



## **ĐURO ĐAKOVIĆ HOLDING d.d.**

This Prospectus has been prepared to comply with the Croatian law and related secondary legislation, including the Commission Regulation (EC) no. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003. This Prospectus has been prepared in Croatian language and only the version of the Prospectus structured in Croatian language has been reviewed and approved by the Croatian Financial Services Supervisory Agency being the competent supervisory authority ("CFSSA").

The original version of the Prospectus, which was structured in Croatian language, was publicized at the web page of the Issuer ([www.duro-dakovic.com](http://www.duro-dakovic.com)) and at the web page of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)). Printed version of the Prospectus structured in Croatian language is available in the registered seat of the Issuer, free of charge. Upon demand of an investor submitted either to the Issuer or to Zagrebačka banka d.d., a printed version of the Prospectus structured in Croatian language will be delivered to the investor, free of charge.

The following translation of the original Prospectus has not been approved by the CFSSA. Furthermore, the CFSSA did not review its consistency with the original text of the Prospectus.

Đuro Đaković d.d. as the Issuer shall not be liable for any claims arising from potential discrepancies of this informal English translation and the official text of the Prospectus in the Croatian language.

# ĐURO ĐAKOVIĆ HOLDING d.d.

## Prospectus for issue of up to 9,711,204 new ordinary shares

Đuro Đaković Holding dioničko društvo („Issuer“ or „Company“) at its General Assembly held on 3 July 2014 made the Decision on increasing the share capital by investments in cash. The Issuer shall issue up to 9,711,204 new ordinary shares, with nominal amount of HRK 20.00 each („New Shares“ or „Shares“). The increase of the share capital of the Issuer shall be conducted by public offer of the New Shares to the existing shareholders of the Issuer and qualified investors as per Annex 1 hereof, by payment in cash. The issue of the New Shares shall be deemed successful if within the deadlines for subscription and payment of the New Shares at least 4,000,000 New Shares are subscribed and paid. The issue of the New Shares shall follow after the increase of the share capital of the Issuer is entered in the companies registry of the Commercial Court of Osijek, Permanent Service in Slavonski Brod.

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**Price range for the subscription shall amount from  
HRK 20.00 to HRK 60.00 per share.**

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The New Shares may not be issued for the amount less than the nominal amount of share, i.e. less than HRK 20.00. Zagrebačka banka d.d. („Issuing Agent“) shall be in charge of providing services of drawing up and implementation of the public offer of the New Shares, without the obligation of redemption.

The Issuer is a member of the depository of the Central Depository and Clearing Company d.d. („CDCC“) and the New Shares shall be included in the depository services and CDCC's clearing and settlement services.

This Prospectus („Prospectus“) has been approved by the Croatian Financial Services Supervisory Agency („Agency“) and it shall be published in the electronic form on the Issuer's website. The Prospectus shall also be available at the Issuer's registered seat at request, free of charge.

The Issuer's existing ordinary shares are listed in the regular market of the Zagreb stock exchange (ticker: DDJH-R-A). The Issuer intends to also list the New Shares in the regular market of the Zagreb Stock Exchange.

Pursuant to the provisions of the Companies Act and the Issuer's Memorandum of Association, the New Shares shall upon entry in the companies registry of the competent commercial court give the same rights as the existing ordinary shares of the Issuer.

There are no restrictions on the free transferability of the New Shares.

**Investing in the New Shares involves risks. Prior to investing in the New Shares, investors should inspect and take into account important factors specified in Part II – item 4 “Risk factors related to the Issuer” and in Part III – item 2 “Risk factors related to investment in shares” hereof.**

Issuing Agent  
**Zagrebačka banka d.d.**

Date of this Prospectus is 9 October 2014

## IMPORTANT REMARKS

The Issuer takes responsibility for accuracy and completeness of this Prospectus composed of a single document and information contained therein. Pursuant to the data at the disposal of the Issuer and its knowledge, information in this Prospectus represent an accurate and complete presentation of its assets, including, but not limited to rights and obligations, then profit and loss, its financial condition, as well as rights and obligations arising from or related to the shares of the Issuer. In the Issuer's knowledge, not a single fact that may influence the accuracy and/or completeness of this Prospectus composed of a single document has been omitted, including, but not limited to the information which may significantly affect making of the decision on investing in the shares of the Issuer and all risks related thereto.

Only information contained herein are relevant for deciding on investing in the Issuer's shares. Any potential investor must decide on investing in the Issuer's shares based on their own assessment of the Issuer and terms and conditions of the offer for the New Shares. The Issuer has not authorized any natural and/or legal person to provide information related to the Issuer's shares and any information from third parties, which differ from information contained herein, shall not be deemed relevant.

The Issuer also neither confirms, explicitly or implicitly, accuracy of unauthorized provided information or statements, nor approves their provision nor takes responsibility for any damage investors may suffer in relation thereto.

Accuracy and completeness of information contained herein has been established pursuant to the situation on the date of this Prospectus, unless specifically mentioned otherwise in the Prospectus itself that they refer to some other day.

The Issuer states that there is a possibility that the information contained herein, related to the Issuer's operation, its financial condition and operating results, might have changed after the date of this Prospectus.

The Issuer, within meaning of Article 359 of the Capital Market Act (Official Gazette of the Republic of Croatia no. 88/08, 146/08, 74/09, 54/13 and 159/13) (hereinafter referred to as „CMA“) acts as the sole offeror of the shares.

The governing law for the Prospectus in whole shall be the law of the Republic of Croatia, with the exclusion of conflict of law provisions of the international private law. For disputes referring to the Issuer's shares, including the disputes on the validity of their issue, as well as to legal consequences arising therefrom, competent shall be the subject-matter competent courts of the Republic of Croatia. Foreign investors shall comply with the applicable regulations of the foreign country.

This Prospectus may not be deemed as a recommendation to buy or offer to sell the Issuer's shares in its name and on its behalf, or in the name and on the behalf of the companies related to the Issuer, their related companies and representatives. The Prospectus contains

no advice, including, but not limited to advice related to investing into the Issuer's shares, legal or financial advice.

The Issuer directs each investor contemplating the possibility of subscription and payment, i.e. purchase and sale of the New shares, to the necessity and desirability of one's own examination, assessment and judgment of all information of the facts, risks, trends, forecasts and estimates referring to the Issuer, shares and business environment.

Distribution of the Prospectus, as well as offer and sale of shares in certain legislations may be restricted by appropriate regulations. Investors must become familiar with and act in compliance with the above mentioned regulations. Investors must act in compliance with the legislation applicable in the territory of the state in which the shares are bought, offered or sold, i.e. in the territory in which they own or distribute the Prospectus and must obtain consents, approval or permissions provided for by the applicable legislation. The Issuer hereby neither enables giving offers to buy shares nor solicits persons to buy shares in any territory, other than the territory where it is provided for by the applicable legislation.

#### **FORWARD-LOOKING STATEMENTS**

The Issuer specifies certain information in the Prospectus not as historical, but as certain facts related to the future, whereby such facts are specified in several parts of the Prospectus, including, but not limited to the facts mentioned in Part II – item 12 „*Trend information*“ hereof.

Terms such as „believes“, „projects“, „estimates“, „expects“, „intends“, „announces“, „contemplates“, „might“, „may“, „will“, „plans“ and other similar terms refer exclusively to the statements on the future.

Taking into consideration their nature, statements on the future include inseparable general and/or special risks and uncertainties, due to which there is a probability that certain statements on the future shall not be realised.

The forward-looking statements include, among other things, risk factors specified in Part II – item 4 „*Risk factors related to the Issuer*“ and in Part III – item 2 „*Risk factors related to investment in shares*“ hereof, but also other factors specified in any other parts of the Prospectus.

When making certain decisions based on the statements on the future, investors are required to take into account all specified, but also all other known risk factors, uncertainties and events that may in any way affect regular operation of the Issuer. Statements on the future refer only to the time when they were given and the Issuer takes no responsibility in part of updating or revising the specified statements on the future based on the subsequently available data, future events or other reasons, unless if provided for by the applicable legislation or rules of the Zagreb Stock Exchange Ltd.

The Issuer hereby gives no statement, projection or guarantee that the statements on the

future shall indeed be realised. Statements on the future may not be deemed the most likely or standard scenario, but they represent exclusively one of the possible scenarios for the Issuer's operation.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

All annual information, including, but not limited to the consolidated financial statements of the Issuer in this Prospectus are based on calendar years. In certain places in the Prospectus the numbers have been rounded up, due to which there is a possibility that certain specified sums in the Prospectus do not correspond to the arithmetic sum of their elements.

The Prospectus contains the Issuer's audited consolidated financial statements for the years ending on 31 December 2011, 31 December 2012 and 31 December 2013 and the Issuer's unaudited financial statements for periods ending on 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014. The Specified audited financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Presentation of financial information pursuant to IFRS demands from the Issuer to create assessments and make assumptions related to the future that may influence the values presented in financial statements and notes. Resulting accounting assessments are, by definition, in rare occasions equal to actual results.

The Issuer's consolidated financial statements for 2011, 2012 and 2013 have been audited by the company Deloitte d.o.o., having its registered seat in Zagreb, Zagrebtower, Radnička cesta 80, entered in the companies registry of the Commercial Court of Zagreb under the entry number (MBS) 030022053, personal identification number (PIN) 11686457780. Deloitte d.o.o. is entered in the Registry of Auditing Companies kept by the Croatian Chamber of Auditors under the number 100001360. The certified auditor in the company Deloitte d.o.o. who has audited financial statements of the Issuer and signed auditing reports is Branislav Vrtačnik, president of the Management Board and certified auditor.

The Prospectus contains unaudited consolidated financial statements of the Issuer for first six months of 2011, 2012, 2013 and 2014, published by the Issuer on the Zagreb Stock Exchange. Considering that these reports were not audited, there is a possibility they are not entirely comparable with the audited consolidated financial statements of the Issuer.

Potential investors shall when deciding on investing in the Issuer's shares individually assess Issuer's business, terms and conditions of the offer as well as financial data contained herein.

## **PRESENTATION OF OTHER INFORMATION**

Unless expressly specified otherwise, or unless otherwise results from the context where they are mentioned, terms below shall, for the purposes of this Prospectus, have the following meanings:

- term „Đuro Đaković grupa“ or „Group“ shall include the company Đuro Đaković Holding d.d. and seven companies where Đuro Đaković Holding d.d. is a majority owner:
  - Đuro Đaković Specijalna vozila d.d.,
  - Đuro Đaković Elektromont d.d.,
  - Đuro Đaković Inženjering d.d.,
  - Đuro Đaković Proizvodnja opreme d.o.o.,
  - Đuro Đaković Strojna obrada d.o.o.,
  - Đuro Đaković Energetika i infrastruktura d.o.o.,
  - Slobodna zona Đuro Đaković Slavonski Brod d.o.o.;
- term „HRK“ shall mean currency unit of the Republic of Croatia;
- terms „euro“ or „EUR“ or „€“ shall mean currency unit applicable in the territory of the European Monetary Union member states;
- terms „USD“ or „\$“ shall mean currency unit applicable in the territory of the United States of America.
- term „Kongsberg“ shall mean the company Kongsberg Defence & Aerospace AS, Kirkegårdsveien 45, P.O. Box 1003, NO-3616 Kongsberg, Norway
- term „Patria“ shall mean the company Patria Land Systems OY, Kaivokatu 10 A, 00100 Helsinki, Finland (address for mail and visits: Autotehtaantie 6, PL 186, 13101 Hämeenlinna, Finland)
- term „Janaf“ shall mean the company Jadranski naftovod d.d.
- term INA shall mean the company Industrija nafte d.d.
- term HEP shall mean the company Hrvatska elektroprivreda d.d.
- term STSI shall mean the company Integrirani tehnički servisi d.o.o.
- term MORH shall mean the Ministry of Defence of the Republic of Croatia
- term EU shall mean the European Union
- term k.o. shall mean cadastral municipality.

There is a possibility that the total amounts in certain tables in this Prospectus do not match the exact arithmetic sum of the used individual amounts, which is a consequence of rounding up of used individual amounts.

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# I. SUMMARY OF THE PROSPECTUS

## A. Introduction and warnings

### A.1. Warnings

Hereinafter follows the summary (“Summary”) of the essential characteristics and risks associated with the Issuer, as well as essential characteristics of the shares that are the subject of the public offer.

The Summary is exclusively an introduction to the Prospectus. Decision on investing in the New Shares of the Issuer shall be based exclusively on the assessment of the Prospectus as a whole. Prior to deciding on investment, potential investors should inspect in detail the entire Prospectus, including the information contained in Part II – item 4 “Risk factors related to the Issuer” and in Part III – item 2 “Risk factors related to investment in shares” hereof, audited consolidated financial statements of the Issuer for 2011, 2012 and 2013 and unaudited consolidated financial statements of the Issuer for the first six months of the years 2011, 2012, 2013 and 2014, which are presented in Part II of the Prospectus and other financial information.

The language of the Prospectus is Croatian. There is no and there will not be published a translation of this Prospectus into any other language except Croatian, nor notification of this Prospectus has been required.

In case when a claim has been filed to the court related to information from the Prospectus, investor who has submitted a claim may at its own expense be required to translate the Prospectus into the official language of the court in charge of the proceedings.

Persons who drew up the Summary have a liability only for the damage caused by the summary if it is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or if the Summary, when read together with the other parts of the Prospectus, fails to provide key information which would help investors when deciding on possible investment in the respective securities.

*Element A.2 from the Annex XXII of the Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ EU 2004, L149/1) and all amendments thereto in force (Council Regulation no. 1787/2006, Commission Regulation no. 211/2007, Commission Regulation no. 1289/2008, Commission Delegated Regulation no. 311/2012, Commission Delegated Regulation no. 486/2012, Commission Delegated Regulation no. 862/2012 and Commission Delegated Regulation no. 759/2013) (“Regulation”) shall not apply.*

## B. Summary of information on the Issuer

### B.1. Name and company name of the Issuer

Company name:	Đuro Đaković Holding dioničko društvo
Abbreviated company name:	Đuro Đaković Holding d.d.

### B.2. Registered seat and legal form of the Issuer, the legislation under which the Issuer operates and its country of incorporation.

<i>Registered seat of the Issuer:</i>	Slavonski Brod, Dr. Mile Budaka 1
<i>Legal form:</i>	Joint stock company
<i>Legislation of Issuer's business:</i>	Legislation of the Republic of Croatia
<i>Country of incorporation:</i>	Republic of Croatia

### B.3. A description of, and key factors relating to, the nature of the Issuer's business and its principal activities and, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes

The Issuer is a parent and management company which, together with seven subsidiaries in its majority ownership, forms Đuro Đaković Group.

Due to diversified production portfolio, business of the Group is performed through five business divisions (Defence, Transport, Industry and Energetics, Construction and Infrastructure, Renewable Energy Sources).

Business activities of the **division Defence** are production and maintenance of tanks and combat vehicles in the Republic of Croatia, as well as supply of all related services of support and maintenance of these products. In the previous period the division Defence operated only on the domestic market. However, since the Group in the medium term does not expect a significant need for new defence products on the domestic market, the Issuer plans



to achieve further strategic development of this division by sale on foreign markets, with the orientation to the countries of the Middle East, South East Europe and Africa. Condition precedent to the division Defence acting on the international market is maintaining the existing strategic partnerships with global companies Patria and Kongsberg.

Business activities of the **division Transport** include production of railway cargo wagons. The Group is the only manufacturer of railway cargo wagons in the Republic of Croatia. In 2013 the income of this segment decreased, mostly due to the decrease of orders and demand for cargo wagons in the domestic market. The Group sees a strong correlation between trends in the transport industry and global economic movements, whereas prices of raw materials on regional markets have a direct influence on the industry.

Business activities of the **division Industry and Energetics** include providing engineering services and performing works related to industrial plants for oil and gas, chemical and petrochemical industry, power generation plants, food industry, cement industry and metallurgy. The energetics industry is significantly influenced by the national policies for gas supply, stagnation of the fuel consumption in the developed economies as a consequence of technological growth and more efficient energy use. Additional factor in Croatia is weaker population growth.

Business activities of the **division Construction and Infrastructure** include providing services of construction and assembly for power plants, petrochemical and industrial plants, construction of metal bridges, steel construction and high rise construction (viaducts, flyovers, etc.) and adjoining infrastructure. The division is focused on railway infrastructure construction projects in Croatia in cooperation with the partners from the EU.

Business activities of the **division Renewable Energy Sources** include development of services and production in the field of renewable energy. This market orientation is focused on satisfying the growing demand for renewable energy sources on the Croatian, regional, EU and world markets.

#### **B.4.a. A description of the most significant recent trends affecting the issuer and the industries in which it operates.**

Macroeconomic trends, as well as specific trends of industries in which the Group operates, have a significant influence on the Issuer.

The main trend influencing the Issuer is the fall of economic activity of Croatia, which has manifested itself as the fall of gross domestic product. Croatian GDP has fallen from EUR 47.5 billion in 2008 to EUR 43.1 billion in 2013. In the first quarter of 2014 the negative trend has continued and real gross national product was less by 0.4% compared to the same period of 2013. Factors which have mostly contributed to the fall of the gross domestic product were consumption fall, fall of industrial production and fall of investments. Considering that the Issuer achieves most of its income in the territory of the Republic of Croatia (87% in 2013), such economic trends have significantly influenced the Group's income.

As already mentioned in Part I – item B.3 hereof, the Issuer is organised into five business divisions, whereby each of them covers a particular market segment of business: Defence, Transport, Industry and Energetics, Construction and Infrastructure and Renewable Energy Sources. Considering that the Group achieves most of its income on defence, transport and energetics market, trends on each of them influence the achieved income of the Group.

On the defence market, changes of political relations and military doctrines in the world have caused a change of structure of global revenues derived from military technology and resulted in increased share of income from armoured combat vehicles, and decreased from tanks. In the medium term, the Group expects stability of world sale of armoured combat vehicles and further decrease in sale of new tanks, but also the increase of income from upgrade and modernization of the existing tanks. In previous few years, business of the Group has been strongly boosted by delivery of armoured combat vehicles to the Ministry of Defence of the Republic of Croatia, from which the majority of income has been achieved in 2011 and 2012 and a smaller share in 2013.

Considering that the division Transport achieves most of its income on the domestic market, which is significantly affected by crisis, income in this market segment is almost absent.

Energetics industry has been significantly affected the national policies for gas supply, stagnation of the fuel consumption in developed economies as a consequence of technological growth and more efficient energy use. Additional factor in Croatia is weaker population growth.

*Element B.4.b from Annex XXI of the Regulation shall not apply.*

## **B5. A description of the group and position of the Issuer in the group**

The Issuer is a parent and management company which, together with seven subsidiaries in its majority ownership, forms Đuro Đaković Group.

Đuro Đaković Specijalna Vozila d.d.,

Đuro Đaković Elektromont d.d.,

Đuro Đaković Inženjering d.d.,

Đuro Đaković Proizvodnja opreme d.o.o.,

Đuro Đaković Strojna obrada d.o.o.,

Đuro Đaković Energetika i Infrastruktura d.o.o.,

Slobodna Zona Đuro Đaković Slavonski Brod d.o.o.,

## B.6. Majority shareholders

On 31 August 2014 in the share ledger of Đuro Đaković Holding d.d. a total of 4,197 shareholders have been entered.

All shares of the Issuer give equal voting rights. In the knowledge of the Issuer, no person has direct or indirect ownership or control in the Issuer.

**Table 1 Shareholders of the Issuer with 5 or more % in the share capital on 31 August 2014**

No.	Shareholder	No. of shares*	Capital** (HRK)	Share in the capital (%)
1.	State Office for State Property Management / Croatian Pension Insurance Institute	660,000	13,200,000	20.39
2.	State Office for State Property Management / Republic of Croatia	564,552	11,291,040	17.44
3.	Privredna Banka Zagreb d.d. (custody account)	210,291	4,205,820	6.50
4.	Erste & Steiermärkische Bank d.d. (custody account)	202,325	4,046,500	6.25

Source: \*CCDC; \*\*Issuer

Besides the above mentioned situation pursuant to CDCC as of 31 August 2014, the shareholder Nenad Bakić notified the Issuer on 10 July 2014 that on 7 July 2014 he had in his ownership 324,969 shares, representing 10.039% of the voting rights in the Issuer.

## B.7. Selected historical key financial information regarding the Issuer, presented for each financial year of the period covered by the historical financial information and description of significant change to the Issuer's financial condition and operating results during the period covered by the historical key financial information.

The selected financial information presented in Croatian kuna ("HRK", "kn" or "kuna") specified hereinafter have been derived from audited consolidated financial statements of the Issuer for the first six months of 2011, 2012 and 2013 and from unaudited consolidated financial statements of the Issuer for the first six months of 2011, 2012, 2013 and 2014 and should be read together with them. The specified audited consolidated financial statements of the Issuer have been presented in Part II – item 20.1 "Historical financial data" of the Prospectus. The specified unaudited consolidated financial statements of the Issuer have been presented in Part II – item 20.6.1 of the Prospectus. The following information should also be read together with the text in Part II – item 9 hereof.

**Table 2 Consolidated profit and loss account of the Issuer/Consolidated statement of comprehensive income of the Issuer**

(in 000 kunas)	<b>2011</b>	<b>2012</b>	<b>2013</b>
Sales income	773,565	1,039,891	591,407
Other income	22,234	38,867	20,150
<b>Total income</b>	<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>
Increase/decrease in the value of work in progress and finished products	17,019	(77,406)	22,537
Material costs	(645,654)	(821,433)	(479,725)
Labour costs	(85,295)	(100,058)	(112,589)
Depreciation (amortization)	(17,221)	(18,189)	(19,368)
Other expenses	(29,205)	(41,410)	(50,788)
Value adjustment	(12,188)	(6,994)	(50,154)
Other operating expenses	(3,607)	(6,403)	(39,989)
<b>Total expense (cost)</b>	<b>(776,151)</b>	<b>(1,071,893)</b>	<b>(730,076)</b>
<b>Profit / (loss) from operations</b>	<b>19,648</b>	<b>6,865</b>	<b>(118,519)</b>
Financial income	4,779	6,196	5,270
Financial expenses	(22,975)	(18,734)	(11,036)
<b>Net financial loss</b>	<b>(18,196)</b>	<b>(12,538)</b>	<b>(5,766)</b>
<b>Loss before taxation</b>	<b>1,452</b>	<b>(5,673)</b>	<b>(124,285)</b>
Income tax expense	(2,729)	(254)	-
<b>Loss for the year</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
<b>Other comprehensive loss</b>	-	-	-
<b>Total comprehensive loss</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
Loss attributable:			
To the equity holder of the parent	(1,162)	(4,581)	(119,115)
Non-controlling interests	(115)	(1,346)	(5,170)
Total comprehensive loss attributable:			
To the equity holder of the parent	(1,162)	(4,581)	(119,115)
Non-controlling interests	(115)	(1,346)	(5,170)
<b>Earnings per share:</b>			
- basic and diluted (in kunas and lipas)	(0.36)	(1.42)	(36.80)

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 3 Consolidated statement of financial position of the Issuer**

(in 000 kunas)	<b>31.12.2011</b>	<b>31.12.2012</b>	<b>31.12.2013</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7,297	27,316	24,578
Property, plant and equipment	158,285	172,436	164,324
Investments in real estate	14,717	14,215	24
Given loans, deposits and similar	889	3,795	967
Investments in securities and equities	1,635	3,107	2,877
Other non-current financial assets	46	43	-
Receivables	13,263	11,903	11,659
<b>Total non-current assets</b>	<b>196,132</b>	<b>232,815</b>	<b>204,429</b>
<b>Current assets</b>			
Inventories	306,341	123,552	121,845
Trade receivables	112,002	184,248	100,168
Other receivables	16,417	26,517	35,563
Other financial assets	21,009	2,023	740
Cash and cash equivalents	59,592	25,862	143,366
Prepaid expenses and accrued	3,494	2,010	717
<b>Total current assets</b>	<b>518,855</b>	<b>364,212</b>	<b>402,399</b>
<b>TOTAL ASSETS</b>	<b>714,987</b>	<b>597,027</b>	<b>606,828</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	323,707	323,707	258,965
Capital reserves	-	-	6,923
Reserves for own shares	4,700	4,700	3,760
Own shares	(4,700)	(4,700)	(3,760)
Accumulated losses	(119,451)	(124,032)	(185,328)
Attributable to the equity holders of the parent	<b>204,256</b>	<b>199,675</b>	<b>80,560</b>
Non-controlling interests	(728)	(2,074)	(7,244)
<b>Total equity</b>	<b>203,528</b>	<b>197,601</b>	<b>73,316</b>
<b>Provisions</b>	<b>19,064</b>	<b>12,682</b>	<b>17,945</b>
<b>Non-current liabilities</b>			
Borrowings	109,156	91,316	76,778
Financial lease obligations	1,464	1,167	1,244
Other non-current liabilities	27,192	15,034	14,392
<b>Total non-current liabilities</b>	<b>137,812</b>	<b>107,517</b>	<b>92,414</b>
<b>Current liabilities</b>			
Loans and deposits payable	32	2,718	-
Borrowings and financial lease obligations	64,820	45,483	109,109
Trade payables	162,084	146,078	209,074
Other current liabilities	122,741	76,139	87,126
Accrued expenses and deferred income	4,906	8,809	17,844
<b>Total current liabilities</b>	<b>354,583</b>	<b>279,227</b>	<b>423,153</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>714,987</b>	<b>597,027</b>	<b>606,828</b>

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 4 Consolidated statement of cash flows of the Issuer**

(in 000 kunas)	2011	2012	2013
<b>Cash flows from operating activities</b>			
<b>Loss for the year</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
<i>Adjusted for:</i>			
Income tax expense	2,729	254	-
Depreciation and amortization	17,221	18,189	19,368
Foreign exchange differences, net	4,427	2,329	1,678
Interest expenses	16,527	14,222	7,809
Interest income	(2,553)	(1,552)	(3,832)
Increase / (decrease) in provisions	7,340	(6,382)	5,263
Impairment allowance on trade receivables	11,760	6,434	13,636
Impairment allowance on other financial assets	428	560	971
Income from debt write-off	(1,092)	(11,604)	-
Written-off value of tangible non-current assets in preparation	-	-	12,363
Loss on disposal and retirement of non-current tangible and intangible assets	(11,635)	423	111
<b>Operating cash flows before changes in working capital</b>	<b>43,875</b>	<b>16,946</b>	<b>(66,918)</b>
Decrease / (increase) in inventories	(71,131)	155,599	1,707
Decrease in other non-current receivables	0	-	244
Decrease / (increase) in trade receivables	(17,632)	(77,128)	74,276
Decrease / (increase) in other receivables from customers	(3,359)	(10,100)	(9,046)
Decrease / (increase) in advances paid	4,311	(2,904)	2,871
(Decrease) / increase in trade payables	73,812	(16,006)	62,996
(Decrease) / increase in other liabilities	51,201	(44,951)	10,345
(Decrease) / increase in prepaid expenses and accrued income	(2,481)	1,484	1,293
(Decrease) / increase in accrued expenses and deferred income	(1,047)	3,903	9,035
(Decrease) / increase in advances received	7	2,686	(2,718)
<b>Cash generated from operating activities</b>	<b>77,556</b>	<b>29,529</b>	<b>84,085</b>
Income tax paid	(1,256)	(2,460)	-
Interest paid	(16,638)	(23,286)	(8,508)
<b>Net cash generated from operating activities</b>	<b>59,662</b>	<b>3,783</b>	<b>75,577</b>
<b>Cash flow from investment activities</b>			
Purchases of property, plant and equipment and intangible assets	(10,846)	(17,075)	(6,800)
Collection of given loans	13,730	1,360	-
Decrease in term deposits	(5,909)	18,986	1,283
Purchases of available-for-sale securities	-	(2,032)	(741)
Proceeds from disposal of property, plant and equipment and intangible assets	103	-	-
Proceeds from disposal of available-for-sale securities	23,261	-	-
<b>Net cash (used in) / generated from investing activities</b>	<b>20,339</b>	<b>1,239</b>	<b>(6,258)</b>
<b>Cash flow from financing activities</b>			
Received borrowings	254,331	313,270	136,064
Repayments of borrowings	(306,646)	(352,022)	(87,879)
<b>Net cash generated / (used in) from financing activities</b>	<b>(52,315)</b>	<b>(38,752)</b>	<b>48,185</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>27,686</b>	<b>(33,730)</b>	<b>117,504</b>
Cash and cash equivalents at the beginning of the year	31,906	59,592	25,862
Cash and cash equivalents at the end of the year	59,592	25,862	143,366

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 5 Consolidated statement of changes in equity of the Issuer**

	Share capital	Legal reserves	Reserves for treasury shares	Treasury shares	Accumulated losses	Total parent	Non-controlling interest	Total
<b>Balance at 31 December 2011</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(119,451)</b>	<b>204,256</b>	<b>(728)</b>	<b>203,528</b>
Loss for the year	-	-	-	-	(4,581)	(4,581)	(1,346)	(5,927)
<b>Balance at 31 December 2012</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(124,032)</b>	<b>199,675</b>	<b>(2,074)</b>	<b>197,601</b>
Decrease in share capital	(64,742)	6,923	-	-	57,819	-	-	-
Changes in reserves for own shares	-	-	(940)	940	-	-	-	-
Loss for the year	-	-	-	-	(119,115)	(119,115)	(5,170)	(124,285)
<b>Balance at 31 December 2013</b>	<b>258,965</b>	<b>6,923</b>	<b>3,760</b>	<b>(3,760)</b>	<b>(185,328)</b>	<b>80,560</b>	<b>(7,244)</b>	<b>73,316</b>

Source: Audited consolidated financial statements of the Issuer for 2013

**Table 6 Trending in profit margins**

	(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013
Operating income		795,799	1,078,758	611,557
Operating expenses		776,151	1,071,893	730,076
Depreciation (amortization)		17,221	18,189	19,368
EBITDA		36,869	25,054	(99,151)
EBIT		19,648	6,865	(118,519)
Profit/loss after taxation		(1,277)	(5,927)	(124,285)
(in %)				
EBITDA margin		4.63%	2.32%	(16.21%)
EBIT margin		2.47%	0.64%	(19.38%)
Net margin		(0.16%)	(0.54%)	(20.32%)

Source: Issuer

**Table 7 Consolidated profit and loss statement of the Issuer / Consolidated statement of comprehensive income of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
<b>Operating income</b>		<b>360,410</b>	<b>509,232</b>	<b>280,498</b>	<b>193,905</b>
Material costs		298,250	433,133	221,566	123,815
Labour costs		40,328	47,801	52,593	58,031
Other expenses		14,671	15,381	24,298	34,973
Depreciation and amortization		8,646	8,864	9,927	9,279

Reservations for expenses and risks	-	-	-	-
Value adjustment	1,450	900	147	19
<b>(Loss)/profit from operations</b>	<b>(2,935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
Financial income	7,107	1,842	1.430	1,066
Financial expenses	2.254	3,340	2.878	5,261
<b>(Loss)/profit from financials</b>	<b>4.853</b>	<b>(1,498)</b>	<b>(1,448)</b>	<b>(4,195)</b>
<b>(Loss)/profit before taxation</b>	<b>1.918</b>	<b>1,655</b>	<b>(29,481)</b>	<b>(36,407)</b>
Income tax expense	1.515	451	10	
<b>(Loss)/profit after taxation</b>	<b>403</b>	<b>1,204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>Non-controlling interests</b>				
<b>(Loss)/profit for the year</b>	<b>403</b>	<b>1.204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>EBITDA</b>	<b>5.711</b>	<b>12,017</b>	<b>(18,106)</b>	<b>(22,933)</b>
<i>EBITDA margin (%)</i>	<i>1.58%</i>	<i>2.36%</i>	<i>(6.45%)</i>	<i>(11.83%)</i>
<b>EBIT</b>	<b>(2.935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
<i>EBIT margin (%)</i>	<i>(0.81%)</i>	<i>0.62%</i>	<i>(9.99%)</i>	<i>(16.61%)</i>
<i>NETO profit margin (%)</i>	<i>0.11%</i>	<i>0.24%</i>	<i>(10.51%)</i>	<i>(18.76%)</i>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013 and 2014

**Table 8 Consolidated statement of financial position of the Issuer**

	(in 000 kunas)	30.06.2011	30.06.2012	30.06.2013	30.06.2014
<b>ASSETS</b>		<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Non-current assets</b>		<b>225,340</b>	<b>210,150</b>	<b>220,303</b>	<b>221,756</b>
Intangible assets		5,947	8,172	25,048	25,749
Property, plant and equipment		173,358	173,420	180,203	181,200
Investments in real estate		27	26	25	24
Financial assets		15,931	15,951	3,598	3,844
Receivables		30,077	12,581	11,429	10,939
Deferred tax assets		-	-	-	-
<b>Current assets</b>		<b>567,186</b>	<b>504,556</b>	<b>247,285</b>	<b>242,482</b>
Inventories		207,935	231,892	101,624	102,868
Trade receivables		279,522	220,735	117,811	101,282
Financial assets		48,402	5,488	185	723
Other receivables		22,095	22,840	18,079	30,759
Cash and cash equivalents		9,232	23,601	9,586	6,850
<b>Prepaid expenses and accrued</b>		<b>1,184</b>	<b>418</b>	<b>1,964</b>	<b>2,377</b>
<b>EQUITY AND LIABILITIES</b>		<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Equity</b>		<b>254,489</b>	<b>264,569</b>	<b>168,110</b>	<b>36,910</b>
Share capital		323,707	323,707	323,707	258,965



Capital reserves	-	-	-	6,923
Accumulated losses	(70,376)	(60,978)	(124,035)	(185,460)
Profit/loss for the year	556	1.601	(29,037)	(36,076)
Non-controlling interests	602	239	(2,525)	(7,442)
<b>Non-current liabilities</b>	<b>238,694</b>	<b>230,507</b>	<b>125,091</b>	<b>160,710</b>
Loans payables	197,773	188,976	104,330	129,233
Securities payables	-	-	-	-
Provisions	13,000	14,100	5,578	17,394
Deferred tax liabilities	-	-	-	-
Other non-current liabilities	27,921	27,431	15,183	14,083
<b>Current liabilities</b>	<b>293,958</b>	<b>213,288</b>	<b>173,922</b>	<b>245,487</b>
Loans and borrowings	19,928	9,719	26,410	87,338
Trade payables	164,318	111,043	108,529	126,134
Received advances obligations	42,173	53,656	19,338	15,686
Other current liabilities	62,539	38,870	19,645	16,329
Payables from issued securities	5,000	-	-	-
<b>Accrued expenses and deferred income</b>	<b>6,569</b>	<b>6,760</b>	<b>2,429</b>	<b>23,508</b>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years 2011, 2012, 2013, and 2014

**Table 9 Consolidated cash flow statement of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
(Loss)/profit before taxation		1,918	1,655	(29,481)	(36,407)
Depreciation and amortization		8,646	8,864	9,927	9,279
Increase of current liabilities		67,513			
Decrease of current receivables				105,840	
Decrease of inventories		28,173	63,406	8,738	3,073
Other increase of cash flow		640	14,377	213	243
<b>Total increase of cash flow from operating activities</b>		<b>106,890</b>	<b>88,302</b>	<b>95,237</b>	<b>(23,812)</b>
Decrease of current liabilities			73,954	98,848	116,601
Increase of current receivables		114,986	67,726		11,134
Increase of inventories					
Other decrease of cash flow		574	22,173		1,937
<b>Total decrease of cash flow from operating activities</b>		<b>115,560</b>	<b>163,853</b>	<b>98,848</b>	<b>129,672</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>8,670</b>	<b>(75,551)</b>	<b>(3,611)</b>	<b>(153,484)</b>
Sale of non-current tangible and intangible assets		47	679		
Sale of equity and debt instruments				43	
Collection from interests		3,901	3,857	55	1,240
Other collections from investment activities					
<b>Total increase of cash flow from investment activities</b>		<b>3,948</b>	<b>4,536</b>	<b>98</b>	<b>1,240</b>
Purchases of non-current tangible and intangible assets		902	8,429	1,445	5,126
Purchases of equity and debt financial instruments					
Other decreases from investment activities					
<b>Total decrease of cash flow from investment</b>		<b>902</b>	<b>8,429</b>	<b>1,445</b>	<b>5,126</b>

<b>activities</b>				
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>3,046</b>	<b>(3,893)</b>	<b>(1,347)</b>	<b>3,886</b>
Proceeds from issuance of equity and debt securities	23,251			
Collection of given loans	88,827	171,660	61,141	96,431
Other proceeds from financial activities	183		3	90
<b>Total increase of cash flow from financial activities</b>	<b>112,261</b>	<b>171,660</b>	<b>61,144</b>	<b>96,521</b>
Repayment of loans	94,441	143,080	68,904	32,799
Repayment of finance lease	305	645	411	187
Other repayment from financial activities	1,300		3,146	42,682
<b>Total decrease of cash flow from financial activities</b>	<b>96,046</b>	<b>143,725</b>	<b>72,461</b>	<b>75,668</b>
<b>NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>16,215</b>	<b>27,935</b>	<b>-11,317</b>	<b>20,853</b>
<b>NET CASH FLOW</b>	<b>10,592</b>	<b>(51,510)</b>	<b>(16,275)</b>	<b>(136,516)</b>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years 2011, 2012, 2013, and 2014

**Table 10 Consolidated statement of changes in shareholders' equity of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
Share capital		326,194	326,186	323,707	258,965
Capital reserves					
Reserves from profit					
Accumulated losses		(72,108)	(62,819)	(126,560)	(185,979)
Profit/(loss) for the year		403	1,203	(29,037)	(36,076)
Revaluation of non-current tangible assets					
Revaluation of intangible assets					
Revaluation of financial assets available for sale					
Other revaluations					
<b>Total equity and provisions</b>		<b>254,489</b>	<b>264,569</b>	<b>168,110</b>	<b>36,910</b>
Exchange differences of net investments in foreign operations					
Current and deferred taxes (part)					
Hedging					
Application of accounting policies					
Revision of errors from previous periods					
Other equity changes		403	1,203	(29,037)	(36,076)
<b>Total increase/decrease of equity</b>		<b>403</b>	<b>1,203</b>	<b>(29,037)</b>	<b>(36,076)</b>
Total parent		253,887	264,330	170,635	44,352
Non-controlling interests		602	239	(2,525)	(7,442)

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

The Group's position in the previous three years is characterized by high dependency on three key product ranges:

- Armoured combat vehicles (“ACV”)
- Cargo wagons
- Oil tanks

Fall of income in the observed period has mostly been a consequence of expiry of agreement on sale of armoured combat vehicles in 2013, which has not been replaced by a new agreement.

Stagnation of demand on the cargo wagon market, poor technological state of production capacities and inflexible relation of operational income and labour costs have led to the fall of EBITDA margin in the observed period and finally to the negative EBITDA margin in 2013.

The previously mentioned trends have led to the increased indebtedness of the Group and significant decrease of working capital as a consequence of accumulated losses.

#### **B.8. Selected key pro forma financial information**

The Issuer has not drawn up any pro forma financial information.

#### **B.9. Where a profit forecast or estimate is made, state the figure**

The Issuer has not decided to give any profit forecast or estimate.

#### **B.10. A description of the nature of any qualifications in the audit report on the historical financial information**

There were no qualifications in the audit reports on the historical financial information covered by this Prospectus.

#### **B.11. Working capital statement**

Working capital may not fully satisfy current demands of the Issuer and its improvement is planned through capital increase. On 30 June 2014 the Issuer is short of HRK 26.5 million net working capital.

*Elements from B.12. to B.50. from Annex XXII of the Regulation shall not apply.*

## **C. Summary of information on shares that are the subject of public offer**

### **C.1. A description of the type and the class of New Shares being offered, including any security identification number.**

Subject of the offer are new ordinary registered shares of the Issuer. In case of successful implementation of the public offer for New Shares and their listing on the regular market of the Zagreb Stock Exchange, New Shares shall have the ticker DDJH-R-A, ISIN (International Securities Identification Number) HRDDJHRA0007.

### **C.2. Currency of the issue of New Shares**

The New Shares that are the subject of issue are denominated in HRK.

### **C.3. The number of New Shares that are the subject of public offer and their nominal value**

The Issuer shall issue up to 9,711,204 new ordinary shares of nominal value of HRK 20.00 each.

### **C.4. A description of the rights attached to New Shares**

Pursuant to the provisions of the Companies Act and the Issuer's Memorandum of Association, the New Shares shall upon entry in the companies' registry of the competent commercial court give the same rights as the existing ordinary shares of the Issuer (ticker: DDJH-R-A).

Based on the existing shares, shareholders execute their rights, being voting rights at the General Assembly of the Issuer, right to information on the company's operation, right to a dividend, right to a portion of the remainder of the liquidation assets, priority right in buying new company shares, i.e. management and voting rights which for ordinary shares arise from the provisions of the Companies Act.

Article 21 of the Memorandum of Association of the Issuer defines that each ordinary share gives one vote in the General Assembly of the Issuer.

### **C.5. A description of any restrictions on the free transferability of the New Shares**

There are no restrictions on the free transferability of the New Shares.

**C.6. An indication as to whether New Shares offered are the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are to be traded.**

After the issue of the New Shares, the Issuer shall submit a request for listing of all issued New Shares in the regular market of the Zagreb Stock Exchange. The Issuer does not guarantee that listing in the trade shall be approved by the competent body.

**C.7. A description of dividend policy**

The Issuer has no particularly defined policy of dividend payment.

In the period covered by historical financial information the Issuer has not paid any dividend.

*Elements from C.8. from C.22. from Annex XXII Regulation shall not apply*

## D. Summary of risk factors

### D.1. Key information on the key risks that are specific to the Issuer or its activity

The risk factors specific to the Issuer or its activity are given and described in detail in Part II – item 4 hereof and here are given in abbreviated form.

The risks specific to the Issuer or its activity may be divided into the following groups:

1. Market-related risks
2. Political and regulatory risks
3. Financial risks
4. Business-related risks

#### 1. Market-related risks

The following risks belong among the market-related risks: (i) business environment risk, (ii) competition risk and (iii) risk of purchasability of raw materials, circuits and change of purchase prices.

**Business environment risk** refers to political, macroeconomic and social risks present on all markets where the Issuer operates and which have a direct influence on the Issuer's operation. Except under the influence of macroeconomic developments, the Issuer's operation is additionally under influence of cyclicity of the industry in which the Issuer operates. The Issuer also daily faces the risk that due to currently poor economic situation in the Republic of Croatia and region it shall not stipulate sufficient quantities of new business deals required in order to have its capacities full.

**Competition risk** arises from the Issuer's exposure to strong competition in all business segments on the Croatian, regional and world market. This risk is additionally emphasized in terms of decreased capital investments on the markets on which the Issuer operates.

**Risk of purchasability of raw materials, circuits and change of purchase prices** arises from the fact that the prices of most raw materials and materials the Issuer purchases in performing its business are conditioned by prices on the world market. Furthermore, certain materials and equipment are very difficult to obtain from alternative suppliers and therefore any disturbances in their prices and distribution pose an additional risk to the Issuer.

## 2. Political and regulatory risks

Political and regulatory risks include the risk arising from the dependency of the Issuer's operations on permits and approvals.

**Risk arising from the dependency of the Issuer's operation to permits and approvals**, issued by the competent public bodies, reflects in the possibility of any change, expiry or annulment of such permits and approvals.

## 3. Financial risks

Financial risks consist of (i) financing risks, (ii) liquidity risks and (iii) interest rate and currency risks.

Related to the **financing risks**, on 30 June 2014 the Issuer has HRK 129.2 million long-term debt from loans, and by additional short-term indebtedness it overcomes the lack of permanent working capital. Part of fixed assets of the Issuer and Group members is encumbered for the purpose of securing the payment of existing financial obligations, which complicates access to additional financing sources.

In certain financing agreements the Issuer has taken over obligations that significantly restrict operation of the Issuer or Group members, i.e. which set forth a requirement to obtain consent of the creditor for making certain business decisions. Certain financing agreements allow the creditors to cancel the agreements in cases set forth by the agreement or to make their entire claims towards the Issuer or a Group member to become due.

**The liquidity risk** is continually present in the Issuer's operation due to inconsistency in terms of time between the cash inflow and outflow.

In relation to **interest rate and currency risks**, the Issuer is exposed to the interest rate risk through change of reference interest rates calculated on the loaned funds (LIBOR, EURIBOR), as well as through change of fixed interest margins.

The Issuer is also exposed to currency risks since it operates on foreign markets and is not able to fully neutralise the risk from the change of the currency exchange rates. The most important risk is the one referring to fluctuations of exchange rate for EUR and USD.

#### 4. Business-related risks

Risks related to the Issuer's business operation consist of (i) general economical, political and legal risk, (ii) risk of change of ownership structure of the Issuer, (iii) solvency risk and inability to collect the accounts receivable and delay and defects in works, (iv) risk related to legal and governmental proceedings, (v) environment protection risk and (vi) risk from uninsured events.

**General economic, political and legal risk** arises from the fact that the Issuer's operation depends on the defence sector and cycles and regimes of purchase of military equipment in certain states, which expose it to the risk of political and regulatory changes which may prevent or complicate the purchase of required materials and equipment.

**Risk of change of ownership structure** is reflected in the possibility that takeover of the Issuer by third parties may result in changes of business policies which might lead to termination of cooperation with the currently most important strategic partners of the Issuer, companies Patria and Kongsberg.

**Solvency risk and inability to collect accounts receivable and delay and defects in works** is also present in the Issuer's operation, particularly taking into account that the Issuer does not secure its accounts receivable.

**Risk related to legal and governmental proceedings** arises from the fact that the Issuer as a party participates in certain number of legal and governmental proceedings and that due to this fact it might sustain significant financial or property losses.

**Environment protection risk** arises from the fact that the Issuer in its operation uses a share of materials and technology procedures that are potentially harmful to the environment. The Issuer is not insured against environment pollution by the Issuer or a Group member, therefore such pollution might result in a civil, misdemeanour, criminal and other liability and financial losses to the Issuer or a Group member.

Furthermore, business of the Issuer and Group members is related to the requirement to obtain certain environment-related permits and approvals and their withdrawal or expiry without the possibility of renewal could prevent Issuer or a Group member in performing certain activities.

**Risk from uninsured events** is present in the Issuer's operation since the Issuer obtains insurance policies against adverse events from usual risks, however, a series of risks arising from the Issuer's daily activities is not separately insured. Occurrence of an uninsured adverse event may cause further negative consequences to the business position and financial condition of the Issuer.

**Risks related to accommodating surplus employees** are connected to the Group's the Group's Business Strategy and until year 2020 and the Restructuring Plan (described in Part II - item 5.1.5 hereof) providing for optimisation of a number of employees both of the Group and the Group companies. If major cuts in number of employees occur, the Issuer, i.e. the



Group, would be exposed to significant costs related to preparing the programme for accommodating surplus employees and costs of severance payments.

If the Issuer would be forced to decrease the number of its employees by dismissal, instead of termination of employment by mutual consent, that could result in a number of potential legal proceedings leading to material financial obligations of the Issuer in the event of loss of such litigations.

*Element D.2. from Annex XXII of the Regulation shall not apply.*

### **D.3. Key information on the key risks that are specific to the New Shares**

Risk factors specific to the New Shares, fully listed and described in Part II – item 2 “Risk factors related to investment in shares” of the Prospectus are here given in abbreviated form.

#### **Risk related to investment in shares**

Investment in shares as equity securities is a very high-risk investment. Market value of shares may be of extremely volatile character under the influence of entire capital market movements, as well as economic and political movements in the country and the world and many other factors which, if bearing a negative connotation, may result in the fall of the shares' market value. If the above-mentioned factors have a negative connotation, or if between the participants on the capital market such expectations develop, there is a significant risk of the fall of the shares' market value. Furthermore, each investor must be aware that there is a risk on the market that they would not be able to sell their shares at any time at a fair market price.

#### **Risk of change of the share price**

Market price of shares is changeable and may be subject to sudden and significant falls. As a result, shareholders may suffer a significant loss due to the fall of the share market price, which may be caused by multiple factors.

#### **Liquidity risk on the capital market**

At certain moments or periods, and even permanently, there might be a decreased demand and/or supply, and thus a significant decrease of number of shares for trading or even a total lack of trading with the shares.

#### **Risk of Croatian capital market**

Risk of Croatian capital market arises from the fact that this market has properties of a small and undeveloped market which, if compared to developed markets, represents a greater system risk for the investors.

### **Risk of decrease of share in the equity of the Issuer**

Pursuant to the general rules of the Croatian legislation, the existing shareholders of a joint stock company have priority rights in subscription of new shares which are created when increasing the company's share capital, proportionally to their participation in the total share capital of the company. In possible future increases of the Issuer's share capital, if the General Assembly of the Issuer, with the prescribed majority of votes, makes a decision on exclusion or restriction of the existing shareholders' priority rights during the increase of the share capital, share of such shareholders in the total share capital of the Issuer may be decreased when implementing such decision.

### **Risk that the dividend is not paid**

Amount of future dividend payments, if any, shall depend on a series of factors, therefore the Issuer cannot guarantee that it shall have means at its disposal for potential dividend payments in the future.

### **Risk of obligation to announce a company takeover bid due to acquisition of shares**

Pursuant to general regulations of the Act on the Takeover of Joint Stock Companies, a person who acting independently or in concert, acquires voting shares, so that, together with the shares it already acquired, exceeds a threshold of 25% of voting shares, shall announce a takeover bid in respect of all the shares of the company.

Without respect to the exclusion of the requirement to announce a takeover bid by the decision of the Issuer's General Assembly of 3 July 2014, acquisition of additional shares of the Issuer besides and/or outside of the offer which is subject of this Prospectus may result in an obligation to announce a takeover bid, if during such additional acquisition the requirements under the Act on the Takeover of Joint Stock Companies have been fulfilled.

### **Risk arising from financing the investment in shares with borrowed funds**

Financing the investment in shares with borrowed funds may significantly increase investors' risk. Investors should assess their own financial position prior to investing with a view to establishing whether they would be capable of paying the interest and paying off the loan principle amount and whether they can also besides the above suffer loss from the investment in shares, instead of gaining profit.

### **Risks related to taxation of investment in shares**

Receipts from dividends or trade with shares may constitute a taxable event and any investor should be independently informed on potential tax effects of investment in shares.

### **Risk arising from trade on a regulated market**

Due to disturbances of the market conditions, regulatory measures or technical and other problems, secondary trade with shares of the Issuer may be impeded and even a temporary suspension of trade may occur.

*Elements from D.4. to D.6. from Annex XXII shall not apply.*

## **E. Offer**

### **E.1. The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the Issuer.**

The total net proceeds collected from the capital increase, if the success threshold for the issue of New Shares is reached, shall amount to a minimum of HRK 80,000,000.00 and a maximum of HRK 582,672,240.00.

The Issuer estimates that all expenses related to issue/offer of the New Shares, including, but not limited to the costs of financial advisors for the implementation of the offer of the New Shares without the obligation of redemption, legal fees, Agency, CDCC, Zagreb Stock Exchange fees and other material costs, depending on the achieved amount of issue, shall amount to HRK 5 million at the most.

The Issuer shall not charge any costs to investors.

Regarding any possible costs and taxes specially charged to the investors, there are possible New Shares subscription and payment costs in form of payment system costs and similar. Furthermore, there are opportunity costs for the period from payment of the proceeds of a certain investor until free disposal with the New Shares, i.e. until the return of the proceeds to the investor's account specified when subscribing the New Shares, as investors shall not be entitled to interest rates in the specified period.

### **E.2.a Reasons for the offer, use of proceeds, estimated net amount of the proceeds**

The reason for the offer is obtaining of funds for implementation of the started investment cycle. The specified investments are undertaken with the aim of increase in the technological equipment of the Group to a very high level, modernisation of plants and equipment, increase of business efficiency and increase of production capacities. Considering the volume and size of the investment and its importance to financial and business restructuring of the Group, an adequate source of funding for planned investment is equity capital. By increasing the capital and its use for the specified purposes, the Issuer aims to achieve in its financing structure a favourable and reasonable debt-equity ratio.

The Issuer intends to use the proceeds acquired by issuing New Shares for the following items:

1. purchase of plants and equipment
2. severance payments
3. development of new products
4. working capital.

*Element E.2.b. from Annex XXII of the Regulation shall not apply.*

### **E.3. A description of the general terms and conditions of the offer**

Pursuant to the Decision on the increase of the share capital made by the Issuer's General Assembly on 3 July 2014 (hereinafter referred to as "Decision"), increase of share capital of the Issuer shall be conducted by payments in cash, by issuing up to 9,711,204 New Shares.

The increase of the share capital of the Issuer based on the above Decision shall be conducted by public offer with the priority right in favour of the existing shareholders of the Issuer when subscribing New Shares.

#### **1st and 2nd rounds**

Priority rights for subscription and payment of new shares shall rest with any legal and natural persons who were shareholders on 15 May 2014 (hereinafter referred to as: the "Existing Shareholders"), relative to the share of their existing shares in the existing share capital of the Issuer, not including the Issuer's treasury shares as of 15 May 2014. The Existing Shareholders may subscribe within the maximum of 16 (sixteen) days from the day specified in the public invitation for subscription of the New Shares in the first round. The Existing Shareholders may demand to subscribe even a greater number of the New Shares than they are entitled to by their priority subscription right, but the shares exceeding the number in relation to those to which they are entitled to by their priority subscription right shall be allocated between the Existing shareholders and qualified investors as specified in the Decision (Annex I hereto), pursuant to the allocation rules applicable to the second round of subscription of the New Shares.

In the second round all qualified investors as specified in the Decision (Annex I hereto) shall be entitled to subscribe all New Shares that were not subscribed and paid in the first round. These investors may make their subscriptions no later than 10 working days following the publication of the public invitation for subscription of the New Shares in the second round.

Subscription in the first and second round shall commence simultaneously, however, when allocating the shares, priority right for subscription of the New Shares exercised by the Existing Shareholders by subscribing New Shares in the first round shall be fully respected.

#### **3rd round**

Should the success threshold of the issue of the New Shares, as defined by the Decision, not be reached, i.e. should a minimum of 4,000,000 New Shares not be subscribed and paid for in the first and second round, the Issuer's Management Board shall subsequently publish a public invitation for subscription of the New Shares in the third round. Subscription right to all the remaining shares that remain unsubscribed and unpaid in the first and second round shall belong to all Existing Shareholders, regardless whether or not they have participated in the first and second round of subscription of the New Shares. Specified investors may subscribe within the maximum of 10 (ten) days from the publication of the public invitation the New Shares in the third round.

Final amount of the increase of the share capital shall be established based on the state of subscriptions and payments on the day of expiry of the deadline for payment of the New Shares in the first and second round, or third round, if any. The issue of the New Shares shall be deemed to have been successfully conducted if in the previously determined deadline for the subscription and payment at least 4,000,000.00 New Shares are subscribed and paid for.

Pursuant to the decision of the Management Board of 10 September 2014, with a previous consent of the Issuer's Supervisory Board, and pursuant to the Decision of the General Assembly on increase of the share capital of 3 July 2014, price range for issue of the New shares shall be from HRK 20.00 to 60.00 ("Price Range").

The final price of the New Shares shall be defined at least 5 days prior to closing of the deadline for collecting offers and subscription of the New Shares in the first round and shall be within the Price Range and published as soon as possible. The company's Management Board shall, with the previous consent of the Supervisory Board, define the final price for the New Shares based on the demand of investors achieved during the period of subscription of the New Shares, considering the situation on the financial market in the given moment.

The pricing principle shall be maximization of the total proceeds to be obtained by the company during the increase of the share capital.

#### **E.4. A description of any interest that is material to the issue/offer including conflicting interests.**

Related to the public offer of the New Shares of the Issuer, persons specified below have interests as provided in detail:

1. Zagrebačka banka d.d., Zagreb, Trg bana Josipa Jelačića 10, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080000014, PIN: 92963223473 is a financial advisor for the implementation of public offer without the obligation of redemption and its scope of work includes services relating to drawing up and implementation of the public offer. The total fee for Zagrebačka banka d.d. for the specified services shall depend on the amount of proceeds the Issuer shall collect in the foreseen increase of the share capital. Neither are, nor have there ever been any conflicts any conflicts of interests related to the engagement of Zagrebačka banka d.d. for drawing up and implementing the public offer.

