INSTITUT IGH, d.d., Zagreb

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

MANAGEMENT BOARD'S RESPONSIBILITY FOR THE SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Ivan Paladina
President of the Management Board

Institut IGH, d.d.

Janka Rakuše 1
10 000 Zagreb
Republic of Croatia

Zagreb, 29 April 2016

Independent Auditor's Report

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

We have audited the accompanying separate financial statements of Institut IGH d.d. (the "Company"), which comprise the balance sheet as at 31 December 2015 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

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

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 Company 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 financial statements of the Company as at 31 December 2015 and as at 31 December 2014 and for the years then ended.

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Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the separate financial statements present fairly, in all material respects, the financial position of the Company 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 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 38 *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 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.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
		(in thousands of HRK)	
Sales	7	154.532	194.540
Other operating income	8	17.448	28.514
Total income		**171.980**	**223.054**
Change in value of inventories		(60)	(482)
Raw materials, consumables and services used	9	(53.039)	(56.982)
Staff costs	10	(104.385)	(105.693)
Amortisation and depreciation		(6.572)	(5.397)
Impairments	11	(88.108)	(23.975)
Other operating expenses	12	(14.055)	(14.953)
Total operating expenses		**(266.219)**	**(207.482)**
Operating profit/(loss)		**(94.239)**	**15.572**
Finance income		4.176	10.690
Finance expenses		(17.262)	(21.226)
Net finance (costs)/income	13	**(13.086)**	**(10.536)**
(Loss)/profit before tax		**(107.325)**	**5.036**
Income tax	14	447	1.229
Profit/(loss) for the year		**(106.878)**	**6.265**
Other comprehensive income			
Revaluation of non-current assets, net of tax		14.351	(715)
Change in value of financial assets, net of tax		-	-
Other comprehensive (loss)/income for the year		**14.351**	**(715)**
Comperehensive income/(loss) for the year		**(92.527)**	**5.550**
Basic earnings/(loss) per share (in HRK)	40	(175,27)	12,68

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	2015	2014
		(in thousands of HRK)	
ASSETS			
Intangible assets	15	4.013	4.566
Property, plant and equipment	16	177.558	162.832
Investment proprety	17	10.986	10.986
Investments in related parties and other investments	18	214.066	284.761
Loans given	21	35.972	44.024
Trade and other receivables	20	1.456	1.681
NON-CURRENT ASSETS		444.051	508.850
Inventories	19	816	963
Trade and other receivables	20	37.890	64.135
Loans given	21	3.453	6.211
Accrued income and prepaid expenses	24	5.993	3.930
Cash and cash equivalents	22	431	5.762
CURRENT ASSETS		48.583	81.001
Non-current assets held for sale	23	108.627	116.616
TOTAL ASSETS		**601.261**	**706.467**
EQUITY AND LIABILITIES			
Share capital	25	116.605	116.605
Treasury shares	26	(1.446)	(1.446)
Reserves for treasury shares	26	1.446	1.446
Revaluation reserves	27	138.569	126.007
Accumulated loss		(228.728)	(123.638)
TOTAL EQUITY		26.446	118.974
Loans and borrowings	28	280.103	300.827
Provisions	29	12.166	11.483
Deferred tax liabilites	14	34.642	31.502
Trade and other payables	30	21.497	29.423
NON-CURRENT LIABILITIES		348.408	373.235
Loans and borrowings	28	143.740	139.406
Trade and other payables	30	56.628	58.439
Advances and deposits received	31	3.039	2.398
Provisions	29	5.545	5.045
Accrued expenses and deferred income	32	17.455	8.970
CURRENT LIABILITIES		226.407	214.258
TOTAL EQUITY AND LIABILITIES		**601.261**	**706.467**

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of HRK)	Registered capital	Capital reserves	Statutory reserves	Treasury shares	Reserves for treasury shares	Revaluation reserves	Accumulated losses	Total
Balance at 31 December 2013	**105.668**	**23.506**	**-**	**(1.446)**	**1.446**	**131.637**	**(199.647)**	**61.164**
Transactions with owners								
Decrease of share capital	(64.829)	-	-	-	-	-	64.829	-
Capital contribution (*Note 25*)	57.950		-	-	-	-	-	57.950
Transformation of liabilities (*Note 39*)	17.816	(23.506)	-	-	-	-	-	(5.690)
Total transactions with owners	10.937	(23.506)	-	-	-	-	64.829	52.260
Comprehensive income								
Transfer from revaluation reserves	-	-	-	-	-	(1.812)	1.812	-
Profit for the year	-	-	-	-	-	-	6.265	6.265
Revaluation of non-current assets, net of tax	-	-	-	-	-	(715)	-	(715)
Sale of revalued assets, net	-	-	-	-	-	(3.103)	3.103	-
Total comprehensive income	-	-	-	-	-	(5.630)	11.180	5.550
Balance at 31 December 2014	**116.605**	**-**	**-**	**(1.446)**	**1.446**	**126.007**	**(123.638)**	**118.974**
Comprehensive income								
Transfer from revaluation reserves	-	-	-	-	-	(1.789)	1.789	-
Loss for the year	-	-	-	-	-	-	(106.878)	(106.878)
Revaluation of non-current assets, net of tax	-	-	-	-	-	14.351	-	14.351
Total comprehensive income	-	-	-	-	-	12.562	(105.089)	(92.527)
Balance at 31 December 2015	**116.605**	**-**	**-**	**(1.446)**	**1.446**	**138.569**	**(228.728)**	**26.446**

