# INSTITUT IGH, d.d., Zagreb

Consolidated financial statements
for the year ended 31 December 2015
together with the Independent Auditor's Report

## MANAGEMENT BOARD'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

After making enquiries, the Management Board has a reasonable expectation that the Group 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 consolidated financial statements.

In preparing consolidated 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 consolidated financial statements; and
- the consolidated 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 Group 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 Group 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 consolidated and separate 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 Company separately prepares and issues its annual report in accordance with legal and regulatory requirements.

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

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

President of the Management Board

Ivan Paladina

Institut IGH, d.d.

Janka Rakuše 1
10 000 Zagreb
Republic of Croatia

Zagreb, 29 April 2016

## *Independent Auditor's Report*

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

We have audited the accompanying consolidated financial statements of Institut IGH d.d. (the "Company") and its subsidiaries (the "Group"), which comprise consolidated statement of financial position as at 31 December 2015 and the consolidated 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 Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### Basis for Qualified Opinion

1. In accordance with International Accounting Standard 11 ("IAS 11") *Construction contracts*, contract revenue and costs shall be recognised by reference to the stage of completion of the project at the end of the reporting period; any expected losses on the construction contract shall be recognised as an expense immediately, regardless of the stage of completion. However, the Group has accounted for construction contracts based on invoices issued. Further, the management has not performed an analysis to identify potential loss-making contracts. We were unable to assess the impact of non-compliance with the requirements of IAS 11 on the consolidated financial statements of the Group as at 31 December 2015 and as at 31 December 2014 and for the years then ended.

2. International Financial Reporting Standard 8 *Operating segments* requires presentation of summary information on profit or loss of an operating segment, including specific types of income and expenses included in profit or loss, assets and liabilities and basis of measurement as a part of the financial statements. The Group has not disclosed this information in the consolidated financial statements for the years ended 31 December 2015 and 31 December 2014.

**Qualified Opinion**

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Emphasis of Matter**

We draw attention to Note 2 (v) *Going concern* to these consolidated financial statements 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* to these consolidated financial statements sets out the Company's activities for the purpose of realising the pre-bankruptcy settlement plan. The Company has not fully settled all liabilities as per the pre-bankruptcy settlement for the period from 1 September to 31 December 2015, relating to a part of senior debt and it is currently negotiating prolongation of the debt with its creditors. This, along with other matters as described in the aforementioned notes, indicate the existence of a material uncertainty, which may cast significant doubt about the ability of the Company and the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers d.o.o.
Zagreb, 29 April 2016

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.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| Sales | 8 | 164.765 | 224.088 |
| Other operating income | 9 | 20.353 | 43.718 |
| Other income | 9 | 17.091 | - |
| **Total income** | | 202.209 | 267.806 |
| Change in value of inventories | | 2.421 | (482) |
| Raw materials, consumables and services used | 10 | (59.321) | (76.816) |
| Staff costs | 11 | (112.312) | (116.838) |
| Amortisation and depreciation | 17,18 | (9.596) | (9.754) |
| Impairments | 12 | (73.418) | (22.763) |
| Other operating expenses | 13 | (16.497) | (19.915) |
| **Total operating expenses** | | (268.723) | (246.568) |
| **Operating (loss)/profit** | | (66.514) | 21.238 |
| Finance income | 14 | 4.687 | 20.876 |
| Finance expenses | 14 | (20.278) | (28.762) |
| **Neto finance income** | | (15.591) | (7.886) |
| Share in loss of associates | 20 | (48) | (9.013) |
| **(Loss)/profit before tax** | | (82.153) | 4.339 |
| Income tax | 15 | 147 | 1.033 |
| **(Loss)/profit for the year** | | **(82.006)** | **5.372** |
| Non-controlling interest | | (258) | 242 |
| **(Loss)/profit of Company equity holders** | | (81.748) | 5.130 |
| Basic (loss)/earnings per share (in HRK) | 16 | (134,06) | 10,38 |
| ***Other comprehensive income*** | | | |
| Revaulation of non-current assets, net of tax | | 14.351 | (715) |
| Foreign exchange differences | | 113 | 452 |
| **Other comprehensive income for the year** | | **14.464** | **(263)** |
| **Comprehensive (loss)/income for the year** | | **(67.542)** | **5.109** |
| **Attributable to equity holders of the Company** | | (67.284) | 4.867 |
| **Attributable to non-controlling interest** | | (258) | 242 |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2015

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **ASSETS** | | | |
| Intangible assets and goodwill | 17 | 4.163 | 6.762 |
| Property,plant and equipment | 18 | 234.081 | 242.856 |
| Investment property | 19 | 105.490 | 143.038 |
| Investments in associates | 20 | 14.892 | 37.140 |
| Other investments | 21 | 5.527 | 8.900 |
| Loans given | 24 | 23.669 | 26.934 |
| Trade and other receivables | 23 | 1.473 | 1.681 |
| NON-CURRENT ASSETS | | 389.295 | 467.311 |
| Inventories | 22 | 89.830 | 89.440 |
| Trade and other receivables | 23 | 41.727 | 70.081 |
| Loans given | 24 | 4.979 | 3.311 |
| Cash and cash equivalents | 25 | 1.671 | 8.273 |
| Accrued income and prepaid expenses | 27 | 10.850 | 8.980 |
| CURRENT ASSETS | | 149.057 | 180.085 |
| Non-current assets held for sales | 26 | 107.931 | 115.919 |
| **TOTAL ASSETS** | | 646.283 | 763.315 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 28 | 116.605 | 116.605 |
| Treasury shares | 29 | (3.865) | (3.816) |
| Reserves for treasury shares | 29 | 1.446 | 1.446 |
| Revaluation reserves | 30 | 148.767 | 136.115 |
| (Accumulated loss) | | (233.578) | (151.374) |
| *Capital attributable to Company equity holders* | | 29.375 | 98.976 |
| Non-controlling interest | 31 | 38 | 1.336 |
| TOTAL EQUITY | | 29.413 | 100.312 |
| Loans and borrowings | 32 | 280.103 | 319.879 |
| Provisions | 33 | 12.165 | 13.089 |
| Other non-current liabilities | 34 | 21.305 | 38.296 |
| Deferred tax liabilities | 15 | 37.191 | 34.028 |
| NON-CURRENT LIABILITIES | | 350.764 | 405.292 |
| Loans and borrowings | 32 | 166.773 | 162.993 |
| Trade and other payables | 34 | 73.030 | 77.430 |
| Advances and deposits received | 35 | 3.235 | 2.794 |
| Provisions | 33 | 5.546 | 5.396 |
| Deferred expenses and acrrued income | 36 | 17.522 | 9.098 |
| CURRENT LIABILITIES | | 266.106 | 257.711 |
| **TOTAL EQUITY AND LIABILITIES** | | 646.283 | 763.315 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2015