The Issuing Agent is, as stated in Annex 1 to this Prospectus, a qualified investor and has as such also been sent this offer. Namely the Issuing Agent is part of the banking group – UniCredit Group, whose members are involved in trading, financial and brokerage activities in the field of securities and providing investment banking and financial consultancy services. As part of its regular activities, UniCredit Group and its members may at any point for their own account or for the account of their clients trade or in any other way realise transactions that include securities of any company participating in the offer.

However, the Issuing Agent maintains and implements an efficient policy regarding conflict of interest taking into consideration all circumstances which may lead to conflict of interest due to structure and business activities of members of the said banking group. The Issuing Agent and its employees having confidential information on the Issuer or its financial instruments may not during this engagement trade with the Issuer's financial instruments for their own account until such information is publicly available, and in particular may not disclose such information to any third parties, including legal and/or natural persons related to them and their employees.

2. Žurić i Partneri odvjetničko društvo d.o.o., having its registered seat in Zagreb, Ivana Lučića 2a, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080005384, PIN: 03894745705 provides legal advisory services for the Issuer related to the applicable law of the Republic of Croatia for the purposes of drawing up and implementing public offer. The total fee for the law firm for the provided services for the purposes of drawing up and implementing public offer shall depend on the amount of proceeds the Issuer shall collect in the foreseen increase of the share capital. Neither are, nor have there ever been any conflicts of interest related to the engagement of this law firm for drawing up and implementing the public offer for the New Shares.

#### **E.5. Name of the person or entity offering to sell the security and lock-up agreements**

The Issuer acts as the sole offeror of the shares. At the Issuer's best knowledge, there are no lock-up agreements.

#### **E.6. The amount and percentage of immediate dilution resulting from the offer**

If a shareholder prior to capital increase of the Issuer owns 1% of shares of the Issuer, and does not participate in the subscription of the New Shares, their share in ownership after the increase of the share capital shall be decreased to the maximum of 0.45%, in case of minimum number of subscribed shares, and to a minimum of 0.25% in case of maximum number of subscribed shares as foreseen by the Decision on the increase of the share capital of the Issuer of 3 July 2014.

#### **E.7. Estimated expenses charged to the investor by the Issuer**

The Issuer shall not charge any expenses to investor. Regarding any possible expenses and taxes charged specially to the investor, there are possible New Shares subscription and payment costs in form of payment system costs and similar. Furthermore, there are opportunity costs for the period from payment of proceeds of a certain investor until free disposal with the New Shares, i.e. until the return of the proceeds to the investor's account specified when subscribing the New Shares, as investors shall not be entitled to interest rates in the specified period.

## II. REGISTRATION DOCUMENT

### 1. PERSONS RESPONSIBLE

#### 1.1. All persons responsible for information contained in the registration document

**Đuro Đaković Holding dioničko društvo**, registered in the Republic of Croatia and entered in the companies registry of the Commercial Court of Osijek, entry number (MBS): 050002378, PIN: 58828286397.

#### MEMBERS OF THE MANAGEMENT BOARD:

**Tomislav Mazal**, PIN: 11789667620, Ivana Cankara 19, Zagreb 10000, member of the Management Board since 1 February 2011 and President of the Management Board since 30 May 2014

**Marko Bogdanović**, PIN: 13015431735, Maksimirska 119, Zagreb 10000, member of the Management Board since 4 May 2012

#### MEMBERS OF THE SUPERVISORY BOARD:

**Vjekoslav Leko**, PIN: 87574699366, Joze Martinovića 6, Slavonski Brod 35000, President of the Supervisory Board since 10 July 2013

**Domagoj Bartek**, PIN: 19075795928, Pavla Radića 1, Slavonski Brod 35000, Vice President of the Supervisory Board since 26 April 2012

**Zoran Posinovec**, PIN: 99145545992, Goljak 46, Zagreb 10000, member of the Supervisory Board since 27 June 2011

**Igor Žonja**, PIN: 39662833473, Aleja Hermanna Bollea 12, Zagreb 10000, member of the Supervisory Board since 27 June 2011

**Blaženka Luketić**, PIN: 40468149191, Zagrebačka 148, Donji Andrijevci 35214, member of the Supervisory Board since 16 June 2011

**Mladen Huber**, PIN: 53560404771, Trg profesora Martina Robotića 1/9, Županja 32270, member of the Supervisory Board since 26 April 2012

**Vjekoslav Galzina**, PIN: 25682874488, Ivana Gorana Kovačića 5, Slavonski Brod 35000, member of the Supervisory Board since 26 April 2012

## 1.2. Statement of persons responsible for the registration document

*“Having taken all required measures, we hereby state that, to the best of our knowledge, information in the separate part of the Prospectus for which we are responsible, are in accordance with the facts and that no facts which might affect completeness and accuracy of the Prospectus have been omitted.”*

### Signatories:

#### MANAGEMENT BOARD

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**Tomislav Mazal**

President of the Management Board

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**Marko Bogdanović**

Member of the Management Board

#### SUPERVISORY BOARD

---

**Vjekoslav Leko**

President of the Supervisory Board

---

**Domagoj Bartek**

Member of the Supervisory Board

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**Zoran Posinovec**

Member of the Supervisory Board

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**Igor Žonja**

Member of the Supervisory Board

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**Blaženka Luketić**

Member of the Supervisory Board

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**Mladen Huber**

Member of the Supervisory Board

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**Vjekoslav Galzina**

Member of the Supervisory Board

## **2. PERSONS RESPONSIBLE FOR AUDITING FINANCIAL STATEMENTS**

### **2.1. Name and address of the Issuer's auditors for the period covered by financial information (together with information on membership in a professional organization)**

The Issuer's financial statements for 2012 and 2013 have been audited by the company Deloitte d.o.o., having its registered seat in Zagreb, Radnička cesta 80, entered in the companies registry of the Commercial Court of Zagreb under the entry number (MBS) 030022053, Personal Identification Number (PIN) 11686457780.

Deloitte d.o.o. is entered in the Registry of Auditing Companies kept by the Croatian Chamber of Auditors under the number 100001360.

The certified auditor in the company Deloitte d.o.o. who has audited financial statements of the Issuer and signed audit reports is Branislav Vrtačnik, President of the Management Board and certified auditor.

### **2.2. Changes or termination of auditors of the Issuer during the period covered by the historical financial information**

In the period covered by the financial statements of the Issuer which form a part of this Prospectus, there has been a change of a certified auditing company appointed for auditing financial statements of the Issuer. On the General Assembly held on 20 December 2012 the decision was made on selecting Deloitte d.o.o. auditing company as the auditor of the Issuer for 2012. Change of the auditor was condition by the Issuer's need, in regard to its creditors and other potentially interested partners, to have its financial statements audited by a global renowned auditing company.

Auditing company Deloitte d.o.o. has afterwards made audit report for the previous three years (2010, 2011 and 2012), as well as audit report for 2013, which form an integral part of this Prospectus.

For auditing financial statements for 2014 the Issuer has chosen the auditing company Deloitte d.o.o.

### 3. SELECTED FINANCIAL INFORMATION

#### 3.1. Selected financial information on the Issuer

Selected financial information, specified hereafter, have been presented in Croatian kuna and derived from audited consolidated financial statements of the Issuer for 2011, 2012 and 2013 and unaudited consolidated financial statements of the Issuer for the first six months of 2011, 2012, 2013 and 2014 and should be read together therewith. Specified audited consolidated reports of the Issuer have been presented in Part II – item 20.1 hereof. Unaudited consolidated financial statements of the Issuer for the first six months of 2011, 2012, 2013 and 2014 have been presented in Part II – item 20.6 hereof. The following information should also be read together with the text in Part II – item 9 hereof.

**Table 11 Consolidated profit and loss account of the Issuer/Consolidated statement of comprehensive income of the Issuer**

(in 000 kunas)	<b>2011</b>	<b>2012</b>	<b>2013</b>
Sales income	773,565	1,039,891	591,407
Other income	22,234	38,867	20,150
<b>Total income</b>	<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>
Increase/decrease in the value of work in progress and finished products	17,019	(77,406)	22,537
Material costs	(645,654)	(821,433)	(479,725)
Labour costs	(85,295)	(100,058)	(112,589)
Depreciation (amortization)	(17,221)	(18,189)	(19,368)
Other expenses	(29,205)	(41,410)	(50,788)
Value adjustment	(12,188)	(6,994)	(50,154)
Other operating expenses	(3,607)	(6,403)	(39,989)
<b>Total expense (cost)</b>	<b>(776,151)</b>	<b>(1,071,893)</b>	<b>(730,076)</b>
<b>Profit / (loss) from operations</b>	<b>19,648</b>	<b>6,865</b>	<b>(118,519)</b>
Financial income	4,779	6,196	5,270
Financial expenses	(22,975)	(18,734)	(11,036)
<b>Net financial loss</b>	<b>(18,196)</b>	<b>(12,538)</b>	<b>(5,766)</b>
<b>Loss before taxation</b>	<b>1,452</b>	<b>(5,673)</b>	<b>(124,285)</b>
Income tax expense	(2,729)	(254)	-
<b>Loss for the year</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
<b>Other comprehensive loss</b>	-	-	-
<b>Total comprehensive loss</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
Loss attributable:			
To the equity holder of the parent	(1,162)	(4,581)	(119,115)
Non-controlling interests	(115)	(1,346)	(5,170)
Total comprehensive loss attributable:			
To the equity holder of the parent	(1,162)	(4,581)	(119,115)
Non-controlling interests	(115)	(1,346)	(5,170)
<b>Earnings per share:</b>			
- basic and diluted (in kunas and lipas)	(0.36)	(1.42)	(36.80)

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 12 Consolidated profit and loss account of the Issuer/Consolidated statement of comprehensive income of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
<b>Operating income</b>		<b>360,410</b>	<b>509,232</b>	<b>280,498</b>	<b>193,905</b>
Material costs		298,250	433,133	221,566	123,815
Labour costs		40,328	47,801	52,593	58,031
Other expenses		14,671	15,381	24,298	34,973
Depreciation and amortization		8,646	8,864	9,927	9,279
Reservations for expenses and risks		-	-	-	-
Value adjustment		1,450	900	147	19
<b>(Loss)/profit from operations</b>		<b>(2,935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
Financial income		7,107	1,842	1,430	1,066
Financial expenses		2,254	3,340	2,878	5,261
<b>(Loss)/profit from financials</b>		<b>4,853</b>	<b>(1,498)</b>	<b>(1,448)</b>	<b>(4,195)</b>
<b>(Loss)/profit before taxation</b>		<b>1,918</b>	<b>1,655</b>	<b>(29,481)</b>	<b>(36,407)</b>
Income tax expense		1,515	451	10	
<b>(Loss)/profit after taxation</b>		<b>403</b>	<b>1,204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>Non-controlling interests</b>					
<b>(Loss)/profit for the year</b>		<b>403</b>	<b>1,204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>EBITDA</b>		<b>5,711</b>	<b>12,017</b>	<b>(18,106)</b>	<b>(22,933)</b>
<i>EBITDA margin (%)</i>		<i>1.58%</i>	<i>2.36%</i>	<i>(6.45%)</i>	<i>(11.83%)</i>
<b>EBIT</b>		<b>(2,935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
<i>EBIT margin (%)</i>		<i>(0.81%)</i>	<i>0.62%</i>	<i>(9.99%)</i>	<i>(16.61%)</i>
<i>NETO profit margin (%)</i>		<i>0.11%</i>	<i>0.24%</i>	<i>(10.51%)</i>	<i>(18.76%)</i>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

**Table 13 Consolidated statement of financial position of the Issuer**

	(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets		7,297	27,316	24,578
Property, plant and equipment		158,285	172,436	164,324
Investments in real estate		14,717	14,215	24
Given loans, deposits and similar		889	3,795	967
Investments in securities and equities		1,635	3,107	2,877
Other non-current financial assets		46	43	-
Receivables		13,263	11,903	11,659
<b>Total non-current assets</b>		<b>196,132</b>	<b>232,815</b>	<b>204,429</b>
<b>Current assets</b>				
Inventories		306,341	123,552	121,845
Trade receivables		112,002	184,248	100,168
Other receivables		16,417	26,517	35,563
Other financial assets		21,009	2,023	740
Cash and cash equivalents		59,592	25,862	143,366
Prepaid expenses and accrued		3,494	2,010	717

<b>Total current assets</b>	<b>518,855</b>	<b>364,212</b>	<b>402,399</b>
<b>TOTAL ASSETS</b>	<b>714,987</b>	<b>597,027</b>	<b>606,828</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	323,707	323,707	258,965
Capital reserves	-	-	6,923
Reserves for own shares	4,700	4,700	3,760
Own shares	(4,700)	(4,700)	(3,760)
Accumulated losses	(119,451)	(124,032)	(185,328)
Attributable to the equity holders of the parent	<b>204,256</b>	<b>199,675</b>	<b>80,560</b>
Non-controlling interests	(728)	(2,074)	(7,244)
<b>Total equity</b>	<b>203,528</b>	<b>197,601</b>	<b>73,316</b>
<b>Provisions</b>	<b>19,064</b>	<b>12,682</b>	<b>17,945</b>
<b>Non-current liabilities</b>			
Borrowings	109,156	91,316	76,778
Financial lease obligations	1,464	1,167	1,244
Other non-current liabilities	27,192	15,034	14,392
<b>Total non-current liabilities</b>	<b>137,812</b>	<b>107,517</b>	<b>92,414</b>
<b>Current liabilities</b>			
Loans and deposits payable	32	2,718	-
Borrowings and financial lease obligations	64,820	45,483	109,109
Trade payables	162,084	146,078	209,074
Other current liabilities	122,741	76,139	87,126
Accrued expenses and deferred income	4,906	8,809	17,844
<b>Total current liabilities</b>	<b>354,583</b>	<b>279,227</b>	<b>423,153</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>714,987</b>	<b>597,027</b>	<b>606,828</b>

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 14 Consolidated statement of financial position of the Issuer**

	(in 000 kunas)	30.06.2011	30.06.2012	30.06.2013	30.06.2014
<b>ASSETS</b>		<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Non-current assets</b>		<b>225,340</b>	<b>210,150</b>	<b>220,303</b>	<b>221,756</b>
Intangible assets		5,947	8,172	25,048	25,749
Property, plant and equipment		173,358	173,420	180,203	181,200
Investments in real estate		27	26	25	24
Financial assets		15,931	15,951	3,598	3,844
Receivables		30,077	12,581	11,429	10,939
Deferred tax assets		-	-	-	-
<b>Current assets</b>		<b>567,186</b>	<b>504,556</b>	<b>247,285</b>	<b>242,482</b>
Inventories		207,935	231,892	101,624	102,868
Trade receivables		279,522	220,735	117,811	101,282
Financial assets		48,402	5,488	185	723
Other receivables		22,095	22,840	18,079	30,759

Cash and cash equivalents	9,232	23,601	9,586	6,850
<b>Prepaid expenses and accrued</b>	<b>1,184</b>	<b>418</b>	<b>1,964</b>	<b>2,377</b>
<b>EQUITY AND LIABILITIES</b>	<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Equity</b>	<b>254,489</b>	<b>264,569</b>	<b>168,110</b>	<b>36,910</b>
Share capital	323,707	323,707	323,707	258,965
Capital reserves	-	-	-	6,923
Accumulated losses	(70,376)	(60,978)	(124,035)	(185,460)
Profit/loss for the year	556	1.601	(29,037)	(36,076)
Non-controlling interests	602	239	(2,525)	(7,442)
<b>Non-current liabilities</b>	<b>238,694</b>	<b>230,507</b>	<b>125,091</b>	<b>160,710</b>
Loans payables	197,773	188,976	104,330	129,233
Securities payables	-	-	-	-
Provisions	13,000	14,100	5,578	17,394
Deferred tax liabilities	-	-	-	-
Other non-current liabilities	27,921	27,431	15,183	14,083
<b>Current liabilities</b>	<b>293,958</b>	<b>213,288</b>	<b>173,922</b>	<b>245,487</b>
Loans and borrowings	19,928	9,719	26,410	87,338
Trade payables	164,318	111,043	108,529	126,134
Received advances obligations	42,173	53,656	19,338	15,686
Other current liabilities	62,539	38,870	19,645	16,329
Payables from issued securities	5,000	-	-	-
<b>Accrued expenses and deferred income</b>	<b>6,569</b>	<b>6,760</b>	<b>2,429</b>	<b>23,508</b>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years 2011, 2012, 2013, and 2014

**Table 15 Consolidated cash flow statement of the Issuer**

(in 000 kunas)	2011	2012	2013
<b>Cash flows from operating activities</b>			
<b>Loss for the year</b>	<b>(1,277)</b>	<b>(5,927)</b>	<b>(124,285)</b>
<i>Adjusted for:</i>			
Income tax expense	2,729	254	-
Depreciation and amortization	17,221	18,189	19,368
Foreign exchange differences, net	4,427	2,329	1,678
Interest expenses	16,527	14,222	7,809
Interest income	(2,553)	(1,552)	(3,832)
Increase / (decrease) in provisions	7,340	(6,382)	5,263
Impairment allowance on trade receivables	11,760	6,434	13,636
Impairment allowance on other financial assets	428	560	971
Income from debt write-off	(1,092)	(11,604)	-
Written-off value of tangible non-current assets under const.	-	-	12,363
Loss on disposal and retirement of non-current tangible and intangible assets	(11,635)	423	111
<b>Operating cash flows before changes in working capital</b>	<b>43,875</b>	<b>16,946</b>	<b>(66,918)</b>
Decrease / (increase) in inventories	(71,131)	155,599	1,707
Decrease in other non-current receivables	0	-	244
Decrease / (increase) in trade receivables	(17,632)	(77,128)	74,276
Decrease / (increase) in other receivables from customers	(3,359)	(10,100)	(9,046)
Decrease / (increase) in advances paid	4,311	(2,904)	2,871

(Decrease) / increase in trade payables	73,812	(16,006)	62,996
(Decrease) / increase in other liabilities	51,201	(44,951)	10,345
(Decrease) / increase in prepaid expenses and accrued income	(2,481)	1,484	1,293
(Decrease) / increase in accrued expenses and deferred income	(1,047)	3,903	9,035
(Decrease) / increase in advances received	7	2,686	(2,718)
<b>Cash generated from operating activities</b>	<b>77,556</b>	<b>29,529</b>	<b>84,085</b>
Income tax paid	(1,256)	(2,460)	-
Interest paid	(16,638)	(23,286)	(8,508)
<b>Net cash generated from operating activities</b>	<b>59,662</b>	<b>3,783</b>	<b>75,577</b>
<b>Cash flow from investment activities</b>			
Purchases of property, plant and equipment and intangible assets	(10,846)	(17,075)	(6,800)
Collection of given loans	13,730	1,360	-
Decrease in term deposits	(5,909)	18,986	1,283
Purchases of available-for-sale securities	-	(2,032)	(741)
Proceeds from disposal of property, plant and equipment and intangible assets	103	-	-
Proceeds from disposal of available-for-sale securities	23,261	-	-
<b>Net cash (used in) / generated from investing activities</b>	<b>20,339</b>	<b>1,239</b>	<b>(6,258)</b>
<b>Cash flow from financing activities</b>			
Received borrowings	254,331	313,270	136,064
Repayments of borrowings	(306,646)	(352,022)	(87,879)
<b>Net cash generated / (used in) from financing activities</b>	<b>(52,315)</b>	<b>(38,752)</b>	<b>48,185</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>27,686</b>	<b>(33,730)</b>	<b>117,504</b>
Cash and cash equivalents at the beginning of the year	31,906	59,592	25,862
Cash and cash equivalents at the end of the year	59,592	25,862	143,366

Source: Audited consolidated financial statements of the Issuer for 2012 and 2013

**Table 16 Consolidated cash flow statement of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
(Loss)/profit before taxation		1,918	1,655	(29,481)	(36,407)
Depreciation and amortization		8,646	8,864	9,927	9,279
Increase of current liabilities		67,513			
Decrease of current receivables				105,840	
Decrease of inventories		28,173	63,406	8,738	3,073
Other increase of cash flow		640	14,377	213	243
<b>Total increase of cash flow from operating activities</b>		<b>106,890</b>	<b>88,302</b>	<b>95,237</b>	<b>(23,812)</b>
Decrease of current liabilities			73,954	98,848	116,601
Increase of current receivables		114,986	67,726		11,134
Increase of inventories					
Other decrease of cash flow		574	22,173		1,937
<b>Total decrease of cash flow from operating activities</b>		<b>115,560</b>	<b>163,853</b>	<b>98,848</b>	<b>129,672</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>8,670</b>	<b>(75,551)</b>	<b>(3,611)</b>	<b>(153,484)</b>
Sale of non-current tangible and intangible assets		47	679		
Sale of equity and debt instruments				43	
Collection from interests		3,901	3,857	55	1,240
Other collections from investment activities					
<b>Total increase of cash flow from investment activities</b>		<b>3,948</b>	<b>4,536</b>	<b>98</b>	<b>1,240</b>
Purchases of non-current tangible and intangible assets		902	8,429	1,445	5,126
Purchases of equity and debt financial instruments					
Other decreases from investment activities					

<b>Total decrease of cash flow from investment activities</b>	<b>902</b>	<b>8,429</b>	<b>1,445</b>	<b>5,126</b>
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>3,046</b>	<b>(3,893)</b>	<b>(1,347)</b>	<b>3,886</b>
Proceeds from issuance of equity and debt securities	23,251			
Collection of given loans	88,827	171,660	61,141	96,431
Other proceeds from financial activities	183		3	90
<b>Total increase of cash flow from financial activities</b>	<b>112,261</b>	<b>171,660</b>	<b>61,144</b>	<b>96,521</b>
Repayment of loans	94,441	143,080	68,904	32,799
Repayment of finance lease	305	645	411	187
Other repayment from financial activities	1,300		3,146	42,682
<b>Total decrease of cash flow from financial activities</b>	<b>96,046</b>	<b>143,725</b>	<b>72,461</b>	<b>75,668</b>
<b>NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>16,215</b>	<b>27,935</b>	<b>-11,317</b>	<b>20,853</b>
<b>NET CASH FLOW</b>	<b>10,592</b>	<b>(51,510)</b>	<b>(16,275)</b>	<b>(136,516)</b>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years 2011, 2012, 2013, and 2014

**Table 17 Consolidated statement of changes in shareholder's equity of the Issuer**

	Share capital	Legal reserves	Reserves for treasury shares	Treasury shares	Accumulated losses	Total parent	Non-controlling interest	Total
<b>Balance at 31 December 2011</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(119,451)</b>	<b>204,256</b>	<b>(728)</b>	<b>203,528</b>
Loss for the year	-	-	-	-	(4,581)	(4,581)	(1,346)	(5,927)
<b>Balance at 31 December 2012</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(124,032)</b>	<b>199,675</b>	<b>(2,074)</b>	<b>197,601</b>
Decrease in share capital	(64,742)	6,923	-	-	57,819	-	-	-
Changes in reserves for own shares	-	-	(940)	940	-	-	-	-
Loss for the year	-	-	-	-	(119,115)	(119,115)	(5,170)	(124,285)
<b>Balance at 31 December 2013</b>	<b>258,965</b>	<b>6,923</b>	<b>3,760</b>	<b>(3,760)</b>	<b>(185,328)</b>	<b>80,560</b>	<b>(7,244)</b>	<b>73,316</b>

Source: Audited consolidated financial statements of the Issuer for 2013

**Table 18 Consolidated statement of changes in shareholders' equity of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
Share capital		326,194	326,186	323,707	258,965
Capital reserves					
Reserves from profit					
Accumulated losses		(72,108)	(62,819)	(126,560)	(185,979)
Profit/(loss) for the year		403	1,203	(29,037)	(36,076)



Revaluation of non-current tangible assets				
Revaluation of intangible assets				
Revaluation of financial assets available for sale				
Other revaluations				
<b>Total equity and provisions</b>	<b>254,489</b>	<b>264,569</b>	<b>168,110</b>	<b>36,910</b>
Exchange differences of net investments in foreign operations				
Current and deferred taxes (part)				
Hedging				
Application of accounting policies				
Revision of errors from previous periods				
Other equity changes	403	1,203	(29,037)	(36,076)
<b>Total increase/decrease of equity</b>	<b>403</b>	<b>1,203</b>	<b>(29,037)</b>	<b>(36,076)</b>
Total parent	253,887	264,330	170,635	44,352
Non-controlling interests	602	239	(2,525)	(7,442)

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

## **4. RISK FACTORS**

By investing in shares, investors are becoming exposed to a number of risks and prior to investing, any potential investor should study in detail all information on such risks, together with the information from this entire Prospectus, considering that such investments could significantly affect achieved profit or loss of the investor.

This chapter specifies risks the Issuer and its field of business are exposed to, representing a minimum of information that the potential investors should take into consideration when deciding on possible subscription of shares. Risks specified below represent exclusively the most important risks typical for the Issuer, however, they do not cover additional risks that were not known at the moment of drawing up of this Prospectus or the Issuer currently does not deem important, and which could materially or adversely affect the Issuer's operation, its financial condition and operating results, and therefore the fall of the market price of shares.

With all risks herein presented, it is of vital importance that potential investors independently assess financial condition, potential and risks related to the Issuer and only based on the above decide on possible subscription of shares.

### **Market-related risks**

#### **4.1. Business environment risk**

Business environment risk refers to political, macroeconomic and social risks present on all markets on which the Issuer operates. These risks have a direct effect on the Issuer's operation and the Issuer cannot directly influence them.

The Republic of Croatia is currently going through a long recession period in which fall of investment activities in the segment in which the Issuer operates is very strongly felt.

The Issuer's business is under the influence of macroeconomic developments, but also of cyclicity of the industry in which the Issuer operates. Metal industry in which the Issuer does business strongly depends on investment cycles on the markets where it acts.

The Issuer also faces daily the risk that due to currently poor economic situation in the Republic of Croatia and region it shall not close sufficient quantities of new business deals required in order to have its capacities full.

#### **4.2. Competition risk**

The Issuer is exposed to strong competition in all business segments on the Croatian, regional and world market, which is additionally emphasized in terms of decreased capital investments on the specified markets.

Along with the Issuer's constant efforts to expand and geographically disperse its customer base, due to nature of its activity, the Issuer still bases its operation in all business segments (Defence, Transport, Industry and Energetics, Construction and Infrastructure) on a limited number of key customers and in 2012 and 2013 it has gained over 80% of its income from ten key customers. In such conditions, exposure to competition increases the Issuer's risk that in case of decreased orders from key customers, it would not be able to overcome its insufficient use of production capacities in adequately short period of time in order to avoid any significant negative changes to the business position of the Issuer.

#### **4.3. Risk of purchasability of raw materials, circuits and change of supply prices**

Part of materials (primarily including certain types of steel) and equipment purchased by the Issuer from strategic suppliers (most important being Patria and Kongsberg) are not equipment and materials that can be obtained in a short period and easily from other suppliers, i.e. their supplies are not easily secured in another manner.

Prices of most raw materials, materials and supplies from the Issuer's suppliers are defined by the world market prices and are subject to volatile changes on which the Issuer has no material influence. Therefore disturbances in purchase of some materials and equipment and their prices may have a direct negative effect on the production activities of the Issuer and result in delivery delays, i.e. additional costs of works, where increase of input prices cannot be transferred to the customers.

Procedures and mechanisms employed by the Issuer to secure timely deliveries from suppliers and protection from price changes cannot provide full protection from all mentioned risks in all business cases.

### **Political and regulatory risks**

#### **4.4. Risk arising from the dependency of the Issuer's operation to permits and approvals**

A significant portion of the Issuer's operation relates to business activities that require general or single licences and approvals by the competent authorities.

The Group holds a number of approvals, licences, cooperation agreements or technology and knowledge transfer agreements which are key to production and placement of certain kinds of products. Hence any possibility of change, withdrawal, expiry or failure to extend certain licences or approvals poses a risk in the Issuer's operation.

The Issuer's activities cannot fully eliminate the risk of negative effects of trade or regulatory regime, withdrawal, expiry or failure to extend certain licences or approvals.

## **Financial risks**

### **4.5. Financing risk**

As of 30 June 2014 the Issuer had HRK 129.2 million debt from long-term and uses additional long-term loans to overcome lack of working capital.

Considering the macroeconomic conditions and extremely low financing activities by banks in the Republic of Croatia, the Issuer is exposed to risks of lack of permanent funding for performance of planned capital investments and lack of working capital necessary for financing production.

Since the greatest part of non-current assets of the Issuer and the Group companies has been mortgaged as collateral for repayment of financial obligations under specific loans, the encumbrance of non-current assets complicates access to additional sources of financing.

The Issuer and the Group members have entered into financing agreements containing provisions that may represent certain restrictions in the operation of the Issuer or its Group members, i.e. may provide significant powers to lenders or creditors. Some provisions of the financing agreements may restrict the Issuer or a Group company when distributing profit or repaying loans within the Group without a special consent of the creditor. Also, in certain cases (such as major changes of the ownership structure of the Issuer or the Group) some provisions provide for agreement termination and consequently early loan maturity. In the event of agreement termination, i.e. early loan maturity, there is a risk that the Issuer or Group company would not be able to settle their due obligations which could lead to activation of securities, i.e. enforcement into property and, finally bankruptcy of the Issuer or Group company.

### **4.6. Liquidity risk**

Considering the Issuer's dependency on commercial banks as regards the possibilities for financing capital investments and working capital necessary for entering into major projects with long payment deadlines, the Issuer's operation involves liquidity risk or the risk of time incompatibility between inflow and outflow from receivables and payables.

Although the Issuer has developed partner relations with commercial banks, it attempts to obtain additional sources of financing on the domestic capital market and continually compares the planned and realised cash flow and the Issuer's cash flow ratio is below satisfactory levels.

### **4.7. Interest rate and currency risk**

The Issuer's interest rate risk when arranging financing is distinct. The calculation basis for interest rates in case of bank financing mostly includes LIBOR and EURIBOR plus fixed

interest margin. The Issuer is exposed to currency risk through change of reference interest rates (LIBOR, EURIBOR) and fixed interest margins.

Considering the fact that the Issuer's operation is financed from long-term and short term sources of financing, the Issuer is not able to fully neutralise the interest rate risk by way of undertaking only short-term financing with fixed interest rates.

Since the Issuer operates on foreign markets, its operation is exposed to currency risks. The most pronounced component of this risk refers to the fluctuations of exchange rate for EUR and USD. In its operations the Issuer is not always able to incorporate hedging mechanisms from this risk in its selling prices or otherwise neutralise the currency risk.

## **Business-related risks**

### **4.8. General economic, political and legal risk**

The Issuer's high dependency on industry investment cycles and cycles and regime of purchasing military equipment by certain countries exposes the Issuer's operation to a risk of economic, political and legal uncertainty.

Notwithstanding the fact that the Issuer endeavours to disperse its products over several industries (oil, gas, military, transport industry) and thus reduce its dependency on the defence sector, it is still present and poses a business risk for the Issuer.

### **4.9. Risk of change of ownership structure of the Issuer**

Decrease of ownership share of the present shareholders may lead to decrease of the share of the Republic of Croatia in the Issuer's ownership structure and takeover of the Issuer by undertakings being direct competitors with the Issuer's current strategic partners. Ending the cooperation with the Issuer's present strategic partnerships (such as with Patria and Kongsberg which are among the leading manufacturers of military technology) might lead to material adverse changes in the Issuer's business condition due to loss of income, inability to participate on certain markets and inability to deliver specific circuits.

Also a takeover of the Issuer by a third party may lead to changes in the Issuer's business policies, which cannot be predicted and estimated.

### **4.10. Solvency risk and inability to collect the accounts receivable and delay and defects in works**

The Issuer is exposed to a strong risk of loss and damage as consequence of insolvency, i.e. inability to collect accounts receivable from its customers.

The Issuer cannot fully eliminate the risk of inability to collect its accounts receivable from its customers through their credit-worthiness checks or obtaining appropriate payment collaterals.

The Issuer has established a quality control system and continually monitors meeting of delivery deadlines. However, due to specific elements of certain business segments, market conditions outside its scope of influence, possible delays of supplies or defective quality of products and services by suppliers or subcontractors, as well as other events outside its control, the Issuer is in regard to the final buyers exposed to the risk of payment of damage and penalties, i.e. to any financial and reputation risks arising from possible damage and contract termination.

#### **4.11. Risks related to legal and governmental proceedings**

The Issuer has been a party to legal proceedings related to its operations. Where losing the case or obligation arising from the litigation or legal proceeding is likely and if that can be quantified or estimated with reasonable accuracy, the Issuer sets up appropriate provisions. The Issuer checks the amounts of provisions that it finds appropriate in regard to pending legal proceedings on a quarterly basis.

As a result of decisions by competent courts and other authorities, i.e. in the event of losing the case, the Issuer or Group company may be forced to limit or suspend certain activities, suffer financial loss or loss of property. The basic information on material proceedings that may have material effect on financial position or profitability of the Issuer and/or Group is presented in Part II – item 20.8. “Legal, governmental and arbitration proceedings“ hereof.

#### **4.12. Environment protection risk**

In its operation the Issuer uses some raw materials, materials and technology procedures that may pose environment risks. The Issuer reduces these risks to a minimum by strict use of procedures and standards for handling hazardous substances. Nevertheless, the Issuer cannot rule out the possibility of occurrence of event of environment pollution due to reasons that lie in the responsibility of the Issuer or a Group member, which could lead to the Issuer or Group member being accountable under civil liability, for misdemeanour, criminally or otherwise and suffering financial losses.

The Issuer does not have special insurance against damage caused by environment pollution and an event of environment pollution for which the Issuer is liable could cause material adverse change in its business position, such as lower profitability, insolvency or bankruptcy.

#### **4.13. Uninsured events risk**

The Issuer’s operation includes manufacturing and supply of structures, buildings and other products and services. The effects of business operation on persons and things and possible

harmful events with consequences for third parties and things may cause material adverse changes in the Issuer's business position.

The Issuer obtains insurance policies against harmful events due to usual risks. The Issuer does not obtain commercial insurance against all business risks or harmful events in business operation.

Occurrence of a harmful uninsured event may cause material adverse change in the Issuer's business position, such as lower profitability, insolvency or bankruptcy.

#### **4.14. Risks related to accommodating surplus employees**

The Group's Business Strategy until the year 2020 and the Restructuring Plan (described in Part II – item 5.1.5. hereof) provide for optimisation of the number of employees both of the Issuer and the Group companies. U slučaju da dođe do značajnog smanjenja broja zaposlenih, Izdavatelj odnosno Grupa bili bi izloženi značajnim troškovima vezanim uz izradu programa zbrinjavanja viška radnika i troškove otpremnin. If major cuts in number of employees occur, the Issuer, i.e. the Group, would be exposed to significant costs related to preparing the programme for accommodating surplus employees and costs of severance payments. Further, if the Issuer and/or Group members would be forced to decrease the number of its employees by dismissal, instead of termination of employment by mutual consent, the company and Group members would be exposed to a number of potential legal proceedings with the employees. In case of loss in such litigations, the laid off workers would be entitled to compensation of salary for the entire period in which they had not work, as well as the right to be returned to work. Considering the expected years of duration of such litigations, if a significant number of such employees is successful in their litigations, the Issuer and/ Group members would be exposed to material financial obligations for such costs of returning the employees to work who have been unfairly dismissed.

## 5. INFORMATION ON THE ISSUER

### 5.1. History and development of the Issuer

#### 5.1.1. Name and company name of the Issuer

Company name:	Đuro Đaković Holding dioničko društvo
Abbreviated company name:	Đuro Đaković Holding d.d.

#### 5.1.2. Place of entry and entry number of the Issuer

Commercial court of entry:	Commercial Court of Osijek, Permanent Service in Slavonski Brod
Entry number (MBS):	050002378

#### 5.1.3. Date of incorporation of the Issuer and its term of duration

Date of incorporation	31 January 1991
Company term	Company term is not defined in advance.

#### 5.1.4. Seat and legal form of the Issuer, legislation of its business, country of incorporation, address and phone number of the registered seat

<i>Registered seat of the Issuer:</i>	Slavonski Brod, Dr. Mile Budaka 1
<i>Legal form:</i>	Joint stock company
<i>Legislation of Issuer's business:</i>	Legislation of the Republic of Croatia and <i>acquis communautaire</i>
<i>Country of incorporation:</i>	Republic of Croatia
Address and phone number:	Dr. Mile Budaka 1, 35000 Slavonski Brod Tel. +385 35 446 256



### **5.1.5. Material events in the development of the Issuer's business operation**

The Issuer originates from the company Prva jugoslavenska tvornica vagona, strojeva i mostova d.d. Brod na Savi, incorporated in 1921 as a joint stock company in the ownership of six private investors. In 1947 after becoming state-owned, it changed its company name into Đuro Đaković industrija lokomotiva, strojeva i mostova Slavonski Brod under which it operated until 1968.

During the early 70's of the 20th century it gradually changed its organisational structure and was transformed into a holding company of a socialist type under the name SOUR Đuro Đaković with more than 30 affiliated companies (OOUR) and is after 1990 transformed into a composite company Đuro Đaković comprising 26 companies and was socially-owned.

At the founding assembly of Đuro Đaković Holding d.o.o., held in 1991, the Croatian Development Fund (later on the Croatian Privatisation Fund) became the majority shareholder of the Issuer. In the way of further transformation of social ownership Đuro Đaković Holding d.o.o. acquired ownership of the shares in 31 company.

At the end of 1993 Đuro Đaković Holding d.o.o. was transformed into a joint stock company with company name Đuro Đaković Holding d.d. At the same time 990 then employees and former employees became shareholders of the Issuer for the first time. The shareholding structure was not significantly changed until 1999 and the "coupon privatisation" when the privatisation investment funds Pleter, Sunce and Slavonski privatizacijski fond acquired a more significant number of shares of the Issuer.

The Issuer's shares were listed on the Zagreb Stock Exchange in 2003.

During 2007 the Issuer got 994 new shareholders pursuant to transfer of shares to Croatian defenders from the Croatian Privatisation Fund.

The number of companies controlled by the Issuer has been gradually reduced and today only seven companies are part of Đuro Đaković Holding d.d.

Pursuant to the decision of the Issuer's Supervisory Board of 25 September 2014 the Group's Business Strategy until the year 2020 and the Restructuring Plan proposed by the Management Board were adopted. The Restructuring Plan includes manufacturing and product range reconstruction, financial restructuring and organisational structure optimisation.

The manufacturing and product range reconstruction aims at modernisation of the machine fleet, introduction of new products and reductions from the current production range focusing the possibilities of market placement of the Issuer's products in the business sectors defence, transport, industry and energetics.

The goal of financial restructuring is improvement of sources of financing, increasing working capital levels with a view to achieving stable liquidity and securing sources of financing further development.

By executing the share capital increase the Issuer would create the preconditions for organisational structure optimisation.

The Plan provides for merger of certain Group companies with a view to optimising costs and achieving synergy effects and spinning off certain business activities that are not in compliance with the Group's key competitive strengths. This will result in organisational reconstruction in which next to the Issuer, that will combine the key corporate functions, the other seven Group companies will be transformed into seven Group companies, specifically: Đuro Đaković Specijalna vozila, Đuro Đaković Industrijska rješenja and Đuro Đaković Energetika i infrastruktura. The electrical assembly will undergo spin-off into a separate company whose shares would be offered to employees under the employee stock ownership plan or to a strategic partner.

Reduction and simplification of management and organisational structure should in turn lead to optimisation of the number of employees both of the Issuer and the Group companies.

Key to implementation, realisation and dynamics of the financial restructuring process is, in addition to organisational restructuring, the pending share increase procedure.

## 5.2. Investments

### 5.2.1. A description, (including the amount) of the principal investments made by the Issuer for each business year covered by the historical financial statements up to the date of this Prospectus

In the reviewed period from 2011 to 2013 the Issuer did not have any principal investments. All investments refer to the Issuer's property, equipment and intangible assets in Slavonski Brod, which is the only location on which the Issuer operates. Detailed amounts in the previous three years and the first half of 2014 are presented in the table.

**Table 19 Investment overview**

INVESTMENT (name or description) in kunas	2011	2012	2013	I-VI 2014
<b>1. BUILDINGS:</b>	<b>669,097</b>	<b>5,394,190</b>	<b>2,483,129</b>	<b>21,369,591</b>
Buildings (investment in facilities)	-	3,435,154	2,483,129	4,063,993
Paint shop with accompanying land	-	1,471,000	-	-
Office space ĐĐ Rekreacija-tours	-	301,000	-	-
Facilities adaptation	-	187,036	-	-
Investments in production halls 115 and 237	669,097	-	-	-
Non-current assets under construction	-	-	-	17,305,598
<b>2. EQUIPMENT:</b>	<b>8,541,929</b>	<b>7,700,329</b>	<b>2,509,701</b>	<b>2,746,368</b>
IT and telecommunication equipment, office equipment	484,423	529,819	810,434	125,354
Transportation	398,894	1,563,507	305,750	-
Workshop equipment (large tools, appliances)	7,658,612	4,286,269	973,034	2,495,656
Self-produced production (production devices for wagons and ACV, storey structure)	-	1,320,735	391,555	125,358
Other equipment	-	-	28,928	-
<b>3. INTANGIBLE ASSETS:</b>	<b>2,827,153</b>	<b>8,849,343</b>	<b>1,618,803</b>	<b>2,490,934</b>
Licenses, software	81,698	452,800	374,496	125,325
Documentation for wagons. Costs for TSI certificates etc.	2,745,456	3,382,983	845,147	2,365,609
Own investment in project construction documentation	-	4,968,560	399,160	-
Other	-	45,000	-	-
<b>4. TOTAL:</b>	<b>12,038,179</b>	<b>21,943,863</b>	<b>6,611,633</b>	<b>26,606,893</b>

Source: Issuer

In the period 2011 to 2013 the investments mostly referred to investment maintenance, while investment into equipment and intangible assets mostly referred to acquisitions of new fixed assets.

Investments in the first six months of 2014 refer to investments planned for 2014 which are presented in detailed in Part II – item 5.2.2. hereof.

**5.2.2. A description of the Issuer's principal investments that are in progress, including the geographic distribution of these investments (home and abroad) and the method of financing (internal or external)**

The Group is in an investment cycle for acquiring fixed assets and the investment has been planned in amount of HRK 106,384,410.00.

Sources for financing the planned investments come from a loan from the Croatian Bank for Reconstruction and Development in amount of HRK 80,076,000.00 and own funds in amount of HRK 26,308,410.00.

Below is presented the total planned amount of investment into fixed assets for the entire 2014 according to (a) specific Group members and (b) type:

(a) ulaganja po pojedinim članicama Grupe

Đuro Đaković Elektromont d.d.	HRK 14,707,100.00
Đuro Đaković Proizvodnja opreme d.o.o.	HRK 36,283,310.00
Đuro Đaković Strojna obrada d.o.o.	HRK 13,625,000.00
Đuro Đaković Inženjering d.d.	HRK 745,100.00
Đuro Đaković Specijalna vozila d.d.	HRK 41,023,900.00

(b) investments according to type

Buildings	HRK 17,211,000
Equipment	HRK 82,211,000
Intangible assets imovina	HRK 6,962,410

The Group intends to complete the investments until the end of 2014 and begin of full capacity of the mounted equipment is expected in 2015. All mentioned investments shall be performed in the Issuer's production plants in Slavonski Brod.

**5.2.3. Information concerning the Issuer's principal future investments on which its management bodies have already made commitments.**

Other than the obligations described in Part II – item 5.2.2., the Issuer has no other undertaken investment commitments.

## 6. BUSINESS OVERVIEW

### 6.1. Principal activities

#### ***6.1.1. Issuer's business, description of principal activities and actual activities, a list of significant products sold or services provided by the Issuer for each financial year in the period covered by the historical financial information.***

The Issuer is a parent and management company which, together with seven subsidiaries in its majority ownership, forms Đuro Đaković Group. Due to diversified production portfolio, business of the Group is performed through organisational units covering separate production portfolios (business divisions).

#### **Division Defence**

Đuro Đaković Grupa is the Croatia's leading supplier of battle tanks and combat vehicles. Important activities of this division are manufacturing and maintenance of armoured modular vehicles AMV 8x8 and development, manufacturing and integration of new NATO interoperable systems of new generation designed for improvement of the existing M-84/T-72 tanks. The products of this division are manufactured by Đuro Đaković Specijalna vozila d.d.

#### **Division Transport**

Đuro Đaković Group is the only manufacturer of railway cargo wagons in the Republic of Croatia. The division sells cargo wagons for transport of various goods. It employs modern design methods and has the know-how for independent development of new wagon types, including the know-how for customising the existing wagons to the specific requirements of the customers. Manufacturing of cargo wagons is performed in the company Đuro Đaković Specijalna vozila d.d.

#### **Division Industry and Energetics**

Division Industry and Energetics offers and provides engineering, design and consulting services, project management, technical supervision, purchasing, manufacture and assembly of components, equipment and plants on a "turnkey" principle, performance of electrical and instrumentation works, commissioning and staff training and maintenance and repair. The services by this division are related to the following fields: industrial oil and gas plants, chemical and petrochemical industry, energy plants, food industry, cement industry and metallurgy.

The activities of this division are performed by five companies: Đuro Đaković Holding d.d., Đuro Đaković Elektromont d.d., Đuro Đaković Inženjering d.d., Đuro Đaković Strojna obrada d.o.o. and Đuro Đaković Proizvodnja opreme d.o.o.

## **Division Construction and Infrastructure**

Division Construction and Infrastructure provides services of assembly of new equipment in oil refineries and reconstruction of the existing plants. The division provides services of construction and assembly of power plants, petrochemical and industrial plants, construction of metal bridges, steel structures and high rise structures (viaducts, flyovers, etc.) and adjoining infrastructure.

The activities of this division are performed by five companies: Đuro Đaković Holding d.d., Đuro Đaković Elektromont d.d., Đuro Đaković Inženjering d.d., Đuro Đaković Strojna obrada d.o.o. and Đuro Đaković Proizvodnja opreme d.o.o.

## **Division Renewable Energy Sources**

Division Renewable Energy Sources was incorporated in 2013 with a view to providing services and manufacturing in the field of renewable energy sources focusing on preservation of resources, efficiency and environmental acceptability.

The division has been developing a cogeneration system using biomass, currently in the prototype stage (the system is produced by Đuro Đaković Elektromont d.d.). In addition to the above, the division plans to offer services of management and construction of projects such as water purifiers, water desalinisation, agricultural land irrigation and services in the field of solar energy (photovoltaic cells) and wind energy (wind farms).

Below follows a detailed description of activities according to companies of Đuro Đaković Group, as per company registry:

### **Đuro Đaković Holding d.d.**

The company activities are as follows:

- management activities of holding companies,
- joint venture and company incorporation abroad, purchase and sale of know-how, licences and patents,
- architectural and engineering activities and related technical consultancy,
- preparation of technical reports for registration of floor ownership of flats, business premises and other real estates,
- construction, project design and supervision,
- transshipment, warehousing and other activities auxiliary to transport,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets,
- preparation of food and provision of catering services,

- renting of office machinery and equipment,
- accounting and bookkeeping activities,
- marketing (advertising and propaganda),
- providing parking services at own parking lot with charge,
- sale of weapons and military equipment,
- insurance and protection of manufacturing and sale of weapons and military equipment,
- export and import of military goods and non-military lethal weapons,
- services related to military goods,
- entry into agreements on manufacturing weapons and military equipment for export,
- marketing and foreign market research for the purposes of export of weapons and military equipment,
- consulting and intermediation in the field of manufacturing and trade of weapons,
- services of logistics, supply, maintenance, transport, intermediation and customs forwarding,
- real estate activities,
- real estate agencies,
- humanitarian demining activities.

**Đuro Đaković Specijalna vozila d.d.**

The company activities are as follows:

- manufacture of metal structures,
- treatment and coating of metals, general machining,
- manufacture of weapons and ammunition,
- manufacture of other electronic equipment, n.e.c.,
- manufacture of electronic equipment for motorcycles and vehicles, n.e.c.,

- manufacture of other electronic equipment, n.e.c.,
- manufacture of motor vehicles,
- manufacture of bodies for motor vehicles, manufacture of trailers and semi-trailers,
- manufacture of motor vehicle parts and accessories,
- sale of motor vehicles,
- maintenance and repair of motor vehicles,
- sale of motor vehicle parts and accessories,
- wholesale of non-agricultural intermediate products, waste and scrap,
- other wholesale,
- other financial intermediation n.e.c.,
- software consultancy and supply,
- data processing,
- maintenance of office machinery and computers,
- research and development in technology and technological sciences,
- marketing (advertising and propaganda),
- foreign affairs
- export and import of: metal structures, electronic equipment for motorcycles and vehicles, other electronic equipment, motor vehicles, bodies for motor vehicles, trailers and semi-trailers, motor vehicle parts and accessories,
- services,
- parts, raw materials and accessories,
- maintenance and repair of motor vehicles,
- treatment and coating of metals, development and design of: weapons and ammunition, motor vehicles, electronic equipment for motorcycles and vehicles, information systems or feeding, processing and transmission of data,
- accounting and bookkeeping activities,
- manufacture of machinery for mining, quarrying and construction,



- wholesale of construction machinery,
- renting of other land vehicles,
- renting of construction and civil engineering machinery and equipment,
- manufacture of special-purpose vehicles (waste disposal, cleaning and similar),
- renting of special-purpose vehicles (waste disposal, cleaning and similar),
- wholesale and retail trade of special-purpose vehicles (waste disposal, cleaning and similar)
- retail trade of construction machinery,
- foreign affairs,
- import and export of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),
- maintenance and repair of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),
- development and design of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),
- manufacture and repair of locomotives and rolling stock,
- construction, project design and supervision.

#### **Đuro Đaković Elektromont d.d.**

The company activities are as follows:

- manufacture of metal products, other than machinery and equipment,
- manufacture of machines and devices, n.e.c.,
- manufacture of electronic machines and devices,
- manufacture of radio-tv and communication devices and equipment,
- manufacture of medical, precise and optical instruments and watches and clocks,
- construction, project design and supervision,
- real estate activities,

- computer and related activities,
- research and supervision,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets,
- support and ancillary activities in transportation,
- public road transportation of passengers and freight in domestic and international transport,
- design, construction, testing, analysis, supervision and maintenance of electrical fittings, industrial and energy plants,
- activity of charging parking, control of charging parking, maintenance of horizontal and vertical signalling, parking lot equipment, organisation and other activities on public and closed parking lots.

#### **Đuro Đaković Inženjering d.d.**

The company activities are as follows:

- architectural and engineering activities and related technical consultancy,
- making drawings of machines and industrial plants,
- engineering, project management of technical activities,
- engineering in the field of civil engineering, hydraulic engineering, traffic, system engineering and safety engineering,
- preparation of investment documents and technology documents and technical supervision,
- air-condition projects, cooling projects, sanitary control and pollution projects and acoustics projects,
- intermediation in production of industrial plants (contracting, purchase of equipment, devices and plants),
- intermediation in construction and organisation of assembly and construction works and plant commissioning, organisation and participation in takeover of the final calculation and training of staff for facility exploitation and maintenance and consulting and technical activities (establishing and making drawings, building design, supervision of construction),

- performance of investment works abroad (project preparation, performance of all kinds of works, building takeover),
- organisation of construction of entire buildings (engineering), contract engineering and consultancy engineering,
- factoring, compensation engineering and other services,
- activities of obtaining and assigning intellectual property rights and knowledge and experience (*know-how*),
- other business activities n.e.c.,
- appraisal, other than for real estates or insurance,
- construction, project design and supervision in the field of construction, electric works, electronics, mining, chemistry, mechanics and industry,
- professional services related to making of physical planning documents and expert reports for issue of location permits,
- purchase and sale of goods,
- provision of services in trade for the purposes of realising profit or other economic effect on the domestic or foreign market,
- real estate activities and real estate agencies,
- real estate appraisal, making of floor ownership reports,
- activities of authorised customs forwarder (forwarding activities),
- making of expert reports and environment protection surveys,
- water building projects,
- photocopying services,
- expert environment protection activities,
- expert nature protection activities,
- expert protection and rescuing activities,
- real estate management and real estate maintenance.

**Đuro Đaković Energetika i infrastruktura d.o.o.**

The company activities are as follows:

- water collection, treatment and supply,
- commercial intermediation on domestic and foreign markets,
- production of electricity,
- distribution of electricity,
- organisation of electricity market,
- gas supply,
- trade, intermediation and representation on the energy market,
- production of heating energy,
- distribution of heating energy,
- heating energy supply,
- distribution of gas,
- public switched telephone network,
- renting telecommunication lines,
- renting telecommunication network or its parts,
- cable distribution services,
- transmission of speech, sound, data, documents, pictures and other things, without using the radiofrequency spectrum, other than public switched telephone network services,
- project design, construction, use and demolition of buildings,
- construction supervision,
- production and distribution of compressed air,
- management of funds of joint reserves on roads.

**Đuro Đaković Strojna obrada d.o.o.**

The company activities are as follows:

- manufacture of taps and valves,
- manufacture of bearings, gears, gearing and driving elements
- manufacture of machinery for food, beverages and tobacco industry,
- manufacture of other special-purpose vehicles n.e.c.,
- manufacture of metal structures and their parts,
- treatment and coating of metals,
- general machining,
- machine-building, mechanical bearings, special gears and equipment for petroleum industry,
- metal processing craft service,
- road transportation of goods in international transport for own purposes

#### **Đuro Đaković Proizvodnja opreme d.o.o.**

The company activities are as follows:

- commercial intermediation on domestic and foreign markets,
- manufacture of metal products, other than machinery and equipment,
- manufacture of other general-purpose machinery,
- manufacture of other special-purpose machinery,
- renting of other machinery and equipment,
- technical testing and analysis.

#### **Slobodna zona Đuro Đaković d.o.o.**

The company activities are as follows:

- transshipment,
- warehousing,
- other transport agency activities,

- real estate activities on a fee or contract basis,
- accounting, bookkeeping activities and tax consultancy,
- zone management,
- representation of domestic and foreign companies,
- translation activities,
- cleaning of all types of buildings,
- other business activities.

**The most important products of Đuro Đaković Group in all financial years covered by the historical financial information are:**

- rolling stock (wagons),
- special vehicles (combat vehicles),
- equipment for industry and energy plants,
- equipment for food, petrochemical and cement industry,
- engineering and electric assembly services,
- individual products and services, and
- services of free customs zone.

***6.1.2. Any significant new products and/or services that have been introduced and , to the extent the development of new products or services has been publicly disclosed, the status of development.***

In 2013 as part of its business strategy the Issuer established the division Renewable Energy Sources as a segment with growth opportunities in the future. Owned by the Issuer, the company Đuro Đaković Elektromont d.d., develops in a cogeneration plant for production of electricity and heat using biomass.

The project is important for competitiveness and further development of the Group in the renewable energy sources segment in the field of small and medium-sized cogeneration plants. The product has all required certificates and approvals and can thanks to its technical characteristics be installed in almost any production plan needing heat and electric energy. The plan has been based on new technology of hot air and is thus a novelty on the market of usual cogeneration plant technologies. HRK 28.5 million was invested into the project development

## 6.2. Principal markets

Đuro Đaković Group realised the majority of its income on two markets, the market of the Republic of Croatia and the market of the European Union, as presented in the table below.

**Table 20 Sales income by Issuer's markets**

	(in 000 kunas)	2011	2012	2013	I - VI 2014
Republic of Croatia		716,748	852,216	542,488	127,877
Other EU countries		56,817	187,675	48,919	62,057
Other business income		22,234	38,867	20,150	3,971
<b>Total</b>		<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>	<b>193,905</b>

Source: Issuer

The income on the EU market in the reviewed period has mostly been realised from sales of cargo wagons.

Given high dependency on the market of the Republic of Croatia and specific dependency on investments cycles in major segments of activity (military industry, industrial plants and railway transport), the influence of the major clients in the period under review is also significant.