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
		(in thousands of HRK)	
Cash flow from operating activities			
Profit/(loss) for the year		(106.878)	6.265
Adjustments:			
Income tax	14	(447)	(1.229)
Amortisation and depreciation	15,16	6.572	5.397
Impairments	11	88.108	23.975
Interest income	13	(1.516)	(2.775)
Interest expense	13	13.691	14.035
Net increase/(decrease) in provisions	30	1.183	1.440
Unrealised foreign exchange differences (net)	13	(462)	966
Unrealised losses from financial assets	13	9	1.379
Gain/(loss) from sale of non-current tangible and intangible assets	8	(1.415)	(122)
Income from recovery of receivables previously written off and write-off of liabilities	8,13	(14.214)	(33.373)
Expenses from discounting non-current liabilities	13	2.943	4.331
Expenses from previous periods	12	4.409	1.377
Result from operating activities before changes in working capital		**(8.017)**	**21.666**
Decrease in inventories		147	482
(Increase)/decrease in current receivables		21.475	(2.140)
(Decrease)/increase in current liabilities		(8.386)	(37.741)
Net cash flow from operating activities before interests and tax		**5.219**	**(17.733)**
Income tax paid		-	-
Interest paid		(7.377)	(15.261)
Net cash flow from operating activities		**(2.158)**	**(32.994)**
Cash flow from investing activities			
Proceeds from sale of non-current tangible and intangible assets		9.364	43.873
Proceeds from collected interests		428	265
Other cash inflows from investing activities		4.465	4.007
Purchase of non-current tangible and intangible assets		(3.339)	(670)
Purchase of equity and debt instruments		(173)	-
Other cash outflows from investing activities		(5.175)	(32.617)
Net cash flow from investing activities		**5.570**	**14.858**
Cash flow from financing activities			
Proceeds from issue of equity and debt financial instruments		-	57.950
Proceeds from borrowing principal and other borrowings		7	4.322
Repayment of borrowing principal and bonds		(8.114)	(42.345)
Repayment of financial leases		(636)	(51)
Net cash flow from financing activities		**(8.743)**	**19.876**
Total increase in cash flow		-	1.740
Total decrease in cash flow		(5.331)	-
Cash and cash equivalents at beginning of year	22	**5.762**	**4.022**
Cash and cash equivalents at the end of year	22	**431**	**5.762**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Institut IGH, d.d., Zagreb, Janka Rakuše 1, (the Company), 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 separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The consolidated financial statements of the Company and its subsidiaries, which the Company prepares in accordance with IFRS and Croatian legislation, are published separately and issued simultaneously with the separate financial statements. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2015 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The consolidated financial statements as at and for the year ended 31 December 2015 are available together with these separate financial statements directly at the registered address of the Company stated above.

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

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

Balance sheet items were recorded as at 31 December 2015 unless otherwise stated.

(ii) Basis of measurement

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

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

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

(iii) Functional and presentation currency

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

(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.

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

Judgements made by the 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.

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

(v) Going concern

In the year ended 31 December 2015, the Company incurred a net loss of HRK 106,878 thousand (2014: profit of HRK 6,265 thousand) and at year-end, the Company's current liabilities exceeded its current assets by HRK 69,197 thousand (2014: HRK 16,641 thousand).

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

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

3.2 Investments in associates

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

3.3 Revenue

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

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

(i) Service revenues

Sales of services are recognised in the accounting period in which 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 payable on loans and borrowings using the effective interest method, interest receivable on funds invested, dividend income and foreign exchange gains and losses.

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.

3.3 Revenue (continued)

(iii) Rental income

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

3.4 Leases

The Company leases certain plant and equipment. Leases where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance 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 Company are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

3.5 Foreign currencies

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency using 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).

3.6 Borrowings and borrowing costs

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

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

3.7 Dividend

Dividend distribution to the Company’s shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company’s 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 and jointly controlled companies when it is likely that the situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

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

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

(ii) Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period 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 Company has revalued its properties and created revaluation reserves that are transferred to retained earnings/accumulated losses in accordance with the adopted depreciation policy.

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

(ii) Plant and equipment

Plant and equipment are 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.

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.

3.9 Property, plant and equipment (continued)

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

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

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

3.10 Intangible assets

Patents, licenses and software

(i) Ownership of intangible assets

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

(ii) Subsequent costs

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

(iii) Amortisation

Intangible assets under construction are not amortised. Amortisation of other intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful lives 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 Company reviews the carrying amounts of its property, plant, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Company assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

3.13 Inventories

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

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

Small inventory and tools are expensed when put into use.

3.14 Trade receivables

Trade receivables are recognised initially at cost which is equal to fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, if material, and if not at par value less an allowance for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference

3.14 Trade receivables (continued)

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. The collection of previously written off receivables is recognised in other operating income.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash 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.

3.16 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 transaction costs and the related income tax effects, is included in equity.

3.17 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

3.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is 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 Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of investments are recognised on trade date, i.e. the date on which the Company commits to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Available-for-sale financial assets (AFS)

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

Unlisted shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 6. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and 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 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.

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 Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with the default on receivables.

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

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

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

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

3.19 Financial instruments (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date 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 Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

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

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

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

3.20 Financial liabilities and equity instruments (continued)

Financial guarantee contracts

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

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

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

Derecognition of financial liabilities

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

3.21 Segment reporting

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

3.22 Earnings per share

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

This note includes details on (a) new and amended standards, which are effective for the first time for periods beginning on 1 January 2015 and (b) forthcoming requirements - that is, new and amended standards that have been issued and are not effective for periods beginning on 1 January 2015, 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 Company plans to adopt this new standard on the effective date as of and when adopted by the EU. The Company 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 Company is currently assessing the impact of the amendments on their financial statements, but does not expect any impacts. The Company 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 Company 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

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

(iii) Useful lives of property, plant and equipment

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

(iv) Impairment of assets

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

(v) Non-derivative financial liabilities

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

(vi) Investment property

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

(vii) Going concern

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

NOTE 6 – DETERMINATION OF FAIR VALUE

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and the Finance Department in relation to monitoring all significant fair value measurements, consultation with external experts and the responsibility to report, with respect 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 16: Property, plant and equipment
- Note 17: Investment property
- Note 18: Investments in related parties and other investments
- Note 23: Non-current assets held for sale

NOTE 7 – SEGMENT INFORMATION

Sales revenue

	2015	2014
	(in thousands of HRK)	
Revenue from services	154.488	194.147
Revenue from sale of apartments	44	393
	154.532	**194.540**

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

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

During 2015, the Company recorded revenue in the amount of HRK 28,012 thousand by rendering services to its most significant customer.

