# INSTITUT IGH, d.d., Zagreb

Consolidated financial statements for the year ended 31 December 2013 together with Independent Auditors' Report

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

In accordance with Croatian Accounting Law the Management Board is required to prepare consolidated financial statements for each financial year which give a true and fair view of the consolidated financial position of the Company and of the results of its operations and cash flows, in accordance with International Financial Reporting Standards as adopted by the European union (IFRS) to give a true and fair view of financial position and financial performance of the entity Institut IGH d.d. and its subsidiaries ("Group") for the period.

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

In preparing consolidated financial statements Management Board is responsible for:

- conforming with applicable accounting standards and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- selecting suitable accounting policies, and every material and significant discrepancy must be published and explained in consolidated financial statement;
- preparing the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping the proper accounting records which at any time will reflect financial position of the Group with reasonable accuracy and also compliance with Croatian accounting law. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

The Company separately prepares and issues its annual report in accordance with legal and regulatory requirements.

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

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

Jure Radić, Phd.
*President of the Management Board*

Institut IGH d.d.

Janka Rakuše 1
10 000 Zagreb
Croatia

Zagreb, 29 April 2014

Institut IGH, dioničko društvo za istraživanje i razvoj u graditeljstvu, Zagreb
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# Independent Auditors' Report to the shareholders of Institut IGH d.d.

We have audited the accompanying consolidated financial statements of Institut IGH d.d. ("the Company") and its subsidiaries (together "Group") which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), 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.

*Auditors' Responsibility*

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

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

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

*Basis for modified opinion*

1. The Group did not apply the provisions of International Accounting Standard 11 *Construction contracts* ("IAS 11"), which require contract revenue and expenses to be recognized in profit or loss in accordance with the percentage of completion of the project. IAS 11 also requires losses expected on the projects currently in progress, regardless of their stage of completion to be recognised in full immediately after their identification. Due to the above, we were unable to assess the impact on the consolidated statement of financial position as at 31 December 2013 and items that are recognized in profit or loss for the year then ended had IAS 11 been applied. The Group also did not apply IAS 11 in previous years. As a result, any incorrect recognition of the consolidated balances as at 31 December 2012 and in previous years would have an impact on the result for 2013, 2012 and previous years. Consequently, our audit opinion for the year ended 31 December 2012 was also modified.

2. At the reporting date indicators exist that the recoverable amount of trade receivables amounting to HRK 9,444 thousand disclosed within note 23 – *Trade and other receivables* is less than its carrying value. International accounting standard 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") prescribes that the Group shall assess at the reporting date, whether there is any objective evidence that a financial asset or group of financial assets is impaired. The effects of this departure from IAS 39 have not been determined.

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# Independent Auditors' Report to the shareholders of Institut IGH d.d. (continued)

*Basis for modified opinion (continued)*

3. Loss for 2012 includes adjustments that relate to prior periods. The Group did not make the correction of comparative amounts in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires that the Group restates comparative figures for prior periods presented in which the correction occurred. The effects of this departure have not been determined. As a result, our report on the consolidated financial statements as at and for the year ended 31 December 2012 expressed a disclaimer of opinion. Our opinion on the current year's consolidated financial statements is also modified because of the effect in the preceding paragraph on the comparability of the current year's figures and the corresponding figures.

4. The Group did not disclose operating segments note for 2013 and 2012. International Financial Reporting Standard 8 *Operating segments* requires a summarized presentation of profit and loss of operating segments including specific types of revenues and expenses included in the profit and loss of operating segments, assets and liabilities of segments and basis of their measurement as a part of financial statements.

*Modified opinion*

In our opinion, except for the effects of the matters described in the *Basis for modified opinion* paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Because of the significance of matters described in the *Basis for modified opinion*, we do not express an opinion on the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2012.

*Emphasis of matter*

Without further modifying our opinion, we draw attention to note 2 (v) *Going concern* presented in the consolidated financial statements which describes that the Group incurred a net loss of HRK 61,531 thousand for the year ended 31 December 2013 (2012: net loss of HRK 496,805 thousand). As stated in note 2 (v), management estimates that the Company will be able to meet its obligations towards creditors through the pre-bankruptcy settlement agreement and planned share capital increase. The consolidated financial statements do not include adjustments that would arise in the event that the Company is unable to continue as a going concern.

*Other legal requirements*

We draw attention to the *Statement of Management's Responsibilities* on page 1 which states that the Company separately prepares and issues its annual report in accordance with legal and regulatory requirements. Accordingly, the requirements with respect to the audit of the consistency of the annual report with the accompanying financial statements are not addressed in this audit report.

KPMG Croatia d.o.o.

**KPMG Croatia d.o.o. za reviziju**
Croatian Certified Auditors
Eurotower, 17. kat
Ivana Lučića 2a
10000 Zagreb
Croatia

**29 April 2014**

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| Revenue | 8 | 261,579 | 278,983 |
| Other operating income | 9 | 22,050 | 28,258 |
| **Total income** | | 283,629 | 307,241 |
| Change in inventories | | 157 | 296 |
| Raw materials, consumables and services used | 10 | (88,566) | (127,258) |
| Employee expenses | 11 | (134,791) | (175,537) |
| Depreciation and amortisation | | (17,711) | (20,238) |
| Impairments | 12 | (44,984) | (335,403) |
| Other operating expenses | 13 | (28,125) | (88,458) |
| **Total operating expenses** | | (314,020) | (746,598) |
| **Results from operating activities** | | (30,391) | (439,357) |
| Finance income | 14 | 42,964 | 10,466 |
| Finance costs | 14 | (59,587) | (64,288) |
| **Net finance costs** | | (16,623) | (53,822) |
| Share of profit of equity accounted investees, net of tax | 20 | (15,195) | (1,106) |
| **Loss before tax** | | (62,209) | (494,285) |
| Tax expense | 15 | 678 | (2,520) |
| **Loss for the year** | | **(61,531)** | **(496,805)** |
| Non-controling interests | | (1,161) | (606) |
| **Loss of owners of the Company** | | (60,370) | (496,199) |
| Basic/diluted loss per share (in HRK) | 16 | (232) | (2,265) |
| **Other comprehensive income/(loss)** | | | |
| Revaluation of land and buildings, net of tax | | (16,352) | 111,946 |
| Change in fair value of financial asstes, net of tax | | (1,988) | (4,487) |
| Foreign operations - foreign currency translation differences | | 633 | - |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(17,707)** | **107,459** |
| **Total comprehensive loss for the year** | | **(79,238)** | **(389,346)** |
| **Attributable to owners of the Company** | | (77,903) | (388,385) |
| **Attributable to non-controlling interests** | | (1,335) | (961) |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *(in thousands of* | |
| **ASSETS** | | | |
| Intangible assets and goodwill | 17 | 8,594 | 10,041 |
| Property, plant and equipment | 18 | 252,048 | 504,397 |
| Investment property | 19 | 142,341 | 81,669 |
| Investments in associates | 20 | 46,172 | 61,347 |
| Other investments | 21 | 8,167 | 18,307 |
| Trade and other receivables | 23 | 2,289 | 2,155 |
| NON-CURRENT ASSETS | | 459,611 | 677,916 |
| Inventories | 22 | 89,088 | 91,639 |
| Non-current assets held for sale | 26 | 250,110 | - |
| Trade receivables and other receivables | 23 | 85,067 | 142,222 |
| Loans given | 24 | 5,443 | 79,699 |
| Current tax assets | | - | 3,792 |
| Cash and cash equivalents | 25 | 5,646 | 2,535 |
| Accrued income and prepaid expenses | 27 | 8,976 | 13,126 |
| CURRENT ASSETS | | 444,330 | 333,013 |
| **TOTAL ASSETS** | | 903,941 | 1,010,929 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 28 | 105,668 | 105,668 |
| Share premium | 29 | 23,506 | 52,011 |
| Statutory reserves | 30 | - | 3,172 |
| Own shares | 30 | (3,862) | (3,966) |
| Reserves for own shares | 30 | 1,446 | 6,343 |
| Revaluation reserves | 31 | 141,506 | 164,127 |
| *Accumulated losses* | | (234,100) | (239,357) |
| Equity attributable to owners of the Company | | 34,164 | 87,998 |
| Non-controlling interests | 32 | 1,912 | 2,785 |
| TOTAL EQUITY | | 36,076 | 90,783 |
| Loan and borrowings | 33 | 385,968 | 302,334 |
| Provisions | 35 | 12,962 | 16,432 |
| Trade and other payables | 36 | 42,928 | 12,095 |
| Deferred tax liabilites | 15 | 36,128 | 41,286 |
| LONG-TERM LIABILITIES | | 477,986 | 372,147 |
| Loans and borrowings | 33 | 235,271 | 314,132 |
| Financial liabilities through profit and loss | 34 | 5,495 | 7,881 |
| Trade and other payables | 36 | 131,245 | 204,486 |
| Advances and deposits received | 37 | 5,603 | 13,229 |
| Provisions | 35 | 4,464 | 7,140 |
| Accrued expenses and deferred income | 38 | 7,801 | 1,131 |
| SHORT-TERM LIABILITIES | | 389,879 | 547,999 |
| **TOTAL EQUITY AND LIABILITIES** | | 903,941 | 1,010,929 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2013

| *(in thousands of HRK)* | Share capital | Capital reserves | Statutory reserves | Treasury shares | Reserves for own shares | Revaluation reserves | (Accumulated losses)/retained earnings | Capital attributable to owners of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2012** | **63,432** | **13,999** | **3,172** | **(1,446)** | **6,343** | **58,852** | **253,116** | **397,468** | **66,088** | **463,556** |
| *Transactions with owners of the Company* | | | | | | | | | | |
| Share capital increase | 42,236 | 38,012 | - | - | - | - | - | 80,248 | - | 80,248 |
| Acquisition of own shares | - | - | - | (2,520) | - | - | - | (2,520) | (877) | (3,397) |
| Acquisition and disposal of shares in associates (Note 7) | - | - | - | - | - | - | 1,187 | 1,187 | (61,465) | (60,278) |
| *Total transactions with owners of the Company* | 42,236 | 38,012 | - | (2,520) | - | - | 1,187 | 78,915 | (62,342) | 16,573 |
| *Total comprehensive income for the year* | | | | | | | | | | |
| Net change in fair value of financial assets available for sale | - | - | - | - | - | (4,487) | - | (4,487) | - | (4,487) |
| Transfer from revaluation reserves | - | - | - | - | - | (2,539) | 2,539 | - | - | - |
| Revaluation of land and buildings, net of tax | - | - | - | - | - | 112,301 | - | 112,301 | (355) | 111,946 |
| Loss for the year | - | - | - | - | - | - | (496,199) | (496,199) | (606) | (496,805) |
| Total comprehensive loss | - | - | - | - | - | 105,275 | (493,660) | (388,385) | (961) | (389,346) |
| **At 31 December 2012** | **105,668** | **52,011** | **3,172** | **(3,966)** | **6,343** | **164,127** | **(239,357)** | **87,998** | **2,785** | **90,783** |
| *Transactions with owners of the Company* | | | | | | | | | | |
| Conversion of liabilities (note 45) | - | 23,506 | - | - | - | - | - | 23,506 | - | 23,506 |
| Sale of own shares | - | - | - | 104 | - | - | - | 104 | - | 104 |
| Transfer from liabilities to retained earnings | - | - | - | - | - | - | 383 | 383 | - | 383 |
| Acquisition and disposal of shares in associates | - | - | - | - | - | - | 76 | 76 | 462 | 538 |
| *Total transactions with owners of the Company* | - | 23,506 | - | 104 | - | - | 459 | 24,069 | 462 | 24,531 |
| *Total comprehensive income for the year* | | | | | | | | | | |
| Net change in fair value of financial assets available for sale | - | - | - | - | - | (1,988) | - | (1,988) | - | (1,988) |
| Transfer from revaluation reserves | - | - | - | - | - | (4,455) | 4,455 | - | - | - |
| Revaluation of land and buildings, net of tax | - | - | - | - | - | (16,178) | - | (16,178) | (174) | (16,352) |
| Coverage of losses | - | (52,011) | (3,172) | - | (4,897) | - | 60,080 | - | - | - |
| Acquisition of own shares | - | - | - | - | - | - | - | - | - | - |
| Foreign operations-foreign currency translation differences | - | - | - | - | - | - | 633 | 633 | - | 633 |
| Loss for the year | - | - | - | - | - | - | (60,370) | (60,370) | (1,161) | (61,531) |
| Total comprehensive loss | - | (52,011) | (3,172) | - | (4,897) | (22,621) | 4,798 | (77,903) | (1,335) | (79,238) |
| **At 31 December 2013** | **105,668** | **23,506** | **-** | **(3,862)** | **1,446** | **141,506** | **(234,100)** | **34,164** | **1,912** | **36,076** |

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

## CONSOLIDATED STATEMENT OF CASH FLOW

## FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | *(in thousands of HRK)* | |
| **Cash generated from operating activites** | | | |
| Loss for the year | | (61,531) | (496,805) |
| **Adjustments:** | | | |
| Tax expense | 15 | (678) | 2,520 |
| Depreciation and amortisation | | 17,711 | 20,238 |
| Impairment losses | 12 | 40,028 | 335,403 |
| Interest income | 14 | (22,584) | (9,674) |
| Unrealised loss from interest rate swap | 14 | (2,386) | 7,881 |
| Interest expense | 14 | 39,298 | 51,947 |
| Net (decreases)/increases in provisions | 35 | (5,688) | 15,982 |
| Foreign exchange differences (net) | 14 | 6,169 | 1,652 |
| Loss/(gain) on sale of property plant and equipment | 17,18 | 6,608 | (2,398) |
| Net change in fair value of investment property | 12 | 4,956 | (6,692) |
| Share of unrealised profit of equity-accounted investees, net of tax | 20 | 15,195 | - |
| Unrealised losses on financial assets | 14 | 5,562 | - |
| Income from recovery of receivables | 9 | (6,738) | (7,396) |
| Other finance income | 14 | (11,038) | - |
| Expenses from previous periods | 13 | 2,056 | 42,598 |
| Other income | 9 | - | (11,150) |
| **Cash generated from operations before working capital adjustments** | | **26,940** | **(55,894)** |
| Decrease/(increase) in inventories | | 1,370 | (13,467) |
| Decrease in trade receivables | | 50,443 | 133,084 |
| Decrease in trade payables | | (50,458) | (60,708) |
| **Cash generated from operating activites** | | **28,295** | **3,015** |
| Income taxes paid | | (367) | (5,258) |
| Interest paid | | (10,071) | (54,606) |
| **Net cash used in operating activities** | | **17,857** | **(56,849)** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 291 | 3,020 |
| Proceeds from sale of equity and debt instruments | | 694 | - |
| Purchase of property, plant and equipment and intangible assets | | (7,506) | (5,171) |
| Purchase of equity and debt instruments | | - | (218) |
| **Net cash used in investing activities** | | **(6,521)** | **(2,369)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of equity and debt financial instruments | | - | 105,926 |
| Proceeds from loans given and borrowings | | 1,961 | 45,511 |
| Repayment of borrowings | | (10,015) | (87,158) |
| Dividends paid | | - | (425) |
| Repayment of finance leases | | (171) | (3,734) |
| Acquisition of own shares | | - | (3,397) |
| **Net cash (used in)/from financing activities** | | **(8,225)** | **56,723** |
| Net increase/(decrease) in cash and cash equivalents | | 3,111 | (2,495) |
| **Cash and cash equivalents at beginning of year** | 25 | **2,535** | **5,030** |
| **Cash and cash equivalents at the end of year** | 25 | **5,646** | **2,535** |

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

## NOTE 1 – GENERAL INFORMATION

### History and incorporation

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

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

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

The Company's headquarters are in Zagreb, Croatia, at Janka Rakuše 1.

