right to exercise an option to convert debt into equity up to a maximum of 20% of the share capital at the time of conversion. The details of the pre-bankruptcy settlement agreement are described in Note 39.

Given the above, the Company has an obligation to calculate the probability and amount of conversion of debt into equity. Due to the significant uncertainty of key variables in the calculation the Company did not calculate and recognize the equity component as at 31 December 2014.

NOTE 27 – RESERVES

	2014	**2013**
	(in thousands of HRK)	
Reserves for own shares	1,446	1,446
Own shares	(1,446)	(1,446)
	-	-

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the share premium reach 5% of the Company's share capital. Both legal reserves and reserves for own shares are non-distributable.

Based on the decision of the General Assembly, legal reserves and part of the reserves in excess of the value of own shares were used to cover losses generated in 2012.

The Company has 539 own shares. Own shares are recorded at cost and are released using the weighted average price method.

NOTE 28 – REVALUATION RESERVES

	2014	2013
	(in thousands of HRK)	
As at 1 January	131,637	161,382
Revaluation of land and buildings	-	1,186
Decrease in value of land and buildings	-	(24,488)
Transfer to accumulated losses	(1,812)	(4,455)
Change in value of assets available for sale	-	(1,988)
Transfer to accumulated losses due to sale	(3,103)	-
Decrease due to write offs	(715)	-
As at 31 December	**126,007**	**131,637**

Revaluation reserves are not distributable to shareholders.

NOTE 29 – BORROWINGS

Bank borrowing

	2014	2013
	(in thousands of HRK)	
Non-current		
Secured bank loans	2,625	-
Bank loans - PIK debt	182,908	182,439
Bank loans - junior debt	7,898	12,391
Bank loans - senior debt	107,316	108,545
Finance lease	9	75
Other borrowings	71	102
	300,827	**303,552**
Bonds	70,973	76,376
Secured bank loans	65,963	110,881
Borrowings from related parties	75	-
Finance lease	27	-
Other borrowings	2,368	2,694
	139,406	**189,951**
Total borrowings	**440,233**	**493,503**

s in the amount of HRK 366,710 thousand (*2013: HRK 407,280 thousand*) and liabilities arising from issued bonds in the amount of HRK 70,973 thousand are secured with the Company's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Company.

NOTE 29 – BORROWINGS (CONTINUED)

In accordance with the pre-bankruptcy settlement agreement creditors are classified into the following categories:

The “PIK debt” represents claims that will be settled by selling pledged assets of the Company and its related parties. Final maturity of the PIK claims is 6 years from the day the pre-bankruptcy settlement became final and it incorporates a fixed interest rate of 4.5% per annum.

The “Senior debt” comprises a portion of creditor claims which will be settled by payment in semi-annual instalments which fall due 30 June and 31 December in accordance with the provisions of the settlement agreement and with an interest rate set at 4.5% per annum. The first instalment becomes due on the first of the above dates 24 months after the settlement becomes legally valid.

The “Junior debt” relates to part of creditor claims which will be settled in accordance with the provisions of the settlement agreement. Final maturity of junior claims is 6 years from the day the pre-bankruptcy settlement becomes legally valid. Interest amounting to 4.5% is calculated annually and becomes due in one instalment upon final maturity of the junior debt.

Issued bonds

On 6 June 2012 the Company issued convertible bonds in the amount of EUR 10 million for a partial rescheduling of liabilities arising from previously issued financial instruments and financing of the working capital. Bonds are convertible into the Company's shares and are issued as annuity bonds with 9% interest per annum with a due date on 6 June 2017. Payments of annuities are semi-annual.

On 6 June 2012 the Central Depository and Clearing Company included the bonds in depository and settlement services. In order to ensure payment of all bond obligations, pledges have been created for specific properties which was under ownership of the bond issuer at time the financial documents were finalised.

On 10 June 2013, the Settlement council of the Financial Agency adopted the Decision on initiating pre-bankruptcy settlement proceedings over INSTITUT IGH d.d. Owners of convertible bonds as secured creditors have not waived their right for separate settlement in the pre-bankruptcy settlement proceedings, and have the right to initiate separate enforcement procedures to enforce real estate sales and settlement of their claims. If the sale of pledged assets does not generate sufficient funds to settle secured claims, bond holders are not entitled to settlement of outstanding claims in full, but their claims are considered to be settled entirely through the sale of the pledged assets.

Pledged land and buildings amount to HRK 70,973 thousand and the value of bond payables was reduced to the stated amount.

The finance lease liability is as follows:

	Minimum lease payments		Finance cost		Present value of min. lease payments	
	2014	2013	2014	2013	2014	2013
	(in thousands of HRK)					
Up to 1 year	26	26	(6)	(6)	20	20
Between 1 and 5 years	9	9	(1)	(1)	8	8
Total	**35**	**35**	**(7)**	**(7)**	**28**	**28**

NOTE 29 – BORROWINGS (CONTINUED)

The analytical review of borrowings is as follows:

(in thousands of HRK)	**Currency**	**Interest rate**	**2014**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Financial liabilities							
Commercial bank	EUR	4.50%	196,779	-	8,963	26,888	160,928
Commercial bank	EUR	4.50%	78,335	-	3,564	10,693	64,078
Commercial bank	EUR	4.50%	12,476	-	568	1,703	10,205
Commercial bank	EUR	4.50%	9,578	-	299	898	8,381
Commercial bank	HRK	6.50%	3,500	875	875	1,750	-
Commercial bank	EUR	3 M EURIBOR+6.60 p.p.	25,512	25,512	-	-	-
Borrowings from related legal entities	HRK	0%	75	75	-	-	-
Borrowings from unrelated legal entities	HRK	5%	954	-	30	90	834
Other borrowings	RUB	4%	71		71	-	-
Finance lease	EUR	7.13-11%	37	28	9	-	-
Total financial liabilities			*327,317*	*26,490*	*14,379*	*42,022*	*244,426*
Liabilities towards secured creditors							
Commercial bank	EUR	6 M EURIBOR+6.25 p.p.	32,346	32,346	-	-	-
Commercial bank	EUR	8%	7,229	7,229	-	-	-
Borrowings from other financial institutions	HRK	3 M EURIBOR+7.20 p.p.	2,368	2,368	-	-	-
Bonds	EUR	9%	70,973	70,973	-	-	-
Total liabilities towards secured creditors			*112,916*	*112,916*	-	-	-
Total borrowings			**440,233**	**139,406**	**14,379**	**42,022**	**244,426**