Segment revenues and results

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

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

	Segment revenue		Segment profit	
SEGMENTS	**2015**	**2014**	**2015**	**2014**
Designing	46.045	66.496	1.650	22.672
Studies	6.234	7.847	1.026	2.199
Supervision	57.424	67.937	20.200	25.631
Advisory services	5.069	7.126	2.138	2.337
Laboratory testing	26.513	27.490	6.840	9.461
Investigations	12.650	16.664	(2.621)	3.005
Geotechnical research	317	980	(444)	(614)
Total revenue by segments	**154.252**	**194.540**	**28.789**	**64.691**
Revenue from sale of apartments	44	393		
Income from write-off of liabilities	8.551	13.196		
Other operating income	9.133	14.925		
Total revenue	**17.728**	**28.514**		
Central administrative expenses	(39.687)	(32.240)		
Amortisation and depreciation	(6.572)	(5.397)		
Impairments	(88.108)	(20.948)		
Provision for expenses and risks	(1.920)	(2.296)		
Change in value of inventories	(60)	(482)		
Other operating expenses	(4.409)	(16.271)		
Finance income	4.176	10.691		
Finance costs	(17.262)	(21.226)		
(Loss)/profit before tax	**(107.325)**	**5.036**		
Income tax	447	1.229		
(Loss)/profit for the year	**(106.878)**	**6.265**		

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

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

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

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

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

The *Investigations segment* includes performing investigations and preparing diagnostic reports.

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

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

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

The Company does not allocate assets and liabilities by segments.

NOTE 8 – OTHER OPERATING INCOME

	2015	2014
	(in thousands of HRK)	
Income from reversal of provisions	736	857
Gain on sale of assets	1.415	122
Rental income	206	942
Income from recovery of receivables previously written off	4.165	9.419
Insurance reimbursements	732	402
Compensation and grant income	402	384
Income from liabilites written off	8.551	13.164
Other income	1.241	3.224
	17.448	**28.514**

NOTE 9 – RAW MATERIALS, CONSUMABLES AND SERVICES USED

	2015	2014
	(in thousands of HRK)	
Raw materials and consumables used	1.501	2.281
Energy costs	5.436	6.218
Small inventory and spare parts used	1.015	599
Transportation, telephone, postal services	2.099	3.035
Subcontractors	27.345	25.489
Manufacturing services	1.367	6.041
Utilities	1.395	1.815
Maintenance costs	2.494	3.524
Rental expense	7.830	5.658
Advertising and promotion costs	186	-
Other external expenses	2.371	2.322
	53.039	**56.982**

NOTE 10 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Net salaries	53.564	53.768
Tax, contributions and other charges	38.257	40.133
Reimbursement of expenses (travel expenses, wages, transportation)	10.491	10.485
Termination, support and other benefits	2.073	1.279
Compensations, termination and support benefits in the excess of tax allowable amount	-	28
	104.385	**105.693**

As at 31 December 2015, the Company had 561 employee (*2014: 599 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 Company established provisions for termination benefits for 7 employees that will be paid in 2016 in the total amount of HRK 1,200 thousand.

During 2015, the Company accounted for contributions for the compulsory pension fund for 614 employees amounting to HRK 15,443 thousand *(2014: for 644 employees amounting to HRK 15,881 thousand)*.

NOTE 11 – IMPAIRMENT

	2015	2014
	(in thousands of HRK)	
Impairment of trade receivables	5.166	20.261
Impairement of other receivables	1.437	687
Impairment of shares in subsidiaries	34.079	341
Impairment of shares in associates	36.451	-
Impairment of loans given and other financial assets	10.739	2.686
Impairment of non-current tangible assets	236	-
	88.108	**23.975**

NOTE 12 – OTHER OPERATING EXPENSES

	2015	2014
	(in thousands of HRK)	
Expenses from previous periods	3.327	563
Legal, consultancy and audit services	1.772	4.884
Bank fees and charges	1.448	1.801
Other expenses	1.440	1.717
Penalties and similar expenses	1.077	101
Insurance premiums	1.034	769
Contributions to public bodies	874	811
Entertainment	517	623
Education and training expenses	450	340
Tax not dependent on operating result	191	335
Provisions for unused vacation days	-	690
Provisions for termination benefits and jubilee awards	1.209	632
Provisions for legal disputes	711	974
Not written-off value of disposed and retired fixed assets	5	713
	14.055	**14.953**

NOTE 13 – FINANCE INCOME/(COSTS)

Finance income	**2015**	**2014**
	(in thousands of HRK)	
Foreign exchange gains	1.081	515
Interest income	1.516	2.775
Income from reversal of interest payable	1.498	7.396
Other finance income	81	4
	4.176	**10.690**

Finance costs		
Foreign exchange losses	619	1.481
Interest expense	13.691	14.035
Unrealised losses from financial assets	9	1.379
Other finance costs	2.943	4.331
	17.262	**21.226**
Net finance (costs)/income	**(13.086)**	**(10.536)**

NOTE 14 – INCOME TAX

Tax income consists of:

	2015	2014
	(in thousands of HRK)	
Deferred tax	447	1.229
	447	**1.229**

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	**(107.325)**	**5.036**
Income tax at 20% (2014: 20%)	(21.465)	1.007
Non-deductible expenses and non-taxable income	17.752	6
Tax losses not recognised as deferred tax assets	3.713	-
Tax on realised profit	-	(1.013)
Previously recognised deferred tax liabilities	447	1.229
Income tax	**447**	**1.229**
Effective tax rate	0%	24%

Unused gross tax losses amounting to HRK 81,332 thousand relate to the tax loss incurred in 2012 (31 December 2014: HRK 62,767 thousand) that can be used up to 2017, and to the tax loss incurred in 2015 that can be used up to 2020.