### The Management Board

*General Assembly*

| | |
|---|---|
| President | Franjo Gregurić |

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

*Supervisory Board*

Members of the Supervisory Board at 31 December 2013 are:

| | |
|---|---|
| Franjo Gregurić, president | from 20 December 2012 - until 20 December 2016 |
| Dušica Kerhač, member | from 2 April 2013 - until 11 April 2017 |
| Branko Kincl, member | from 19 July 2010 - until 19 July 2014 |
| Vlatka Rajčić, member | from 19 July 2010 - until 19 July 2014 |
| Ante Stojan, member | from 19 July 2010 - until 19 July 2014 |
| Vlado Čović, member | from 20 December 2012 - until 20 December 2016 |
| Ryvkin Grigory Evseevich, member | from 20 December 2012 - until 20 December 2016 |

As of 1 October 2012 the Company has a multi member Management Board which, during 2013 consisted of:

| | |
|---|---|
| President | Jure Radić |
| Member | Željko Grzunov |
| Member | Jelena Bleiziffer, from 16 December 2013 |
| Member | Tomislav Alpeza, until 16 December 2013 |
| Member | Željko Štromar, until 16 December 2013 |

## NOTE 2 – BASIS OF PREPARATION

*(i) Statement of compliance*

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

Financial statements are presented for the Group. The Group consists of the Company and its subsidiaries. The financial statements of the Group include the consolidated financial statements of the Company and its subsidiaries. The unconsolidated financial statements of the Company, which the Company is required to prepare in accordance with IFRS, are published separately and issued simultaneously with these consolidated financial statements. Statement of financial position amounts are presented as at 31 December 2013 unless otherwise stated.

These financial statements were authorised for issue by the Management Board on 29 April 2014.

*(ii) Basis of measurement*

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

- Revaluation of land and buildings as stated in note 3.9 (i)
- Investment property as stated in note 3.11.
- Assets available for sale as stated in note 3.19
- Liabilities at fair value through profit or loss as stated in note 3.19

Methods used for fair value measurement are explained in note 6.

*(iii) Functional and presentation currency*

These financial statements are prepared in the Croatian kuna (“HRK”), which is also the functional currency of the Company, rounded to the nearest thousand.

*(iv) Use of estimates and judgements*

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

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

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

## NOTE 2 – BASIS OF PREPARATION (CONTINUED)

*(iv) Going concern*

In the year that ended 31 December 2013 the IGH Group incurred a consolidated net loss in the amount of HRK 61,531 thousand (*2012: loss of HRK 496,805 thousand*) and consolidated current assets exceeded its consolidated current liabilities by HRK 54,451 thousand (*2012:* consolidated current liabilities higher than consolidated current assets by HRK 214,986 thousand).

The Comany`s Management Board considers that the Company has met the requirements to continue as a going concern which is relevant in the context of the going concern risk. As is evident from the financial statements, the Company and its subsidiaries operate in difficult liquidity conditions and are at risk of a permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company, by means of a pre bankruptcy settlement, reached an agreement with its creditors and restructured its debt.

Regardless of the financial restructuring, the Company and its subsidiaries, in order to ensure the necessary liquidity, are in the process of selling certain assets and plan to carry out a share capital increase by issuing new shares.

The parent company Institut IGH d.d., Geotehnika Inženjering d.o.o. and Sportski grad TPN d.o.o. have submitted proposals to the Financial agency (“FINA”) to initiate pre-bankruptcy settlement procedures. On 28 December 2013 the parents pre-bankrupcy settlement agreement became legally valid while the settlement agreements of Geotehnika Inženjering d.o.o. and Sportski grad TPN d.o.o. were not concluded until the reporting date.

On 10 June 2013 the Settlement Council adopted the Resolution by which the issuer as the debtor officially entered into pre-bankruptcy settlement procedures.

On 24 July 2013 a hearing was held in order to establish claims and based on a Resolution from the Finance Agency („FINA“) on 26 July 2013, the claims of creditors were determined.

On 5 December 2013 the Commercial Court in Zagreb adopted the decision (72. Stpn-305/13) approving the pre-bankruptcy agreement between the debtor IGH d.d. and creditors of pre-bankruptcy settlement. The pre-bankruptcy agreement became legally valid as of 28 December 2013. A summary of the effects of the pre-bankruptcy settlement is shown in note 45.

In 2013 the Group recognized significant adjustments in the statement of financial position, which negatively influenced equity of the Group. Nevertheless, the Group still has positive net assets.

*(v) Changes in accounting policies in measuring fair value*

International Financial Reporting Standard 13 Fair value measurement (“IFRS 13” or “Standard”) applicable for periods beginning 1 January 2013, or later, was adopted by the Group during the course of the preparation of the financial statements for the year ended 31 December 2013. The Standard represents a comprehensive source of guidelines for fair value measurement which were previously located in various other standards. In accordance with IFRS 13 the Group replaced their fair value measurement methods previously governed by IAS 39 with the convention. This is additionally described in accounting policy Fair value measurement.

Changes of amounts used in measuring fair value are considered changes in accounting estimates in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and has been applied prospectively in 2013. Significant accounting policies applicable from 1 January 2013 are presented in note 6.

*Policies applicable until 31 December 2012*

Fair value represents amounts for which an asset can be exchanged between willing and knowledgeable parties in an arm's-length transaction.

## NOTE 3 – SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

### 3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Institut IGH d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2013. 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.

*a) Subsidiaries*

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in the statement of comprehensive income as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

*b) Associates*

Associates are entities in which the Company owns between 20% and 50% of voting rights, that is the entities that are significantly influenced but not controlled by the Company. In the consolidated financial statements of the Company investments in associates are stated by using the equity method. According to the equity method, Company's share in gains and losses of associated companies are recognized through the Statement of comprehensive income, from the date the significant influence commences until the date that the significant influence ceases. The investment is initially recognized at cost and subsequently adjusted for the change in investor's share in the net profit of the associated entity.

In the unconsolidated financial statements the investments in associates are initially recognized at cost and subsequently measured at cost adjusted for impairment.

*c) Transactions eliminated on consolidation*

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

**3.1 Basis of consolidation (continued)**

*d) Loss of control*

After losing control over the subsidiary the Group ceases to recognize its assets and liabilities, minority interests in the entity and other components of equity and reserves. Contingent surplus or deficit resulting from the loss of control is recognized through profit and loss. In the situation where the Group maintains the share in the subsidiary, that share is recognized at fair value at the date of loss of control. Subsequently, it is recognized as investment measured by equity method or as financial assets available for sale, depending on the amount of maintained influence.

**3.2 Goodwill**

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

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

### 3.3 Revenues

Revenues comprise of the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenues are stated, net of value-added tax, returns, volume rebates and trade discounts.

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

*(i) Revenues from services*

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

*(ii) Finance income and costs*

Finance income and costs consist of interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income, and gains and losses from foreign exchange differences, gains and losses on financial assets at fair value through profit or loss. Other finance income relates to the effects of discounting of long-term liabilities in accordance with the provisions of the pre-bankruptcy settlement agreement.

Interest income is recognized in the income statement as it accrues using the effective interest method. Dividend income is recognized in the income statement on the date when the Company's right to receive payment is established.

Finance costs consist of interest expenses on borrowings, changes in fair value of financial assets measured at fair value through profit and loss, impairment losses on financial assets and foreign currency losses. All borrowing costs are recognized in the income statement using the effective interest method.

### 3.4 Leases

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

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

### 3.5 Foreign currency transactions

*Transactions and balances in foreign currencies*

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

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates valid at the date of transaction.

As at 31 December 2013, the official exchange rate for EUR 1 HRK 7,637643 (31 December 2012: HRK 7.545624). Average exchange rate for EUR used to translate Statements of comprehensive income of foreign entities into the Croatian currency was 1 EUR for HRK 7,573320 (*2012:HRK 7,517478 for 1 EUR* ).

*Members of the Group*

Items included in financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates („the functional currency“). The consolidated financial statements are presented in Croatian kuna, which is also the functional currency of the Company.

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

Exchange differences on translation of foreign currency, due to their immaterial amount of HRK 663 thousand (2012: HRK 68 thousand), are included in accumulated losses.

*Net investments in members of the Group*

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

### 3.6 Borrowings and borrowing costs

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

All other borrowing costs are charged to the statement of comprehensive income in the period incurred.

### 3.7 Dividend

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

### 3.8 Taxation

***Income tax***

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

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

*(i) Deferred tax assets and liabilities*

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

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

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

*(ii) Tax exposures*

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

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

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

### 3.9 Property, plant and equipment

*(i) Land and buildings*

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

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

When the carrying amount is increased as a result of revaluation, the increase should be recognized in equity as the revaluation reserve. Revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as expense.

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

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

The relevant portion of the revaluation surplus realized in the previous revaluation is released to the profit and loss from surplus of the revalued asset, on disposal of revaluated asset and during its use.

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

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

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

*(ii) Plant and equipment*

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

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

*(iii) Subsequent expenditures*

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

*(iv) Depreciation*

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

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

The residual value of an asset is the estimated amount that the 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

### 3.10 Intangible assets and goodwill

*Patents, licences and softwares*

*(i) Ownership of intangible assets*

Patents, licenses and software are capitalized on the basis of the costs incurred necessary to bring them to a working condition.

*(ii) Subsequent expenditures*

Subsequent expenditures are capitalised only if they increase future economic benefits arising from the asset. All other expenditures are treated as expenses in profit and loss as incurred.

*(iii) Amortisation*

Intangible assets under construction are not amortised. Amortisation of all other intangible assets is charged on a straight-line basis for allocation of cost or until the residual value of the asset over its estimated useful life is as follows:

| | |
|---|---|
| Right to use third party property | 1 to 2 years |

### 3.11 Investment property

Investment property is recognised as asset when it is likely that future economic benefits will arise from the investment and when the cost of investment can be reliably measured.

Investment property is property held either to earn rental income or capital appreciation or both. Investment property is initially recognised at cost including transaction costs incurred. Subsequently investment property is measured at fair value reflecting market conditions at the date of statement of financial position. Profit or loss from changes in fair value of investment property is recognised in the income statement of the period in which they are incurred.

### 3.12 Impairment of property, plant, equipment and intangibles

At each reporting date, the Group reviews the carrying amounts of its property, plant, equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group 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.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately 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 in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

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

### 3.13 Inventories

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

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

Small inventory and tools are expensed when put into use.

### 3.14 Trade receivables

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

### 3.15 Cash and cash equivalents

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

### 3.16 Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of those transactions. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) are 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.

### 3.17 Employee benefits

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

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

*(ii) Termination benefits*

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

*(iii) Regular retirement benefits*

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

*(iv) Long-term employee benefits*

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the weighted average interest rate on the Group's debt. Actuarial gains and losses arising from adjustments based on experience and changes in actuarial assumptions are recognised immediately in profit or loss.

### 3.18 Provisions

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

### 3.19 Financial instruments

*Non-derivative financial instruments*

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

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

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows by which the Group loses control or in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred. Acquisition and disposal of financial assets is recognised at trade date, that is on the date when the Company commits to buy or sell the asset. Financial liabilities are derecognised when the contractual obligation is settled, cancelled or expired.

*Available-for- sale financial assets (AFS)*

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

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

Dividends on AFS equity instruments are recognised in statement of comprehensive income when there is right to receive the dividends is established.

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

*Held to maturity investments*

When the Group has a positive intention and ability to hold the debt securities until maturity they are classified as investments held to maturity. Investments held to maturity are measured at the amortised cost, using the effective interest rate less any impairment losses.

### 3.19 Financial instruments (continued)

*Loans given and receivables*

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

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

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

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

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

For certain categories of financial assets, such as trade receivables, i.e. assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with 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 loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

**3.19 Financial instruments (continued)**

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

In respect of AFS equity securities, impairment loss 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 in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Derecognition of financial assets*

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

***Financial liabilities and equity instruments***

*Classification as debt or equity*

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

*Equity instruments*

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

*Financial liabilities*

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

*Financial liabilities measured at fair value through profit and loss*

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

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

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

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

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

### 3.19 Financial instruments (continued)

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

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

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

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

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

*Other financial liabilities*

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

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

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

*Contracts on financial guarantee*

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

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

- the amount of the obligation under the contract, which is determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”,
- original amount minus the cumulative depreciation, if any, are recognized in accordance with revenue recognition policies.

*Derecognition of financial liabilities*

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

### 3.20 Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic and diluted earnings per share are calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighting average number of ordinary shares outstanding during the period.

## NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

*(i)* *IFRS 9 Financial instruments*

*(ii)* *IFRS 10 Consolidated Financial Statements*

*(iii)* *IFRS 11 Joint Arrangements*

*(iv)* *IFRS 12 Disclosure of Interests in Other Entities*

## NOTE 5 – SIGNIFICANT ACCOUNTING POLICIES AND JUDGEMENTS

*Critical judgements in applying accounting policies*

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

*(i) Deferred tax assets recognition*

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

*(ii) Consequences of certain legal actions*

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

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

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

*(iv) Impairment of non-current assets*

The Group regularly reviews the recoverability of each property individually and if there is any indication of impairment, the same shall be impaired down to the estimated recoverable amounts.