| *(in thousands of HRK)* | Share capital | Capital reserves | Legal reserves | Treasury shares | Reserves for treasury shares | Revaluation reserves | Accumulated loss | Capital attributable to Company equity holders | Non-controlling interest | Total capital |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **105.668** | **23.506** | **-** | **(3.862)** | **1.446** | **141.506** | **(234.100)** | **34.164** | **1.912** | **36.076** |
| *Transactions with owners* | | | | | | | | | | |
| Share of non-controlling interest in revaluation reserves | - | - | - | - | - | 387 | - | 387 | (387) | - |
| Decrease of share capital (Note 30) | (64.829) | - | - | - | - | - | 64.829 | - | - | - |
| Capital contribution (Note 28) | 57950 | - | - | - | - | - | - | 57.950 | - | 57.950 |
| Treasury shares | 0 | 0 | 0 | 46 | 0 | 0 | (46) | 0 | 0 | 0 |
| Reclassification of treasury shares | | | | | | | - | 0 | -640 | -640 |
| Transformation of liabilities | 17816 | -23506 | - | - | - | - | - | -5690 | - | (5.690) |
| Acquisition and sale of shares in subsidiaries | - | - | - | - | - | - | 7298 | 7298 | -431 | 6.867 |
| *Total transactions with owners* | 10937 | -23506 | 0 | 46 | 0 | 387 | 72081 | 59945 | -1458 | 58487 |
| *Comprehensive income* | | | | | | | | | | |
| Transfer from revaluation reserves | 0 | 0 | 0 | 0 | 0 | -1959,568 | 1959,568 | 0 | 0 | 0 |
| Revaluation of non-current assets, net of tax | 0 | 0 | 0 | 0 | 0 | -715 | 0 | -715 | 0 | -715 |
| Sale of revalued assets, net | 0 | 0 | 0 | 0 | 0 | (3.103) | 3.103 | 0 | 0 | 0 |
| Reclassification of treasury shares | | | | | | | -2181 | -2181 | 0 | -2181 |
| Foreign exchange differences | 0 | 0 | 0 | 0 | 0 | 0 | 452 | 452 | 0 | 452 |
| Profit for the year | - | - | - | - | - | - | 5.130 | 5.130 | 242 | 5.372 |
| *Total comprehensive income/(loss)* | - | - | - | - | - | (5.778) | 8.464 | 2.686 | 242 | 2.928 |
| **Balance at 31 December 2014** | **116.605** | **-** | **-** | **(3.816)** | **1.446** | **136.115** | **(153.555)** | **96.795** | **696** | **97.491** |
| *Transactions with owners* | | | | | | | | | | |
| Share of non-controlling interest in revaluation reserves | - | - | - | - | - | 219 | - | 219 | (219) | - |
| Treasury shares | - | - | - | (49) | - | - | | (49) | 49 | - |
| Acquisition and sale of shares in subsidiaries | - | - | - | - | - | - | (306) | (306) | (230) | (536) |
| *Total transactions with owners* | - | - | - | (49) | - | 219 | (306) | (136) | (400) | (536) |
| *Comprehensive income* | | | | | | | | | | |
| Transfer from revaluation reserves | - | - | - | - | - | (1.918) | 1.918 | - | - | - |
| Revaluation of non-current assets, net of tax | - | - | - | - | - | 14.351 | - | 14.351 | - | 14.351 |
| Foreign exchange differences | - | - | - | - | - | - | 113 | 113 | - | 113 |
| Loss for the year | - | - | - | - | - | - | (81.748) | (81.748) | (258) | (82.006) |
| *Total comprehensive income/(loss)* | - | - | - | - | - | 12.433 | (79.717) | (67.284) | (258) | (67.542) |
| **Balance at 31 December 2015** | **116.605** | **-** | **-** | **(3.865)** | **1.446** | **148.767** | **(233.578)** | **29.375** | **38** | **29.413** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **Cash flow from operating activities** | | | |
| (Loss)/profit before tax | | (82.153) | 4.339 |
| **Adjustments:** | | | |
| Amortisation and depreciation | 17,18 | 9.596 | 9.754 |
| Impairments | 12 | 73.418 | 22.763 |
| Interest income | 14 | (1.665) | (2.788) |
| Unrealised gains | 14 | (67) | (5.526) |
| Interes expense | 14 | 16.781 | 21.082 |
| Net increase/(decrease) in provisions | 33 | (774) | 1.059 |
| Unrealised foreign exchange differences (net) | 14 | (824) | 549 |
| Net loss on sale and write-off of non-current tangible assets | 13 | 40 | 1.488 |
| Unrealised losses under the equity method | 20 | 48 | 9.013 |
| Unrealised losses from financial assets | 14 | 9 | 1.379 |
| Income from collected receivables previously written-off and write-off of liabilities | 9,14 | (13.748) | (35.080) |
| Other finance costs | 14 | 2.872 | 4.642 |
| Other finance income | 14 | (17) | (1.656) |
| Other expenses | | 5.703 | 2.429 |
| Other income | 9 | (17.091) | - |
| **Result from operating activities before change in working capital** | | **(7.872)** | **33.447** |
| (Increase)/decrease in inventories | | (3.105) | (353) |
| Decrease/(increase) in current receivables | | 26.337 | 15.501 |
| Increase/(decrease) in current liabilities | | (10.158) | (60.271) |
| **Net cash from operating activities** | | **5.202** | **(11.676)** |
| Income tax paid | | (415) | (527) |
| Interest paid | | (9.037) | (23.474) |
| **Net cash used in operating activities** | | **(4.250)** | **(35.677)** |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of non-current tangible and intangible assets | | 9.365 | 45.410 |
| Proceeds from sale of equity and debt instruments | | - | 1.300 |
| Other cash inflows from investing activities | | 4.028 | 4.265 |
| Purchase of non-current tangible and intangible assets | | (4.056) | (1.339) |
| Purchase of equity and debt instruments | | (173) | |
| Other cash outflows from investing activities | | (2.791) | (30.589) |
| **Net cash used in investing activities** | | **6.373** | **19.047** |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of equity financial instruments (capital contribution) | | - | 57.950 |
| Proceeds from borrowing principal and other borrowings | | - | 3.510 |
| Repayment of borrowing principal and bonds | | (8.032) | (42.113) |
| Repayment of financial leases | | (693) | (90) |
| **Net cash from financing activities** | | **(8.725)** | **19.257** |
| Total (decrease)/increase in cash and cash equivalents | | (6.602) | 2.627 |
| **Cash and cash equivalents at beginning of year** | 25 | **8.273** | **5.646** |
| **Cash and cash equivalents at the end of year** | 25 | **1.671** | **8.273** |

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

## NOTE 1 – GENERAL INFORMATION

### History and incorporation

Institut IGH, d.d., Zagreb, Janka Rakuše 1, (the Company), Company ID No. (OIB) 79766124714, is registered in the court register of the Commercial Court in Zagreb under registration number (MBS) 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, consulting, 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 as at 31 December 2015 are as follows:

| | |
|---|---|
| Jure Radić, President | from 7 May 2014 until & no later than 7 May 2018 |
| Veniamin Mezhibovskiy, Vice-president | from 7 May 2014 until & no later than 7 May 2018 |
| Dušica Kerhač, Member | from 2 April 2013 until 11 April 2017 |
| Vlado Čović, Member | from 20 December 2012 until & no later than 20 December 2016 |
| Sergej Gljadelkin, Member | from 7 May 2014 until & no later than 7 May 2018 |
| Sergej Gljadelkin, Member | from 28 August 2014 until & no later than 28 August 2018 |
| Igor Tkach, Member | from 28 August 2014 until & no later than 28 August 2018 |

Pursuant to the decision of the Company’s Supervisory Board of 13 February 2015, the Management Board comprises two members as at 31 December 2015:

| | |
|---|---|
| President | Ivan Paladina, from 1 March 2015 |
| Member | Oliver Kumrić, from 1 March 2015 |

## NOTE 2 – BASIS OF PREPARATION

*(i) Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements are presented for the Group. The Group consists of the Company and its subsidiaries. The financial statements of the Group include the consolidated financial statements of the Company and its subsidiaries. The separate financial statements of the Company, which the Company is required to prepare in accordance with IFRS, are published separately and issued simultaneously with these consolidated financial statements. Items included in the consolidated statement of financial position are presented as at 31 December 2015 unless otherwise stated.

These consolidated financial statements were authorised for issue by the Management Board on 29 April 2016.

*(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
- Liabilities at fair value through profit or loss 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.

*(iv) Use of estimates and judgements*

The preparation of financial statements in conformity with IFRS requires the Management Board 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.

Judgements made by Management Board 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 2015, the Group incurred a consolidated net loss of HRK 82,006 thousand (2014: a profit of HRK 5,372 thousand), while consolidated current assets exceeded its consolidated current liabilities by HRK 9,119 thousand (2014: exceeded by HRK 38,293 thousand).

The Company's Management Board considers that the Group has met the requirements to continue as a going concern. In previous periods, the Group has operated in difficult liquidity conditions and 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.

## NOTE 2 – BASIS OF PREPARATION (CONTINUED)

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.

Based on the Decision of the Commercial Court in Zagreb no. 72. Stpn-305/13 dated 5 December 2013 the pre-bankruptcy agreement was approved between the debtor IGH d.d. and the creditors of the pre-bankruptcy settlement. The pre-bankruptcy settlement became legally valid as of 28 December 2013.

In 2015, the Group also recognised significant balance sheet adjustments in the statement of financial position.

## 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 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Institut IGH, d.d. (the Company) and entities controlled by Institut IGH, d.d. (its subsidiaries) as at and for the year ended 31 December 2015. 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.

*a) Subsidiaries*

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in the statement of comprehensive income as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.
The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

*b) Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements of the Company, investments in associates are stated by using the equity method. According to the equity method, the Company's share in gains and losses of associated companies is recognised through profit or loss, from the date the significant influence commences until the date that the significant influence ceases. The investment is initially recognised at cost and subsequently adjusted for the change in investor's share in the net profit of the investee.
In the separate financial statements, investments in associates are accounted for initially at cost and subsequently at cost less impairment losses.

*c) Transactions eliminated at consolidation*

Balances and transactions between Group members and any unrealised gains arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains from transactions with entities in which the Company has shares and entities in which the Company shares control with other owners is eliminated up to the level of the Company's share in these entities. Unrealised gains from the transactions with the entities in which the Company has shares are eliminated by the impairment of investments in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that does not represent permanent impairment.

### 3.1 Basis of consolidation (continued)

*d) Loss of control*

After losing control over the subsidiary the Group ceases to recognise its assets and liabilities, minority interests in the entity and other components of equity and reserves. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any share in the subsidiary, this share is measured at fair value at the date that control ceases. After that, this is reported as an investment valued using the equity method or as available-for-sale financial assets, depending on the level of influence retained.

### 3.2 Goodwill

Goodwill arising in a business combination is recognised at cost, determined at the date of the acquisition of the entity, less any impairment losses. For purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of units) that are expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually or more frequently if there are indications of possible impairment. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the cash-generating unit pro rata based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognised directly through profit and loss in the consolidated statement of comprehensive income. An impairment loss once recognised will not be reversed in subsequent periods.

On disposal of the cash-generating unit, the attributable amount of goodwill is included in determining the profit or loss on sale.

### 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 operations. Revenue is shown, net of value-added tax, volume rebates and sales discounts.

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

*(i) Sale of services*

Sales of services are recognised in the accounting period in which services are rendered, by reference to the 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 on loans calculated using the effective interest rate method, receivables for interest on investments, revenues from dividends, foreign exchange gains and losses, gains and losses from financial assets at fair value through profit and loss.

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 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.

## 3.4 Leases

The Group leases certain plant and equipment. Leases where the Group 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 costs so as to achieve a constant rate on the balance outstanding. The interest element of 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 Group 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 exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies 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 re-translated.

Non-monetary assets and liabilities denominated in foreign currencies 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 2015, the official exchange rate was HRK 7.635047 for EUR 1 (31 December 2014: HRK 7.661471 for EUR 1). The average EUR exchange rate used to translate the statements of comprehensive income of foreign entities into the Croatian currency was HRK 7.60961 for EUR 1 (2013: HRK 7.629972 for EUR 1).

*Group members*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which each Group member operates (the functional currency). The consolidated financial statements have been presented in Croatian kuna (HRK), which is the Company’s functional currency.

Income and expenses and cash flows of foreign operations are translated into the functional currency of the Company at rates approximating the exchange rate on the day of transaction, and their assets and liabilities are translated at exchange rates valid at the year end.

Foreign exchange differences on translation of foreign currencies, due to their immaterial amount of HRK 113 thousand (2014: HRK 452 thousand), are included in accumulated losses.

*Net investments in Group members*

Foreign exchange differences arising from the translation of the net investment in foreign operations are recognised in equity. When a foreign operation is sold, foreign exchange differences are recognised in profit or loss as part of the gain or loss on sale.