Unused tax losses are not recognised as deferred tax assets in the statement of financial position, as it is unlikely that there will be sufficient taxable profits realised for the utilisation of these deferred tax assets.

NOTE 14 – INCOME TAX (CONTINUED)

The Company did not recognise deferred tax assets in the total amount of HRK 93,846 thousand which is based on:

- unused tax losses generated up to 2015 in the amount of HRK 16,267 thousand,
- impairment of non-current and current financial assets and receivables in the total amount of HRK 77,579 thousand.

The deferred tax liability arises from the following:

2015	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
Temporary differences:				
Revaluation of non-current assets	31.502	3.587	(447)	34.642
	31.502	**3.587**	**(447)**	**34.642**

2014	Opening balance	Recognised in equity	Recognised in profit or loss	Closing balance
Temporary differences:				
Revaluation of non-current assets	32.909	(178)	(1.229)	31.502
	32.909	**(178)**	**(1.229)**	**31.502**

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	Right to use property	Assets under construction	Total
Cost			
At 1 January 2014	32.253	3.862	36.115
New purchases	-	1.217	1.217
Disposals	(717)	-	(717)
Transfer into use	1.214	(1.214)	-
At 31 December 2014	**32.750**	**3.865**	**36.615**
Accumulated amortisation			
At 1 January 2014	(29.892)	(1.268)	(31.160)
Amortisation charge for the year	(889)	-	(889)
Disposals or retirement	-	-	-
At 31 December 2014	**(30.781)**	**(1.268)**	**(32.049)**
Cost			
At 1 January 2015	32.750	3.865	36.615
New purchases	-	1.039	1.039
Additions	282	-	282
Disposals	(530)	-	(530)
Transfer into use	1.005	(1.005)	-
At 31 December 2015	**33.507**	**3.899**	**37.406**
Accumulated amortisation			
At 1 January 2015	(30.781)	(1.268)	(32.049)
Amortisation charge for the year	(1.344)	-	(1.344)
At 31 December 2015	**(32.125)**	**(1.268)**	**(33.393)**
Net book amount			
At 31 December 2014	1.969	2.597	4.566
At 31 December 2015	**1.382**	**2.631**	**4.013**

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

NOTE 16 – 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	63.759	76.140	139.612	29.467	959	67	310.004
Increase due to revaluation	-	-	-	-	-	-	-
Direct purchases	-	-	-	963	-	830	1.793
Transfer into use	-	-	963	(963)	-		-
Decrease	-	-	(178)	-	-	(727)	(905)
Disposals or retirement	-	-	(2.224)	-	-	-	(2.224)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-
At 31 December 2014	**63.759**	**76.140**	**138.173**	**29.467**	**959**	**170**	**308.668**
Accumulated depreciation							
At 1 January 2014	-	(2.367)	(137.612)	(2.918)	(655)	-	(143.552)
Depreciation charge for the year	-	(3.967)	(539)	-	-	-	(4.506)
Disposals or retirement	-	-	2.222	-	-	-	2.222
At 31 December 2014	**-**	**(6.334)**	**(135.929)**	**(2.918)**	**(655)**	**-**	**(145.836)**
Cost or estimated value							-
At 1 January 2015	63.759	76.140	138.173	29.467	959	170	308.668
Increase due to revaluation	-	-	18.429	-	-	-	18.429
Write-off	-	-	(92.208)	-	-	-	(92.208)
Direct purchases	-	-	-	2.061	-	1.784	3.845
Transfer into use	-	138	1.935	(2.073)	-	-	-
Decrease	-	-	(241)	-	-	(1.814)	(2.055)
Disposals or retirement	-	(102)	(2.242)	-	-	-	(2.344)
At 31 December 2015	**63.759**	**76.176**	**63.846**	**29.455**	**959**	**140**	**234.335**
Accumulated depreciation							-
At 1 January 2015	-	(6.334)	(135.929)	(2.918)	(655)	-	(145.836)
Depreciation charge for the year	-	(3.971)	(1.257)	-	-	-	(5.228)
Impairment	-	-	(236)	-	-	-	(236)
Write-off	-	-	92.208	-	-	-	92.208
Disposals or retirement	-	102	2.213	-	-	-	2.315
At 31 December 2015	**-**	**(10.203)**	**(43.001)**	**(2.918)**	**(655)**	**-**	**(56.777)**
Net book amount							
At 31 December 2014	63.759	69.806	2.244	26.549	304	170	162.832
At 31 December 2015	**63.759**	**65.973**	**20.845**	**26.537**	**304**	**140**	**177.558**

Land and buildings of the Company with a net carrying amount of HRK 155,950 thousand (*2014: HRK 159,831 thousand*) have been pledged as security for repayment of borrowings from commercial banks (Note 29).

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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 Company 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%.

	2015	2014
	(in thousands of HRK)	
Cost of purchase of capitalised finance leases	1.498	941
Accumulated depreciation	(399)	(636)
Net book value	**1.099**	**305**

(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. 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. 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. 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.	Correction factors used in calculating the market price. Average yield: 7-9% 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. Specific expenses used in determining the net cash flow in the income method. 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	
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. 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 17 – INVESTMENT PROPERTY

	2015	2014
Cost	*(in thousands of HRK)*	
At 1 January	21.880	21.880
Impairment	(10.894)	(10.894)
At 31 December	**10.986**	**10.986**

Investment property with a net carrying amount of HRK 7,369 thousand (*2014: HRK 7,369 thousand*) has been pledged as security for borrowings from a commercial bank. The cost of investment property amounts to HRK 18,263 thousand. Since the property is encumbered by a lien on third-party borrowing liabilities, the fair value of the property was reduced by the amount of the subscribed lien to the net carrying amount of HRK 7,369 thousand.

(i) Valuation techniques and significant inputs

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

NOTE 17 – INVESTMENT PROPERTY (continued)

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 16 (i).	Significant unobservable inputs are described in Note 16 (i).