*(v) Non-derivative financial liabilities*

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

*(vi) Investment property*

Investment property is initially measured at cost. After initial recognition, investment property is measured at fair value. Gains or losses arising from changes in fair value of investment property are recognized in profit or loss in the period in which they occur.

*(vii) Going concern*

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

## NOTE 6 – DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

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

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

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

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

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

- note 18: Property, plant and equipment
- note 19: Investment property
- note 20: Investments in associates and entities which are not consolidated
- note 26: Non-current assets held for sale

## NOTE 7 – SUBSIDIARIES

Consolidation includes the Company and its subsidiaries as follows:

| | Share in ownership and voting rights (%) | | | |
|---|---|---|---|---|
| | 31 December 2013 | Acquisition cost in '000 HRK | 31 December 2012 | Acquisition cost in '000 HRK |
| Geotehnika-inženjering d.o.o., Zagreb | 100 | 55,803 | 100 | 55,803 |
| IGH Mostar d.o.o., Mostar | 100 | 6,005 | 100 | 6,005 |
| IGH Energija d.o.o., Zagreb | 100 | 222 | 100 | 222 |
| Incro d.o.o., Zagreb | 100 | 20 | 100 | 20 |
| Forum centar d.o.o., Zagreb | 100 | 30,748 | 100 | 30,748 |
| IGH Turizam d.o.o. , Zagreb | 100 | 49,104 | 100 | 49,104 |
| Projekt Šolta d.o.o., Zagreb | 100 | 58,544 | 100 | 58,544 |
| IGH Projektiranje d.o.o., Zagreb | 100 | 6,103 | 100 | 6,103 |
| Radeljević d.o.o., Zagreb | 100 | 116,827 | 100 | 116,827 |
| Gratius Projekt d.o.o. | 100 | 100 | 100 | 100 |
| Marterra d.o.o., Zagreb | 100 | 20 | 100 | 20 |
| DP AQUA d.o.o., Zagreb | 100 | 452 | 100 | 752 |
| Novi Črnomerec centar d.o.o., Zagreb | 100 | 151,988 | - | - |
| Vođenje projekata d.o.o., Zagreb | 90 | 900 | 90 | 900 |
| ETZ d.d., Osijek | 80.2 | 6,511 | 80.2 | 5,200 |
| Projektni biro Palmotićeva 45 d.o.o., Zagreb | 77.3 | 15,632 | 80.1 | 18,453 |
| IGH Kosova Sha, Priština | 74.8 | 40 | 74.8 | 40 |
| Tehničke konstrukcije d.o.o., Zagreb | 60 | 900 | 60 | 900 |
| MBM Termoprojekt d.o.o., Zagreb | 60 | 1,200 | 60 | 1,200 |
| CTP Projekt d.o.o., Zagreb | - | - | 56 | 900 |
| Hidroinženjering d.o.o., Zagreb | 55 | 1,200 | 55 | 1,200 |
| | | **502,319** | | **353,041** |

**NOTE 7 - SUBSIDIARIES (CONTINUED)**

**BUSINESS COMBINATIONS**

**a) Sale of existing investments in subsidiaries**

*CTP Projekt d.o.o.*

During 2013 the Group sold 56% of its shareholding in CTP Projekt d.o.o. and lost its right to govern the financial and operating policies of the company. The shareholding was sold to third parties during April 2013. After the sale the Company has no shareholding in CTP Projekt d.o.o.

Sale of shareholdings had an effect on the Group as follows:

| *(in thousands HRK)* | **2013** | **2012** |
|---|---|---|
| Effect of share disposal on minority interests | (39) | (254) |
| Net assets of owners of the Company | (577) | (229) |
| Goodwill | (728) | (1,726) |
| | **(1,305)** | **(1,955)** |
| Consideration | 675 | 2,000 |
| **Net effect of share disposal on owners of the Company** | **(591)** | **299** |

The Group recorded disposals of net assets as a loss for the period. Besides the sales of CTP Projekt d.o.o., the Company also disposed of HRK 104 thousand of own shares held by the disposed subsidiary.

*Črnomerec centar d.o.o.*

During October 2013 the Group disposed 20% of its shareholding in the Črnomerec Centar d.o.o. in which the Company did not have any significant influence and control. Investments in Črnomerec Centar d.o.o. amounted to HRK 45,559 thousand. The investment was a part of a transaction to acquire Novi Črnomerec Centar d.o.o. as disclosed below.

*Projektni biro Palmotićeva 45 d.o.o.*

The Company (IGH d.d.) and its subsidiary, Projektni biro Palmotićeva 45 d.o.o., concluded a Contract on the sale and transfer of one buisness share by which Projektni biro Palmotićeva 45 d.o.o. acquires its own treasury shares for a consideration of HRK 2,821 thousand. With this transaction the Company effectively reduced its shareholding from 80.08% to 77.30% and at the same time increased non-controlling interest by 2.78%, i.e. HRK 501 thousand. The Group realised a gain of HRK 76 thousand which was recognised through retained earnings due to the fact that the Group retained control over the subsidiary.

**b) Acquisition of new investments**

*Novi Črnomerec Centar d.o.o.*

In October 2013 the Group acquired 100% of shareholding in the Novi Črnomerec Centar d.o.o. for a consideration of HRK 151,988 thousand, and acquired control over the financial and operating decisions of the entity. The newly acquired subsidiary is fully consolidated. The transaction has been carried out mostly through offsetting HRK 82,388 thousand of loan and interest receivables against receivables for the sale of shares and HRK 69,600 thousand of loan and interest receivables and trade receivables from Črnomerec Centar d.o.o. After impairments in 2012 the carrying amount of the investment is HRK 106,429 thousand.

## NOTE 8 – REVENUE

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Revenue from services | 259,703 | 277,560 |
| Sale of apartments | 122 | - |
| Sale of goods | 1,754 | 1,423 |
| | **261,579** | **278,983** |

## NOTE 9 – OTHER OPERATING INCOME

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Change in fair value of investment properties | - | 6,692 |
| Income from reversal of provisions | 8,120 | 3,364 |
| Gain on sale of property, plant and equipment | 291 | 3,020 |
| Rental income | 3,025 | 3,609 |
| Income from recovery of receivables previously written off | 2,408 | 6,974 |
| Income from reimbursement of damages | 211 | 623 |
| Compensations and grant income | 37 | 376 |
| Income from liabilites written off | 4,330 | 422 |
| Other income | 3,628 | 3,178 |
| | **22,050** | **28,258** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Raw materials and consumables used | 6,539 | 10,570 |
| Energy costs | 9,356 | 11,917 |
| Inventory and spare parts used | 1,078 | 1,536 |
| Transportation, telephone, postal services | 3,116 | 3,996 |
| Subcontractors | 43,643 | 62,941 |
| Manufacturing services | 10,663 | 15,739 |
| Municipial services and fees | 1,762 | 1,603 |
| Maintenance costs | 4,616 | 4,966 |
| Rental expenses | 6,141 | 12,494 |
| Other external expenses | 798 | 58 |
| Cost of goods sold | 854 | 1,438 |
| | **88,566** | **127,258** |

## NOTE 11 – EMPLOYEE EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Net salaries | 68,750 | 82,067 |
| Taxes, contributions and other charges | 49,479 | 60,850 |
| Reimbursement of expenses (travel expenses, wages, transportation) | 13,119 | 18,618 |
| Severance, support and other benefits | 3,443 | 7,261 |
| Compensations, termination and support benefits in the excess of tax allowable amount | - | 6,741 |
| | **134,791** | **175,537** |

As at 31 December 2013 the number of staff employed by the Company and its subsidiaries was 746 (2012: 900). In 2013 the Company and its subsidiaries reversed termination benefits provisions amounting to HRK 1,184 thousand of which non-taxable incentive serverance payments amount to HRK 458 thousand.

During 2013 the Group accounted for contributions for compulsory pension fund for 935 employees amounting to HRK19,848 thousand (*2012: for 1,103 employees amounting to HRK 22,925 thousand*).

## NOTE 12 – IMPAIRMENTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Impairment of trade receivables | 18,356 | 32,201 |
| Impairement of other receivables | 5,518 | 29,133 |
| Impairment of inventories | 3,921 | 48,858 |
| Impairment of joint ventures | 383 | 45,621 |
| Impairment of loans given and other financial assets | 6,310 | 83,463 |
| Impairment of property, plant and equipment | 5,540 | 58,220 |
| Impairment of investment property | 4,956 | 37,907 |
| | **44,984** | **335,403** |

Within impairment of loans given and other financial assets, HRK 642 thousand of impairment relates to impairment of loans given and corresponding interest from associates.

## NOTE 13 – OTHER OPERATING EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Legal, consultancy and other services | 4,377 | 7,820 |
| Entertainment | 922 | 1,481 |
| Insurance premiums | 2,157 | 2,783 |
| Education and training expenses | 291 | 592 |
| Bank fees and charges | 3,105 | 4,689 |
| Other taxes | 2,412 | 1,779 |
| Contributions to public bodies | 1,355 | 1,369 |
| Other expenses | 1,888 | 4,575 |
| Carrying value of disposed assets | 6,899 | 622 |
| Prior period expenses | 2,056 | 42,598 |
| Penalties and similar expenses | 280 | 730 |
| Other costs | 408 | 74 |
| Provisions for unused vacation | - | 5,078 |
| Provisions for retirement and jubilee awards | 123 | 1,268 |
| Provisions for legal cases | 1,452 | 13,000 |
| Warranty provision | 400 | - |
| | **28,125** | **88,458** |

Prior period expenses in 2012 arise from the termination of the share purchase contract (HRK 15,356 thousand), reversal of accrued revenue in previous years (HRK 20,119 thousand), reversal of revenue from accrued unrecognised damages (HRK 3,525 thousand), correction of the 2011 financial results of foreign branches (HRK 1,680 thousand) and other prior period expenses subsequently established (HRK 1,918 thousand).

## NOTE 14 – NET FINANCE COSTS

| | | |
|---|---|---|
| **Finance income** | *(in thousands of HRK)* | |
| Gain on foreign exchange differences | 6,956 | 742 |
| Interest income | 3,438 | 9,674 |
| Income from write off of interest | 19,146 | - |
| Change in fair value of interest rate swap | 2,386 | - |
| Other finance income | 11,038 | 50 |
| | **42,964** | **10,466** |
| **Finance costs** | | |
| Loss on foreign exchange differences | 13,125 | 2,394 |
| Interest expense | 39,298 | 51,947 |
| Change in fair value of available for sale financial assets | 5,562 | - |
| Change in fair value of interest rate swap | - | 7,881 |
| Other finance costs | 1,602 | 2,066 |
| | **59,587** | **64,288** |
| **Net finance costs** | **(16,623)** | **(53,822)** |

Other finance income in 2013 relates to HRK 11,038 thousand of discounts of long-term liabilities.

## NOTE 14 – NET FINANCE COSTS (CONTINUED)

During 2013 the Company and its subsidiaries capitalised interest expense amounting to HRK 746 thousand (*2012: HRK 430 thousand*).

## NOTE 15 – TAX EXPENSE

Tax income consists of:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Current income tax | 436 | 374 |
| Deferred tax | (1,114) | 2,146 |
| | **(678)** | **2,520** |

*Reconciliation of the effective tax rate*

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Loss before taxation** | **(62,209)** | **(494,285)** |
| Income tax at 20% (2012: 20%) | (12,442) | (98,857) |
| Non-deductible expenses and non-taxable income | 11,226 | 71,191 |
| Tax incentives | (11) | (388) |
| Tax losses not recognized as deferred tax assets | 6,092 | 28,225 |
| Utilised tax losses previously not recognized as deferred tax assets | (6,112) | - |
| Derecognition of temporary differences previously recognized as deferred tax assets | - | 2,146 |
| Effect of different tax rates | 569 | 203 |
| **Income tax** | **(678)** | **2,520** |
| Effective tax rate | 0% | 0% |

Unused tax losses relate to tax loss for the year. Amounts of unused tax losses are not recognized as deferred tax assets in the statement of financial position because it is not likely that there will be sufficient taxable profits realized to use this deferred tax assets.