### 3.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in gain or loss in the period in which they arise.

### 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 General Assembly of 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 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 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 Group 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 Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period in which such a determination is made.

***Value added tax (VAT)***

The Tax Administration requires 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 any impairment.

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, this increase should be recognised directly in other comprehensive income 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 revaluation decrease should be recognised directly in revaluation reserves to the extent that the decrease does not exceed the amount held in the revaluation reserve for the same asset, while the remaining amount is charged to expenses for the period.

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 their 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 upon the disposal of the revalued asset.

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 valuers, the Group 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 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 initially included in the statement of financial position at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Following initial recognition at cost, plant and equipment are carried at revalued amount, which is the fair value at the date of revaluation less any subsequent accumulated depreciation and any impairment.

## 3.9 Property, plant and equipment (continued)

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, this 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 their 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 upon the disposal of the revalued 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 an independent valuer, the Company has revalued its equipment in depreciation categories ‘Laboratory equipment’ and ‘Measuring and controlling instruments’, 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 equipment 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.

*(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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other maintenance costs are charged to profit or loss during the financial period in which they are incurred.

*(iv) Depreciation*

Land, advances 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 or to their residual values as follows:

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

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

The residual value of an asset is the estimated amount that the Group 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

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 and goodwill

*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 or to their residual values as follows:

| | |
|---|---|
| Right to use property of third parties | 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 Group 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 Group 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, corporate 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.

### 3.13 Impairment of property, plant and equipment and intangible assets (continued)

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.

### 3.14 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 sales price (less applicable taxes and margins).

Small inventory and tools are expensed when put into use.

### 3.15 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 Group 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 receivable’s carrying amount and recoverable amount, being the present value of estimated future cash inflows discounted at the effective interest rate computed at the date of initial recognition.

### 3.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on 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.

### 3.17 Share capital

Ordinary shares are classified as equity. Transaction 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 transaction 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 attributable to the Company's equity holders.

### 3.18 Employee benefits

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

In the normal course of business through salary deductions, the Group 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 Group is not obliged to provide any other post-employment benefits.

*(ii) Termination benefits*

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

*(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 Group has recognised a liability for long-term employee benefits (jubilee awards) evenly over the period in which 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 Group's debt. Upon the expiry of the collective agreement in October 2012, the Group is no longer obliged to pay jubilee awards to employees and ceased to recognise a liability for long-term employee benefits.

### Provisions

Provisions are recognised when the Group 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 recognised 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 the way described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 Group commits to purchase or sell the asset. Financial liabilities are derecognised if the Group'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 Group 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 losses 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 gains 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 foreign currencies is determined in the relevant foreign currency and translated at the spot rate prevailing at the reporting date. Changes in fair value related to foreign exchange differences arising from the change in amortised cost of the asset are recognised in profit or loss, while other changes are recognised in equity.

*Held-to-maturity investments*

When the Group has a positive intention and ability to hold the debt instruments until maturity they are classified as investments held to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment losses.

**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 accumulated 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 Group'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.

### 3.19 Financial instruments (continued)

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

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 on which 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 the investments revaluation reserve. In respect of AFS debt securities, impairment losses 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

*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 Group are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities are classified either as financial liabilities measured at fair value through profit and loss or as other financial liabilities.

*Financial liabilities at fair value through profit or loss*

A financial liability is classified as measured at fair value through profit or loss if it is held for trading or it is designated as such upon initial recognition.

A financial liability is classified as a liability held for trading if:

• it has been incurred principally for the purpose of repurchasing in the near future or

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or

• it is a derivative that is not designated and effective as a hedging instrument.

### 3.19 Financial instruments (continued)

Financial liabilities not held for trading may upon initial recognition be designated as measured at fair value with changes in fair value stated through profit or loss when:

• such designation eliminates or significantly reduces inconsistency in measurement or recognition that would otherwise arise or

• if the financial liability forms part of the group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and if internal information about the grouping is presented on that basis or

• if an integral part of the contract contains one or more embedded derivatives, and IAS 39 Financial instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value in a way that changes in fair value are recognised in the statement of comprehensive income.

Financial liabilities at fair value for which the change in fair value is recognised in profit or loss, where any gain or loss is recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 6.

*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.

*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.

### 3.20 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic and diluted earnings per share are 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 2015.

- Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 28 and IAS 24).
- Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40).
- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19.

The adoption of these improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

*b) Forthcoming requirements*

Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2015, but will be effective for later periods.

- IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

  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 the Management Board actually uses for risk management purposes. Adequate documentation is still required but is different to that currently prepared under IAS 39. The Group plans to adopt this new standard on the effective date as of and when adopted by the EU. The Group is still assessing the impact of this standard.

- IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

  IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

  The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.).
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non- refundable upfront fees and, consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The Group is currently assessing the impact of the amendments on their financial statements, but does not expect any impacts. The Group plans to adopt this amendment on its effective date.

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on the financial statements.

## NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

*Critical judgements in applying accounting policies*

The preparation of financial statements in conformity with IFRS requires the Management Board 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 are 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, the Management Board makes judgements and applies estimates 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*

The Group is involved in a number of legal disputes which have arisen from the regular course of operations. The Management Board makes estimates of probable outcomes of the legal disputes, and the provisions for the Group's obligations arising from these legal disputes are recognised on a consistent basis.

*(iii) Useful lives of property, plant and equipment*

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

*(iv) Impairment of assets*

The Group 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 Group 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 Group to continue as a going concern.

## NOTE 6 – DETERMINATION OF FAIR VALUE

Effective as of the reporting date, the Company adopted IFRS 13: Fair Value Measurement which represents a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs. As a result, the Company has included additional disclosures with respect to fair value measurement as explained below.

In accordance with the transitional provisions of IFRS 13, the Company applied the new fair value measurement guidance as of the reporting date and has not reconciled any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Company's assets and liabilities.

Furthermore, 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 to 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 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 18: Property, plant and equipment
- Note 19: Investment property
- Note 20: Investments in associates, other investments and available-for-sale financial assets
- Note 26: Non-current assets held for sale

## NOTE 7 – SUBSIDIARIES

The consolidation includes the Company and its subsidiaries as follows:

| | Share in ownership and voting rights (%) | | | |
|---|---|---|---|---|
| | Year 2015 | Acquisition cost in '000 HRK | Year 2014 | Acquisition cost in '000 HRK |
| Geotehnika-inženjering d.o.o. u stečaju, Zagreb (until 8 Sep 2015) | 100 | 62.790 | 100 | 62.790 |
| IGH Mostar d.o.o., Mostar | 100 | 6.005 | 100 | 6.005 |
| IGH Energija d.o.o., Zagreb | 100 | 222 | 100 | 222 |
| Incro d.o.o., Zagreb | 100 | 20 | 100 | 20 |
| Forum centar d.o.o., Zagreb | 100 | 30.748 | 100 | 30.748 |
| 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 | 116.827 | 100 | 116.827 |
| IGH Consulting d.o.o. | 100 | 100 | 100 | 100 |
| Marterra d.o.o., Zagreb | 100 | 20 | 100 | 20 |
| DP AQUA d.o.o., Zagreb | 100 | 452 | 100 | 452 |
| Novi Črnomerec centar d.o.o., Zagreb | 100 | 151.988 | 100 | 151.988 |
| Slavonija Centar, poslovna zona, Velika Kopanic | 100 | 20 | - | 20 |
| Vođenje projekata d.o.o., Zagreb | 90 | 900 | 90 | 900 |
| ETZ d.d., Osijek | 87,66 | 6.684 | 80,2 | 6.511 |
| Projektni biro Palmotićeva 45 d.o.o., Zagreb | 77,3 | 15.632 | 77,3 | 15.632 |
| IGH Kosova Sha, Priština | 74,8 | 40 | 74,8 | 40 |
| Tehničke konstrukcije d.o.o., Zagreb | 60 | 900 | 60 | 900 |
| MBM Termoprojekt d.o.o., Zagreb | 60 | 1.200 | 60 | 1.200 |
| | | **459.195** | | **459.022** |

On 3 March 2014, the Commercial Court in Zagreb issued Decision no. 4 Stpn-267/13 approving the pre-bankruptcy settlement agreement between the debtor Geotehnika Inženjering d.o.o. and the creditors of the pre-bankruptcy settlement. The pre-bankruptcy settlement of the company Geotehnika Inženjering became legally valid as of 3 June 2014. As the Company had been unable to settle its financial liabilities after the approved pre-bankruptcy settlement, the requirement for proclaiming insolvency was met due to which Geotehnika Inženjering d.o.o. suggested initiating bankruptcy proceedings. On 9 September 2015, the Commercial Court in Zagreb issued Decision no. 20 St-417/15, whereby bankruptcy proceedings were initiated against the debtor Geotehnika Inženjering d.o.o.

On 22 May 2014, the Commercial Court in Zagreb issued Decision no. 20 Stpn-152/14 approving the pre-bankruptcy agreement between the debtor MBM Termoprojekt d.o.o. and the creditors of the pre-bankruptcy settlement.

In line with the Decision dated 14 August 2014, the Settlement Council suspended the pre-bankruptcy settlement procedure of Sportski grad TPN d.o.o. due to the fact that the financial restructuring plan was not accepted by the creditors. The Council submitted to the Commercial Court in Split a proposal for initiating bankruptcy proceedings. Based on the Decision of the Commercial Court in Split no. 5 St-138/2014 of 7 October 2014, bankruptcy proceedings were initiated against the company Sportski grad TPN d.o.o.

## BUSINESS COMBINATIONS

### a) Acquisition of new shareholdings

*ETZ, Ekonomsko tehnički zavod d.d. Osijek*

During 2015, the Group acquired 1731 share in the company ETZ, Ekonomsko tehnički zavod d.d., Osijek, with a nominal value of HRK 300 per share. The cost of acquiring these shares amounts to HRK 173 thousand.