**Table 21 Consolidated operating income by business divisions**

	(u 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
Division Defence		586,601	613,501	301,201	168,908	30,075
Division Transport		82,341	180,790	31,228	648	38,286
Division Industry and Energetics		78,880	231,625	242,325	82,046	76,652
Division Construction		15,481	18,222	12,473	9,111	34,109
Division Renewable Energy Sources		-	-	-	-	-
Other (Distribution, Energy and Free Zone)		32,496	34,620	24,330	19,785	14,783
<b>Total operating income</b>		<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>	<b>280,498</b>	<b>193,905</b>

Source: Issuer

**Table 22 Sales income by largest buyers**

	(in 000 kunas)	2011	2012	2013	I-VI 2014
Ministry of Defence of Republic of Croatia		585,587	607,982	289,416	22,615
Jadranski naftovod d.d.		9,491	152,453	186,766	13,297
Hrvatske željeznice d.d.		39,526	28,509	6,175	9,728
<b>Total</b>		<b>634,604</b>	<b>788,944</b>	<b>482,357</b>	<b>45,640</b>

Source: Issuer

The income realised from the Ministry of Defence of the Republic of Croatia relates to supply of armoured combat vehicles of brand Patria and repair and revision of M-84 tanks. Income

from JANAF relates to construction of oil and oil product tanks at the site in Omišalj and tanks at the site Žitnjak.

Income realised from Hrvatske željeznice and its subsidiaries relate to supply of cargo wagons and reconstruction and construction of railway infrastructure (income from infrastructure was realised in 2013 and first half of 2014, and from cargo wagons in previous years).

A more detailed breakdown of the Group's operating income by business segments is presented below.

**Table 23 Operating income by business segments (divisions)**

(in 000 kunas)	2011	2012	2013	I - VI 2013	I - VI 2014
<b>Total operating income</b>	<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>	<b>280,498</b>	<b>193,905</b>
<b>Division Defence</b>	<b>586,601</b>	<b>613,501</b>	<b>301,201</b>	<b>168,908</b>	<b>30,075</b>
ACV	586,601	612,603	301,201	168,908	28,365
Other smaller projects (tank audit etc.)		898			1,710
<b>Division Transport</b>	<b>82,341</b>	<b>180,790</b>	<b>31,228</b>	<b>648</b>	<b>38,286</b>
Wagons	79,487	179,104	31,228	0	36,389
Other smaller projects	2,854	1,686		648	1,897
<b>Division Industry and Energetics</b>	<b>78,880</b>	<b>231,625</b>	<b>242,325</b>	<b>82,046</b>	<b>76,652</b>
INA d.d.	7,813				22,058
Jadranski naftovod d.d.		157,340	186,766	48,160	13,298
Hrvatske željeznice d.d.	14,710	28,509			9,728
SG Graditeljstvo d.o.o. - electric works under construction	13,991				
Rafinerija Bosanski Brod - container assembly		11,868			
Polysius, Beckum - cement	6,991				
HEP d.d.					12,728
AB Montaža Karlovac	5,806				
Other smaller projects	29,569	33,908	55,559	33,886	18,840
<b>Division Construction</b>	<b>15,481</b>	<b>18,222</b>	<b>12,473</b>	<b>9,111</b>	<b>34,109</b>
<b>Division Renewable Energy Sources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other (Distribution, Energy, Free Zone)</b>	<b>32,496</b>	<b>34,620</b>	<b>24,330</b>	<b>19,785</b>	<b>14,783</b>
Energy	30,677	32,289	22,759	18,556	14,064
Free Zone	1,819	2,331	1,571	1,229	719

Source: Issuer



**Table 24 Geographic structure of operating income by divisions**

(u 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
<b>Total operating income</b>	<b>795,799</b>	<b>1,078,758</b>	<b>611,557</b>	<b>280,498</b>	<b>193,905</b>
<b>Division Defence</b>	<b>586,601</b>	<b>613,501</b>	<b>301,201</b>	<b>168,908</b>	<b>30,075</b>
a) Export			8,068	2,065	7,461
b) Inland (domestic)	586,601	613,501	293,133	166,843	22,614
c) Other operating income					
<b>Division Transport</b>	<b>82,341</b>	<b>180,790</b>	<b>31,228</b>	<b>648</b>	<b>38,286</b>
a) Export	71,015	179,104	31,228		37,797
b) Inland (domestic)	8,472	1,686		648	489
c) Other operating income	2,854				
<b>Division Industry and Energetics</b>	<b>78,880</b>	<b>231,625</b>	<b>242,325</b>	<b>82,046</b>	<b>76,652</b>
a) Export	20,082	36,050	31,422	12,348	11,348
b) Inland (domestic)	50,172	173,868	210,903	69,698	65,304
c) Other operating income	8,626	21,707			
<b>Division Construction</b>	<b>15,481</b>	<b>18,222</b>	<b>12,473</b>	<b>9,111</b>	<b>34,109</b>
a) Export					5,451
b) Inland (domestic)	15,481	18,222	12,473	9,111	28,658
c) Other operating income					
<b>Division Renewable Energy Sources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
a) Export					
b) Inland (domestic)					
c) Other operating income					
<b>Other (Distribution, Energy, Free Zone)</b>	<b>32,496</b>	<b>34,620</b>	<b>24,330</b>	<b>19,785</b>	<b>14,783</b>
a) Export					
b) Inland (domestic)	32,496	34,620	24,330	19,785	14,783
c) Other operating income					

Source: Issuer

**6.3. Where the information given pursuant to items 6.1. and 6.2. has been influenced by extraordinary factors, mention that fact**

There are no extraordinary facts that influence information under items 6.1. and 6.2.

**6.4. If material to the Issuer's business profitability, summary information regarding patents, licenses, material contracts or new manufacturing processes.**

The most important contracts for the Issuer are cooperation agreements with its partners Kongsberg Defence & Aerospace AS and Patria Land Systems Oy.

The Issuer entered on 12 October 2012 into the Teaming Agreement with Kongsberg Defence & Aerospace AS on manufacturing, marketing and sales and maintenance of remotely-controlled medium calibre weapon station being part of equipment of combat vehicles.

The Issuer entered on 12 June 2012 into the Framework Agreement with Patria Land Systems Oy on manufacturing, marketing and sales of Patria's AMV 8x8 armoured vehicles in certain countries by the Issuer.

**6.5. The basis for any statements made by the Issuer regarding its competitive position**

The Issuer gave in the Prospectus no statements regarding its competitive position on the market.

## 7. ORGANISATIONAL STRUCTURE

### 7.1 Description of the Group and the Issuer's position within the Group

Đuro Đaković Group consists of Đuro Đaković Holding d.d. (Issuer) and 7 subsidiaries, in which the Issuer directly holds the majority share.

The following companies are in the majority ownership of Đuro Đaković Holding d.d. (with the Issuer's ownership share in the respective company given in brackets):

- Đuro Đaković Specijalna Vozila d.d. (99.69%)
- Đuro Đaković Elektromont d.d. (100%)
- Đuro Đaković Inženjering d.d. (84.84%)
- Đuro Đaković Proizvodnja opreme d.o.o. (100%)
- Đuro Đaković Strojna obrada d.o.o. (100%)
- Đuro Đaković Energetika i infrastruktura d.o.o. (97.55%)
- Slobodna Zona Đuro Đaković Slavonski Brod d.o.o. (69.62%)

**Table 25 Organisational plan of the Group**

ĐURO ĐAKOVIĆ Holding d.d.					
ĐURO ĐAKOVIĆ Elektromont d.d.	ĐURO ĐAKOVIĆ Energetika i infrastruktura d.o.o.		ĐURO ĐAKOVIĆ Inženjering d.d.		ĐURO ĐAKOVIĆ Proizvodnja opreme d.o.o.
ĐURO ĐAKOVIĆ Holding d.d. (100.00%)	ĐURO ĐAKOVIĆ Holding d.d. (97.55%)	Minority shareholders (2.45%)	ĐURO ĐAKOVIĆ Holding d.d. (84.84%)	Minority shareholders (15.16%)	ĐURO ĐAKOVIĆ Holding d.d. (100.00%)
ĐURO ĐAKOVIĆ Specijalna vozila d.d.		ĐURO ĐAKOVIĆ Strojna obrada d.o.o.	Slobodna zona ĐURO ĐAKOVIĆ d.o.o.		
ĐURO ĐAKOVIĆ Holding d.d. (99.69%)	Minority shareholders (0.31%)	ĐURO ĐAKOVIĆ Holding d.d. (100.00%)	ĐURO ĐAKOVIĆ Holding d.d. (69.62%)	The city of Slavonski Brod (15.19%)	Brodsko posavska County (15.19%)

Source: Issuer

The Issuer, being the parent and the management company, provides for execution of the Group's strategy by way of adjusting, approval and monitoring of execution of business plans for each subsidiary of the Group.

Given the fact that the Group companies require joint appearance on the market, in 2012 the Issuer the division-function approach to the Group management. The market is approached through five divisions which consolidate operations of individual companies in the Group. The divisions are: Defence, Transport, Industry and Energetics, Construction and Infrastructure and Renewable Energy Sources.

The corporate functions have been centralised with a view to reaching an optimum level of management and greater savings. All operational plans and expenses related to specific corporate functions are performed centrally through individual services of the Issuer, which enables optimum use of resources. This is achieved, in addition to actions through the company's General Assembly, also by participation of members of the Management Board of the Issuer and executives in management bodies of the subsidiaries.

On 25 September 2014 the Issuer's Supervisory Board adopted the Group's Business Strategy until the year 2020 and the Restructuring Plan. For detailed presentation see Part II – item 5.1.5. hereof.

## **7.2. List of the Issuer's subsidiaries, including company name, share in the share capital and voting rights if different than share in the share capital**

Đuro Đaković Holding d.d. holds the following ownership shares:

- 99.69% share in **Đuro Đaković Specijalna vozila d.d.** having its seat in Slavonski Brod, Croatia. The company manufactures armoured combat vehicles. The product line includes the armoured combat vehicle AMV 8x8, battle tank M-84D, and a demining machine. The company also develops a modernisation program for tanks T-72 and M-84, in line with new military technologies, which includes increased mobility, fire control and armament. The company also offers a wide range of cargo wagons.
- 99.64% share in **Đuro Đaković Elektromont d.d.** having its seat in Slavonski Brod, Croatia. The company operates in three different fields – services in construction industry, services of electrical assembly in FR Germany and production of thin sheet components. The company has established a branch in FR Germany.
- 84.84% share in **Đuro Đaković Inženjering d.d.** having its seat in Slavonski Brod, Croatia. The basic activity of Đuro Đaković Inženjering d.d. is providing services of design and obtaining of location and building permit, mechanical equipment and steel construction, operational engineering - performance of assembly and construction works, insulation and anti-corrosive protection and expert supervision and technical consulting.

- 100% share in **Đuro Đaković Proizvodnja opreme d.o.o.** having its seat in Slavonski Brod, Croatia. The basic activities focus on the product ranges of heavy steel structures, equipment in the industry of cement and pressure vessels.
- 100% share in **Đuro Đaković Strojna obrada d.o.o.** having its seat in Slavonski Brod, Croatia. The company's activities are based on machining services and the company specialized in production of power transmission gears. The product range focuses on production and repair of locomotive wheelsets, production and repair of wagon wheelsets, production of diverse power transmission gears (bearings, gears, spindles, reducers), production of oil drilling valves and machining services and heat treatment.
- 97.55% share in **Đuro Đaković Energetika i infrastruktura d.o.o.** having its seat in Slavonski Brod, Croatia. In the last twenty years or more Đuro Đaković Energetika i infrastruktura d.o.o. with its knowledge, experience and equipment provides our customers with safe, economical and continued supply of vital energy-generating products for their business operation.
- 69.63% share in **Slobodna zona Đuro Đaković Slavonski Brod d.o.o.** having its seat in Slavonski Brod, Croatia. It has been established in the industrial zone Đuro Đaković with a view to improving business conditions for the company already active in the zone, and, more importantly, to secure business conditions attractive to new investors. Other than customs, tax and other reliefs granted by the state and local government, this zone provides many other benefits such as developed infrastructure, trained labour, good cooperation opportunities, etc.

## 8. PROPERTY, PLANTS AND EQUIPMENT

### 8.1. Information on the existing or planned fixed assets (significant movable and immovable property), including leased property and encumbered property.

#### 8.1.1. Property

The Issuer and its subsidiaries have been entered as registered owners of a number of properties entered with the land registry of the Municipal Court of Slavonski Brod, Municipal Civil Court of Zagreb and Municipal Court of Buje.

The most important properties are entered with the land registry of the Municipal Court of Slavonski Brod, cadastral municipality Slavonski Brod, and are situated at the business address of the Issuer and its subsidiaries - Mile Budaka 1. Those properties mostly represent business premises, production plants, production halls and construction land. The respective properties constitute a large number of cadastral plots with total surface of 789,136.78 m<sup>2</sup>.

Detailed information on the total bookkeeping value of the respective plots can be found under financial data on the Issuer's assets in Part II – item 20 of this Prospectus.

Other than the properties at the business address Mile Budaka in Slavonski Brod, the Issuer and its subsidiaries are owners of a large number of properties of significant value entered in the land registry of the Municipal Court of Slavonski Brod, in cadastral municipality Kindrovo and cadastral Grabarje Brodsko and properties entered in the land registry of the Municipal Civil Court of Zagreb, at the address Kurelčeva ulica 4 and Prilaz Đure Deželića 30.

The properties entered in cadastral municipality Kindrovo and cadastral municipality Grabarje Brodsko are situated outside the city of Slavonski Brod and represent land plots.

Here follows an overview of the most valuable properties at bookkeeping value.

**Table 26 Overview of the most valuable properties of the Issuer at bookkeeping value**

Purpose of the premises	Bookkeeping value	Encumbrances
<i>Property in Slavonski Brod, Ulica Mile Budaka</i>		
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Specijalna vozila d.d., with surface of 15,121.00 m <sup>2</sup>	HRK 3,747,008.00	Đuro Đaković Holding d.d. HRK 45,000,000.00, Zagrebačka banka d.d. HRK 27,000,000.00 (joint mortgage, main file 4705, ancillary file 5440)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 10,245.00 m <sup>2</sup>	HRK 7,339,953.00	CBRD HRK 120,000,000.00 (joint mortgage, main file 5806, ancillary files 5435, 2144, 2359 PU 3, 1253, 13336, 13337, 4589, 4778, 2045, 5594, 13338, 5411, 2145, 13339, 12426 PU 1, 2028 PU 10, 13340, 7057, 13293, 13341, 4622 and 13342)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Strojna obrada d.o.o., with surface of 10,245.00 m <sup>2</sup>	HRK 31,780,486.00	Đuro Đaković Holding d.d. HRK 3,000,000.00, Raiffeisen Bank d.d. EUR 600,000.00, CBRD HRK 400,000.00, Đuro Đaković Holding d.d. HRK 5,000,000.00, CBRD HRK 120,000,000.00 (entry of assignment of priority in favour of Raiffeisen Bank d.d. and CBRD before Đuro Đaković Holding d.d. entry of the same priority of Raiffeisen Bank d.d. and CBRD)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Elekromont d.o.o., with surface of 5,788.00 m <sup>2</sup>	HRK 25,016,158.00	OTP banka d.d. EUR 475,000.00, HRK 17,600,000.00, EUR 1,425,000.00, HRK 10.649.331,60 Đuro Đaković Holding d.d. HRK 11,000,000.00, (entry of priority in favour of OTP banka d.d. Zadar before Đuro Đaković Holding d.d.)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Specijalna vozila d.d., with surface of 7,431.00 m <sup>2</sup>	HRK 22,080,759.00	HRK 120,000,000.00 Đuro Đaković Holding d.d. HRK 45,000,000.00 (entry of priority in favour of Zagrebačka banka d.d. (main file 4705 and CBRD before Đuro Đaković Holding d.d.).
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Specijalna vozila d.d., with surface of 3,937.50 m <sup>2</sup>	HRK 16,076,014.00	Zagrebačka banka d.d. EUR 4,000,000.00
Business premises in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 1,889.62 m <sup>2</sup>	HRK 15,807,427.00	CBRD HRK 120,000,000.00 (main file 5806)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Elektromont d.d., with surface of 776.00 m <sup>2</sup>	HRK 11,045,898.00	Brodsko posavska banka d.d. HRK 3,000,000.00, Đuro Đaković Holding d.d. HRK 7,000,000.00, Banka Brod d.d. EUR 175,040.94, Kent Bank d.d. EUR 173,342.74, Raiffeisen Bank d.d. EUR 700,000.00, CBRD HRK 5,000,000.00 (main file land registry record 4731 PU 1, Raiffeisen Bank d.d. and CBRD with same priority, assignment of priority in favour of Brodsko posavska banka d.d. and Kent banka d.d. before Đuro Đaković Holding d.d.)
Land plot in Slavonski Brod, Ulica Mile	HRK 9,923,760.00	Croatia banka d.d. HRK 20,000,000.00 (main

Budaka, in the ownership of Đuro Đaković Holding d.d. with surface of 13.783 m <sup>2</sup>		file 2765 cadastral municipality Grad Zagreb), HRK 35,000,000.00 (main file 2765 PU 1 cadastral municipality Grad Zagreb)
Business premises in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 2,283.44 m <sup>2</sup>	HRK 9,637,844.00	Zagrebačka banka d.d. HRK 45.000.000,00 (main file, land registry record 1519 PU 1 as ancillary file)
Storage in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 4,809.98 m <sup>2</sup>	HRK 8,104,546.00	CBRD HRK 120,000,000.00 (main file 5806)
Production plant in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Energetika i infrastruktura d.o.o., with surface of 1,671.00 m <sup>2</sup>	HRK 7,943,938.00	
Land plot in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 29,402.00 m <sup>2</sup>	HRK 7,938,540.00	HRK 20,000,000.00 (main file 2765 cadastral municipality Grad Zagreb), HRK 35,000,000.00 (main file 2765 PU 1 cadastral municipality Grad Zagreb)
Land plot in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 11,973.00 m <sup>2</sup>	HRK 6,184,710.00	Centar banka d.d. HRK 1,700,000.00
Business premises in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 746.26 m <sup>2</sup>	HRK 5,533,718.00	Zagrebačka banka d.d. HRK 45,000,000.00 (main file 1264)
Land plot in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 26,074.00 m <sup>2</sup>	HRK 5,475,540.00	Privredna banka Zagreb d.d. HRK 22,080,348.71 (main file 1519 PU 2, 3, 4, land registry record 5417, 5547, 13293, 13295, 13294 cadastral municipality Slavonski Brod as ancillary files)
Business premises in Slavonski Brod, Ulica Mile Budaka, in the ownership of Đuro Đaković Holding d.d., with surface of 746.26 m <sup>2</sup>	HRK 5,072,575.00	Privredna banka Zagreb d.d. HRK 22,080,348.71 (main file and land registry record 5417, 5547, 13293, 13295, 13294 cadastral municipality Slavonski Brod as ancillary files)
<i>Properties entered in the cadastral municipality Grabarje Brodsko in Slavonski Brod</i>		
Land plot in Slavonski Brod, in the ownership of Đuro Đaković Specijalna vozila d.d., with surface of 113,999.00 m <sup>2</sup>	HRK 9,326,998.50	Đuro Đaković Holding d.d. HRK 45,000,000,00, OTP banka d.d. EUR 1.000.000,00 (assignment of priority in favour of OTP banka d.d. before Đuro Đaković Holding d.d.)
<i>Properties entered in the cadastral municipality Kindrovo in Slavonski Brod</i>		
Land plot in Slavonski Brod, in the ownership of Đuro Đaković Specijalna vozila d.d., with surface of 172,401.00 m <sup>2</sup>	HRK 9,121,355.00	Đuro Đaković Holding d.d. HRK 45,000,000,00, OTP banka d.d. EUR 1,000,000.00 (assignment of priority in favour of OTP banka d.d. before Đuro Đaković Holding d.d.)
<i>Properties in Zagreb</i>		
Business premises in Zagreb, Kurelčeva ulica, in the ownership of Đuro Đaković Holding d.d., with surface of 167.06 m <sup>2</sup>	HRK 5,039,562.00	Croatia banka d.d. HRK 20,000,000.00 HRK 35.000.000,00 (main file)
Business premises in Zagreb, Prilaz Đure Deželića, in the ownership of Đuro Đaković Holding d.d., with surface of 264.23 m <sup>2</sup>	HRK 5,423,441.00	Đuro Đaković Holding d.d. HRK 6,000,000.00, HRK 15,000,000.00. OTP banka d.d. EUR 1,000,000.00 (all main files, assignment of priority in favour of OTP banka d.d. before Đuro Đaković Holding d.d.)



Source: Issuer

A certain part of the properties is leased by the Issuer and its subsidiaries to natural and legal persons who earn income on that grounds.

A majority of lease contracts has been concluded for indefinite time and payment of lease has been secured by security instruments – debenture notes.

The Issuer and its subsidiaries use the properties in their ownership also as a security instrument when entering loan agreements. Some of those securities relating to the properties of the higher values is presented in the table above.

On certain properties pledge has been registered in favour of the Issuer as pledgee on the properties of its subsidiaries as pledgers, however since these legal transactions have been entered between the Issuer and its subsidiaries, they do not represent a significant risk for the Issuer. In regard to the properties with entered pledge in favour of the Issuer as pledgee, assignments of priority of pledge in favour of banks have been entered.

Some of the properties within the Issuer's business zone at the address Mile Budaka 1 has been encumbered with easement, mostly in favour of legal entities operating in the field of water supply and water supply network maintenance, electricity supply and maintenance of underground cable lines.

According to the current land registry status for several properties entries of ownership litigations have been made, which have been instituted against the Issuer. However, the same do not relate to the properties at the Issuer's business address - M. Budaka in Slavonski Brod. A possible loss of properties due to acknowledged claims will not have significant effect on the Issuer's business operation.

The list of the most valuable movable assets of the Group companies at purchase value (exceeding HRK 2 million) as of 30 June 2014:

**Table 27 Overview of the most valuable movable assets of the Group at purchase value as of 30 June 2014**

No.	Name	Purchase value	Current value (30 June 2014)
1.	Portal milling machine SL 240 MH-GANTRY	13,853,542.64	0.00
2.	Large portal milling machine SL 236 TN	5,421,039.17	0.00
3.	Machining center MODUMILL 1752	4,283,411.60	0.00
4.	Machining center MODUMILL 1751	4,255,780.02	0.00
5.	LASER TRUMPF TRAUMATIC L 3050	4,046,136.58	978,787.76
6.	TRAUMATIC 5000 ROTATION 1300	3,431,514.26	832,783.07
7.	Portal milling machine FOUR STAR	2,944,804.00	2,161,044.00
8.	Shot blasting machine P-3200	2,724,186.61	0.00
9.	Transport equipment (RTT)	2,311,496.09	0.00
10.	CNC machining center TOPER carousel for	2,203,720.00	973,624.00

vertical turning			
11.	Varnish shop - dry process (powder)	2,155,959.21	251,528.23
<b>TOTAL</b>		<b>47,631,590.18</b>	<b>5,197,767.06</b>

Source: Issuer

The movable assets in the table have not been encumbered in favour of parties other than Issuer's Group companies. The Group companies encumber their movable assets as security for the Issuer's receivables from those Group companies.

**8.2. A description of any environmental issues that may affect the Issuer's utilisation of the tangible fixed assets.**

There are no environmental issues that may affect the Issuer's utilisation of the tangible fixed assets.

## **9. OPERATING AND FINANCIAL REVIEW**

Operating and financial review analyses Issuer's historical consolidated financial statements for the years ending on 31 December 2011, 31 December 2012 and 31 December 2013 and Issuer's unaudited consolidated financial statements for periods ending on 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014.

Potential investors should read the said document together with the Issuer's audited financial statements and together with information specified in Part II – item 4 and Part III – item 2 hereof.

The selected financial information presented in Croatian kuna ("HRK", "kn" or "kuna") specified below have been derived from audited consolidated financial statements of the Issuer for the first six months of 2011, 2012 and 2013 and from unaudited consolidated and non-consolidated financial statements of the Issuer for the first six months of 2011, 2012, 2013 and 2014 and should be read together with them. The specified audited consolidated financial statements of the Issuer have been presented in Part II – item 20.1 of the Prospectus. The specified unaudited consolidated financial statements of the Issuer for the first six months of 2011, 2012, 2013 and 2014 have been presented in Part II – item 20.5 of the Prospectus.

The Issuer's consolidated financial statements for 2011, 2012 and 2013 have been audited by the company Deloitte d.o.o., having its registered seat in Zagreb, Zagrebtower, Radnička cesta 80, entered in the companies registry of the Commercial Court of Zagreb under the registration number (MBS) 030022053, personal identification number (PIN) 11686457780. Deloitte d.o.o. is entered in the Registry of Auditing Companies kept by the Croatian Chamber of Auditors under the number 100001360.

### **9.1. Financial condition**

Operating and financial review analyses Issuer's historical consolidated financial statements for the years ending on 31 December 2011, 31 December 2012 and 31 December 2013 as well as the Issuer's consolidated financial statements for periods ending on 30 June 2014. The Issuer's consolidated financial statements for the first half of 2014 have not been audited. Potential investors should read the said document together with the Issuer's audited financial statements for years 2011, 2012 and 2013. Some information in the review include forward-looking statements addressing risks and uncertainties. For analysis of important factors that may result in a significant difference between the actual results and the results described in the forward-looking statements being part of the Prospectus potential investors are referred to the part "Forward-looking statements" in the introduction to this Prospectus.

**Table 28 Current assets, current liabilities and working capital**

(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013	30.06.2013	30.06.2014
<b>Current assets (A)</b>	<b>518,855</b>	<b>364,212</b>	<b>402,399</b>	<b>249,246</b>	<b>242,482</b>
Inventories	306,341	123,552	121,845	101,623	102,868
Trade receivables	112,002	184,248	100,168	117,811	101,282
Other receivables	16,417	26,517	35,563	18,078	30,759
Other financial assets	21,009	2,023	740	184	723
Cash and cash equivalents	59,592	25,862	143,366	9,586	6,850
Prepaid expenses and accrued income	3,494	2,010	717	1,964	-
<b>Current liabilities (B)</b>	<b>354,583</b>	<b>279,227</b>	<b>423,153</b>	<b>174,708</b>	<b>268,990</b>
Loans and deposits payable	32	2,718	-		
Borrowings and finance lease obligations	64,820	45,483	109,109	26,409	87,338
Trade payables	162,084	146,078	209,074	108,529	126,133
Other current liabilities	122,741	76,139	87,126	37,341	32,011
Accrued expenses and deferred income	4,906	8,809	17,844	2,429	23,508
<b>Working capital (A) - (B)</b>	<b>(1,412)</b>	<b>(6,799)</b>	<b>(17,127)</b>	<b>74,538</b>	<b>(26,508)</b>

Source: Issuer

**Table 29 Liquidity indicators of the Group**

(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013	30.06.2013	30.06.2014
Current assets	515,855	364,212	402,399	247,284	242,482
Current liabilities	354,583	279,227	423,153	173,921	245,486
Inventories	306,341	123,552	121,845	101,624	102,868
Cash	59,592	25,862	143,366	9,586	6,850
Operating cash flow ratio	0.17	0.09	0.34	0.06	0.03
Current cash flow ratio	1.45	1.30	0.95	1.42	0.99
Quick cash flow ratio	0.59	0.86	0.66	0.84	0.57

Source: Issuer

**Table 30 Non-current assets and non-current liabilities of the Group**

(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013	30.06.2013	30.06.2014
Non-current assets	196,132	232,815	204,429	220,303	221,756
Non-current liabilities	137,812	107,517	92,414	119,513	143,316

Source: Issuer

**Table 31 Ratio of total borrowings (debt) to the circulation of equity and liabilities**

(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013	30.06.2013	30.06.2014
Non-current assets	196,132	232,815	204,429	220,303	221,756
Non-current liabilities	137,812	107,517	92,414	119,513	143,316

Source: Issuer

### **Liquidity and working capital**

In the period under review from 2011 to and ending with the first half of 2014 the Group's business operation has been significantly affected by direct and deferred effects of the world financial crisis which gave rise to major oscillations of purchase and sales prices which are related to disruptions of demand and supply of the most important production raw materials, as well as oscillations and imbalances in demand and supply. That is why level of inventories, their turnover and number of bound days had very different value in different financial years.

The current cash flow ratio ranged from 1.45 in 2011 to 1.3 in 2012 and fell to 0.95 in 2013, which indicates disruption in the ratio of total current assets and liabilities. On average, the Company's liquidity was not on a desired level. Thus the level of constant working capital financed from long-term sources was not sufficient in the period under review. Quick cash flow ratio ranged from 0.59 to 0.66 which was also related to the above reasons.

**Table 32 Analysis of the working capital of the Group**

(in 000 kunas)	31.12.2011	31.12.2012	31.12.2013	30.06.2013	30.06.2014
Working capital	144,675	89,761	(4,367)	73,179	(3,728)
Days for buyers	45	60	90	90	90
Days for suppliers	30	60	60	60	60

Source: Issuer

**Table 33 Trending in profit margins**

	31.12.2011	31.12.2012	31.12.2013
(in 000 kunas)			
Operating income	795,799	1,078,758	611,557
Operating expenses	776,151	1,071,893	730,076
Depreciation (amortization)	17,221	18,189	19,368
EBITDA	36,869	25,054	(99,151)
EBIT	19,648	6,865	(118,519)
Profit/loss after taxation	(1,277)	(5,927)	(124,285)
(in %)			
EBITDA margin	4.63%	2.32%	(16.21%)
EBIT margin	2.47%	0.64%	(19.38%)
Net margin	(0.16%)	(0.54%)	(20.32%)

Source: Issuer

## 9.2. Operating results

### **9.2.1. Information regarding significant facts, including unusual or infrequent events, materially affecting the Issuer's operating results, indicating the extent to which operating results were so affected.**

The Issuer and its subsidiaries in 2013 made impairment allowances of its assets and receivables. The said valuation resulted in impairment allowance in amount of HRK 188,905,000 for the Issuer and additional HRK 40,968,000 for the Group companies. The effect of the said adjustments on the consolidated result of Đuro Đaković Group was loss increase in amount of HRK 55,299,000.

### **9.2.2. Where the financial statements presented in the document disclose material changes in net sales or revenues, provide description of reasons for such change**

The competitive position of Đuro Đaković Group in the last three-year period has been defined by operation based on income from three product ranges: armoured combat vehicles (ACV for the Ministry of Defence of the Republic of Croatia, product range of cargo wagons and railway infrastructure (product ranges for Hrvatske željeznice d.d. and its subsidiaries) and product ranges for JANAF (production of oil and oil products tanks). On that grounds in the preceding period the Issuer highly relied on the market of the Republic of Croatia (ca. 80% on income in the period under review refers to buyers: Ministry of Defence of the Republic of Croatia, Hrvatske željeznice and JANAF).

Decrease of the share of highly profitable product range of armoured combat vehicles in the total income has led to gradual decrease of EBITDA (profit before interests, taxes and depreciation) so that the EBITDA realised in 2013 was negative.

In addition to the above, in 2013 the Issuer had a significant loss of sales also in the field of the division Transport, which led to insufficient use of production capacities and had negative impact on business operation.

Projects of building of oil and oil products tanks, as well as other Issuer's products are not profitable enough to compensate for the said negative effects.

Thus year 2013 saw stop of demand for key product ranges and that is the most important reason for realising negative EBITDA.

Also, the Group has inflexible ratio of labour costs and operating income and unfavourable age and education structure of employees.

All this lead to significant increase of indebtedness of the Issuer and the entire Group and gradual decrease of net working capital as a result of the realised loss in the respective period

**9.2.3. Information regarding any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Issuer's operations.**

Pursuant to Article 44 of the Company's Memorandum of Association, one member of the Supervisory Board is appointed by the Croatian Privatisation Fund, whose legal successor is the State Office for State Property Management. Other members of the Supervisory Board (other than a member appointed by the employees) are proposed pursuant to the same Article of the Memorandum of Association by the shareholders in proportion to their shares in the share capital, and decided on by the General Assembly, whereby the State Office for State Property Management (state authority of the Republic of Croatia) exercises the influence on voting in proportion to its share in the share capital present at the Company's General Assembly.

## 10. CAPITAL RESOURCES

### 10.1. Information on the Issuer's short-term and long-term capital resources

**Table 34 Review of financing structure**

(u 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
Trade payables and other liabilities	284.825	222.217	296.200	108.529	296.200
Short-term loans	64.852	48.201	109.109	26.409	87.339
Long-term loans	110.620	92.483	78.022	104.330	129.233
Equity and reserves	203.528	197.601	73.316	168.110	36.910

Source: Issuer

Due to negative business results of the Issuer and the Group and the performed impairment allowances with a view to providing reliable information, the Groups financing structure from the preceding period has a tendency of increasing financing from external sources.

The equity capital and reserves have the tendency of decreasing its share in the financing structure from 30.66% as of 31 December 2011, to 35.25% as of 31 December 2012, and to 13.17% as of 31 December 2013.

The major source of Group's financing are suppliers with 53.21% share in financing as of 31 December 2013.

**Table 35 Overview of equity structure**

(in 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
Share capital	323.707	323.707	258.965	323.709	258.965
Capital reserves			6.923		6.923
Reserves for own shares	4.700	4.700	3.760	4.700	3.760
Own shares (deductible item)	(4.700)	(4.700)	(3.760)	(4.700)	(3.760)
Other reserves					
Accumulated losses	(119.451)	(124.034)	(185.328)	(153.072)	(221.536)
Non-controlling interests	(728)	(2.072)	(7.244)	(2.525)	(7.442)
<b>Total</b>	<b>203.528</b>	<b>197.601</b>	<b>73.316</b>	<b>168.110</b>	<b>36.910</b>

Source: Issuer

On 28 August 2013 pursuant to the decisions of the General Assembly the Issuer performed the procedure for share capital decrease. Pursuant to the Decision of the Commercial Court of Osijek dated 25 September 2013 the Issuer's share capital was decreased from the amount of HRK 100.00 for one share to HRK 80.00 for one share. Consequently, the Issuer's share capital has been decreased from HRK 323,706,800 to HRK 258,965,800.00.



On 3 July 2014 the General Assembly of the Issuer passed the decision on share capital decrease. Pursuant to the respective decision the Issuer's share capital was decreased from the amount of HRK 80.00 for one share to HRK 20.00 for one share. Consequently, the Issuer's share capital has been decreased from HRK 258,965,800.00 to HRK 64,741,360. Entry of the decision of the share capital decrease was made pursuant to the Decision of the Commercial Court of Osijek dated 25 August 2014.

## 10.2. An explanation of amounts and sources and a description of the Issuer's cash flows

Sources of following data are audited consolidated financial statements for 2011, 2012, 2013 and unaudited consolidated statements for first half-years of 2013 and 2014.

**Table 36 Cash flow**

(in 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
Net increase/decrease of cash flow from operating activities	59.662	3.783	75.577	(3.611)	(153.483)
Net increase/decrease of cash flow from investment activities	20.339	1.239	(6.258)	(1.347)	(3.886)
Net increase/decrease of cash flow from financial activities	(52.315)	(38.752)	48.185	(11.318)	20.853
Cash and cash equivalents at the beginning of the period	31.906	59.592	25.862	25.862	143.366
Cash and cash equivalents at the end of the period	59.592	25.862	143.366	9.586	6.850

*Source: Audited and unaudited consolidated financial statements of the Issuer*

The company has seen increase of cash flow from business operation in the period under review which is a result of end of activities under contracts in the division Defence (contracts with the Ministry of Defence of the Republic of Croatia have been performed and paid during 2013). As a result, cash flow has significantly decreased in the first half of 2014.

Net outflows from investment activities relate to a minimum increase of investments realised by the Issuer in 2013 and the first half of 2014. Net increase of cash flow from financial operations in 2013 and the first half of 2014 is a direct result of the company's efforts in maintaining the current cash flow and financing of current projects.

## 10.3. Information on the Issuer's financial needs and financing structure

The Issuer's financing needs refer to needs for financing investments into fixed assets, working capital, severance payments and development of new products.

The Issuer and the Group companies intend to finance the planned investments into fixed assets, which are aimed at increasing technological equipment to a very high level, by increase of the share capital. In addition, current capital resources also have unfavourable structure so the Issuer has the intention of reaching a satisfying level of these ratios.

The Issuer and other Group companies fulfil their obligations to creditors orderly, however in view of high costs of borrowing in the Republic of Croatia, the Issuer finds it is necessary to increase the share capital and thus obtain new capital.

The Issuer's financing structure is described in detail in Part II – item 10.1. hereof.

**10.4. Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the issuer's operations.**

A smaller part of loan agreements provide for that the Issuer should use the capital under the same only according to the purpose and/or method as agreed therein, which constitutes a common practice of creditors.

For the purposes of securing loan repayment, the Issuer and the Group companies allowed creation of pledge rights on movable and immovable properties in favour of the creditors. Also, the Issuer and/or Group companies as pledgers of certain collaterals, primarily of movable and immovable properties of significant value have the obligation to remain owners until the loan has been repaid in full.

In view of the fact that the Issuer orderly fulfils its loan obligations, it is not likely that an event may occur that could materially affect, either directly or indirectly, the Issuer's operations.

**10.5. Information on the planned sources of financing necessary to meet the obligations under items 5.2.3 and 8.1.**

Information on the planned sources of financing are contained in Part II – item 5.2.2 hereof.

## **11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

Members of Đuro Đaković Group are strictly market-oriented in their development and production activities, but also focused on creating a new product or service for the known customer.

Development in Đuro Đaković Group includes not only development of specific products which are then realised/manufactured in member companies of Đuro Đaković Group and their improvements with a view to better functioning of the product or better environment protection during product use (by way of use of materials with as little environment impact as possible). Responsible for the development activities and their financing were Group companies, and only in regard to certain specialised fields of activity (making of specific calculations, tests etc.) services of universities and accredited laboratories have been used, in their capacities as suppliers.

Development activities have been continuously performed in Đuro Đaković Specijalna vozila d.d. (in manufacturing of cargo wagons), Đuro Đaković Elektromont d.d. (for cogeneration), Đuro Đaković Inženjering d.d. (for development of pressure vessels) and Đuro Đaković Strojna obrada d.o.o. (for development of oil industry valves).

Product development/design is conducted in line with the requirements of the quality management system, in compliance with the requirements of technical standards and specifications primarily guided by professional rules, and then also by the customers' wishes.

Even before Croatia's accession to the European Union, due to import of their products to the European market the Group companies had implemented European standards, directives and other technical regulations necessary for obtaining certificates of conformity for specific products, better known as CE mark.

Consequently, Đuro Đaković Specijalna vozila d.d. develops, manufactures and tests wagons in accordance with the EU directives and the Technical Specifications for Interoperability (TSI).

Tests and verification of development and production activities are performed by the notified bodies, international authorised certification bodies and their positive finding/certificate of conformity entitles Đuro Đaković Specijalna vozila d.d. to issue a declaration of conformity of the wagons with the TSI rules and provide them with the TEN marking (equivalent to CE mark in the railway industry) which is necessary for marketing of wagons on the EU market.

Until now Đuro Đaković Specijalna vozila d.d. has earned the right to use the TEN marking for the following wagon types (designations derive from the technical regulations which is mandatorily applied in railway industry – UIC regulations, TSI and others): Facnns, Shimmns, Falns (several types) an Eamos for bogie type Y25Lsif-F (K)).

A prerequisite for obtaining these licences was holding a certificate/licence for manufacturing of wagons and railway equipment in line with the EN 15085-2 standard, which Đuro Đaković Specijalna vozila d.d. has proven.

Đuro Đaković Specijalna vozila d.d. also holds the certificate according to the EN 1090 standard – for manufacturing and providing with CE marks steel and aluminium structures and their supply to the customers in the European Union.

Đuro Đaković Specijalna vozila d.d. and Đuro Đaković Proizvodnja opreme d.o.o. also hold the certificate on implementation of PED 97/23 (Pressure Equipment Directive) – authorisation for development, manufacturing and providing with CE marks pressure equipment and their supply to the customers in the European Union.

Additionally Đuro Đaković Proizvodnja opreme d.o.o. also hold a certificate in line with the AD Merkblatt 2000 HPO – approval for manufacturing pressure equipment for the EU market under PED requirements and additional requirements of the AD Merkblatt 2000 HPO.

In addition to certificates/licences required by the EU legislation, the Group companies also work on obtaining certificates required for operation in certain production fields. Thus Đuro Đaković Strojna obrada d.o.o., has after having proven its work and verification of the same by the American Petroleum Industry (world renowned authorised institute for product certification in petroleum industry) obtained right to use the API monogram/stamp in line with the 6A specification for manufacturing of valves. The validity is 3 years with regular annual quality system controls, which is followed by recertification. Holding the API monogram allows Đuro Đaković Strojna obrada d.o.o. to offer valves in the petroleum industry worldwide since the petroleum industry primarily demands holding the API certificate.

With a view to obtaining the above certificates/licences for products, the Group companies had to obtain certificates also for their production processes: welding (certificate in line with the EN ISO 3834-2 standard, issued by the authorised certification institutes held by Đuro Đaković Proizvodnja opreme d.o.o., Đuro Đaković Specijalna vozila d.d. and Đuro Đaković Elektromont d.d.), operation, tests and measurement in explosive atmosphere (Đuro Đaković Elektromont d.d.).

Đuro Đaković Holding d.d. holds together with Đuro Đaković Elektromont d.d., Đuro Đaković Inženjering d.d., Đuro Đaković Proizvodnja opreme d.o.o. and Đuro Đaković Specijalna vozila d.d. the consent of the Ministry of Construction and Physical Planning for beginning building activities and performance of works on type A buildings, while Đuro Đaković Elektromont d.d. holds the consent of the Ministry of Construction and Physical Planning for beginning building activities and performance of works on type D buildings.

**Table 37 Historical overview of investment amounts for research and development**

(in 000 kunas)	Type	Year			
		2011	2012	2013	I - VI 2014
<b>Company</b>					
ĐURO ĐAKOVIĆ Elektromont d.d.	Cogeneration Eniteh-500	7,500,500	3,445,872	2,466,555	688,097
ĐURO ĐAKOVIĆ Specijalna vozila d.d.	Wagons	2,558,892	8,396,543	1,244,307	3,390,759
<b>Total:</b>		<b>10,059,392</b>	<b>11,842,415</b>	<b>3,710,862</b>	<b>4,078,856</b>

*Source: Issuer*

The company Đuro Đaković Elektromont d.d. invested as seen in the overview above into development of a completely new product: cogeneration plant ĐĐ ENITEH 500. That is plant using biomass fuel for production of both electric and thermal energy.

The company Đuro Đaković Specijalna vozila d.d. invested into research, development, testing, preparation of technical documentation and certification of several types of cargo wagons: Tamns, Eamos, Faccns, Shimmns, Falns, Trials and Uacns. Also, in 2012 the company invested HRK 2.9 million into research and project design documentation for ACV, i.e. MCRWS (battle station) for ACV.

## 12. TREND INFORMATION

### 12.1. The most significant trends in production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of the registration document.

In the last five years the Croatian GDP has fallen from EUR 47.5 billion in 2008 to EUR 43.1 billion in 2013<sup>1</sup>. Unlike the period from 2003 to 2007, in which the annual real GDP growth rates for the Republic of Croatia ranged from 4.1% to 5.4%, in 2008 the growth slowed down to 2.1%, while all years from 2009 - 2013 saw the trend of fall<sup>2</sup>. A somewhat slower falling trend continued in 2014 as well: according to the estimate of the Croatian Bureau of Statistics, in the first quarter of 2014 the real GDP was lower by 0.4% in comparison to the same period in 2013. The factors that have most contributed to the fall of the GDP are fall of consumption, fall of industrial production and fall of investments.

The economic situation in Croatia in 2013 was defined by:

- average employment rate of 53.9% (among the lowest in the EU)<sup>3</sup>,
- lack of and postponement of reforms of the public sector and the economy,
- unemployment rate above the European average (ILO unemployment in the Republic of Croatia is 17.3%, the EU average being 10.8%<sup>4</sup>)

The construction sector is one of the industries that have most contributed to the growth of the Croatian GDP before the onset of the global economic crisis. Until 2008 the construction sector was strongly supported by the state and represented a main source of new jobs, not only in the sector, but also in the related industries. The rapid growth has led to the level of growth which exceeded real needs of the Croatian market and in turn, with the outbreak of the crisis in 2008, the construction sector has seen a major fall of economic activity.

In addition to macroeconomic trends, the Group is also exposed to factors specific for closely specialised industries defined by specific industrial cycles. Unfavourable trends in such industries, combines with negative macroeconomic developments, have also reflected on the operation of Đuro Đaković Group, i.e. on the results realised by certain divisions.

As stated in Part I - item B.3 "Description of, and key factors relating to, the nature of the Issuer's operations and its principal activities" hereof, Đuro Đaković Group has divided its

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<sup>1</sup> Source: Eurostat

<sup>2</sup> Source: Croatian National Bank

<sup>3</sup> Source: Eurostat

<sup>4</sup> Source: Eurostat

operation into five basic divisions, and has in the last five years realised most of its income from three key products ranges:

- Armoured combat vehicles “ACV”,
- Cargo wagons,
- Oil tanks.

In the period between 2011 and 2013 the consolidated operating income have seen significant oscillations. The amount of operating income at the end of 2013 was by 23% less in comparison to the operating income in 2011. A significant rise occurred in 2012 when operating income rose by 35% in comparison to 2011 due to significant increase in orders. The largest part of income in the observed period was related to the division Defence, although its share in the total income is gradually falling. The same period has seen a significant decrease of income of the division Transport, with a simultaneous rise of income of the division Industry and Energetics.

**Table 38 Consolidated income by business divisions**

(in 000 kunas)	2011	2012	2013	I-VI 2013	I-VI 2014
Division Defence	586.601	613.501	301.201	168.908	30.075
Division Transport	82.341	180.790	31.228	648	38.286
Division Industry and Energetics	78.880	231.625	242.325	82.046	76.652
Division Construction	15.481	18.222	12.473	9.111	34.109
Division Renewable Energy Sources	0	0	0	0	0
Other (Distribution, Energy and Free Zone)	32.496	34.620	24.330	19.785	14.783
<b>Total operating income</b>	<b>795.799</b>	<b>1.078.758</b>	<b>611.557</b>	<b>280.498</b>	<b>193.905</b>

Source: Issuer

The fluctuations of costs followed the oscillations in income from sales, where decrease of material costs in the period from 2011 to 2013 exceeded by 3 percentage points the fall of operating income. The most significant items of material costs relate to raw materials and other materials, whose share fall from 93% in 2011 to 62% in 2013 and is followed by costs of contractors, with a share in total material costs equalling 3% in 2011 and 28% in 2013. The costs of raw materials and other materials primarily reflect volatile fluctuations on the markets of main raw materials such as steel.

The fall of raw materials and other materials in 2013 is followed by production fall of ACV and cargo vehicles product ranges, while the increase in costs of contractors is the result of work on projects with JANAF, INA and HŽ on which the Group hired external experts.

In the last three years the labour costs have been increasing through the entire period under review: from HRK 85 million in 2011 to HRK 113 million in 2013. In the respective period the Group's ratio of labour costs and operational income increased from 11% in 2011 to 19% in 2013. This increase is a result of fall of income, increase of the number of employees and increase of compensations and salaries to employees of certain Group companies.

The Group's inventory in the observed period have fallen from HRK 306 million to HRK 122 million. A significant portion of the inventory related to works in progress which fell by 52%, primarily due to fall of production volume of ACV and cargo wagons product ranges. In the previous two years the most significant production share was from the ACV project for the Ministry of Defence of the Republic of Croatia.

Below are presented the key trends for individual divisions of the Group.

## **Defence**

Changes in political relations and military doctrines in the world have caused change of structure of global income from military technology and resulted in an increased share of income from armoured combat vehicles (having a significant role in peacekeeping missions), and decreased from tanks. In the finished short-term period the Group estimated total international income from tank sales to between EUR 2.2 – 2.7 billion and from ACV sales to between EUR 8 – 9 billion. In the short term the Group expects stability of world sales of ACV and further decrease of sales of new tanks, but also increase in income from upgrade and modernisation of existing tanks.

The Group is the main supplier of tanks and combat vehicles in the Republic of Croatia, as well as supplier of all services of support and maintenance of these products during their product life. In the previous period the division Defence operated only on the domestic market. However, since the Group in the medium-term period does not expect a significant need for new defence products on the domestic market, the division Defence plans to achieve its further strategic development by sale on foreign markets, with the focus on the countries of the Middle East, South East Europe and Africa. Condition precedent to the Defence division acting on the international market is maintaining the existing strategic partnerships with global companies Patria and Kongsberg.

Between 2011 and 2013 this division had the largest share in the Group's consolidated income, although this share has fallen from 73% in 2011 to 49% in 2013. In comparison to year 2011 in 2012 the division's income was rose from HRK 587 million to HRK 614 million, however in 2013 it fell again to HRK 301 million. The grounds for such oscillations lie in the contract supplies of ACV to the Ministry of Defence of the Republic of Croatia. In the several previous years the Group's operation was strongly boosted by those deliveries, the largest part of income having been realised in 2011 and 2012 and a smaller part in 2013.

The Group places its strategic focus on development of other divisions with the goal of diversification of total income, making it less susceptible to oscillations of income of the division Defence. The long-term goal is reducing the share of average income of the division Defence to 20 – 25% in the total income.

## **Transport**



The Group sees a strong correlation between trends in the transport industry and global economic trends, while the industry is directly influenced by prices of raw materials on regional markets. The Group estimates that more than a half of the market is held by six manufacturers in three countries manufacturing over 120.000 wagons annually.

The Group offers through its division Transport the product range of cargo wagons, where it focuses on manufacturing special-purpose wagons for the European market.

Income share of the division Transport in the total operating income has fallen from 10% in 2011 to 5% in 2013, and the greatest part of income came from the product range cargo wagons. Although at this point the Group does not manufacture passenger wagons, that possibility is being considered for the future.

The cargo wagon product range of the division Transport is characterised by low profitability and relatively predictable demand. In 2013 the loss of income in this segment was mainly due to decreased orders and demand for cargo wagons on the domestic market.

## **Industry and Energetics**

The product range of the division Industry and Energetics includes products for processing industry, petrochemical industry and cement and mineral processing industry. The most important factor influencing the results of this division are the national policies for gas supply and stagnation of fuel consumption in the developed economies as a consequence of technological growth and more efficient energy use weaker population growth of the Republic of Croatia.

Division Industry and Energetics has realised 40% of the Group's operating income in 2013. Decrease of the division's income in 2011 is a consequence of the crisis of the construction sector in the Republic of Croatia that had negative impact on the demand. The year 2012 has seen significant rise of income of this division, while in 2013 income rose by additional 5% to HRK 242 million. Increase of income in 2012 and 2013 was a result of concluded contracts for building containers in Omišalj and Žitnjak with JANAF with the value of HRK 161 million. The share of income of this division in the Group's total income rose from 10% in 2011 to 40% in 2013. The Group has also entered into important agreements with INA, HEP and STSI for construction of new and repair of the existing plants in the processing industry.

Costs of the division Industry and Energetics are relatively high in comparison to the Group's income which is a result of execution of certain projects with negative margin. According to the Group's data, the container project for JANAF is performed with a negative margin equalling between -1% and -3% while the Omišalj project had a negative margin of -45.9% in 2013 due to difficulties with contractors. On the other hand, the Žitnjak project for JANAF which started in 2013 has a positive net margin of 5.1%, mostly due to specific characteristics of the project, where the contractors' share is significantly larger than on the Omišalj project.

### ***Other divisions***

In addition to the above described divisions, which have through their main product ranges realised majority of the Group's income, income of other divisions constituted 10% of the Group's total income from sales in 2013. Two new divisions are being developed with a view to achieving risk diversification and more flexible adjustment to new market trends.

- **Division Construction and Infrastructure** focuses on construction projects of railway infrastructure in Croatia in cooperation with partners from the EU. Such market approach has already resulted in first secured contracts for construction of the railway station Buzin with the value equalling HRK 12 million and project of replacement of the bridge Vrbovsko with the value equalling HRK 5 million.
- **Division Renewable Energy Sources** focuses on production of wind farms, cogeneration plants, solar systems and processing of drinking and waste waters. Such market approach is oriented on satisfying growing demand for renewable energy sources on the markets of Croatia, the region, EU and the world. The Group has already invested into establishing infrastructure for this division and an additional investment of HRK 41 million is planned in the next two years. The principal activities of this division will be production and mounting of systems for renewable energy sources.

### **12.2. Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for at least the current financial year.**

The economic forecasts estimate further fall of Croatian GDP in the upcoming short-term period and further unemployment growth. The key factors that could have negative impact on Group's operation in the upcoming period are unfavourable macroeconomic trends and decrease of economic activities on the markets on which the Group operated. In addition to the said trends, the following trends may have a negative impact on the Group's operation:

- **Insufficiently diversified production range of the Group.** Considering the fact that the Group realises most of its income through five divisions oriented to specific market segments, fall of demand in any of those segments may have a significant effect on the Group's result. In the upcoming period the Group wishes to expand its product range using the present infrastructure and resources, which should result in lower production costs by benefiting from synergy effects.
- **Insufficient use and inadequate technology level of production capacities.** In 2013 the Group's production capacities were largely underused and additional while another disadvantage can be observed in underdevelopment of production technology of the Group in comparison to the Group's major competitors. Plant, equipment and tools are fixed assets used by the Group to make income and its current inadequate level of technology will result in future maintenance and repair costs. The insufficient use of the Group's production capacities is partly due to its

poor competitive position and oscillations of demand. With a view to reducing the effects of low competitiveness on its operational results, the Group has undertaken renewal and modernisation of its existing production equipment.

- **Failure to comply with project deadlines.** There is a possibility that on certain projects the agreed project deadlines have not been or will not be complied with, which may result in penalties. The Issuer's Management Board believes that in regard to all currently agreed works: (a) projects will be completed within the agreed deadlines, (b) extension of deadlines will be successfully arranged or (c) there will be justified reasons why the customer would not demand penalties.
- **Negative effect of accession to the EU.** With the accession of Croatia to the EU the company Slobodna zona Đuro Đaković d.o.o. has lost its importance due to not being able to operate in the tax-free zone, having thus lost 39 of 40 clients and consequently losing a considerable part of its income.
- **Unfavourable outcomes of legal proceedings.** There are legal proceedings in which the Group acts as a defendant and also in which the Group acts as a plaintiff. The list of the most important legal, governmental and arbitration proceedings is presented in Part II – item 20.8. "Legal, governmental and arbitration proceedings" hereof. Negative outcomes of the listed proceedings may lead to a significant outflow of cash.

The activities of the Group's strategic and operational restructuring are aimed at realising its key strategic goals such as improved market position, entering international markets and finally realising additional income. The strategic and operational restructuring fields include:

- Product range and marketing restructuring,
- Organisational restructuring,
- Financial restructuring,
- Technical and technological restructuring,
- Regulatory restructuring and implementation of an effective quality management system.

On 25 September 2014 the Issuer's Supervisory Board adopted the Group's Business Strategy and Restructuring Plan until the year 2020. For detailed presentation see Part II – item 5.1.5. hereof.

### **13. PROFIT FORECASTS OR ESTIMATES**

The Issuer has elected to provide no profit forecasts or estimates.

## 14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

### 14.1. Names, business addresses and positions held by the following persons:

#### 14.1.1 Management Board

President of the Management Board Tomislav Mazal has graduated from the Faculty of Law of the University of Zagreb, where he currently attends the postgraduate specialist study of commercial law and company law. He began his professional career in 2003 at the Public Relations Office of the Government of the Republic of Croatia and in 2008 became adviser at the Ministry of Economy, Labour and Entrepreneurship and the Ministry's spokesperson. He became President of the Supervisory Board of Đuro Đaković Holding the same year and has been member of the Management Board since 2011. Mr. Mazal was appointed President of the Management Board in 2014. The business address of Mr. Mazal is Đuro Đaković Holding d.d., Slavonski Brod, Dr. Mile Budaka 1.

Member of the Management Board Marko Bogdanović has graduated from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, course production engineering. He began his professional career in 2000 in Agrokor where he worked as head of maintenance in Ledo, the leading manufacturer of ice cream and frozen foods. Marko built his career in Ledo through the positions of assistant executive director for production in Croatia, executive director for investments and maintenance to the position of the director of production where he was responsible for the entire production and investments of Ledo d.d. in Croatia, as well as subsidiaries in Hungary, Bosnia and Herzegovina, Serbia and Montenegro. He came to Đuro Đaković to the position of member of the Management Board in May 2012. The business address of Mr. Bogdanović of Đuro Đaković Holding d.d., Slavonski Brod, Dr. Mile Budaka 1.