**NOTE 15 – TAX EXPENSE (CONTINUED)**

Tax losses are available as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| **Up to 2013** | - | 3,031 |
| **Up to 2014** | 2,945 | 2,975 |
| **Up to 2015** | 2,932 | 2,932 |
| **Up to 2016** | 1,330 | 1,681 |
| **Up to 2017** | 22,113 | 28,225 |
| **Up to 2018** | 6,092 | - |
| | **35,412** | **38,844** |

Deferred tax liabilities consists of:

| **2013** | **Opening balance** | **Recognized in profit or loss** | **Recognized in equity** | **Closing balance** |
|---|---|---|---|---|
| **Temporary differences:** | *(in thousands of HRK)* | | | |
| Revaluation of land and buildings | 41,286 | (1,114) | (4,044) | 36,128 |
| | **41,286** | **(1,114)** | **(4,044)** | **36,128** |

| **2012** | **Opening balance** | **Recognised in profit or loss** | **Closing balance** |
|---|---|---|---|
| **Temporary differences:** | *(in thousands of HRK)* | | |
| Revaluation of land and buildings | 4,209 | 37,077 | 41,286 |
| | **4,209** | **37,077** | **41,286** |

## NOTE 16 – EARNINGS PER SHARE

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Loss attributable to equity holders of the parent (in thousands of HRK) | (60,370) | (496,199) |
| Weighted average number of shares | 259,975 | 219,100 |
| **Basic and diluted loss per share (in HRK)** | **(232)** | **(2,265)** |

### Weighted average number of shares

| | 2013 | 2012 |
|---|---|---|
| Number of ordinary shares at 1 January | 264,170 | 158,580 |
| Effect of issuing new shares | - | 63,758 |
| Effect of own shares | (4,195) | (3,238) |
| Weighted average number of ordinary shares in period | **259,975** | **219,100** |

## NOTE 17 – INTANGIBLE ASSETS AND GOODWILL

| *(in thousand of HRK)* | Patents, licences and similar | Assets under construction | Goodwill | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January 2012 | 34,587 | 3,862 | 28,720 | 67,169 |
| Disposal or write off | (238) | - | (400) | (638) |
| Allocation to property, plant and equipment | - | - | (13,356) | (13,356) |
| Additions | 14 | 1,775 | 349 | 2,138 |
| Transfer | 1,774 | (1,774) | - | - |
| Disposal of subsidiaries | (743) | - | (1,726) | (2,469) |
| **As at 31 December 2012** | **35,394** | **3,863** | **13,587** | **52,844** |
| **Accumulated amortization** | | | | |
| As at 1 January 2012 | (30,206) | (1,268) | - | (31,474) |
| Charge for the year | (2,365) | - | - | (2,365) |
| Impairment | - | - | (9,844) | (9,844) |
| Disposal or write off | 238 | - | - | 238 |
| Disposal of subsidiaries | 642 | - | - | 642 |
| **As at 31 December 2012** | **(31,691)** | **(1,268)** | **(9,844)** | **(42,803)** |
| **Cost** | | | | |
| As at 1 January 2013 | 35,394 | 3,863 | 13,587 | 52,844 |
| Disposal or write off | (166) | - | - | (166) |
| Additions | 1,374 | - | - | 1,374 |
| Impairments | (402) | - | - | (402) |
| Disposal of subsidiaries | - | - | (728) | (728) |
| **As at 31 December 2013** | **36,200** | **3,863** | **12,859** | **52,922** |
| **Accumulated amortization** | | | | |
| As at 1 January 2013 | (31,691) | (1,268) | (9,844) | (42,803) |
| Charge for the year | (1,691) | - | - | (1,691) |
| Disposal or write off | 166 | - | - | 166 |
| As at 31 December 2013 | **(33,216)** | **(1,268)** | **(9,844)** | **(44,328)** |
| **Net carrying amount** | | | | |
| **31 December 2012** | 3,703 | 2,595 | 3,743 | 10,041 |
| **31 December 2013** | **2,984** | **2,595** | **3,015** | **8,594** |

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

*Impairment of goodwill*

The Group has calculated the present value using the discounted free cash flows and share of ownership. The cash flow calculation was based on the earnings before interest, taxes, depreciation and amortization (EBITDA) generated in the 2013 assuming growth of 5% in the first 5 years and no growth thereafter. The discount rate of 9% was used in discounting the projected free cash flow.

## NOTE 18 – PROPERTY, PLANT AND EQUIMPMENT

| *(in thousand of HRK)* | Land | Buildings | Plant and equipment | Assets under construction | Other | Advances for tangibles | Total |
|---|---|---|---|---|---|---|---|
| **Cost or fair value value** | | | | | | | - |
| As at 1 January 2012 | 91,867 | 417,785 | 204,825 | 28,928 | 5,531 | 172 | 749,108 |
| Revaluation | 60,979 | 88,399 | - | - | - | - | 149,378 |
| Additions | 36 | 638 | 648 | 4,953 | 4 | 2,669 | 8,948 |
| Impairments | - | (132,018) | - | - | - | - | (132,018) |
| Transfer from intangible assets | - | 13,356 | - | - | - | - | 13,356 |
| Reclassification to investment property | (231) | (8,345) | - | - | - | - | (8,576) |
| Transfer | 414 | 3,535 | 996 | (4,945) | - | - | - |
| Decreases | (11,829) | (41,824) | (4,883) | - | - | (2,737) | (61,273) |
| Disposal of subsidiaries | - | - | (3,115) | - | (677) | - | (3,792) |
| Disposals or write offs | (1,426) | - | (2,538) | - | (3,666) | - | (7,630) |
| **As at 31 December 2012** | **139,810** | **341,526** | **195,933** | **28,936** | **1,192** | **104** | **707,501** |
| ***Accumulated depreciation*** | | | | | | | - |
| As at 1 January 2012 | - | (152,715) | (174,440) | - | (4,372) | - | (331,527) |
| Charge for the year | - | (13,306) | (4,512) | - | (55) | - | (17,873) |
| Revaluation | - | 132,018 | - | - | - | - | 132,018 |
| Reclassification to investment property | - | 7,511 | - | - | - | - | 7,511 |
| Disposal of subsidiaries | - | 777 | - | - | - | - | 777 |
| Disposals or write offs | - | - | 2,390 | - | 3,600 | - | 5,990 |
| **As at 31 December 2012** | **-** | **(25,715)** | **(176,562)** | **-** | **(827)** | **-** | **(203,104)** |
| **Cost or fair value value** | | | | | | | |
| As at 1 January 2013 | 139,810 | 341,526 | 195,933 | 28,936 | 1,192 | 104 | 707,501 |
| Revaluation | 9,887 | 1,369 | - | - | - | - | 11,256 |
| Foreign exchange differences | 21 | 89 | 76 | - | - | - | 186 |
| Additions | - | 444 | 649 | 3,766 | - | 1,276 | 6,135 |
| Transfer | - | 380 | 728 | (1,108) | - | - | - |
| Decreases | - | - | (252) | - | - | (1,272) | (1,524) |
| Disposals or write offs | - | - | (13,188) | - | - | - | (13,188) |
| Transfer to assets held for sale | (43,676) | (194,626) | - | - | - | - | (238,302) |
| **As at 31 December 2013** | **106,042** | **149,182** | **183,946** | **31,594** | **1,192** | **108** | **472,064** |
| ***Accumulated depreciation*** | | | | | | | |
| As at 1 January 2013 | - | (25,715) | (176,562) | - | (827) | - | (203,104) |
| Charge for the year | - | (12,266) | (3,754) | - | - | - | (16,020) |
| Revaluation | (11,179) | (22,223) | - | (2,918) | - | - | (36,320) |
| Disposals or write offs | - | - | 6,455 | - | - | - | 6,455 |
| Transfer to assets held for sale | 7,931 | 21,042 | - | - | - | - | 28,973 |
| **As at 31 December 2013** | **(3,248)** | **(39,162)** | **(173,861)** | **(2,918)** | **(827)** | **-** | **(220,016)** |
| **Net carrying amount** | - | - | - | - | - | - | - |
| **31 December 2012** | 139,810 | 315,811 | 19,371 | 28,936 | 365 | 104 | 504,397 |
| **31 December 2013** | **102,794** | **110,020** | **10,085** | **28,676** | **365** | **108** | **252,048** |

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

Land, buildings and assets under construction of the Group with net carrying value of HRK 182,958 thousand (2012: HRK 484,557 thousand) have been pledged as security for the loan liabilities towards commercial banks.

Cost of property, plant and equipment that is fully depreciated amounts to HRK 169,193 thousand (*2012: HRK 167,351 thousand*). The carrying amount of revalued assets before revaluation would amount to HRK 90,985 thousand (*2012: HRK 101,520 thousand*).

Assets under construction relate to the investment in the construction of commercial buildings at Janka Rakuše 1 in Zagreb in the amount of HRK 25,012 thousand and other assets under construction.

Estimated fair value for revaluation purposes was determined based on independent evaluators report that was based on the cost method, comparative method and/or income method depending on the type of property.

Leased equipment where the Company and its dependent parties are the lessee under a finance lease represents cars and comprise the following:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Finance leases (cost) | 1,094 | 11,925 |
| Accumulated depreciation | (741) | (3,865) |
| **Net book value** | **353** | **8,060** |

*(i) Valuation techniques and significant inputs*

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

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

## NOTE 19 – INVESTMENT PROPERTY

| | 2013 | 2012 |
|---|---|---|
| **Cost** | *(in thousands of HRK)* | |
| At 1 January | 81,669 | 100,828 |
| Additions | 106,409 | 13,333 |
| Transfer to assets held for sale | (40,781) | - |
| Disposals | - | (1,824) |
| Net book value of property sold | - | (474) |
| Transfer from property, plant and equipment | - | 1,065 |
| Impairment loss | - | (44) |
| Fair value adjustment | (4,956) | (31,215) |
| **At 31 December** | **142,341** | **81,669** |

Investment property mainly relates to investment in land. Property recorded as investment property is leased for an indefinite period. Overheads, which annually amount to approximately HRK 100 thousand are borne by lessee. The Group generates income of HRK 504 thousand per year from renting the property.

Investment property in the amount of HRK 142,341 thousand (*2012: 81,669 thousand*) is pledged as security for the loan liabilities towards commercial banks.

(i) *Valuation techniques and significant inputs*

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

| Valuation methods and techniques | Significant unobservable inputs |
|---|---|
| *Land and buildings* | |
| Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in note 18 *(i)*. | Significant unobservable inputs are described in note 18 *(i)*. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

## NOTE 20 – INVESTMENTS IN ASSOCIATES

| *31 December 2013 (in thousand HRK)* | Ownership | Investement | Assets | Liabilities | Net assets/ (liabilities) | Revenues | Loss | Group share in net assets/ (liabilities) | Group share in loss |
|---|---|---|---|---|---|---|---|---|---|
| Centar Bundek d.o.o. Zagreb | 35% | 31,960 | 481,588 | 498,231 | (16,643) | 146,838 | (53,377) | (5,825) | (18,682) |
| Centar Gradski Podrum d.o.o. | 38% | 21,533 | 530,131 | 501,329 | 28,802 | 32,240 | (2,354) | 10,801 | (883) |
| Sportski grad TPN d.o.o. | 40% | 8 | 360,579 | 601,025 | (240,446) | 19,684 | (68,348) | (96,178) | (27,339) |
| IGH Lux Energija d.o.o. | 30% | 14,918 | 10,774 | 128 | 10,646 | - | (10) | 3,194 | (27) |
| Elpida d.o.o. | 50% | 31,300 | 62,631 | 85 | 65,546 | 1 | (43) | 32,773 | (35) |
| Institut za infrastrukturne projekte d.o.o. | 50% | 9 | - | - | - | - | - | - | - |
| Autocesta Bar-Boljare d.o.o. | 40% | 8 | - | - | - | - | - | - | - |
| Prvi Crnogorski Autoput d.o.o. Podgorica | 25% | - | - | - | - | - | - | - | - |
| Slavonija Centar, Velika Kopanica d.o.o. | 100% | 20 | - | - | - | - | - | - | - |
| Impairment | | (53,584) | - | - | - | - | - | - | - |
| | | **46,172** | **1,445,703** | **1,600,798** | **(152,095)** | **198,763** | **(124,132)** | **(55,236)** | **(46,966)** |
| Unrealised loss (relating to Sportski grad TPN d.o.o.) | | | | | | | | | (31,771) |
| | | | | | | | | | **(15,195)** |

Investment in Centar Gradski Podrum d.o.o. has been pledged by the Group as security for the loan liabilities towards commercial banks. The Company did not consolidate investments in Slavonija Centar, Velika Kopanica d.o.o. due to the fact that the financial position and performance of the company does not affect the financial position and performance oft he Group as a whole.

## NOTE 20 – INVESTMENTS IN ASSOCIATES (CONTINUED)

(i) *Valuation techniques and significant inputs*

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

| Valuation methods and techniques | Significant unobservable inputs |
|---|---|
| Fair value of investments in subsidiaries and associates was determined using only methods applicable to each individual company. The following methods were used:<br>• Valuation of land and buildings carried out by independent evaluators (methods described in Note 18 *(i)*)<br>• Estimation of recoverable amounts of assets, liabilities and equity as at 31 December | • Significant unobservable inputs are described in note 18 *(i)*. |

## NOTE 20 – INVESTMENTS IN ASSOCIATES (CONTINUED)

| *31 December 2012 (in thousand HRK)* | Ownership | Investement | Assets | Liabilities | Net assets/ (liabilities) | Revenues | Loss | Group share in net assets/ (liabilities) | Group share in loss |
|---|---|---|---|---|---|---|---|---|---|
| Centar Bundek d.o.o. Zagreb | 35% | 31,961 | 626,850 | 590,063 | 36,787 | 1,263 | (3,258) | 12,875 | - |
| Centar Gradski Podrum d.o.o. | 38% | 21,533 | 421,800 | 386,011 | 35,789 | 270 | (2,869) | 13,421 | (1,077) |
| Sportski grad TPN d.o.o. | 40% | 8 | 424,383 | 596,481 | (172,098) | 29,337 | (20,197) | (68,839) | (8,079) |
| IGH Lux Energija d.o.o. | 30% | 14,918 | 10,774 | 76 | 10,698 | - | (42) | 3,209 | (13) |
| Elpida d.o.o. | 50% | 31,300 | 62,632 | 42 | 62,590 | - | (34) | 31,295 | (16) |
| Institut za infrastrukturne projekte d.o.o. | 50% | 9 | - | - | - | - | - | - | - |
| Autocesta Bar-Boljare d.o.o. | 40% | 8 | - | - | - | - | - | - | - |
| Prvi Crnogorski Autoput d.o.o. Podgorica | 25% | 1 | - | - | - | - | - | - | - |
| Slavonija Centar, Velika Kopanica d.o.o. | 100% | 20 | - | - | - | - | - | - | - |
| Impairment | | (38,391) | - | - | - | - | - | - | - |
| | | **61,367** | **1,546,439** | **1,572,673** | **(26,234)** | **30,870** | **(26,400)** | **(8,039)** | **(9,185)** |
| Unrealised loss (relating to Sportski grad TPN d.o.o.) | | | | | | | | | (8,079) |
| | | | | | | | | | **(1,106)** |

## NOTE 21 – OTHER INVESTMENTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Shares in investment funds | 4,478 | 12,028 |
| Other investments | 153 | 27 |
| Securities | 2,151 | 3,672 |
| Deposits and guarantees given | 1,385 | 2,580 |
| | **8,167** | **18,307** |

*Shares in investment funds:*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Quaestus private equity capital | 4,195 | 11,590 |
| Nexus private equity | 283 | 438 |
| | **4,478** | **12,028** |

Decrease in fair value of investment funds has been recognized in finance costs in the amount of HRK 5,562 thousand and through other comprehensive income in the amount of HRK 1,988 thousand. Fair value of investments in investment funds classified as financial assets available for sale was determined using unadjusted quoted prices in active markets – level 1.