Interest rates during the year were in the following range:

- 3m EURIBOR from 6.25% to 7.20%
- 6 m EURIBOR+6.60%
- 4.00% to 11.00%

NOTE 30 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday accrual	Retiremen t benefits	Waranty provision	Legal cases	Total
As at 1 January 2014:						
Non-current	576	-	248	53	8,808	9,685
Current	398	4,071	80	819	35	5,403
	974	**4,071**	**328**	**872**	**8,843**	**15,088**
Increase in provisions	-	691	1,606	-	974	3,271
Utilised during the year	(974)	-	(25)	(819)	(13)	(1,831)
As at 31 December 2014	**-**	**4,762**	**1,909**	**53**	**9,804**	**16,528**
As at 31 December 2014:						
Non-current	-	-	1,648	53	9,782	11,483
Current	-	4,762	261	-	22	5,045
	-	**4,762**	**1,909**	**53**	**9,804**	**16,528**

(i) Jubilee awards

After the expiry of the Collective Agreement according to which the Company had an obligation to pay jubilee awards, jubilee awards are no longer paid and the provisions for jubilee awards were terminated.

Unused vacation days

In 2014, the provision for unused vacation days was accrued based on the expectations that unused vacation days holiday will be used in 2015.

(ii) Termination benefits

In 2014, the Company recognised a long-term provision for regular retirement benefits for all employees in the non-taxable amount of HRK 8 thousand per employee. By applying the discount rate of the CNB, the present value of termination benefits of all employees was determined in the amount of HRK 1,648 thousand.

(iii) Warranty provision

The Company reversed previously recognised warranty provisions as the warranty periods expired. At the same time, warranty provisions were not recognized for the current period as the Company had no indication of the potential corrective costs.

NOTE 30 – PROVISIONS (CONTINUED)

(iv) Legal disputes

Legal provisions relate to a number of legal disputes initiated against the Company. Based on the expert opinion of legal counsel, the Company's Management believes that the outcome of these legal disputes will not give rise to any significant loss beyond the amount provided for as at 31 December 2014.

NOTE 31 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Long term liabilities		
Domestic creditors	17,291	24,985
Liabilities toward related parties	839	1,071
Liabilities toward individuals	1,059	1,353
Other long term liabilities - rescheduled tax debt	10,234	15,745
	29,423	**43,154**
Short term liabilities		
Domestic creditors	24,077	37,362
Foreign creditors	369	956
Other short-term liabilties- rescheduled tax debt	6,081	4,965
Liabilities toward state and other institutions	5,309	10,273
Liabilities toward employees	6,021	12,053
Liabilities toward shares in profit and rewards to management	1,733	1,733
Interest payable	6,006	8,541
Municipal charges	2,787	2,787
Related party liabilities	1,029	1,014
Other liabilities	5,027	5,300
	58,439	**84,984**
	87,862	**128,138**

Based on the Pre-bankruptcy settlement decision, non-current liabilities relating to the rescheduled tax debt and liabilities arising from service contracts and royalties are discounted at a rate of 7%, which is the discount rate of the CNB at the reporting date. Non-current liabilities for the rescheduled debt and other non-current liabilities are carried at fair value using discounted cash flows. The liabilities are repaid over a period of 5 years in equal semi-annual interest-free instalments.

As at 31 December 2014, the carrying value of current liabilities approximates their fair value, due to the short-term maturity of these liabilities. Non-current trade payables are measured at fair value using discounted cash flows and relate to creditors who will, based on the pre-bankruptcy settlement, be repaid in 10 equal semi-annual instalments without interest. The rate used for discounting non-current liabilities is 7%, which is the discount rate of the CNB at the reporting date.

Other liabilities relate to liabilities for unpaid royalties and services contracts in the amount of HRK 2,497 thousand, liabilities toward municipal and city budgets from the sale of social housing in the amount of HRK 1,308 thousand and other current liabilities in the amount of HRK 1,222 thousand.

NOTE 31 – TRADE AND OTHER PAYABLES (CONTINUED)

The ageing structure of trade payables is as follows:

	2014	2013
	(in thousands of HRK)	
Undue	32,524	56,681
0-90 days	7,080	3,436
91-180 days	753	1,663
181-360 days	2,150	1,610
over 360 days	1,099	985
	43,606	**64,375**

The Company's exposure to foreign currency risk and liquidity risk is presented in Note 34.

NOTE 32 – ADVANCES AND DEPOSITS RECEIVED

	2014	2013
	(in thousands of HRK)	
Advances from domestic debtors	1,023	1,436
Advances from foreign debtors	1,144	2,247
Deposits and guarantees received	231	108
	2,398	**3,791**

NOTE 33 – ACCRUED EXPENSES AND DEFERRED INCOME

	2014	2013
	(in thousands of HRK)	
Accrued expenses	8,970	7,661
	8,970	**7,661**

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various financial risks related to foreign currency, interest rate, credit and liquidity risk. The Company monitors these risks and seeks to minimize their potential impact on the Company's financial exposure. The Company does not use derivative instruments to actively hedge its financial risk exposure.

Market risk

Market risk relates to financial instruments. IFRS defines market risk as the risk of fluctuation of fair value or future cash flows of financial instruments due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risks.

The Company operates on the Croatian and international markets. Management determines the cost of its services based on the market price of the relevant market.

a) Price risk

The Company is engaged in the professional and scientific research in the field of construction, the area where the financial crisis has had a significant impact causing relative market inactivity.

Currently an industry in which the Company operates is highly illiquid, and despite the significant decrease in prices, a significant drop in the volume of business also occurred. Price reductions and market illiquidity have a negative effect on the recoverability of the Company's assets and the timing of projects realization.

b) Foreign currency risk

The Company's official currency is the Croatian kuna (HRK). However, the Company has invested in financial instruments and entered into transactions denominated in currencies that do not represent its functional currency. Accordingly, the Company is exposed to currency risk of its currency in relation to other currencies in a way that may adversely affect the result and value of the Company.

Transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. The resulting exchange differences are credited or charged to the income statement. Changes in exchange rates may affect the profits mainly as a result of foreign exchange gains or losses arising on translation of receivables in foreign currency (EUR) and borrowings and obligations contracted with foreign currency clause (EUR). Due to part of its income being earned in foreign markets and liabilities denominated in other currencies, the Company is exposed to exchange rate risk primarily through EUR and therefore big changes are not expected.

Due to part of its income being earned in foreign markets and liabilities denominated in other currencies, the Company is exposed to exchange rate risk primarily through EUR and therefore big changes are not expected.

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

	Liabilities		Assets	
	2014	2013	2014	2013
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	404,965	428,781	74,288	33,458
Bosnia and Herzegovina (BAM)	23	18	1,077	1,095
USA (USD)	2,443	2,148	1,445	1,274

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

The Company is mainly exposed to fluctuations in the exchange rate of the Croatian kuna to the Euro.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the Croatian kuna changes against the relevant currency by the percentage specified above. In case of a reverse proportional change of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

The exposure to the 1% fluctuation in the exchange rates for the currencies presented above is mainly attributable to borrowings, trade payables and related party receivables denominated in Euro (EUR).

	EUR currency effect		**USD currency effect**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Net result decrease	(3,307)	(3,953)	(10)	(9)

	BAM currency effect	
	2014	**2013**
	(in thousands of HRK)	
Net result increase	11	11

The mid-market exchange rates against the Croatian kuna significant for the Company are as follows:

	31 December 2014	**31 December**
EUR	7.66147	7.63764
BAM	3.91725	3.90506
USD	6.30211	5.54900

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument.

Due to the fact that the Company uses loans with variable interest rates, the Company is exposed to interest rate risk. The Company does not use instruments to actively hedge interest rate risk exposure.

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company in whole or in part, at the time of maturity. Failure to fulfil obligations would endanger the Company's liquidity and reduce the value of its assets. As at 31 December 2014, the Company's financial assets that may potentially expose the Company to credit risk consist primarily of loans receivable, trade and other receivables.

The value of financial assets at the reporting date represents the maximum exposure to credit risk. The Company regularly monitors the risk that a counterparty will default on its obligations.

Trade and other receivables and loans receivable have been adjusted for the allowance for bad and doubtful debts.

Liquidity risk

Liquidity risk is the risk that the Company could face difficulties in settling its liabilities. Liquidity risk arises in the general funding activities of the Company and the management of assets. It includes the risk of being unable to fund assets under appropriate maturities and prices and the risk of being unable to sell its assets at a reasonable price and in an appropriate time frame. Financial instruments include investments that may be illiquid and that the Company is not able to turn into cash to meet its liquidity requirements.

In order to ensure necessary liquidity, the Management Board is undergoing intensive discussions with creditors with whom they are trying to reach an agreement on the restructuring of debt and to reduce the exposure of the Company on the basis of co-debtorship. Also, regardless of the above communication with creditors, the Company has initiated the process of selling certain assets and the share capital increase process by issuing new shares.

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Table analysis of liquidity risk

The tables have been drawn up based on the undiscounted cash outflows of financial liabilities at their due date. The tables include both principal and interest cash flows.

2014 (in thousand of HRK)	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Non derivative financial liabilities							
Borrowings, finance lease and bonds	327,317	406,230	4,255	29,959	20,258	51,745	300,013
Trade and other payables	90,260	91,324	52,064	5,609	14,114	19,537	-
	417,577	**497,554**	**56,319**	**35,568**	**34,372**	**69,228**	**300,013**

2013 (in thousand of HRK)	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Non derivative financial liabilities							
Borrowings, finance lease and bonds	493,503	596,236	56,136	161,936	6,311	56,849	315,004
Trade and other payables	131,929	143,200	60,163	21,936	15,250	45,851	-
	625,432	**739,436**	**116,299**	**183,872**	**21,561**	**102,700**	**315,004**

Non-interest bearing liabilities payable up to one month mainly consist of trade payables and other current liabilities.

Interest bearing liabilities include short-term and long-term loans and finance lease.

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The tables have been drawn up based on the undiscounted cash inflows of financial assets at their due date. The tables include both principal and interest cash flows.

	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years
2014 (in thousand of HRK)						
Non derivative financial assets						
Loans given	50,235	55,152	-	11,320	-	43,832
Trade and other receivables	65,816	65,816	47,198	16,938	470	1,210
	116,051	**120,968**	**47,198**	**28,258**	**470**	**45,042**
2013 (in thousand of HRK)						
Non derivative financial assets						
Loans given	26,271	28,963	151	10,543	18,269	-
Trade and other receivables	77,186	77,186	69,131	8,055	-	-
	103,457	**106,149**	**69,282**	**18,598**	**18,269**	**-**

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices,
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the ordinary course of business are recorded at the lower of cost and net amount less the portion repaid. The fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, except in the event of a forced sale or for liquidation purposes. The fair value of a financial instrument is its quoted market price, or the amount obtained using the discounted cash flow method.

At 31 December 2014, the reported amounts of cash, short-term deposits, receivables, current liabilities, calculated expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of those assets and liabilities.

Management believes that the carrying value of long-term deposits, receivables and borrowings as at 31 December 2014 approximates their fair value due to the application of liabilities with variable interest rates.

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital risk management

Net debt-to-equity ratio (Gearing ratio)

The net-debt-to-equity ratio at the reporting date was as follows:

	2014	2013
	(in thousands of HRK)	
Debt (long term and short term loans)	327,317	493,503
Cash and cash equivalents	(5,762)	(4,022)
Net debt	**321,555**	**489,481**
Equity	118,974	61,164
Debt/Equity ratio	270%	800%

Debt is defined as a financial liability for long-term and short-term borrowings. Equity includes all capital and reserves of the Company. In addition to monitoring the ratio of net debt to equity, the Company also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt.