#### 14.1.2 Supervisory Board

President of the Supervisory Board Vjekoslav Leko has graduated from the Faculty of Civil Engineering in Zagreb, passed the professional exam in 1999 and has been certified engineer since 1999. He began his doctoral studies in 2006 at the Faculty of Civil Engineering, University of J.J. Strossmayer in Osijek. From 1994 he has been shareholder and President of the Management Board of Leko-biro d.o.o. In 2012 and 2013 he held the position of member of the Supervisory Board of Komunalac, Slavonski Brod. Since 2013 he has held the position of President of the Supervisory Board of Đuro Đaković Holding d.d. The business address of Mr. Leko is Dr. Mile Budaka 1, Slavonski Brod.

Vice President of the Supervisory Board Domagoj Bartek has graduated from the Faculty of Civil Engineering in Osijek. He passed the professional exam in 2006 in Zagreb. From 2002 to 2004 he worked as head of road maintenance Slavonski Brod on maintenance of classified and unclassified roads. In 2005 he participated in construction of A1 motorway Zagreb-Split, and in was in 2006 appointed clerk of works on the Vc corridor section Osijek-Sredanci. From 2009 to 2011 he was site engineer for works performed by Poduzeće za ceste Slavonski Brod. Since 2012 he has been employed at Jadranski naftovod. In 2008 and 2009 he was

member of the Supervisory Board of Komunalac Slavonski Brod. He has since 2012 held the position of Vice President of the Supervisory Board of Đuro Đaković Holding d.d. The business address of Mr. Bartek is Dr. Mile Budaka 1, Slavonski Brod.

Member of the Supervisory Board Mladen Huber has graduated from the Faculty of Economics and Business in Zagreb, course organisation and management. He fulfilled the tasks of business crime inspector at the Police Administration Županja, expert assistant at the Development Department of the City of Županja, auditor at Županjska banka and head of securities at Županjska banka. Since April 2008 he has been the only member and President of the Management Board of Kreditna unija Krajcar. He is member of the city council of the City of Županja. Since 2012 he has held the position of member of Supervisory Board of Đuro Đaković Holding d.d. The business address of Mr. Huber is Dr. Mile Budaka 1, Slavonski Brod.

Member of the Supervisory Board Vjekoslav Galzina has graduated from the Faculty of Mechanical Engineering and Naval Architecture in Slavonski Brod, course production engineering. In 2007 he was awarded master's degree and in 2011 doctor's degree. In the period from August 2002 to October 2004 he worked as project leader of project management, design and implementation of automation systems and process monitoring at Đuro Đaković Elektromont d.d. In October 2004 he began working at the Faculty of Mechanical Engineering and Naval Architecture in Slavonski Brod as teaching assistant and in March 2011 as senior assistant. The business address of Mr. Galzina is Dr. Mile Budaka 1, Slavonski Brod.

Member of the Supervisory Board Igor Žonja has graduated from the Faculty of Science in Zagreb. From 1991 to 1995 he worked as head of development at Kom-PA d.o.o. He continued his career as software developer at Croatia osiguranje d.d. where he stayed from 1995 to 1997. Since 1997 he has at the same been managing director of VIVAinfo d.o.o., since 2007 proxy holder at Electus DSG, since 2008 managing director of Tau on-line d.o.o. and since 2012 member of Supervisory Board of Varteks d.d. He has since July 2011 been member of the Supervisory Board of Đuro Đaković Holding d.d. The business address of Mr. Žonja is Đuro Đaković Holding d.d., Slavonski Brod, Dr. Mile Budaka 1.

Member of the Supervisory Board Blaženka Luketić has finished secondary school for economics, direction sales in Slavonski Brod. Since 1984 she has been working as operator at Đuro Đaković Informatika i računski centar. From 1992 to 1994 she performed administrative and archiving tasks at the Croatian Army. She has been working at Đuro Đaković Holding d.d. as secretary, head of archives since 1994. The business address of Ms. Luketić is Dr. Mile Budaka 1, Slavonski Brod.

Member of the Supervisory Board Zoran Posinovec has graduated from the Faculty of Law in Zagreb. From 1977 to 1980 he was legal trainee at the law office Dafinka Večerina. From 1980 to 1990 he worked at RO "Geotehinka" as independent legal clerk, head of legal department, assistant to the director of the branch office in Teheran and head of RZ joint services. He has a private legal practice since 1990. The business address of Mr. Posinovec is Dr. Mile Budaka 1, Slavonski Brod.

### **14.1.3 Executive officers**

Slaven Posavac, the Issuer's director of corporate finance, has graduated from the Faculty of Economics in Osijek and completed education programme for managers at the IEDC Bled School of Management. In addition to his formal education, he has also completed the program of the Croatian Federation of Accountants and Financial Workers for a certified internal auditor – specialist in the field of economy. He began his professional career at a small company manufacturing plastic packaging in Osijek and in 2002 joined the auditing company Deloitte&Touche Zagreb where he was a semi-senior auditor. Following that he joined the internal audit department of Nexe Group and was in 2005 promoted to the position of managing director of Feravino, member of Nexe Group involved in production of wine. From 2007 to 2011 he was head of internal audit department of Nexe Group and then moved to construction company Osijek-koteks. He was there head of internal audit and controlling and then head of finance and accounting. He joined Đuro Đaković Holding as director of corporate finance.

Lidija Pintek, director of purchase and cooperation, has graduated from the Faculty of Economics and Business in Zagreb, and completed postgraduate studies and was awarded master's degree from the Cotrugli Business School. She began her professional career at Pliva where from 1990 to 1998 she held different positions from purchasing clerk for pharmaceuticals, through business coordinator on external markets to head of purchasing for business programme pharmaceuticals. She moved from Pliva to Ledo where she was director of purchase sector until 2005. She then moved to INA and stayed there until 2011. At INA she was first director of sector for oil purchase and logistics and then head of central office for project cost optimisation and then from 2006 director of oil purchase and trading and coordinator of legal regulations in the refineries and marketing segment. She joined Đuro Đaković Group in 2012 and has been director of purchase and cooperation at the Group level.

Ljiljana Toth, director of quality and regulations, started working at Đuro Đaković Specijalna vozila, member of Đuro Đaković Group, immediately after graduation from the Faculty of Mechanical Engineering and Naval Architecture. She has spent her entire career with the Group working at different tasks, since 2000 as head of quality assurance. Her knowledge and experience have been incorporated in a number of well-known products that left the plants of Đuro Đaković Specijalna vozila, such as M84 tank, loader Renders and various specialised cranes, and she has been actively involved in launching the production programme of wagons and armoured combat vehicles. Ljiljana Toth is currently director of director of quality and regulations at Đuro Đaković Holding.

Zvezdan Palenkić, director of research and development, has graduated from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb. His entire professional career has been linked to Đuro Đaković Group where he was promoted from manager of technical preparation of Đuro Đaković Poduzeće za energetiku i infrastrukturu over executive position at Đuro Đaković Energetika i infrastruktura to director of research and development at Đuro Đaković Holding which position he has held since August 2012. Zvezdan Palenkić boasts, in addition to extensive experience in leading expert teams, patenting around 25 of his own innovations, some of which have seen commercial use. His areas of interest include experimental mechanical engineering and electronics, modelling of new products and

advanced methods of rational energy management and environment protection, and introduction of new technologies into existing systems.

Igor Rubil, director of assets and investments and the executive vice president of the division Construction and Infrastructure has graduated from the Faculty of Civil Engineering and has completed the specialist study for safety and protection engineer, course environment protection. As a very young expert, he accepted a very demanding position of site engineer at the company Poduzeće za ceste, where he worked from 1999 to 2002 he worked on a complex project of construction of A3 motorway section. The successfully completed project allowed him to move to the position of executive director and project manager at Birotehna, where he worked until coming to Đuro Đaković Group in 2012. Igor Rubil is director of assets and investments and also acting executive vice president of the division Construction and Infrastructure.

Marijana Zubak, director of legal affairs, graduated from the Faculty of Law in 2007 and has since 2008 worked at Đuro Đaković. Parallel to her work at the Group she volunteered in 2008 and 2009 at Municipal Court of Slavonski Brod and Commercial Court of Slavonski Brod following which in 2010 she passed the Bar exam. In her work so far she has mostly worked with commercial, civil and labour law. Since 2013 Marijana Zubak has held the position of director of legal affairs of Đuro Đaković Holding.

Bartol Jerković, executive vice president of division Transport, has graduated from the Faculty of Electrical Engineering in Zagreb and immediately following graduation began working at Đuro Đaković Group. The greatest part of his career has been linked to Đuro Đaković Specijalna vozila, where he worked at various high positions primarily related to the product range of armoured combat vehicles. After had returned from serving in the Homeland War he was appointed deputy director of Đuro Đaković Specijalna vozila and from 1993 to 1996 he held the position of the company's director. From 1996 to 1999 he was member of the Management Board of Đuro Đaković Holding and following that until 2002 he was the President of the Management Board of Đuro Đaković Holding. Since 2002 he has again been President of the Management Board of Đuro Đaković Specijalna vozila and in August 2012 he assumed the position of executive vice president of the division Transport. In addition to his work at the Group he also holds the position of president of the Association of Manufacturers of Special-purpose Vehicles with the Croatian Chamber of Commerce.

Darko Grbac, executive vice president of division Defence, has graduated from the Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb. From 1995 to 1998 he attended the MBA programme and passed the state exam as designer engineer. His entire professional career has been linked to Đuro Đaković Specijalna vozila, member company of Đuro Đaković Group, where he began working as main designer, continued as director of production and director of research and development. For the last six years he has worked as head of the company's key strategic projects. In August 2012 he was appointed executive vice president of the division Defence and since December 2012 he has also been executive director at the company Đuro Đaković Specijalna vozila.

Zvonimir Knapić, executive vice president of division Industry and Energetics, has graduated and holds the master's degree from the Faculty of Mechanical Engineering and Naval



Architecture. He began his professional career at Končar – Electrical Engineering Institute where he worked until 1990 and was promoted to the position of head of the department of renewable energy sources. For the following year he worked as head of purchase and production with the Ministry of Defence of the Republic of Croatia. From 1993 to 2001 he was managing director of IT company Lanex and after that moved to the construction company Ingra to the position of site engineer in the Republic of Niger. From 2004 to 2005 he worked as one of managing directors of Lipik glas and then joins INA Group, first as project manager at the company's centre for investments into refinery modernisation and then as expert manager at the company STSI. He joined Đuro Đaković Group in 2012 and he currently holds the position of executive vice president of the division Industry and Energetics.

Marko Blažević, executive vice president of division Renewable Energy Sources, has graduated and holds a master's degree from the Faculty of Mechanical Engineering and Naval Architecture in Slavonski Brod. After he had served twice as a member of the Croatian Army in the Homeland War, he began his professional career. From 1996 to 2006 he worked at the utilities company Vodovod in Slavonski Brod where he was promoted from a trainee to the position of a member of the Management Board responsible for quality and safety of food. Realisation of many investment projects, but also valuable experience in implementation of ISO and HACCP business standards have opened him doors to private entrepreneurship and he worked at his owned company from 2006 to 2009, mainly in the field of auditing and consulting in implementation of ISO system. In December 2009 he accepted the of the President of the Management Board of Vodovod where he stayed until November 2012. He came to Đuro Đaković Group to the position of executive vice president of the division Renewable Energy Sources.

Members on the Management Board, Supervisory Board and executives have in the last five year not been prosecuted for criminal offences with elements of fraud and have in the last five years not been involved in bankruptcy or liquidation procedures, with which they would be connected acting in the capacity of those positions.

According to our best knowledge neither are there any official incriminations or sanctions from judicial or regulatory bodies against the above mentioned persons nor have such persons been by a judicial decision excluded from, i.e. they have not been banned from holding positions in such bodies in the last five years.

Members of the Management Board, Supervisory Board and executives are not family related.

#### **14.2. Administrative, management and supervisory bodies and senior management conflicts of interests**

There is no conflict of interest on part of the members of administrative, management and supervisory bodies and senior management in regard to positions and activities of the Issuer and their personal interests.

No member of the Management Board, Supervisory Board or executive management was elected based on a contract or agreement with the majority shareholders, customers, suppliers or others.

## 15. COMPENSATIONS AND BENEFITS

### 15.1. Amount of compensation and receipts (including any contingent or deferred compensation) and non-monetary receipts granted by the Issuer and its subsidiaries to such persons for any forms of work and services provided to the Issuer and its subsidiaries

Members of the Supervisory Board of the Issuer receive a monthly compensation for membership in the Supervisory Board in the net amount of HRK 1,700.00, while the President of the Supervisory Board is entitled to a monthly compensation in the net amount of HRK 2,000.00, all in accordance with the decision of the Company's General Assembly.

The following table presents the amounts of compensations and receipts (in gross amounts) of the members of the Management Board, members of the Supervisory Board and executives of the Issuer in 2012 and 2013.

**Table 39 Amount of compensations and receipts (in gross amount) for members of the Management Board**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 3,215,443.67</b>	<b>HRK 2,063,200.25</b>
Vladimir Kovačević	President of the Management Board - since 4 May 2012		
Tomislav Mazal	Member of the Management Board		
Marko Bogdanović	Member of the Management Board		
Zdravko Stipetić	President of the Management Board - until 4 May 2012		
Marija Tolić	Member of the Management Board - until 4 May 2012		

Source: Issuer

**Table 40 Amount of compensations and receipts (in gross amount) for members of Supervisory Board**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 328,415.50</b>	<b>HRK 317,057.64</b>
Željko Marić	President of SB - from March 2012 to June 2013		
Vjekoslav Leko	President of SB - since 10 July 2013		
Domagoj Bartek	Vice President of SB - from 26 April 2012		
Igor Žonja	Member of SB		
Zoran Posinovec	Member of SB		
Mladen Huber	Member of SB - since 26 April 2012		
Vjekoslav Galzina	Member of SB - since 26 April 2012		
Blaženka Luketić	Member of SB		

Željko Požega	President of SB - until March 2013
Marko Milić	Vice President of SB - until 26 April 2012
Jelena Adrović	Member of SB - until 26 April 2012
Dalibor Pudić	Member of SB - until 26 April 2012

Source: Issuer

**Table 41 Function executives**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 896,195.36</b>	<b>HRK 2,577,581.40</b>
Slaven Posavac	Director of corporate finance		
Lidija Pintek	Director of purchase and cooperation		
Sanja Milinović	Director of corporate communication		
Zvezdan Palenkić	Director of research and development		
Igor Rubil	Director of assets and investments		
Ljiljana Toth	Director of quality and regulations		

Source: Issuer

**Table 42 Division executives**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 463,959.70</b>	<b>HRK 1,779,417.90</b>
Bartol Jerković	Executive vice president of division Transport		
Darko Grbac	Executive vice president of division Defence		
Zvonimir Knapić	Executive vice president of division Industry and Energetics		
Marko Blažević	Executive vice president of division Renewable Energy Sources		
Igor Rubil	Executive vice president of division Construction and Infrastructure and director of assets and investments		

Source: Issuer

**Table 43 Key executives according to Group companies**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 2,390,72.37</b>	<b>HRK 2,692,215.22</b>
Bartol Jerković	Chief executive officer - Đuro Đaković Specijalna vozila d.d.		

Zdravko Stipetić	Executive officer - Đuro Đaković Elektromont d.d.
Tomislav Maljik	Executive officer - Đuro Đaković Inženjering d.d. (1 January – 16 July 2012)
Ranko Čorluka	Executive officer - Đuro Đaković Inženjering d.d. (19 July – 9 September 2012)
Anto Martić	Executive officer - Đuro Đaković Inženjering d.d.
Pavao Ančić	President of the Management Board - Đuro Đaković Proizvodnja opreme d.o.o. (until 31 October 2013)
Hrvoje Kekez	President of the Management Board - Đuro Đaković Strojna obrada d.o.o.
Ilija Džepina	Member of the Management Board - Đuro Đaković Strojna obrada d.o.o.
Stjepan Spajić	President of the Management Board - Đuro Đaković Energetika i infrastruktura d.o.o.
Branko Penić	President of the Management Board - Slobodna zona Đuro Đaković Slavonski Brod d.o.o. (until 16 December 2013)

Source: Issuer

## 15.2. Total amounts paid by the Issuer or its subsidiaries for pensions, pension rights or similar benefits

Below follows overview of the total amounts paid by the Issuer and its subsidiaries for pension, pension rights or similar benefits in years 2012 and 2013 (first and second pillar of pension insurance) for persons referred to in item 14.1. hereof.

**Table 44 Management Board members**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 588,234.76</b>	<b>HRK 352,081.79</b>
Vladimir Kovačević	President of the Management Board - since 4 May 2012		
Tomislav Mazal	Member of the Management Board		
Marko Bogdanović	Member of the Management Board		
Zdravko Stipetić	President of the Management Board - until 4 May 2012		
Marija Tolić	Member of the Management Board - until 4 May 2012		

Source: Issuer

**Table 45 Supervisory Board members**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 57,463.59</b>	<b>HRK 54,94.,47</b>
Željko Marić	President of SB - from March 2012 to June 2013		
Vjekoslav Leko	President of SB - since 10 July 2013		
Domagoj Bartek	Vice President of SB - from 26 April 2012		
Igor Žonja	Member of SB		
Zoran Posinovec	Member of SB		
Mladen Huber	Member of SB - since 26 April 2012		
Vjekoslav Galzina	Member of SB - since 26 April 2012		
Blaženka Luketić	Member of SB		
Željko Požega	President of SB - until March 2013		
Marko Milić	Vice President of SB - until 26 April 2012		
Jelena Adrović	Member of SB - until 26 April 2012		
Dalibor Pudić	Member of SB - until 26 April 2012		

Source: Issuer

**Table 46 Function executives**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 178,039.09</b>	<b>HRK 438,860.43</b>
Slaven Posavac	Director of corporate finance		
Lidija Pintek	Director of purchase and cooperation		
Sanja Milinović	Director of corporate communication		
Zvezdan Palenkić	Director of research and development		
Igor Rubil	Director of assets and investments		
Ljiljana Toth	Director of quality and regulations		

Source: Issuer

**Table 47 Division executives**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 112,747.91</b>	<b>HRK 359,331.16</b>
Bartol Jerković	Executive vice president of division Transport		
Darko Grbac	Executive vice president of division Defence		

Zvonimir Knapić	Executive vice president of division Industry and Energetics
Marko Blažević	Executive vice president of division Renewable Energy Sources
Igor Rubil	Executive vice president of division Construction and Infrastructure and director of assets and investments

Source: Issuer

**Table 48 Key executives according to Group companies**

Name and surname	Position	Total cost in 2012	Total cost in 2013
<b>Total cost</b>		<b>HRK 495,763.65</b>	<b>HRK 488,073.40</b>
Bartol Jerković	Chief executive officer - Đuro Đaković Specijalna vozila d.d.		
Zdravko Stipetić	Executive officer - Đuro Đaković Elektromont d.d.		
Tomislav Maljik	Executive officer - Đuro Đaković Inženjering d.d. (1 January – 16 July 2012)		
Ranko Čorluka	Executive officer - Đuro Đaković Inženjering d.d. (19 July - 9 September 2012)		
Anto Martić	Executive officer - Đuro Đaković Inženjering d.d.		
Pavao Ančić	President of the Management Board - Đuro Đaković Proizvodnja opreme d.o.o. (until 31 October 2013)		
Hrvoje Kekez	President of the Management Board - Đuro Đaković Strojna obrada d.o.o.		
Ilija Džepina	Member of the Management Board - Đuro Đaković Strojna obrada d.o.o.		
Stjepan Spajić	President of the Management Board - Đuro Đaković Energetika i infrastruktura d.o.o.		
Branko Penić	President of the Management Board - Slobodna zona Đuro Đaković Slavonski Brod d.o.o. (until 16 December 2013)		

Source: Issuer

The Issuer and its subsidiaries have made no additional payments for pensions and pension rights.

## **16. BOARD PRACTICES**

For the last financial year ended, for persons under (a) first paragraph of item 14.1:

### **16.1. Date of expiry of the present office and the period in which the person held that office**

Pursuant to the provisions of the Memorandum of Association, the Issuer's Management Board consists of three members appointed by the Supervisory Board for a period of five years. The Issuer's Memorandum of Association also contains a provision according to which, depending on the circumstances during a term of office, the Management Board may comprise a smaller number of members, a decision on the matter to be passed by the Supervisory Board.

President of the Management Board Tomislav Mazal was appointed President of the Management Board by the decision of 30 May 2014, and has been member of the Management Board for the period from 1 February 2011 to 29 April 2015.

Member of the Management Board Marko Bogdanović was appointed on 4 May 2012 for the period from 4 May 2012 to 4 May 2017.

Pursuant to the provisions of the Memorandum of Association, the Issuer's Supervisory Board consists of seven members, one of whom is President. One member is appointed by the State Office for State Property Management as legal successor of the Croatian Privatisation Fund and one is appointed by the employees pursuant to the Labour Act. Other elected members of the Supervisory Board are proposed by the shareholders in proportion to their share in the share capital and submit their proposal to the General Assembly which decides on the election. The Supervisory Board is elected for the period of four years.

President of the Supervisory Board Vjekoslav Leko was appointed on 19 June 2013 by the State Office for State Property Management for the period from 10 July 2013 to 19 June 2017 as a member of the Supervisory Board and at the Supervisory Board meeting held on 10 July 2013 was elected President of the Supervisory Board.

Vice President of the Supervisory Board Domagoj Bartek was elected by the decision of the General Assembly of 27 April 2012 for the period from 26 April 2012 to 26 April 2016.

Member of the Supervisory Board Mladen Huber was elected by the decision of the General Assembly of 27 April 2012 for the period from 26 April 2012 to 26 April 2016.

Member of the Supervisory Board Vjekoslav Galzina was elected by the decision of the General Assembly of 27 April 2012 for the period from 26 April 2012 to 26 April 2016.

Member of the Supervisory Board Igor Žonja was elected by the decision of the General Assembly of 27 June 2011 for the period from 27 June 2011 to 27 June 2015.



Member of the Supervisory Board Blaženka Luketić was appointed by the decision of the workers' meeting of Đuro Đaković Holding dioničko društvo of 16 June 2011 for the period from 27 June 2011 to 27 June 2015.

Member of the Supervisory Board Zoran Posinovec was elected member of the Supervisory Board on 27 June 2011 for the period from 27 June 2011 to 27 June 2015.

**16.2. Information on contracts of the members of administrative, management, and supervisory bodies with the Issuer or any of its subsidiaries providing for benefits upon termination of employment. If there are no such contracts, an appropriate negative statement is required.**

The contracts entered into by the member of the Management Board and the President of the Management Board with the Issuer provides for the following benefits:

(i) in the event of recall before expiry of the office the right to compensation in the net amount of HRK 500,000.00 or right to compensation equalling salary in the period of 6 months from recall and the right to compensation equalling 50% of the salary realised while in office in the following 6 months,

(ii) after expiry of the office the right to 12 monthly gross salaries and fulfilling of other obligations under the Labour Act, or right to compensation equalling salary in the period of 6 months from expiry of the office and the right to compensation equalling 50% of the salary in the following 6 months.

**16.3. Information on the Issuer's audit committee and remuneration committee, including the names of committee members and a summary of the terms of reference under which the committee operates, if any**

Pursuant to Article 27 of the Audit Act (Official Gazette 146/05, 139/08, 144/12), the Supervisory Board of the Issuer passed the decision on establishing the Audit Committee.

Members of the Audit Committee:

- Vjekoslav Leko,
- Igor Žonja,
- Slaven Posavac

Since the Audit Committee was established by the decision of the Supervisory Board of 3 July 2014 the terms of reference of the Audit Committee are pending.

There is no remuneration committee of the Issuer.

#### **16.4. Statement of the Issuer on compliance with corporate governance standards**

Đuro Đaković Holding d.d. as a member of the Zagreb Stock Exchange bases its business activities on the Corporate Governance Code adopted at the Supervisory Board's meeting on 17 February 2010, with certain amendments adopted at the Supervisory Board's meeting on 23 October 2012. The respective Code defines corporate governance procedures based on corporate governance code principles applicable to companies whose shares have been listed on the Zagreb Stock Exchange.

## 17. EMPLOYEES

**17.1. Number of employees at the end of the period or the average for each financial year for the period covered by the historical financial information until the date of the registration document (and changes in such numbers, if material) and if possible and material, a breakdown of persons employed by main category of activity and geographic location. If the Issuer employs a significant number of temporary employees, state the average number of temporary employees in the last financial year.**

Data on number of employees of individual companies of Đuro Đaković Group in 2011, 2012, 2013 and first half of 2014 are presented below.

**Table 49 Number of employees of individual Group companies**

	31.12.2011	31.12.2012	31.12.2013	30.06.2014
Đuro Đaković Holding d.d.	23	106	70	47
Đuro Đaković Elektromont d.d.	133	120	154	182
Đuro Đaković Specijalna vozila d.d.	449	514	515	467
Đuro Đaković Inženjering d.d.	39	41	47	42
Đuro Đaković Strojna obrada d.o.o.	131	133	135	135
Đuro Đaković Proizvodnja opreme d.o.o.	143	132	170	203
Đuro Đaković Slobodna zona d.o.o.	5	6	8	8
Đuro Đaković Energetika i infrastruktura d.o.o.	41	39	37	37
<b>Total</b>	<b>964</b>	<b>1,091</b>	<b>1,136</b>	<b>1,121</b>

Source: Issuer

**Table 50 Number of temporary employees of individual Group companies**

Company	31.12.2013	30.06.2014
Đuro Đaković Holding d.d.	23	7
Đuro Đaković Elektromont d.d.	48	76
Đuro Đaković Specijalna vozila d.d.	76	20
Đuro Đaković Inženjering d.d.	6	3
Đuro Đaković Strojna obrada d.o.o.	30	33
Đuro Đaković Proizvodnja opreme d.o.o.	41	83
Đuro Đaković Slobodna zona d.o.o.	0	0
Đuro Đaković Energetika i infrastruktura d.o.o.	0	0
<b>Total</b>	<b>224</b>	<b>222</b>

Source: Issuer

As of 30 June 2014 Đuro Đaković Group had 1,121 employees.

A breakdown of employees according to main groups of activities is not possible due to a large number of activities performed by each individual company within the Group, the

descriptions of many such activities overlapping so that many employees are capable of performing and perform tasks falling under several business activities.

A breakdown of employees according to geographical locations is not applicable to the Group's business operation.

Most employees of the Issuer have been employed with open-ended employment contracts.

Tables below show employee structure of Đuro Đaković Group as of 31 December 2013.

**Table 51 Age structure of Group employees as of 31 December 2013**

Age	Number of employees
<30	164
31-40	210
41-50	229
51-60	426
60>	107
<b>Total</b>	<b>1,136</b>

Source: Issuer

**Table 52 Qualifications structure of Group employees as of 31 December 2013**

Qualification	Number of employees
Doctor's degree	0
Master's degree	9
University degree	137
Vocational college degree	83
Highly-skilled worker	56
Secondary school education	392
Skilled worker	352
Semi-skilled worker	77
Primary school education	5
Unskilled worker	25
<b>Total</b>	<b>1,136</b>

Source: Issuer

### Scholarship programmes

The Group has concluded cooperation agreements with several universities and colleges at home and abroad undertaking to provide scholarships for talented students who would after

graduation start working at Đuro Đaković Grupa. For the purposes of scholarship the Group paid HRK 91,753 in 2013.

**17.2. With respect to each person referred to in 14.1 provide information as to their share ownership and any share options over such shares in the Issuer as of the most recent practicable date.**

As of 31 August 2014 Tomislav Mazal, President of the Management Board of Đuro Đaković Holding d.d., holds 646 shares. Igor Žonja, member of the Supervisory Board of Đuro Đaković Holding d.d., as of the same date holds 1 share.

The Issuer has not issued any put or call option for its shares.

**17.3. Description of any arrangements for involving the employees in the capital of the Issuer.**

There are no plans for involving the employees in the capital of the Issuer.

## 18. MAJORITY SHAREHOLDERS

**18.1. In so far as is known to the Issuer, the name of any person other than a member of the administrative, management or supervisory bodies who, directly or indirectly, has an interest in the Issuer's capital or voting rights which is notifiable under the Issuer's national law, together with the amount of each such person's interest or, if there are no such persons, an appropriate negative statement.**

According to the situation in the Central Depository & Clearing Company Inc. (CDCD) the shareholders in the Issuer with 5 or more % in the share capital are as follows:

**Table 53 Shareholders of the Issuer with 5 or more % in the share capital on 31 August 2014**

No.	Shareholder	No. of shares*	Capital** (HRK)	Share in the capital (%)
1.	State Office for State Property Management / Croatian Pension Insurance Institute	660,000	13,200,000	20.39
2.	State Office for State Property Management / Republic of Croatia	564,552	11,291,040	17.44
3.	Privredna Banka Zagreb d.d. (custody account)	210,291	4,205,820	6.50
4.	Erste & Steiermärkische Bank d.d. (custody account)	202,325	4,046,500	6.25

Source: \*CCDC; \*\*Issuer

In addition to the above situation according to the CCDC as of 31 August 2014, the shareholder Nenad Bakić notified the Issuer on 10 July 2014 that on 7 July 2014 he acquired 1,336 shares and thus exceeded the threshold of 10% voting rights in the Issuer. Namely following that acquisition he held a total of 324,969 shares which constitutes 10.039% voting rights in the Issuer.

**18.2. State whether the Issuer's shares give different voting rights, or an appropriate negative statement.**

All the Issuer's share give the same voting rights.

**18.3. To the extent known to the Issuer, state whether the Issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control and describe the measures in place to ensure that such control is not abused.**

To the extent known to the Issuer, the Issuer is not controlled by anyone.

**18.4. A description of any arrangements, known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer.**

To the extent known to the Issuer, there are no arrangements the operation of which may result in a change in control of the Issuer.

## 19. RELATED PARTY TRANSACTIONS

The related party transactions in the period from 1 January 2011 to 30 June 2014 have been concluded at arm's length and business was performed in accordance with the provision of laws of the Republic of Croatia regulating transfer prices.

Below are the audited consolidated related party transactions in the period 2011-2013 and overview of unaudited consolidated transactions for the first half-years of 2013 and 2014.

**Table 54 Review of the transactions between the Issuer and related parties**

	(in 000 kunas)	2011	2012	2013
<b>Income (operating + financial)</b>				
Đuro Đaković Elektromont d.d.		316	335	1,255
Đuro Đaković Energetika i infrastruktura d.o.o.		182	75	752
Đuro Đaković Inženjering d.d.		1,326	14,835	9,968
Đuro Đaković Proizvodnja opreme d.o.o.		1,114	144	2,669
Đuro Đaković Slobodna zona d.o.o.		63	20	200
Đuro Đaković Specijalna vozila d.d.		828	430	3,668
Đuro Đaković Strojna obrada d.o.o.		184	952	1,396
<b>Total</b>		<b>4,013</b>	<b>16,791</b>	<b>19,908</b>
<b>Cost (operating + financial)</b>				
Đuro Đaković Elektromont d.d.		1,554	31,709	26,444
Đuro Đaković Energetika i infrastruktura d.o.o.		417	674	908
Đuro Đaković Inženjering d.d.		1,908	61,538	40,127
Đuro Đaković Proizvodnja opreme d.o.o.		5,644	62,520	21,821
Đuro Đaković Slobodna zona d.o.o.		62	-	-
Đuro Đaković Specijalna vozila d.d.		39,328	28,367	-
Đuro Đaković Strojna obrada d.o.o.		-	-	-
<b>Total</b>		<b>48,913</b>	<b>184,808</b>	<b>89,300</b>
<b>Receivables (sale + loans + advances)</b>				
Đuro Đaković Elektromont d.d.		59,821	61,705	10,505
Đuro Đaković Energetika i infrastruktura d.o.o.		3,992	6,543	773
Đuro Đaković Inženjering d.d.		37,042	35,809	22,796
Đuro Đaković Proizvodnja opreme d.o.o.		57,844	42,768	9,934
Đuro Đaković Slobodna zona d.o.o.		11	17	33
Đuro Đaković Specijalna vozila d.d.		55,399	49,641	10,765
Đuro Đaković Strojna obrada d.o.o.		7,266	7,061	2,587
<b>Total</b>		<b>221,375</b>	<b>203,544</b>	<b>57,393</b>
<b>Liabilities</b>				
Đuro Đaković Elektromont d.d.		1,483	10,573	10,025
Đuro Đaković Energetika i infrastruktura d.o.o.		-	-	183
Đuro Đaković Inženjering d.d.		1,520	24,446	3,622
Đuro Đaković Proizvodnja opreme d.o.o.		8,039	9,149	6,530



Đuro Đaković Slobodna zona d.o.o.	-	5	420
Đuro Đaković Specijalna vozila d.d.	-	2,942	111
Đuro Đaković Strojna obrada d.o.o.	-	-	-
<b>Total</b>	<b>11,042</b>	<b>47,115</b>	<b>20,891</b>

Source: Audited unconsolidated financial statements of the Issuer for 2011, 2012, and 2013

**Table 55 Review of the transactions between the Issuer and related parties**

	(in 000 kunas)	I-VI 2013	I-VI 2014
<b>Income (operating + financial)</b>			
Đuro Đaković Elektromont d.d.		2,357	2,236
Đuro Đaković Energetika i infrastruktura d.o.o.		300	759
Đuro Đaković Inženjering d.d.		9,843	1,114
Đuro Đaković Proizvodnja opreme d.o.o.		4,238	3,373
Đuro Đaković Slobodna zona d.o.o.		17	56
Đuro Đaković Specijalna vozila d.d.		3,104	2,570
Đuro Đaković Strojna obrada d.o.o.		646	905
<b>Total</b>		<b>20,505</b>	<b>11,013</b>
<b>Cost (operating + financial)</b>			
Đuro Đaković Elektromont d.d.		7,558	6,689
Đuro Đaković Energetika i infrastruktura d.o.o.		0	0
Đuro Đaković Inženjering d.d.		32,014	2,747
Đuro Đaković Proizvodnja opreme d.o.o.		611	2,607
Đuro Đaković Slobodna zona d.o.o.		0	0
Đuro Đaković Specijalna vozila d.d.		0	24
Đuro Đaković Strojna obrada d.o.o.		0	0
<b>Total</b>		<b>40,183</b>	<b>12,067</b>
<b>Receivables (sale + loans + advances)</b>			
Đuro Đaković Elektromont d.d.		61,652	10,982
Đuro Đaković Energetika i infrastruktura d.o.o.		5,456	2,119
Đuro Đaković Inženjering d.d.		24,031	27,072
Đuro Đaković Proizvodnja opreme d.o.o.		47,507	15,335
Đuro Đaković Slobodna zona d.o.o.		12	14
Đuro Đaković Specijalna vozila d.d.		52,503	13,721
Đuro Đaković Strojna obrada d.o.o.		6,598	3,530
<b>Total</b>		<b>197,759</b>	<b>72,773</b>
<b>Liabilities</b>			
Đuro Đaković Elektromont d.d.		5,911	4,074
Đuro Đaković Energetika i infrastruktura d.o.o.		37	121
Đuro Đaković Inženjering d.d.		20,486	971
Đuro Đaković Proizvodnja opreme d.o.o.		7,178	3,172

Đuro Đaković Slobodna zona d.o.o.	137	611
Đuro Đaković Specijalna vozila d.d.	543	2
Đuro Đaković Strojna obrada d.o.o.	0	0
<b>Total</b>	<b>34,292</b>	<b>8,951</b>

*Source: Issuer*

The largest amount of the Issuer's receivables from Group's subsidiaries refers to receivables from given loans and the largest amount of the Issuer's liabilities to its subsidiaries refers to sold products and services on individual projects in which Group companies act as members of joint ventures.

## **20. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES**

### **20.1. Historical financial information**

**20.1.1. Audited consolidated financial statements for 2013**

**Đuro Đaković Holding d.d. and its subsidiaries**

Consolidated financial statements

For the year ended 31 December 2013

Together with Independent Auditor's Report

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## Responsibility for the consolidated financial statements

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Pursuant to the Accounting Act of the Republic of Croatia, the Management of the Group's Parent is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs"), as adopted by the European Union, which give a true and fair view of the financial position and results of operations of Đuro Đaković Holding d.d. and its subsidiaries ("the Group") for that period.

The Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to adopt the going concern basis in preparing the consolidated financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

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

Signed for and on behalf of the Management by:

Vladimir Kovačević

President of the Management Board

Đuro Đaković Holding d.d.

Mile Budaka 1

35000 Slavonski Brod

Republic of Croatia

30 April 2014

## **Independent Auditor's Report**

### **To the Owners of Đuro Đaković Holding d.d.**

We have audited the accompanying consolidated financial statements of Đuro Đaković Holding d.d. ("the Company") and its subsidiaries (jointly referred to as "the Group"), which comprise the consolidated statements of financial position at 31 December 2013 and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the consolidated financial statements*

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

#### *Auditor's responsibility*

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

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



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

## **Independent Auditor's Report (continued)**

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Deloitte d.o.o.**

**Branislav Vrtačnik, President of the Management Board and Certified Auditor**

Zagreb, Republic of Croatia

30 April 2014

# Consolidated statement of comprehensive Income

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

	Notes	2013	2012
Sales	4	591,407	1,039,891
Other income	5	20,150	38,867
		<b>611,557</b>	<b>1,078,758</b>
Increase / (decrease) in the value of work in progress and finished products		22,537	(77,406)
Material costs	7	(479,725)	(821,433)
Staff costs	8	(112,589)	(100,058)
Depreciation and amortisation	15, 16	(19,368)	(18,189)
Other expenses	9	(50,788)	(41,410)
Value adjustment	10	(50,154)	(6,994)
Other operating expenses	11	(39,989)	(6,403)
		<b>(730,076)</b>	<b>(1,071,893)</b>
<b>(Loss)/profit from operations</b>		<b>(118,519)</b>	<b>6,865</b>
Financial income	12	5,270	6,196
Financial expenses	13	(11,036)	(18,734)
<b>Net financial loss</b>		<b>(5,766)</b>	<b>(12,538)</b>
<b>Loss before taxation</b>		<b>(124,285)</b>	<b>(5,673)</b>
Income tax expense	14	-	(254)
<b>Loss for the year</b>		<b>(124,285)</b>	<b>(5,927)</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive loss</b>		<b>(124,285)</b>	<b>(5,927)</b>
<i>Loss attributable to:</i>			
- Equity holders of the parent		(119,115)	(4,581)
- Non-controlling interests		(5,170)	(1,346)
<i>Total comprehensive loss attributable to:</i>			
- Equity holders of the parent		(119,115)	(4,581)
- Non-controlling interests		(5,170)	(1,346)
<b>Earnings per share</b>			
- basic and diluted (in kunas and lipas)	29	(36.80)	(1.42)

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

## Consolidated statement of financial position

At 31 December 2013

*(All amounts are expressed in thousands of kunas)*

	Notes	At 31 December 2013	At 31 December 2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15	24,578	27,316
Property, plant and equipment	16	164,324	172,436
Investments in real estate	16	24	14,215
Given loans, deposits and similar		967	3,795
Investments in securities and equities	18	2,877	3,107
Other non-current financial assets		-	43
Receivables	19	11,659	11,903
<b>Total non-current assets</b>		<b>204,429</b>	<b>232,815</b>
<b>Current assets</b>			
Inventories	20	121,845	123,552
Trade receivables	21	100,168	184,248
Other receivables	22	35,563	26,517
Other financial assets	23	740	2,023
Cash and cash equivalents	24	143,366	25,862
Prepaid expenses and accrued income	25	717	2,010
<b>Total current assets</b>		<b>402,399</b>	<b>364,212</b>
<b>TOTAL ASSETS</b>		<b>606,828</b>	<b>597,027</b>

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

## Consolidated statement of financial position (continued)

At 31 December 2013

*(All amounts are expressed in thousands of kunas)*

	Notes	At 31 December 2013	At 31 December 2012
<b>EQUITY AND LIABILITIES</b>			
Share capital	26	258,965	323,707
Legal reserves		6,923	-
Reserves for own shares		3,760	4,700
Own shares		(3,760)	(4,700)
Accumulated losses	27	(185,328)	(124,032)
<b>Attributable to the equity holders of the parent</b>		<b>80,560</b>	<b>199,675</b>
Non-controlling interests	28	(7,244)	(2,074)
<b>Total equity</b>		<b>73,316</b>	<b>197,601</b>
<b>Provisions</b>	30	<b>17,945</b>	<b>12,682</b>
<b>Non-current liabilities</b>			
Borrowings	31	76,778	91,316
Financial lease obligations	31	1,244	1,167
Other non-current liabilities	32	14,392	15,034
<b>Total non-current liabilities</b>		<b>92,414</b>	<b>107,517</b>
<b>Current liabilities</b>			
Loans and deposits payable		-	2,718
Borrowings and finance lease obligations	31	109,109	45,483
Trade payables	33	209,074	146,078
Other current liabilities	34	87,126	76,139
Accrued expenses and deferred income	35	17,844	8,809
<b>Total current liabilities</b>		<b>423,153</b>	<b>279,227</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>606,828</b>	<b>597,027</b>

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

	Share capital	Legal reserves	Reserves for treasury shares	Treasury shares	Accumulated losses	Total parent	Non-controlling interest	Total
<b>Balance at 1 January 2012</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(119,451)</b>	<b>204,256</b>	<b>(728)</b>	<b>203,528</b>
Loss for the year	-	-	-	-	(4,581)	(4,581)	(1,346)	(5,927)
<b>Balance at 31 December 2012</b>	<b>323,707</b>	-	<b>4,700</b>	<b>(4,700)</b>	<b>(124,032)</b>	<b>199,675</b>	<b>(2,074)</b>	<b>197,601</b>
Decrease in share capital	(64,742)	6,923	-	-	57,819	-	-	-
Changes in reserves for own shares	-	-	(940)	940	-	-	-	-
Loss for the year	-	-	-	-	(119,115)	(119,115)	(5,170)	(124,285)
<b>Balance at 31 December 2013</b>	<b>258,965</b>	<b>6,923</b>	<b>3,760</b>	<b>(3,760)</b>	<b>(185,328)</b>	<b>80,560</b>	<b>(7,244)</b>	<b>73,316</b>

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

# Consolidated statement of cash flows

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

	2013	2012
<b>Cash flows from operating activities</b>		
<b>Loss for the year</b>	<b>(124,285)</b>	<b>(5,927)</b>
<i>Adjusted for:</i>		
Income tax expense	-	254
Depreciation and amortisation	19,368	18,189
Foreign exchange differences, net	1,678	2,329
Interest expense	7,809	14,222
Interest income	(3,832)	(1,552)
Increase/(decrease) in provisions	5,263	(6,382)
Impairment allowance on trade receivables	13,636	6,434
Impairment allowance on other financial assets	971	560
Income from debt write-off	-	(11,604)
Write-off of tangible assets in preparation	12,363	-
Loss on disposal and retirement of non-current tangible and intangible assets	111	423
<b>Operating cash flows before changes in working capital</b>	<b>(66,918)</b>	<b>16,946</b>
Decrease in inventories	1,707	155,599
Decrease in other long-term receivables	244	-
Decrease/(increase) in trade receivables	74,276	(77,128)
Increase in other receivables from customers	(9,046)	(10,100)
Decrease/(increase) in advances paid	2,871	(2,904)
Increase/(decrease) in trade payables	62,996	(16,006)
Increase/(decrease) in other liabilities	10,345	(44,951)
Decrease in prepaid expenses and accrued income	1,293	1,484
Increase in accrued expenses and deferred income	9,035	3,903
(Decrease) / increase in advances received	(2,718)	2,686
<b>Cash generated from operating activities</b>	<b>84,085</b>	<b>29,529</b>
Income taxes paid	-	(2,460)
Interest paid	(8,508)	(23,286)
<b>Net cash generated from operating activities</b>	<b>75,577</b>	<b>3,783</b>

## Consolidated statement of cash flows (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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	<b>2013</b>	<b>2012</b>
<b>Investment activities</b>		
Purchases of property, plant and equipment and intangible assets	(6,800)	(17,075)
Collection of given loans	-	1,360
Decrease in term deposits	1,283	18,986
Purchases of available-for-sale securities	(741)	(2,032)
<b>Net cash (used in) / generated from investing activities</b>	<b>(6,258)</b>	<b>1,239</b>
<b>Financing activities</b>		
Received borrowings	136,064	313,270
Repayments of borrowings	(87,879)	(352,022)
<b>Net cash generated / (used in) from financing activities</b>	<b>48,185</b>	<b>(38,752)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>117,504</b>	<b>(33,730)</b>
Cash and cash equivalents at the beginning of the year	25,862	59,592
Cash and cash equivalents at the end of year	143,366	25,862



# Notes to the consolidated financial statements

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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## 1. GENERAL INFORMATION

### 1.1 Introduction

The Đuro Đaković Group comprises the following entities: Đuro Đaković Holding d.d., Mile Budaka 1, Slavonski Brod – the Parent of the Group and its subsidiaries:

- Đuro Đaković Specijalna vozila d.d.
- Đuro Đaković Inženjering d.d.
- Đuro Đaković Elektromont d.d.
- Đuro Đaković Energetika i infrastruktura d.o.o.
- Đuro Đaković Proizvodnja opreme d.o.o.
- Đuro Đaković Strojna obrada d.o.o.
- Slobodna zona Đuro Đaković d.o.o.

### 1.2 Principal business

The principal activities of the Group comprise manufacture, design and assembly of industrial and petrochemical plants, manufacture of building machinery, railway vehicles, special vehicles and devices, and energy supply, goods storage and transport services.

### 1.3 Management Board

The members of the Company's Management Board are as follows:

Vladimir Kovačević	President of the Management Board	Since 4 May 2012
Zdravko Stipetić	President of the Management Board	Until 4 May 2012
Marko Bogdanović	Member of the Management Board	Since 12 May 2012
Marija Tolić	Member of the Management Board	Until 4 May 2012
Tomislav Mazal	Member of the Management Board	

### 1.4 Supervisory Board

Members of the Supervisory Board:

Željko Marić	President of the Supervisory Board (until 26 June 2013)
Vjekoslav Leko	President of the Supervisory Board (since 10 July 2013)
Domagoj Bartek	Deputy President of the Supervisory Board
Vjekoslav Galzina	Member of the Supervisory Board (since 26 April 2012)
Mladen Huber	Member of the Supervisory Board (since 26 April 2012)
Blaženka Luketić	Member of the Supervisory Board
Igor Žonja	Member of the Supervisory Board
Zoran Posinovec	Member of the Supervisory Board

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

#### ***Standards and Interpretations effective in the current period***

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- **IFRS 13 “Fair Value Measurement”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans**, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income**, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits**, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards “Improvements to IFRSs in 2012”** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)**

#### ***Standards and Interpretations effective in the current period (continued)***

- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies nor impacted on Entity's profit in current year and in previous years.

#### ***Standards and Interpretations issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these consolidated financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities”** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)**

***Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)***

- **Amendments to IAS 32 “Financial instruments: presentation”** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1. Statement of compliance**

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

#### **3.2. Basis of preparation**

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments which are stated at fair value, in accordance with International Financial Reporting Standards as adopted by the European Union and Croatian laws.

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

(i) The preparation of consolidated financial statements in conformity with International Financial Reporting Standards (IFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.26.

#### **3.3. Basis of consolidation**

The consolidated financial statements of the Group incorporate the financial statements of Đuro Đaković Holding d.d. ("the Company") and entities controlled by the Company (its subsidiaries) made up at 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of the disposal. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.4. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of the Group's operations. Revenues are stated net of value added tax, estimated returns, discounts and rebates.

The Group recognizes revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Group and when the specific criteria for all the Group's activities described below are met.

##### *a) Service sales*

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

##### *b) Construction contract revenue*

When it is possible to reliably estimate the outcome of construction contracts, revenues and expenses are recognized according to the degree of physical completion of contracted work to date. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. If it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense in the period in which they occur.

##### *c) Product and service sales*

Product and service sales are recognised when all significant risks and rewards of ownership of the product or goods are passed onto the customer and when the revenue can be measured reliably.

##### *d) Interest income*

Interest income is recognised on a time basis, using the effective interest method.

##### *e) Income from government grants*

Income from government grants is recognised at the fair value when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to them. Government grants are recognised in profit or loss over the periods in which the Group recognises as expenses the related costs which the grants are intended to compensate and are presented within Other operating income.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.5. Leases**

(ii) The Group leases certain property, plant and equipment. Leases of property, plant and equipment under which the Group bears all the risks and rewards of ownership are classified as finance leases. Financial leases are capitalised at the inception of the lease by reference to the lower of the fair value of the underlying asset or the present value of the minimum lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income 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 under which the Group does not bear all the significant risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised in the statement of comprehensive income over the term of the underlying lease.

#### **3.6. Borrowing costs**

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are included in profit or loss in the period in which they are incurred.

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.7. Foreign currency transactions

##### *Functional and reporting currency*

Items included in the Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The consolidated financial statements are presented in Croatian kuna, which is both the functional and reporting currency of the Parent.

##### *Foreign-currency transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 the statement of comprehensive income.

The effective exchange rates of the Croatian were as follows:

	<b>31/12/2013</b>	<b>31/12/2012</b>
HRK / EUR	7.637643	7.545624

#### 3.8. Government grants

Government grants are not recognised until there is reasonable assurance that the conditions attaching to them will be complied with. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.9 Operating segment reporting**

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of individual operating segments are disclosed in Note 6 to the consolidated financial statements.

#### **3.10. Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

##### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the asset to be recovered.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.10. Income tax (continued)**

*Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by date of the statement of financial position. The measurement of deferred tax liabilities and assets reflects the amount that the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities.

*Current and deferred taxes for the period*

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity, or where it arises from the initial accounting of a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

*Value-added tax (VAT)*

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the balance sheet on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount of the debtor, which includes VAT.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.11. Property, plant and equipment

Property, plant and equipment are recognised at cost, less accumulated depreciation. The cost of comprises the purchase price of an asset, including import duties and non-refundable sales taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Maintenance and repairs are expensed as incurred. Where it is obvious that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of property, plant and equipment beyond the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of fixed assets are recognised in profit or loss for the period in which they arise. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset, other than land and assets under development, over the estimated useful life of the asset using the straight-line method as follows:

Type of assets	Useful life	Annual amortisation rate in %
Buildings	20 - 40 years	2.5% – 5%
Plant and equipment	4-10 years	10% – 25%
Tools, plant fittings and fixtures, and vehicles	4 - 5 years	20% – 25%
Intangible assets	4 years	25%

In 2013 there were no changes in the depreciation rates versus comparative periods.

The residual value of an asset is the estimated amount that the Group would currently obtain from 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 residual value of an asset is nil if the Group expects to use the asset until the end of its useful life. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.12. Intangible assets

##### *Computer software*

(iii) Software licences are capitalised based on the cost of purchase and bringing software into a working condition for its intended use. The cost is amortised over the useful life of an asset.

##### *Internally generated intangible assets – development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13. Impairment of property, plant and equipment, and of intangible assets**

(iv) At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is an indication that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.14. Investment property**

Investment property is property (land and buildings) the Company holds for the purpose of generating rentals and capital appreciation. Investment property is measured initially at cost. They are measured subsequently at cost less accumulated depreciation and accumulated impairment losses.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### **3.15. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition.

Where the carrying amount of inventories is to be written down to their net realisable value, an allowance is recognised and charged to expenses for the year.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Small inventory includes tools, plant and office furniture and fittings and similar items that are expected to be used for a period of up to one year, as well as assets not considered fixed assets. The cost of small inventories and tyres as well as spare parts is expensed immediately. Merchandise comprises purchased goods on stock for further sale and is carried at the selling prices net of value-added tax and margins. Inventories of work in progress and finished products are carried at the lower of cost and net realisable value, while taking into account potential fluctuations of the cost of production during the year. On sale, the carrying amounts of inventories are recognised as expenses in the period in which the related revenue is recognised. In addition, any write downs of inventories to the net realisable value and any shortfalls are recognised as expenses in the period of the write-down i.e. in which the shortfall is identified. Write-downs reversed as a result of increased net realisable value are recognised as a reduction of the inventories recognised as an expense in the period of the reversal.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.16. Trade receivables and prepayments**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, if significant, using the effective interest method. Otherwise, they are measured at nominal amounts, less an allowance for impairment. Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment allowance on trade receivables is captured in the consolidated statement of comprehensive income under value adjustments.

#### **3.17. Cash and cash equivalents**

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

#### **3.18. Share capital**

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares 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.

The consideration paid for purchases of own shares, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### **3.19. Employee benefits**

##### *(a) Obligations in respect of retirement and other post-employment benefits*

In the normal course of business the Company makes payments, through salary deductions, to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recognised as salary expense when incurred. The Group does not operate any other retirement benefit plan and, consequently, has no other obligations in respect of the retirement benefits for its employees. In addition, the Group is not obliged to provide any other post-employment benefits.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.19. Employee benefits (continued)**

##### *(b) Regular retirement benefits*

Benefits falling due more than 12 months after the reporting date are discounted to their present value.

##### *(c) Long-term employee benefits*

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actual gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested

#### **3.20. Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each date of the statement of financial position 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.20. Provisions (continued)**

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### **3.21. Contingent liabilities**

Contingent liabilities have not been recognised in these financial statements. They are disclosed unless the possibility of outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but it is disclosed when the inflow of economic benefits becomes probable.

#### **3.22. Events after the reporting period**

Events after the end of the reporting period that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

#### **3.23. Financial assets**

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FVTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.23. Financial assets (continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated at FVTPL.

##### *Financial assets at fair value through profit or loss*

Financial assets are classified at FVTPL where the financial asset is either held for trading or it is designated at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated at FVTPL

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.23. Financial assets (continued)**

*Financial assets at fair value through profit or loss (continued)*

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset. The fair value is determined as described in Note 37.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost determined using the effective interest method, less any impairment losses.

*Financial assets available for sale*

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

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined as described in Note 37, and gains and losses arising from changes in fair value are recognised directly in equity in the revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is included in the consolidated statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in the consolidated statement of comprehensive income when the Company's right to receive the dividends is established.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.23. Financial assets (continued)**

##### *Financial assets available for sale (continued)*

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated statement of comprehensive income, and other changes are recognised in equity.

##### *Loans and receivables*

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

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

##### *Impairment of financial assets*

Financial assets, other than those carried at fair value through profit or loss, are assessed for indications of impairment at the end of each reporting period. Financial assets are impaired where 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 impacted.

For an equity instrument classified as AFS, 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 becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.23. Financial assets (continued)**

##### *Impairment of financial assets (continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with 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 financial asset's 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 financial asset's original effective interest rate. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised under the heading of 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.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.23. Financial assets (continued)**

##### *Derecognition of financial assets*

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

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 heading of 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.

#### **3.24. Financial liabilities and equity instruments issued by the Group**

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

##### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.24. Financial liabilities and equity instruments issued by the Group (continued)**

##### *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.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

#### **3.25. Comparatives**

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

#### **3.26. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described above, the Management Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.26. Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### *Impairment of property, plant and equipment, and of intangible assets*

As described in the Notes 3.11 and 3.12, the Group reviews the estimated useful lives of its property, plant and equipment and intangible assets at the end of each annual reporting period. Property, plant and equipment as well as intangible assets are recognised initially at cost, less accumulated depreciation/amortisation.

##### *Impairment allowance on trade receivables*

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the statement of comprehensive income for the year.

##### *Revenue recognition*

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 *Revenue* and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Company's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs. In addition, when recognizing revenue under construction contracts in accordance with IAS 11, the directors are satisfied that the stages of completion of the projects to be recognized in accordance with IAS 11 have been reasonably estimated.

##### *Consequences of certain legal actions*

The Parent and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 30).