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS

	2015	2014
	(in thousands of HRK)	
Investment in subsidiaries	193.077	226.983
Investment in associates	15.000	51.451
Shares in investment funds	3.091	3.099
Participating interests	744	1.063
Bonds	753	688
Deposits and guarantees given	1.401	1.477
	214.066	**284.761**

Investments in subsidiaries

(in thousands of HRK)	2015 Share of ownership and voting rights	2015 Carrying amount	2014 Share of ownership and voting rights	2014 Carrying amount
Geotehnika-inženjering d.o.o., Zagreb	100	62.790	100	62.790
IGH Mostar d.o.o., Mostar	100	6.004	100	6.004
IGH Energija d.o.o. (ex IGH Razum d.o.o.), Zagreb	100	222	100	222
Incro d.o.o. (ex Adepto d.o.o.), Zagreb	100	20	100	20
Projekt Šolta d.o.o., Zagreb	100	58.544	100	58.544
IGH Projektiranje d.o.o., Zagreb	100	6.103	100	6.103
Radeljević d.o.o., Zagreb	100	116.828	100	116.828
IGH Consulting d.o.o., Zagreb	100	100	100	100
Novi Črnomerec centar d.o.o., Zagreb	100	151.988	100	151.988
DP AQUA d.o.o., Zagreb	100	451	100	451
ETZ Ekonomsko tehnički zavod d.d., Osijek	87,7	6.684	80,2	6.511
IGH Kosova Sha Priština	74,8	39	74,8	39
Projektni biro Palmotićeva 45 d.o.o., Zagreb	77,3	15.634	77,3	15.634
MBM Termoprojekt d.o.o., Zagreb	60	1.200	60	1.200
Impairment of investments in related parties		(233.530)		(199.451)
		193.077		**226.983**

During 2015, bankruptcy proceedings were initiated against the subsidiary Geotehnika Inženjering d.o.o.

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

(i) Valuation techniques and significant inputs

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

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

Investments in associates

(in thousands of HRK)	2015 Share of ownership and voting rights	2015 Carrying amount	2014 Share of ownership and voting rights	2014 Carrying amount
Elpida d.o.o. Zagreb	50	31.300	50	31.300
Institut za infrastrukturne projekte, Sofija	50	9	50	9
Sportski grad TPN d.o.o. u stečaju, Split	40	8	40	8
Auto cesta Bar Boljare d.o.o., Split	40	8	40	8
Centar Gradski podrum d.o.o., Zagreb	37,5	21.533	37,5	21.533
IGH Lux energija d.o.o. (ex Lux energija d.o.o.), Zagreb	30	14.918	30	14.918
Prvi crnogorski autoput d.o.o., Podgorica	25	-	25	-
Impairment of investments in associates		(52.776)		(16.325)
		15.000		**51.451**

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

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

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**

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

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, Zagreb	-	15
Viktor Lenac d.d. Rijeka	47	47
GP Dubrovnik d.d. u stečaju, Dubrovnik	2.694	2.694
Međimurje beton d.d., Čakovec	383	383
Projektgradnja d.d., Slavonski Brod	-	-
Industrogradnja Grupa d.d.	372	372
Metronet Telekomunikacije d.d.	1.062	1.062
Impairment of participating interests	(3.814)	(3.511)
	744	1.063

NOTE 19 – INVENTORIES

	2015	2014
	(in thousands of HRK)	
Work in progress	247	247
Inventories of finished goods	2.540	2.704
Merchandise	568	568
Less: Impairment of inventories	(2.539)	(2.556)
	816	**963**

Inventories of finished goods relate to unsold business premises that are pledged as security for repayment of borrowings (Note 29).

NOTE 20 – TRADE AND OTHER RECEIVABLES

	2015	2014
Non-current receivables	*(in thousands of HRK)*	
Receivables for apartments sold and equipment with deferred payment	1.456	1.665
Receivables from pre-bankruptcy settlements	11.033	9.214
Less: Impairment of receivables from pre-bankruptcy settlements	(11.033)	(9.198)
	1.456	**1.681**
Current receivables		
Domestic trade receivables	73.811	98.023
Foreign trade receivables	13.879	24.369
Less: Impairment of trade receivables	(53.331)	(65.932)
Receivables from state and governmental institutions	632	1.504
Receivables from employees	685	765
Receivables from related parties	4.392	5.991
Receivables from recharged interest	7.444	7.444
Advances given	2.393	1.622
Other receivables	3.018	4.192
Less: Impairment of other receivables	(15.033)	(13.843)
	37.890	**64.135**

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

	2015	2014
	(in thousands of HRK)	
At 1 January	65.932	51.682
Increase	5.166	19.995
Amounts collected	(3.203)	(2.763)
Written off as uncollectible	(14.564)	(2.982)
At 31 December	**53.331**	**65.932**

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

	2015	2014
	(in thousands of HRK)	
Not due	18.130	33.258
0-60 days	7.534	10.200
60-120 days	1.769	2.585
120-180 days	3.396	4.918
180-360 days	3.039	4.573
Over 360 days	491	926
	34.359	**56.460**

During 2015, receivables in the amount of HRK 10,646 thousand (*2014: HRK 9 thousand*) were permanently written off.

NOTE 21 – LOANS GIVEN

Long-term loans	2015	2014
	(in thousands of HRK)	
Loans given to subsidiaries	60.784	58.571
Loans given to associates	28.120	28.120
Loans given to unrelated parties	23.669	26.934
Impairment of loans given to related parties	(76.601)	(69.601)
	35.972	**44.024**
Short-term loans		
Loans given to subsidiaries	28.474	29.101
Loans given to associates	2.362	2.320
Loans given to unrelated parties	2.829	39
Deposits and guarantees given	957	2.039
Receivables for interests	39.521	32.894
Impairment of loans given	(70.690)	(60.182)
	3.453	**6.211**
	39.425	**50.235**

Loans to related parties were granted interest free or at a discount interest rate.