The Company monitors its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

NOTE 35 – RELATED PARTY TRANSACTIONS

The Company considers that its direct related party relationship is with its key shareholders and entities under their control or influence (subsidiaries and associates), key management (see below), close family members of key management and legal entities that are controlled or significantly influenced by key management personnel and their close family members, in accordance with the provisions set out in International Accounting Standard 24 - *Related Party Disclosures.*

Revenue from services to subsidiaries

	2014	2013
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	17	79
IGH Mostar d.o.o., Mostar	148	114
ETZ d.d. Osijek	25	-
Radeljević d.o.o, Zagreb	5	236
Hidroinženjering d.o.o., ZAGREB	-	115
IGH Projektiranje d.o.o., Zagreb	6,444	30
Projektni biro Palmotićeva 45 d.o.o., Zagreb	1,068	928
Marterra d.o.o. Zagreb	-	79
	7,707	**1,581**

Revenue from services to associates

	2014	2013
	(in thousands of HRK)	
Centar Bundek d.o.o.	-	735
Centar Gradski podrum d.o.o.	750	1,037
	750	**1,772**

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Services received from subsidiaries

	2014	2013
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	810	398
IGH Mostar d.o.o., Mostar	71	134
ETZ d.d. Osijek	20	971
Hidroinženjering d.o.o., ZAGREB	-	100
IGH Projektiranje d.o.o., Zagreb	168	361
Projektni biro Palmotićeva 45 d.o.o., Zagreb	586	2,951
MBM Termoprojekt d.o.o., Zagreb	303	402
IGH Kosova, Priština	-	261
	1,959	**5,578**

Interest income on loans given to subsidiaries

	2014	2013
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	-	162
IGH Mostar d.o.o., Mostar	-	374
Incro d.o.o., Zagreb	-	4,935
Radeljević d.o.o, Zagreb	-	253
IGH Energija d.o.o., Zagreb	-	3
IGH Projektiranje d.o.o., Zagreb	-	91
IGH Turizam d.o.o., Zagreb	30	140
IGH Kosova Sha, Priština	-	250
Marterra d.o.o. Zagreb	-	558
Projket Šolta d.o.o., Zagreb	-	1
Forum centar d.o.o., Zagreb	-	1
ETZ d.d. Osijek	11	-
	41	**6,768**

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Interest income on loans given to associates

	2014	2013
	(in thousands of HRK)	
Sportski grad TPN d.o.o., Split	-	303
Elpida d.o.o., Zagreb	2	1
	2	**304**

Interest expense on borrowings from subsidiaries and other finance costs

	2014	2013
	(in thousands of HRK)	
Gratius projekt d.o.o., Zagreb	-	1
	-	**1**

Receivables for services provided to subsidiaries

	2014	2013
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	192	3,188
IGH Mostar d.o.o., Mostar	131	77
Incro d.o.o., Zagreb	22	22
Radeljević d.o.o, Zagreb	1,074	1,068
Forum Cenatar d.o.o., Zagreb	1	1
IGH Projektiranje d.o.o., Zagreb	1,622	33
Projektni biro Palmotićeva 45 d.o.o., Zagreb	1,011	570
IGH Turizam d.o.o., Zagreb	-	39
Marterra d.o.o. Zagreb	1,004	1,004
ETZ, Ekonomsko tehniički zavod d.d., Osijek	18	-
DP Aqua d.o.o., Zagreb	49	-
IGH Energija d.o.o.,Zagreb	126	-
Less: Impairment of trade receivables	(2,461)	(5,125)
	2,790	**877**

During the year, HRK 229 thousand of impairment of receivables from subsidiaries was recognised in profit or loss.

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Receivables for services provided to associates

	2014.	2013.
	(u tisućama kuna)	
Sportski grad TPN d.o.o., Split	475	475
Centar Gradski podrum d.o.o.	265	259
Minus: Vrijednosno usklađenje potraživanja	(475)	(475)
	265	**259**

Liabilities to related parties based on services received

	2014	2013
	(in thousands of HRK)	
Centar Gradski podrum d.o.o.	430	913
Geotehnika Inženjering d.o.o., Zagreb	219	150
IGH Mostar d.o.o., Mostar	43	75
ETZ d.d. Osijek	56	70
IGH Projektiranje d.o.o., Zagreb	545	269
Projektni biro Palmotićeva 45 d.o.o., Zagreb	118	443
Tehničke konstrukcije d.o.o., Zagreb	272	234
MBM Termoprojekt d.o.o., Zagreb	185	212
Less: fair value resulting from pre-bankruptcy settlement	(175)	(280)
	1,693	**2,086**

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Loans given to subsidiaries

	Prinicipal	Interest	Prinicipal	Interest
	2014		2013	
	(in thousands of HRK)		*(in thousands of*	
Geotehnika Inženjering d.o.o., Zagreb	1,543	-	4,045	222
IGH Mostar d.o.o., Mostar	5,520	276	5,502	378
Incro d.o.o., Zagreb	64,788	14,899	64,785	14,899
Radeljević d.o.o, Zagreb	3,316	188	3,316	188
Forum Cenatar d.o.o., Zagreb	17	4	16	4
IGH Turizam d.o.o., Zagreb	-	-	2,092	247
Marterra d.o.o. Zagreb	8,305	695	8,305	695
IGH Kosova Sha, Priština	3,841	746	3,649	745
IGH Energija d.o.o., Zagreb	47	10	41	10
Projekt Šolta d.o.o., Zagreb	15	2	10	1
Slavonija centar, pos. zona , V. Kopanica	6	-	6	-
ETZ, Ekonomsko tehniički zavod d.d., Osijek	273	11	-	-
Less: Impairment of loans given	(64,461)	(16,822)	(70,388)	(17,389)
	23,211	**11**	**21,379**	**-**

During the year, HRK 2,243 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

Loans given to associates

	Prinicipal	Interest	Prinicipal	Interest
	2014		2013	
	(in thousands of HRK)		*(in thousands of HRK)*	
Sportski grad TPN d.o.o., Split	30,400	16,060	30,400	13,376
Elpida d.o.o., Zagreb	40	2	10	1
Less: Impairment of loans given	(30,440)	(16,062)	(30,410)	(13,377)
	-	-	-	-

During the year, HRK 31 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

Loans given to other related parties

	Prinicipal	Interest	Prinicipal	Interest
	2014		2013	
	(in thousands of HRK)		*(in thousands of HRK)*	
Črnomerec Centar d.o.o.	568	6,584	566	6,584
Less: Impairment of loans given	(568)	(6,584)	(566)	(6,584)
	-	-	-	-

Following the sale of the shareholding in the company Črnomerec Centar, as at 31 December 2014 the stated company is no longer a related party.