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 4. SALES

	<b>2013</b>	<b>2012</b>
Domestic sales	542,488	852,216
Foreign sales	48,919	187,675
	<u><b>591,407</b></u>	<u><b>1,039,891</b></u>

### 5. OTHER INCOME

	<b>2013</b>	<b>2012</b>
Income from damages and penalties collected	7,405	1,575
Rental income	3,897	2,128
Written-off liabilities credited to income	410	11,604
Income from reversal of provisions	339	14,816
Other operating income	8,099	8,744
	<u><b>20,150</b></u>	<u><b>38,867</b></u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **5. SEGMENT INFORMATION**

Operating segments have been identified on the basis of business divisions. Three business divisions were identified in 2013:

- Industry and Energy
- Defence
- Transport

The business divisions are the basis for internal financial reporting. The internal reports are regularly reviewed by the Management Board in order to assess the performance of the divisions and to make business decisions.

Since the chief decision maker does not use the information about the expenses, assets and liabilities of individual segments in making business and resource allocation decisions, the Group does not present the segment expenses, assets and liabilities in its consolidated financial statements.

Information about other business activities and operating segments not reported on internally is disclosed under "All other segments" separately from the reconciliation items. All other segments comprise energy generation, distribution and supply for entities operating in the industrial zone and to a lesser extent outside the zone, as well as the rental of space in the zone with customs, tax and other reliefs.

The business division Industry and Energy comprises the construction of large facilities.

Defence comprises the manufacture of military equipment.

Transport comprises the manufacture of railway wagons.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 6. SEGMENT INFORMATION (CONTINUED)

#### Segment revenue and results

Set out below is a breakdown of the revenue of the Group by its reporting segments presented in accordance with IFRS 8. Segment revenue reported below represents revenue generated from sales and other operating revenues.

	Revenue by segment	
	2013	2012
Industry and Energy	242,325	231,625
Defence	301,201	613,501
Transport	31,228	180,790
All other segments	36,803	52,842
	<u>611,557</u>	<u>1,078,758</u>

#### Geographical information

The Group operates in two main geographical areas serving as the basis for sales reporting.

	Revenue from external customers	
	2013	2012
Croatian market	542,488	852,216
EU market	48,919	187,675
	<u>591,407</u>	<u>1,039,891</u>

#### Information about key customers

	Revenue by key customers	
	2013	2012
Croatian Ministry of Defence	289,416	607,982
Jadranski naftovod d.d.	186,766	152,453
Hrvatske željeznice d.d.	6,175	28,509
	<u>482,357</u>	<u>788,944</u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 7. MATERIAL EXPENSES

	2013	2012
Raw material and supplies	296,088	684,034
Subcontractor service costs	134,098	101,446
Intellectual services	10,401	4,133
Cost of goods sold	8,712	5,289
Rental costs	7,060	9,357
Maintenance and repairs	4,346	4,770
Transport	4,304	5,873
Advertising and sponsorships	1,548	1,258
Other external costs	13,168	5,273
	<u>479,725</u>	<u>821,433</u>

### 8. STAFF EXPENSES

	2013	2012
Net wages and salaries	74,353	69,569
Taxes and contributions out of salaries	23,916	18,871
Contributions on salaries	14,320	11,618
	<u>112,589</u>	<u>100,058</u>

At 31 December 2013, there were 1,143 persons employed at the Group (31 December 2012: 1,099 employees).

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 9. OTHER EXPENSES

	2013	2012
Daily allowances, accommodation, transport and field-work allowances	9,261	10,377
Expenses for employees material rights	5,060	1,941
Collateral	2,892	2,654
Retirement and long-service benefits	2,477	4,292
Provisions for penalties under construction contracts	1,808	6,985
Bank charges	1,555	1,957
Entertainment	1,229	1,544
Membership fees, taxes and contributions	492	1,319
Litigation provisions	-	63
Other expenses	26,014	10,278
	<b>50,788</b>	<b>41,410</b>

### 10. IMPAIRMENT ALLOWANCE ON CURRENT AND NON-CURRENT ASSETS

	2013	2012
Impairment allowance on trade receivables	30,456	6,434
Impairment of non-current tangible assets	12,359	-
Impairment of inventories of work in progress	6,586	-
Impairment of apartments	492	-
Impairment of investments in the shares	261	560
	<b>50,154</b>	<b>6,994</b>

### 11. OTHER OPERATING EXPENSES

	2013	2012
Penalties and damages	22,953	4,371
Other operating expenses	17,036	2,032
	<b>39,989</b>	<b>6,403</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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<b>12. FINANCIAL INCOME</b>	<b>2013</b>	<b>2012</b>
Interest income	3,832	1,552
Foreign exchange gains	1,275	2,999
Other financial income	163	1,645
	<u>5,270</u>	<u>6,196</u>

  

<b>13. FINANCIAL EXPENSES</b>	<b>2013</b>	<b>2012</b>
Interest expense	7,809	14,222
Foreign exchange losses	3,185	4,289
Other financial expenses	42	223
	<u>11,036</u>	<u>18,734</u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 14. INCOME TAX

The Group is not subject to corporate income tax, as opposed to its members.

Income tax expense comprises the following:

	2013	2012
Current tax	-	254
Deferred tax	-	-
Income tax recognised in the statement of comprehensive income	<u>-</u>	<u>254</u>

The reconciliation of the income tax expense for the year to the accounting profit is as follows:

	2013	2012
<b>Loss before taxation</b>	<b>(124,285)</b>	<b>(5,673)</b>
Income tax at the rate of 20% (2012: 20%)	(24,857)	(1,135)
Effect of tax non-deductible expenses	43,142	1,807
Effect of non-taxable income	(210)	(1,185)
Effect of used tax losses	-	(1,518)
Effect of unrecognised deferred tax assets on tax losses and tax temporary differences	<u>(18,075)</u>	<u>2,285</u>
<b>Income tax expense</b>	<b>-</b>	<b>254</b>

### Unused tax losses carried forward

	2013	2012
Unused tax losses carried forward	<u>199,781</u>	<u>125,100</u>
	<b>199,781</b>	<b>125,100</b>

In accordance with the tax legislation, the Tax Administration may, at any time, inspect the books and records of Đuro Đaković Holding d.d. ('the Company') and its subsidiaries (jointly referred to as: 'the Group') within three years from the end of the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Company's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 14. INCOME TAX (CONTINUED)

The unused tax losses carried forward expire as follows:

	<b>2013</b>	<b>2012</b>
2013	-	8,530
2014	45,429	45,429
2015	49,609	49,609
2016	3,523	3,523
2017	18,009	18,009
2018	74,681	-
	<u><b>191,251</b></u>	<u><b>125,100</b></u>

According to the Croatian tax regulations, tax losses available for carry forward of individual Group companies as of the end of 2013 amount to HRK 191,251 thousand (2012: HRK 125,100 thousand) and are eligible for utilisation not later than in 2018. No deferred tax assets have been recognised in the statement of the financial position in respect of the unused tax losses carried forward because the availability of sufficient taxable profit in the future that would allow those assets to be utilised is not certain.



Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**15. INTANGIBLE ASSETS**

	Development	Software and licences	Total
<b>Cost</b>			
<b>Balance at 1 January 2012</b>	<b>8,597</b>	<b>15,681</b>	<b>24,278</b>
Additions	17,247	5,984	23,231
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2012</b>	<b>25,844</b>	<b>21,665</b>	<b>47,509</b>
Additions	-	1,635	1,635
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2013</b>	<b>25,844</b>	<b>23,300</b>	<b>49,144</b>
<b>Accumulated depreciation</b>			
<b>Balance at 1 January 2012</b>	<b>4,009</b>	<b>12,972</b>	<b>16,981</b>
Charge for the year	1,895	1,317	3,212
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2012</b>	<b>5,904</b>	<b>14,289</b>	<b>20,193</b>
Charge for the year	-	4,373	4,373
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2013</b>	<b>5,904</b>	<b>18,662</b>	<b>24,566</b>
<b>Net book value</b>			
<b>At 31 December 2013</b>	<b>19,940</b>	<b>4,638</b>	<b>24,578</b>
<b>At 31 December 2012</b>	<b>19,940</b>	<b>7,376</b>	<b>27,316</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**16. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Plant and equipment	Tools and plant fittings	Assets under development	Advances for tangible assets	Investment in real estate	Total
<b>Cost</b>								
<b>Balance at 1 January 2012</b>	<b>12,201</b>	<b>170,007</b>	<b>149,746</b>	<b>21,189</b>	<b>4,087</b>	<b>11</b>	<b>142</b>	<b>357,383</b>
Additions and transfers into use	2,048	23,383	6,828	4,547	12,431	50	-	49,287
Disposals, retirements, shortage	-	-	(3,189)	(1,112)	-	(20)	-	(4,321)
<b>Balance at 31 December 2012</b>	<b>14,249</b>	<b>193,390</b>	<b>153,385</b>	<b>24,624</b>	<b>16,518</b>	<b>41</b>	<b>142</b>	<b>402,349</b>
Additions and transfers into use	-	2,488	1,998	683	-	-	-	5,169
Disposals, retirements, shortage	-	(119)	(428)	(407)	-	-	-	(954)
Value adjustment	-	-	-	-	(12,360)	-	-	(12,360)
<b>Balance at 31 December 2013</b>	<b>14,249</b>	<b>195,759</b>	<b>154,955</b>	<b>24,900</b>	<b>4,158</b>	<b>41</b>	<b>142</b>	<b>394,204</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 January 2012</b>	<b>-</b>	<b>86,631</b>	<b>102,384</b>	<b>15,221</b>	<b>760</b>	<b>-</b>	<b>47</b>	<b>205,043</b>
Charge for the year	-	4,368	8,602	1,505	-	-	4	14,479
Disposals, retirements, shortage	-	-	(3,022)	(802)	-	-	-	(3,824)
<b>Balance at 31 December 2012</b>	<b>-</b>	<b>90,999</b>	<b>107,964</b>	<b>15,924</b>	<b>760</b>	<b>-</b>	<b>51</b>	<b>215,698</b>
Charge for the year	-	4,813	8,385	1,798	-	-	4	15,000
Disposals, retirements, shortage	-	(59)	(378)	(405)	-	-	-	(842)
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>95,753</b>	<b>115,971</b>	<b>17,317</b>	<b>760</b>	<b>-</b>	<b>55</b>	<b>229,856</b>
<b>Net book value</b>								
<b>At 31 December 2013</b>	<b>14,249</b>	<b>100,006</b>	<b>38,984</b>	<b>7,583</b>	<b>3,398</b>	<b>41</b>	<b>87</b>	<b>164,348</b>
<b>At 31 December 2012</b>	<b>14,249</b>	<b>102,391</b>	<b>45,421</b>	<b>8,700</b>	<b>15,758</b>	<b>41</b>	<b>91</b>	<b>186,651</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 17. SUBSIDIARIES

The subsidiaries of the Group at 31 December 2013 and 2012 were as follows:

Subsidiaries	Country	Ownership interest in %		Principal activity
		2013	2012	
Đuro Đaković Inženjering d.d.	Croatia	84.84	84.84	Development, supervision and construction services
Đuro Đaković Elektromont d.d.	Croatia	99.64	99.64	Provision of services in the construction activity, electric installation assembly, and production of metal sheet components
Đuro Đaković Specijalna vozila d.d.	Croatia	99.69	99.69	Production and maintenance of combat vehicles and defence equipment, and of freight railway wagons
Đuro Đaković Strojna obrada d.o.o.	Croatia	100.00	100.00	Railway programme, renewable sources of energy, power utility and various services
Đuro Đaković Energetika I infrastruktura d.o.o.	Croatia	97.55	97.55	Production of energy and related services (electric energy, compressed air, natural gas)
Đuro Đaković Proizvodnja opreme d.o.o.	Croatia	100.00	100.00	Manufacture of components for cement industry, petrochemical and power utility industries
Đuro Đaković Slobodna zona d.o.o.	Croatia	69.63	69.63	Provision of services to business entities operating in free zones

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 18. INVESTMENTS IN SECURITIES AND EQUITIES

	2013	2012
Investments in bonds	1,541	1,348
Investments in shares	8,668	8,120
Impairment of shares	(7,332)	(6,361)
	<u>2,877</u>	<u>3,107</u>

### 19. NON-CURRENT RECEIVABLES

	2013	2012
Receivables in respect of credit sales	10,772	11,903
Other receivables	887	-
	<u>11,659</u>	<u>11,903</u>

Credit sales represent amounts receivable from employees for flats with tenancy rights sold on credit with maturities ranging from 20 to 35 years.

### 20. INVENTORIES

	2013	2012
Work in progress	78,995	70,832
Raw material and supplies	34,107	37,801
Merchandise	5,408	1,321
Prepayments for inventories	1,683	12,926
Finished products	1,652	672
	<u>121,845</u>	<u>123,552</u>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**21. TRADE RECEIVABLES**

	<b>2013</b>	<b>2012</b>
Domestic trade receivables	142,019	182,156
Foreign trade receivables	9,319	39,626
Impairment allowance on trade receivables	<u>(51,170)</u>	<u>(37,534)</u>
	<b><u>100,168</u></b>	<b><u>184,248</u></b>

Maturity analysis of receivables not impaired:

	<b>2013</b>	<b>2012</b>
Not yet due	55,805	90,409
0-90 days	26,162	48,012
91-120 days	3,495	5,000
Over 120 days	<u>14,706</u>	<u>40,827</u>
	<b><u>100,168</u></b>	<b><u>184,248</u></b>

**22. OTHER RECEIVABLES**

	<b>2013</b>	<b>2012</b>
Receivables from the State and other institutions	31,804	20,957
Due from employees	726	364
Other receivables	<u>3,033</u>	<u>5,196</u>
	<b><u>35,563</u></b>	<b><u>26,517</u></b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**23. OTHER FINANCIAL ASSETS**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Given loans, deposits and similar	594	2,023
Other financial assets	146	-
	<u><b>740</b></u>	<u><b>2,023</b></u>

**24. CASH AND CASH EQUIVALENTS**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Balance on the gyro account	137,472	23,024
Foreign currency account balance	5,893	2,831
Cash in hand	1	2
Investments in funds	-	5
	<u><b>143,366</b></u>	<u><b>25,862</b></u>

**25. PREPAID EXPENSES AND ACCRUED INCOME**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Prepaid expenses	3	456
Accrued income under construction contracts	-	1,554
Other accrued income - amounts not yet billed	714	-
	<u><b>717</b></u>	<u><b>2,010</b></u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

### 26. SHARE CAPITAL

At 31 December 2013 the share capital amounts to HRK 258,965 thousand and consists of 3,237,068 shares (2012: HRK 323,707 thousand, consisting of 3,237,068 shares).

Based on a decision adopted by the Company's Assembly on 28 August 2013, the share capital of the Company was decreased in a simplified procedure by reducing the nominal per-share amount by HRK 20, ie from HRK 100 to HRK 80. The simplified share capital decrease was performed to cover the Company's losses in the amount of HRK 57,817,925, and HRK 6,923,435 were transferred to the Company's capital and legal reserves. The share capital consists of 3,237,068 shares.

The ownership structure is set out below:

	Number of shares		Ownership in %	
	2013	2012	2013	2012
AUDIO / HZMO	660,000	660,000	20.39%	20%
AUDIO / REPUBLIKA HRVATSKA	564,552	730,729	17.44%	23%
PBZ d.d./PBZ-SP	210,430	210,430	6.50%	7%
Erste & Steiermarkische bank d.d.	202,325	14,519	6.25%	0.5%
AUDIO - Državna agencija za osig. štednih uloga i sanaciju	104,771	104,771	3.24%	3%
CERP/Republika Hrvatska	97,165	-	3.00%	-
ĐURO ĐAKOVIĆ Holding d.d.	46,998	47,003	1.45%	1%
KBZ d.d./Agram brokeri d.d. - BAKIĆ NS	38,678	41,927	1.19%	1%
Bakić Nenad	36,237	203,199	1.12%	6%
Interkapital vrijednosni papiri d.o.o. / Zbirni skrbnički račun za DF	18,849	17,144	0.58%	1%
OTP Banka d.d. / IN683 Zagrebačka banka d.d./ Zbirni skrbnički račun Zagrebačka banka d.d. / DF	18,330	14,686	0.57%	0.5%
Societe generale-Splitska banka d.d./ZIF Breza-invest d.d.	17,680	25,660	0.55%	1%
	-	22,567	-	1%
Others	1,221,053	1,144,433	37.72%	35%



Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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<u>3,237,068</u>	<u>3,237,068</u>	<u>100%</u>	<u>100%</u>
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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**28. ACCUMULATED LOSSES**

	<b>2013</b>	<b>2012</b>
Balance 1 January	(124,032)	(119,451)
Loss for the year	(119,115)	(4,581)
Loss cover from reserves (Note 26)	57,819	-
<b>Balance 31 December</b>	<b>(185,328)</b>	<b>(124,032)</b>

**29. NON-CONTROLLING INTERESTS**

	<b>2013</b>	<b>2012</b>
Balance at 1 January	(2,074)	(728)
Share in loss for the year	(5,170)	(1,346)
<b>Balance at 31 December</b>	<b>(7,244)</b>	<b>(2,074)</b>

**30. EARNINGS PER SHARE**

**Basic and diluted earnings per share**

Basic earnings per share are determined, by dividing the Group's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Group as treasury shares.

	<b>2013</b>	<b>2012</b>
Loss for the year attributable to the equity holders of the Company (in HRK' 000)	(119,115)	(4,581)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	3,237,068	3,237,068
<b>Basic earnings per share (in kunas and lipas):</b>	<b>(36.80)</b>	<b>(1.42)</b>

Diluted earnings per share are equal to basic earnings per share, as there is no basis for adjusting the weighted average number of ordinary shares.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 31. PROVISIONS

The total balance of long-term provisions relates to provisions made for legal actions in progress.

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Litigation provisions	12,499	1,222
Provisions for long-service benefits	2,349	2,387
Warranty provisions	1,657	-
Provisions for retirement and termination benefits	1,440	1,695
Provisions for losses on construction contracts	-	7,001
Other provisions	-	377
	<b>17,945</b>	<b>12,682</b>

Movements in provisions are presented below:

	<b>2013</b>	<b>2012</b>
At 1 January	12,682	19,064
New provisions made during the year	11,843	8,082
Amounts utilised / reversed	(6,580)	(14,464)
<b>At 31 December</b>	<b>17,945</b>	<b>12,682</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**32. BORROWINGS AND FINANCE LEASE OBLIGATIONS**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
<b>Non-current liabilities</b>		
Long-term borrowings	76,778	91,316
Finance lease obligations	1,244	1,167
	<b>78,022</b>	<b>92,483</b>
<b>Current liabilities</b>		
Current portion of long-term borrowings	57,702	37,357
Current portion of financial leases	409	1,042
Short-term borrowings	50,118	5,505
Interest on borrowings	880	1,579
	<b>109,109</b>	<b>45,483</b>
<b>Total</b>	<b>187,131</b>	<b>137,966</b>

Bank borrowings in the amount of HRK 24,719 thousand (2012: HRK 23,203 thousand) are secured by lien on the land and buildings of the Group. At 31 December 2013 the net book value of the property, plant and equipment provided as collateral amounted to HRK 78,647 thousand (2012: HRK 13,995 thousand).

	<b>2013</b>	<b>2012</b>
<b>Balance at 1 January</b>	<b>134,178</b>	<b>171,122</b>
New loans raised	136,065	313,270
Amounts repaid	(87,323)	(352,022)
Exchange differences	1,678	1,808
<b>Balance at 31 December</b>	<b>184,598</b>	<b>134,178</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**31. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

An overview of bank borrowings (maturities, interest rates, balances and currencies) is provided below :

<b>Creditor</b>	<b>Maturity</b>	<b>Interest rate</b>	<b>Currency</b>	<b>At 31/12/2013</b>	<b>At 31/12/2012</b>
<b>Long-term borrowings</b>					
HPB d.d.	30/06/2017	4.95%	EUR	89.347	99.304
KENT Banka d.d.	20/12/2014	4.99 p.p. + 12M EURIBOR	EUR	20.280	-
OTP d.d.	30/11/2021	6.00%	EUR	10.729	10.711
Raiffeisenbank d.d./HBOR	02/01/2017	3.63%	EUR	10.008	-
Raiffeisenbank d.d.	31/12/2020	1M EURIBOR + 6.00 p.p.	EUR	1.901	2.146
Raiffeisenbank d.d.	31/12/2020	1M. EURIBOR + 6.00 p.p.	EUR	1.059	1.195
KENT Banka d.d.	24/08/2014	8.90%	EUR	468	1.208
VABA d.d.	18/03/2016	8.00%	EUR	267	357
Raiffeisenbank d.d./HBOR	31/03/2014	T-bills MF RH+3.40 p.p.	HRK	200	666
Raiffeisenbank d.d./HBOR	31/03/2014	3.80%	HRK	133	417
Raiffeisenbank d.d.	31/03/2014	RBA 5.90 p.p. HBOR 3.80 p.p.	HRK	88	1.000
Zagrebačka banka d.d.	27/01/2013	3M LIBOR + 5.00 p.p.	EUR	-	11.669
<b>Total long-term borrowings</b>				<b>134,480</b>	<b>128,673</b>
<b>Less Current portion of long-term borrowings</b>				<b>(57,702)</b>	<b>(37,357)</b>
<b>Non-current portion of long-term borrowings</b>				<b>76,778</b>	<b>91,316</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**32. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

An overview of bank borrowings (maturities, interest rates, balances and currencies) is provided below (continued)

<b>Short-term borrowings</b>	<b>Maturity</b>	<b>Interest rate</b>	<b>Currency</b>	<b>At 31/12/2013</b>	<b>At 31/12/2012</b>
Zagrebečka Banka d.d.	31/12/2014	4.90%	HRK	15,000	-
Zagrebečka Banka d.d.	28/02/2014	4.90%	HRK	12,905	-
Erste & Steiermärkische Banka d.d.	30/04/2014	5.70%	HRK	7,500	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	2,784	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	2,752	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	2,520	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	2,413	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	2,245	-
Erste & Steiermärkische Banka d.d.	Revolving facility	5.60%	EUR	1,000	-
Croatia Banka d.d.	Revolving facility	5.60%	HRK	999	-
Raiffeisenbank d.d.	Revolving facility	6.80%	EUR	-	5,082
Erste & Steiermärkische Banka d.d.	31/5/2013	1M EURIBOR + 5.50 p.p	EUR	-	423
<b>Total short-term borrowings</b>				<b>50,118</b>	<b>5,505</b>
<b>Current portion of long-term borrowings</b>				<b>57,702</b>	<b>37,357</b>
<b>Current portion of financial lease</b>				<b>409</b>	<b>1,042</b>
<b>Interest payable on borrowings</b>				<b>1,523</b>	<b>1,579</b>
<b>Total short-term borrowings</b>				<b>109,752</b>	<b>45,483</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**32. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

	Minimum lease payments		Finance charges		Present value of minimum lease payments	
	2013	2012	2013	2012	2013	2012
Not later than 1 year	778	1,337	150	81	628	1,256
From one to five years	790	804	174	99	616	705
After five years	-	1	-	1	-	-
Less: future finance charges	324	181	-	-	-	-
Present value of minimum lease payments	1,244	1,961	-	-	-	-

**33. OTHER NON-CURRENT LIABILITIES**

	At 31 December 2013	At 31 December 2012
Amounts owed to the State for flats	13,577	14,511
Trade payables	9	18
Other non-current liabilities	806	505
	<b>14,392</b>	<b>15,034</b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**34. TRADE PAYABLES**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Domestic trade payables	192,561	86,318
Foreign trade payables	16,513	59,760
	<b><u>209,074</u></b>	<b><u>146,078</u></b>

**35. OTHER CURRENT LIABILITIES**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Taxes, contributions and similar duties payable	59,440	41,415
Advances received	20,429	19,166
Amounts due to employees	7,012	7,341
Liabilities under cession arrangements	-	6,696
Other current liabilities	245	1,521
	<b><u>87,126</u></b>	<b><u>76,139</u></b>

**36. ACCRUED EXPENSES AND DEFERRED INCOME**

	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
Deferred income	10,516	515
Invoice accrual	4,361	2,295
Deferred revenue under construction contracts	1,808	4,106
Deferred grant income	1,159	1,893
	<b><u>17,844</u></b>	<b><u>8,809</u></b>



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 37. RELATED-PARTY TRANSACTIONS

#### *Trading transactions*

Transactions entered into by and between the Group and its related parties during the year are as follows:

#### Operating income

	Sales	
	2013	2012
Ministry of Defence of the Republic of Croatia	289,416	607,982
Jadranski naftovod d.d.	186,766	152,453
Hrvatske željeznice d.d.	6,175	28,509
	<u>482,357</u>	<u>788,944</u>

#### Operating expenses

	Cost of sales	
	2013	2012
Ministry of Defence of the Republic of Croatia	-	556,397
Jadranski naftovod d.d.	164,029	153,240
Hrvatske željeznice d.d.	4,196	28,366
	<u>168,225</u>	<u>738,003</u>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 38. RELATED-PARTY TRANSACTIONS (CONTINUED)

Open balances from sale and purchase transactions at the end of the reporting period:

	<b>Receivables from related parties</b>	
	<b>2013</b>	<b>2012</b>
Jadranski naftovod d.d.	33,147	59,217
Hrvatske željeznice d.d.	5,558	9,833
Ministry of Defence of the Republic of Croatia	-	53,223
	<b>38,705</b>	<b>122,273</b>

	<b>Liabilities to related parties</b>	
	<b>2013</b>	<b>2012</b>
Jadranski naftovod d.d.	1,575	12,193
Hrvatske željeznice d.d.	1,093	-
	<b>2,668</b>	<b>12,193</b>

### Remuneration to key management personnel

	<b>2013</b>	<b>2012</b>
Salaries	7,692	4,259
Other	870	1,696
	<b>8,562</b>	<b>5,955</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Capital risk management

The Group manages 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. The overall strategy of the Group did not change in comparison to comparative periods.

The Group's capital consists of debt, which includes borrowings disclosed in Note 31, less cash and cash equivalents and balances with banks (the so-called net debt), and equity, which comprises share capital, accumulated losses and reserves.

The Treasury of the Group reviews the capital structure of the Group. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

#### Gearing ratio

	<b>2013</b>	<b>2012</b>
Debt (i)	<b>187,131</b>	<b>137,966</b>
Cash and cash equivalents	(143,366)	(25,862)
Net debt	<b>43,765</b>	<b>112,104</b>
Equity (ii)	73,316	197,601
Net debt-to-equity ratio	59.69%	56.73%

(vi) Debt consists of long- and short-term borrowings, as described in Note 31.

(vii) Equity consists of share capital, accumulated losses and reserves managed by the Group as capital.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

### 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Categories of financial instruments

	At 31 December 2013	At 31 December 2012
<b>Financial assets</b>		
Cash and cash equivalents	153,256	25,862
Trade receivables	97,639	184,248
Other receivables	6,917	5,560
Receivables	6,157	11,903
Other non-current financial assets	1,085	44
Prepaid expenses and accrued income	671	2,010
Given loans, deposits and similar	499	3,795
Investments in securities	348	3,107
Other financial assets	186	2,023
	<b><u>266,758</u></b>	<b><u>238,552</u></b>
<b>Financial liabilities</b>		
Loans payable and borrowings	379,069	137,843
Trade payables	98,686	146,078
Accrued expenses and deferred income	16,822	8,808
Other current liabilities	12,566	34,724
Other non-current liabilities	10,686	646
Loans payable and borrowings	1,192	2,718
	<b><u>519,021</u></b>	<b><u>330,817</u></b>

At the reporting date there were no significant concentrations of credit risk for loans and receivables designated at fair value through the statement of comprehensive income. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Financial risk management objectives

The Treasury function of the Group provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function periodically reports to the Group's management on the risk exposures.

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates, as disclosed below.

#### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign-currency denominated monetary assets and liabilities at the reporting date are provided in the table below:

	Liabilities		Assets	
	At 31 December 2013	At 31 December 2012	At 31 December 2013	At 31 December 2012
EUR	113,708	57,548	9,183	49,729
USD	-	-	-	-
GBP	-	2,441	-	-
CZK	42	-	-	-

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### 37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Foreign currency risk management (continued)

##### Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against the euro (EUR) because this is the currency in which the majority of sales and purchases on international markets are carried out. Furthermore, significant amount of liabilities for loans relates to loans denominated in EUR.

The following table details the Group's sensitivity to a 10-percent increase and decrease of the Croatian kuna against the relevant currencies. 10-percent is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Management Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for the 10-percent change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Croatian kuna strengthens 10 percent against the relevant currency. For a 10-percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	EUR impact		USD impact	
	2013	2012	2013	2012
Profit or loss	10,453	782	-	-
	GBP impact			
	2013	2012		
Profit or loss	-	244		

The exposure to the 10-percent change for the relevant currencies is mainly related to the balance of borrowings, trade payables and receivables from foreign customers denominated in euro (EUR).

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Interest rate risk management**

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposures to interest rates on its financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the at the end of the reporting period was outstanding for the whole year. A 50 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- loss for the year ended 31 December 2013 would decrease/increase by HRK 813 thousand (2012: decrease/increase by HRK 671 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counter parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The exposure of the Group and the credit ratings of its counterparties are continuously monitored, and the total value of transactions entered into is spread across accepted customers. Credit exposure is managed by setting limits to customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group's Treasury monitors carefully credit risk concentrations on receivables because of a concentration of a large number of three major customers: Jadranski naftovod d.d., Hrvatske željeznice (Croatian Railways) and the Croatian Ministry of Defence. So far, the Group has had no major problems with the collection of receivables from the key customers.

#### *Collateral held as security and other credit enhancements*

The Group commonly accepts bank guarantees, debentures and bills of exchange of its customers.



## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Liquidity risk management**

Prudent liquidity management implies maintaining sufficient levels of cash, obtaining adequate funding using credit lines and facilities and the ability to settle the liabilities on a timely basis. It also involves matching the maturities of assets and liabilities to maintain appropriate liquidity levels. Ultimate responsibility for liquidity risk management rests with the Management Board. The Group manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The cash flow forecasts are prepared on a monthly basis (by day) and departures are monitored daily.

#### Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both principal and interest cash flows. The undiscounted cash outflows on interest at variable rates was derived from interest rate curves at the end of the reporting period. The contractual maturity is determined as the earliest date on which the Group may be required to pay.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>2013</b>							
Non-interest bearing liabilities		145,513	92,246	33,607	20,607	726	292,699
Interest bearing liabilities	6.67%	<u>1,797</u>	<u>1,186</u>	<u>118,475</u>	<u>118,381</u>	<u>3,387</u>	<u>243,226</u>
		<b><u>147,310</u></b>	<b><u>93,432</u></b>	<b><u>152,082</u></b>	<b><u>138,988</u></b>	<b><u>4,113</u></b>	<b><u>535,925</u></b>
<b>2012</b>							
Non-interest bearing liabilities		145,634	25,016	16,408	3,198	-	190,256
Interest bearing liabilities	7.18%	<u>98</u>	<u>299</u>	<u>44,250</u>	<u>103,532</u>	<u>21,496</u>	<u>169,675</u>
		<b><u>145,732</u></b>	<b><u>25,315</u></b>	<b><u>60,658</u></b>	<b><u>106,730</u></b>	<b><u>21,496</u></b>	<b><u>359,931</u></b>

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Liquidity risk management (continued)**

The following table details the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets based on the earliest date on which the Group can require payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>2013</b>							
Non-interest bearing liabilities		157,035	7,610	78,224	14,764	2,814	260,447
Interest bearing liabilities	2.50%	<u>731</u>	<u>-</u>	<u>522</u>	<u>5,256</u>	<u>44</u>	<u>6,553</u>
		<b><u>157,766</u></b>	<b><u>7,610</u></b>	<b><u>78,746</u></b>	<b><u>20,020</u></b>	<b><u>2,858</u></b>	<b><u>267,000</u></b>
<b>2012</b>							
Non-interest bearing liabilities		125,991	83,767	10,198	831	-	220,787
Interest bearing liabilities	1.7%	<u>236</u>	<u>239</u>	<u>693</u>	<u>5,073</u>	<u>12,677</u>	<u>18,918</u>
		<b><u>126,227</u></b>	<b><u>84,006</u></b>	<b><u>10,891</u></b>	<b><u>5,904</u></b>	<b><u>12,677</u></b>	<b><u>239,705</u></b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) 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;

At 31 December 2013, the carrying amounts of cash, short-term deposits, receivables and short-term liabilities, accrued expenses and other financial instruments approximate their fair values due to the short-term maturity of these financial instruments.

#### **Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 fair value measurements are indications of fair value derived from data other than quoted prices from Level 1 for observable assets or liabilities (i.e. their prices) or indirectly (derived from the price)

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

(All amounts are expressed in thousands of kunas)

**37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Fair value measurements recognised in the statement of financial position (continued)**

<b>31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Investment in bonds	-	-	1,541	1,541
Investment in shares	-	-	1,336	1,336
<i>Financial assets held to maturity</i>				
Deposits	-	-	740	740
<b>Total</b>	<b>-</b>	<b>-</b>	<b>3,617</b>	<b>3,617</b>
<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Investment in bonds	-	-	1,348	1,348
Investment in shares	-	-	1,759	1,759
<i>Financial assets held to maturity</i>				
Deposits	-	-	2,023	2,023
<b>Total</b>	<b>-</b>	<b>-</b>	<b>5,130</b>	<b>5,130</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **40. CONTINGENT LIABILITIES AND COMMITMENTS**

#### ***Litigations***

There are various legal actions in progress against the Company and its subsidiaries. Set out below are the most significant legal actions in which the Group members are defendants. The Group recognised no provisions for those actions because, based on the legal assessment, the outcome of any of them is currently uncertain.

#### ***Legal action initiated by ZRAK d.d., Sarajevo and the Federation of Bosnia and Herzegovina***

The case is held at the Commercial Court in Slavonski Brod under the Case File No. P-175/07. The plaintiffs ZRAK d.d., Sarajevo and the Federation of Bosnia and Herzegovina have initiated a legal action against Đuro Đaković Specijalna vozila d.d. and the Ministry of Defence of the Republic of Croatia on 1 June 2007 for HRK 30,343 thousand regarding delivered goods i.e. corresponding components for the production and equipment of Tank M-84 in accordance with the specification defined by the production plan. The first-instance court rejected the claim and the claimed amount of ZRAK d.d., and, following the appeal, the case is now pending at the High Commercial Court of the Republic of Croatia.

#### ***Legal action initiated by Bratstvo Holding d.d. and the Federation of Bosnia and Herzegovina***

The case is held at the Commercial Court in Slavonski Brod under the Case File No. P-384/08. The plaintiffs Bratstvo Holding d.d. and the Federation of Bosnia and Herzegovina have initiated a legal action against Đuro Đaković Specijalna vozila d.d. and the Ministry of Defence of the Republic of Croatia on 1 June 2007 for HRK 16,391 thousand regarding delivered goods i.e. corresponding components for the production and equipment of Tank M-84 in accordance with the specification defined by the production plan. The first-instance court rejected the claim and the claimed amount of Bratstvo Holding d.d., and, following the appeal launched by the plaintiff, the case was brought before the High Commercial Court of the Republic of Croatia which annulled the judgement of the Commercial Court in Osijek, Standing Office Slavonski Brod on 1 February 2013 and returned the case to the same court for retrial.

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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### **38. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

#### ***Guarantees and sureties***

	<b>2013</b>	<b>2012</b>
Loan guarantees	42,749	10,750
Advance payment guarantees	37,735	56,398
	<u><b>80,484</b></u>	<u><b>67,148</b></u>

The parent and its subsidiaries are beneficiaries of guarantees defined in the signed contracts. The majority of the guarantees comprise advance payment guarantees and good performance guarantees. During the periods observed, no funds were drawn under those guarantees by the bank.

Loan guarantees comprise guarantees issued by the parent to banks for the loans received by the subsidiaries.

### **39. EVENTS AFTER THE REPORTING DATE**

Subsequent to the reporting date there were no significant events concerning the Group that would require adjustments to, or disclosure in the consolidated financial statements.

### **42. MANAGEMENT AUTHORISATION OF THE ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were adopted by the Management Board and authorized for issue on 30 April 2014.

Signed on behalf of the Group on 30 April 2014 by:

Vladimir Kovačević

President of the Management Board

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

*(All amounts are expressed in thousands of kunas)*

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**Đuro Đaković Holding d.d. and its subsidiaries**

Consolidated financial statements

For the year ended

31 December 2012, 31 December 2011 and 31 December 2010

Together with Independent Auditor's Report



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## Responsibility for the consolidated financial statements

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Pursuant to the Accounting Act of the Republic of Croatia, the Management of the Group's Parent is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs"), as published by the International Accounting Standards Board, which give a true and fair view of the financial position and results of operations of Đuro Đaković Holding d.d. and its subsidiaries ("the Group") for that period.

The Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to adopt the going concern basis in preparing the consolidated financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Group will continue as a going concern.

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

Signed for and on behalf of the Management by:

Vladimir Kovačević

President of the Management Board

Đuro Đaković Holding d.d.

Mile Budaka 1

35000 Slavonski Brod

Republic of Croatia

17 May 2013

## **Independent Auditor's Report**

### **To the Owners of Đuro Đaković Houlding d.d.**

We have audited the accompanying consolidated financial statements of Đuro Đaković Holding d.d. ("the Company") and its subsidiaries (jointly referred to as "the Group"), which comprise the consolidated statements of financial position at 31 December 2012, 31 December 2011 and 31 December 2010 and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the consolidated financial statements*

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

#### *Auditor's responsibility*

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

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

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

## **Independent Auditor's Report (continued)**

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2012, 31 December 2011 and 31 December 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Deloitte d.o.o.**

**Branislav Vrtačnik, Certified Auditor, Member of the Board**

Zagreb, Republic of Croatia

17 May 2013

## Consolidated statement of comprehensive Income

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	Notes	2012	2011 (As restated)	2010 (As restated)
Sales	5.1	1,039,891	773,565	261,317
Other income	5.2	38,867	22,234	12,188
		<b>1,078,758</b>	<b>795,799</b>	<b>273,505</b>
(Decrease) / increase in the value of work in progress and finished products		(77,406)	17,019	97,454
Material costs	7	(821,433)	(645,654)	(267,609)
Staff costs	8	(100,058)	(85,295)	(80,998)
Depreciation and amortisation	15, 16, 17	(18,189)	(17,221)	(16,976)
Other expenses	9	(41,410)	(29,205)	(30,515)
Value adjustment	10	(6,994)	(12,188)	(10,554)
Other operating expenses	11	(6,403)	(3,607)	(10,467)
		<b>(1,071,893)</b>	<b>(776,151)</b>	<b>(319,665)</b>
<b>Profit / (loss) from operations</b>		<b>6,865</b>	<b>19,648</b>	<b>(46,160)</b>
Financial income	12	6,196	4,779	4,063
Financial expenses	13	(18,734)	(22,975)	(20,294)
<b>Net financial loss</b>		<b>(12,538)</b>	<b>(18,196)</b>	<b>(16,231)</b>
<b>(Loss) / profit before taxation</b>		<b>(5,673)</b>	<b>1,452</b>	<b>(62,391)</b>
Income tax expense	14	(254)	(2,729)	(1,570)
<b>Loss for the year</b>		<b>(5,927)</b>	<b>(1,277)</b>	<b>(63,961)</b>
<b>Other comprehensive income</b>		-	-	-
<b>Total comprehensive loss</b>		<b>(5,927)</b>	<b>(1,277)</b>	<b>(63,961)</b>
Loss attributable:				
to the equity holders of the parent		(4,581)	(1,162)	(62,743)
Non-controlling interests		(1,346)	(115)	(1,218)
Total comprehensive loss attributable:				
to the equity holders of the parent		(4,581)	(1,162)	(62,743)
Non-controlling interests		(1,346)	(115)	(1,218)
<b>Earnings per share</b>				
- basic and diluted (in kunas and lipas)	30	(1.42)	(0.36)	(19.38)

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

## Consolidated statement of financial position

At 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	Notes	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	15	27,316	7,297	7,154	8,092
Property, plant and equipment	16	172,436	158,285	164,402	167,592
Investments in real estate	17	14,215	14,717	15,221	15,726
Given loans, deposits and similar		3,795	889	5,297	5,520
Investments in securities and equities	19	3,107	1,635	13,592	13,194
Other non-current financial assets		43	46	46	18
Receivables	20	11,903	13,263	26,993	44,984
<b>Total non-current assets</b>		<b>232,815</b>	<b>196,132</b>	<b>232,705</b>	<b>255,126</b>
<b>Current assets</b>					
Inventories	21	123,552	306,341	235,210	105,222
Trade receivables	22	184,248	112,002	103,577	154,482
Other receivables	23	26,517	16,417	13,058	15,620
Other financial assets	24	2,023	21,009	15,100	46,718
Cash and cash equivalents	25	25,862	59,592	31,906	14,245
Prepaid expenses and accrued income	26	2,010	3,494	1,013	209
<b>Total current assets</b>		<b>364,212</b>	<b>518,855</b>	<b>399,864</b>	<b>336,496</b>
<b>TOTAL ASSETS</b>		<b>597,027</b>	<b>714,987</b>	<b>632,569</b>	<b>591,622</b>

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

## Consolidated statement of financial position (continued)

At 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	Notes	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
<b>EQUITY AND LIABILITIES</b>					
Share capital	27	323,707	323,707	323,707	323,707
Legal reserves		-	-	-	109
Reserves for own shares		4,700	4,700	4,705	4,709
Own shares		(4,700)	(4,700)	(4,705)	(4,709)
Accumulated losses	28	(124,032)	(119,451)	(118,269)	(55,635)
<b>Attributable to the equity holders of the parent</b>					
		<b>199,675</b>	<b>204,256</b>	<b>205,438</b>	<b>268,181</b>
Non-controlling interests	29	(2,074)	(728)	(633)	585
<b>Total equity</b>		<b>197,601</b>	<b>203,528</b>	<b>204,805</b>	<b>268,766</b>
<b>Provisions</b>					
	31	<b>12,682</b>	<b>19,064</b>	<b>11,724</b>	<b>9,601</b>
<b>Non-current liabilities</b>					
Borrowings	32	91,316	109,156	186,537	102,518
Financial lease obligations	32	1,167	1,464	1,528	1,837
Other non-current liabilities	33	15,034	27,192	28,583	29,522
<b>Total non-current liabilities</b>		<b>107,517</b>	<b>137,812</b>	<b>216,648</b>	<b>133,877</b>
<b>Current liabilities</b>					
Loans and deposits payable	34	2,718	32	25	111
Borrowings and finance lease obligations	32	45,483	64,820	35,373	23,390
Trade payables	35	146,078	162,084	89,364	82,851
Other current liabilities	36	76,139	122,741	68,677	65,894
Accrued expenses and deferred income	37	8,809	4,906	5,953	7,132
<b>Total current liabilities</b>		<b>279,227</b>	<b>354,583</b>	<b>199,392</b>	<b>179,378</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>597,027</b>	<b>714,987</b>	<b>632,569</b>	<b>591,622</b>

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

## Consolidated statement of changes in shareholders' equity

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	Share capital	Legal reserves	Reserves for treasury shares	Treasury shares	Accumulated losses	Total parent	Non-controlling interest	Total
<b>Balance at 31 December 2009 (as restated)</b>	<b>323,707</b>	<b>109</b>	<b>4,709</b>	<b>(4,709)</b>	<b>(55,635)</b>	<b>268,181</b>	<b>585</b>	<b>268,766</b>
Disposal of treasury shares	-	-	(4)	4	-	-	-	-
Loss cover from reserves	-	(109)	-	-	109	-	-	-
Loss for the year	-	-	-	-	(62,743)	(62,743)	(1,218)	(63,961)
<b>Balance at 31 December 2010 (as restated)</b>	<b>323,707</b>	<b>-</b>	<b>4,705</b>	<b>(4,705)</b>	<b>(118,269)</b>	<b>205,438</b>	<b>(633)</b>	<b>204,805</b>
Disposal of treasury shares	-	-	(5)	5	-	-	-	-
Loss for the year	-	-	-	-	(1,162)	(1,162)	(115)	(1,277)
Acquisition of additional shares in subsidiary	-	-	-	-	(20)	(20)	20	-
<b>Balance at 31 December 2011 (as restated)</b>	<b>323,707</b>	<b>-</b>	<b>4,700</b>	<b>(4,700)</b>	<b>(119,451)</b>	<b>204,256</b>	<b>(728)</b>	<b>203,528</b>
Loss for the year	-	-	-	-	(4,581)	(4,581)	(1,346)	(5,927)
<b>Balance at 31 December 2012</b>	<b>323,707</b>	<b>-</b>	<b>4,700</b>	<b>(4,700)</b>	<b>(124,032)</b>	<b>199,675</b>	<b>(2,074)</b>	<b>197,601</b>



Consolidated statement of changes in shareholders' equity

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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

## Consolidated statement of cash flows

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	2012	2011 (As restated)	2010 (As restated)
<b>Cash flows from operating activities</b>			
Loss for the year	(5,927)	(1,277)	(63,961)
Income tax expense	254	2,729	1,570
Depreciation and amortisation	18,189	17,221	16,946
Foreign exchange differences, net	2,329	4,427	5,853
Interest expense	14,222	16,527	15,518
Interest income	(1,552)	(2,553)	(2,339)
Decrease in provisions	(6,382)	7,340	2,123
Impairment allowance on trade receivables	6,434	11,760	10,551
Impairment allowance on other financial assets	560	428	3
Income from debt write-off	(11,604)	(1,092)	(91)
Loss / (gain) on disposal and retirement of non-current tangible and intangible assets	423	(11,635)	(180)
<b>Operating cash flows before changes in working capital</b>	<b>16,946</b>	<b>43,875</b>	<b>(14,007)</b>
Decrease / (increase) in inventories	155,599	(71,131)	(129,988)
(Increase) / decrease in trade receivables	(77,128)	(17,632)	42,693
(Increase) / decrease in other receivables from customers	(10,100)	(3,359)	2,562
(Increase) / decrease in advances paid	(2,904)	4,311	195
(Decrease) / increase in trade payables	(16,006)	73,812	6,604
(Decrease) / (increase) in other liabilities	(44,951)	51,201	380
Decrease / (increase) in prepaid expenses and accrued income	1,484	(2,481)	(804)
Accrued expenses and deferred income	3,903	(1,047)	(1,179)
Increase / (decrease) in advances received	2,686	7	(85)
<b>Net cash generated from / (used in) operating activities</b>	<b>29,529</b>	<b>77,556</b>	<b>(93,629)</b>
Income taxes paid	(2,460)	(1,256)	(107)
Interest paid	(23,286)	(16,638)	(15,155)
<b>Net cash from generated from / (used in) operating activities</b>	<b>3,783</b>	<b>59,662</b>	<b>(108,891)</b>

## Consolidated statement of cash flows (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment and intangible assets	(17,075)	(10,846)	(12,521)
Collection of given loans	1,360	13,730	17,991
Decrease / (increase) in term deposits	18,986	(5,909)	31,618
Purchases of available-for-sale securities	(2,032)	-	(404)
Proceeds from disposal of property, plant and equipment and intangible assets	-	103	388
Proceeds from disposal of available-for-sale securities	-	23,261	-
<b>Net cash generated from investing activities</b>	<b>1,239</b>	<b>20,339</b>	<b>37,072</b>
<b>Cash flows from financing activities</b>			
Received borrowings	313,270	254,331	179,149
Repayments of borrowings	(352,022)	(306,646)	(89,669)
<b>Net cash (used in) / generated from financing activities</b>	<b>(38,752)</b>	<b>(52,315u)</b>	<b>89,480</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(33,730)</b>	<b>27,686</b>	<b>17,661</b>
Cash and cash equivalents at the beginning of the year	59,592	31,906	14,245
Cash and cash equivalents at the end of year	25,862	59,592	31,906

## Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 2. GENERAL INFORMATION

#### 1.5 Introduction

The Đuro Đaković Group comprises the following entities: Đuro Đaković Holding d.d., Mile Budaka 1, Slavonski Brod – the Parent of the Group and its subsidiaries:

- Đuro Đaković Specijalna vozila d.d.
- Đuro Đaković Inženjering d.d.
- Đuro Đaković Elektromont d.d.
- Đuro Đaković Energetika I infrastruktura d.o.o.
- Đuro Đaković Proizvodnja opreme d.o.o.
- Đuro Đaković Strojna obrada d.o.o.
- Slobodna zona Đuro Đaković d.o.o.

#### 1.6 Principal business

The principal activities of the Group comprise manufacture, design and assembly of industrial and petrochemical plants, manufacture of building machinery, railway vehicles, special vehicles and devices, and energy supply, goods storage and transport services.

#### 1.7 Management Board

The members of the Company's Management Board are as follows:

Vladimir Kovačević	President of the Management Board	Since 4 May 2012
Zdravko Stipetić	President of the Management Board	Until 4 May 2012
Marko Bogdanović	Member of the Management Board	Since 12 May 2012
Marija Tolić	Member of the Management Board	Until 4 May 2012
Tomislav Mazal	Member of the Management Board	

#### 1.8 Supervisory Board

Members of the Supervisory Board:

Željko Marić	President of the Supervisory Board
Domagoj Bartek	Deputy President of the Supervisory Board
Vjekoslav Galzina	Member of the Supervisory Board
Mladen Huber	Member of the Supervisory Board
Blaženka Luketić	Member of the Supervisory Board
Igor Žonja	Member of the Supervisory Board
Zoran Posinovec	Member of the Supervisory Board

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

#### ***Standards and Interpretations effective in the current period***

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1 *First-time Adoption of IFRS*** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 *Financial Instruments: Disclosures*** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 *Income Taxes*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

The adoption of the amended and revised Standards and Interpretation has not lead to changes in the Group's accounting policies.

#### ***Standards and Interpretations in issue not yet adopted***

At the date of authorization of these financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- **IFRS 9 *Financial Instruments***, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015)
- **IFRS 10 *Consolidated Financial Statements***, published on May 2011, supersedes the previous version of IAS 27 (2008) "Consolidated and Separate Financial Statements", (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 11 *Joint Arrangements***, published on May 2011, superseded IAS 31 "Interests in Joint Ventures" (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 12 *Disclosure of Interests in Other Entities***, published in May 2011 (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 13 *Fair Value Measurement***, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

#### *Standards and Interpretations in issue not yet adopted (continued)*

- **IAS 27 *Separate Financial Statements (as amended in 2011)*** - Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 "Consolidated Financial Statements", (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013)
- **IAS 28 *Investments in Associates and Joint Ventures (as amended in 2011)***. This version supersedes IAS 28 (2003) *Investments in Associates* (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013)
- **Amendments to IFRS 1 *First-time Adoption of IFRS***, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 1 *Presentation of Financial Statements*** - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 *Employee Benefits*** – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 *TStripping Costs in the Production Phase of a Surface Mine*** ((effective for annual periods beginning on or after 1 January 2013).

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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#### 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### *Standards and Interpretations in issue not yet adopted (continued)*

- **Amendments to various Standards and Interpretations from *Annual improvements 2009 – 2011 Cycle***, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009 –2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013).
- ***Transition guidance***, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013).
- Amendments to investment entities for IFRS 10, IFRS 12, IAS 27 published in October 2012 (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and anticipates that the adoption of IFRS 9 *Financial Instruments* will have a material impact on the measurement and disclosure of financial statements and the adoption of IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement* will result in more detailed disclosures in the consolidated financial statements.

The Management Board anticipates that the adoption of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* will not have a material impact on the financial statements of the Group in the period of their adoption.

It also anticipates that the adoption of the above-mentioned amendments to IAS 32 and IFRS 7 will result in enhanced disclosures about the offsetting of financial assets and financial liabilities in the future. In addition, the Management Board considers that IFRIC 20 will have no impact on the consolidated financial statements of the Group because the Group is not engaged in the activities of this nature.

# Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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## **3 SIGNIFICANT ACCOUNTING POLICIES**

### **3.9. Statement of compliance**

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

### **3.10. Basis of preparation**

The consolidated financial statements of the Group have been prepared on the historical cost basis, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and Croatian laws.

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

(viii) The preparation of consolidated financial statements in conformity with International Financial Reporting Standards (IFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.26.

### **3.11. Basis of consolidation**

The consolidated financial statements of the Group incorporate the financial statements of Đuro Đaković Holding d.d. ("the Company") and entities controlled by the Company (its subsidiaries) made up at 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of the disposal. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.



## Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.12. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of the Group's operations. Revenues are stated net of value added tax, estimated returns, discounts and rebates.

The Group recognizes revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Group and when the specific criteria for all the Group's activities described below are met.

*f) Service sales*

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

*g) Construction contract revenue*

When it is possible to reliably estimate the outcome of construction contracts, revenues and expenses are recognized according to the degree of physical completion of contracted work to date. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. If it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense in the period in which they occur.

*h) Product and service sales*

Product and service sales are recognised when all significant risks and rewards of ownership of the product or goods are passed onto the customer and when the revenue can be measured reliably.

*i) Interest income*

Interest income is recognised on a time basis, using the effective interest method.

*j) Income from government grants*

Income from government grants is recognised at the fair value when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to them. Government grants are recognised in profit or loss over the periods in which the Group recognises as

## Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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expenses the related costs which the grants are intended to compensate and are presented within Other operating income.

## Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13. Leases**

(ix) The Group leases certain property, plant and equipment. Leases of property, plant and equipment under which the Group bears all the risks and rewards of ownership are classified as finance leases. Financial leases are capitalised at the inception of the lease by reference to the lower of the fair value of the underlying asset or the present value of the minimum lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income 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.

(x)

Leases under which the Group does not bear all the significant risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised in the statement of comprehensive income over the term of the underlying lease.

#### **3.14. Borrowing costs**

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are included in profit or loss in the period in which they are incurred.

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

## Notes to the consolidated financial statements

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.15. Foreign currency transactions**

##### *Functional and reporting currency*

Items included in the Group's financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The financial statements are presented in Croatian kuna, which is both the functional and reporting currency of the Parent.

##### *Foreign-currency transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 the statement of comprehensive income.

The effective exchange rates of the Croatian were as follows:

	<b>31/12/2012</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
HRK / EUR	7.545624	7.530420	7.385173

#### **3.16. Government grants**

Government grants are not recognised until there is reasonable assurance that the conditions attaching to them will be complied with. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.10 Operating segment reporting**

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of individual operating segments are disclosed in Note 5.2 to the consolidated financial statements.

#### **3.11. Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

##### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the asset to be recovered.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13. Income tax (continued)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by date of the statement of financial position. The measurement of deferred tax liabilities and assets reflects the amount that the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities.

#### *Current and deferred taxes for the period*

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity, or where it arises from the initial accounting of a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

#### *Value-added tax (VAT)*

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the balance sheet on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount of the debtor, which includes VAT.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.14. Property, plant and equipment

Property, plant and equipment are recognised at cost, less accumulated depreciation. The cost of comprises the purchase price of an asset, including import duties and non-refundable sales taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Maintenance and repairs are expensed as incurred. Where it is obvious that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of property, plant and equipment beyond the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of fixed assets are recognised in profit or loss for the period in which they arise. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset, other than land and assets under development, over the estimated useful life of the asset using the straight-line method as follows:

Type of assets	Useful life	Annual amortisation rate in %
Buildings	20 - 40 years	2.5% – 5%
Plant and equipment	4-10 years	10% – 25%
Tools, plant fittings and fixtures, and vehicles	4 - 5 years	20% – 25%
Intangible assets	4 years	25%

In 2012 there were no changes in the depreciation rates versus comparative periods.

The residual value of an asset is the estimated amount that the Group would currently obtain from 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 residual value of an asset is nil if the Group expects to use the asset until the end of its useful life. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.15. Intangible assets

##### *Computer software*

(xi) Software licences are capitalised based on the cost of purchase and bringing software into a working condition for its intended use. The cost is amortised over the useful life of an asset.

(xii)

##### *Internally generated intangible assets – development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.



## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.14. Impairment of property, plant and equipment, and of intangible assets

(xiii) At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is an indication that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

(xiv)

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

(xvi)

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.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.16. Investment property**

Investment property is property (land and buildings) the Company holds for the purpose of generating rentals and capital appreciation. Investment property is measured initially at cost. They are measured subsequently at cost less accumulated depreciation and accumulated impairment losses.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### **3.17. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition.