*Joint ventures*

| | 2013 Carrying value | 2012 Carrying value |
|---|---|---|
| | *(in thousands of HRK)* | |
| Črnomerec centar | - | 45,559 |
| Grupacija Biotoplifikacija | 15 | 15 |
| Viktor Lenac | 47 | 47 |
| Hrvatski farmer d.d., Zagreb | 1 | 1 |
| GP Dubrovnik d.d., Dubrovnik | 2,694 | 2,694 |
| Zagrebačka banka d.d., Zagreb | 16 | 16 |
| Jadranska autocesta d.d., Zagreb | 1 | 1 |
| Adriastar hoteli i ljetovališta d.o.o. | 10 | 10 |
| Međimurje Beton d.d., Čakovec | 383 | - |
| Projektgradnja d.d., Slavonski Brod | 126 | - |
| Impairment of other investments | (3,140) | (48,316) |
| | **153** | **27** |

The entity Črnomerec centar d.o.o. was disposed during the year as presented in note 7. As at 31 December 2012 the investment was wholly impaired. In 2013 the Company impaired other joint ventures in the amount of HRK 383 thousand.

## NOTE 22 – INVENTORIES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Raw materials | 80 | 114 |
| Work in progress | 137,540 | 135,325 |
| Finished goods | 3,238 | 3,238 |
| Merchandise | 593 | 1,404 |
| Advances | 1,008 | 1,008 |
| Less: Impairment of inventories | (53,371) | (49,450) |
| | **89,088** | **91,639** |

Inventories with a carrying amount of HRK 87,865 thousand have been pledged as security for the loan liabilities towards commercial banks. Inventories of finished goods relate to unsold commercial property. Work in progress relates to commercial and residential premises under construction. In 2013 inventories in the amount of HRK 3,921 thousand were impaired. The impairment is included in note 12 – *Impairments*.

## NOTE 23 –TRADE AND OTHER RECEIVABLES

| | 2013 | 2012 |
|---|---|---|
| ***Non-current receivables*** | *(in thousands of HRK)* | |
| Receivables for apartments sold with deferred payment | 1,890 | 2,155 |
| Deferred receivables resulting from the pre-bankruptcy settlement | 399 | - |
| | **2,289** | **2,155** |
| ***Current receivables*** | | |
| Domestic trade receivables | 131,973 | 141,560 |
| Foreign trade receivables | 15,282 | 20,160 |
| Less: Impairment | (70,718) | (71,219) |
| Receivables from state and other institutions | 2,756 | 2,954 |
| Receivables from employees | 783 | 862 |
| Receivables form related parties | 259 | 372 |
| Receivables from recharged interest | 7,444 | 8,356 |
| Advances given | 4,025 | 2,727 |
| Receivables for investments sold | - | 37,685 |
| Other receivables | 3,437 | 11,585 |
| Less: Impairment of other receivables | (10,174) | (12,820) |
| | **85,067** | **142,222** |
| | **87,356** | **144,377** |

Movements in the provision for impairment of trade receivables are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| At 1 January | 71,219 | 47,991 |
| Increase | 18,356 | 32,201 |
| Collected | (2,408) | (6,974) |
| Written off as uncollectable | (16,449) | (1,999) |
| **At 31 December** | **70,718** | **71,219** |

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

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Neither past due nor impaired | 30,391 | 33,662 |
| 0-90 days | 16,506 | 21,440 |
| 91-180 days | 19,648 | 7,850 |
| 181-360 days | 8,927 | 12,529 |
| over 360 days | 1,065 | 15,020 |
| | **76,537** | **90,501** |

During 2013, other receivables in the amount of HRK 16,449 thousand were permanently written off.

## NOTE 24 – LOANS GIVEN

| | 2013 | 2012 |
|---|---|---|
| **Non current** | *(in thousands of HRK)* | |
| Loans given to associates | 28,120 | 28,120 |
| Less: Impairment | (28,120) | (28,120) |
| | - | - |
| **Current** | | |
| Loans given to associates | 2,290 | 2,280 |
| Loans given to joint ventures | - | 68,254 |
| Loans given to third parties | 1,369 | 2,123 |
| Deposits given | 5,106 | 4,947 |
| Receivables for interests | 9,102 | 15,798 |
| Less: Impairment | (12,424) | (13,703) |
| | **5,443** | **79,699** |
| | **5,443** | **79,699** |

Interest on loans given to related parties is calculated using the interest rate of 7%, or 7.5% for some other loans.

## NOTE 25 – CASH AND CASH EQUIVALENTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Current accounts | 4,317 | 1,777 |
| Cash in hand | 34 | 40 |
| Foreign currency account | 1,295 | 718 |
| | **5,646** | **2,535** |

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

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Land | 71,183 | - |
| Buildings | 178,927 | - |
| **As at 31 December 2013** | **250,110** | **-** |

Non-current assets held for sale are intended to settle the secured debt of financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement.

*(i) Valuation techniques and significant inputs*

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

| Valuation methods and techniques | Significant unobservable inputs |
|---|---|
| Fair value of investments was determined using only methods applicable to each individual type of asset. The following methods were used:<br>• Valuation of land and buildings carried out by independent evaluators (methods described in Note 18 *(i)*)<br>• Review of secured creditors rights | • Significant unobservable inputs are described in note 18*(i)*.<br>• Amounts of secured debt |

## NOTE 27 – ACCRUED INCOME AND PREPAID EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Prepaid expenses | 8,273 | 2,106 |
| Accrued income-percentage of completion | 117 | 10,592 |
| VAT on advances received | 586 | 428 |
| | **8,976** | **13,126** |

At 31 December 2013 the Group has accrued revenues arising from construction contracts in the amount of HRK 117 thousand (*2012: HRK 10,592 thousand*).

## NOTE 28 – SHARE CAPITAL

| | Number of shares 2013 | Share of ownership 2013 | Number of shares 2012 | Share of ownership 2012 |
|---|---|---|---|---|
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| Veniamin Mezhibovskiy | 60,000 | 22.71% | 60,000 | 22.71% |
| Akcionar d.o.o. | 20,086 | 7.60% | 20,086 | 7.60% |
| ZM d.o.o. (ex Zagreb-Montaža d.o.o.) | 15,000 | 5.68% | 15,000 | 5.68% |
| Zm-Montag d.o.o. | 15,000 | 5.68% | 15,000 | 5.68% |
| IGH-Esop d.o.o. | 3,715 | 1.41% | 3,920 | 1.48% |
| Zagrebačka banka d.d. | 2,932 | 1.11% | 6,677 | 2.53% |
| Žarko Dešković | 2,508 | 0.95% | 2,508 | 0.95% |
| Projektni biro Palmotićeva 45 d.o.o. | 2,500 | 0.95% | 2,500 | 0.95% |
| Own shares | 539 | 0.20% | 539 | 0.20% |
| Other shareholders | 141,890 | 53.71% | 137,940 | 52.22% |
| | **264,170** | **100.00%** | **264,170** | **100%** |

By the decision of the Zagreb Stock Exchange d.d. ("ZSE") on 6 August 2013 the Company was allowed to convert 105,590 ordinary shares from designation IGH-R-B, ISIN HRIGH0RB0005 to designation IGH-R-A, ISIN HRIGH0RA0006 of the official ZSE quotation. The conversion was performed on 7 October 2013.

The share capital is comprised of 264,170 ordinary shares designated IGH-R-A, ISIN: HRIGH0RA0006 listed in the quotation of ZSE. The share capital of the Company amounts to HRK 105,668 thousand.

Every share holds voting and dividend rights.

## NOTE 29 – SHARE PREMIUM

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

Based on the final pre-bankruptcy settlement agreement of 28 December 2013 creditors transferred into PIK and junior debt have the right upon the maturity period of six years to convert its remaining claims into share capital and thus become a part of the ownership structure of the Company. PIK debt represents 63.6 % of debt towards banks in the pre-bankruptcy settlement and is to be paid in one installment after six years at a fixed interest rate of 4.5% per annum, which will also be paid upon maturity. After three years creditors have the right to exercise an option to convert debt into equity up to a maximum of 20% of the share capital at the time of conversion. Details of the pre-bankruptcy settlement agreement are described in note 45.

Given the above, the Company has an obligation to calculate the probability and amount of conversion of debt into equity. Due to the significant uncertainty of key variables in the calculation the Company did not calculate and recognize the equity component as at 31 December 2013.

## NOTE 30 – RESERVES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Legal reserves | - | 3,172 |
| Reserves for own shares | 1,446 | 6,343 |
| Own shares | (3,862) | (3,966) |
| | **(2,416)** | **5,549** |

The legal reserve is required under Croatian law according to which the Company is committed to building up reserves up to a minimum of 5% of the profit for the year until the total reserves reach 5% of the share capital. Both legal reserves and reserves for own shares are non-distributable.

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

## NOTE 31 – REVALUATION RESERVES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| As at 1 January | 164,127 | 58,852 |
| Revaluation of land and buildings, net of tax | 9,006 | 112,301 |
| Decrease of land and buildings | (25,184) | - |
| Transfer to accumulated losses | (4,455) | (2,539) |
| Change in value of assets available for sale | (1,988) | (4,487) |
| **As at 31 December** | **141,506** | **164,127** |

Revaluation reserves are not distributable to shareholders.

## NOTE 32 – NON-CONTROLLING INTERESTS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| As at 1 January | 2,785 | 66,088 |
| Disposal and acquisition of new entities | 462 | (61,465) |
| Share of non-controlling interests in own shares | - | (877) |
| Share of non-controlling interests in revaluation reserves | (174) | (355) |
| Loss for the year relating to non controlling interests | (1,161) | (606) |
| **As at 31 December** | **1,912** | **2,785** |

## NOTE 33 – LOANS AND BORROWINGS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| ***Non-current borrowings*** | | |
| Issued bonds | - | 67,911 |
| Secured bank loans | 75,516 | 233,815 |
| Bank loans - PIK debt | 182,439 | - |
| Bank loans - junior debt | 12,391 | - |
| Bank loans - senior debt | 108,545 | - |
| Other borrowings | 7,077 | - |
| Finance lease | - | 608 |
| | **385,968** | **302,334** |
| ***Current borrowings*** | | |
| Issued bonds | 76,376 | 7,546 |
| Secured bank loans | 155,631 | 301,261 |
| Finance lease | 510 | 3,383 |
| Other borrowings | 2,754 | 1,942 |
| | **235,271** | **314,132** |
| **Total interest bearing loans and borowings** | **621,239** | **616,466** |

Bank borrowings in the amount of HRK 534,522 thousand (*2012: 535,075 thousand*) and liabilities arising from issued bonds in the amount of HRK 76,376 thousand are secured with Group's land and buildings, shares in related parties Centar gradski podrum d.o.o. and inventories of the Group.

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

“PIK debt” represents claims that will be settled by sale of pledged assets of the Company and its related parties.

Final maturity of PIK claims is 6 years from the day the pre-bankruptcy settlement became final and it incorporates a fixed interest rate of 4.5% per annum.

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

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

*Issued bonds*

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

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

## NOTE 33 – LOANS AND BORROWINGS (CONTINUED)

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

Pledged land and buildings amount to HRK 70,973 thousand.

The finance lease liability is as follows:

| | Minimum lease payments | | Finance cost | | Present value of min. lease payments | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| | *(in thousands of HRK)* | | | | | |
| Up to 1 year | 550 | 3,522 | (40) | (139) | 510 | 3,383 |
| Between 1 and 5 years | - | 642 | - | (34) | - | 608 |
| **Total** | **550** | **4,164** | **(40)** | **(173)** | **510** | **3,991** |

## NOTE 33 – LOANS AND BORROWINGS (CONTINUED)

Analytical review of bank loans and other borrowings is as follows:

| *(in thousands of HRK)* | Currency | Interest rate | 31 December 2013 | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Comercial bank | EUR | 4.50% | 230,027 | 31,801 | 1,857 | 26,804 | 169,565 |
| Comercial bank | EUR | 4.50% | 78,008 | - | - | 10,648 | 67,360 |
| Comercial bank | EUR | 4.50% | 12,476 | - | - | 1,703 | 10,773 |
| Comercial bank | EUR | 4.50% | 9,547 | - | - | 895 | 8,652 |
| Comercial bank | HRK | 3 M EURIBOR+5.75-6.75 p.p. | 127,606 | 46,972 | 5,498 | 16,493 | 58,643 |
| Comercial bank | EUR | 8% | 7,229 | 7,229 | - | - | - |
| Comercial bank | EUR | 6 M EURIBOR+6.25 p.p. | 32,846 | 32,846 | - | - | - |
| Comercial bank | HRK | 9% | 4,397 | 4,397 | - | - | - |
| Comercial bank | EUR | 3 M EURIBOR+6.60 p.p. | 25,433 | 25,433 | - | - | - |
| Comercial bank | EUR | 1 M EURIBOR+5.95 p.p. | 7,013 | 7,013 | - | - | - |
| Borrowings from third parties | HRK | 8% | 6,975 | - | 2,089 | 4,182 | 704 |
| Borrowings from other financial institutions | HRK | 3 M EURIBOR+7.20 p.p. | 2,694 | 2,694 | - | - | - |
| Other borrowings | RUB | 4.00% | 102 | - | - | 102 | - |
| Finance lease | EUR | 7.13-11% | 510 | 510 | - | - | - |
| Bonds | EUR | 9% | 76,376 | 76,376 | - | - | - |
| | | | **621,239** | **235,271** | **9,444** | **60,827** | **315,697** |

## NOTE 34- FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Interest rate swap liability | 5,495 | 7,881 |

| Creditor | Nominal amount of loan '000 EUR | Liability at 31 December 2013 '000 EUR | Fair value of swap at 31 December 2013 '000 HRK | Date of swap agreement | Maturity date of swap | Floating part of interest rate before swap | Fixed part od interest rate per swap |
|---|---|---|---|---|---|---|---|
| Commercial bank | 11,637 | 11,517 | 5,495 | 15.6.2011 | 31.8.2016 | 3M EURIBOR+ 1.8% | 3.152% + 1.8% |

## NOTE 35 - PROVISIONS

| *(in thousands of HRK)* | Jubilee awards | Unused holiday accrual | Retirement benefits | Waranty provision | Legal cases | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2012:** | | | | | | |
| Non-current | 1,370 | - | 181 | 1,154 | 13,727 | 16,432 |
| Current | - | 5,078 | 1,268 | - | 794 | 7,140 |
| | **1,370** | **5,078** | **1,449** | **1,154** | **14,521** | **23,572** |
| Increase in provisions | 123 | - | - | 400 | 1,452 | 1,975 |
| Utilised during the year | (396) | (965) | (1,184) | (283) | (5,293) | (8,121) |
| **At 31 December 2013** | **1,097** | **4,113** | **265** | **1,271** | **10,680** | **17,426** |
| **As at 31 December 2013:** | | | | | | |
| Non-current | 1,097 | - | 265 | 1,271 | 10,329 | 12,962 |
| Current | - | 4,113 | - | - | 351 | 4,464 |
| | **1,097** | **4,113** | **265** | **1,271** | **10,680** | **17,426** |

*(i)* *Jubilee awards*

According to the Collective Agreement the Company has an obligation to pay jubilee awards. Jubilee awards as long-term employee benefits are recognised in the amount of the present value of obligations defined at the balance sheet date and are discounted using a discount rate of 7%. The present value of jubilee awards for all employees is set to HRK 974 thousand.