Borrowings from related parties

	Principal		Interest	
	2014	2013	2014	2013
	(in thousands of HRK)		*(in thousands of HRK)*	
Geotehnika Inženjering d.o.o., Zagreb	75	-	-	-
	75	**-**	**-**	**-**

Information on co-debtorships and guarantees issued to related parties are stated in Note 36.

Management and Supervisory Board compensation:

	2014	2013
	(in thousands of HRK)	
Gross salaries and other comensations	2,687	4,662
Compensations to Supervisory board	1,346	430
	4,033	**5,092**

As at 31 December 2014, the Company had a liability towards members of the Management Board and the Supervisory Board in the amount of HRK 865 thousand (*2013: HRK 2,551 thousand).*

NOTE 36 – CONTINGENCIES

	2014	2013
	(in thousands of HRK)	
Legal cases	76,910	76,043
Guarantees given and warranties-external	40,732	49,513
Co-debtorship in related party bank loans	30,521	30,437
Issued guarantees for related party	959	6,581
	149,122	**162,574**

Other court cases and guarantees given are not disclosed as contingent liabilities in the statement of financial position as at 31 December due to the Management Board`s estimates that it is not probable that liabilities will arise for the Company.

The overview of co-debtorship in related party loans is as follows:

	2014	2013
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o. Zagreb	14,616	14,582
Incro d.o.o. Zagreb	15,905	15,855
	30,521	**30,437**

NOTE 37 – COMMITMENTS

Future payments under operating leases for transport vehicles and other commitments are as follows:

	2014	2013
	(in thousands of HRK)	
Up to 1 year	6,603	4,375
1 - 5 years	19,971	21,846
	26,574	**26,221**

NOTE 38 – GOING CONCERN

In the year ended 31 December 2014, the Company incurred an unconsolidated net profit of HRK 6,265 thousand (2013: loss of HRK 45,326 thousand) and at year-end, the Company's unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 16,640 thousand (*2013:* HRK *37,643 thousand*).

The Company`s Management Board considers that the Company has met the requirements to continue as a going concern. In previous periods, the Company has operated in difficult liquidity conditions and are at risk of a permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company, by means of a pre bankruptcy settlement, reached an agreement with its creditors and restructured its debt. The going concern basis is certainly affected by the fact that, as part of the pre-bankruptcy settlement, the Company limited its exposure arising from co-debtorship towards certain related companies which, if activated, would prevent the Company's operational business activities. Regardless of the financial restructuring, the Company performed a capital increase by issuing new shares and is in the process of selling certain assets in order to ensure the necessary liquidity.

NOTE 39 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT

On 17 May 2013 the Company submitted a Proposal to initiate pre-bankruptcy settlement proceedings. On 5 December 2013 the Commercial Court in Zagreb accepted the Proposal and approved the settlement. In April 2014, the Court ruled that the pre-bankruptcy settlement became legally valid as of 28 December 2013.

I. Settlement with creditors

An agreement was reached according to which 30% of claims is converted into the Company's share capital. 20% of claims will be repaid in cash after the share capital increase or the sale of the Company’s assets. The remaining 50% of claims will be repaid in 10 equal semi-annual instalments over the period of 5 years. During 2014, the Company settled trade payables totalling HRK 50,503 thousand as prescribed in the provisions of the pre-bankruptcy settlement.

II. Settlement with banks

PIK debt

Of the total debt, 63.6% was converted into the PIK debt. The PIK debt is to be repaid in one instalment 6 years after the pre-bankruptcy settlement became legally valid. Up to the maturity date, a fixed interest rate of 4.5% per annum is included in the calculation, which is also payable in one instalment 6 years after the pre-bankruptcy settlement became legally valid. The PIK debt will be settled through the sale of assets which are pledged as collateral. All gains on sale in excess of the claims are attributable to the Company.

Three years after the settlement will have become legally valid, the Company is obliged to proportionally convert the PIK debt to the senior debt until the senior debt reaches the net indebtedness limit which is equal to 3.5 times of the prior years’ EBITDA.

Three years after the settlement will have become legally valid and through the process of converting the PIK debt to the senior debt, the creditors have the right to convert their claims into equity at a price of HRK 400 per share. If the General Assembly does not invite a creditor to subscribe for the shares, then the outstanding PIK debt is due upon the creditors’ call.

If the sale of pledged assets is realised, the PIK debt (including interest) is settled first and the remainder of receipts is used to settle parts of the senior debt which had liens on that particular asset. If the sales results in a surplus of cash over the creditors' claims, then the surplus belongs to the debtor i.e. the Company.

Senior debt

The first instalment becomes due 24 months from the date the pre-bankruptcy settlement will have become legally valid. The repayment dates are 30 June and 31 December. Payments are semi-annual with a fixed interest rate of 4.5% per annum and are paid throughout the settlement period. During 2014, interest was paid in the amount of HRK 4,834 arising from senior debt.

Junior debt

The junior debt has the same repayment schedule as the PIK debt the only difference being that junior debt holders have no liens on the Company`s assets. Final maturity of junior debt is also 6 years from the date the pre-bankruptcy settlement will have become legally valid with a fixed interest rate of 4.5% per annum which becomes due in one instalment after 6 years.

Set out below is a short overview of the effects of the pre-bankruptcy settlement agreement on the statement of financial position:

	2014	2013
	(in thousands of HRK)	
Conversion of liabilities to equity (note 26)	17,816	23,506
PIK debt (note 29)	182,908	182,439
Senior debt (note 29)	107,316	108,545
Junior debt (note 29)	7,898	12,391
	315,938	**326,881**

Set out below is a short overview of the effects of the pre-bankruptcy settlement agreement on the statement of comprehensive income:

	2014	2013
	(in thousands of HRK)	
Write off of trade payables	5,690	-
Write offs of interest and fees	-	19,146
Long term liabilities discount	(4,436)	11,316
Interest not accrued	-	13,811
	1,254	**44,273**

The debt towards creditors who have not waived their right to separate settlement in the process of the pre-bankruptcy settlement agreement (secured creditors) is classified as short-term and is presented in Note 29 in the amount of HRK 112,916 thousand.