Where the carrying amount of inventories is to be written down to their net realisable value, an allowance is recognised and charged to expenses for the year.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Small inventory includes tools, plant and office furniture and fittings and similar items that are expected to be used for a period of up to one year, as well as assets not considered fixed assets. The cost of small inventories and tyres as well as spare parts is expensed immediately. Merchandise comprises purchased goods on stock for further sale and is carried at the selling prices net of value-added tax and margins. Inventories of work in progress and finished products are carried at the lower of cost and net realisable value, while taking into account potential fluctuations of the cost of production during the year. On sale, the carrying amounts of inventories are recognised as expenses in the period in which the related revenue is recognised. In addition, any write downs of inventories to the net realisable value and any shortfalls are recognised as expenses in the period of the write-down i.e. in which the shortfall is identified. Write-downs reversed as a result of increased net realisable value are recognised as a reduction of the inventories recognised as an expense in the period of the reversal.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.20. Trade receivables and prepayments**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, if significant, using the effective interest method. Otherwise, they are measured at nominal amounts, less an allowance for impairment. Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment allowance on trade receivables is captured in the consolidated statement of comprehensive income under value adjustments.

#### **3.21. Cash and cash equivalents**

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

#### **3.22. Share capital**

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares 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.

The consideration paid for purchases of own shares, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### **3.23. Employee benefits**

##### *(a) Obligations in respect of retirement and other post-employment benefits*

In the normal course of business the Company makes payments, through salary deductions, to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recognised as salary expense when incurred. The Group does not operate any other retirement benefit plan and, consequently, has no other obligations in respect of the retirement benefits for its employees. In addition, the Group is not obliged to provide any other post-employment benefits.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.24. Employee benefits (continued)**

##### *(b) Regular retirement benefits*

Benefits falling due more than 12 months after the reporting date are discounted to their present value.

##### *(c) Long-term employee benefits*

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actual gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested

#### **3.25. Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each date of the statement of financial position 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.26. Contingent liabilities**

Contingent liabilities have not been recognised in these financial statements. They are disclosed unless the possibility of outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but it is disclosed when the inflow of economic benefits becomes probable.

#### **3.27. Events after the reporting period**

Events after the end of the reporting period that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

#### **3.28. Financial assets**

(xvii)

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FVTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.24. Financial assets (continued)

##### *Financial assets at fair value through profit or loss*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset. The fair value is determined as described in Note.

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost determined using the effective interest method, less any impairment losses.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.23. Financial assets (continued)**

##### *Financial assets available for sale*

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

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined as described in Note 39, and gains and losses arising from changes in fair value are recognised directly in equity in the revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is included in the consolidated statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in the consolidated statement of comprehensive income when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated statement of comprehensive income, and other changes are recognised in equity.

##### *Loans and receivables*

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

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

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.24. Financial assets (continued)**

##### *Impairment of financial assets*

Financial assets, other than those carried at fair value through profit or loss, are assessed for indications of impairment at the end of each reporting period. Financial assets are impaired where 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 impacted.

For an equity instrument classified as AFS, 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 becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with 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 financial asset's 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 financial asset's original effective interest rate. An impairment loss recognised for goodwill is not reversed in a subsequent period.



## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **4.23. Financial assets (continued)**

##### *Impairment of financial assets (continued)*

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

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

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

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

##### *Derecognition of financial assets*

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

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 heading of 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.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.27. Financial liabilities and equity instruments issued by the Group

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

##### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

##### *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.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

#### 3.28. Comparatives

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.29. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described above, the Management Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

#### *Impairment of property, plant and equipment, and of intangible assets*

As described in the Notes 3.11 and 3.12, the Group reviews the estimated useful lives of its property, plant and equipment and intangible assets at the end of each annual reporting period. Property, plant and equipment as well as intangible assets are recognised initially at cost, less accumulated depreciation/amortisation.

#### *Impairment allowance on trade receivables*

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the statement of comprehensive income for the year.

#### *Revenue recognition*

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 *Revenue* and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Company's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs. In addition, when recognizing revenue under construction contracts in accordance with IAS 11, the directors are satisfied that the stages of completion of the projects to be recognized in accordance with IAS 11 have been reasonably estimated.

#### *Consequences of certain legal actions*

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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The Parent and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 31).

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. CORRECTIONS OF PRIOR PERIODS - RESTATEMENTS TO THE 2009, 2010 AND 2011 CONSOLIDATED FINANCIAL STATEMENTS**

Restatements presented below resulted from the correction of accounting errors identified in previous years. They were made by restating the consolidated financial statements for the years ended 31 December 2012, 2010, 2011 and 2012 retrospectively, with the resulting effects presented in the tables below.

#### **a) Restatement of the financial statements for the year ended 31 December 2009**

##### *(i) Investments in bonds*

The restatement in the amount of HRK 4,914 thousand to the investments in bonds relates to permanent impairment of the investments in the bonds of the Republic of Croatia which should have been issued in connection with the conversion of the frozen foreign-currency deposits made during the 1990s. Since the bonds have never been issued and their issue and collection in the future are uncertain, the Group restated the opening balance of the investment for the year 2009.

##### *(ii) Provisions*

Provisions for employee benefits were reduced by HRK 1,182 thousand based on the underlying calculation. In the consolidated financial statements for the year 2011 the provisions were misstated because the fluctuation rate was not included in the calculation and the discount rate used was wrong. The restatement was made by restating the opening 2009 balance because the provisions relate to the periods prior to 2009.

##### *(iii) Investment properties*

The restatement in the amount of HRK 15,618 thousand reflects the reclassification of certain buildings and land from property, plant and equipment to investment properties. The reclassification was made in the earliest period presented because of the accounting error arising from the fact that the buildings were not used to generate rentals and the land was not used for capital appreciation. As a result, those items met the criteria for recognition as investment properties in accordance with IAS 40 "Investment Property" and had to be reclassified in the financial statements. Since the Group applies the policy of measuring investment property at cost, the restatement did not affect the accumulated losses.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. CORRECTIONS OF PRIOR YEARS - RESTATEMENTS TO THE 2009, 2010 AND 2011 CONSOLIDATED FINANCIAL STATEMENTS**

#### ***b) Restatement of the financial statements for the year ended 31 December 2010 (continued)***

##### *(i) Work in progress*

The restatement in the amount of HRK 2,558 thousand to the work in progress was made on the basis of impairment of work in progress under construction contracts. Namely, the Group recognised in the originally issued 2010 financial statements work in progress in the total amount of HRK 156,750 thousand, of which HRK 2,558 thousand pertain to the costs of construction of facilities for a known ordering party, which the Group capitalised to the work in progress. Given that such projects should be measured and presented in accordance with the requirements of IAS 11, work in progress was reduced by HRK 2,558 thousand, and the cost of material and the loss for 2010 were increased each by that amount.

##### *(ii) Inventories of raw material and supplies*

Raw material and supplies were reduced by HRK 298 thousand as a result of the value adjustment recognised on slow-moving inventories based on the Management's estimate that they are obsolete.

##### *(iii) Accrued expenses and deferred income*

The balance of accrued expenses was increased by HRK 614 thousand, HRK 372 thousand of which pertain to the impairment of revenue by reference to the stage of completion in accordance with IAS 11 "Construction Contracts" and the remaining HRK 243 thousand relate to the impairment of government grant income in accordance with IAS 20 "Accounting for Government Grants".

Namely, in preparing the original 2010 financial statements, the Group did not apply the IAS 11 requirement to determine revenue under construction contracts by reference to the state of completion and to adjust the balance of deferred income accordingly. Based on the calculated stage of completion, revenue was determined to be overstated by HRK 371 thousand, which resulted in reducing the balance of revenue and recognising deferred income.

Furthermore, the Group received a government grant in 2010 which the Group used for the purchase of machinery. The Group recognised the total grant amount as income in 2010. However, as the grant was intended specifically for purchase of machinery, grant income in 2010 should have been recognised only in the amount of the depreciation charge for the year 2010, and the difference of HRK 243 thousand should have been included as deferred income to be released over the useful life of the machinery.

##### *(iv) Provisions*

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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The restatement in the amount of HRK 994 thousand relates to the restatement of the 2009 opening balance of provisions for employee benefits in the amount of HRK 1,182 thousand (a reduction in the provisions, see Note 4.a.ii) and the restatement of HRK 189 thousand made in 2010 (increase in the provisions).

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. CORRECTIONS OF PRIOR YEARS - RESTATEMENTS TO THE 2009, 2010 AND 2011 CONSOLIDATED FINANCIAL STATEMENTS**

#### ***c) Restatement of the financial statements for the year ended 31 December 2011***

##### *(i) Trade receivables*

Trade receivables were reduced by HRK 3,472 thousand, HRK 1,227 thousand of which relate to the restatement made to the 2010 balance (see Note 4.b.i) and the remaining HRK 2,245 thousand to new impairment allowance made on receivables estimated as irrecoverable at 31 December 2011.

##### *(ii) Work in progress*

The restatement to the work in progress in the amount of HRK 2,843 thousand comprises the 2010 restatement in the amount of HRK 2,558 thousand (see Note 4.b.ii) and the additional impairment recognised in the amount of HRK 285 thousand on work in progress at 31 December 2011 on the same basis.

##### *(iii) Prepaid expenses and accrued income*

Prepaid expenses and accrued income were increased by HRK 1,925 thousand as a result of amounts credited to prepaid expenses on construction contracts in progress at 31 December 2011. Namely, in preparing the original 2011 financial statements, the Group did not apply the IAS 11 requirement to determine revenue under construction contracts by reference to the state of completion and to adjust the balance of deferred income accordingly. Based on the calculated stage of completion, revenue was determined to be understated by HRK 1,925 thousand, which resulted in increasing the balance of revenue and recognising deferred income by that amount.

##### *(iv) Inventories of raw material and supplies*

The restatement made to raw material and supplies in the amount of HRK 374 thousand, HRK 298 thousand of which relate to the restatement made to the 2010 balance (see Note 4.b.iii.) and the remaining amount to additional value adjustment at 31 December 2011 in the amount of HRK 76 thousand made on the same basis.

##### *(v) Accrued expenses and deferred income*

The restatement to the deferred income amounts to HRK 1,623 thousand, HRK 614 thousand of which relate to the restatement made in 2010 (see Note 4.b.iv.) and the remaining HRK 1,009 thousand to an additional decrease in revenue with respect to new government grants received 2011 which were credited to deferred income.



## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **4. CORRECTIONS OF PRIOR PERIODS - RESTATEMENTS TO THE 2009, 2010 AND 2011 CONSOLIDATED FINANCIAL STATEMENTS GODINU**

#### **c) Restatement of the financial statements for the year ended 31 December 2011 (continued)**

##### *(vi) Trade payables*

Trade payables and other expenses were increased by HRK 121 thousand each. The restatement reflects the correction of the cut-off error identified in the original 2011 financial statements because of unaccrued expenses under an invoice not yet received from a supplier for its services provided in 2011.

##### *(vii) Provisions*

The restatement of the provisions amounts to HRK 924 thousand, HRK 994 thousand of which relate to the 2010 restatement (see Note 4.b.v.) and the remaining HRK 70 thousand represent new provisions made in 2011 based on the underlying calculation.

The total effect of the resulting restatements on the financial statements for the year ended 31 December 2009 is as follows:

#### **Statement of financial position**

	<b>As restated</b>	<b>Balance at 31 December 2009, as originally reported</b>	<b>Effect of restatement</b>
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Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

Investments in bonds	1,088	6,002	(4,914)
Trade receivables	154,049	153,637	412
Investment properties	15,726	108	15,618
Property, plant and equipment	167,592	183,210	(15,618)
<b>Total assets</b>	<b>591,189</b>	<b>595,691</b>	<b>(4,502)</b>
Provisions	9,168	10,350	(1,182)
<b>Total liabilities</b>	<b>322,423</b>	<b>323,605</b>	<b>(1,182)</b>
Accumulated losses	(55,635)	(52,570)	(3,065)
Non-controlling interests	585	840	(255)
<b>Total equity</b>	<b>268,766</b>	<b>272,086</b>	<b>(3,320)</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**4. CORRECTIONS OF PRIOR PERIODS - RESTATEMENTS TO THE 2009, 2010 AND 2011 FINANCIAL STATEMENTS (CONTINUED)**

**Statement of financial position (continued)**

	<b>As restated</b>	<b>Balance at 31 December 2010, as originally reported</b>	<b>Effect of restatement</b>
Investments in bonds	1,137	6,053	(4,916)
Trade receivables	102,161	103,388	(1,227)
Work in progress	154,192	156,750	(2,558)
Raw material and supplies	36,005	36,303	(298)
Investment properties	15,221	28	15,193
Property, plant and equipment	164,402	179,595	(15,193)
<b>Total assets</b>	<b>631,153</b>	<b>640,152</b>	<b>(8,999)</b>
Accrued expenses and deferred income	5,953	5,339	614
Provisions	10,308	11,302	(994)
<b>Total liabilities</b>	<b>(426,348)</b>	<b>(426,728)</b>	<b>(380)</b>
Accumulated losses	(55,526)	(52,248)	(3,278)
Loss for the year	(62,743)	(57,956)	(4,787)
Non-controlling interests	(633)	(78)	(555)
<b>Total equity</b>	<b>204,805</b>	<b>213,424</b>	<b>(8,619)</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**4. CORRECTIONS OF PRIOR PERIODS - RESTATEMENTS TO THE 2009, 2010 AND 2011 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Statement of financial position (continued)**

	<b>As restated</b>	<b>Balance at 31 December 2011, as originally reported</b>	<b>Effect of restatement</b>
Investments in bonds	1,259	6,179	(4,920)
Trade receivables	110,586	114,058	(3,472)
Work in progress	166,097	168,940	(2,843)
Prepaid expenses and accrued income	3,494	1,569	1,925
Inventories of raw material and supplies	95,261	95,635	(374)
Investment properties	14,717	94	14,623
Property, plant and equipment	158,285	172,908	(14,623)
<b>Total assets</b>	<b>713,574</b>	<b>723,258</b>	<b>(9,684)</b>
Accrued expenses and deferred income	4,906	3,283	1,623
Trade payables	162,084	161,963	121
Provisions	17,648	18,572	(924)
<b>Total liabilities</b>	<b>510,046</b>	<b>(6,950)</b>	<b>819</b>
Accumulated losses	(118,269)	(110,223)	(8,066)
Loss for the year	(1,162)	(851)	(2,013)
Non-controlling interests	(728)	(303)	(424)
<b>Total equity</b>	<b>203,528</b>	<b>213,387</b>	<b>(10,503)</b>

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

### 6. SALES

#### 5.1 Sales

	2012	2011 (As restated)	2010 (As restated)
Domestic sales	852,216	716,748	246,655
Foreign sales	187,675	56,817	14,662
	<u>1,039,891</u>	<u>773,565</u>	<u>261,317</u>

#### 5.2 Other income

	2012	2011 (As restated)	2010 (As restated)
Income from reversal of provisions	14,816	136	6,087
Written-off liabilities credited to income	11,604	1,092	91
Rental income	2,128	1,825	1,171
Income from damages and penalties collected	1,575	396	4,569
Gains on sale of available-for-sale assets	-	11,636	-
Other operating income	8,744	7,149	270
	<u>38,867</u>	<u>22,234</u>	<u>12,188</u>

Income from reversal of provisions in the amount of HRK 14,816 thousand (2011: HRK 136 thousand; 2010: HRK 6,087 thousand) consists mainly of provisions for penalties due to delayed completion of a construction project for a known customer in the amount of HRK 12,600 thousand (2011: nil; 2010: nil). Since the facilities were accepted and transferred in 2012, the customer did not charge any penalties to the Group, and the provisions were reversed.

Written-off liabilities credited to income in the amount of HRK 11,604 thousand (2011: HRK 1,092 thousand; 2010: HRK 91 thousand) comprise mainly a written-off debt to Bayerische Landesbank München (BLB) in the amount of HRK 11,374 thousand for a loan that the Group agreed in the 1990s and passed on to other end beneficiaries, as advised by the Croatian Government, for which the Croatian Government issued a guarantee. Since the loan was not being repaid as scheduled, the Group was not settling its obligation to BLB, as a result of which BLB activated the Croatian Government guarantee. Over time the liabilities became subject to the statute of limitations, and the Group wrote off the debt in 2012 and credited the related amount to income.

Gains from sale of available-financial-assets in the amount of HRK 11,636 thousand (2011) arose on the sale of 38,752 shares of Đuro Đaković Montaža d.d. for HRK 23,261 thousand. The carrying amount of the

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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share amounted to HRK 11,625 thousand and was derecognised from financial assets, upon which gains from the sale of financial assets were recognised in the amount of HRK 11,636 thousand.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **7. SEGMENT INFORMATION**

Operating segments have been identified on the basis of business divisions. Three business divisions were identified in 2012:

- Industry and Energy
- Defence
- Transport

The business divisions are the basis for internal financial reporting. The internal reports are regularly reviewed by the Management Board in order to assess the performance of the divisions and to make business decisions.

Since the chief decision maker does not use the information about the expenses, assets and liabilities of individual segments in making business and resource allocation decisions, the Group does not present the segment expenses, assets and liabilities in its consolidated financial statements.

Information about other business activities and operating segments not reported on internally is disclosed under "All other segments" separately from the reconciliation items. All other segments comprise energy generation, distribution and supply for entities operating in the industrial zone and to a lesser extent outside the zone, as well as the rental of space in the zone with customs, tax and other reliefs.

The business division Industry and Energy comprises the construction of large facilities.

Defence comprises the manufacture of military equipment.

Transport comprises the manufacture of railway wagons.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

### 7. SEGMENT INFORMATION (CONTINUED)

#### Segment revenue and results

Set out below is a breakdown of the revenue of the Group by its reporting segments presented in accordance with IFRS 8. Segment revenue reported below represents revenue generated from external customers.

	Revenue by segment		
	2012	2011 (As restated)	2010 (As restated)
Industry and Energy	231,625	78,880	62,612
Defence	613,501	586,601	111,675
Transport	180,790	82,341	7,065
All other segments	52,842	47,977	92,153
<b>Total</b>	<b>1,078,758</b>	<b>795,799</b>	<b>273,505</b>

#### Geographical information

The Group operates in two main geographical areas serving as the basis for sales reporting, whereas all non-current assets are on the Croatian market.

	Revenue from external customers		
	2012	2011 (As restated)	2010 (As restated)
Croatian market	852,216	716,748	246,656
EU market	187,675	56,817	14,662
<b>Total</b>	<b>1,039,891</b>	<b>773,565</b>	<b>261,317</b>

#### Information about key customers

	Revenue by key customers		
	2012	2011 (As restated)	2010 (As restated)
Croatian Ministry of Defence	607,982	585,587	106,060
Jadranski naftovod d.d.	152,453	9,491	59,361
Hrvatske željeznice d.d.	28,509	39,526	-
<b>Total</b>	<b>788,944</b>	<b>634,604</b>	<b>165,421</b>



Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

### 8. MATERIAL EXPENSES

	2012	2011 (As restated)	2010 (As restated)
Raw material and supplies	684,034	596,993	204,412
Subcontractor service costs	101,446	19,170	33,930
Rental costs	9,357	1,779	1,428
Transport	5,873	3,723	2,908
Cost of goods sold	5,289	5,584	12,726
Maintenance and repairs	4,770	4,050	3,002
Intellectual services	4,133	3,757	3,369
Advertising and sponsorships	1,258	1,741	1,428
Other external costs	5,273	8,857	4,406
	<u>821,433</u>	<u>645,654</u>	<u>267,609</u>

### 10. STAFF EXPENSES

	2012	2011 (As restated)	2010 (As restated)
Net wages and salaries	69,569	58,643	54,733
Taxes and contributions out of salaries	18,871	14,973	16,865
Contributions on salaries	11,618	11,679	9,400
	<u>100,058</u>	<u>85,295</u>	<u>80,998</u>

At 31 December 2012, there were 1,099 persons employed at the Group (2011: 963 employees, 2010: 897 employees).

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**11. OTHER EXPENSES**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Daily allowances, accommodation, transport and field-work allowances	10,377	7,130	7,788
Provisions for penalties under construction contracts	6,985	-	95
Retirement and long-service benefits	4,292	2,187	2,445
Collateral	2,654	2,576	2,215
Bank charges	1,957	1,206	1,603
Expenses for employees material rights	1,941	1,556	1,381
Entertainment	1,544	1,260	726
Membership fees, taxes and contributions	1,319	1,335	981
Litigation provisions	63	-	2,483
Warranty provisions	-	7,100	5,500
Other expenses	10,278	4,855	5,298
	<b><u>41,410</u></b>	<b><u>29,205</u></b>	<b><u>30,515</u></b>

**13. IMPAIRMENT ALLOWANCE ON CURRENT AND NON-CURRENT ASSETS**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Impairment allowance on trade receivables	6,434	11,760	10,551
Impairment of investments in the shares	560	428	3
	<b><u>6,994</u></b>	<b><u>12,188</u></b>	<b><u>10,554</u></b>

**14. OTHER OPERATING EXPENSES**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Penalties and damages	4,371	927	8,039
Other operating expenses	2,032	2,680	2,428
	<b><u>6,403</u></b>	<b><u>3,607</u></b>	<b><u>10,467</u></b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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**15. FINANCE REVENUE**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Foreign exchange gains	2,999	1,822	1,392
Interest income	1,552	2,553	2,339
Other financial income	1,645	404	332
	<u><b>6,196</b></u>	<u><b>4,779</b></u>	<u><b>4,063</b></u>

**15. FINANCIAL EXPENSES**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Interest expense	14,222	16,527	15,518
Foreign exchange losses	4,289	6,197	4,554
Other financial expenses	223	251	222
	<u><b>18,734</b></u>	<u><b>22,975</b></u>	<u><b>20,294</b></u>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**16. INCOME TAX**

The Group is not subject to corporate income tax, as opposed to its members.

Income tax expense comprises the following:

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Current tax	254	2,729	1,570
Deferred tax	-	-	-
Income tax recognised in the statement of comprehensive income	<u>254</u>	<u>2,729</u>	<u>1,570</u>

The reconciliation of the income tax expense for the year to the accounting profit is as follows:

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
<b>(Loss) / profit before taxation</b>	<u>(5,673)</u>	<u>1,452</u>	<u>(62,391)</u>
Income tax at the rate of 20% (2011: 20%; 2010: 20%)	(1,135)	290	(12,478)
Effect of tax non-deductible expenses	1,807	2,849	5,209
Effect of non-taxable income	(1,185)	(1,574)	(195)
Effect of eliminated intragroup revenue and expenses	(1,529)	1,873	(976)
Effect of used tax losses	(1,518)	(1,415)	-
Effect of unrecognised deferred tax assets on tax losses	3,814	706	10,010
<b>Income tax expense</b>	<u>254</u>	<u>2,729</u>	<u>1,570</u>

**Unused tax losses carried forward**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Unused tax losses carried forward	<u>125,100</u>	<u>117,548</u>	<u>121,210</u>
	<u>125,100</u>	<u>117,548</u>	<u>121,210</u>

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 15. INCOME TAX (CONTINUED)

The unused tax losses carried forward expire as follows:

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
2012	-	8,270	14,804
2013.	8,530	8,530	8,530
2014.	45,429	47,177	47,828
2015.	49,609	50,048	50,048
2016.	3,523	3,523	-
2017.	18,009	-	-
	<u><b>125,100</b></u>	<u><b>117,548</b></u>	<u><b>121,210</b></u>

According to the Croatian tax regulations, tax losses available for carry forward of individual Group companies as of the end of 2012 amount to HRK 125,100 thousand (2011: HRK 117,548 thousand, 2010: HRK 121,210 thousand) and are eligible for utilisation not later than in 2017. No deferred tax assets have been recognised in the statement of the financial position in respect of the unused tax losses carried forward because the availability of sufficient taxable profit in the future that would allow those assets to be utilised is not certain.

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**16. INTANGIBLE ASSETS**

	Development	Software and licences	Total
<b>Cost</b>			
<b>Balance at 31 December 2009 (as restated)</b>	<b>5,241</b>	<b>14,593</b>	<b>19,834</b>
Additions	1,280	400	1,680
Disposals, retirements, shortage	-	(97)	(97)
<b>Balance at 31 December 2010 (as restated)</b>	<b>6,521</b>	<b>14,896</b>	<b>21,417</b>
Additions	2,076	785	2,861
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2011 (as restated)</b>	<b>8,597</b>	<b>15,681</b>	<b>24,278</b>
Additions	17,247	5,984	23,231
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2012</b>	<b>25,844</b>	<b>21,665</b>	<b>47,509</b>
<b>Accumulated depreciation</b>			
<b>Balance at 31 December 2009 (as restated)</b>	<b>1,678</b>	<b>10,064</b>	<b>11,742</b>
Charge for the year	1,052	1,520	2,572
Disposals, retirements, shortage	-	(51)	(51)
<b>Balance at 31 December 2010 (as restated)</b>	<b>2,730</b>	<b>11,533</b>	<b>14,263</b>
Charge for the year	1,279	1,439	2,718
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2011 (as restated)</b>	<b>4,009</b>	<b>12,972</b>	<b>16,981</b>
Charge for the year	1,895	1,317	3,212
Disposals, retirements, shortage	-	-	-
<b>Balance at 31 December 2012</b>	<b>5,904</b>	<b>14,289</b>	<b>20,193</b>
<b>Net book value</b>			
<b>At 31 December 2012</b>	<b>19,940</b>	<b>7,376</b>	<b>27,316</b>
<b>At 31 December 2011</b>	<b>4,588</b>	<b>2,709</b>	<b>7,297</b>
<b>At 31 December 2010</b>	<b>3,791</b>	<b>3,363</b>	<b>7,154</b>
<b>At 31 December 2009</b>	<b>3,563</b>	<b>4,529</b>	<b>8,092</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**27. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Plant and equipment	Tools and plant fittings	Assets under development	Other tangible assets	Total
<b>Cost</b>							
<b>Balance at 31 December 2009 (as restated)</b>	<b>12,201</b>	<b>167,471</b>	<b>141,793</b>	<b>16,852</b>	<b>1,848</b>	<b>337</b>	<b>340,502</b>
Additions and transfers into use	-	1,776	3,956	4,280	(871)	1,762	10,903
Disposals, retirements, shortage	-	-	(880)	(172)	-	-	(1,052)
<b>Balance at 31 December 2010 (as restated)</b>	<b>12,201</b>	<b>169,247</b>	<b>144,869</b>	<b>20,960</b>	<b>977</b>	<b>2,099</b>	<b>350,353</b>
Additions and transfers into use	-	760	5,581	323	3,110	(1,788)	7,986
Disposals, retirements, shortage	-	-	(704)	(94)	-	-	(798)
<b>Balance at 31 December 2011 (as restated)</b>	<b>12,201</b>	<b>170,007</b>	<b>149,746</b>	<b>21,189</b>	<b>4,087</b>	<b>311</b>	<b>357,541</b>
Additions and transfers into use	728	4,666	7,104	4,062	12,439	50	29,049
Disposals, retirements, shortage	-	-	(3,189)	(1,112)	-	(120)	(4,421)
Assets put into use	-	-	-	-	-	-	-
<b>Balance at 31 December 2012</b>	<b>12,929</b>	<b>174,673</b>	<b>153,661</b>	<b>24,139</b>	<b>16,526</b>	<b>241</b>	<b>382,169</b>



Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Land	Buildings	Plant and equipment	Tools and plant fittings	Assets under development	Other tangible assets	Total
<b>Accumulated depreciation</b>							
<b>Balance at 31 December 2009 (as restated)</b>	-	<b>72,228</b>	<b>87,343</b>	<b>12,558</b>	<b>781</b>	-	<b>172,910</b>
Charge for the year	-	4,181	8,248	1,470	-	-	13,899
Disposals, retirements, shortage	-	-	(750)	(108)	-	-	(858)
<b>Balance at 31 December 2010 (as restated)</b>	-	<b>76,409</b>	<b>94,841</b>	<b>13,920</b>	<b>781</b>	-	<b>185,951</b>
Charge for the year	-	4,461	8,192	1,346	-	-	13,999
Disposals, retirements, shortage	-	-	(649)	(45)	-	-	(694)
<b>Balance at 31 December 2011 (as restated)</b>	-	<b>80,870</b>	<b>102,384</b>	<b>15,221</b>	<b>781</b>	-	<b>199,256</b>
Charge for the year	-	4,368	8,602	1,505	-	-	14,475
Disposals, retirements, shortage	-	-	(3,001)	(997)	-	-	(3,998)
<b>Balance at 31 December 2012</b>	-	<b>85,238</b>	<b>107,985</b>	<b>15,729</b>	<b>781</b>	-	<b>209,733</b>
<b>Net book value</b>							
<b>At 31 December 2012</b>	<b>12,929</b>	<b>89,435</b>	<b>45,676</b>	<b>8,410</b>	<b>15,745</b>	<b>241</b>	<b>172,436</b>
<b>At 31 December 2011</b>	<b>12,201</b>	<b>89,137</b>	<b>47,362</b>	<b>5,968</b>	<b>3,306</b>	<b>311</b>	<b>158,285</b>
<b>At 31 December 2010</b>	<b>12,201</b>	<b>92,838</b>	<b>50,028</b>	<b>7,040</b>	<b>196</b>	<b>2,099</b>	<b>164,402</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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<b>At 31 December 2009</b>	<b><u>12,201</u></b>	<b><u>95,243</u></b>	<b><u>54,450</u></b>	<b><u>4,294</u></b>	<b><u>1,067</u></b>	<b><u>337</u></b>	<b><u>167,592</u></b>
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Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

**18. INVESTMENT PROPERTIES**

**Cost**

<b>Balance at 31 December 2009 (as restated)</b>	<b>20,038</b>
Additions	-
Disposals	-
<b>Balance at 31 December 2010 (as restated)</b>	<b>20,038</b>
Additions	-
Disposals	-
<b>Balance at 31 December 2011 (as restated)</b>	<b>20,038</b>
Additions	-
Disposals	-
<b>Balance at 31 December 2012</b>	<b>20,038</b>

**Accumulated depreciation**

<b>Balance at 31 December 2009 (as restated)</b>	<b>4,312</b>
Charge for the year	505
<b>Balance at 31 December 2010 (as restated)</b>	<b>4,817</b>
Charge for the year	504
<b>Balance at 31 December 2011 (as restated)</b>	<b>5,321</b>
Charge for the year	502
<b>Balance at 31 December 2012</b>	<b>5,823</b>
<b>Net book value</b>	
<b>At 31 December 2012</b>	<b>14,215</b>
<b>At 31 December 2011</b>	<b>14,717</b>
<b>At 31 December 2010</b>	<b>15,221</b>
<b>At 31 December 2009</b>	<b>15,726</b>

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

### 19. SUBSIDIARIES

The subsidiaries of the Group at 31 December 2011, 2010 and 2009 were as follows:

Subsidiaries	Country	Ownership interest in %			Principal activity
		2012	2011	2010	
Đuro Đaković Inženjering d.d.	Croatia	84.84	84.84	84.84	Development, supervision and construction services
Đuro Đaković Elektromont d.d.	Croatia	99.64	99.64	99.64	Provision of services in the construction activity, electric installation assembly, and production of metal sheet components
Đuro Đaković Specijalna vozila d.d.	Croatia	99.69	99.69	99.68	Production and maintenance of combat vehicles and defence equipment, and of freight railway wagons
Đuro Đaković Strojna obrada d.o.o.	Croatia	100.00	100.00	100.00	Railway programme, renewable sources of energy, power utility and various services
Đuro Đaković Energetika I infrastruktura d.o.o.	Croatia	97.55	97.55	97.55	Production of energy and related services (electric energy, compressed air, natural gas)
Đuro Đaković Proizvodnja opreme d.o.o.	Croatia	100.00	100.00	100.00	Manufacture of components for cement industry, petrochemical and power utility industries
Đuro Đaković Slobodna zona d.o.o.	Croatia	69.63	69.63	69.63	Provision of services to business entities operating in free zones

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**20. INVESTMENTS IN SECURITIES AND EQUITIES**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>	<b>2009.</b> <b>(As restated)</b>
Investments in bonds	1,348	1,259	1,137	1,088
Investments in shares	8,120	6,737	18,816	18,466
Impairment of shares	(6,361)	(6,361)	(6,361)	(6,360)
	<u><b>3,107</b></u>	<u><b>1,635</b></u>	<u><b>13,592</b></u>	<u><b>13,194</b></u>

**21. NON-CURRENT RECEIVABLES**

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>	<b>2009.</b> <b>(As restated)</b>
Receivables in respect of credit sales	11,903	13,029	26,605	43,467
Other receivables	-	234	388	1,517
	<u><b>11,903</b></u>	<u><b>13,263</b></u>	<u><b>26,993</b></u>	<u><b>44,984</b></u>

Credit sales represent amounts receivable from employees for flats with tenancy rights sold on credit with maturities ranging from 20 to 35 years.

**22. INVENTORIES**

	<b>At 31</b> <b>December</b> <b>2012</b>	<b>At 31</b> <b>December</b> <b>2011</b> <b>(As restated)</b>	<b>At 31</b> <b>December</b> <b>2010</b> <b>(As restated)</b>	<b>At 31</b> <b>December</b> <b>2009</b> <b>(As restated)</b>
Work in progress	70,832	166,097	154,192	63,798
Raw material and supplies	37,801	95,261	36,005	34,370
Prepayments for inventories	12,926	36,946	39,337	5,657
Merchandise	1,321	7,983	5,622	1,321
Finished products	672	54	54	76
	<u><b>123,552</b></u>	<u><b>306,341</b></u>	<u><b>235,210</b></u>	<u><b>105,222</b></u>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**23. TRADE RECEIVABLES**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Domestic trade receivables	182,156	140,911	118,901	177,281
Foreign trade receivables	39,626	12,721	14,657	8,269
Impairment allowance on trade receivables	(37,534)	(41,630)	(29,981)	(31,068)
	<b>184,248</b>	<b>112,002</b>	<b>103,577</b>	<b>154,482</b>

Maturity analysis of receivables not impaired

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)
Not yet due	90,409	25,705	13,483
0-90 days	48,012	11,959	41,978
90-120 days	5,000	1,119	1,241
Over 120 days	40,827	73,219	46,875
	<b>184,248</b>	<b>112,002</b>	<b>103,577</b>

**24. OTHER RECEIVABLES**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Due from employees	364	120	49	686
Receivables from the State and other institutions	20,957	10,082	11,648	9,900
Other receivables	5,196	6,215	1,361	5,034
	<b>26,517</b>	<b>16,417</b>	<b>13,058</b>	<b>15,620</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**25. OTHER FINANCIAL ASSETS**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Deposits	2,023	20,931	14,899	46,703
Given loans, deposits and similar	-	78	201	15
	<u>2,023</u>	<u>21,009</u>	<u>15,100</u>	<u>46,718</u>

**26. CASH AND CASH EQUIVALENTS**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Balance on the gyro account	23,019	38,004	14,196	14,061
Foreign currency account balance	2,830	12,162	583	160
Cash in hand	13	14	11	24
Investments in funds	-	9,412	17,116	-
	<u>25,862</u>	<u>59,592</u>	<u>31,906</u>	<u>14,245</u>

**27. PREPAID EXPENSES AND ACCRUED INCOME**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Accrued income under construction contracts	1,554	1,554	-	-
Prepaid expenses	456	1,940	316	209
Other accrued income - amounts not yet billed	-	-	697	-
	<u>2,010</u>	<u>3,494</u>	<u>1,013</u>	<u>209</u>

## Notes to the consolidated financial statements (continued)

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(All amounts are expressed in thousands of kunas)

### 28. SHARE CAPITAL

At 31 December 2012 the share capital amounts to HRK 323,707 thousand and consists of 3,237,068 shares (2011: HRK 323,707 thousand, consisting of 3,237,068 shares; 2010: HRK 323,707 thousand, consisting of 3,237,068 shares).

The ownership structure is set out below:

	Number of shares			Ownership in %		
	2012	2011	2010	2012	2011	2010
AUDIO / REPUBLIC OF CROATIA	730,729	730,729	730,729	23%	23%	23%
AUDIO / HZMO	660,000	660,000	660,000	20%	20%	20%
PBZ d.d./PBZ-SP	210,430	210,430	210,430	7%	7%	7%
Bakić Nenad	203,199	203,199	203,199	6%	6%	6%
AUDIO - State Deposit Insurance and Bank Rehabilitation Agency	104,771	104,771	104,771	3%	3%	3%
Đuro Đaković Holding d.d.	47,003	47,003	47,003	1%	1%	1%
KBZ d.d./Agram brokeri d.d. - BAKIĆ NS	41,927	41,927	41,927	1%	1%	1%
Zagrebačka banka d.d. / Joint custody account at Zagrebačka banka d.d. / DF	25,660	25,660	25,660	1%	1%	1%
Societe generale-Splitska banka d.d./ZIF Breza-invest d.d.	22,567	22,567	22,567	1%	1%	1%
INTERKAPITAL vrijednosni papiri d.o.o., Zagreb / Joint custody account for DF	17,144	17,144	17,144	1%	1%	1%
OTP banka d.d. / IN683	14,686	14,686	14,686	0.5%	0.5%	0.5%
Erste & Steiermarkische bank d.d.	14,519	14,519	14,519	0.5%	0.5%	0.5%
Others	1,144,433	1,144,433	1,144,433	35%	35%	35%
	<b>3,237,068</b>	<b>3,237,068</b>	<b>3,237,068</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

### 33. ACCUMULATED LOSSES

	2012	2011 (As restated)	2010 (As restated)
Balance 1 January	(119,451)	(118,269)	(55,635)
Loss for the year	(4,581)	(1,162)	(62,743)
Loss cover from reserves	-	-	109
Acquisition of additional shares in subsidiary	-	(20)	-
<b><u>Balance 31 December</u></b>	<b><u>(124,032)</u></b>	<b><u>(119,451)</u></b>	<b><u>(118,269)</u></b>

### 34. NON-CONTROLLING INTERESTS

	2012	2011 (As restated)	2010 (As restated)
Balance at 1 January	(728)	(633)	585
Share in loss for the year	(1,346)	(115)	(1,218)
Decrease in non-controlling interests for shares acquired by parent company	-	20	-
<b><u>Balance at 31 December</u></b>	<b><u>(2.074)</u></b>	<b><u>(728)</u></b>	<b><u>(633)</u></b>

### 35. EARNINGS PER SHARE

#### Basic and diluted earnings per share

Basic earnings per share are determined, by dividing the Group's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Group as treasury shares.

	2012	2011 (As restated)	2010 (As restated)
Profit for the year attributable to the equity holders of the Company (in HRK'000)	(4,581)	(1,162)	(62,743)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	3,237,068	3,237,068	3,237,068
Basic earnings per share (in kunas and lipas):	<b>(1.42)</b>	<b>(0.36)</b>	<b>(19.38)</b>

Diluted earnings per share are equal to basic earnings per share, as there is no basis for adjusting the weighted average number of ordinary shares.

Notes to the consolidated financial statements (continued)

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(All amounts are expressed in thousands of kunas)

**36. PROVISIONS**

The total balance of long-term provisions relates to provisions made for legal actions in progress.

	<b>2012</b>	<b>2011 (As restated)</b>	<b>2010 (As restated)</b>	<b>2009 (As restated)</b>
Provisions for long-service benefits	2,387	2,085	2,089	2,100
Provisions for retirement and termination benefits	1,695	1,277	1,123	1,019
Litigation provisions	1,222	3,086	2,917	2,082
Provisions for losses on construction contracts	7,001	16	95	-
Warranty provisions	-	12,600	5,500	4,400
Other provisions	<u>377</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b><u>12,682</u></b>	<b><u>19,064</u></b>	<b><u>11,724</u></b>	<b><u>9,601</u></b>

Movements in provisions are presented below:

	<b>2012</b>	<b>2011 (As restated)</b>	<b>2010 (As restated)</b>
At 1 January	19,064	11,724	9,601
New provisions made during the year	8,082	7,423	2,282
Amounts utilised/reversed	<u>(14,464)</u>	<u>(83)</u>	<u>(159)</u>
<b>At 31 December</b>	<b><u>12,682</u></b>	<b><u>19,064</u></b>	<b><u>11,724</u></b>

Notes to the consolidated financial statements (continued)

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(All amounts are expressed in thousands of kunas)

**37. BORROWINGS AND FINANCE LEASE OBLIGATIONS**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
<b>Non-current liabilities</b>				
Long-term borrowings	91,316	109,156	186,537	102,518
Finance lease obligations	1,167	1,464	1,528	1,837
	<u>92,483</u>	<u>110,620</u>	<u>188,065</u>	<u>104,355</u>
<b>Current liabilities</b>				
Current portion of long-term borrowings	37,357	56,735	16,484	4,019
Current portion of financial leases	1,042	225	104	-
Short-term borrowings	5,505	5,231	16,178	17,047
Interest on borrowings	1,579	2,629	2,607	2,324
	<u>45,483</u>	<u>64,820</u>	<u>35,373</u>	<u>23,390</u>
<b>Total</b>	<u>137,966</u>	<u>175,440</u>	<u>223,438</u>	<u>127,745</u>

Bank borrowings in the amount of HRK 23,203 thousand (2011: HRK 26,033 thousand; 2010: HRK 21,338 thousand) are secured by lien on the land and buildings of the Group. At 31 December 2012 the net book value of the property, plant and equipment provided as collateral amounted to HRK 13,995 thousand. (2011: HRK 14,646 thousand; 2010: HRK 15,211 thousand).

	2012	2011 (As restated)	2010 (As restated)
<b>Balance at 1 January</b>	<b>171,122</b>	<b>219,199</b>	<b>123,584</b>
New loans raised	313,270	254,331	179,149
Amounts repaid	(352,022)	(306,646)	(89,669)
Exchange differences	1,807	4,238	6,135
<b>Balance at 31 December</b>	<u><b>134,178</b></u>	<u><b>171,122</b></u>	<u><b>219,199</b></u>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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**32. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

An overview of bank borrowings (maturities, interest rates, balances and currencies) is provided below

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

Creditor	Maturity	Interest rate	Currency	At 31/12/2012	At 31/12/2011	At 31/12/2010	At 31/12/2009
<b>Long-term borrowings</b>							
Hrvatska poštanska banka d.d.	30/04/2017	3M EURIBOR + 3.95 pp	EUR	99,304	110,115	107,992	-
Zagrebačka banka d.d.	27/01/2013	3M LIBOR + 5.00 pp	EUR	11,669	13,147	50,646	48,248
OTP banka d.d.	30/11/2021	6%	EUR	10,711	10,751	-	-
Hypo Alpe Adria Bank	30/06/2012	12%	HRK	-	6,769	9,025	9,025
Raiffeisenbank d.d.	31/12/2020	1M EURIBOR +6.00 p.p.	EUR	2,146	2,410	2,363	-
Raiffeisenbank d.d.	31/03/2014	T-bills TZRH 91+ 3.40 p.p.	HRK	1,000	2,000	-	-
Raiffeisenbank d.d.	31/12/2020	1M EURIBOR +6.00 p.p.	EUR	1,195	1,342	-	-
HBOR	31/03/2014	3.8%	HRK	666	1,333	-	-
Banka Brod d.d. (KentBank d.d.)	27/08/2014	8.9%	EUR	1,208	1,318	1,281	1,720
Raiffeisenbank d.d.	31/03/2014	T-bills TZMF91 +3.40p.p.	HRK	417	833	-	-
VABA d.d.	18/03/2016	8%	EUR	217	268	325	379
VABA d.d.	18/03/2016	8%	EUR	140	176	208	243
Erste&Steiermärkische Bank d.d.	20/06/2012	EURIBOR+7 p.p.	EUR	-	369	989	1,708
Zagrebačka banka d.d.	30/11/2012	3M LIBOR + 4.30 pp	EUR	-	15,060	29,541	43,837
OTP banka d.d.	01/01/2012	6.99%	EUR	-	-	651	1,377
<b>Total long-term borrowings</b>				<b>128,673</b>	<b>165,891</b>	<b>203,021</b>	<b>106,537</b>
<b>Less Current portion of long-term borrowings</b>				<b>(37,357)</b>	<b>(56,735)</b>	<b>(16,484)</b>	<b>(4,019)</b>
<b>Non-current portion of long-term borrowings</b>				<b>91,316</b>	<b>109,156</b>	<b>186,537</b>	<b>102,518</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**33. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

An overview of bank borrowings (maturities, interest rates, balances and currencies) is provided below (continued)

<b>Short-term borrowings</b>	<b>Maturity</b>	<b>Interest rate</b>	<b>Currency</b>	<b>At 31/12/2012</b>	<b>At 31/12/2011</b>	<b>At 31/12/2010</b>	<b>At 31/12/2009</b>
Raiffeisenbank d.d.	Revolving facility	6.8%	EUR	5,082	5,231	5,062	4,507
Erste&Steiermärkische Bank d.d.	31/05/2013	1M EURIBOR+ 6.5p.p.	EUR	423	-	-	-
Raiffeisenbank d.d.	18/10/2011	1M EURIBOR+ +6.5p.p.	EUR	-	-	456	-
Raiffeisenbank d.d.	25/12/2010	1M EURIBOR+ +8.5p.p.	EUR	-	-	203	800
Zagrebačka banka d.d.	20/04/2010	9.1%	EUR	-	-	-	1,001
Zagrebačka banka d.d.	30/04/2010	9.34%	EUR	-	-	-	394
OTP banka d.d.	Revolving facility	8.5%	EUR	-	-	10,457	10,345
<b>Total short-term borrowings</b>				<b>5,505</b>	<b>5,231</b>	<b>16,178</b>	<b>17,047</b>
<b>Current portion of long-term borrowings</b>				<b>37,357</b>	<b>56,735</b>	<b>16,484</b>	<b>4,019</b>
<b>Current portion of financial lease</b>				<b>1,042</b>	<b>225</b>	<b>104</b>	<b>-</b>
<b>Interest payable on borrowings</b>				<b>1,579</b>	<b>2,629</b>	<b>2,607</b>	<b>2,324</b>
<b>Total short-term borrowings</b>				<b>45,483</b>	<b>64,820</b>	<b>35,373</b>	<b>23,390</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**38. BORROWINGS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

	Minimum lease payments			Finance charges			Present value of minimum lease payments		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Not later than 1 year	1,130	234	136	88	9	32	1,042	225	104
From two to five years	1,315	1,560	1,718	148	122	190	1,167	1,438	1,528
After five years		28			2			26	
Less: future finance charges	236	133	222						
Present value of minimum lease payments	2,209	1,689	1,632						

**39. OTHER NON-CURRENT LIABILITIES**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Amounts owed to the State for flats sold	14,511	15,278	16,001	16,978
Trade payables	18	-	643	-
BLB borrowings	-	11,374	11,374	11,374
Other non-current liabilities	505	540	565	1,170
	<b>15,034</b>	<b>27,192</b>	<b>28,583</b>	<b>29,522</b>

The liability for loan in 2011 in the amount of HRK 11,374 thousand (2010: HRK 11,374 thousand, 2009: HRK 11,374 thousand) towards Bayerische Landesbank München (BLB) were written off during 2012 (see Note 5.2).

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Deposits received	2,711	-	-	-

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

Advances received	-	32	25	111
Other liabilities	7	-	-	-
	<u>2,718</u>	<u>32</u>	<u>25</u>	<u>111</u>

**40. LIABILITIES FOR LOANS, DEPOSITS AND SIMILAR**

**41. TRADE PAYABLES**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Domestic trade payables	86,318	101,622	63,079	72,691
Foreign trade payables	59,760	60,462	26,285	10,160
	<u>146,078</u>	<u>162,084</u>	<u>89,364</u>	<u>82,851</u>

**42. OTHER CURRENT LIABILITIES**

	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Taxes, contributions and similar duties payable	41,415	16,162	17,101	18,536
Advances received	19,166	96,252	36,533	8,218
Amounts due to employees	7,341	6,400	5,800	7,429
Liabilities under cession arrangements	6,696	3,486	5,665	7,949
Liabilities in respect of securities	-	407	3,500	21,225
Other current liabilities	1,521	34	78	2,537
	<u>76,139</u>	<u>122,741</u>	<u>68,677</u>	<u>65,894</u>

**43. ACCRUED EXPENSES AND DEFERRED INCOME**



Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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	At 31 December 2012	At 31 December 2011 (As restated)	At 31 December 2010 (As restated)	At 31 December 2009 (As restated)
Deferred revenue under construction contracts	4,106	-	372	-
Invoice accrual	2,295	-	-	31
Deferred grant income	1,893	2,106	1,119	898
Deferred income	515	2,800	4,462	6,203
	<u>8,809</u>	<u>4,906</u>	<u>5,953</u>	<u>7,132</u>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**44. RELATED-PARTY TRANSACTIONS**

**Trading transactions**

Transactions entered into by and between the Group and its related parties during the year are as follows:

**Operating income**

		<b>Sales</b>	
	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Ministarstvo obrane Republike Hrvatske	607,982	585,587	106,060
Jadranski naftovod d.d.	152,453	9,491	59,361
Hrvatske željeznice d.d.	28,509	39,526	-
	<b>788,944</b>	<b>634,604</b>	<b>165,421</b>

**Operating expenses**

		<b>Cost of sales</b>	
	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Ministarstvo obrane Republike Hrvatske	556,397	547,305	96,138
Jadranski naftovod d.d.	153,240	9,410	59,300
Hrvatske željeznice d.d.	28,366	39,328	-
	<b>738,003</b>	<b>596,043</b>	<b>155,438</b>

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**39. RELATED-PARTY TRANSACTIONS (CONTINUED)**

Open balances from sale and purchase transactions at the end of the reporting period:

	<b>Receivables from related parties</b>		
	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Jadranski naftovod d.d.	59,217	26,210	16,853
Ministarstvo obrane Republike Hrvatske	53,223	1,646	-
Hrvatske željeznice d.d.	9,833	850	-
	<u><b>122,273</b></u>	<u><b>28,706</b></u>	<u><b>16,853</b></u>

	<b>Liabilities to related parties</b>		
	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Jadranski naftovod d.d.	12,193	3,122	3,376
	<u><b>12,193</b></u>	<u><b>3,122</b></u>	<u><b>3,376</b></u>

**Remuneration to key management personnel**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Salaries	4,259	3,596	3,299
Other	1,696	214	202
	<u><b>5,955</b></u>	<u><b>3,810</b></u>	<u><b>3,501</b></u>

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Capital risk management

The Group manages 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. The overall strategy of the Group did not change in comparison to comparative periods.

The Group's capital consists of debt, which includes borrowings disclosed in Note 32, less cash and cash equivalents and balances with banks (the so-called net debt), and equity, which comprises share capital, accumulated losses and reserves.

The Treasury of the Group reviews the capital structure of the Group. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

#### Gearing ratio

	<b>2012</b>	<b>2011</b> <b>(As restated)</b>	<b>2010</b> <b>(As restated)</b>
Debt (i)	<b>137,843</b>	<b>175,440</b>	<b>224,438</b>
Cash and cash equivalents	(25,862)	(59,592)	(31,906)
Net debt	<b>111,981</b>	<b>115,848</b>	<b>191,532</b>
Equity (ii)	197,601	203,528	204,805
Net debt-to-equity ratio	56,67%	56,92%	93,52%

(xviii) Debt consists of long- and short-term borrowings, as described in Note 32.

(xix) Equity consists of share capital, accumulated losses and reserves managed by the Group as capital.

Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

(All amounts are expressed in thousands of kunas)

**38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Categories of financial instruments**

	2012	2011 (As restated)	2010 (As restated)	2009 (As restated)
<b>Financial assets</b>				
Given loans, deposits and similar	3,795	889	5,297	5,520
Investments in securities	3,107	1,635	13,592	13,194
Other non-current financial assets	44	46	46	18
Receivables	11,903	13,263	26,993	44,984
Trade receivables	184,248	110,586	102,161	154,049
Other financial assets	2,023	21,009	15,100	46,718
Other receivables	5,560	6,335	1,410	6,153
Cash and cash equivalents	25,862	59,592	31,906	14,245
Prepaid expenses and accrued income	2,010	3,494	1,013	209
	<b>238,552</b>	<b>216,849</b>	<b>197,518</b>	<b>285,090</b>
<b>Financial liabilities</b>				
Loans payable and borrowings	137,843	175,440	223,438	127,745
Other non-current liabilities	646	11,914	12,582	12,544
Loans payable and borrowings	2,718	32	25	111
Trade payables	146,078	162,084	89,364	82,851
Other current liabilities	34,724	106,579	51,576	47,358
Accrued expenses and deferred income	8,808	4,906	5,903	7,132
	<b>330,817</b>	<b>460,955</b>	<b>382,888</b>	<b>277,741</b>

At the reporting date there were no significant concentrations of credit risk for loans and receivables designated at fair value through the statement of comprehensive income. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Financial risk management objectives

The Treasury function of the Group provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function periodically reports to the Group's management on the risk exposures.

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates, as disclosed below.

#### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign-currency denominated monetary assets and liabilities at the reporting date are provided in the table below:

	Liabilities			Assets		
	2012	2011 (As restated)	2010 (As restated)	2012	2011 (As restated)	2010 (As restated)
EUR	189,374	251,999	241,499	50,061	43,097	44,630
USD	-	1,370	-	-	-	-
GBP	2,441	-	-	-	265	-

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Foreign currency risk management (continued)

##### Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against the euro (EUR) because this is the currency in which the majority of sales and purchases on international markets are carried out. Furthermore, significant amount of liabilities for loans relates to loans denominated in EUR.

The following table details the Group's sensitivity to a 10-percent increase and decrease of the Croatian kuna against the relevant currencies. 10-percent is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Management Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for the 10-percent change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Croatian kuna strengthens 10 percent against the relevant currency. For a 10-percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	EUR impact			USD impact		
	2012	2011 (As restated)	2010 (As restated)	2012	2011 (As restated)	2010 (As restated)
Profit or loss	13,931	20,890	19,687		137	-

	GBP impact		
	2012	2011 (As restated)	2010 (As restated)
Profit or loss	244	(27)	-

The exposure to the 10-percent change for the relevant currencies is mainly related to the balance of borrowings, trade payables and receivables from foreign customers denominated in euro (EUR)

## Notes to the consolidated financial statements (continued)

For the years ended 31 December 2012, 2011 and 2010

*(All amounts are expressed in thousands of kunas)*

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### **39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Interest rate risk management**

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposures to interest rates on its financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the at the end of the reporting period was outstanding for the whole year. A 50 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

loss for the year ended 31 December 2012 would decrease/increase by HRK 671 thousand (2011: decrease/increase by HRK 856 thousand, 2010: decrease/increase by 1,096 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments.



### 38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counter parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The exposure of the Group and the credit ratings of its counterparties are continuously monitored, and the total value of transactions entered into is spread across accepted customers. Credit exposure is managed by setting limits to customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group's Treasury monitors carefully credit risk concentrations on receivables because of a concentration of a large number of three major customers: Jadranski naftovod d.d., Hrvatske željeznice (Croatian Railways) and the Croatian Ministry of Defence. So far, the Group has had no major problems with the collection of receivables from the key customers.

#### *Collateral held as security and other credit enhancements*

The Group commonly accepts bank guarantees, debentures and bills of exchange of its customers.

### 38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Liquidity risk management

Prudent liquidity management implies maintaining sufficient levels of cash, obtaining adequate funding using credit lines and facilities and the ability to settle the liabilities on a timely basis. It also involves matching the maturities of assets and liabilities to maintain appropriate liquidity levels. Ultimate responsibility for liquidity risk management rests with the Management Board. The Group manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The cash flow forecasts are prepared on a monthly basis (by day) and departures are monitored daily.

#### Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both principal and interest cash flows. The undiscounted cash outflows on interest at variable rates was derived from interest rate curves at the end of the reporting period. The contractual maturity is determined as the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>2012</b>							
Non-interest bearing liabilities	-	145,634	25,016	16,408	3,198	-	190,256
Interest bearing liabilities	7.18%	98	299	44,250	103,532	21,496	169,675
		<b>145,732</b>	<b>25,315</b>	<b>60,658</b>	<b>106,730</b>	<b>21,496</b>	<b>359,931</b>
<b>2011 (as restated)</b>							
Non-interest bearing liabilities	-	142,520	61,692	34,011	47,260	-	285,483
Interest bearing liabilities	5.28%	134	211	41,089	12,261	160,495	214,190
		<b>142,654</b>	<b>61,903</b>	<b>75,100</b>	<b>59,521</b>	<b>160,495</b>	<b>499,673</b>
<b>2010 (as restated)</b>							
Non-interest bearing liabilities	-	85,754	48,724	23,417	1,530	-	159,425
Interest bearing liabilities	7.65%	68	94	20,609	104,993	144,432	270,196
		<b>85,822</b>	<b>48,818</b>	<b>44,026</b>	<b>106,523</b>	<b>144,432</b>	<b>429,621</b>

### 38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets based on the earliest date on which the Group can require payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>2012</b>							
Non-interest bearing assets	-	125,991	83,767	10,198	831	-	220,787
Interest bearing assets	1.7%	236	239	693	5,073	12,677	18,918
		<b>126,227</b>	<b>84,006</b>	<b>10,891</b>	<b>5,904</b>	<b>12,677</b>	<b>239,705</b>
<b>2011 (as restated)</b>							
Non-interest bearing assets	-	84,446	47,425	19,898	30,107	-	181,876
Interest bearing assets	3.3%	212	301	18,376	5,009	13,942	37,840
		<b>84,658</b>	<b>47,726</b>	<b>38,274</b>	<b>35,116</b>	<b>13,942</b>	<b>219,716</b>
<b>2010 (as restated)</b>							
Non-interest bearing assets	-	64,352	56,957	25,700	3,461	-	150,470
Interest bearing assets	2.4%	132	364	17,204	4,841	28,602	51,143
		<b>64,484</b>	<b>57,321</b>	<b>42,904</b>	<b>8,302</b>	<b>28,602</b>	<b>201,613</b>

## **38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

### **Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) 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;

At 31 December 2012, the carrying amounts of cash, short-term deposits, receivables and short-term liabilities, accrued expenses and other financial instruments approximate their fair values due to the short-term maturity of these financial instruments.

### **Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 fair value measurements are indications of fair value derived from data other than quoted prices from Level 1 for observable assets or liabilities (i.e. their prices) or indirectly (derived from the price)

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Fair value measurements recognised in the statement of financial position (continued)

<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Investment in bonds	-	-	1,348	1,348
Investment in shares	-	-	1,759	1,759
<i>Financial assets held to maturity</i>				
Deposits	-	-	2,023	2,023
<b>Total</b>			<b>5,130</b>	<b>5,130</b>
.				
<b>31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Investment in bonds	-	-	1,259	1,259
Investment in shares	-	-	376	376
<i>Financial assets held to maturity</i>				
Deposits	-	-	20,931	20,931
<b>Total</b>	-	-	<b>22,566</b>	<b>22,566</b>
<b>31 December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Investment in bonds	-	-	1,137	1,137
Investment in shares	-	-	12,455	12,455
<i>Financial assets held to maturity</i>				
Deposits	-	-	13,592	13,592
<b>Total</b>	-	-	<b>27,184</b>	<b>27,184</b>

## 41. CONTINGENT LIABILITIES AND COMMITMENTS

### *Litigations*

There are various legal actions in progress against the Company and its subsidiaries. Set out below are the most significant legal actions in which the Group members are defendants. The Group recognised no provisions for those actions because, based on the legal assessment, the outcome of any of them is currently uncertain.

#### ***Legal action initiated by ZRAK d.d., Sarajevo and the Federation of Bosnia and Herzegovina***

The case is held at the Commercial Court in Slavonski Brod under the Case File No. P-175/07. The plaintiffs ZRAK d.d., Sarajevo and the Federation of Bosnia and Herzegovina have initiated a legal action against Đuro Đaković Specijalna vozila d.d. and the Ministry of Defence of the Republic of Croatia on 1 June 2007 for HRK 30,343 thousand regarding delivered goods i.e. corresponding components for the production and equipment of Tank M-84 in accordance with the specification defined by the production plan. The first-instance court rejected the claim and the claimed amount of ZRAK d.d., and, following the appeal, the case is now pending at the High Commercial Court of the Republic of Croatia.

#### ***Legal action initiated by Bratstvo Holding d.d. and the Federation of Bosnia and Herzegovina***

The case is held at the Commercial Court in Slavonski Brod under the Case File No. P-384/08. The plaintiffs Bratstvo Holding d.d. and the Federation of Bosnia and Herzegovina have initiated a legal action against Đuro Đaković Specijalna vozila d.d. and the Ministry of Defence of the Republic of Croatia on 1 June 2007 for HRK 16,391 thousand regarding delivered goods i.e. corresponding components for the production and equipment of Tank M-84 in accordance with the specification defined by the production plan. The first-instance court rejected the claim and the claimed amount of Bratstvo Holding d.d., and, following the appeal launched by the plaintiff, the case was brought before the High Commercial Court of the Republic of Croatia which annulled the judgement of the Commercial Court in Osijek, Standing Office Slavonski Brod on 1 February 2013 and returned the case to the same court for retrial.

#### ***Legal action initiated by Famos Holding d.d. and the Federation of Bosnia and Herzegovina***

The case is held at the Commercial Court in Slavonski Brod under the Case File No. P-383/08. The plaintiffs Famos Holding d.d. and the Federation of Bosnia and Herzegovina have initiated a legal action against Đuro Đaković Specijalna vozila d.d. and the Ministry of Defence of the Republic of Croatia on 1 June 2007 for HRK 23,858 thousand regarding delivered goods i.e. corresponding components for the production and equipment of Tank M-84 in accordance with the specification defined by the production plan. The first-instance court rejected the claim and the claimed amount of Famos Holding d.d., and, following the appeal, the case is now pending at the High Commercial Court of the Republic of Croatia.

### 39. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

#### *Guarantees and sureties*

	2012	2011 (As restated)	2010 (As restated)	2009 (As restated)
Advance payment guarantees	56,398	100,454	35,617	54,403
Loan guarantees	10,750	6,750	6,600	6,600
	<u>67,148</u>	<u>107,204</u>	<u>42,217</u>	<u>61,003</u>

The parent and its subsidiaries are beneficiaries of guarantees defined in the signed contracts. The majority of the guarantees comprise advance payment guarantees and good performance guarantees. During the periods observed, no funds were drawn under those guarantees by the bank.

Loan guarantees comprise guarantees issued by the parent to banks for the loans received by the subsidiaries.

### 40. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date there were no significant events concerning the Group that would require adjustments to, or disclosure in the consolidated financial statements.

### 43. MANAGEMENT AUTHORISATION OF THE ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were adopted by the Management Board and authorized for issue on 17 May 2013.

Signed on behalf of the Group on 17 May 2013 by:

Vladimir Kovačević

President of the Management Board

  

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## **20.2. Pro forma financial information**

The Issuer has not prepared any pro forma financial information.

## **20.3. Financial statements**

The Issuer prepares its own and consolidated annual financial statements. Part II - item 20.1 hereof contains consolidated financial statements for 2011, 2012 and 2013.

## **20.4. Auditing of historical annual financial information**

### ***20.4.1. A statement that the historical financial information has been audited***

The Issuer's historical financial information covered by this Prospectus been audited. There were no qualifications in the audit reports on the historical financial information covered by this Prospectus.

### ***20.4.2. Indication of other information in the registration document which has been audited by the auditors.***

There is no other information in the registration document which has been audited by the auditors.

### ***20.4.3. Where financial data in the registration document is not extracted from the Issuer's audited financial statements state the source of the data and state that the data is unaudited***

All financial information referring to half-years have not been audited and have been prepared by the Issuer itself.

## **20.5. Age of latest financial information**

The last audited financial information refer to 31 December 2013.

The last unaudited financial information refer to 30 June 2014.



## 20.6. Interim financial information

**20.6.1. If the Issuer has published quarterly or half yearly financial information since the date of its last audited financial statements, these must be included in the registration document. If the quarterly or half yearly financial information has been audited, the audit report must also be included. If the quarterly or half yearly financial information is unaudited state that fact.**

The Issuer has published half yearly unaudited financial statements for the first half of 2014, being the last published financial statement. The unaudited half yearly financial statements for the last three years have also been presented for comparison purposes.

**Table 56 Consolidated statement of financial position of the Issuer**

	(in 000 kunas)	30.06.2011	30.06.2012	30.06.2013	30.06.2014
<b>ASSETS</b>		<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Non-current assets</b>		<b>225,340</b>	<b>210,150</b>	<b>220,303</b>	<b>221,756</b>
Intangible assets		5,947	8,172	25,048	25,749
Property, plant and equipment		173,358	173,420	180,203	181,200
Investment in real estate		27	26	25	24
Financial assets		15,931	15,951	3,598	3,844
Receivables		30,077	12,581	11,429	10,939
Deferred tax assets		-	-	-	-
<b>Current assets</b>		<b>567,186</b>	<b>504,556</b>	<b>247,285</b>	<b>242,482</b>
Inventories		207,935	231,892	101,624	102,868
Trade receivables		279,522	220,735	117,811	101,282
Other financial assets		48,402	5,488	185	723
Other receivables		22,095	22,840	18,079	30,759
Cash and cash equivalents		9,232	23,601	9,586	6,850
<b>Prepaid expenses and accrued income</b>		<b>1,184</b>	<b>418</b>	<b>1,964</b>	<b>2,377</b>
<b>EQUITY AND LIABILITIES</b>		<b>793,710</b>	<b>715,124</b>	<b>469,552</b>	<b>466,615</b>
<b>Equity</b>		<b>254,489</b>	<b>264,569</b>	<b>168,110</b>	<b>36,910</b>
Share capital		323,707	323,707	323,707	258,965
Capital reserves		-	-	-	6,923
Accumulated losses		(70,376)	(60,978)	(124,035)	(185,460)
Profit/(loss) for the year		556	1,601	(29,037)	(36,076)
Non-controlling interests		602	239	(2,525)	(7,442)
<b>Non-current liabilities</b>		<b>238,694</b>	<b>230,507</b>	<b>125,091</b>	<b>160,710</b>
Borrowings		197,773	188,976	104,330	129,233
Liabilities on securities		-	-	-	-
Provisions		13,000	14,100	5,578	17,394
Deferred tax liabilities		-	-	-	-
Other non-current liabilities		27,921	27,431	15,183	14,083
<b>Current liabilities</b>		<b>293,958</b>	<b>213,288</b>	<b>173,922</b>	<b>245,487</b>

Borrowings and finance lease obligations	19,928	9,719	26,410	87,338
Trade payables	164,318	111,043	108,529	126,134
Received advances obligations	42,173	53,656	19,338	15,686
Other current liabilities	62,539	38,870	19,645	16,329
Liabilities on issued securities	5,000	-	-	-
<b>Accrued expenses and deferred income</b>	<b>6,569</b>	<b>6,760</b>	<b>2,429</b>	<b>23,508</b>

Source: Unaudited consolidated financial statements of the Issuer for the half-years of 2011, 2012, 2013, and 2014

**Table 57 Consolidated profit and loss account of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
<b>Operating income</b>		<b>360,410</b>	<b>509,232</b>	<b>280,498</b>	<b>193,905</b>
Material costs		298,250	433,133	221,566	123,815
Labour costs		40,328	47,801	52,593	58,031
Other expenses		14,671	15,381	24,298	34,973
Depreciation and amortization		8,646	8,864	9,927	9,279
Reservations for expenses and risks		-	-	-	-
Value adjustment		1,450	900	147	19
<b>(Loss)/profit from operations</b>		<b>(2,935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
Financial income		7,107	1,842	1,430	1,066
Financial expenses		2,254	3,340	2,878	5,261
<b>(Loss)/profit from financials</b>		<b>4,853</b>	<b>(1,498)</b>	<b>(1,448)</b>	<b>(4,195)</b>
<b>(Loss)/profit before taxation</b>		<b>1,918</b>	<b>1,655</b>	<b>(29,481)</b>	<b>(36,407)</b>
Income tax expense		1,515	451	10	
<b>(Loss)/profit after taxation</b>		<b>403</b>	<b>1,204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>Non-controlling interests</b>					
<b>(Loss)/profit for the year</b>		<b>403</b>	<b>1,204</b>	<b>(29,491)</b>	<b>(36,407)</b>
<b>EBITDA</b>		<b>5,711</b>	<b>12,017</b>	<b>(18,106)</b>	<b>(22,933)</b>
<i>EBITDA margin (%)</i>		<i>1.58%</i>	<i>2.36%</i>	<i>(6.45%)</i>	<i>(11.83%)</i>
<b>EBIT</b>		<b>(2,935)</b>	<b>3,153</b>	<b>(28,033)</b>	<b>(32,212)</b>
<i>EBIT margin (%)</i>		<i>(0.81%)</i>	<i>0.62%</i>	<i>(9.99%)</i>	<i>(16.61%)</i>
<i>NETO profit margin (%)</i>		<i>0.11%</i>	<i>0.24%</i>	<i>(10.51%)</i>	<i>(18.76%)</i>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

**Table 58 Consolidated cash flow statement of the Issuer**

(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
(Loss)/profit before taxation	1,918	1,655	(29,481)	(36,407)
Depreciation and amortization	8,646	8,864	9,927	9,279
Increase of current liabilities	67,513			
Decrease of current receivables			105,840	
Decrease of inventories	28,173	63,406	8,738	3,073
Other increase of cash flow	640	14,377	213	243
<b>Total increase of cash flow from operating activities</b>	<b>106,890</b>	<b>88,302</b>	<b>95,237</b>	<b>(23,812)</b>
Decrease of current liabilities		73,954	98,848	116,601
Increase of current receivables	114,986	67,726		11,134
Increase of inventories				
Other decrease of cash flow	574	22,173		1,937
<b>Total decrease of cash flow from operating activities</b>	<b>115,560</b>	<b>163,853</b>	<b>98,848</b>	<b>129,672</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>8,670</b>	<b>(75,551)</b>	<b>(3,611)</b>	<b>(153,484)</b>
Sale of non-current tangible and intangible assets	47	679		
Sale of equity and debt instruments			43	
Collection from interests	3,901	3,857	55	1,240
Other collections from investment activities				
<b>Total increase of cash flow from investment activities</b>	<b>3,948</b>	<b>4,536</b>	<b>98</b>	<b>1,240</b>
Purchases of non-current tangible and intangible assets	902	8,429	1,445	5,126
Purchases of equity and debt financial instruments				
Other decreases from investment activities				
<b>Total decrease of cash flow from investment activities</b>	<b>902</b>	<b>8,429</b>	<b>1,445</b>	<b>5,126</b>
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>3,046</b>	<b>(3,893)</b>	<b>(1,347)</b>	<b>3,886</b>
Proceeds from issuance of equity and debt securities	23,251			
Collection of given loans	88,827	171,660	61,141	96,431
Other proceeds from financial activities	183		3	90
<b>Total increase of cash flow from financial activities</b>	<b>112,261</b>	<b>171,660</b>	<b>61,144</b>	<b>96,521</b>
Repayment of loans	94,441	143,080	68,904	32,799
Repayment of finance lease	305	645	411	187
Other repayment from financial activities	1,300		3,146	42,682
<b>Total decrease of cash flow from financial activities</b>	<b>96,046</b>	<b>143,725</b>	<b>72,461</b>	<b>75,668</b>
<b>NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>16,215</b>	<b>27,935</b>	<b>-11,317</b>	<b>20,853</b>
<b>NET CASH FLOW</b>	<b>10,592</b>	<b>(51,510)</b>	<b>(16,275)</b>	<b>(136,516)</b>

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

**Table 59 Consolidated statement of changes in shareholders' equity of the Issuer**

	(in 000 kunas)	I - VI 2011	I - VI 2012	I - VI 2013	I - VI 2014
Share capital		326,194	326,186	323,707	258,965
Capital reserves					
Reserves from profit					
Accumulated losses		(72,108)	(62,819)	(126,560)	(185,979)
Profit/(loss) for the year		403	1,204	(29,037)	(36,076)
Revaluation of non-current tangible assets					
Revaluation of intangible assets					
Revaluation of financial assets available for sale					
Other revaluations					
<b>Total equity and provisions</b>		<b>254,489</b>	<b>264,571</b>	<b>168,110</b>	<b>36,910</b>
Exchange differences of net investments in foreign operations					
Current and deferred taxes (part)					
Hedging					
Application of accounting policies					
Revision of errors from previous periods					
Other equity changes		403	1,204	(29,037)	(36,076)
<b>Total increase/decrease of equity</b>		<b>403</b>	<b>1,204</b>	<b>(29,037)</b>	<b>(36,076)</b>
Total parent		253,887	264,330	170,635	44,352
Non-controlling interests		602	239	(2,525)	(7,442)

Source: Unaudited consolidated financial statements of the Issuer for the first half-years of 2011, 2012, 2013, and 2014

**20.6.2. If the registration document is dated more than 9 months after the end of the last audited financial year, it must contain interim financial information, which may be unaudited (in which case that fact must be stated) covering at least the first 6 months of the financial year.**

The Issuer has presented the unaudited financial statements for the first six months of the current financial year.

## 20.7. Dividend policy

The Issuer has no dividend policy in place.

**20.7.1. The amount of the dividend per share for each financial year of the period covered by the historical financial information**

In the period covered by the historical financial information the Issuer has paid no dividend.

## 20.8. Legal, governmental and arbitration proceedings

The Issuer and/or Group companies are parties to the following governmental, legal or arbitration proceedings that may have material effect on financial position or profitability of the Issuer and/or the Group.

**Table 60 Review of governmental, legal or arbitration proceedings**

Court	Type of proceeding	Court filing no.	Year initiated	Plaintiff	Defendant	Statement of claim	Value in dispute
Commercial Court of Osijek	Civil proceeding	P-114/13	2007	Bratstvo Holding d.d., Bosnia and Herzegovina, and others	Đuro Đaković Specijalna vozila d.d.	Claim for unpaid invoices	USD 3,013,063
Commercial Court of Osijek	Civil proceeding	P-383/08	2007	Famos Holding d.d., Bosnia and Herzegovina, and others	Đuro Đaković Specijalna vozila d.d.	Claim for unpaid invoices	USD 4,385,731.20
Commercial Court of Osijek	Civil proceeding	P-108/11	2007	Zrak d.o.o., Bosnia and Herzegovina, and others	Đuro Đaković Specijalna vozila d.d.	Claim for unpaid invoices	USD 5,577,714.60
Commercial Court of Zagreb	Civil proceeding	P-8341/11	2011	TIS commerce d.o.o.	Đuro Đaković Elektromont d.d.	Claim for payment and application for securing monetary claim	HRK 3,982,073.27
Commercial Court of Zagreb	Civil proceeding	Povr-2682/11	2011	Đuro Đaković Elektromont d.d.	TIS commerce d.o.o.	Payment	HRK 3,319,258.81

Municipal Court of Slavonski Brod	Civil proceeding	P-1305/08	2008	INA d.d.	Defendant III– Đuro Đaković Holding d.d.	Establishing co-ownership right	HRK 5,000,000.00
Commercial Court of Osijek Permanent Service in Slavonski Brod	Civil proceeding	P-237/14	2014	Metakolor d.o.o.	Đuro Đaković Holding d.d.	Payment	HRK 8,968,831.60
Municipal Civil Court of Zagreb	Execution	Ovrpl-1231/13	2013	ĐĐ Inženjering d.d.	Hypo Alpe Adria Bank d.d.	Interim measure for ban of collection under a debenture note	HRK 7,752,438.87
Commercial Court of Zagreb	Civil proceeding	P-760/13	2013	ĐĐ Inženjering d.d.	Hypo Alpe Adria Bank d.d.	Declaration of nullity of statement of guarantee	HRK 7,752,438.87
Commercial Court of Osijek Permanent Service in Slavonski Brod	Civil proceeding	P-237/14	2014	Metal kolor d.o.o.	Defendant I– Đuro Đaković Holding d.d. Defendant II– Đuro Đaković Inženjering d.d.	Payment of damages for failure to fulfil contract obligation	HRK 8,968,831.60
Commercial Court of Osijek Permanent Service in Slavonski Brod	Civil proceeding	Povrv-934/13	2012	Prvi faktor d.o.o.	Defendant I– Đuro Đaković Holding d.d.	Payment	HRK 2,000,000.00

Source: Issuer

Group companies have made appropriate provisions for some of these litigations, while in regard to litigations for which it was estimated that no material effect to financial position or profitability would arise, no provision has been made.

## 20.9. Significant change in the issuer's financial or market position

Pursuant to the decision of the Issuer's General Assembly of 3 July 2014, entered into the companies registry on 25 August 2014 the Issuer decreased its share capital from the amount of HRK 258,965,440.00 by the amount of HRK 194,224,080.00 to the amount of HRK

64,741,360.00 for coverage of losses brought forward. The losses brought forward include operational losses and impairment allowance. This decision is described in greater detail in Part II – item 21. hereof.

## 21. ADDITIONAL INFORMATION

### 21.1. Share capital

#### ***21.1.1. The amount of issued capital and the number of shares***

The Issuer's share capital as of the date of this Prospectus amounts to HRK 64,741,360.00.

The number of shares authorised is 3,237,068.

The number of shares issued and fully paid up is 3,237,068.

The nominal value of one share is HRK 20.00.

#### ***21.1.2. If there are shares not representing capital, state the number and main characteristics of such shares.***

There are no shares of the Issuer not representing capital.

#### ***21.1.3. The number, book value and nominal value of the Issuer's treasury shares or the shares in the Issuer held on behalf of the Issuer by subsidiaries of the Issuer and their share in the share capital of the Issuer.***

The Issuer holds 46,998 treasury shares of total nominal value HRK 939,960.00 constituting 1.45% share in the Issuer's share capital.

As of the date hereof no shares in the Issuer are held by its subsidiaries on behalf of the Issuer.

#### ***21.1.4 Convertible securities***

The Issuer has not issued any convertible securities giving right to acquisition of the shares in the Issuer.

#### ***21.1.5. Information about and terms of any acquisition rights and/or obligations over authorised but unissued capital or an undertaking to increase the capital. Existence of any decision or commitment of the Issuer regarding granting priority rights in future share capital increases.***

Pursuant to Article 65 of the Memorandum of Association and Article 308 of the Companies Act the Issuer's shareholders have a pre-emption right to new shares in proportion to the presently held capital.

Article 67 of the Memorandum of Association provides that the Issuer's Management Board is authorised to pass a decision on share capital increase by issue of new shares against



payments in cash, either once-only or on more occasions, whereby the share capital may be increased by a maximum nominal amount of HRK 50,000,000.00.

Pursuant to the decision on share capital increase the Management Board is authorised to regulate in detail conditions for subscription, payment and issue of shares, whereby the shares will have the same nominal amount as all other ordinary shares of the Issuer and give the same rights as all other ordinary shares of the Issuer. New share may be issued only provided prior consent of the Supervisory Board.

The authority of the Management Board will be in force for 5 from entry of the amendment of the Memorandum of Association into the companies registry and the Supervisory Board will be authorised to harmonise the provisions of the Memorandum of Association with the changes resulting from such share capital increase by issue of the new shares.

There is no obligation to increase the share capital of the Issuer.

***21.1.6. Information on the number and percentage of shares in regard to which derivative securities have been issued.***

The Issuer and Group members have no capital which is under option or agreed conditionally or unconditionally to be put under option.

***21.1.7. Historical overview of changes in the share capital amount***

Pursuant to the decision of the General Assembly of 12 July 2000 on simplified share capital decrease, the company's share capital was decreased from HRK 788,247,000.00 by HRK 262,749,000.00 to HRK 525,498,000.00, namely by decrease of value of each share from the amount of HRK 300.00 to the amount of HRK 200.00.

Pursuant to the decision of the General Assembly of 30 August 2005 the share capital was increased from HRK 525,498,000.00 by HRK 121,915,600.00 to HRK 647,413,600.00. The share capital was increased by issue of 609,578 new ordinary "B" shares with nominal value of HRK 200.00 each, which was pursuant to the Agreement on Contribution of Rights (Claims) into the Shareholders Equity registered to the Republic of Croatia, Ministry of Finance. An audit report has been made on the conversion of claims.

Pursuant to the decision of the General Assembly of 30 November 2005 the Issuer's share capital was decreased through simplified share capital decrease for coverage of losses from previous financial years, as follows: from the amount of HRK 647,413,600.00 by the amount of HRK 323,706,800.00 to the amount of HRK 323,706,800.00, namely by decrease of nominal value of each share from the amount of HRK 200.00 to the amount of HRK 100.00. The share capital comprises 3,237,068 shares with nominal value of HRK 100.00 each, 2,627,490 shares being "A" shares and 609,578 shares being "B" shares.

At the General Assembly of the company held on 28 August 2013 the decision on simplified share decrease for coverage of losses and allocation of funds into capital reserves and

statutory provisions was made. The share capital was decreased through simplified share capital decrease from HRK 323,706,800.00 by HRK 64,741,360.00 to HRK 258,965,440.00. The share capital was decreased through simplified share capital decrease by decrease of nominal value of each share from the amount of HRK 100.00 by the amount of HRK 20.00 to the amount of HRK 80.00. The simplified share capital decrease was conducted for coverage of losses of the company in amount of HRK 57,817,925.00, while the amount of HRK 6,923,435.00 is allocated into capital reserves and statutory provisions of the company. The share capital comprises 3.237.068 shares, 2,627,490 shares being "A" shares and 609,578 shares being "B" shares, with nominal value of HRK 80.00 each.

At the General Assembly of the company held on 3 July 2014 the decision on simplified share decrease for coverage of losses and allocation of funds into capital reserves and statutory provisions was made. The share capital was decreased through simplified share capital decrease from HRK 258,965,440.00 by HRK 194,224,080.00 to HRK 64,741,360.00. The share capital was decreased through simplified share capital decrease by decrease of nominal value of each share from the amount of HRK 80.00 by the amount of HRK 60.00 to the amount of HRK 20.00. The simplified share capital decrease was conducted for coverage of losses of the company in amount of HRK 181,967,045.00, while the amount of HRK 12,257,035.00 is allocated into capital reserves and statutory provisions of the company. The share capital comprises 3.237.068 shares, 2,627,490 shares being "A" shares and 609,578 shares being "B" shares, with nominal value of HRK 20.00 each.

## **21.2. Memorandum of Association**

### ***21.2.1. A description of the Issuer's activities***

The Issuer's activities are laid down in Article 11 of the Memorandum of Association.

The Issuer's activities are as follows:

- management of holding companies,
- sale of weapons and military equipment,
- insurance and protection of manufacturing and sale of weapons and military equipment,
- export and import of military goods and non-military lethal weapons,
- services related to military goods,
- entry into agreements on manufacturing weapons and military equipment for export,
- marketing and foreign market research for the purposes of export of weapons and military equipment,

- consulting and intermediation in the field of manufacturing and trade of weapons,
- services of logistics, supply, maintenance, transport, intermediation and customs forwarding,
- joint venture and company incorporation abroad, purchase and sale of know-how, licences and patents,
- real estate activities,
- real estate agencies,
- architectural and engineering activities and related technical consultancy,
- preparation of technical reports for registration of floor ownership of flats, business premises and other real estates,
- construction, project design and supervision,
- transshipment, warehousing and other activities auxiliary to transport,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets,
- preparation of food and provision of catering services,
- renting of office machinery and equipment,
- accounting and bookkeeping activities,
- marketing (advertising and propaganda),
- providing parking services at own parking lot with charge,
- humanitarian demining activities.

Article 12 of the Issuer's Memorandum of Association provides for that the company will participate in the following foreign affairs:

- import and export,
- joint venture and company incorporation abroad, purchase and sale of know-how, licences and patents,
- wholesale and retail trade of food and non-food products, other than weapon, ammunition and medicines.

**21.2.2. A summary of provisions of the provisions of the Memorandum of Association on the Management Board and the Supervisory Board, as well as any other acts with respect to the members of the administrative, management and supervisory bodies**

Articles 34 to 53 of the Memorandum of Association contain provisions on the Management Board and the Supervisory Board, as follows:

- Article 34 of the Memorandum of Association provides for that the company bodies of the Issuer are Management Board, Supervisory Board and General Assembly.
- Article 35 lays down that the Management Board is appointed by the Supervisory Board for a period of 5 years, and is comprised of 3 members, one of them being President. Also, depending on the circumstances during their office, the Management Board may have a smaller number of members, the decision on which to be passed by the Supervisory Board.
- Article 36 lays down requirements that must be fulfilled by members of the Management Board.
- Article 37 defines that the Management Board is appointed by the Supervisory Board and that at the time of appointment the President is nominated.
- Article 38 prescribes that the Supervisory Board enters into contracts with the President and members of the Management Board regarding employment, rights, obligations and salary.
- Article 39 lays down competencies and authorities of the Management Board.
- Article 39 regulates submission of annual financial statements and report on the condition of the company and proposal on distribution of profit.
- Article 40 lays down activities and tasks which the Management Board may undertake only provided prior consent of the Supervisory Board.
- Article 41 lays down liability of the Management Board for damage.
- Article 42 provides for the manner of representation, whereby the members and the President of the Management Board represent the company solely and without restrictions and the Management Board may give another person power of attorney in writing for closing of contracts and entry into legal transactions.
- Article 42.a provides for that the Management Board passes the Rules of Procedures with the majority of votes and also that it makes decisions with a majority of votes.
- Article 43 provides for recall of a member of the Management Board, principles regarding remuneration, non-competition clause and granting of loans to a member of the Management Board and resignation by a member of the Management Board.

- Article 44 provide for the composition and election of members of the Supervisory Board, prescribing that the Supervisory Board has 7 members, 5 of them elected, 2 appointed. One member is appointed by the Croatian Privatisation Fund and one by the employees in accordance with the Labour Act. The office of the members of the Supervisory Board lasts for 4 years.
- Article 45 prescribes that if the Supervisory Board lacks a necessary number of members to be qualified to pass decisions, Article 257 of the Companies Act will apply.
- Article 46 regulates recall and resignation of members of the Supervisory Board, whereby the decision on recall is passed by the General Assembly with a three-quarter majority of the votes cast.
- Article 47 lays down who may be elected as a member of the Supervisory Board.
- Article 48 lays down competences of the Supervisory Board.
- Article 49 provides for competences and reporting.
- Article 50 lays down that the Supervisory Board should be convened on a quarterly basis as a matter of principle, and obligatorily semi-annually.
- Article 51 lays down the manner of decision-making by the Supervisory Board.
- Article 52 provides for that on the manner of work, liability for damage, granting loans to members of the Supervisory Board, contracts with the members of the Supervisory Board the provisions of the Companies Act apply.
- Article 53 regulates the right to remuneration of members of the Supervisory Board, about which the General Assembly decides.

The full text of the Memorandum of Association dated 3 July 2014 was entered into the companies registry of the Commercial Court of Osijek Permanent Service Slavonski Brod on 25 August 2014.

In some Group companies of Đuro Đaković Group internal acts are in force that provide for members of administrative, management and supervisory bodies (hereinafter: "internal acts").

Thus in the companies Đuro Đaković Inženjering d.d., Đuro Đaković Elektromont d.d. and Đuro Đaković Specijalna vozila d.d. in July 2013 internal acts under the name Rules of Procedures of Executive Officers have been passed, which are identical as regards content. In the company Đuro Đaković Holding d.d. internal acts in force are Rules of Procedures of the Management Board (dated 20 June 2013) and Rules of Procedures of the Supervisory Board (dated 17 February 2012).

Below follows a short overview of relevant provisions of the said acts.

1. Name of internal act: **Rules of Procedure of the Management Board, Slavonski Brod, 20 June 2013.**

- in force in: Đuro Đaković Holding d.d
- short overview of relevant provisions:
  - Article 2 lays down that the provisions of the Rules of Procedure must be in compliance with the provisions of the law and the Memorandum of Association of the company.
  - Article 3 lays down that the company's Management Board appoints executive vice presidents of business segments and function directors responsible for implementation of decisions by the Management Board as well as plans in force.
  - Article 4 lays down that the President of the Management Board organises and coordinates the work of all Management Board members.
  - Article 8 lists the affairs on which, among other things, the Management Board decides at its meetings.
  - Article 8 lays down that the Management Board participates in planning, decision-making, supervision of operations in the ownership of Đuro Đaković Holding through representatives appointed by its decision into the bodies of the respective companies.
  - Article 10 lays down that the Management Board meetings are held weekly, quarterly and annually and Article 11 provides for the company seat as the usual place of holding the meetings.
  - Article 19 lays down that holding of a Management Board meeting requires quorum, i.e. presence of a minimum of a half of the number of all members of the Management Board, that must be present at the meeting in person, and exceptionally on the phone, or electronically.
  - Article 23 lays down that all confidential information learnt by a Management Board member during exercise of their office in the company are business secret.
  - Article 24 provides for the manner of voting for the decisions of the Management Board and lays down that the decisions from the scope of the Management Board are passed with simple majority of votes of members present, while a number of specified decisions is passed unanimously (passing of the Rules of Procedure, adoption of the business plan on weekly, quarterly and annual level, appointment of proxy holders and commercial authorised persons and tasks to be performed by individual Management Board members independently, as well as determining of such members).

- Article 25 lays down that the Management Board can pass decisions even without holding the meetings, as part of consultations of members, unless any of the members opposes not holding of the meeting, i.e. opposes passing of decision through consultations.

- Articles 34 to 38 list in detail all tasks in the company performed by the President of the Management Board and individual members.

- Article 41 prescribes that the President of the Management Board and each member represent the company solely and individually.

2. Name of internal act: **Rules of Procedure of the Supervisory Board, Slavonski Brod, 17 February 2012**

- in force in: Đuro Đaković Holding d.d.

- short overview of relevant provisions:

- Article 4 lays down that the Supervisory Board should as a rule be held in the company's seat,

- Article 10 provides for that at the first constituting meeting of the Supervisory Board the member elect the president and one deputy among themselves,

- Article 17 lays down that decision-making at the meetings of the Supervisory Board requires quorum constituted by a simple majority of all members of the Supervisory Board,

- Article 21 lays down that the Supervisory Board passes its decisions by a majority of all member of the Supervisory Board, while the decision on adopting the Rules of Procedure is passed with a three-quarter majority of all members of the Supervisory Board.

3. Name of internal act: **Rules of Procedure for executive officers, Slavonski Brod, July 2013.**

- in force in: **Đuro Đaković Elektromont d.d., Đuro Đaković Inženjering d.d. and Đuro Đaković Specijalna vozila d.d.**

- short overview of relevant provisions:

- Article 2 lays down that the provisions of the Rules of Procedure must be in compliance with the provisions of the law and the Memorandum of Association of the company.

- Article 4 lays down that the Chief Executive Officer organises and coordinates the work of all executive officers,
- Article 8 provides for tasks on which, among other things, executive officers decide,
- Article 10 lays down that the meetings of executive officers are held weekly, quarterly and annually and Article 11 provides for the company seat as the usual place of holding the meetings.
- Article 19 lays down that holding of a meeting of executive officers requires quorum, i.e. presence of a minimum of a half of the number of all members of the Management Board, that must be present at the meeting in person, and exceptionally on the phone, or electronically.
- Article 23 lays down that all confidential information learnt by an executive office during exercise of their office in the company are business secret.
- Article 24 provides for the manner of voting for the decisions of the executive offices and lays down that the decisions from the scope of the executive officers are passed with simple majority of votes of executive officers present, while a number of specified decisions is passed unanimously (passing of the Rules of Procedure, adoption of the business plan on weekly, quarterly and annual level, appointment of proxy holders and commercial authorised persons and tasks to be performed by individual executive officers independently, as well as determining of such officers).
- Article 25 lays down that executive officers can pass decisions even without holding the meetings, as part of consultations of executive officers, unless any of the executive officers demands holding of the meeting, i.e. opposes passing of decision through consultations.
- Articles 34 to 36 list in detail the tasks in the company performed by the Chief Executive Officer and individual executive officers,
- Article 41 prescribes that the executive officers are entitled to represent the company and that the Chief Executive Officer, pursuant to a decision of the Management Board, represent the company individually for the scope of their business functions.

**21.2.3. A description of the rights, preferences and restrictions attaching to each class of the existing shares.**

There are no different classes of shares, the Issuer has issued ordinary registered shares.

The existing shares give the following rights:



1. **right to a dividend.** This right is regulated by the Memorandum of Association of the Issuer, in the manner that Articles 25 to 28 lay down that the decision on distribution of profit is passed by the General Assembly in accordance with the law. Each shareholder has a right to share in the profit distributed in proportion to the nominal value of the shares. To any other issues in regard to distribution of dividend the Companies Act applies.
2. **voting right in the company's General Assembly.** Each share in the Issuer gives right to one vote in the General Assembly. Pursuant to Article 56 of the Memorandum of Association the General Assembly of the Issuer is convened by publishing the invitation in the Official Gazette 30 days prior to holding and in the General Assembly the shareholders may participate and vote who are entered into the share ledger, or registry of shares and have announced their participation to the Management Board at least 7 days prior to holding of the General Assembly.
3. **right to a portion of the remainder of the liquidation or bankruptcy assets of the company.** This right has not been specially regulated by the Memorandum of Association of the company, with the exception of the provisions of Article 76 pursuant to which the proceeds of the liquidation assets are used to settle the creditors and the remainder is distributed to the shareholders in proportion to their shares, while to any other issues the provisions of the Companies Act and special laws regulating the bankruptcy proceedings and the liquidation proceedings apply.
4. **right to priority subscription** is defined as a pre-emption right and is regulated in Article 65 of the Memorandum of Association of the company, pursuant to which the shareholders have a pre-emption right to new shares in proportion to their present share in the share capital. By a decision on share capital increase the shareholders can exclude that right in full or partially.
5. **redemption right and provisions regarding conversion** are not regulated by the Memorandum of Association of the company and the provisions of applicable regulations apply to them.

Article 21 of the Issuer's Memorandum of Association provides for that each ordinary share gives right to one vote in the Issuer's General Assembly.

***21.2.4. A description of what action is necessary to change the rights of holders of the shares, indicating the provisions of the Memorandum of Association departing from the provisions of the Companies Act, which expressly allow that.***

The rights of the shareholders can be changed by amendment to the Memorandum of Association of the Issuer and the Memorandum of Association can be amended by a decision of the General Assembly.

Article 20 of the Memorandum of Association provides for that the decision of the General Assembly on issue of priority shares and lays down the rights that they bear.

**21.2.5. A description of the manner in which annual general meetings and extraordinary general meetings of shareholders are convened.**

The manner in which the General Assembly of the Issuer is convened is regulated in Article 56 of the Memorandum of Association of the Issuer.

Pursuant to the provisions of the Memorandum of Association the General Assembly of the Issuer is convened by the Management Board but can also be convened by the Supervisory Board in accordance with the provisions of the Companies Act. The General Assembly of the Issuer must be held in the first 8 months of the financial year. The General Assembly is convened by publishing the invitation and proposed decisions in the Official Gazette 30 days prior to holding.

**21.2.6. A brief description of any provisions of the Issuer's Memorandum of Association, that would that may delay or prevent acquisition of the control hare package of the Issuer.**

The Memorandum of Association of the Issuer does not contain any provisions that may delay or prevent acquisition of the control package of the Issuer.

**21.2.7. An indication of provisions of the Memorandum of Association laying down that shares in the Issuer's share capital or voting rights must be disclosed.**

The Memorandum of Association of the Issuer or any other act of the Issuer does not contain a provision providing for disclosure of shares in the Issuers share capital or voting rights.

**21.2.8. An indication of provisions of the Memorandum of Association referring to change of the share capital of the Issuer**

The amount of share capital is laid down in Article 14 of the Memorandum of Association. Change of the share capital of the Issuer is regulated in Articles 64 to 69 of the Memorandum of Association. Pursuant to the provisions of the Memorandum of Association the decision on increase and decrease of the share capital is passed by the General Assembly by a three-quarters majority of votes.

More details are given in Part II – item 21.1.5. hereof.

## **22. MATERIAL CONTRACTS**

As of the date of this Prospect the Issuer or any Group member have no closed material contracts outside the normal business.

## **23. THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS**

### **23.1. A statement or report attributed to a person as an expert**

The Prospectus does not include a statement or report attributed to a third party as an expert in any field, other than independent audit reports.

### **23.2. Third party information**

The Issuer has not included any third party information in the Prospectus.

## **24. DOCUMENTS ON DISPLAY**

The following documents are on display in writing at the Issuer's seat,

Đuro Đaković Holding d.d., Slavonski Brod, Dr. Mile Budaka 1, Legal Affairs:

- Memorandum of Association of the Issue,
- Consolidated audited financial statements of the Issuer for 2011, 2012 and 2013,
- Consolidated unaudited financial statements of the Issuer for the first half-years of 2011, 2012, 2013 and 2014.

## 25. INFORMATION ON HOLDINGS

### **25.1. Information relating to the undertakings in which the Issuer holds a proportion of the capital likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses.**

Đuro Đaković Holding d.d. is a company with its principal activity being management of holding companies, for the purposes of realising projects of various scope and complexity, such as project design and construction of a wide range of process pressure vessels for oil and petrochemical industry, oil and gas tanks, battle tanks, armoured combat vehicles, demining machines, cargo wagons on all kinds, including reservoirs for transport of liquids and gases, construction of steel structures for bridges, construction of plants on a “turnkey” principle, equipment for thermal power plants and hydro power plants and renewable energy sources.

The following companies are in the majority ownership of Đuro Đaković Holding d.d.:

- Đuro Đaković Specijalna vozila d.d.,
- Đuro Đaković Elektromont d.d.,
- Đuro Đaković Inženjering d.d.,
- Đuro Đaković Proizvodnja opreme d.o.o.,
- Đuro Đaković Strojna obrada d.o.o.,
- Đuro Đaković Energetika i Infrastruktura d.o.o.,
- Slobodna Zona Đuro Đaković Slavonski Brod d.o.o.

The following business divisions have been set up with a view to managing the operation and development of Đuro Đaković Group more efficiently:

- Defence,
- Transport,
- Industry and Energetics,
- Construction and Infrastructure,
- Renewable Energy Sources.



### **1. Đuro Đaković Specijalna Vozila d.d.**

Đuro Đaković Specijalna vozila d.d. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 84,846,000.00, the Issuer's holding in the company's share capital being 99.69%. The total number of shares is 424,230 with nominal value HRK 200.00 each.

The company's principle activity is manufacture of armoured vehicles and it also offers a wide range of cargo wagons. Its product range includes military products and cargo wagons as primary product ranges, but also engineering equipment and industrial cooperation in metal processing industry as additional activities. Being the only manufacturer of combat vehicles in the Republic of Croatia and the main contractor for battle tank range and the ACV AMV 8x8 range, the company is the strategic partner of the Ministry of Defence of the Republic of Croatia and the Armed Forces of Croatia.

The company's activities according to the companies registry data are:

- manufacture of metal structures,
- treatment and coating of metals, general machining,
- manufacture of weapons and ammunition,
- manufacture of other electric equipment, n.e.c.,
- manufacture of electric equipment for motorcycles and vehicles, n.e.c.,
- manufacture of other electric equipment, n.e.c.,
- manufacture of motor vehicles,
- manufacture of bodies for motor vehicles, manufacture of trailers and semi-trailers,
- sale of motor vehicle parts and accessories,
- sale of motor vehicles,
- maintenance and repair of motor vehicles,
- sale of motor vehicle parts and accessories,
- wholesale of non-agricultural intermediate products, waste and scrap,
- other wholesale,
- other financial intermediation, n.e.c.
- software consultancy and supply,



- data processing,
- maintenance of office machinery and computers,
- research and development in technology and technological sciences,
- marketing (advertising and propaganda),
- foreign affairs,
- export and import of: metal structures, electronic equipment for motorcycles and vehicles, other electronic equipment, motor vehicles, bodies for motor vehicles, trailers and semi-trailers, motor vehicle parts and accessories,
- services, parts, raw materials and accessories, maintenance and repair of motor vehicles, treatment and coating of metals,
- development and design of: weapons and ammunition, motor vehicles, electronic equipment for motorcycles and vehicles, information systems or feeding, processing and transmission of data,
- accounting and bookkeeping activities,
- manufacture of machinery for mining, quarrying and construction,
- wholesale of construction machinery,
- renting of other land vehicles,
- renting of construction and civil engineering machinery and equipment,
- manufacture of special-purpose vehicles (waste disposal, cleaning and similar),
- renting of special-purpose vehicles (waste disposal, cleaning and similar),
- wholesale and retail trade of special-purpose vehicles (waste disposal, cleaning and similar),
- retail trade of construction machinery,
- foreign affairs, import and export of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),
- maintenance and repair of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),
- development and design of: machinery for mining, quarrying and construction, special-purpose vehicles (waste disposal, cleaning and similar),

- manufacture and repair of locomotives and rolling stock,
- construction, project design and supervision.

## **2. Đuro Đaković Elektromont d.d.**

Đuro Đaković Elektromont d.d. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 17,457,600.00. The total number of shares is 87,288 with nominal value HRK 200.00 each. The Issuer holds 100 % in the company's share capital.

Đuro Đaković Elektromont d.d. is a company specialised in electrical engineering. The company's principal activities include project design, assembly, testing, and work on its own solutions in the field of electrical engineering. The activities include own project solutions for electricity supply (transformer stations), electric motor drives, cranes, measurement and regulation, safety and uninterruptible power supply, traffic management systems (traffic lights), systems for production process management and control (automation) and load limiting systems.

The company has a subsidiary in Germany, Frankfurterstraße 50, Offenbach am Main. The company's principal activity is wiring on trams, IC trains, electrical assembly on residential and commercial buildings and industrial wiring.

The company's activities according to the companies registry data are:

- manufacture of metal products, other than machines and equipment,
- manufacture of machines and devices,
- manufacture of electric machines and tools,
- manufacture of radio-tv and communication devices and equipment,
- manufacture of medical, precise and optical instruments and watches and clocks,
- manufacture of bodies for motor vehicles, manufacture of trailers and semi-trailers,
- construction, project design and supervision,
- real estate activities,
- computer and related activities,
- research and supervision,
- purchase and sale of goods,

- commercial intermediation on domestic and foreign markets,
- supporting and ancillary activities in transportation,
- public road transportation of passengers and freight in domestic and international transport,
- design, construction, testing, analysis, supervision and maintenance of electrical fittings, industrial and energy plants,
- activity of charging parking, control of charging parking, maintenance of horizontal and vertical signalling, parking lot equipment, organisation and other activities on public and closed parking lots.

### **3. Đuro Đaković Inženjering d.d.**

Đuro Đaković Inženjering d.d. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 6,435,300.00. The company's share capital has been divided into 21,451 shares with nominal value HRK 300.00 each. The Issuer holds 84.84 % in the company's share capital.

The company's principal activities include project design, contract engineering, performance of works, expert supervision and commercial operation on construction of entire buildings and/or plants on a "turnkey" principle in the fields: energy plants, oil and petrochemical industry, food industry plants, buildings, secondary parts of vessels, hydraulic equipment, pressure vessels, cranes and human environment protection.

The company's activities according to the companies registry data are:

- architectural and engineering activities and related technical consultancy,
- making drawings of machines and industrial plants,
- engineering, project management of technical activities,
- engineering in the field of civil engineering, hydraulic engineering, traffic, system engineering and safety engineering,
- preparation of investment documents, preparation of technology documents and technical supervision,
- air-condition projects, cooling projects, sanitary control and pollution projects and acoustics projects,
- intermediation in production of industrial plants (contracting, purchase of equipment, devices and plants),

- intermediation in construction and organisation of assembly and construction works and plant commissioning, organisation and participation in takeover of the final calculation and training of staff for facility exploitation and maintenance and consulting and technical activities (establishing and making drawings, building design, supervision of construction),
- performance of investment works abroad (project preparation, performance of all kinds of works, building takeover),
- organisation of construction of entire buildings (engineering), contract engineering and consultancy engineering,
- factoring, compensation engineering and other services,
- activities of obtaining and assigning intellectual property rights and knowledge and experience (*know-how*),
- other business activities n.e.c.,
- appraisal, other than for real estates or insurance: -construction, project design and supervision in the field of construction, electric works, electronics, mining, chemistry, mechanics and industry,
- professional services related to making of physical planning documents and expert reports for issue of location permits,
- purchase and sale of goods,
- provision of services in trade for the purposes of realising profit or other economic effect on the domestic or foreign market,
- real estate activities and real estate agencies,
- real estate appraisal, making of floor ownership reports,
- activities of authorised customs forwarder (forwarding activities),
- making of expert reports and environment protection surveys,
- water building projects,
- photocopying service,
- expert environment protection activities,
- expert nature protection activities,
- expert protection and rescuing activities,

- real estate management and real estate maintenance.

#### **4. Đuro Đaković Proizvodnja opreme d.o.o.**

Đuro Đaković Proizvodnja opreme d.d. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 6,561,000.00.

The Issuer holds 100% in the company's share capital.

The company's principle activities include manufacture of machinery for mining, quarrying and construction, but also manufacture of other general-purpose and special-purpose vehicles and motor vehicles, renting of machinery and equipment as well as technical testing and analysis.

The company's activities according to the companies registry data are:

- manufacture of metal products, other than machines and equipment,
- manufacture of other general-purpose machines,
- manufacture of other special-purpose machines,
- manufacture of bodies for motor vehicles, manufacture of trailers and semi-trailers,
- real estate activities,
- renting of other machines and equipment,
- technical testing and analysis,
- construction, project design and supervision,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets.

#### **5. Đuro Đaković Strojna obrada d.o.o.**

Đuro Đaković Strojna obrada d.o.o. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 10,307,000.00.

The Issuer holds 100% share capital of the company and pursuant to Article 6 of the Incorporation Deed of a Limited Liability Company the share capital has been divided into shares with value of HRK 1,000,00.

The company's activities are based on machining services with special emphasis on production of power transmission gears. The product range includes production and repair of locomotive wheelsets, production and repair of wagon wheelsets, production of diverse power transmission gears (bearings, gears, spindles, reducers), production of oil drilling valves and machining services and heat treatment.

The company's activities according to the companies registry data are:

- manufacture of taps and valves,
- manufacture of bearings, gears, gearing and driving elements,
- manufacture of machinery for mining, quarrying and construction,
- manufacture of machinery for food, beverages and tobacco industry,
- manufacture of special-purpose machines n.e.c.,
- manufacture of metal structures and their parts,
- treatment and coating of metals,
- general machining,
- machine-building, mechanical bearings, special gears and equipment for petroleum industry,
- metal processing craft service,
- road transportation of goods in international transport for own purposes
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets.

#### **6. Đuro Đaković Energetika i Infrastruktura d.o.o.**

Đuro Đaković Energetika i Infrastruktura d.o.o. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 31,728,000.00 and has been divided into 7 shares. The Issuer 97.55% in the company's share capital.

The company's activity includes engineering, planning, design and project management services, purchasing, construction and commissioning of plants, maintenance and repair, as well as production and assembly of components in the field of both energetics and infrastructure, where it participated in a number of projects in the Republic of Croatia and the Southeast Europe.

The company's activities according to the companies registry data are:

- water collection, treatment and supply,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets,
- production of electricity,
- distribution of electricity,
- organisation of electricity market,
- gas supply,
- trade, intermediation and representation on the energy market,
- production of heating energy,
- distribution of heating energy,
- heating energy supply,
- gas distribution,
- public switched telephone network,
- renting telecommunication lines,
- renting telecommunication network or its parts,
- cable distribution services,
- transmission of speech, sound, data, documents, pictures and other things, without using the radiofrequency spectrum, other than public switched telephone network services,
- project design, construction, use and demolition of buildings,
- construction supervision,
- production and distribution of compressed air,

- management of funds of joint reserves on roads.

### **7. Slobodna Zona Đuro Đaković Slavonski Brod d.o.o.**

Slobodna Zona Đuro Đaković Slavonski Brod d.o.o. is a company in the ownership of the Issuer, with its seat in Slavonski Brod, Dr. Mile Budaka 1. The company's share capital amounts to HRK 1,317,000.0 and pursuant to Article 12 of the company's Articles of Association the share capital has been divided into shares with nominal value of HRK 1.000,00. The Issuer holds 69.62% in the company's share capital.

The company's activities include transshipment, warehousing, transport and marketing.

The company's activities according to the companies registry data are:

- transshipment,
- warehousing,
- activities of other transportation agencies,
- real estate activities on a fee or contract basis,
- marketing (advertising and propaganda),
- accounting, bookkeeping activities and tax consultancy,
- zone management,
- purchase and sale of goods,
- commercial intermediation on domestic and foreign markets,
- representation of domestic and foreign companies,
- translation activities,
- cleaning of all types of buildings,
- other business activities.

### **8. Other undertakings in which the Issuer holds shares**

The Issuer holds a share in the company Đuro Đaković Aparati d.d. having its seat in Slavonski Brod (the city of Slavonski Brod), Dr. Mile Budaka 1. The company's share capital amounts to HRK 3,539,600.00, the Issuer's holding in the company's share capital being 38.45%.



Although the Issuer holds shares in other undertakings, in the Issuer's judgement, holding proportion of the capital of such other companies is not likely to have a significant effect on the assessment of the Issuer's own assets and liabilities, financial position or profit and losses.

### III. SECURITIES NOTE

#### 1. PERSONS RESPONSIBLE

##### 1.1. All persons responsible for information given in the Prospectus

Persons responsible for information contained in the Prospectus are:

ISSUER:

Đuro Đaković Holding dioničko društvo, entry number (MBS): 050002378, personal identification number (PIN): 58828286397, seat: Slavonski Brod, Dr. Mile Budaka 1.

MEMBERS OF THE MANAGEMENT BOARD OF THE ISSUER:

**Tomislav Mazal**, PIN: 11789667620, Ivana Cankara 19, Zagreb 10000, President of the Management Board, represents the company solely and individually,

**Marko Bogdanović**, PIN: 13015431735, Maksimirska 119, Zagreb 10000, represents the company solely and individually.

MEMBERS OF THE SUPERVISORY BOARD OF THE ISSUER:

**Vjekoslav Leko**, PIN: 87574699366, Joze Martinovića 6, Slavonski Brod 35000, President of the Supervisory Board,

**Domagoj Bartek**, PIN: 19075795928, Pavla Radića 1, Slavonski Brod 35000, Vice President of the Supervisory Board,

**Vjekoslav Galzina**, PIN: 25682874488, Ivana Gorana Kovačića 5, Slavonski Brod 35000, member of the Supervisory Board,

**Mladen Huber**, PIN: 53560404771, Trg profesora Martina Robotića 1/9, Županja 32270 member of the Supervisory Board,

**Blaženka Luketić**, PIN: 40468149191, Zagrebačka 148, Donji Andrijevcı 35214, member of the Supervisory Board,

**Igor Žonja**, PIN: 39662833473, Aleja Hermanna Bollea 12, Zagreb 10000, member of the Supervisory Board,

**Zoran Posinovec**, PIN: 99145545992, Goljak 46, Zagreb 10000, member of the Supervisory Board.

## 1.2. Statement of persons responsible

Having taken all required measures, we hereby state that, to the best of our knowledge, information in the Prospectus are in accordance with the facts and that no facts which might affect completeness and accuracy of the Prospectus have been omitted.

### Signatories:

#### MANAGEMENT BOARD

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**Tomislav Mazal**

President of the Management Board

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**Marko Bogdanović**

Member of the Management Board

#### SUPERVISORY BOARD

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**Vjekoslav Leko**

President of the Supervisory Board

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**Domagoj Bartek**

Vice President of the Supervisory Board

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**Vjekoslav Galzina**

Member of the Supervisory Board

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**Mladen Huber**

Member of the Supervisory Board

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**Blaženka Luketić**

Member of the Supervisory Board

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**Igor Žonja**

Member of the Supervisory Board

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**Zoran Posinovec**

## **2. RISK FACTORS**

### **2.1. Risk related to investment in shares**

Investment in shares as equity securities is a very high-risk investment since the market value of shares may be of extremely volatile character. Fluctuations of shares' market value, that may lead to significant losses of the investor, may be a result of entire capital market movements, as well as economic and political movements in the country and the world.

In addition to the above described general risk, investment in shares of a specific issuer also includes a risk of loss related to the operation of that specific issuer, which can occur, among other things, due to macroeconomic and political movements on the markets on which the issuer operates, difference between the expectations of financial analysts and the realised results, activities in the segment of mergers and acquisition and entry into strategic partnerships, potential business difficulties of related parties (strategic partners, buyers, suppliers etc.) and the cyclic character of the sector in which the issuer operates.

If the above-mentioned factors have a negative connotation, or if between the participants on the capital market such expectations develop, there is a significant risk of the fall of the shares' market value. Furthermore, each investor must be aware that there is a risk on the market that they would not be able to sell their shares at any time at a fair market price.