## NOTE 35 – PROVISIONS (CONTINUED)

*(ii) Unused holiday provision*

Provision for unused holidays in 2013 is accrued based on expectation that 2013 unused holiday will be used in 2014.

*(iii) Retirement benefits*

In 2013 the Group recognised a long term provision for regular retirement benefits for all employees in the amount of HRK 8 thousand per employee which is non-taxable. The discount rate of 7% is used in calculation of present value of retirement benefits for all employees and it is set to HRK 265 thousand.

During the year the Group and its subsidiaries recognized provisions for retirement benefits in the amount of HRK 1,184 thousand of which non-taxable retirement incentives paid amounted to HRK 458 thousand.

*(iv) Warranty provision*

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

*(v) Legal cases*

Legal provisions relate to a number of legal proceedings initiated against the Company and its subsidiaries. Based on the expert opinion of legal counsels, management considers that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2013.

## NOTE 36 – TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---:|---:|
| | *(in thousands of HRK)* | |
| ***Non-current liabilities*** | | |
| Liabilities for social housing | - | 1,432 |
| Domestic creditors | 25,080 | 0 |
| Related party liabilities | 731 | - |
| Liabilities for guarantees and deposits | 1,373 | 80 |
| Other long-term liabilties - rescheduled tax debt | 15,744 | 10,583 |
| | **42,928** | **12,095** |
| ***Current liabilities*** | | |
| Domestic creditors | 60,603 | 116,077 |
| Foreign creditors | 3,058 | 6,670 |
| Other short-term liabilties - rescheduled tax debt | 4,965 | 6,443 |
| Liabilities towards state and other institutions | 16,838 | 17,103 |
| Liabilities towards employees | 16,071 | 20,689 |
| Liabilities toward shares in profit and rewards to management | 1,765 | 2,183 |
| Cessions payable | 1,684 | 7,832 |
| Interest payable | 15,125 | 12,845 |
| Municipal charges | 2,787 | 2,787 |
| Related parties liabilities | 183 | 1 |
| Other liabilities | 8,166 | 11,856 |
| | **131,245** | **204,486** |

Non-current liabilities relating to the rescheduled tax debt are shown at fair value by applying the discounted cash flow method. The liability will be repaid in 60 identical monthly instalments without interest. As at 31 December 2013 the carrying amount of current liabilities is similar to its fair value due to the short-term nature of those liabilities. Non-current liabilities are measured at fair value using discounted cash flows and relate to creditors who will, based on the pre-bankruptcy settlement, be repaid in 60 equal monthly instalments without interest. Based on the pre-bankruptcy settlement, the Company recognised income from the discounting of non-current liabilities in the amount of HRK 11,038 thousand. The income is recognised in other finance income by applying the discount rate of 7%.

The aging of trade payables is as follows:

| | 2013 | 2012 |
|---|---:|---:|
| | *(in thousands of HRK)* | |
| Undue | 33,681 | 20,995 |
| 0-90 days | 5,329 | 21,022 |
| 91-180 days | 3,889 | 8,475 |
| 181-360 days | 3,783 | 20,291 |
| Over 360 days | 16,979 | 51,964 |
| | **63,661** | **122,747** |

The Company's exposure to foreign currency risk and liquidity risk is presented in Note 39.

## NOTE 37 – ADVANCES AND DEPOSITS RECEIVED

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Advances from domestic debtors | 1,753 | 2,289 |
| Advances from foreign debtors | 3,731 | 3,435 |
| Deposits and guarantees received | 119 | 7,505 |
| | **5,603** | **13,229** |

## NOTE 38 – ACCRUED EXPENSES AND DEFERRED INCOME

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Accrued expenses | 7,801 | 954 |
| Deferred income | - | 177 |
| | **7,801** | **1,131** |

## NOTE 39 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Financial risk factors*

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

*Market risk*

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

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

*a) Price risk*

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

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

*b) Currency risk*

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

Transactions in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. Resulting exchange differences are recognized in statement of comprehensive income. Changes in exchange rates may affect the profits mainly as a result of positive and negative exchange differences arising on translation of receivables in foreign currency (EUR) and borrowings and obligations contracted with foreign currency clause (EUR).

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

**NOTE 39– FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| European Union (EUR) | 557,478 | 471,683 | 34,072 | 93,811 |
| Bosna i Herzegovina (BAM) | 15,322 | 237 | 2,259 | 1,081 |
| The USA (USD) | 1,274 | 2,017 | 2,148 | 1,340 |

*Foreign currency sensitivity analysis*

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

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

Exposure to fluctuations in exchange rates of 1% is mainly attributable to the borrowings, trade payables and related party receivables denominated in Euro (EUR).

| | EUR currency effect | | USD currency effect | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| Net result increase/(decrease) | (5,234) | (3,779) | (19) | (7) |

| | BAM currency effect | |
|---|---|---|
| | 2013 | 2012 |
| | *(in thousands of HRK)* | |
| Net result increase/(decrease) | (292) | 8 |

Average exchange rates against the kuna significant for the Company are as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| EUR | **7.6376** | **7.5456** |
| BAM | **3.9051** | **3.8580** |
| USD | **5.5490** | **5.7268** |

## NOTE 39 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*c) Interest rate risk*

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

Due to the fact that the Group uses loans with fixed and variable interest rates, the Group is exposed to interest rate risk. The Group uses interest rate swap for interest rate risk management (note 34).

*d) Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group in whole or in part, at the time of maturity. Failure to fulfil obligations would endanger the liquidity of the Group and reduce the value of its assets. At 31 December 2013 financial assets that could potentially expose the Group to credit risk consist primarily of loans receivable, trade and other receivables.

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

Trade and other receivables and loans given are adjusted for impairment losses.

*e) Liquidity risk*

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

## NOTE 39 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*Table analysis of liquidity risk*

The tables have been made based on the undiscounted cash outflows of financial liabilities at their due date. Tables present cash flows of principal and interest.

| *31 December 2013 (in thousand of HRK)* | Net carrying value | Contractual cash flow | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **Non derivative financial liabilities** | | | | | | |
| Borrowings, finance lease and bonds | 621,239 | 765,329 | 276,600 | 17,646 | 83,381 | 387,702 |
| Trade and other payables | 193,072 | 204,040 | 134,247 | 22,120 | 47,673 | - |
| | **814,311** | **969,369** | **410,847** | **39,766** | **131,054** | **387,702** |
| *31 December 2012 (in thousand of HRK)* | | | | | | |
| **Non derivative financial liabilities** | | | | | | |
| Borrowings, finance lease and bonds | 616,466 | 718,037 | 352,842 | 78,441 | 178,358 | 108,396 |
| Trade and other payables | 230,941 | 230,940 | 218,845 | 12,095 | - | - |
| | **847,407** | **948,977** | **571,687** | **90,536** | **178,358** | **108,396** |

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

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

*Table analysis of credit risk*

The tables have been made based on the undiscounted cash inflows of financial assets at their due date. Tables present cash flows of principal and interest.

| *(in thousand of HRK)* | Net carrying value | Contractual cash flows | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| **Non-derivative financial assets** | | | | | | |
| Loans given | 5,443 | 5,824 | 5,824 | - | - | - |
| Trade and other receivables | 96,332 | 96,332 | 96,332 | - | - | - |
| | **101,775** | **102,156** | **102,156** | **-** | **-** | **-** |
| **31 December 2012** | | | | | | |
| **Non-derivative financial assets** | | | | | | |
| Loans given | 72,657 | 77,743 | 77,743 | - | - | - |
| Trade and other receivables | 157,503 | 157,503 | 155,348 | 2,155 | - | - |
| | **230,160** | **235,246** | **233,091** | **2,155** | **-** | **-** |

## NOTE 39 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*Fair value of financial instruments*

Fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined by prices quoted on the market,

- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the normal course of business are carried at the lower of cost or net amount less portion repaid. Fair value is defined as the amount at which an asset could be exchanged between willing parties in an arm's length transaction, except in the case of a forced sale or liquidation. The fair value of a financial instrument is the quoted market price, or is obtained using the discounted cash flows.

At 31 December 2013 reported amounts of cash, short-term deposits, accounts receivable, current liabilities and accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short term nature of these assets and liabilities.

Management believes that the carrying value of receivables and liabilities towards bank loans reported at 31 December 2013 is approximately equal to their fair values due to the application of liabilities with floating interest rates.

### Capital risk management

*Net debt to equity ratio*

Net debt to equity ratio at the reporting date was as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Debt (non-current and short-term loans) | 621,239 | 616,466 |
| Cash and cash equivalents | 5,646 | 2,535 |
| Net debt | **615,593** | **613,931** |
| Equity | 36,076 | 90,783 |
| Debt/equity ratio | 1706% | 676% |

Debt is defined as non-current and short-term borrowings and bonds. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Group also monitors the ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt.

The Group and its subsidiaries manage their capital to ensure that they 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 Company plans to carry out a share capital increase by issuing new shares in order to ensure the necessary liquidity and thereby also improve the debt/equity ratio.

## NOTE 40 – RELATED PARTY TRANSACTIONS

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

*Interest income on loans given to associates - current:*

| | Prinicipal | Interest | Prinicipal | Interest |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| Sportski grad TPN d.o.o., Split | 2,280 | 13,376 | 2,280 | 11,175 |
| Elpida d.o.o., Zagreb | 10 | 1 | - | - |
| Less: Impairment | (2,290) | (13,377) | (2,280) | (11,175) |
| | - | - | - | - |

During the year, HRK 642 thousand of impairment of loans given to associates was recognised in profit and loss. In addition, a transfer amounting to HRK 1,560 thousand has been made from deferred revenues to provision for loans given.

*Interest income on loans given to associates - non-current:*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Sportski grad TPN d.o.o., Split | 28,120 | 28,120 |
| Less: Impairment of loans given | (28,120) | (28,120) |
| | - | - |

## NOTE 40 – RELATED PARTY TRANSACTIONS (CONTINUED)

*Loans given to joint ventures - current*

| | Prinicipal 2013 | Interest 2013 | Prinicipal 2012 | Interest 2012 |
|---|---|---|---|---|
| | *(in thousands of HRK)* | | *(in thousands of HRK)* | |
| Črnomerec Centar d.o.o. | 6,584 | 566 | 68,254 | 4,188 |
| Less: Impairment | (6,584) | (566) | - | - |
| | **6,584** | **566** | **68,254** | **4,188** |

Following the sale of shareholding in Črnomerec centar the company is no longer a joint venture as at 31 December. The Company impaired HRK 3,555 thousand relating to the above company. In addition, a transfer has been made reclassifying deferred income to impairment of loans given amounting to HRK 3,595 thousand.

*Current receivables from associates:*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Centar Bundek d.o.o. | - | 187 |
| Sportski grad TPN d.o.o., Split | 475 | 475 |
| Centar Gradski podrum d.o.o. | 259 | 128 |
| Less: Impairment of trade receivables | (475) | (475) |
| | **259** | **315** |

*Receivables from joint ventures:*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Črnomerec Centar d.o.o. | - | 147 |
| | **-** | **147** |

## NOTE 40 – RELATED PARTY TRANSACTIONS (CONTINUED)

*Revenues from services to associates*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Centar Bundek d.o.o. | 735 | 2,175 |
| Centar Gradski podrum d.o.o. | 1,037 | 1,259 |
| | **1,772** | **3,434** |

*Revenue from interest to loans given to associate*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Sportski grad TPN d.o.o., Split | 1,874 | 2,128 |
| Elpida d.o.o., Zagreb | 1 | - |
| | **1,875** | **2,128** |

Information of co-debtorships and issued warranties to related parties are stated in note 41.

*Remuneration to the Management Board and Supervisory Board members:*

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Gross salaries and other compensations | 4,662 | 3,576 |
| Compensations to the Supervisory board | 430 | 225 |
| | **5,092** | **3,801** |

At 31 December 2013 the Company had a liability towards members of the Management Board and the Supervisory Board in the amount of HRK 2,551 thousand *(2012:HRK 339 thousand).*

## NOTE 41 – CONTINGENT LIABILITIES

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Court cases | 76,043 | 4,200 |
| Guarantees given and warranties-to non-related parties | 49,513 | 95,998 |
| Co-debtorship in the related parties' loans | - | 776,417 |
| Related party guarantees | - | 79,602 |
| | **125,556** | **956,217** |

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

Review of co-debtorship in the associates’ loans is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Centar Bundek d.o.o., Zagreb | - | 424,482 |
| Centar Gradski podrum d.o.o., Zagreb | - | 351,935 |
| | - | **776,417** |

## NOTE 42 – COMMITMENTS

Future payments under operating leases for transport vehicles as at 31 December 2013 are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Up to 1 year | 4,375 | 6,039 |
| 1 - 5 years | 21,893 | 1,933 |
| | **26,268** | **7,972** |

## NOTE 43 – GOING CONCERN

In the year that ended 31 December 2013 IGH Group incurred a net loss in the amount of HRK 61,531 thousand (*2012: loss of HRK 496,805 thousand*) and current assets exceeded its current liabilities by HRK 54,451 thousand (*2012:* current liabilities exceeded its consolidated current assets by HRK 214,986 thousand).

Management considers that the Company has met the requirements to continue as going concern that is relevant in the context of the going concern risk. It is evident from the financial statements, the Company and its subsidiaries operate in difficult liquidity conditions and are at risk of a permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company, by means of a pre bankruptcy settlement, reached an agreement with its creditors and restructured its debt.

Regardless of the financial restructuring, the Company and its subsidiaries, in order to ensure the necessary liquidity, are in the process of selling certain assets and plan to increase a share capital by issuing new shares.