### b) Bankruptcy of subsidiary

*Geotehnika Inženjering d.o.o.*

Based on the Decision of the Commercial Court in Zagreb no. 20 ST-417/15 of 9 September 2015, bankruptcy proceedings were initiated against the company Geotehnika Inženjering d.o.o. Consequently, the financial statements of the companies are not consolidated due to a loss of control over financial and operating policies. The net assets of the company were written-off from the consolidate on the day preceding the day of initiating bankruptcy proceedings.
The Group recorded the write-off of net assets as an income for the period.

The de-consolidation had the following impact on the Group:

| *(in thousands of HRK)* | 2015 | 2014 |
|---|---|---|
| Effect of share disposal on non-controlling interest | - | 356 |
| Net assets of equity holders of the Company | (17.091) | (8.057) |
| Goodwill at acquisition | - | (1.170) |
| | **(17.091)** | **(9.227)** |
| Consideration | - | 1.300 |
| **Net effect of de-consolidation** | **17.091** | **6.959** |

## NOTE 8 – SALES REVENUE

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Revenue from services | 164.721 | 222.766 |
| Revenue from sale of apartments | 44 | 1.322 |
| | **164.765** | **224.088** |

## NOTE 9 – OTHER OPERATING INCOME

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Income from liabilites written off | 8.980 | 24.625 |
| Income from collected receivables previously written-off | 3.932 | 9.409 |
| Rental income | 3.569 | 4.423 |
| Income from reversal of provisions | 1.088 | 1.077 |
| Income from sale of assets | 1.416 | 183 |
| Income from cost refunds | 532 | 299 |
| Other operating income | 836 | 3.702 |
| | **20.353** | **43.718** |
| Other operating income (Note 7) | 17.091 | - |
| | **17.091** | - |
| | **37.444** | **43.718** |

By reducing the liabilities of secured creditors to the value of assets pledged as security for repayment of borrowings, the Company and its subsidiaries generated income totalling HRK 8,551 thousand (*2014: HRK 24,625 thousand*).

## NOTE 10 – RAW MATERIALS, CONSUMABLES AND SERVICES USED

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Raw materials and consumables used | 1.820 | 2.799 |
| Energy costs | 5.805 | 6.973 |
| Inventory and spare parts used | 1.068 | 747 |
| Transportation, telephone, postal services | 2.265 | 3.498 |
| Subcontractors | 29.361 | 41.418 |
| Manufacturing services | 1.347 | 6.041 |
| Utilities | 2.666 | 2115 |
| Maintenance costs | 2.735 | 3.968 |
| Rental expense | 8.046 | 6.045 |
| Other external expenses | 4.208 | 2.309 |
| Cost of goods sold | - | 903 |
| | **59.321** | **76.816** |

## NOTE 11 – STAFF COSTS

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net salaries | 57.214 | 58.999 |
| Tax, contributions and other charges | 40.865 | 44.194 |
| Reimbursement of expenses (travel expenses, wages, transportation) | 11.779 | 12.258 |
| Termination, support and other benefits | 2.454 | 1.359 |
| Compensations, termination and support benefits in the excess of tax allowable amount | - | 28 |
| | **112.312** | **116.838** |

As at 31 December 2015, the Group had 589 employees (2014: 654 employees). In 2015, non-taxable termination benefits were paid in the amount of HRK 1,046 thousand for 29 employees *(2014: for 40 employees in the amount of HRK 1,884 thousand)*. As at 31 December 2015, the Group established provisions for termination benefits for 7 employees that will be paid in 2016 in the total amount of HRK 1,200 thousand.
During the period, the Group accounted for contributions for the compulsory pension fund for 669 employees amounting to HRK 16,518 thousand *(*2014: for 700 employees amounting to HRK 17,152 thousand).

## NOTE 12 – IMPAIRMENT

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Impairment of trade receivables | 6.978 | 21.870 |
| Impairement of other receivables | 500 | 389 |
| Impairment of inventories | 2.715 | 37 |
| Impairment of investment property | 37.547 | - |
| Impairment of shares in associates | 23.247 | - |
| Impairment of loans given and other financial assets | 1.111 | 467 |
| Impairment of non-current tangible assets | 236 | - |
| Impairment of goodwill | 1.084 | - |
| | **73.418** | **22.763** |

## NOTE 13 – OTHER OPERATING EXPENSES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Expenses from previous periods | 3.651 | 776 |
| Legal, consultancy and audit services | 2.040 | 4.884 |
| Penalties and similar expenses | 2.031 | 115 |
| Bank fees and charges | 1.608 | 1.967 |
| Other expenses | 1.558 | 2.305 |
| Contributions to public bodies | 1.159 | 1.364 |
| Insurance premiums | 1.117 | 1.648 |
| Entertainment | 690 | 811 |
| Education and training expenses | 450 | 340 |
| Tax not dependent on operating result | 212 | 365 |
| Not written-off value of disposed assets | 40 | 1.488 |
| Other expenses | 21 | 1.538 |
| Provisions for unused vacation days | - | 708 |
| Provisions for termination benefits and jubilee awards | 1.209 | 632 |
| Provisions for legal disputes | 711 | 974 |
| | **16.497** | **19.915** |

## NOTE 14 – NET FINANCE COSTS

| | 2015 | 2014 |
|---|---|---|
| **Finance income** | *(in thousands of HRK)* | |
| Foreign exchange gains | 1.440 | 1.110 |
| Interest income | 1.665 | 2.788 |
| Income from sale of shares | - | 1.616 |
| Income from reversal of interest payable /i/ | 1.498 | 9.796 |
| Unrealised gains | 67 | 5.526 |
| Other finance income | 17 | 40 |
| | **4.687** | **20.876** |
| **Finance costs** | | |
| Foreign exchange losses | 616 | 1.659 |
| Interest expense | 16.781 | 21.082 |
| Unrealised losses from financial assets | 9 | 1.379 |
| Other finance costs /ii/ | 2.872 | 4.642 |
| | **20.278** | **28.762** |
| **Net finance costs** | **(15.591)** | **(7.886)** |

Income from the reversal of accrued interest payable arose from the reduction of financial liabilities to their fair value.

Other finance costs include HRK 2,842 thousand relating to the reversal of the discount of non-current liabilities and other unspecified finance costs.

## NOTE 15 – INCOME TAX

Tax income consists of:

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Current income tax | (300) | (196) |
| Deferred tax | 447 | 1.229 |
| | **147** | **1.033** |

*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:

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Profit/(loss) before tax** | **(82.153)** | **4.339** |
| Income tax at 20% (2014: 20%) | (16.431) | 868 |
| Effect of non-deductible expenses and non-taxable income | 12.402 | 1.690 |
| Effect of tax incentives | - | ( 217) |
| Effect of tax losses not recognised as deferred tax assets | 4.213 | 565 |
| Tax on realised profit | (131) | ( 1.924) |
| Effect of different tax rates | 94 | 51 |
| **Income tax** | **147** | **1.033** |
| Effective tax rate | 0% | 24% |

Unrealised tax losses relate to the tax loss for the current year. 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.

Tax losses are available as follows:

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Up to 2015** | - | 1.573 |
| **Up to 2016** | 208 | 325 |
| **Up to 2017** | 13.959 | 21.846 |
| **Up to 2018** | 1.564 | 3.239 |
| **Up to 2019** | 556 | 565 |
| **Up to 2020** | 4.213 | - |
| | **20.500** | **27.548** |

## NOTE 15 – INCOME TAX (CONTINUED)

The deferred tax liability arises from the following:

| 2015 | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| **Temporary differences:** | | | | |
| Revaluation of land and buildings | 34.028 | (447) | 3.610 | 37.191 |
| | **34.028** | **(447)** | **3.610** | **37.191** |

| 2014 | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| **Temporary differences:** | | | | |
| Revaluation of land and buildings | 36.128 | (1.229) | (871) | 34.028 |
| | **36.128** | **(1.229)** | **(871)** | **34.028** |

## NOTE 16 – EARNINGS PER SHARE

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Profit/(loss) attributable to equity holders of the Company (in thousands of HRK) | (81.748) | 5.130 |
| Weighted average number of shares | 609.800 | 494.049 |
| **Basic earnings/(loss) per share (in HRK)** | **(134,06)** | **10,38** |

As stated in Notes 28 and 41, as part of the pre-bankruptcy settlement a portion of the Company's debt can 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 Group did not calculate diluted earnings per share in the event of conversion of the stated portion of debt into equity.