Pledged assets are intended to cover the secured debt and are classified as non-current assets held for sale as presented in Note 23 in the amount of HRK 116,616 thousand.

Since the legally valid pre-bankruptcy settlement until 31 December 2014, the Company settled an amount of HRK 81,067 thousand, incurred before initiating the pre-bankruptcy settlement, by payments in cash, issuing registered shares, converting a part of receivables of a part of creditors into equity, payment of priority claims and other claims of employees with accompanying taxes and contributions, and write-off in accordance with the provisions of the pre-bankruptcy settlement.

NOTE 40 – EARNINGS PER SHARE

Basic earnings per share is calculated as follows:

	2014	2013
	(in thousands of HRK)	
Profit/(loss) of the current year (in thousands of HRK)	6,265	(45,326)
Weighted average number of shares	494,049	259,975
Basic profit/(loss) per share (in HRK)	**12.68**	**(174.35)**

As stated in Notes 26 and 39, as part of the pre-bankruptcy settlement a portion of the Company's debt cannot be converted into equity 3 years after the settlement will have become legally valid, up to 20% of the share capital at the time of conversion. Due to the uncertainty of significant variables in the calculation, the Company did not calculate diluted earnings per share in the event of conversion of the stated portion of debt into equity.

Attachment 1.

Reporting period: 01.01.2014 do 31.12.2014

ANNUAL FINANCIAL STATEMENTS OF THE ENTREPERNEUR - GFI-POD

Tax number (MB):	03750272		
Company registration number (MBS):	80000959		
Personal identification number (OIB):	79766124714		
Issuing company:	INSTITUT IGH d.d.		
Postal code and place:	10000	ZAGREB	
Street and house number:	JANKA RAKUŠE 1		
E-mail adress:	igh@igh.hr		
Internet adress:	http://www.igh.hr		
Municipality/city code and name:	133	ZAGREB	
County code and name:	21	GRAD ZAGREB	Number of employees (quarter end): 599
Consolidated report:	NO		NKD code: 7219

Companies of the consolidation subject (according to IFRS)	Seat:	MB:

Bookkeeping service:	
Contact person:	ŠPINDERK JADRANKA (please enter only contact person's family name and name)
Telephone:	01 6125 444
Telefax:	01 6125 404
E-mail adress:	igh@igh.hr
Family name and name:	IVAN PALADINA (person authorized to represent the company)

Documents for publishing:

1. Audited Annual Financial Statements with Audit Report
2. Management Board Report
3. Statement form persons responsible for preparation of Annual statement,
4. Decision by the authorized body (proposal) on the establishment of Annual F. Statement
5. Decision on the Proposal for distribution of profit or loss coverage

Seal

IGH dioničko društvo za istraživanje i razvoj u graditeljstvu Zagreb 01

Paladina

(signature of the person authorized to represent the company)

BALANCE SHEET
as of 31.12.2014

Legal entity: INSTITUT IGH D.D.

Position	AOP	Previous year (net)	Current year (net)
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED AND NON - PAID CAPITAL	001		
B) LONG - TERM ASSETS (003+010+020+029+033)	002	488.105.006	508.850.152
I. INTANGIBLE ASSETS (004 to 009)	003	4.954.975	4.564.930
1. Assets development	004	0	0
2. Concessions, patents, licence fees, merchandise and service brands, software and other rights	005	2.361.548	1.968.288
3. Goodwill	006	0	0
4. Prepayments for purchase of intangible assets	007	0	0
5. Intangible assets in preparation	008	2.593.427	2.596.642
6. Other intangible assets	009	0	0
II. TANGIBLE ASSETS (011 to 019)	010	177.437.272	173.819.616
1. Land	011	63.760.082	63.760.082
2. Buildings	012	73.772.567	69.805.392
3. Plant and equipment	013	534.653	1.269.955
4. Instuments, plant inventories and transportation assets	014	1.464.332	975.287
5. Biological assets	015	0	0
6. Prepayments for tangible assets	016	67.375	170.042
7. Tangible assets in preparation	017	26.548.838	26.549.433
8. Other material assets	018	303.336	303.336
9. Investment in buildings	019	10.986.089	10.986.089
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	303.423.690	328.784.179
1. Shares (stocks) in related parties	021	278.715.624	278.434.067
2. Loans given to related parties	022	17.074.602	17.089.195
3. Participating interests (shares)	023	125.800	1.062.600
4. Loans to entrepreneurs in whom the entity hold participating interests	024	0	0
5. Investment in securities	025	0	0
6. Loans, deposits and similar assets	026	878.094	28.411.404
7. Other long - term financial assets	027	6.629.570	3.786.913
8. Investments accounted by equity method	028	0	0
IV. RECEIVABLES (030 to 032)	029	2.289.069	1.681.427
1. Receivables from related parties	030	0	0
2. Receivables based on trade loans	031	1.889.610	1.665.320
3. Other receivables	032	399.459	16.107
V. DEFERRED TAX ASSETS	033	0	0
C) SHORT TERMS ASSETS (035+043+050+058)	034	253.148.298	193.686.201
I. INVENTORIES (036 to 042)	035	162.799.842	117.579.274
1. Row material	036	0	0
2. Work in progress	037	247.493	247.493
3. Finished goods	038	629.512	147.746
4. Merchandise	039	568.162	568.162
5. Prepayments for inventories	040	0	0
6. Long - term assets held for sale	041	161.354.675	116.615.873
7. Biological assets	042	0	0
II. RECEIVABLES (044 to 049)	043	77.129.155	64.134.521
1. Receivables from related parties	044	1.192.571	3.036.415
2. Accounts receivable	045	69.130.263	56.459.429
3. Receivables from participating entrepreneurs	046	0	0
4. Receivables from employees and shareholders	047	708.512	764.766
5. Receivables from government and other institutions	048	2.283.289	1.503.688
6. Other receivables	049	3.814.520	2.370.223
III. SHORT - TERM FINANCIAL ASSETS (051 to 057)	050	9.197.249	7.573.095
1. Shares (stocks) in related parties	051	0	0
2. Loans given to related parties	052	4.305.460	4.131.940
3. Participating interests (shares)	053	0	0
4. Loans to entrepreneurs in whom the entity hold participating interests	054	0	0
5. Investments in securities	055	0	0
6. Loans, deposits and similar assets	056	4.891.789	2.078.328
7. Other financial assets	057	0	1.362.827
IV. CASH AT BANK AND IN CASHIER	058	4.022.052	4.399.311
D) PREPAID EXPENSES AND ACCRUED INCOME	059	942.434	3.929.935
E) TOTAL ASSETS (001+002+034+059)	060	742.195.738	706.466.288
F) OFF-BALANCE SHEET NOTES	061	49.512.554	40.731.657