The parent company Institut IGH d.d., Geotehnika Inženjering d.o.o. and Sportski grad TPN d.o.o. have submitted proposals to the Financial agency (“FINA”) to initiate pre-bankruptcy settlement procedures. On 28 December 2013 the pre-bankrupcy settlement agreement became legally valid while the settlement agreements in cases of Geotehnika Inženjering d.o.o. and Sportski grad TPN d.o.o. were not concluded until the reporting date.

On 10 June 2013 the Settlement Council adopted the Resolution by which the the Company entered into pre-bankruptcy settlement procedures.

On 24 July 2013 a hearing was held in order to establish claims. Based on a resolution brought by the FINA on 26 July 2013, the creditors were determined.

On 5 December 2013 the Commercial Court in Zagreb adopted the claims (72. Stpn-305/13) approving the pre-bankruptcy solution between the debtor IGH d.d. and its creditors. The pre-bankruptcy settlement became legally valid as of 28 December 2013. A summary of the effects of the pre-bankruptcy settlement is shown in note 45.

In 2013 the Group carried out significant imapirments of assets which negatively influenced the Groups net equity. Nevertheless, the Group still has positive net assets.

## NOTE 44 – SUBSEQUENT EVENTS

In accordance with the decision of the Board of the Company from 18 March 2014 and the Supervisory Board from 19 March 2014, an invitation to convene the General Assembly has been issued which will be held on 7 May 2014.

Subsequent to the reporting date, the Group concluded a contract with Laguna Novigrad d.d. from Novigrad for the sale and transfer of shares in IGH Turizam d.o.o. by which the acquirer obtains shares with a nominal value of HRK 46,233,000 which make up 100% of the share capital of IGH Turizam d.o.o.

## NOTE 45 – EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT

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

*I. Settlement with creditors*

An agreement was reached according to which 30% of claims is converted into share capital. 20% of claims will be repaid in cash after the share capital increase or the sale of the Company’s assets. The remaining 50% of claims will be repaid in 60 equal monthly instalments over the next five years from the date the settlement became legally valid.

*II. Settlement with banks*

*PIK debt*

PIK debt represents 63.6 % of total debt towards banks in the pre-bankruptcy settlement. PIK debt is to be repaid in one instalment six years after the settlement became legally valid. A fixed interest rate of 4.5% per annum is included in the calculation, which is also payable in one instalment upon maturity. PIK debt will be settled through the sale of assets which are pledged as collateral. All gains on sale in excess of the claims belong to the Company.

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

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

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

*Senior debt*

The first instalment becomes due 24 months from the date the pre-bankruptcy settlement will have become legally valid. The repayment dates are 30 June and 31 December. Payments are semi-annual with a fixed interest rate of 4.5% per annum and are paid throughout the settlement period.

*Junior debt*

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

## NOTE 45 – EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (CONTINUED)

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

| | **31 December 2013** |
|---|---|
| Conversion of debt to share capital (note 29) | 23,506 |
| PIK debt (note 33) | 182,439 |
| Senior debt (note 33) | 108,545 |
| Junior debt (note 33) | 12,391 |
| | **326,881** |

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

| | **2013** |
|---|---|
| Write off of interest and fees (note 14) | 19,146 |
| Other finance income (note 14) | 11,038 |
| Interest not accrued | 13,811 |
| | **43,995** |

Other finance income relates to discounting of non-current liabilities.

Debt towards creditors who have not waived their right to separate settlement in the process of the pre-bankruptcy settlement agreement (secured creditors) is classified as short-term and is shown in note 33 in the amount of HRK 155,631 thousand towards commercial banks and HRK 76,376 thousand towards bondholders.

Pledged assets are intended to cover the secured debt and are classified as non-current assets held for sale as presented in note 26 in the amount of HRK 250,110 thousand.

Interest not accrued relate to interest not accrued in the period from the initiation of the settlement procedures until the settlement agreement became legally valid. The above interest were not charged to this year's financial result.

In addition, based on the pre-bankruptcy settlement co-debtorships in respect of the associates' loans amounting to HRK 805,362 thousand were cancelled.

The details of the pre-bankruptcy settlement agreement can be found of the internet pages of the Financial Agency.

Attachment 1.

Reporting period: 1.1.2013 do 31.12.2013

# ANNUAL FINANCIAL STATEMENTS OF THE ENTREPERNEUR - GFI-POD

Tax number (MB): 03750272

Company registration number (MBS): 80000959

Personal identification number (OIB): 79766124714

Issuing company: INSTITUT IGH d.d.

Postal code and place: 10000 ZAGREB

Street and house number: JANKA RAKUŠE 1

E-mail adress: igh@igh.hr

Internet adress: http://www.institutigh.com

nicipality/city code and name: 133 ZAGREB

County code and name: 133 GRAD ZAGREB

Number of employees (quarter end): 746

Consolidated report: YES

NKD code: 7219

| ompanies of the consolidation subject (according to IFR: | Seat: | MB: |
|---|---|---|
| IGH MOSTAR D.O.O. | MOSTAR, BIŠĆE POLJE BB | 4227060470005 |
| GEOTEHNIKA INŽENJERING D.O.O. | ZAGREB, GRADIŠĆANSKA 26 | 01517597 |
| IGH PROJEKTIRANJE D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 02441918 |
| INCRO D.O.O. | ZAGREB, BRANIMIROVA 71 | 01982516 |
| IGH ENERGIJA D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 01819585 |
| FORUM CENTAR D.O.O. | ZAGREB, JAGODNJAK 17 | 01960229 |
| IGH TURIZAM D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 01974378 |
| PROJEKT ŠOLTA D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 02592363 |
| RADELJEVIĆ D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 01938533 |
| VOĐENJE PROJEKATA D.O.O. | ZAGREB, BIJENIČKA CESTA 8 | 02427648 |
| EKONOMSKO TEHNIČKI ZAVOD D.D. | OSIJEK, TRG A. STARČEVIĆA 7/II | 03013669 |
| PROJEKTNI BIRO PALMOTIĆEVA 45 D.O.O. | ZAGREB, PALMOTIĆEVA 45 | 03222853 |
| IGH KOSOVA Sha | PRIŠTINA, KOSOVO | |
| GRATIUS PROJEKT D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 02462478 |
| HIDROINŽENJERING D.O.O. | ZAGREB, OKUČANSKA 30 | 03685110 |
| DP AQUA D.O.O. | ZAGREB, SREDNJACI 16 | 01907522 |
| TEHNIČKE KONSTRUKCIJE D.O.O. | ZAGREB, VLAŠKA 79 | 02405865 |
| MBM TERMOPROJEKT D.O.O. | ZAGREB, NIKOLA PAVIĆA 20 | 00335967 |
| NOVI ČRNOMEREC CENTAR D.O.O. | ZAGREB, JANKA RAKUŠE 1 | 08291561940 |

Bookkeeping service:

Contact person: ŠPINDERK JADRANKA
(please enter only contact person's family name and name)

Telephone: 01 6125 444

Telefax: 01 6125 404

E-mail adress: igh@igh.hr

Family name and name: prof. dr. JURE RADIĆ, dipl. ing. građ.
(person authorized to represent the company)

**Documents for publishing:**

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

Seal

(signature of the person authorized to represent the company)

Institut IGH, dioničko društvo za istraživanje i razvoj u graditeljstvu, Zagreb 01

# BALANCE SHEET
as of 31.12.2013

Legal entity: INSTITUT IGH D.D.

| Position | AOP | Previous year (net) | Current year (net) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **A) RECEIVABLES FOR SUBSCRIBED AND NON - PAID CAPITAL** | 001 | | |
| **B) LONG - TERM ASSETS** (003+010+020+029+033) | 002 | 677.915.774 | 548.368.761 |
| I. INTANGIBLE ASSETS (004 to 009) | 003 | 10.041.147 | 8.593.358 |
| 1. Assets development | 004 | | |
| 2. Concessions, patents, licence fees, merchandise and service brands, software and other rights | 005 | 3.704.817 | 2.984.536 |
| 3. Goodwill | 006 | 3.742.903 | 3.015.395 |
| 4. Prepayments for purchase of intangible assets | 007 | | |
| 5. Intangible assets in preparation | 008 | 2.593.427 | 2.593.427 |
| 6. Other intangible assets | 009 | | |
| II. TANGIBLE ASSETS (011 to 019) | 010 | 586.065.990 | 483.145.981 |
| 1. Land | 011 | 139.810.350 | 106.500.320 |
| 2. Buildings | 012 | 315.811.167 | 194.980.837 |
| 3. Plant and equipment | 013 | 14.079.948 | 5.899.452 |
| 4. Instuments, plant inventories and transportation assets | 014 | 5.290.742 | 4.274.678 |
| 5. Biological assets | 015 | | |
| 6. Prepayments for tangible assets | 016 | 104.095 | 108.895 |
| 7. Tangible assets in preparation | 017 | 28.936.414 | 28.676.181 |
| 8. Other material assets | 018 | 364.625 | 364.625 |
| 9. Investment in buildings | 019 | 81.668.649 | 142.340.993 |
| III. LONG-TERM FINANCIAL ASSETS (021 to 028) | 020 | 79.654.077 | 54.340.353 |
| 1. Shares (stocks) in related parties | 021 | | |
| 2. Loans given to related parties | 022 | | |
| 3. Participating interests (shares) | 023 | 27.597 | 153.413 |
| 4. Loans to entrepreneurs in whom the entity hold participating interests | 024 | | |
| 5. Investment in securities | 025 | | 2.151.439 |
| 6. Loans, deposits and similar assets | 026 | 2.540.394 | 1.385.484 |
| 7. Other long - term financial assets | 027 | 15.700.397 | 4.478.131 |
| 8. Investments accounted by equity method | 028 | 61.385.689 | 46.171.886 |
| IV. RECEIVABLES (030 to 032) | 029 | 2.154.560 | 2.289.069 |
| 1. Receivables from related parties | 030 | | |
| 2. Receivables based on trade loans | 031 | 2.154.560 | 2.289.069 |
| 3. Other receivables | 032 | | |
| V. DEFERRED TAX ASSETS | 033 | | |
| **C) SHORT TERMS ASSETS** (035+043+050+058) | 034 | 319.886.600 | 346.599.883 |
| I. INVENTORIES (036 to 042) | 035 | 91.639.332 | 250.442.580 |
| 1. Row material | 036 | 114.054 | 80.060 |
| 2. Work in progress | 037 | 86.466.341 | 86.777.746 |
| 3. Finished goods | 038 | 2.646.935 | 629.512 |
| 4. Merchandise | 039 | 1.404.378 | 592.963 |
| 5. Prepayments for inventories | 040 | 1.007.624 | 1.007.624 |
| 6. Long - term assets held for sale | 041 | | 161.354.675 |
| 7. Biological assets | 042 | | |
| II. RECEIVABLES (044 to 049) | 043 | 146.014.229 | 85.068.351 |
| 1. Receivables from related parties | 044 | 372.153 | 259.038 |
| 2. Accounts receivable | 045 | 90.353.702 | 76.537.318 |
| 3. Receivables from participating entrepreneurs | 046 | 146.963 | |
| 4. Receivables from employees and shareholders | 047 | 862.460 | 782.892 |
| 5. Receivables from government and other institutions | 048 | 6.746.205 | 2.755.778 |
| 6. Other receivables | 049 | 47.532.746 | 4.733.325 |
| III. SHORT - TERM FINANCIAL ASSETS (051 to 057) | 050 | 79.698.058 | 5.443.683 |
| 1. Shares (stocks) in related parties | 051 | | |
| 2. Loans given to related parties | 052 | | |
| 3. Participating interests (shares) | 053 | | |
| 4. Loans to entrepreneurs in whom the entity hold participating interests | 054 | 72.441.725 | |
| 5. Investments in securities | 055 | | |
| 6. Loans, deposits and similar assets | 056 | 7.256.333 | 5.269.725 |
| 7. Other financial assets | 057 | | 173.958 |
| IV. CASH AT BANK AND IN CASHIER | 058 | 2.534.981 | 5.645.269 |
| **D) PREPAID EXPENSES AND ACCRUED INCOME** | 059 | 13.125.876 | 8.976.263 |
| **E) TOTAL ASSETS** (001+002+034+059) | 060 | 1.010.928.250 | 903.944.907 |
| **F) OFF-BALANCE SHEET NOTES** | 061 | 95.998.011 | 49.512.554 |