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

NOTE 22 – CASH AND CASH EQUIVALENTS

	2015	2014
	(in thousands of HRK)	
Giro accounts	406	3.900
Cash on hand	3	3
Foreign currency accounts	22	496
Term cash deposits	-	1.363
	431	**5.762**

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE

	2015	2014
Cost	*(in thousands of HRK)*	
At 1 January	116.616	161.355
Disposals	(7.989)	(44.739)
At 31 December	**108.627**	**116.616**

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 7,989 thousand, whereby liabilities were settled with respect to borrowings from a commercial bank (*2014: HRK 44,739 thousand*).

Liabilities to secured creditors (Note 29) 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.

(ii) Valuation techniques and significant inputs

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

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

NOTE 24 – ACCRUED INCOME AND PREPAID EXPENSES

	2015	2014
	(in thousands of HRK)	
Prepaid expenses	1.453	1.504
Accrued income (stage of completion)	4.348	2.230
VAT on advances received	192	196
	5.993	**3.930**

As at 31 December 2015, the Company has accrued income arising from construction contracts in the amount of HRK 4,348 thousand (*2014: HRK 2,230 thousand*).

NOTE 25 – 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 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.

NOTE 25 – SHARE CAPITAL (continued)

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

Each share holds voting and dividend rights.

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 39.

Given the above, the Company has an obligation to calculate the probability and amount of conversion of debt into equity. Due to the significant uncertainty of key variables in the calculation, the Company did not calculate and recognise the equity component as at 31 December 2015.

NOTE 26 – RESERVES

	2015	2014
	(in thousands of HRK)	
Reserves for treasury shares	1.446	1.446
Treasury shares	(1.446)	(1.446)
	-	-

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

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

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

NOTE 27 – REVALUATION RESERVES

	2015	2014
	(in thousands of HRK)	
At 1 January	126.007	131.637
Revaluation of equipment, net of tax	14.743	-
Transfer to accumulated losses	(1.789)	(1.812)
Transfer to accumulated losses due to sale of assets	-	(3.103)
Decrease in revaluation due to effect of one-off write-off	(392)	(715)
At 31 December	**138.569**	**126.007**

Revaluation reserves are not distributable to shareholders.

NOTE 28 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Long-term borrowings		
Bank loans (secured by mortgage) /i/	1.823	2.625
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
Finance lease	984	9
Other borrowings	65	71
	280.103	**300.827**
Short-term borrowings		
Issued bonds /v/	70.973	70.973
Bank loans (secured by mortgage) /i/	50.096	65.963
Bank loans - current portion of senior debt /iii/	20.066	-
Borrowings from related parties	-	75
Finance lease /vi/	237	27
Other borrowings	2.368	2.368
	143.740	**139.406**

/i/ Bank borrowings in the amount of HRK 350,630 thousand (*2014: HRK 366,710 thousand*) and liabilities arising from issued bonds in the amount of HRK 70,973 thousand are secured with the Company's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Company.

NOTE 28 – BORROWINGS (CONTINUED)

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 Debtor 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 settlement agreement. 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.

/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)					
Up to 1 year	298	26	(60)	(6)	238	20
Between 1 and 5 years	1.090	9	(107)	(1)	983	8
Total	**1.388**	**35**	**(167)**	**(7)**	**1.221**	**28**

NOTE 28 – 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%	196.258	13.395	8.935	151.599	22.329
Comercial bank	EUR	4.5%	78.065	5.328	3.551	60.305	8.881
Comercial bank	EUR	4.5%	12.476	851	568	9.638	1.419
Comercial bank	EUR	4.5%	9.544	447	298	8.053	746
Comercial bank	HRK	6.5%	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	-	-	-
Borrowings from unrelated legal persons	HRK	5%	954	45	30	804	75
Borrowings from other financial institutions	HRK	3M EURIBOR+7.20 p.p.	2.368	2.368	-	-	-
Other borrowings	RUB	4%	65	-	65	-	-
Finance lease	EUR	6.01-7.13%	1.221	237	243	741	-
Bonds	EUR	9%	70.973	70.973	-	-	-
			423.843	**143.740**	**14.565**	**232.088**	**33.450**

Interest rates during the year were in the following range:

- 3M EURIBOR + 6.60% to 7.20%
- 6M EURIBOR+6.25%
- 4.00% to 9.00%

NOTE 29 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused vacation days	Termination benefits	Waranty provision	Legal disputes	Total
At 1 January 2015:						
Non-current portion	-	-	1.648	53	9.782	11.483
Current portion	-	4.762	261	-	22	5.045
	0	**4.762**	**1.909**	**53**	**9.804**	**16.528**
Increase in provisions	-	-	1.209	-	711	1.920
Utilised during the year	-	(439)	(261)	-	(37)	(737)
At 31 December 2015	**-**	**4.323**	**2.857**	**53**	**10.478**	**17.711**
At 31 December 2015:						
Non-current portion	-	-	1.656	53	10.457	12.166
Current portion	-	4.323	1.200	-	22	5.545
	0	**4.323**	**2.856**	**53**	**10.479**	**17.711**

(i) Jubilee awards

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

Unused vacation days

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

(ii) Termination benefits

In 2015, the Company 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 the discount rate of the CNB, the present value of termination benefits of all employees was determined in the amount of HRK 1,656 thousand.

(iii) Warranty provision

The Company 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.

(iv) Legal disputes

Legal provisions relate to a number of legal disputes initiated against the Company. 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 30 – TRADE AND OTHER PAYABLES

	2015	2014
	(in thousands of HRK)	
Non-current liabilities		
Trade payables	12.002	17.291
Liabilities towards related parties	572	839
Liabilities for funds for public housing apartments	722	1.059
Other non-current liabilties - rescheduled tax debt	8.201	10.234
	21.497	**29.423**
Current liabilities		
Domestic trade payables	25.577	24.077
Foreign trade payables	1.680	369
Other current liabilties - rescheduled tax debt	4.884	6.081
Liabilities towards state and governmental institutions	4.685	5.309
Liabilities towards employees	5.290	6.021
Liabilities for shares in profit and rewards to management	1.733	1.733
Interest payable	4.054	6.006
Municipal charges	2.787	2.787
Related party liabilities	651	1.029
Other liabilities	5.287	5.027
	56.628	**58.439**
	78.125	**87.862**

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

As at 31 December 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%.