LIABILITIES AND CAPITAL			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	61.161.833	118.974.099
I. SUBSCRIBED CAPITAL	063	105.668.000	116.604.710
II. CAPITAL RESERVES	064	0	0
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	23.505.600	0
1. Reserves prescribed by law	066	0	0
2. Reserves for treasury stocks	067	1.446.309	1.446.309
3. Treasury stocks and shares (deduction)	068	1.446.309	1.446.309
4. Statutory reserves	069	0	0
5. Other reserves	070	23.505.600	0
IV. REVALUATION RESERVES	071	131.636.562	126.007.257
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	-154.322.133	-129.904.418
1. Retained earnings	073	0	9.751.366
2. Accumulated loss	074	154.322.133	139.655.784
VI. PROFIT / LOSS FOR THE CURRENT YEAR (076-077)	075	-45.326.196	6.266.550
1. Profit for the current year	076		6.266.550
2. Loss for the current year	077	45.326.196	0
VII. MINORITY INTEREST	078		0
B) PROVISIONS (080 to 082)	079	10.956.469	11.482.612
1. Provisions for pensions, severance pay and similar liabilities	080	1.277.055	1.648.004
2. Reserves for tax liabilities	081	0	0
3. Other reserves	082	9.679.414	9.834.608
C) LONG TERM LIABILITIES (084 to 092)	083	379.614.257	361.752.342
1. Liabilities to related parties	084	1.072.102	839.224
2. Liabilities for loans, deposits etc.	085	101.700	71.280
3. Liabilities to banks and other financial institutions	086	303.375.114	300.746.973
4. Liabilities for received prepayments	087	0	0
5. Accounts payable	088	25.059.210	17.113.760
6. Liabilities arising from debt securities	089	0	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	090	0	186.109
8. Other long-term liabilities	091	17.096.990	11.293.182
9. Deferred tax liability	092	32.909.141	31.501.814
D) SHORT - TERM LIABILITIES (094 to 105)	093	278.670.615	200.242.831
1. Liabilities to related parties	094	1.013.661	1.120.495
2. Liabilities for loans, deposits etc.	095	2.694.140	2.394.429
3. Liabilities to banks and other financial institutions	096	110.880.449	65.963.493
4. Liabilities for received prepayments	097	3.790.980	2.398.980
5. Accounts payable	098	38.318.080	24.351.529
6. Liabilities arising from debt securities	099	76.376.430	70.973.241
7. Liabilities to entrepreneurs in whom the entity holds participating interests	100	0	79.651
8. Liabilities to employees	101	12.053.289	6.021.103
9. Liabilities for taxes, contributions and similar fees	102	15.230.120	11.390.800
10. Liabilities to share - holders	103	0	0
11. Liabilities for long term assets held for sale	104	0	0
12. Other short - term liabilities	105	18.313.466	15.549.110
E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD	106	11.792.564	14.014.404
F) TOTAL CAPITAL AND LIABILITIES (062+079+083+093+106)	107	742.195.738	706.466.288
G) OFF-BALANCE SHEET NOTES	108	49.512.554	40.731.657
APPENDIX TO BALANCE SHEET (only for consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Attributed to equity holders of parent company	109		
2. Attributed to minority interests	110		

Note 1: Annex to the Balance Sheet to be filled in by enterpreneurs preparing teh Consolidated Annual Financial Statements.

PROFIT AND LOSS ACCOUNT
for period 01.01.2014 to 31.12.2014

Legal entity: INSTITUT IGH D.D.

Position	AOP	Previous year	Current year
1	2	3	4
I. OPERATING REVENUES (112+113)	111	243.759.533	223.055.465
1. Sales revenues	112	226.546.667	194.540.029
2. Other operating revenues	113	17.212.866	28.515.436
II. OPERATNG EXPENSES (115+116+120+124+125+126+129+130)	114	290.423.440	207.483.112
1. Changes in the value of work in progress and finished goods	115	0	481.766
2. Material costs (117 to 119)	116	74.953.573	56.983.242
a) Raw material and material costs	117	11.654.621	9.098.008
b) Costs of goods sold	118	811.415	0
c) Other external costs	119	62.487.537	47.885.234
3. Staff costs (121 to 123)	120	102.929.108	93.900.631
a) Net salaries and wages	121	59.658.651	53.767.737
b) Costs for taxes and contributions from salaries	122	29.443.194	26.397.182
c) Contributions on gross salaries	123	13.827.263	13.735.712
4. Depreciation	124	11.726.937	5.396.762
5. Other costs	125	29.461.812	23.072.610
6. Impairment (127+128)	126	23.179.074	20.948.038
a) Impairment of long-term assets (excluding financial assets)	127	3.089.486	0
b) Impairment of short-term assets (excluding financial assets)	128	20.089.588	20.948.038
7. Provisions	129	1.574.877	2.296.239
8. Other operating expenses	130	46.598.059	4.403.824
III. FINANCIAL INCOME (132 to 136)	131	47.882.050	10.691.026
1. Interest income, foreign exchange gains, dividends and similar income from related	132	7.352.205	42.569
2. Interest income, foreign exchange gains, dividends and similar income from non-related	133	9.430.392	3.204.812
3. Share in income from affiliated entrepreneurs and participating interests	134	0	43.236
4. Unrealized gains (income) from financial assets	135	0	0
5. Other financial income	136	31.099.453	7.400.409
IV. FINANCIAL EXPENSES (138 to 141)	137	47.658.249	21.225.585
1. Interest expenses, foreign exchange losses and similar expenses from related parties	138	1.540	105.230
2. Interest expenses, foreign exchange losses and similar expenses from non - related	139	41.730.275	15.410.845
3. Unrealized losses (expenses) on financial assets	140	5.561.803	1.378.979
4. Other financial expenses	141	364.631	4.330.531
V. INCOME FROM INVESTMENT SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS	142	0	0
VI. LOSS FROM INVESTMENT SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS	143	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0
IX. TOTAL INCOME (111+131+142 + 144)	146	291.641.583	233.746.491
X. TOTAL EXPENSES (114+137+143 + 145)	147	338.081.689	228.708.697
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-46.440.106	5.037.794
1. Profit before taxation (146-147)	149	0	5.037.794
2. Loss before taxation (147-146)	150	46.440.106	0
XII. PROFIT TAX	151	-1.113.909	-1.228.756
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-45.326.197	6.266.550
1. Profit for the period(149-151)	153	0	6.266.550
2. Loss for the period (151-148)	154	45.326.197	0