## NOTE 17 – INTANGIBLE ASSETS AND GOODWILL

| *(in thousands of HRK)* | Right to use property of third parties (Patents, licences, etc.) | Assets under construction | Goodwill | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 36.200 | 3.863 | 12.859 | 52.922 |
| Reclassification of items of non-current intangible assets | (55) | 55 | - | - |
| Disposals or retirement | - | - | - | - |
| New purchase or acquisition | 46 | 1.217 | - | 1.263 |
| Transfer into use | 1214 | (1.214) | - | - |
| Impairment | (728) | - | - | (728) |
| De-consolidation | - | - | (1.171) | (1.171) |
| **At 31 December 2014** | **36.677** | **3.921** | **11.688** | **52.286** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| At 1 January 2014 | (33.216) | (1.268) | (9.844) | (44.328) |
| Amortisation charge for the year | (1.198) | - | - | (1.198) |
| Disposals or retirement | 2 | - | - | 2 |
| **At 31 December 2014** | **(34.412)** | **(1.268)** | **(9.844)** | **(45.524)** |
| | | | | |
| **Cost** | | | | |
| At 1 January 2015 | 36.677 | 3.921 | 11.688 | 52.286 |
| New purchase or acquisition | - | 1.083 | - | 1.083 |
| Transfer into use | 1.050 | (1.050) | - | - |
| Impairment | (247) | - | (728) | (975) |
| Disposals or retirement | (97) | - | - | (97) |
| De-consolidation | (1.931) | - | - | (1.931) |
| **At 31 December 2015** | **35.452** | **3.954** | **10.960** | **50.366** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| At 1 January 2015 | (34.412) | (1.268) | (9.844) | (45.524) |
| Amortisation charge for the year | (1.591) | - | - | (1.591) |
| Disposals or retirement | 65 | - | - | 65 |
| Impairment | - | - | (1.084) | (1.084) |
| De-consolidation | 1.931 | - | - | 1.931 |
| **At 31 December 2015** | **(34.007)** | **(1.268)** | **(10.928)** | **(46.203)** |
| | | | | |
| **Net book amount** | | | | |
| **At 31 December 2014** | **2.265** | **2.653** | **1.844** | **6.762** |
| **At 31 December 2015** | **1.445** | **2.686** | **32** | **4.163** |

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

## NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

| *(in thousands of HRK)* | Land | Buildings | Plant and equipment | Assets under construction | Other | Advances for tangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost or estimated value** | | | | | | | - |
| At 1 January 2014 | 106.042 | 149.182 | 183.946 | 31.594 | 1.192 | 108 | 472.064 |
| Increase due to revaluation | | | - | - | - | - | - |
| Foreign exchange differences | 5 | 20 | | - | - | - | 25 |
| Direct purchase or acquisition | 1.024 | - | 244 | 1.356 | - | 830 | 3.454 |
| Reclassification of items of non-current tangible assets | 5.977 | (5.977) | - | - | | | - |
| Transfer into use | - | 381 | 3.684 | (4.065) | - | - | - |
| Decrease | - | - | (175) | - | - | (735) | (910) |
| De-consolidation | - | - | (720) | - | - | - | (720) |
| Disposals or retirement | - | - | (7.681) | - | - | - | (7.681) |
| **At 31 December 2014** | **113.048** | **143.606** | **179.298** | **28.885** | **1.192** | **203** | **466.232** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | - |
| At 1 January 2014 | (3.248) | (39.162) | (173.861) | (2.918) | (827) | - | (220.016) |
| Depreciation charge for 2014 | - | (5.548) | (3.003) | - | - | - | (8.551) |
| Impairments | - | 374 | 100 | - | - | (33) | 441 |
| De-consolidation | - | - | 142 | - | - | - | 142 |
| Disposals or retirement | - | - | 4.608 | - | - | - | 4.608 |
| **At 31 December 2014** | **(3.248)** | **(44.336)** | **(172.014)** | **(2.918)** | **(827)** | **(33)** | **(223.376)** |
| | | | | | | | |
| **Cost or estimated value** | | | | | | | |
| At 1 January 2015 | 113.048 | 143.606 | 179.298 | 28.885 | 1.192 | 203 | 466.232 |
| Increase due to revaluation | - | - | 18.454 | - | - | - | 18.454 |
| Write-off | - | - | (92.207) | - | - | - | (92.207) |
| Foreign exchange differences | (6) | (23) | - | - | - | - | (29) |
| Direct purchase or acquisition | - | 11 | 290 | 2.284 | - | 1.787 | 4.372 |
| Transfer into use | - | 139 | 1.934 | (2.073) | - | - | - |
| Decrease | - | (184) | (285) | - | - | (1.814) | (2.283) |
| De-consolidation | (4.527) | (31.723) | (34.406) | (20) | - | - | (70.676) |
| Disposals or retirement | - | (102) | (2.594) | - | - | (33) | (2.729) |
| **At 31 December 2015** | **108.515** | **111.724** | **70.484** | **29.076** | **1.192** | **143** | **321.134** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | - |
| At 1 January 2015 | (3.248) | (44.336) | (172.014) | (2.918) | (827) | (33) | (223.376) |
| Depreciation charge for 2015 | - | (4.774) | (3.231) | - | - | - | (8.005) |
| Impairments | - | - | (236) | - | - | - | (236) |
| Write-off | - | - | 92.207 | - | - | - | 92.207 |
| De-consolidation | - | 18.296 | 31.363 | - | - | 33 | 49.692 |
| Disposals or retirement | - | 102 | 2.563 | - | - | - | 2.665 |
| **At 31 December 2015** | **(3.248)** | **(30.712)** | **(49.348)** | **(2.918)** | **(827)** | **-** | **(87.053)** |
| | | | | | | | |
| **Net book amount** | | | | | | | |
| **At 31 December 2014** | 109.800 | 99.270 | 7.284 | 25.967 | 365 | 170 | 242.856 |
| **At 31 December 2015** | **105.267** | **81.012** | **21.136** | **26.158** | **365** | **143** | **234.081** |

Land, buildings and assets under construction of the Group with a net carrying amount of HRK 212,497 thousand (2014: HRK 235,037 thousand) have been pledged as security for repayment of borrowings from commercial banks.

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

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.

## NOTE 18 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The estimated market value of laboratory equipment and measuring instruments for revaluation purposes was determined based on the independent valuers' calculations who applied the cost method as the most appropriate method because it is based on the economic principle that the buyer of the property will not pay more than the price that the buyer would have paid for an asset of equal utility in case of a new purchase or construction. As at 31 December 2015, the net carrying amount of revalued assets before revaluation would have amounted to HRK 1,709 thousand (*31 December 2014: HRK 489 thousand*).

In the current year, the Group concluded a finance lease agreement used to purchase equipment – pavement monitoring system. The lease will be repaid in 60 instalments at an interest determined using variable interest rates. At the day of the conclusion of the agreement, the effective interest rate was 6.01%.

In 2015, the Company and its subsidiaries capitalised interest in the total amount of HRK 772 thousand (2014: HRK 1,053 thousand).

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Cost of purchase of capitalised finance leases | 1.498 | 1.094 |
| Accumulated depreciation | (399) | (779) |
| **Net book value** | **1.099** | **315** |

*(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* | |
| Fair value measurement of land and buildings was performed by certified 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.<br><br>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 costs of construction, periods of financing, interest rates, required profit margins and other expenses in calculating the residual method. |

| Valuation methods and techniques | Significant unobservable inputs |
|---|---|
| *Equipment*<br><br>Fair value measurement of equipment was performed by certified valuers. They used the cost method and the DCF method (capital contribution method) to measure fair value. | Correction factors used in calculating the market price. |
| The cost method for measuring equipment value involves determining the value of the physical, functional and economic obsolescence of the equipment. Cost value is determined on the basis of the carrying value of the fixed assets register. In the process of evaluating physical obsolescence, the current useful life of assets, their total useful life and remaining useful life is analysed for each assessed asset separately. Functional obsolescence takes into account the ability to function over the remaining useful life.<br>When assessing economic obsolescence, the economic obsolescence model and the economic indicators model are used. | Among other factors, the estimated discount rate is the expected rate of return that the market requires in order to attract funds for a particular investment. |
| The DCF method is a variation of the income method according to which the market value of the asset is based on estimated future cash flows that are expected to be generated by functioning machinery and equipment. | Specific expenses used in determining the net cash flow in the DCF method. |

## NOTE 19 – INVESTMENT PROPERTY

| | 2015 | 2014 |
|---|---|---|
| **Cost** | *(in thousands of HRK)* | |
| At 1 January | 143.038 | 142.341 |
| Reclassification of items of non-current tangible assets | - | 697 |
| Change in fair value | (37.548) | - |
| **At 31 December** | **105.490** | **143.038** |

Investment property mainly relates to investment in land.

Investment property with a net carrying value of HRK 105,490 thousand (2014: HRK 139,421 thousand) was pledged as security for repayment of borrowings from commercial banks.

Investment property with a net carrying amount of HRK 28,007 thousand (*2014: HRK 33,011 thousand*) has been pledged as security for repayment of third-party borrowing liabilities from a commercial bank. The cost of investment property amounts to HRK 81,811 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 net carrying amount of HRK 28,007 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 the fair value of land and buildings in Note 18 (i). | Significant unobservable inputs are described in Note 18 (*i*). |

## NOTE 20 – INVESTMENTS IN ASSOCIATES

| *2015 (in thousands of HRK)* | Ownership | Investement | Assets | Liabilities | Net assets/ (liabilities) | Revenues | Profit/(loss) | Group share in net assets/ (liabilities) | Group share in profit/(loss) |
|---|---|---|---|---|---|---|---|---|---|
| Centar Bundek d.o.o. Zagreb | 35% | 31.960 | 351.589 | 447.533 | (95.944) | 43.891 | (35.249) | (33.580) | (12.337) |
| Centar Gradski Podrum d.o.o. | 38% | 21.533 | 244.246 | 405.025 | (160.779) | 100.121 | (67.667) | (60.292) | (25.375) |
| Sportski grad TPN d.o.o. u stečaju | 40% | 8 | - | - | - | - | - | - | - |
| IGH Lux Energija d.o.o. | 30% | 14.918 | 10.777 | 148 | 10.629 | 4 | (9) | 3.189 | (3) |
| Elpida d.o.o. | 50% | 31.300 | 62.634 | 220 | 62.414 | - | (96) | 31.207 | (48) |
| Institut za infrastrukturne projekte d.o.o. | 50% | 9 | - | - | - | - | - | - | - |
| Autocesta Bar-Boljare d.o.o. | 40% | 8 | - | - | - | - | - | - | - |
| Prvi Crnogorski Autoput d.o.o. Podgorica | 25% | - | - | - | - | - | - | - | - |
| Impairment | | (84.844) | | | | | | | |
| | | **14.892** | **669.246** | **852.926** | **(183.680)** | **144.016** | **(103.021)** | **(59.477)** | **(37.763)** |
| Unrecognised loss (related to Centar gradski podrum d.o.o. and Centar Bundek d.o.o. above share value) | | | | | | | | | (37.715) |
| | | | | | | | | | **(48)** |

Investments in Centar Gradski Podrum d.o.o. were pledged by the Group as a security for repayment of borrowings from commercial banks.