### **2.2. Risk of change of the share price**

Market price of shares is changeable and may be subject to sudden and significant falls. As a result, shareholders may suffer a significant loss due to the fall of the share market price, caused by, including but not limited to, difference between the results published by the issuer and the analysts' prognoses, entry into or failure to enter into material contracts, performance of mergers and acquisitions, closing of strategic partnerships, which include the issuer or its competitors, fluctuations in the financial condition and operating results of the issuer and general changes of prices on the capital market. The market price of shares can rapidly and dramatically change due to adverse development of some of the mentioned factors, but also due to arising of such expectations among participants on the capital market.

Forming of the share price on the capital market is subject to the law of demand and supply and there is therefore always the risk of significant fall of the price of the issuer's share. Also, the financial markets have in the last several years experienced major fluctuations due to economic crisis in the highly developed countries and are still extremely volatile.

### **2.3. Liquidity risk on the capital market**

On a regulated capital market trade of shares occurs when linking matching demand and supply. At certain moments or periods, and even permanently, there might be a decreased demand and/or supply, and thus a significant decrease of number of shares for trading or even a total lack of trading with the shares may occur.

Such situation may make the sale of shares on a regulated market more difficult and have a negative impact on their market price.

### **2.4. Risk of Croatian capital market**

The Croatian capital market has properties of a small market with limited liquidity, which is best manifested through a limited number of institutional investors, a small number of liquid financial instruments, small number of standardised derivative financial instruments, which makes the investment hedging options significantly limited, high influence of a small number of institutional investors on trading prices and volumes, insufficient liquidity of primary and secondary market, extremely high volatility of prices, insufficiently developed institute of corporate governance with market participants and difficult access to the capital market as well as traditional inclination to financing from commercial banks' credit lines.

The domestic capital market has in the recent years survived major fluctuations of prices and trade volumes. Such fluctuations may in the future present increased risk of adverse impact on the market price of shares. Considering the above disadvantages, one can conclude that, if compared to the developed markets, the Croatian market represents a greater system risk for the investors.

### **2.5. Risk of decrease of share in the equity of the Issuer**

Pursuant to the general rules of the Croatian legislation, the existing shareholders of a joint stock company have priority rights in subscription of new shares which are created when increasing the company's share capital, proportionally to their participation in the total share capital of the company. However, the applicable regulations permit share capital increase with simultaneous exclusion or restriction of the existing shareholders' priority rights during subscription of new shares created during such increase.

During the issue of the New Shares of the Issuer, the priority rights of the existing shareholders have not been excluded, nevertheless in possible future increases of the Issuer's share capital, if the General Assembly of the Issuer, with the prescribed majority of votes, makes a decision on exclusion or restriction of the existing shareholders' priority rights during the increase of the share capital, share of such shareholders in the total share capital of the Issuer may be decreased when implementing such decision.

## **2.6. Risk that the dividend is not paid**

Amount of future dividend payments, if any, shall depend on a series of factors such as future income, financial position, cash flow, needs for working capital and capital expenses of the Issuer, decisions of the company's bodies and other factors. Therefore the Issuer cannot guarantee that it shall have means at its disposal for potential dividend payments in the future. Pursuant to the Companies Act and the prevailing practice in the Republic of Croatia, possible dividend is generally paid only once a year after the General Assembly has approved the financial statements of the Issuer and the amount of dividend previously proposed by the Management Board of the Issuer.

The company has no adopted policy of dividend payment and has in the period covered by historical financial information the Issuer has not paid any dividend.

## **2.7. Risk of obligation to announce a company takeover bid due to acquisition of shares**

Pursuant to general regulations of the Act on the Takeover of Joint Stock Companies, applying to the shareholders of the Issuer, a person who acting independently or in concert, acquires voting shares, so that, together with the shares it already acquired, exceeds a threshold of 25% of voting shares, shall announce a takeover bid in respect of all the shares of the company. The said obligation may be excluded by a decision of the General Assembly passed by a three-quarter majority of votes present in the General Assembly, not counting the votes of the acquirer and persons acting in concert with the acquirer.

At the Issuer's General Assembly of 3 July 2014 the decision was made pursuant to which in respect of the share capital increase through public offer which is subject of this Prospectus exclusion of the requirement to announce a takeover bid was approved in accordance with Article 14 paragraph 3 of the Act on the Takeover of Joint Stock Companies.

Without respect to the exclusion of the requirement to announce a takeover bid by the decision of the Issuer's General Assembly of 3 July 2014, acquisition of additional shares of the Issuer besides and/or outside of the offer which is subject of this Prospectus may result in an obligation to announce a takeover bid, if during such additional acquisition the requirements under the Act on the Takeover of Joint Stock Companies have been fulfilled.

## **2.8. Risk arising from financing the investment in shares with borrowed funds**

Financing the investment in shares with borrowed funds may significantly increase investors' risk. In such a case the investor must, when calculating the return on investment or loss in case that the market price of the share falls significantly, also take into account the loan repayment costs. They may not assume that they would repay the loan only from proceeds they expect from investment in shares. Instead, the investors should assess their own financial position prior to investing with a view to establishing whether they would be

capable of paying the interest and paying off the loan principle amount and whether they can also besides the above suffer loss from the investment in shares, instead of gaining profit.

### **2.9. Risks related to taxation of investment in shares**

Receipts from dividends or trade with shares may constitute a taxable event, income or receipt, on which tax is paid in accordance with the applicable tax regulations. Any investor should be independently informed on potential tax effects of investment in shares.

### **2.10. Trade on a regulated market**

The Issuer cannot guarantee that the New Shares will be actively traded on the regulated market. Additionally, due to disturbances of the market conditions, regulatory measures or technical and other problems, secondary trade with shares of the Issuer may be impeded and even a temporary suspension of trade may occur.

### 3. KEY INFORMATION

#### 3.1. Working capital statement

The working capital does not satisfy current needs of the Issuer as of 30 June 2014. The Issuer is short of HRK 26.5 million net working capital, as presented in the following table:

Table 61 Working capital of the Issuer\*

	(in 000 kunas)	30.06.2014
Inventories		102,868
Trade receivables		101,281
Cash		6,850
Trade payables		(126,133)
<b>Net operational working capital</b>		<b>84,866</b>
Other receivables		30,759
Other current assets		723
Borrowings and finance lease obligations (current)		(87,338)
Other current liabilities		(32,014)
Accrued expenses and deferred income		(23,508)
<b>Net working capital</b>		<b>(26,512)</b>

Source: Issuer (\*unaudited information)

The Issuer intends to use part of the proceeds from the share capital increase to secure additional required working capital.

#### 3.2. Capitalisation and indebtedness

The Issuer's financing structure as of 31 August 2014 is presented in the table below:



**Table 62 Review of the capitalization and indebtedness of the Issuer as of 31 August 2014**

	(in 000 kunas)	31.08.2014
<b>Total current debt</b>		<b>94,656</b>
Guaranteed (specified guarantee)		0
Insured (mortgages on real estate, collateral of stocks and shares, debentures)		94,656
Non-guaranteed (uninsured)		0
<b>Total non-current debt (excluding current portion of the non-current debt)</b>		<b>312,640</b>
Guaranteed (guarantees for god work implementation, guarantee period, advance guarantees) **		181,558
Insured (real estate, collateral of stocks and shares, debentures)		131,082
Non-guaranteed (uninsured)		0
<b>Equity</b>		<b>76,998</b>
a) share capital		64,741
b) legal reserves		0
c) other reserves		12,257
<b>Net indebtedness</b>		
A) Cash		2,863
B) Cash equivalents (detailed)		0
C) Securities available for sale		0
<b>D) Liquidity ( A ) + ( B ) + ( C )</b>		<b>2,863</b>
E) Current financial receivables		855
F) Current borrowings and finance lease obligations (including current part of non-current borrowings)		94,656
G) Other current borrowings		0
<b>H) Current borrowings and finance lease obligations ( F ) + ( G )</b>		<b>94,656</b>
<b>I) Current net borrowings ( H ) - ( E ) - ( D )</b>		<b>90,938</b>
J) Borrowings (non-current)		131,082
K) Bonds		0
L) Other non-current borrowings and lease obligations		0
<b>M) Non-current borrowings and finance lease obligations ( J ) + ( K ) + ( L )</b>		<b>131,082</b>
<b>N) Net borrowings ( I ) + ( M )</b>		<b>222,020</b>

Source: Issuer (\*unaudited information, \*\*guarantees are recorded through off-balance recording)

At the General Assembly of the company held on 3 July 2014 the decision on simplified share decrease by decrease of nominal value of each of 3.237.068 shares from the amount of 80.00 HRK by the amount of HRK 60.00 to the amount of HRK 20.00. The share capital was decreased through simplified share capital decrease from HRK 258,965,440.00 by HRK 194,224,080.00 to HRK 64,741,360.00. The simplified share capital decrease was conducted for coverage of losses of the company in amount of HRK 181,967,045.00, while the amount of HRK 12,257,035.00 is allocated into capital reserves and statutory provisions of the company.

The share capital comprises 3.237.068 shares, 2,627,490 shares being "A" shares and 609,578 shares being "B" shares, with nominal value of HRK 20.00 each.

The share capital was decreased through entry of the decision of the General Assembly on share capital decrease into the companies registry of the Commercial Court of Osijek Permanent Service in Slavonski Brod on 25 August 2014.

### **3.3. Interest of legal/natural persons involved in the issue/offer**

The following persons participate in the process of issue of the New Shares of the Issuer through public offer:

1. Zagrebačka banka d.d., Zagreb, Trg bana Josipa Jelačića 10, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080000014, PIN: 92963223473 is a financial advisor for the implementation of public offer without the obligation of redemption and its scope of work includes services relating to drawing up and implementation of the public offer. The total fee for Zagrebačka banka d.d. for the specified services shall depend on the amount of proceeds the Issuer shall collect in the foreseen increase of the share capital. Neither are, nor have there ever been any conflicts of interests related to the engagement of Zagrebačka banka d.d. for drawing up and implementing the public offer for New Shares.

The Issuing Agent is, as stated in Annex 1 to this Prospectus, a qualified investor and has as such also been sent this offer. Namely the Issuing Agent is part of the banking group – UniCredit Group. The UniCredit Group and/or its members are involved in trading, financial and brokerage activities in the field of securities and provide investment banking and financial consultancy services. As part of its regular activities, UniCredit Group and its members may at any point for their own account or for the account of their clients trade or in any other way realise transactions that include equity or debt securities, i.e. senior loans of any company participating in the offer. It is therefore possible that the Issuing Agent or any of its related companies, employees, managers, agents, or any client of UniCredit Group may have such

interests, investments and/or arrangements that may result in conflict of interest as regards the here presented engagement.

The Issuing Agent, as part of UniCredit Group, maintains and implements an efficient policy regarding conflict of interest taking into consideration all circumstances which may lead to conflict of interest due to structure and business activities of other members of the said banking group. The Issuing Agent and its employees having confidential information on the Issuer or its financial instruments, within meaning of the provision of Article 455 of the Companies Act, may not during this engagement trade with the Issuer's financial instruments for their own account until such information is publicly available, and in particular may not disclose such information to any third parties, including legal and/or natural persons related to them and their employees.

2. Žurić i Partneri odvjetničko društvo d.o.o., having its registered seat in Zagreb, Ivana Lučića 2a, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080005384, PIN: 03894745705 provides legal advisory services for the Issuer related to the applicable law of the Republic of Croatia for the purposes of drawing up and implementing public offer. The total fee for the law firm for the provided services for the purposes of drawing up and implementing the public offer shall depend on the amount of proceeds the Issuer shall collect in the foreseen increase of the share capital. Neither are, nor have there ever been any conflicts of interest related to the engagement of this law firm for drawing up and implementing the public offer for the New Shares.

### **3.4. Reasons for the offer and use of proceeds**

The reason for the offer is obtaining of funds for implementation of the started investment cycle. The specified investments are undertaken with the aim of increase in the technological equipment of the Group to a very high level, modernisation of plants and equipment, increase of business efficiency and increase of production capacities. Considering the volume and size of the investment and its importance to financial and business restructuring of the Group, an adequate source of funding for planned investment is equity capital. By increasing the capital and its use for the specified purposes, the Issuer aims to achieve in its financing structure a favourable and reasonable debt-equity ratio.

The Issuer intends to use the proceeds acquired by issuing New Shares for the following items in the following minimum amounts according to thee priority of use:

- |    |                                  |                |
|----|----------------------------------|----------------|
| 1. | Severance payments               | HRK 19 million |
| 2. | Working capital                  | HRK 33 million |
| 3. | Purchase of plants and equipment | HRK 23 million |
| 4. | Development of new products      | HRK 5 million  |

The exact purpose, amounts and priority of use of the proceeds acquired by issuing New Shares will depend on the amount of proceeds and business environment, operating results and needs of the Issuer and Group companies.

#### **4. INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ADMITTED TO TRADING**

##### **4.1. A description of the type and the class of the securities being offered and admitted to trading**

Subject of the offer are new ordinary registered shares of the Issuer. In case of successful implementation of the public offer for New Shares and their listing on the regular market of the Zagreb Stock Exchange, New Shares shall have the ticker DDJH-R-A, ISIN (International Securities Identification Number) HRDDJHRA0007.

##### **4.2. Legislation under which the securities have been created.**

The securities have been created under the legislation of the Republic of Croatia.

##### **4.3. An indication whether the securities are in registered form or bearer form and whether the securities are in certificated form or book-entry form. In the latter case, name and address of the entity in charge of keeping the records.**

The securities are registered and will be issued in book-entry form, as electronic records on the securities account in the computer system of the Central Depository and Clearing Company d.d., Zagreb, Heinzlova 62/a.

##### **4.4. Currency of the securities issue.**

The New Shares that are the subject of issue are denominated in HRK.

##### **4.5. A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights**

In accordance with the provisions of the Companies Act, the New Shares give the same rights, as provided for by the Companies Act and the Memorandum of Association of the

Issuer, as the existing shares of the Issuer, as of the date of entry of the share capital increase into the companies registry.

Pursuant to the Companies Act and the Memorandum of Association of the Issuer the existing shares of the Issuer give the following rights:

- 1. right to a dividend**, is regulated by the Memorandum of Association of the Issuer, in the manner that Articles 25 to 27 lay down that the decision on distribution of profit is passed by the General Assembly in accordance with the law. The company's profit may be used for, in addition to allocation into mandatory reserves and distribution to shareholders, also for other purposes, such as payment to employees, Management and Supervisory Board members. Pursuant to the Memorandum of Association of the Issuer, each shareholder has a right to share in the profit distributed in proportion to the nominal value of the shares. To any other issues in regard to distribution of dividend the Companies Act applies, which in Article 223 lays down that, if the General Assembly fails to specify in the decision on use of profit, the day when the shareholders' claim arises to payment of dividend determined by that decision, which may not be later than 30<sup>th</sup> day after the day of passing of the decision, the shareholders' claim for payment of dividend arises on expiry of the day when the General Assembly was closed at which such decision was passed. By acquisition by the shareholders, the claims for payment of dividend are separated from the shares by exercise of the rights from which it were created. In the decision on payment of dividend the due date of such claim may be specified, which may not be later than 30<sup>th</sup> day after the day the shareholders acquired them. If the General Assembly fails to specify the due date of the claims, they become due upon expiry of the 30<sup>th</sup> day when they were acquired.

The Memorandum of Association of the company does not provide for any specific restrictions in regard to dividend. When distributing dividend to the shareholders the Issuer applies the identical procedure for shareholders who are residents and for shareholders who are not residents. The decision of the General Assembly does not specify the dividend in percentage but in absolute amount. Possible dividend is generally paid only once a year after the General Assembly has approved the financial statements of the Issuer and the amount of dividend previously proposed by the Management Board of the Issuer. The dividend is not guaranteed in an amount determined in advance and is not cumulative, so the shareholders are not entitled to payment of accumulated undistributed dividend from previous periods. The Memorandum of Association provides for the authority of the Management Board to, provided consent of the Supervisory Board, pass a decision on advance payment of dividend.

- 2. voting right** in the company's General Assembly. Each share in the Issuer gives right to one vote in the General Assembly. Pursuant to Article 56 of the Memorandum of Association the General Assembly of the Issuer is convened by publishing the invitation in the Official Gazette 30 days prior to holding. Article 57 of the Memorandum of Association lays down that the shareholders may participate and vote in the General Assembly who are entered into the share ledger, or registry of

shares and have announced their participation to the Management Board at least 7 days prior to holding of the General Assembly.

3. **right to a portion of the remainder of the liquidation or bankruptcy assets of the company.** This right has not been specially regulated by the Memorandum of Association of the company, with the exception of the provisions of Article 76 pursuant to which the proceeds of the liquidation assets are used to settle the creditors and the remainder is distributed to the shareholders in proportion to their shares, while to any other issues the provisions of the Companies Act and special laws regulating the bankruptcy proceedings and the liquidation proceedings apply.
4. **right to priority subscription, defined as pre-emption right,** is regulated in Article 65 of the Memorandum of Association of the company, pursuant to which the shareholders have a pre-emption right to new shares in proportion to their present share in the share capital. By a decision on share capital increase the shareholders can exclude that right in full or partially. If deciding on exclusion of the shareholders' pre-emption right, the decision must be passed with a three-quarter majority of the votes cast, the Management Board having the obligation to specially explain the reasons for exclusion.
5. **redemption right and provisions regarding conversion** are not regulated by the Memorandum of Association of the company and the provisions of applicable regulations apply to such rights.

#### **4.6. Statements of the resolutions, authorisations and approvals by virtue of which the securities will be issued**

The New Shares are issued pursuant to the Decision of the General Assembly of the Issuer on share capital increase by payment in cash of 3 July 2014. The said decision has been published on the website of the Zagreb Stock Exchange on 4 July 2014. The company's share capital will be increased after entry of the share capital increase into the companies registry of the competent commercial court, following which the New Shares will be entered in the computer system of the Central Depository and Clearing Company.

#### **4.7. The expected issue date of the securities**

The exact date of issue of the New Shares cannot be specified. A detailed description of the procedure is given in Part III. - item 5 ("*Terms and conditions of the offer*") hereof. The issue of the New Shares shall follow after the increase of the share capital of the Issuer is entered in the companies registry of the Commercial Court of Osijek, Permanent Service in Slavonski Brod. Pursuant to the Decision of the General Assembly of the Issuer on share capital increase by payment in cash of 3 July 2014, if the share capital increase is not entered into the companies registry within 6 months as of the date of passing of the said Decision, the subscription statement (Application Form) shall no longer bind the investors and the Issuer shall within 8 (eight) days following expiry of the said deadline return to the investors the

paid funds. In such case the Issuer will not bear any payment system costs or pay interests to the investors.

#### **4.8. A description of any restrictions on the free transferability of securities**

There are no restrictions on the free transferability of the New Shares.

#### **4.9. Indication of the existence of any mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities**

To the shareholders of the Issuer the provisions of the Act on the Takeover of Joint Stock Companies apply, pursuant to which a natural or legal person who acting directly or indirectly, independently or in concert, acquires voting shares of the target company, so that, together with the shares it already acquired, exceeds a threshold of 25% of voting shares in the target company, shall announce a takeover bid in respect of all the shares of the company. However, at the General Assembly of the Issuer of 3 July 2014 the decision was passed, pursuant to which in regard to share capital increase by public offer being subject of this Prospectus, the exclusion of the obligation to announce a takeover was approved, in accordance with the provisions of Article 14 paragraph 3 of the Act on the Takeover of Joint Stock Companies.

In the knowledge of the Issuer, there are no Indications of the existence of any mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.

#### **4.10. Indication of public takeover bids by third parties in respect of the Issuer's shares, which have occurred during the last financial year and the current financial year**

In the last financial year and the current financial year until the date of this Prospectus there have been no public takeover bids by third parties in respect of the Issuer's shares.

#### **4.11. Taxes related to securities**

##### *Income tax*

Pursuant to the provisions of the Income Tax Act (Official Gazette from 177/04 to 83/14), receipts from dividends and profit sharing on the basis of equity participation exceeding HRK 12,000.00 per year acquired by the taxpayers of this tax, shall be considered income from capital and are as such taxable with the withholding tax at the 12% rate. Receipts from dividends and profit sharing on the basis of equity participation up to HRK 12,000.00 per year are in principle tax exempt, however, the decrease by the untaxable share of the receipt shall be recognized only upon submission of the annual tax report. Accordingly, the

payer of dividends and profit sharing shall withhold the income tax on the total amount of the dividend or profit sharing (taxable and untaxable part) at the 12% rate plus local tax, if any, whereas the recipient of the dividend or profit share acquire the right to the untaxable share upon submission of the annual income tax report.

Income from the sale of shares acquired by natural persons in the Republic of Croatia shall not be considered income, shall not form a part of tax base and therefore is not taxable, unless this represents a business activity of the taxpayer.

#### *Profit tax*

Pursuant to the provisions of the Profit Tax Act (Official Gazette from 177/04 to 148/13), receipts from dividends and profit sharing on the basis of equity participation acquired by the taxpayers of this tax are a non-taxable income – when submitting annual profit tax report, a taxpayer may increase its tax base by the total amount of receipts acquired therefrom.

Capital profit acquired by the taxpayer when selling the securities shall be taxable by the profit tax at the 20% rate.

#### *Value added tax*

Pursuant to the provisions of the Value Added Tax Act (Official Gazette from 73/13 to 153/13), transactions, including intermediation, except for management and deposits, related to shares, shares in companies or associations, bonds and other securities, with the exception of documents establishing a certain right over goods and rights or securities establishing certain rights over real estates, shall be VAT-exempt.



## **5. TERMS AND CONDITIONS OF THE OFFER**

### **5.1. Conditions, offer statistics, expected timetable and action required to apply for the offer**

#### **5.1.1. Conditions to which the offer is subject**

Pursuant to the Decision on the increase of the share capital made by the Issuer's General Assembly on 3 July 2014, increase of share capital of the Issuer shall be conducted by payments in cash, by issuing up to 9,711,204 New Shares.

The increase of the share capital of the Issuer based on the above Decision shall be conducted by public offer with the priority right in favour of the existing shareholders of the Issuer when subscribing New Shares.

#### **1st and 2nd rounds**

Priority rights for subscription and payment of new shares shall rest with any legal and natural persons who were shareholders on 15 May 2014, relative to the share of their existing shares in the existing share capital of the Issuer, not including the Issuer's treasury shares as of 15 May 2014. The share capital of the Issuer has been divided into 3.237.068 shares ("Existing Shares"), of which as of 15 May 2014 the Issuer holds 46.998 treasury shares ("Treasury Shares"). The Existing Shareholders may subscribe within the maximum of 16 (sixteen) days from the day specified in the public invitation for subscription of the New Shares in the first round. The Existing Shareholders may demand to subscribe even a greater number of the New Shares than they are entitled to by their priority subscription right, but the shares exceeding the number in relation to those to which they are entitled to by their priority subscription right shall be allocated between the Existing shareholders and qualified investors as specified in the Decision (Annex I hereto), pursuant to the allocation rules applicable to the second round of subscription of the New Shares. Therefore the Existing Shareholders shall not submit a separate application form for participation in the second subscription round.

In the second round all qualified investors as specified in the Decision (Annex I hereto) shall be entitled to subscribe all New Shares that were not subscribed and paid in the first round. These investors may make their subscriptions no later than 10 days following the publication of the public invitation for subscription of the New Shares in the second round.

Subscription in the first and second round shall commence simultaneously, however, when allocating the shares, priority right for subscription of the New Shares exercised by the Existing Shareholders by subscribing New Shares in the first round shall be fully respected.

#### **3rd round**

Should the success threshold of the issue of the New Shares, as defined by the Decision, not

be reached, i.e. should a minimum of 4,000,000 New Shares not be subscribed and paid for in the first and second round, the Issuer's Management Board shall within not more than 20 days following closing of the first and second round, decide on conducting the third round and in the additional deadline of not more than 20 days following passing of such decision, publish a public invitation for subscription of the New Shares in the third round. Subscription right to all the remaining shares that remain unsubscribed and unpaid in the first and second round shall belong to all Existing Shareholders, regardless whether or not they have participated in the first and second round of subscription of the New Shares. Specified investors may subscribe within the maximum of ten days from the publication of the public invitation the New Shares in the third round.

**5.1.2. Total amount of the issue/offer; where securities offered for sale are different than the securities offered for subscription, if the amount is not fixed, description of the arrangements and time for announcing to the public the definitive amount of the offer.**

Pursuant to the Decision, in the procedure for share capital increase of the Issuer a maximum of 9,711,204 New Shares of nominal value HRK 20.00 each will be offered for subscription. Therefore the total nominal amount of the issue will equal up to HRK 194,224,080.

Final amount of the increase of the share capital shall be established based on the state of subscriptions and payments on the day of expiry of the deadline for payment of the New Shares in the first and second round, or third round, if the same is conducted within the additional deadline of 5 working days at the most. The issue of the New Shares shall be deemed to have been successfully conducted if in the previously determined deadline for the subscription and payment at least 4,000,000.00 New Shares are subscribed and paid for.

The company's Management Board shall, with the prior consent of the Supervisory Board, determine success of the issue of New Shares, the exact amount of share capital issue and the exact amount of the New Shares and publish that on the website of the Issuer and the Zagreb Stock Exchange as soon as possible.

**5.1.3. The time period, including any possible amendments, during which the offer will be open and description of the application process.**

Subscription and payment of New Shares shall be within deadlines, in the manner and places as defined in public invitations for subscription of New Shares.

The company's Management Board shall publish a public invitation for subscription of New Shares in the first and second round not later than 20 working days from the day when the Croatian Financial Supervisory Agency has delivered to the Company a decision approving the Prospectus for issue of New Shares.

In the first round New Shares shall be subscribed within 16 days from the day specified in the public invitation for subscription in the first round.

In the second round New Shares shall be subscribed within 10 days from the day specified in the public invitation for subscription in the second round.

In case the conditions for third round of subscription are met, the Management Board of the Issuer shall not later than 20 days from the closing of the first and second round of subscription decide on conducting of the third round and in a further deadline of not later than 20 days from passing of such decision publish a public invitation for subscription of New Shares in the third round. In case of third round, New Shares shall be subscribed within 10 days from the day specified in the public invitation for subscription in the third round.

New Shares shall be subscribed by a written statement (“Application Form”). Final form and content of the Application Form shall be set by the Management Board of the Issuer, however, it shall contain the following key elements defining the offers for subscription:

Key elements of the Application Form in the first subscription round:

First subscription round	
A. Shares based on priority right	
A.1 Maximum desired investment amount (payment amount)	_____ (HRK)
A.2 Maximum acceptable price per share	_____ (HRK)*
A.3 In case of exercising priority right and surplus of paid investment amount, do you wish to participate with this surplus of investment in subscription of shares above the priority right? YES / NO (If YES, please proceed to part B)	
B. Shares above the priority right	
B.1 Maximum acceptable amount per share	_____ (HRK)
B.2 Minimum acceptable number of shares	_____ (number)
*After specifying the final price of the issue of New shares, the investors shall in the part of the Application Form specifying the price have the opportunity to enter exclusively the amount of final issue price.	

Therefore, the investors shall in the first subscription round have the opportunity to offer a maximum amount for which they wish to subscribe New Shares and maximum price per New Share. Maximum number of New Shares which an investor wishes to subscribe shall be limited by the result of dividing a maximum amount for which the investor wishes to subscribe New Shares and lowest possible price per share (HRK 20.00).

This right shall be granted on the same Application Form separately for New Shares by the priority right, and separately for shares above the priority right. At the same time, the investors shall be given an opportunity to offer a different maximum price for New Shares by the priority

right and New Shares above the priority right. Additionally, for shares above the priority right the investors shall have the opportunity to set a minimum number of New Shares they wish to subscribe. After the issue price is finally formed, the investors shall in the part of the Application Form specifying the price have an opportunity to subscribe only the final amount of the issue price.

Key elements of the Application Form in the second subscription round:

Second subscription round

1. Maximum desired investment amount (payment amount) \_\_\_\_\_ (HRK)
2. Maximum acceptable price per share \_\_\_\_\_ (HRK)\*
3. Minimum acceptable number of new shares \_\_\_\_\_ (number)

Therefore, the investors shall in the second subscription round have the opportunity to offer a maximum amount for which they wish to subscribe New Shares, maximum price per New Share and minimum number of New Shares they wish to subscribe. At the same time, maximum number of New Shares which an investor wishes to subscribe shall be limited by the result of dividing a maximum amount for which the investor wishes to subscribe New Shares and lowest possible price per share (HRK 20.00).

Key elements of the Application Form in the third subscription round:

Third subscription round

1. Maximum desired investment amount (payment amount) \_\_\_\_\_ (HRK)
2. Minimum acceptable number of new shares \_\_\_\_\_ (number)

Therefore, the investors shall in the third subscription round have the opportunity to offer a maximum amount for which they wish to subscribe New Shares and minimum number of New Shares they wish to subscribe. At the same time, maximum number of New Shares which an investor wishes to subscribe shall be limited by the result of dividing a maximum amount for which the investor wishes to subscribe New Shares and final price which shall by then be formed.

Public invitation for offer of New Shares shall be published by the Management Board of the company of the Issuer and the Zagreb Stock Exchange website and in at least one daily newspapers published in the Republic of Croatia.

**5.1.4. An indication of when, and under which circumstances, the offer may be revoked or suspended and whether revocation can occur after dealing has begun.**

The following circumstances are foreseen:

- if the subscription of New Shares is not successful, i.e. if there are less than 4,000,000 shares subscribed and paid, which is approximately equal to 41.19% of the maximum number of New Shares, the Company shall within 8 days after the expiry of the last deadline for subscription and payment of shares in the third round of subscription, refund the paid funds to the investors
- if the increase of the share capital is not entered in the companies registry within 6 months from the day of rendering of the Decision, the Application Form shall not bind the Issuer any more and paid funds shall be refunded to the investors within 8 days from the expiry of the specified deadline.

In the specified cases, the Issuer shall not bear payment system expenses or pay interests to the investors.

**5.1.5. A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.**

Related to decrease of subscription and/or refund of the excess amounts, the following circumstances are foreseen:

In case an investor does not pay the entire amount for New Shares subscribed, New Shares shall be allocated pursuant to the amount less paid.

In case an investor pays more than the amount of subscribed New Shares, when allocating the New Shares, the amount specified in the Application Form shall be taken into account. Excess amount shall be refunded to the investors within 8 days after the expiry of the subscription period for a particular subscription round.

Furthermore, decrease of subscribed number of shares per investor shall be possible in case of subscription of a higher number of New Shares than the foreseen. In that case, decrease shall be done following the criteria from Part III – item 5.2. “Distribution and allocation plan” hereof.

In case of excess amounts, if any, by certain investors or the recalling of the subscription, Issuer shall within 8 days from the expiry of deadline for subscription and payment of New shares in the first round, or in the third round, if set (in relation to the investors where the specified circumstances in subscription and payment period in the third round occur), refund the excess amounts, or, in case of recalling the subscription, aggregate funds paid, to such investors, to the account number specified by investors in the Application Form.

In case of withdrawal pursuant to Article 387 of the Capital Markets Act, within 8 days from receipt of the statement on withdrawal, the Issuer shall refund to such investors, to the account number specified by investors in the Application Form.

**5.1.6. Details of the minimum and/or maximum amount of application (whether in number of securities or aggregate amount to invest).**

There is no minimum nor maximum of possible subscribed shares per investor, except for restrictions related to the subscription of New Shares in the first round per priority right and restrictions foreseen by the maximum issue amount (9,711,204 New Shares).

Priority right in the first subscription round shall be executed by the Existing shareholders of the Issuer, proportionally to the share of their existing shares in the existing share capital of the Issuer, not including treasury shares of the Issuer on 15 May 2014.

Priority right shall be calculated in a manner that aggregate number of New Shares (9,711,204) is divided with a total number of the Existing Shareholders on the day of establishing subscription right on 15 May 2014 (3,237,068), decreased by the number of treasury shares (46,998) and multiplied with a number of shares the Investor has on the day of establishing subscription right, 15 May 2014. Therefore, each Existing Shareholder based on priority right, is entitled to subscribe the number of New Shares per following equation:

$$\begin{array}{l} \text{Number of New shares per} \\ \text{priority right the investor} \\ \text{may subscribe} \end{array} = \frac{9.711.204}{3.237.068 - 46.998} \times \begin{array}{l} \text{Number of existing shares} \\ \text{the investor has on 15 May} \\ \text{2014} \end{array}$$

In case the equation provided above does not give a total number, the result shall be rounded to the first lower total number.

Minimum or maximum number of shares a potential investor shall subscribe in second and possibly third round is not specified, except for the restriction provided by a maximum issue amount (9,711,204 New Shares).

**5.1.7. An indication of the period during which an application may be withdrawn, provided that investors are allowed to withdraw their subscription.**

The investors may cancel or withdraw their applications for subscription until the last day of subscription in the subscription round relating to them.

Also, pursuant the provision of Article 387 of the Capital Markets Act lays down that the investor who had subscribed or purchased securities in a public offer prior to announcement of supervisory measures provided for by Article 386 paragraph 1 item 4 and item 6 is entitled to withdraw acceptance of the offer, and withdraw from the legal transaction of purchase of

the security created by its acceptance of the offer within five days as of announcement of the said supervisory measure.

Supervisory measures that may be imposed on the Issuer, on account of which an investor would be entitled to withdraw its offer are:

- temporary suspension of public offer or listing of the security on the regulated market, for up to ten working days, when the Agency has reason to suspect violation of provisions of the Capital Markets Act stipulated in Title I. part 3. – “Offer of securities to the public and publication of prescribed information” of the Capital Markets Act,
- ban of offer of securities when the Agency determines violation of provisions of the Capital Markets Act stipulated in Title I. part 3. – “Offer of securities to the public and publication of prescribed information” of the Capital Markets Act, or has reason to believe that the provisions would be violated.

**5.1.8. Method and time limits for paying up the securities and for delivery of the securities.**

Payment of the New Shares will follow to a separate account to be for the purposes of share payment opened with Zagrebačka banka d.d. and the Issuer shall inform the investors accordingly in the public invitations for subscription of New Shares and on the occasion of subscription of the new Shares.

In the first round all investors shall pay the funds for payment of the New Shares not later than on the last day of subscription in the first round, whereby only those payments will be deemed valid that are received in favour of the above account until 23:59 of the last day of subscription in the first round.

In the second round all investors shall pay for the New Shares not later than on the last day of subscription in the second round, whereby only those payments will be deemed valid that are received in favour of the above account until 17:00 of the last day of subscription in the second round.

If there is a third round, the investors shall pay for the shares not later than on the last day of the subscription deadline in the third round, whereby only those payments will be deemed valid that are received in favour of the above account until 23:59 of the last day of subscription in the third round.

If the investor makes payment of the funds with other institution of the payment system, other than Zagrebačka banka d.d., the investor should become informed from the institution conducting the payment, about the time required for the funds to be received into the appropriate account in the applicable payment deadlines.

If the investor fails to pay the amount of the subscribed New Shares, even partially, in the deadline specified for each subscription round, the Application Form shall be deemed invalid

and if it pays only a partial amount of the subscribed New Shares, the New Shares will be allocated pursuant to such less paid amount. If an investor pays more than the amount for which it subscribed the shares, it will be allocated the amount specified in the Application Form.

New Shares will be delivered to the investors at the moment of entry with the depository of the SDCC, to be performed in accordance with the CDCC rules, following entry of the share capital increase into the companies registry of the Commercial Court of Osijek, Permanent Service in Slavonski Brod. The Issuer can not influence the previously mentioned subscription deadlines, since that procedures depends on actions of the third parties.

**5.1.9. A full description of the manner and date in which results of the offer are to be made public.**

The results of the public offer for the New Shares, success of subscription and payment of the shares in the first and second round and the exact amount to share capital increase will be determined in accordance with the state of subscriptions and payment on the date of final deadline for subscriptions and payments of the New Shares in the first round in a subsequent deadline of not more than five (5) working days and will be published on the website of the Issuer, the Zagreb Stock Exchange and in at least one daily newspaper published in Croatia immediately after being determined.

If requirements for conducting of the third round of subscription of New Shares are fulfilled, success of subscription and payment of the shares in the third round and the exact amount to share capital increase will be determined in accordance with the state of subscriptions and payment on the date of final deadline for subscriptions and payments on the last day of deadline for subscription and payment of the New Shares in the third round, in the subsequent deadline of not more than five (5) working days and will be published on the website of the Issuer, the Zagreb Stock Exchange and in at least one daily newspaper published in Croatia immediately after being determined.

**5.1.10. The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.**

The shareholders who were shareholders of the Issuer on 15 May 2014 will have a priority right to subscription and payment of the New Shares in the first subscription round, relative to the share of their existing shares in the existing share capital of the Issuer, not including the Issuer's treasury shares as of 15 May 2014. The mentioned priority right may be transferred in accordance with the law of obligations. A priority right that has not been used in the first round of subscription and payment of the New Shares may not be used in the second or third round.



## 5.2. Distribution and allotment plan

Pursuant to the decision of the Management Board, with the prior consent of the Supervisory Board of 10 September 2014, and pursuant to the decision on the increase of the share capital of 3 July 2014, price range for the issue of New Shares shall be from HRK 20.00 to HRK 60.00. The allocation and distribution of the New Shares to the investors in the process of share capital increase of the Issuer will be conducted as follows:

### 1<sup>st</sup> subscription round

The Existing Shareholders may when using their priority right for subscription of the New Shares subscribe up to 9.711.204 New Shares, where each Existing Shareholder may subscribe a number of New Shares relative to the share of their existing shares in the existing share capital of the Issuer, not including the Issuer's treasury shares as of 15 May 2014, pursuant to item 5.1.6. hereof.

The Existing Shareholders may demand to subscribe even greater number of the New Shares than they are entitled to by their priority subscription right, but the shares exceeding the number in relation to those to which they are entitled to by their priority subscription right shall be allocated between the Existing shareholders and qualified investors who have subscribed and paid the New Shares in the second subscription round.

### 2<sup>nd</sup> subscription round

Existing Shareholders that demand subscription of even larger number of New Shares than they are entitled to by their priority subscription right and qualified investors entitled to subscription of the New Shares in the second round will be allowed to subscribe shares up to 100% of the total number of shares that have not been subscribed pursuant to the total number of shares that have not been subscribed pursuant to the priority right (hereinafter "Remaining new shares").

In the event that the total number of subscribed and paid New Shares in the first and second round exceed the number of the Remaining new shares, allocation of the Remaining new shares to individual investors will be made in proportion of the subscribed and paid amount of an individual investor for the Remaining new shares, specifically by dividing the amount of payment by each individual investor for the Remaining new shares with the entire subscribed and paid amount for the Remaining new shares, satisfying the criteria of finally set price and multiplying it with the number of the Remaining new shares.

$$\begin{array}{l} \text{Number of} \\ \text{Remaining new} \\ \text{shares which the} \\ \text{investor may} \\ \text{subscribe} \end{array} = (9.711.204 - \begin{array}{l} \text{Number of} \\ \text{subscribed} \\ \text{shares per} \\ \text{priority right} \end{array}) \times \frac{\begin{array}{l} \text{Amount of payment of each} \\ \text{single investor for the} \\ \text{Remaining new shares} \end{array}}{\begin{array}{l} \text{Total subscribed and paid} \\ \text{amount for the Remaining} \\ \text{new shares} \end{array}}$$

In case the equation provided above does not give a total number, the result shall be rounded to the first lower whole number.

If due to rounding of results to lower whole numbers after allocation of the Remaining new shares undistributed shares remain, the same will be allocated to investors by priority from the highest payment to the lowest payment, up to the maximum possible allocation of shares based on the received payments. If there are more investors with the same amount of payment the shares will be allocated by order of priority from the investor who has subscribed and paid the new shares first to the investor who has subscribed and paid the new shares the latest

If using the described process of allocation to individual investors a smaller number of shares would be allocated than the number specified in the Application Form as a minimum number that they wish to subscribe, the allocation procedure will be conducted excluding such investors and no Remaining new share will be allocated to them.

### **3<sup>rd</sup> subscription round**

Allocation in the third round will be conducted in line with the rules of allocation applicable to the second subscription round.

***5.2.1. The various categories of potential investors to which the securities are offered. If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.***

The shareholders who were shareholders of the Issuer on 15 May 2014 will have a right to subscription in the first subscription round. The Existing Shareholders may subscribe up to 9.711.204 New Shares, relative to the share of their existing shares in the existing share capital of the Issuer, not including the Issuer's treasury shares, but may demand to subscribe even a greater number of the New Shares than they are entitled to by their priority subscription right (applying the allocation rules under Part III – item 5.2.2. hereof).

In the second round all qualified investors as specified in the Decision (Annex I hereto) shall be entitled to subscribe all New Shares that were not subscribed and paid in the first round.

If the condition for conducting the third round is satisfied, all the remaining shares that remain unsubscribed and unpaid in the first and second round shall belong to all Existing Shareholders, regardless whether or not they have participated in the first and second round of subscription.

***5.2.2. To the extent known to the Issuer, an indication of whether majority shareholders or members of the Issuer's management, supervisory or***

***administrative bodies intended to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer.***

It is not known to the Issuer if majority shareholders or members of management, supervisory or administrative bodies intend to subscribe in the offer or whether any person intends to subscribe for more than five percent of the offer.

**5.2.3. Information for publication prior to allotment:**

**(a) division of offer into tranches, including tranches reserved for institutional investors, small investors and the Issuer's employees and any other tranches**

The offer has not been divided into tranches that would be reserved for institutional investors, small investors and the Issuer's employees, instead the New Shares have been offered to the existing shareholder and certain qualified investors as described in Part III - item 5.2.1. hereof.

**(b) conditions under which the clause on return of proceeds may be exercised, maximum amount of such return and any applicable minimum percentages foreseen for individual tranches**

The offer has not been divided into tranches that would be allocated to certain categories of investments.

Method and conditions under which return of excess paid amount is made to the offerors is described in Part III - item 5.1.5. hereof.

**(c) method or method of allocation which will be used for tranches reserved for small investors and employees of the Issuer in the event of excess subscription of such tranches**

The offer has not been divided into tranches that would be allocated to categories of investors.

Methods of allocation have been described in Part III – item 5.2. hereof.

**(d) description of any privileged treatment determined in advance that must be arranged for certain groups of investors or certain close groups (including programmes for family and friends) during allocation, percentage of offer reserved for such privileged treatment and criteria for inclusion into such categories and groups**

When distributing and allocating New Shares, there will be no privileged treatment of certain groups of shareholders, other than priority rights of the existing shareholders pursuant to Part III – item 5.1.10. hereof.

- (e) Indication as to can the procedure for subscription or offer for subscription during allocation be determined based on the function of the company by or through which it was performed**

When distributing and allocating New Shares, there will be no privileged treatment based on the function of the company by or through which offers for subscription were conducted

- (f) possibly, target minimum allocation within the tranche reserved for small investors**

The offer has not been divided into tranches.

- (g) conditions for closing the offer, as well as the earliest date when the offer can be closed**

Period for subscription and payment of the New Shares has been specified in Part III – item 5.1.8. hereof.

- (h) Information on whether multiple subscriptions are permitted and, in the event they are not, how will possible multiple subscriptions be treated**

Multiple subscriptions are not permitted. In the event that the investors during the period of subscription and payment of the New Shares in any round submit a new application for subscription, that requires a simultaneous withdrawal of the earlier application

***5.2.4. Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made.***

CDSS will notify all investors of the allocated New Shares. Dealing may begin even before notification is made, i.s. immediately following their issue. The Issuer will, in line with the valid regulations, application for admittance to trading of the New Shares on the regulated market. Dealing in New Shares on the regulated market will be possible when and if the New Shares are listed in that market.

***5.2.5. Overallotment and “green shoe” option:***

Overallotment or option for coverage of additional securities („green shoe“) have not been provided for.

### **5.3. Pricing**

***5.3.1. An indication of the price at which the securities will be offered and an indication of the amount of any expenses and taxes specifically charged to the subscriber.***

Pursuant to the decision of the Management Board, with the prior consent of the Supervisory Board of 3 July 2014, and pursuant to the decision on the increase of the share

capital of 3 July 2014, price range for the issue of New Shares shall be from HRK 20.00 to HRK 60.00.

Final price of the New Shares shall be set not later than five days after the closing of the period for gathering offers and subscription of New Shares in the first round of subscription and shall be within the Price range, in Croatian kuna and lipa, rounded to the full number of lipa and published as soon as possible.

The Management Board of the company, with the previous consent of the Supervisory Board, shall set the final price of the New Shares. Final price for the new shares of the Company shall be a single price for all offered shares.

Subscription procedure, which affects the pricing for New Shares, has been explained in detail in Part III - item 5.1.3. hereof.

If, even at the lowest possible price for a share (HRK 20.00) aggregate number of subscribed and paid New Shares, shall not exceed the issue success threshold of 4,000,000 New Shares, then the price shall be set at HRK 20.00.

If, even at the lowest possible price for a share (HRK 20.00) aggregate number of subscribed and paid New Shares, shall exceed the issue success threshold of 4,000,000 New Shares, then the price shall be set following the principle that the company achieves a maximum amount possible when increasing the company share capital. In this case, price shall be formed as follows:

Based on gathered offers up to the moment of pricing, aggregate number of the subscribed and paid New Shares shall be established for each individual price from the allowed range. The allowed range for each individual investor is limited by the maximum acceptable price per share for that particular investor, i.e. upper limit of the allowed range is the price offered by the investor, and lower limit of the allowed range is the lowest possible price per New Share (HRK 20.00). Furthermore, for each individual price from the specified allowed range, there shall be a procedure of hypothetical allocation of subscribed and paid New Shares, pursuant to the allocation rules from Part III – item 5.2. hereof. This procedure leads to uniquely defined hypothetical quantity of shares which would be allocated at the level of each particular price from the allowed price range. Furthermore, this shall define for each price from the specified allowed range a corresponding series of products of possible prices and hypothetical quantities, which represent possible amounts of the increase of the share capital. The price giving the highest product from the observed series shall be set as the final price of New Shares, providing that the corresponding hypothetical quantity of shares is not below the issue success threshold. If the price given by the specified procedure is not unique, i.e. if there are several highest, equal products, then the highest between such prices shall be set as the issue price.

**5.3.2. Process for the disclosure of the offer price.**

After the Management Board of the company has, provided prior consent of the Supervisory Board, defined the final price of New Shares in accordance with the preceding item hereof, the same will be published on the website of the Issuer and the Zagreb Stock Exchange as soon as possible.

**5.3.3. If the Issuer's shareholders have pre-emptive purchase rights and this right is restricted or withdrawn, indication of the basis for the issue price if the issue is for cash, together with the reasons for and beneficiaries of such restriction or withdrawal.**

Priority right of the Existing Shareholders as provided for by the Companies Act has in no way been restricted or withdrawn.

**5.3.4. If there is or might be significant difference between the price of public offer and actual cost of acquiring securities for members of administrative, management or supervisory bodies or senior management or related persons who acquired them in transactions during the last year, or who have a right to acquire them, include comparison of public contribution of the proposed public offer and actual cash contributions by such persons.**

In the period of one year prior to the date of this Prospectus, members of the Management Board and the Supervisory Board of the Issuer, as well as its senior management and related persons have not acquired shares in the Issuer.

Also, members of the Management Board and the Supervisory Board of the Issuer, as well as its senior management and related persons have no contractual right to acquire shares in the Issuer under preferred conditions.

Consequently, there is and could never be a significant difference between the price of public offer and actual cost of acquiring securities for members of administrative, management or supervisory bodies or senior management or related persons.

**5.4. Placing and underwriting**

**5.4.1. Name and address of the coordinator(s) of the global offer and of single parts of the offer and, to the extent known to the Issuer or to the offeror, of the places in the various countries where the offer takes place.**

Zagrebačka banka d.d., having its registered seat in Zagreb, Trg bana Josipa Jelačića 10, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080000014, PIN: 92963223473 participates in the public offer of shares of the Issuer, as its Issuing Agent for provision of services of implementation of the offer, and sale of New Shares without the obligation of redemption.

Žurić i Partneri odvjetničko društvo d.o.o., having its registered seat in Zagreb, Ivana Lučića 2a, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080005384, PIN: 03894745705 participates in the public offer of New Shares as Legal Advisor of the Issuer.

The offer will be valid in the Republic of Croatia only.

**5.4.2. Name and address of any paying agents and depository agents in each country.**

The Issuer settles its financial obligations to the shareholders through the Central Depository and Clearing Company.

**5.4.3. Name and address of the persons conducting the offer or sale procedure with the obligation of redemption and name and address of the persons conducting the offer or sale procedure without the obligation of redemption or under "best efforts" arrangements. Indication of the material features of the agreements, including the quotas. Where not all of the issue is underwritten, a statement of the portion not covered. Indication of the overall amount of the underwriting commission and of the placing commission.**

The Issuing Agent for provision of services of implementation of the offer and sale of New Shares without the obligation of redemption will be Zagrebačka banka d.d. having its registered seat in Zagreb, Trg bana Josipa Jelačića 10, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080000014, PIN: 92963223473. The fee of Zagrebačka banka d.d., that in addition to the mentioned service also includes a number of other services in respect of drawing-up and implementation of the procedure for issue of New Shares and their subsequent listing on the regular market of the Zagreb Stock Exchange, corresponds to the net amount equalling 0.285% of the total amount of proceeds for which the New Shares will be issued and is included in the total costs of issue/offer in Part III – item 8.1. hereof.

**5.4.4. When the underwriting agreement has been or will be reached**

No underwriting agreement has been closed.

## 6. ADMISSION TO TRADING AND DEALING ARRANGEMENTS

- 6.1. An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question.**

The Issuer will apply for admission of the New Shares to the regular market of the Zagreb Stock Exchange. The Issuer cannot guarantee that listing of the New Shares on the regulated market will definitely be approved by the competent authority.

- 6.2. All regulated markets or equivalent markets on which, to the knowledge of the Issuer, securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.**

The shares of the Issuer are currently listed for trading on the regular market of the Zagreb Stock Exchange.

- 6.3. If simultaneously or almost simultaneously with the creation of the securities for which admission to a regulated market is being sought, securities of the same class are subscribed for or placed privately or if securities of other classes are created for public or private placing, give details of the nature of such operations and of the number and characteristics of the securities to which they relate.**

Simultaneously or almost simultaneously with the creation of the New Shares for which the Issuer will apply for admission to the regular market of the Zagreb Stock Exchange, the Issuer will not privately subscribe or place additional shares of the Issuer of the same class, i.e. will not create shares of other classes for private or public placement.

- 6.4. Details of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment.**

On 28 October 2013 the Issuer entered with the company ERSTE & STEIERMÄRKISCHE BANK d. d. Rijeka, Jadranski trg 3a, PIN: 23057039320, as specialist into the Agreement on Performance of Tasks of a Specialist relating to ordinary shares of the Issuer on the Zagreb Stock Exchange ("Agreement"). The Issuer notified the Zagreb Stock Exchange of the fact of entry into the Agreement on 29 October 2013.



Pursuant to the provisions of the Agreement, the specialist has undertaken that in course of ordinary dealings each trading day in the trading system of the Zagreb Stock Exchange provide specialist simultaneous bid and offer rates under the conditions provided for by the applicable Rules of the Zagreb Stock Exchange and in that manner endeavour to improve liquidity of the Issuer's shares.

Pursuant to the Agreement, the specialist has undertaken that during specialised dealings under the Agreement it will meet the criteria for success of specialists defined by the Rules of the Zagreb Stock Exchange and the decisions of the Zagreb Stock Exchange passed based on those rules. Performance of activities of specialised dealings under the Agreement is supervised by the Zagreb Stock Exchange that on its website publishes a monthly report on meeting of obligations per specialist and per share.

The Agreement has been entered into for indefinite time. Each party may cancel the Agreement unilaterally after expiry of one year after it was entered into, the notice period being 30 days. Each party may terminate the Agreement with immediate effect for justified reasons, if such reason is not eliminated within 14 days as of the day when the party to which the reason relates, received the notice from the party terminating the Agreement and having been warned about it.

- .5. Stabilisation: when the Issuer or a shareholder selling its shares has permitted overallotment or in other manner proposed that activities for price stabilisation may be conducted.**

No option of price stabilisation has been provided for.

## **7. HOLDERS OF SECURITIES ACCESSING PURCHASE**

There are no shareholder of the Issuer accessing sale of the New Shares in the respective offer and there are no binding agreements.

## **8. EXPENSE OF THE ISSUE/OFFER**

### **8.1. The total net proceeds and an estimate of the total expenses of the issue/offer**

The Issuer estimates that all expenses related to issue/offer of the New Shares, including, but not limited to the costs of financial advisors for the implementation of the offer of the New Shares without the obligation of redemption, legal fees, Agency, CDCC, Zagreb Stock Exchange fees and other material costs, depending on the achieved amount of issue, shall amount to HRK 5 million at the most. The total net proceeds collected from the capital increase, if the success threshold for the issue of New Shares is reached, shall amount to a minimum of HRK 80,000,000.00 and a maximum of HRK 582,672,240.00.

## **9. DILUTION (CHANGES IN RATIOS OF SHARES OF SHAREHOLDERS)**

### **9.1. The amount and percentage of immediate dilution resulting from the offer**

The Issuer is not able to precisely predict changes in the shares in the share capital of the Issuer that will arise following allocation of the New Shares. Pursuant to the decision of the General Assembly on share capital increase of the Issuer of 3 July 2014 the issue of the New Shares shall be deemed to have been successfully conducted if the investors subscribe and pay for a minimum of 4,000,000.00 New Shares, while the maximum number of New Shares that can be issued is 9.711.204.

Prior to conducting the share capital increase pursuant to the decision of the General Assembly on share capital increase of the Issuer of 3 July 2014 there are 3,237,068 ordinary shares of the Issuer.

Consequently, if a shareholder prior to capital increase of the Issuer owns 1% of shares of the Issuer, and does not participate in the subscription of the New Shares, their share in ownership after the successful increase of the share capital shall range from the maximum of 0.45%, in case of minimum number of subscribed shares, and the minimum of 0.25% in case of maximum number of subscribed shares of the Issuer.

### **9.2. In the event of offer for subscription to the existing shareholders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.**

Specified in the preceding item 9.1. "The amount and percentage of immediate dilution resulting from the offer".

## **10. ADDITIONAL INFORMATION**

### **10.1. If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.**

The following persons, engaged by the Issuer as advisors in the procedure, have participated in the procedure of share capital increase through public offer of shares:

1. Zagrebačka banka d.d., Zagreb, Trg bana Josipa Jelačića 10, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080000014, PIN: 92963223473, in the capacity a financial advisor for the implementation of public offer.
2. Žurić i Partneri odvjetničko društvo d.o.o., having its registered seat in Zagreb, Ivana Lučića 2a, entered in the companies registry of the Commercial Court of Zagreb under entry number (MBS): 080005384, PIN: 03894745705, in the capacity as legal advisor for the drawing-up and implementation of public offer.

### **10.2. An indication of other information in the Securities Note which has been audited or reviewed by authorised auditors and where auditors have produced a report. Copy of the report or, with permission of the competent authority, a summary of the report.**

The Securities Note does not include any information audited or reviewed by authorised auditors who have made a report on it.

### **10.3. Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such person's name, business address, qualifications and material interest if any in the Issuer. If the report has been produced at the Issuer's request a statement to the effect that such statement or report is included, in the form and context in which it is included, with the consent of the person who has authorised the contents of that part of the Securities Note.**

The Securities Note does not include a statement or report attributed to a person as an expert.

**10.4. Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information.**

The Securities Note does not contain any information obtained by the Issuer from third parties.

## **Annex 1: List of qualified investors**

1. Any mandatory and voluntary pension funds and companies for management of mandatory and voluntary pension funds having their seats in the EU and/or OECD member countries
2. Any companies for management of economic cooperation funds having their seats in Croatia
3. Any insurance companies having their seats the EU and/or OECD member countries
4. Any credit institutions holding work authority in the EU and/or OECD member countries, including the Croatian Bank for Reconstruction and Development
5. Any open investment funds with public offering (UCITS funds) or companies managing such funds, having their seats in the EU and/or OECD member countries
6. Any alternative investment funds, or companies managing such funds, having their seats in the EU and/or OECD member countries

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