Other liabilities relate to liabilities for unpaid royalties and services contracts in the amount of HRK 2,291 thousand, liabilities towards municipal and city budgets from the sale of social housing in the amount of HRK 1,529 thousand and other current liabilities in the amount of HRK 1,467 thousand.

The ageing structure of trade payables is as follows:

	2015	2014
	(in thousands of HRK)	
Not due	25.786	32.524
0-90 days	8.264	7.080
91-180 days	2.385	753
181-360 days	1.429	2.150
over 360 days	2.618	1.099
	40.482	**43.606**

The Company's exposure to foreign exchange risk and liquidity risk is presented in Note 33.

NOTE 31 – ADVANCES AND DEPOSITS RECEIVED

	2015	2014
	(in thousands of HRK)	
Advances from domestic debtors	1.477	1.023
Advances from foreign debtors	1.209	1.144
Deposits and guarantees received	353	231
	3.039	**2.398**

NOTE 32 – ACCRUED EXPENSES AND DEFERRED INCOME

	2015	2014
	(in thousands of HRK)	
Accrued expenses	17.455	8.970
	17.455	**8.970**

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

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various financial risks related to foreign exchange, interest rate, credit and liquidity risk. The Company monitors these risks and seeks to minimise their potential impact on the Company's financial exposure. The Company does not use derivative financial 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 Company 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 Company is engaged in the professional and scientific research in the field of construction, the area where the financial crisis has had a significant impact causing relative market inactivity.

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

b) Foreign exchange risk

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

Transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. The resulting exchange differences are credited or charged to the income statement. Changes in exchange rates may affect the profits mainly as a result of foreign exchange gains or losses arising on translation of receivables in foreign currency (EUR) and borrowings and 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 Company is exposed to foreign exchange risk primarily through EUR and therefore the expected changes are not significant.

The total exposure of the Company 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)	390.943	404.965	63.170	74.288
Bosnia and Herzegovina (BAM)	43	23	872	1.077
USA (USD)	2.712	2.443	1.622	1.445

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

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

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a percentage change in foreign 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	(3.278)	(3.307)	(11)	(10)

	BAM currency effect	
	2015	**2014**
	(u tisućama kuna)	
Net result increase	8	11

The middle exchange rates against the Croatian kuna significant for the Company are as follows:

	31 December 2015	**31 December 2014**
EUR	7,63505	7,66147
BAM	3,90374	3,91725
USD	6,99180	6,30211

c) Interest rate risk

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

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

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company in whole or in part, at the time of maturity. Failure to fulfil obligations would endanger the Company's liquidity and reduce the value of its assets. As at 31 December 2015, the Company's financial assets that may potentially expose the Company to credit risk consist primarily of loans receivable, trade and other receivables.

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

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

Liquidity risk

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

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Table analysis of liquidity risk

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

2015 in thousands of HRK	Net book value	Contracted cash flows	Up to 6 months or less	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years
Non-derivative financial liabilities							
Loans received and finance leases	301.281	371.291	18.257	9.595	18.155	290.329	34.955
Trade and other payables	81.164	85.398	53.443	6.404	12.804	12.747	-
	382.445	**456.689**	**71.700**	**15.999**	**30.959**	**303.076**	**34.955**

2014 in thousands of HRK	Net book value	Contracted cash flows	Up to 6 months or less	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years
Non-derivative financial liabilities							
Loans received and finance leases	327.317	406.230	4.255	29.959	20.258	51.745	300.013
Trade and other payables	90.260	91.324	52.064	5.609	14.114	19.537	-
	417.577	**497.554**	**56.319**	**35.568**	**34.372**	**71.282**	**300.013**

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

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

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

(in thousands of HRK)	Net book value	Contracted cash flows	Up to 6 months or less	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years
2015						
Non-derivative financial assets						
Loans given	39.425	42.631	-	6.726	33.675	2.230
Trade and other receivables	39.346	39.346	27.583	10.308	471	984
	78.771	**81.977**	**27.583**	**17.034**	**34.146**	**3.214**
2014						
Non-derivative financial assets						
Loans given	50.235	55.152	-	11.320	-	43.832
Trade and other receivables	65.816	65.816	47.198	16.938	470	1.210
	116.051	**120.968**	**47.198**	**28.258**	**470**	**45.042**

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.

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.

NOTE 33 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital risk management

Net debt-to-equity ratio (gearing ratio)

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

	2015	2014
	(in thousands of HRK)	
Debt (long-term and short-term loans)	301.281	327.317
Cash and cash equivalents	(431)	(5.762)
Net debt	**300.850**	**321.555**
Equity	26.446	118.974
Debt/Equity ratio	1138%	270%

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

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

NOTE 34 – RELATED PARTY TRANSACTIONS

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

Revenue from services to subsidiaries

	2015	2014
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	50	17
IGH Mostar d.o.o., Mostar	-	148
ETZ d.d. Osijek	-	25
Radeljević d.o.o, Zagreb	-	5
IGH Projektiranje d.o.o., Zagreb	2.301	6.444
Projektni biro Palmotićeva 45 d.o.o., Zagreb	442	1.068
	2.793	**7.707**

Revenue from services to associates

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

Services received from subsidiaries

	2015	2014
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	80	810
IGH Mostar d.o.o., Mostar	46	71
ETZ d.d. Osijek	-	20
IGH Projektiranje d.o.o., Zagreb	65	168
Projektni biro Palmotićeva 45 d.o.o., Zagreb	767	586
MBM Termoprojekt d.o.o., Zagreb	440	303
IGH Kosova, Priština	-	0
	1.398	**1.959**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Interest income on loans given to subsidiaries