## NOTE 20 – INVESTMENTS IN ASSOCIATES (CONTINUED)

| *2014 (in thousands of HRK)* | Ownership | Investement | Assets | Liabilities | Net assets/ (liabilities) | Revenues | Profit/(loss) | Group share in net assets/ (liabilities) | Group share in profit/(loss) |
|---|---|---|---|---|---|---|---|---|---|
| Centar Bundek d.o.o. Zagreb | 35% | 31.960 | 418.439 | 479.134 | (60.695) | 64.983 | (44.051) | (21.243) | (15.418) |
| Centar Gradski Podrum d.o.o. | 38% | 21.533 | 458.394 | 453.570 | 4.824 | 61.347 | (23.978) | 1.809 | (8.992) |
| Sportski grad TPN d.o.o. | 40% | 8 | 418.316 | 725.686 | (307.370) | 50 | (4.213) | (122.948) | (1.685) |
| IGH Lux Energija d.o.o. | 30% | 14.918 | 10.774 | 137 | 10.637 | - | (9) | 3.191 | (3) |
| Elpida d.o.o. | 50% | 31.300 | 62.644 | 134 | 62.510 | - | (36) | 31.255 | (18) |
| Institut za infrastrukturne projekte d.o.o. | 50% | 9 | - | - | - | - | - | - | - |
| Autocesta Bar-Boljare d.o.o. | 40% | 8 | - | - | - | - | - | - | - |
| Prvi Crnogorski Autoput d.o.o. Podgorica | 25% | - | - | - | - | - | - | - | - |
| Impairment | | (62.596) | | | | | | | |
| | | **37.140** | **1.368.567** | **1.658.661** | **(290.094)** | **126.380** | **(72.287)** | **(107.936)** | **(26.116)** |
| Unrecognised loss (related to Sportski grad TPN d.o.o. and Centar Bundek d.o.o. above share value) | | | | | | | | | (17.103) |
| | | | | | | | | | **(9.012)** |

*(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:<br>• The valuation of properties was carried out by certified valuers (methods described in Note *18 (i)*)<br>• The estimation of the recoverable amount of assets, liabilities and equity of the Company as at 31 December | Significant unobservable inputs are described in Note 18 (i). |

## NOTE 21 – OTHER INVESTMENTS

| | 2015 | 2014 |
|---|---|---|
| | (in thousands of HRK) | |
| Shares in investment funds | 3.091 | 3.099 |
| Participating interests | 1.020 | 4.147 |
| Bonds | 753 | 688 |
| Deposits and guarantees given | 663 | 966 |
| | **5.527** | **8.900** |

*Shares in investment funds*

| | 2015 | 2014 |
|---|---|---|
| | (in thousands of HRK) | |
| Quaestus private equity kapital | 2.826 | 2.825 |
| Nexus private equity | 265 | 274 |
| | **3.091** | **3.099** |

The decrease in the fair value of shares in investment funds was recognised as part of finance costs in the amount of HRK 9 thousand, while its increase was recognised as part of finance income in the amount of HRK 1 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.

*Participating interests*

| | 2015 | 2014 |
|---|---|---|
| | (in thousands of HRK) | |
| Grupacija Biotoplifikacija d.o.o . "u likvidaciji" | - | 15 |
| Viktor Lenac d.d. Rijeka | 47 | 47 |
| GP Dubrovnik d.d., Dubrovnik | 2.694 | 2.694 |
| Zagrebačka banka d.d., Zagreb | 151 | 136 |
| Jadranska autocesta d.d., Zagreb | 1 | 1 |
| Međimurje Beton d.d., Čakovec | 383 | 383 |
| Projektgradnja d.d., Slavonski Brod | 126 | 126 |
| Metronet Telekomunikacije d.d. | 1.062 | 1.062 |
| Industrogradnja Grupa d.d. | 372 | 372 |
| PB Palmotićeva 45 d.o.o., Zagreb | - | 2.822 |
| Impairment of participating interests | (3.816) | (3.511) |
| | **1.020** | **4.147** |

## NOTE 22 – INVENTORIES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Work in progress | 157.769 | 154.517 |
| Inventories of finished goods | 2.540 | 2.704 |
| Merchandise | 568 | 593 |
| Advances for inventories | - | - |
| Less: Impairment of inventories | (71.047) | (68.374) |
| | **89.830** | **89.440** |

Inventories with a carrying amount of HRK 89,262 thousand (31 December 2014: HRK 88,724 thousand) have been pledged as security for repayment of borrowings from commercial banks. Inventories of finished goods relate to unsold business premise. Work in progress relates to commercial and residential premises under construction.

## NOTE 23 – TRADE AND OTHER RECEIVABLES

| *Non-current receivables* | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Receivables for apartments sold with deferred payment | 1.456 | 1.665 |
| Deferred receivables from pre-bankruptcy settlements | 17 | 16 |
| | **1.473** | **1.681** |
| *Current receivables* | | |
| Domestic trade receivables | 78.357 | 121.283 |
| Foreign trade receivables | 14.781 | 25.426 |
| Less: Impairment of trade receivables | (54.819) | (84.692) |
| Receivables from state and governmental institutions | 1.397 | 3.800 |
| Receivables from employees | 686 | 838 |
| Receivables from related parties | 20 | 265 |
| Receivables from recharged interest | 7.444 | 7.444 |
| Advances given - gross | 2.939 | 2.695 |
| Other receivables | 3.880 | 3.676 |
| Less: Impairment of other receivables | (12.958) | (10.654) |
| | **41.727** | **70.081** |
| | **43.200** | **71.762** |

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

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 84.692 | 70.718 |
| Increase | 6.978 | 21.870 |
| Amounts collected | (3.932) | (2.976) |
| Written off as uncollectable | (15.293) | (4.920) |
| De-consolidation | (17.626) | - |
| **At 31 December** | **54.819** | **84.692** |

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

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

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Not due | 20.236 | 35.475 |
| 0-90 days | 8.209 | 13.540 |
| 91-180 days | 5.497 | 5.179 |
| 181-360 days | 3.207 | 6.047 |
| Over 360 days | 1.170 | 1.776 |
| | **38.319** | **62.017** |

## NOTE 24 – LOANS GIVEN

| | 2015 | 2014 |
|---|---|---|
| ***Long-term loans*** | *(in thousands of HRK)* | |
| Loans given to unrelated parties | 23.669 | 26.934 |
| Loans given to associates | 28.120 | 28.120 |
| Impairment of loans given to associates | (28.120) | (28.120) |
| | **23.669** | **26.934** |
| ***Short-term loans*** | | |
| Loans given to associates | 2.361 | 2.320 |
| Loans given to unrelated parties | 3.337 | 1.150 |
| Deposits and guarantees given | 4.736 | 5.827 |
| Receivables for interests | 6.846 | 6.778 |
| Impairment of loans given | (12.301) | (12.764) |
| | **4.979** | **3.311** |
| | **28.648** | **30.245** |

Loans to related parties were granted interest free or at a discount interest rate without any collateral.

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 25 – CASH AND CASH EQUIVALENTS

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Giro accounts | 1.490 | 6.124 |
| Cash on hand | 9 | 8 |
| Foreign currency accounts | 172 | 778 |
| Term cash deposits | - | 1.363 |
| | **1.671** | **8.273** |

## NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 115.919 | 250.110 |
| Disposals | (7.988) | (133.494) |
| Reclassification of items of non-current tangible assets | - | (697) |
| **At 31 December** | **107.931** | **115.919** |

Non-current assets held for sale are intended to settle the secured debt to financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. During 2015, properties were sold in the amount of HRK 7,988 thousand, whereby liabilities were settled with respect to borrowings from commercial banks.

Liabilities to secured creditors (Note 33) with liens on property classified as non-current assets held for sale amount to HRK 105,687 thousand, i.e. HRK 108,627 thousand when adding the accompanying interest of HRK 2,940 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** |
|---|---|
| The fair value of investments was estimated using methods applicable to each individual asset. The following methods were used:<br>• The valuation of properties was carried out by certified valuers (methods described in Note *18 (i)*)<br>• Review of rights of secured creditors | Significant unobservable inputs are described in Note 18 (*i*).<br><br>Amount of secured debt. |

## NOTE 27 – ACCRUED INCOME AND PREPAID EXPENSES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Prepaid expenses | 5.859 | 6.134 |
| Accrued income (stage of completion) | 4.798 | 2.591 |
| VAT on advances received | 193 | 255 |
| | **10.850** | **8.980** |

As at 31 December 2015, the Group has accrued revenues arising from construction contracts in the amount of HRK 4,798 thousand (2014: HRK 2,591 thousand).

## NOTE 28 – SHARE CAPITAL

| | Number of shares 2015 | Share of ownership 2015 | Number of shares 2014 | Share of ownership 2014 |
|---|---|---|---|---|
| Gljadelkin Sergej | 315.000 | 51,33% | 315.000 | 51,33% |
| Mezhibovskiy Veniamin | 50.000 | 8,15% | 50.000 | 8,15% |
| ZM d.o.o. (ex Zagreb-Montaža d.o.o.) | 30.000 | 4,89% | 15.000 | 2,44% |
| Akcionar d.o.o. | 20.086 | 3,27% | 20.086 | 3,27% |
| IPRO-INŽENJERING d.o.o. | 4.512 | 0,74% | 2.512 | 0,41% |
| IGH-Esop d.o.o. | 2.760 | 0,45% | 2.840 | 0,46% |
| Dalekovod-Projekt d.o.o. | 2.661 | 0,43% | 2.661 | 0,43% |
| Mihaljević Branko | 2.524 | 0,41% | 2.181 | 0,36% |
| Dešković Žarko | 2.508 | 0,41% | 2.508 | 0,41% |
| Treasury shares | 539 | 0,09% | 539 | 0,09% |
| Other shareholders | 183.119 | 29,84% | 200.382 | 32,65% |
| | **613.709** | **100%** | **613.709** | **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 its 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 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 Market of the Zagreb Stock Exchange. 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.