| LIABILITIES AND CAPITAL | | | |
|---|---|---|---|
| A) **CAPITAL AND RESERVES** (063+064+065+071+072+075+078) | 062 | 90.782.813 | 36.076.269 |
| I. SUBSCRIBED CAPITAL | 063 | 105.668.000 | 105.668.000 |
| II. CAPITAL RESERVES | 064 | 52.011.040 | |
| III. RESERVES FROM PROFIT (066+067-068+069+070) | 065 | 5.548.529 | 21.089.209 |
| 1. Reserves prescribed by law | 066 | 3.171.600 | |
| 2. Reserves for treasury stocks | 067 | 6.343.200 | 1.446.309 |
| 3. Treasury stocks and shares (deduction) | 068 | 3.966.271 | 3.862.700 |
| 4. Statutory reserves | 069 | | |
| 5. Other reserves | 070 | | 23.505.600 |
| IV. REVALUATION RESERVES | 071 | 163.839.920 | 141.756.915 |
| V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074) | 072 | 257.131.238 | -173.980.088 |
| 1. Retained earnings | 073 | 257.131.238 | 4.836.344 |
| 2. Accumulated loss | 074 | | 178.816.432 |
| VI. PROFIT / LOSS FOR THE CURRENT YEAR (076-077) | 075 | -496.200.350 | -60.369.788 |
| 1. Profit for the current year | 076 | | |
| 2. Loss for the current year | 077 | 496.200.350 | 60.369.788 |
| VII. MINORITY INTEREST | 078 | 2.784.436 | 1.912.021 |
| B) **PROVISIONS** (080 to 082) | 079 | 16.432.054 | 12.961.680 |
| 1. Provisions for pensions, severance pay and similar liabilities | 080 | 1.550.087 | 1.277.055 |
| 2. Reserves for tax liabilities | 081 | | |
| 3. Other reserves | 082 | 14.881.967 | 11.684.625 |
| C) **LONG TERM LIABILITIES** (084 to 092) | 083 | 355.715.742 | 465.024.114 |
| 1. Liabilities to related parties | 084 | | 730.775 |
| 2. Liabilities for loans, deposits etc. | 085 | | 101.700 |
| 3. Liabilities to banks and other financial institutions | 086 | 233.537.210 | 385.866.457 |
| 4. Liabilities for received prepayments | 087 | | |
| 5. Accounts payable | 088 | 886.290 | 25.080.381 |
| 6. Liabilities arising from debt securities | 089 | 67.910.616 | |
| 7. Liabilities to entrepreneurs in whom the entity holds participating interests | 090 | | |
| 8. Other long-term liabilities | 091 | 12.095.704 | 17.117.083 |
| 9. Deferred tax liability | 092 | 41.285.922 | 36.127.718 |
| D) **SHORT - TERM LIABILITIES** (094 to 105) | 093 | 539.725.401 | 377.617.927 |
| 1. Liabilities to related parties | 094 | 805 | 182.693 |
| 2. Liabilities for loans, deposits etc. | 095 | 4.981.145 | 3.261.325 |
| 3. Liabilities to banks and other financial institutions | 096 | 301.605.237 | 155.630.526 |
| 4. Liabilities for received prepayments | 097 | 13.228.710 | 5.603.735 |
| 5. Accounts payable | 098 | 122.748.241 | 63.661.989 |
| 6. Liabilities arising from debt securities | 099 | 7.545.624 | 76.376.430 |
| 7. Liabilities to entrepreneurs in whom the entity holds participating interests | 100 | | |
| 8. Liabilities to employees | 101 | 20.688.883 | 16.071.173 |
| 9. Liabilities for taxes, contributions and similar fees | 102 | 23.178.418 | 21.802.394 |
| 10. Liabilities to share - holders | 103 | 418.052 | 1.765.024 |
| 11. Liabilities for long term assets held for sale | 104 | | |
| 12. Other short - term liabilities | 105 | 45.330.286 | 33.262.638 |
| **E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD** | 106 | 8.272.240 | 12.264.917 |
| **F) TOTAL CAPITAL AND LIABILITIES** (062+079+083+093+106) | 107 | 1.010.928.250 | 903.944.907 |
| **G) OFF-BALANCE SHEET NOTES** | 108 | 95.998.011 | 49.512.554 |
| **APPENDIX TO BALANCE SHEET (only for consolidated financial statements)** | | | |
| **A) CAPITAL AND RESERVES** | | | |
| 1. Attributed to equity holders of parent company | 109 | 87.998.377 | 34.164.248 |
| 2. Attributed to minority interests | 110 | 2.784.436 | 1.912.021 |

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

## PROFIT AND LOSS ACCOUNT
**for period 01.01.2013 to 31.12.2013**

Legal entity: INSTITUT IGH D.D.

| Position | AOP | Previous year | Current year |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| I. OPERATING REVENUES (112+113) | 111 | 307.241.107 | 283.630.334 |
| 1. Sales revenues | 112 | 278.983.069 | 261.579.898 |
| 2. Other operating revenues | 113 | 28.258.038 | 22.050.436 |
| II. OPERATNG EXPENSES (115+116+120+124+125+126+129+130) | 114 | 746.599.554 | 314.021.031 |
| 1. Changes in the value of work in progress and finished goods | 115 | -296.080 | -156.750 |
| 2. Material costs (117 to 119) | 116 | 127.258.038 | 88.566.083 |
| a) Raw material and material costs | 117 | 24.023.255 | 16.972.932 |
| b) Costs of goods sold | 118 | 1.437.977 | 854.241 |
| c) Other external costs | 119 | 101.796.806 | 70.738.910 |
| 3. Staff costs (121 to 123) | 120 | 142.917.174 | 118.229.045 |
| a) Net salaries and wages | 121 | 82.067.104 | 68.749.807 |
| b) Costs for taxes and contributions from salaries | 122 | 41.093.474 | 33.746.969 |
| c) Contributions on gross salaries | 123 | 19.756.596 | 15.732.269 |
| 4. Depreciation | 124 | 20.238.319 | 17.711.188 |
| 5. Other costs | 125 | 57.708.788 | 37.415.439 |
| 6. Impairment (127+128) | 126 | 206.018.134 | 33.334.781 |
| a) Impairment of long-term assets (excluding financial assets) | 127 | 96.126.179 | 5.540.134 |
| b) Impairment of short-term assets (excluding financial assets) | 128 | 109.891.955 | 27.794.647 |
| 7. Provisions | 129 | 19.345.852 | 1.974.877 |
| 8. Other operating expenses | 130 | 173.409.329 | 16.946.368 |
| III. FINANCIAL INCOME (132 to 136) | 131 | 10.465.279 | 42.963.689 |
| 1. Interest income, foreign exchange gains, dividends and similar income from related | 132 | | 250.150 |
| 2. Interest income, foreign exchange gains, dividends and similar income from non-related | 133 | 5.298.550 | 10.143.198 |
| 3. Share in income from affiliated entrepreneurs and participating interests | 134 | 5.117.043 | |
| 4. Unrealized gains (income) from financial assets | 135 | | |
| 5. Other financial income | 136 | 49.686 | 32.570.341 |
| IV. FINANCIAL EXPENSES (138 to 141) | 137 | 64.287.349 | 59.587.405 |
| 1. Interest expenses, foreign exchange losses and similar expenses from related parties | 138 | | |
| 2. Interest expenses, foreign exchange losses and similar expenses from non - related | 139 | 54.340.331 | 52.423.675 |
| 3. Unrealized losses (expenses) on financial assets | 140 | 7.881.511 | 5.596.893 |
| 4. Other financial expenses | 141 | 2.065.507 | 1.566.837 |
| V. INCOME FROM INVESTMENT SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS | 142 | | |
| VI. LOSS FROM INVESTMENT SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS | 143 | 1.105.779 | 15.194.539 |
| VII. EXTRAORDINARY - OTHER INCOME | 144 | | |
| VIII. EXTRAORDINARY - OTHER EXPENSES | 145 | | |
| IX. TOTAL INCOME (111+131+142 + 144) | 146 | 317.706.386 | 326.594.023 |
| X. TOTAL EXPENSES (114+137+143 + 145) | 147 | 811.992.682 | 388.802.975 |
| XI. PROFIT OR LOSS BEFORE TAXATION (146-147) | 148 | -494.286.296 | -62.208.952 |
| 1. Profit before taxation (146-147) | 149 | 0 | 0 |
| 2. Loss before taxation (147-146) | 150 | 494.286.296 | 62.208.952 |
| XII. PROFIT TAX | 151 | 2.520.264 | -678.304 |
| XIII. PROFIT OR LOSS FOR THE PERIOD (148-151) | 152 | -496.806.560 | -61.530.648 |
| 1. Profit for the period(149-151) | 153 | 0 | 0 |
| 2. Loss for the period (151-148) | 154 | 496.806.560 | 61.530.648 |

| | | | |
|---|---|---|---|
| **APPENDIX TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)** | | | |
| **XIV. PROFIT OR LOSS FOR THE PERIOD** | | | |
| **1. Attributed to equity holders of parent company** | **155** | -496.200.350 | -60.369.788 |
| **2. Attributed to minority interests** | **156** | -606.210 | -1.160.860 |
| **STATEMENT OF COMPREHENSIVE INCOME (IFRS)** | | | |
| **I. PROFIT OR LOSS FOR THE PERIOD (= 152)** | **157** | -496.806.560 | -61.530.648 |
| **II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX**(159 to 165) | **158** | 135.435.383 | -21.886.337 |
| **1. Exchange differences on translation of foreign operations** | **159** | 46.602 | 251.385 |
| **2. Movements in revaluation reserves of long-term tangible and intangible assets** | **160** | 139.873.351 | -20.149.299 |
| **3. Profit or loss from revaluation of financial assets available for sale** | **161** | -4.484.570 | -1.988.423 |
| **4. Gains or losses on efficient cash flow hedging** | **162** | | |
| **5. Gains or losses on efficient hedge of a net investment in foreign countries** | **163** | | |
| **6. Share in other comprehensive income / loss of associated companies** | **164** | | |
| **7. Actuarial gains / losses on defined benefit plans** | **165** | | |
| **III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | **166** | 27.974.670 | -3.979.582 |
| **IV. NET OTHER COMPREHENSIVE INCOME/ LOSS FOR THE PERIOD** (158-166) | **167** | 107.460.713 | -17.906.755 |
| **V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD(157+167)** | **168** | -389.345.847 | -79.437.403 |
| **APPENDIX to Statement of comprehensive income (only for consolidated financial statements)** | | | |
| **VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD** | | | |
| **1. Attributed to equity holders of parent company** | **169** | -388.384.777 | -78.095.366 |
| **2. Attributed to minority interests** | **170** | -961.070 | -1.342.037 |

## STATEMENT OF CASH FLOWS - Indirect method
period 01.01.2013 to 31.12.2013

Legal entity: INSTITUT IGH D.D.

| Position | AOP | Previous year | Current year |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| 1. Profit before tax | 001 | -494.286.296 | -62.208.952 |
| 2. Depreciation | 002 | 20.238.319 | 17.711.188 |
| 3. Increase in short-term liabilities | 003 | | |
| 4. Decrease in short term receivables | 004 | 133.083.810 | 65.095.491 |
| 5. Decrease in inventories | 005 | 35.391.764 | 2.551.424 |
| 6. Other cash flow increases | 006 | 309.431.675 | 45.201.240 |
| **I. Total increase in cash flow from operating activities (001 to 006)** | 007 | 3.859.272 | 68.350.391 |
| 1. Decrease in short - term liabilities | 008 | 60.707.942 | 50.664.692 |
| 2. Insrease in short - term receivables | 009 | | |
| 3. Increase in inventories | 010 | | |
| 4. Other cash flow decreases | 011 | | |
| **II. Total decrease in cash flow from operating activities (008 to 011)** | 012 | 60.707.942 | 50.664.692 |
| **A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)** | 013 | 0 | 17.685.699 |
| **A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)** | 014 | 56.848.670 | 0 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| 1. Cash flow from sale of long - term tangible and intangible assets | 015 | 3.019.584 | 291.385 |
| 2. Cash inflows from sale of equity and debt financial instruments | 016 | | 694.462 |
| 3. Interest receipts | 017 | | |
| 4. Dividend receipts | 018 | | |
| 5. Other cash inflows from investing activities | 019 | | 3.000 |
| **III. Total cash inflows from investing activities(015 to 019)** | 020 | 3.019.584 | 988.847 |
| 1.Cash outflows for purchase of long - term tangible and intangible assets | 021 | 5.171.128 | 7.510.653 |
| 2. Cash outflows for purchase of equity and debt financial instruments | 022 | 217.611 | |
| 3. Other cash outflows from investing activities | 023 | | |
| **IV. Total cash outflows from investing activities (021 to 023)** | 024 | 5.388.739 | 7.510.653 |
| **B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES(020-024)** | 025 | 0 | 0 |
| **B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES(024-020)** | 026 | 2.369.155 | 6.521.806 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| 1. Cash receipts from issuance of equity and debt financial instruments | 027 | 105.925.832 | |
| 2. Cash inflows from loans, debentures, credits and other borrowings | 028 | 45.511.466 | 1.961.001 |
| 3. Other cash inflows from financing activities | 029 | | |
| **V. Total cash inflows from financing activities (027 to 029)** | 030 | 151.437.298 | 1.961.001 |
| 1. Cash outflows for repayment of loans and bonds | 031 | 87.157.098 | 10.014.605 |
| 2. Dividends paid | 032 | 424.583 | |
| 3. Cash outflows for finance lease | 033 | 3.735.541 | |
| 4. Cash outflows for purchase of own stocks | 034 | 3.397.200 | |
| 5. Other cash outflows from financing activities | 035 | | |
| **VI. Total cash outflows from financing activities (031 do 035)** | 036 | 94.714.422 | 10.014.605 |
| **C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)** | 037 | 56.722.876 | 0 |
| **C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)** | 038 | 0 | 8.053.604 |
| Total increases of cash flows (013 – 014 + 025 – 026 + 037 – 038) | 039 | 0 | 3.110.289 |
| Total decreases of cash flows (014 – 013 + 026 – 025 + 038 – 037) | 040 | 2.494.949 | 0 |
| Cash and cash equivalents at the beginning of period | 041 | 5.029.930 | 2.534.981 |
| Increase in cash and cash equivalents | 042 | | 3.110.289 |
| Decrease in cash and cash equivalents | 043 | 2.494.949 | 0 |
| Cash and cash equivalents at the end of period | 044 | 2.534.981 | 5.645.270 |

# STATEMENT OF CHANGES IN EQUITY

from 1.1.2013 to 31.12.2013

| Position | AOP | Previous year | Current year |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Subscribed capital | 001 | 105.668.000 | 105.668.000 |
| 2. Capital reserves | 002 | 52.011.040 | |
| 3. Reserves from profit | 003 | 5.548.529 | 21.089.209 |
| 4. Retained earnings or accumulated loss | 004 | 257.131.238 | -173.980.088 |
| 5. Profit / loss for the current year | 005 | -496.200.350 | -60.369.788 |
| 6. Revaluation of long - term tangible assets | 006 | 161.783.488 | 141.505.530 |
| 7. Revaluation of intangible assets | 007 | | |
| 8. Revaluation of financial assets available for sale | 008 | 1.988.423 | |
| 9. Other revaluation | 009 | | |
| **10. Total capital and reserves (AOP 001 to 009)** | 010 | 87.930.368 | 33.912.863 |
| 11. Currency gains and losses arising from net investments in foreign operations | 011 | 68.009 | 251.385 |
| 12. Current and deferred taxes (part) | 012 | | |
| 13. Cash flow hedging | 013 | | |
| 14. Changes in accounting policies | 014 | | |
| 15. Correction of significant errors in prior periods | 015 | | |
| 16. Other changes in capital | 016 | | |
| **17. Total increase or decrease in capital (AOP 011 to 016)** | 017 | 68.009 | 251.385 |
| | | | |
| 17 a. Attributed to equity holders of parent company | 018 | 87.998.377 | 34.164.248 |
| 17 b. Attributed to minority interst | 019 | 2.784.436 | 1.912.021 |

Items decreasing the capital are entered with a negative number sign

Data entered under AOP marks 001 to 009 are entered as situation on the Balance Sheet date