	2015	2014
	(in thousands of HRK)	
ETZ d.d. Osijek	9	11
	9	**11**

Interest income on loans given to associates

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

Receivables for services provided to subsidiaries

	2015	2014
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o., Zagreb	158	192
IGH Mostar d.o.o., Mostar	-	131
Incro d.o.o., Zagreb	23	22
Radeljević d.o.o, Zagreb	1.327	1.074
Forum Cenatar d.o.o., Zagreb	1	1
IGH Projektiranje d.o.o., Zagreb	980	1.622
Projektni biro Palmotićeva 45 d.o.o., Zagreb	183	1.011
Novi Črnomerec centar d.o.o., Zagreb	-	-
Marterra d.o.o. Zagreb	1.020	1.004
ETZ, Ekonomsko tehniički zavod d.d., Osijek	4	18
DP Aqua d.o.o., Zagreb	75	49
IGH Energija d.o.o.,Zagreb	126	126
Less: Impairment of receivables	(2.471)	(2.461)
	1.426	**2.790**

During the year, HRK 2 thousand of impairment of receivables from subsidiaries was recognised in profit or loss.

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Receivables for services provided to associates

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

During the year, HRK 7 thousand of impairment of receivables from associates was recognised in profit or loss.

Liabilities to related parties based on services received

	2015	2014
	(in thousands of HRK)	
Centar Gradski podrum d.o.o.	626	430
Geotehnika Inženjering d.o.o., Zagreb	20	219
IGH Mostar d.o.o., Mostar	1	43
ETZ d.d. Osijek	42	56
IGH Projektiranje d.o.o., Zagreb	153	545
Projektni biro Palmotićeva 45 d.o.o., Zagreb	7	118
Tehničke konstrukcije d.o.o., Zagreb	272	272
MBM Termoprojekt d.o.o., Zagreb	205	185
Less: Fair value due to pre-bankruptcy settlement	(104)	(175)
	1.222	**1.693**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Loans given to subsidiaries

	Prinicipal	Interest	Prinicipal	Interest
	2015		2014	
	(in thousands of HRK)		*(in thousands of HRK)*	
Geotehnika Inženjering d.o.o., Zagreb	777		1.543	0
IGH Mostar d.o.o., Mostar	5.501	210	5.520	276
Incro d.o.o., Zagreb	64.788	14.899	64.788	14.899
Radeljević d.o.o, Zagreb	5.546	-	3.316	188
Forum Cenatar d.o.o., Zagreb	23	4	17	4
Novi Črnomerec centar d.o.o., Zagreb	24	-	0	-
Marterra d.o.o. Zagreb	8.305	695	8.305	695
IGH Kosova Sha, Priština	3.898	744	3.841	746
IGH Energija d.o.o., Zagreb	54	10	47	10
Projekt Šolta d.o.o., Zagreb	58	2	15	2
Slavonija centar, pos. zona , V. Kopanica	10	-	6	-
ETZ, Ekonomsko tehniički zavod d.d., Osijek	273	20	273	11
Less: Impairment of receivables	(76.681)	(16.564)	(64.461)	(16.822)
	12.576	**20**	**23.211**	**11**

During the year, HRK 9,460 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

Loans given to associates

	Prinicipal	Interest	Prinicipal	Interest
	2015		2014	
	(in thousands of HRK)		*(in thousands of HRK)*	
Sportski grad TPN d.o.o., 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)
	-	-	-	-

Information on co-debtorships and guarantees issued to related parties are stated in Note 35.

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

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 35 – CONTINGENCIES

	2015	2014
	(in thousands of HRK)	
Legal disputes	76.863	76.910
Guarantees given and warranties - external	38.870	40.732
Co-debtorship in related party loans	30.415	30.521
Issued guarantees for related parties	1.230	959
	147.378	**149.122**

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 Company.

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

	2015	2014
	(in thousands of HRK)	
Geotehnika Inženjering d.o.o. Zagreb	14.565	14.616
Incro d.o.o. Zagreb	15.850	15.905
	30.415	**30.521**

NOTE 36 – COMMITMENTS

Future payments under operating leases for vehicles and other commitments 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 37 – GOING CONCERN

In the year ended 31 December 2015, the Company incurred an unconsolidated net loss of HRK 102,606 thousand (2014: loss of HRK 6,265 thousand) and at year-end, the Company's unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 69,197 thousand (*2014: HRK 16,641 thousand*).

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

NOTE 38 – 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 towards related parties, natural persons for service contracts and royalties and non-financial institutions in the total amount of HRK 2,392 thousand.

II. Settlement with banks

PIK debt

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

NOTE 38 – EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (CONTINUED)

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 became legally valid, consequently reducing the repayment period to 6.5 years after the first instalment becomes due.

Junior debt

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

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

	2015	2014
	(in thousands of HRK)	
Transformation of liablity to capital (Note 26)	-	17.816
PIK debt (Note 29)	182.404	182.908
Senior debt (Note 29)	107.019	107.316
Junior debt (Note 29)	7.874	7.898
	297.297	**315.938**

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 liabilities toward creditors without subscribed shares	-	5.690
Discounting non-current liabilities	(2.842)	(4.436)
	(2.842)	**1.254**

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 29 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 23 in the amount of HRK 108,627 thousand.

Since the legally valid pre-bankruptcy settlement up to 31 December 2015, the Company settled an amount of HRK 102,189 thousand, incurred before initiating the pre-bankruptcy settlement, by payments in cash, issuing registered shares, converting a part of receivables of a part of creditors into equity, payment of priority claims and other claims of employees with accompanying taxes and contributions, and write-off in accordance with the provisions of the pre-bankruptcy settlement.

NOTE 39 – EARNINGS PER SHARE

Basic earnings per share is calculated as follows:

	2015	2014
	(in thousands of HRK)	
Profit/(loss) for the year (in thousands of HRK)	(106.878)	6.265
Weighted average number of shares	609.800	494.049
Basic earnings/(loss) per share (in HRK)	**(175,27)**	**12,68**

As stated in Notes 26 and 39, 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 Company did not calculate diluted earnings per share in the event of conversion of the stated portion of debt into equity.