Based on the decision of the General Assembly, capital reserves in the amount of HRK 52,011 thousand relating to gains on acquisition and sale of own shares in the amount of 13,999 thousand and realised capital gains from the issue of new shares in the amount of 38,012 thousand were used to cover losses generated in 2012. Based on the final pre-bankruptcy settlement agreement of 28 December 2013, the Company recognised in capital reserves an amount of HRK 23,506 thousand relating to 30% of total creditors' claims registered during the pre-bankruptcy settlement agreement. The above amount is subject to registration into share capital during 2014 as agreed in the pre-bankruptcy settlement.

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 their 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 43.

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 recognise the equity component as at 31 December 2015.

## NOTE 29 – RESERVES

| | **2015** | **2014** |
|---|---|---|
| | *(in thousands of HRK)* | |
| Reserves for treasury shares | 1.446 | 1.446 |
| Treasury shares | (3.865) | (3.816) |
| | **(2.419)** | **(2.370)** |

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 treasury shares are non-distributable.

The Company and its subsidiaries have 3,909 treasury shares. Treasury shares are recorded at cost and are released using the weighted average price method.

## NOTE 30 – REVALUATION RESERVES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 136.115 | 141.506 |
| Revaluation of equipment, net of tax | 14.351 | (328) |
| Decrease in value of land and buildings | - | (3.103) |
| Transfer to accumulated losses | (1.918) | (1.960) |
| Change in share of non-controlling interest | 219 | - |
| **At 31 December** | **148.767** | **136.115** |

Revaluation reserves are not distributable to shareholders.

## NOTE 31 – NON-CONTROLLING INTEREST

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 1.336 | 1.912 |
| Sale and acquisition of shares in new companies | (230) | (431) |
| Reclassification of treasury shares | (640) | - |
| Share of non-controlling interest in revaluation reserves | (219) | (387) |
| Share of non-controlling interest in treasury shares | 49 | - |
| (Loss)/profit for the year attributable to non-controlling interest | (258) | 242 |
| **31 December** | **38** | **1.336** |

## NOTE 32 – BORROWINGS

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| ***Non-current borrowings*** | | |
| Bank loans (secured by mortgage) /i/ | 1.823 | 21.621 |
| Bank loans - PIK debt /ii/ | 182.404 | 182.908 |
| Bank loans - junior debt /iv/ | 7.874 | 7.898 |
| Bank loans - senior debt /iii/ | 86.953 | 107.316 |
| Other borrowings | 65 | 71 |
| Finance lease /vi/ | 984 | 65 |
| | **280.103** | **319.879** |

| | 2015 | 2014 |
|---|---|---|
| ***Current borrowings*** | | |
| Issued bonds /v/ | 70.973 | 70.973 |
| Bank loans (secured by mortgage) /i/ | 72.954 | 88.877 |
| Bank loans (current portion of senior debt) /iii/ | 20.066 | - |
| Finance lease /vi/ | 237 | 521 |
| Other borrowings | 2.543 | 2.622 |
| | **166.773** | **162.993** |

/i/ Bank borrowings in the amount of HRK 373,487 thousand (2014: HRK 408,620 thousand) and liabilities arising from issued bonds in the amount of HRK 70,973 thousand are secured with the Group's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Group.

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

/ii/ The ‘PIK debt’ represents claims that will be settled by selling pledged assets of the Company or 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.

/iii/ 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 became legally valid.

/iv/ The ‘Junior debt’ relates to the part of creditor claims which will be settled in accordance with the provisions of the pre-bankruptcy settlement agreement. The final maturity of junior claims is 6 years from the day the pre-bankruptcy settlement became legally valid.

Interest amounting to 4.5% is calculated annually and becomes due in one instalment upon final maturity of the junior debt.

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 property sales and settlement of their claims. If the sale of pledged assets does not generate sufficient funds to settle secured claims, secured creditors 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.

## NOTE 32 – BORROWINGS (CONTINUED)

*/v/ 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, clearing and settlement services. In order to ensure payment of all bond obligations, pledges have been created for specific properties which were under the 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 property 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.

/vi/ The finance lease liability is as follows:

| | Minimum lease payments | | Finance cost | | Present value of min. lease payments | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| Up to 1 year | 298 | 521 | (60) | (46) | 238 | 475 |
| Between 1 and 5 years | 1.090 | 65 | (107) | (7) | 983 | 58 |
| **Total** | **1.388** | **586** | **(167)** | **(53)** | **1.221** | **533** |

## NOTE 32 – BORROWINGS (CONTINUED)

The analytical review of borrowings is as follows:

| *(in thousands of HRK)* | Currency | Interest rate | 2015 | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Comercial bank | EUR | 4.5%-6% | 212.108 | 29.245 | 8.935 | 151.599 | 22.329 |
| Comercial bank | EUR | 4,50% | 78.065 | 5.328 | 3.552 | 60.305 | 8.880 |
| Comercial bank | EUR | 4,50% | 12.476 | 851 | 568 | 9.638 | 1.419 |
| Comercial bank | EUR | 4,50% | 9.544 | 447 | 298 | 8.053 | 746 |
| Comercial bank | HRK | 6,50% | 2.698 | 875 | 875 | 948 | - |
| Comercial bank | EUR | 6M EURIBOR+6.25 p.p. | 32.346 | 32.346 | - | - | - |
| Comercial bank | EUR | 3M EURIBOR+6.60 p.p. | 16.875 | 16.875 | - | - | - |
| Comercial bank | EUR | 1M EURIBOR+5.95 p.p. | 7.007 | 7.007 | - | - | - |
| Borrowings from unrelated legal persons | HRK | 8% | 954 | 45 | 30 | 804 | 75 |
| Borrowings from other financial institutions | HRK | 3M EURIBOR+7.20 p.p. | 2.368 | 2.368 | - | - | - |
| Other borrowings from unrelated legal persons | HRK | 7% | 176 | 176 | - | - | - |
| Other borrowings | RUB | 4,00% | 65 | - | 65 | - | - |
| Finance lease | EUR | 6.01-7.13% | 1.221 | 237 | 243 | 741 | - |
| Bonds | EUR | 9% | 70.973 | 70.973 | - | - | - |
| | | | **446.876** | **166.773** | **14.566** | **232.088** | **33.449** |

## NOTE 33 – PROVISIONS

| *(in thousands of HRK)* | Jubilee awards | Unused vacation days | Termination benefits | Waranty provision | Legal disputes | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2014:** | | | | | | |
| Non-current portion | - | - | 1.648 | 53 | 11.388 | 13.089 |
| Current portion | - | 4.821 | 553 | - | 22 | 5.396 |
| | **-** | **4.821** | **2.201** | **53** | **11.410** | **18.485** |
| Increase in provisions | | - | 1.209 | | 710 | 1.919 |
| Utilised during the year | - | (498) | (553) | - | (1.642) | (2.693) |
| **At 31 December 2015** | **-** | **4.323** | **2.857** | **53** | **10.478** | **17.711** |
| **At 31 December 2015:** | | | | | | |
| Non-current portion | - | - | 1.656 | 53 | 10.456 | 12.165 |
| Current portion | - | 4.323 | 1.201 | - | 22 | 5.546 |
| | **-** | **4.323** | **2.857** | **53** | **10.478** | **17.711** |

*(i) Jubilee awards*

According to the Collective Agreement the Company had an obligation to pay 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.

*(ii) Unused vacation days*

In 2015, the provision for unused vacation days was accrued based on the expectations that unused vacation days from 2015 will be used in 2016.

*(iii) Termination benefits*

The Group recognised a long-term provision for regular retirement benefits for all employees in the non-taxable amount of HRK 8,000 per employee. By applying a rate of 7%, the present value of termination benefits of all employees was determined in the amount of HRK 1,656 thousand.

*(iv) Warranty provision*

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

*(v) Legal disputes*

Legal provisions relate to a number of legal disputes initiated against the Group. Based on the expert opinion of a legal counsel, the Company's Management Board 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 2015.

## NOTE 34 – TRADE AND OTHER PAYABLES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| ***Non-current liabilities*** | | |
| Trade payables - debt rescheduled in pre-bankruptcy settlement | 11.979 | 24.020 |
| Liabilities towards related parties - debt rescheduled in pre-bankruptcy | 365 | 548 |
| Other non-current liabilities - debt rescheduled in pre-bankruptcy settlement | 8.237 | 12.669 |
| Other non-current liabilities | 724 | 1.059 |
| | **21.305** | **38.296** |
| ***Current liabilities*** | | |
| Domestic trade payables | 29.013 | 31.419 |
| Foreign trade payables | 2.029 | 916 |
| Other current liabilities - debt rescheduled in pre-bankruptcy settlement | 4.884 | 7.080 |
| Liabilities towards state and governmental institutions | 6.704 | 8.219 |
| Liabilities towards employees | 5.904 | 9.768 |
| Liabilities towards shares in profit and rewards to management | 1.733 | 1.765 |
| Cessions payable | 1.684 | 1.684 |
| Interest payable | 10.901 | 11.424 |
| Municipal charges | 2.787 | 2.787 |
| Related party liabilities | 285 | 183 |
| Other liabilities | 7.106 | 2.185 |
| | **73.030** | **77.430** |
| | **94.335** | **115.726** |

Non-current liabilities for the rescheduled tax debt are carried at fair value using discounted cash flows. The liabilities will be repaid in 10 equal semi-annual instalments, without interest. As at 31 December 2015, the carrying value of current liabilities approximates their fair value, due to the short-term nature 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 to discount the long-term liabilities is 7%.