APPENDIX TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	155		
2. Attributed to minority interests	156		
STATEMENT OF COMPREHENSIVE INCOME (IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	-45.326.197	6.266.550
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX(159 to 165)	158	-31.115.978	-892.853
1. Exchange differences on translation of foreign operations	159	0	0
2. Movements in revaluation reserves of long-term tangible and intangible assets	160	-29.127.555	-892.853
3. Profit or loss from revaluation of financial assets available for sale	161	-1.988.423	0
4. Gains or losses on efficient cash flow hedging	162	0	0
5. Gains or losses on efficient hedge of a net investment in foreign countries	163	0	0
6. Share in other comprehensive income / loss of associated companies	164	0	0
7. Actuarial gains / losses on defined benefit plans	165	0	0
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	-5.825.511	-178.570
IV. NET OTHER COMPREHENSIVE INCOME/ LOSS FOR THE PERIOD (158-166)	167	-25.290.467	-714.283
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD(157+167)	168	-70.616.664	5.552.267
APPENDIX to Statement of comprehensive income (only for consolidated financial statements)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	169		
2. Attributed to minority interests	170		

STATEMENT OF CASH FLOWS - Indirect method

period 01.01.2014 to 31.12.2014

Legal entity: INSTITUT IGH D.D.

Position	AOP	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	-46.440.105	5.037.794
2. Depreciation	002	11.726.937	5.396.762
3. Increase in short-term liabilities	003	0	0
4. Decrease in short term receivables	004	0	2.138.562
5. Decrease in inventories	005	801.415	481.766
6. Other cash flow increases	006	63.080.532	0
I. Total increase in cash flow from operating activities (001 to 006)	007	29.168.779	13.054.884
1. Decrease in short - term liabilities	008	4.791.345	37.740.689
2. Insrease in short - term receivables	009	12.100.111	0
3. Increase in inventories	010	0	0
4. Other cash flow decreases	011	0	8.307.908
II. Total decrease in cash flow from operating activities (008 to 011)	012	16.891.456	46.048.597
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	12.277.323	0
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	32.993.713
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash flow from sale of long - term tangible and intangible assets	015	10.310	43.872.833
2. Cash inflows from sale of equity and debt financial instruments	016	0	1
3. Interest receipts	017	774.653	265.323
4. Dividend receipts	018	0	0
5. Other cash inflows from investing activities	019	734.564	4.007.282
III. Total cash inflows from investing activities(015 to 019)	020	1.519.527	48.145.439
1.Cash outflows for purchase of long - term tangible and intangible assets	021	1.981.510	670.038
2. Cash outflows for purchase of equity and debt financial instruments	022		0
3. Other cash outflows from investing activities	023	2.968.545	32.617.907
IV. Total cash outflows from investing activities (021 to 023)	024	4.950.055	33.287.945
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES(020-024)	025	0	14.857.494
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES(024-020)	026	3.430.528	0
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash receipts from issuance of equity and debt financial instruments	027	0	57.950.000
2. Cash inflows from loans, debentures, credits and other borrowings	028	2.368.000	4.322.000
3. Other cash inflows from financing activities	029	0	
V. Total cash inflows from financing activities (027 to 029)	030	2.368.000	62.272.000
1. Cash outflows for repayment of loans and bonds	031	7.834.000	42.344.910
2. Dividends paid	032	0	0
3. Cash outflows for finance lease	033	171.421	50.785
4. Cash outflows for purchase of own stocks	034	0	0
5. Other cash outflows from financing activities	035	0	0
VI. Total cash outflows from financing activities (031 do 035)	036	8.005.421	42.395.695
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	0	19.876.305
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	5.637.421	0
Total increases of cash flows (013 – 014 + 025 – 026 + 037 – 038)	039	3.209.374	1.740.086
Total decreases of cash flows (014 – 013 + 026 – 025 + 038 – 037)	040	0	0
Cash and cash equivalents at the beginning of period	041	812.678	4.022.052
Increase in cash and cash equivalents	042	3.209.374	1.740.086
Decrease in cash and cash equivalents	043	0	0
Cash and cash equivalents at the end of period	044	4.022.052	5.762.138

STATEMENT OF CHANGES IN EQUITY

from 01.01.2014 to 31.12.2014

Position	AOP	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	105.668.000	116.604.710
2. Capital reserves	002	0	0
3. Reserves from profit	003	23.505.600	0
4. Retained earnings or accumulated loss	004	-154.322.134	-129.904.418
5. Profit / loss for the current year	005	-45.326.196	6.266.550
6. Revaluation of long - term tangible assets	006	131.636.563	126.007.257
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	0	0
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 to 009)	010	61.161.833	118.974.099
11. Currency gains and losses arising from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow hedging	013		
14. Changes in accounting policies	014		
15. Correction of significant errors in prior periods	015		
16. Other changes in capital	016		
17. Total increase or decrease in capital (AOP 011 to 016)	017	0	0
17 a. Attributed to equity holders of parent company	018		
17 b. Attributed to minority interst	019		

Items decreasing the capital are entered with a negative number sign
Data entered under AOP marks 001 to 009 are entered as situation on the Balance Sheet date