The ageing structure of trade payables is as follows:

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Not due | 24.965 | 39.510 |
| 0-90 days | 8.743 | 8.031 |
| 91-180 days | 2.868 | 1.208 |
| 181-360 days | 2.341 | 2.789 |
| Over 360 days | 4.755 | 4.817 |
| | **43.672** | **56.355** |

The Group's exposure to foreign exchange risk and liquidity risk is presented in Note 38.

## NOTE 35 – ADVANCES AND DEPOSITS RECEIVED

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Advances from domestic debtors | 1.477 | 1.335 |
| Advances from foreign debtors | 1.209 | 1.144 |
| Deposits and guarantees received | 549 | 315 |
| | **3.235** | **2.794** |

## NOTE 36 – ACCRUED EXPENSES AND DEFERRED INCOME

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Accrued expenses | 17.522 | 9.098 |
| | **17.522** | **9.098** |

Liabilities for interests accrued on the PIK debt towards commercial banks participating in the pre-settlement agreement were recorded in accrued expenses.

## NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Financial risk factors*

The Group is exposed to various financial risks related to foreign exchange, interest rate, credit and liquidity risk. The Group monitors these risks and seeks to minimise their potential impact on the Group's financial exposure. The Group 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: foreign exchange risk, interest rate risk and other price risks.

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

*a) Price risk*

The Group 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, the industry in which the Group 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 Group's assets and the timing of projects realisation.

*b) Foreign exchange risk*

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

## NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. The resulting foreign 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 liabilities contracted with a foreign currency clause (EUR).

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

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands of HRK) | | (in thousands of HRK) | |
| European Union (EUR) | 390.951 | 405.711 | 63.187 | 74.331 |
| Bosna i Hercegovina (BAM) | 319 | 347 | 9.752 | 10.569 |
| USA (USD) | 2.712 | 2.443 | 1.622 | 1.445 |

*Foreign currency sensitivity analysis*

The Group 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 exchange 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 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands of HRK) | | (in thousands of HRK) | |
| Net result decrease | (2.136) | (4.358) | (131) | (147) |

| | BAM currency effect | |
|---|---|---|
| | 2015 | 2014 |
| | (in thousands of HRK) | |
| Net result increase | 61 | 134 |

The middle exchange rates against the Croatian kuna were as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| EUR | 7,63505 | 7,66147 |
| BAM | 3,90374 | 3,91725 |
| USD | 6,99180 | 6,302 |

## NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*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 Group uses loans with fixed and variable interest rates, the Group is exposed to interest rate risk.

*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 Group's liquidity and reduce the value of its assets. As at 31 December 2015, the Group's financial assets that may potentially expose the Group 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 Group 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 Group could face difficulties in settling its liabilities. Liquidity risk arises in the general funding activities of the Group 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 Group is not able to turn into cash to meet its liquidity requirements.

*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.

| *2015 in thousands of HRK* | Net book value | Contracted cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Loans received and finance leases and bonds | 317.307 | 395.771 | 52.332 | 18.155 | 290.329 | 34.955 |
| Trade and other payables | 97.570 | 101.713 | 75.779 | 12.967 | 12.967 | 0 |
| | **414.877** | **497.484** | **128.111** | **31.122** | **303.296** | **34.955** |

| *2014 in thousands of HRK* | Net book value | Contracted cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Loans received and finance leases and bonds | 369.956 | 462.453 | 68.235 | 24.479 | 63.103 | 306.636 |
| Trade and other payables | 118.520 | 125.590 | 82.781 | 16.148 | 25.313 | 1.348 |
| | **488.476** | **588.043** | **151.016** | **40.627** | **88.416** | **307.984** |

## NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

*Table analysis of liquidity risk*

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.

| *(in thousands of HRK)* | **Net book value** | **Contracted cash flows** | **Up to 1 year** | **1-2 years** | **2-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Non-derivative financial assets** | | | | | | |
| Loans given | 28.648 | 31.853 | 4.515 | 27.338 | - | - |
| Trade and other receivables | 43.200 | 43.200 | 41.726 | 471 | 1.003 | - |
| | **71.848** | **75.053** | **46.241** | **27.809** | **1.003** | - |
| **2014** | | | | | | |
| **Non-derivative financial assets** | | | | | | |
| Loans given | 30.245 | 33.262 | 3.311 | - | 29.951 | - |
| Trade and other receivables | 71.762 | 71.762 | 70.081 | 470 | 1.211 | |
| | **102.007** | **105.024** | **73.392** | - | - | - |

*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 is 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 a financial instrument could be traded 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 securities market price, or the amount obtained using the discounted cash flow method.

## NOTE 37 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

As at 31 December 2015, the reported amounts of cash, short-term deposits, receivables, current liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of those assets and liabilities.

The Management Board believes that the carrying value of long-term deposits, receivables and borrowings as at 31 December 2015 approximates their fair value due to the application of variable interest rates on liabilities.

### Capital risk management

*Net debt-to-equity ratio (gearing ratio)*

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

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Debt (long-term and short-term loans) | 317.307 | 369.956 |
| Cash and cash equivalents | (1.671) | (8.273) |
| Net debt | **315.636** | **361.683** |
| Equity | 29.413 | 100.312 |
| Debt/Equity ratio | 1073% | 361% |

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

The Group 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 38 – RELATED PARTY TRANSACTIONS

The Group considers that its direct related party relationship is with its key shareholders and entities under their control or influence (subsidiaries and associates), key management, 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.*

*Loans given to associates - short-term and long-term*

| | Prinicipal | Interest | Prinicipal | Interest |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | *(in thousands of HRK)* | | | |
| Sportski grad TPN d.o.o. u stečaju , Split | 30.400 | 16.060 | 30.400 | 16.060 |
| Elpida d.o.o., Zagreb | 81 | 6 | 40 | 2 |
| Less: Impairment of loans given | (30.481) | (16.066) | (30.440) | (16.062) |
| | - | - | - | - |

During the year, HRK 45 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

*Current payables from associates for services rendered:*

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Sportski grad TPN d.o.o. u stečaju , Split | 475 | 475 |
| Centar Gradski podrum d.o.o. | 12 | 265 |
| Elpida d.o.o. | 7 | 0 |
| Less: Impairment of receivables | (482) | (475) |
| | **12** | **265** |

*Revenues from services to associates*

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Centar Gradski podrum d.o.o. | 520 | 750 |
| | **520** | **750** |

## NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

*Interest income from loans given to associates*

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Elpida d.o.o., Zagreb | 4 | 2 |
| | 4 | 2 |

Information on co-debtorships and guarantees issued to related parties are stated in Note 41.

*Management Board and Supervisory Board compensation:*

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Gross salaries and other compensations to Management Board members | 3.309 | 2.687 |
| Compensations to Supervisory Board members | 1.132 | 1.346 |
| | **4.441** | **4.033** |

As at 31 December 2015, the Company had a liability towards members of the Management Board and the Supervisory Board in the amount of HRK 868 thousand (*2014: HRK 865 thousand).*

## NOTE 39 – CONTINGENCIES

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Legal disputes | 76.863 | 76.910 |
| Guarantees given and warranties - external | 38.870 | 40.732 |
| | **115.733** | **117.642** |

Other court disputes 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 as at 31 December 2015 that it is not probable that liabilities will arise for the Group.

## NOTE 40 – COMMITMENTS

As at 31 December, future payments under operating leases for vehicles, office equipment and software are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 6.817 | 6.603 |
| 1 - 5 years | 14.124 | 19.971 |
| | **20.941** | **26.574** |

## NOTE 41 - 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 2015, the Company settled trade payables totalling HRK 7,075 thousand as prescribed in the provisions of the pre-bankruptcy settlement. During 2015, the Company also settled liabilities toward related parties, natural persons for service contracts and royalties and non-financial institutions in the total amount of HRK 2,392 thousand.

*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 of pledges assets 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 year 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 result 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 payments fall due 30 June and 31 December of each year, and the first instalment becomes due on the first of the above dates 24 months after the settlement became legally valid. Instalments are paid 2 times a year with a fixed interest rate of 4.5% per annum. Interest are accrued and paid over the entire repayment period. Liabilities for interests accrued on the senior debt for 2015 have been settled in the amount of HRK 4,809 thousand.

The Company is currently negotiating with banks, whereby it proposed to extend the grace period by another 18 months, i.e. to make the grace period amount to 42 months after the settlement becomes legally valid, consequently reducing the repayment period to 6.5 years after the first instalment becomes due.

The Management Board believes in a positive outcome of the initiated negotiations with commercial banks.

## NOTE 41 – EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (CONTINUED)

*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.

Based on the Decision of the Commercial Court in Zagreb no. 20 Stpn-152/14 dated 22 May 2014, the related party MBM Termoprojekt d.o.o. reached the following settlement with creditors:

*I. Settlement with the Ministry of Finance of the Republic of Croatia, Tax Administration*

The established claim is paid at an interest of 4.5% p.a. in 24 equal monthly instalments starting from 23 June 2014.

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

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Transformation of liablity to capital (Note 28) | - | 17.816 |
| PIK debt (Note 32) | 182.404 | 182.908 |
| Senior debt (Note 32) | 86.953 | 107.316 |
| Junior debt (Note 32) | 7.874 | 7.898 |
| Liabilities toward secured creditors (Note 32) | 122.562 | 112.916 |
| | **399.793** | **428.854** |

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

| | 2015 | 2014 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Write-off of trade payables | - | 13.771 |
| Write-off of interest and fees | - | 2.400 |
| Discounting non-current liabilities | (2.842) | (4.104) |
| | (2.842) | **12.067** |

The principal of 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 33 in the amount of HRK 122,562 thousand.

Pledged assets are intended to cover the secured debt and are classified as non-current assets held for sale as presented in Note 26 in the amount of HRK 107,931 thousand.

Since the legally valid pre-bankruptcy settlement up to 31 December 2015, the Company settled an amount of HRK 102,255 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.