

INSTITUT IGH, d.d., Zagreb

Unconsolidated financial statements for the year ended
31 December 2013 together with the 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 financial statements takes precedence over this translation.

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

In accordance with Croatian Accounting Law the Management Board is required to prepare unconsolidated financial statements for each financial year 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 Institut IGH d.d. for the related period.

After making inquiries, the Management Board has a reasonable expectation that the Company will have 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 unconsolidated financial statements.

In preparing unconsolidated financial statements Management Board is responsible for:

- conforming with applicable accounting standards and then apply 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 unconsolidated financial statements;
- preparing the unconsolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board prepared these financial statements in accordance with the pre-bankruptcy settlement agreement which came into force on 28 December 2013.

The Management Board is responsible for keeping proper accounting records which, at any time, will reflect the financial position of the Company 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 Company 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 consolidated financial statements of the Company and its subsidiaries are published separately and issued simultaneously with these unconsolidated financial statements.

The unconsolidated 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
10 000 Zagreb
Croatia

Zagreb, 29 April 2014





Independent Auditors' Report to the shareholders of Institut IGH d.d.

We have audited the accompanying unconsolidated financial statements of Institut IGH d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2013, the unconsolidated 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 Unconsolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of unconsolidated the 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 unconsolidated 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 unconsolidated 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 Company 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 unconsolidated 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 Company also did not apply IAS 11 in previous years. As a result, any incorrect recognition of the unconsolidated 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 there are indicators showing that the recoverable amount of trade receivables amounting to HRK 9,444 thousand disclosed within the note 20 – *Trade and other receivables* is less than its carrying value. International accounting standard 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") prescribes that the Company 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.

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



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 Company 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 Company restates comparative figures for prior periods presented in which the correction occurred. The effect of this departure has not been determined. As a result, our report on the unconsolidated financial statements as at and for the year ended 31 December 2012 expressed a disclaimer of opinion. Our opinion on the current year's unconsolidated 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.

Modified opinion

In our opinion, except for the effects of the matters described in the *Basis for modified opinion* paragraphs, the unconsolidated financial statements give a true and fair view of the financial position of the Company 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 unconsolidated 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* to the unconsolidated financial statements which describes that the Company incurred a net loss of HRK 45,326 thousand for the year ended 31 December 2013 (2012: net loss of HRK 524,421 thousand) and as at that date, current liabilities exceeded current assets by HRK 37,643 thousand (2012: HRK 232,165 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 unconsolidated 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, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

29 April 2014

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

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013	2012
		<i>(in thousands of HRK)</i>	
Revenue	7	226,545	227,483
Other operating income	8	17,212	23,041
Total income		243,757	250,524
Raw materials, consumables and services used	9	(74,954)	(96,984)
Employee expenses	10	(116,570)	(145,262)
Depreciation and amortisation		(11,727)	(13,601)
Impairments	11	(68,799)	(405,017)
Other operating expenses	12	(18,370)	(78,745)
Total operating expenses		(290,420)	(739,609)
Results from operating activities		(46,663)	(489,085)
Finance income		47,883	16,344
Finance costs		(47,660)	(49,873)
Net finance costs	13	223	(33,529)
Loss before tax		(46,440)	(522,614)
Tax expense	14	1,114	(1,807)
Loss for the year		(45,326)	(524,421)
Other comprehensive income			
Revaluation of land and buildings, net of tax		(23,302)	113,756
Change in fair value of financial asstes, net of tax		(1,988)	(4,487)
Other comprehensive income/(loss) for the year		(25,290)	109,269
Total comprehensive loss for the year		(70,616)	(415,152)

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Note	2013	2012
<i>(in thousands of HRK)</i>			
ASSETS			
Intangible assets and goodwill	15	4,955	6,123
Property, plant and equipment	16	166,452	327,820
Investment property	17	10,986	56,724
Investments in related parties and other investments	18	286,350	182,841
Loans given	21	17,074	39,992
Trade receivables and other receivables	20	2,290	2,154
NON-CURRENT ASSETS		488,107	615,654
Inventories	19	1,445	4,274
Trade receivables and other receivables	20	77,186	129,657
Loans given	21	9,197	89,817
Current tax assets		-	4,005
Accrued income and prepaid expenses	24	942	3,387
Cash and cash equivalents	22	4,022	813
Non current assets held for sale	23	161,355	-
CURRENT ASSETS		254,147	231,953
TOTAL ASSETS		742,254	847,607
EQUITY AND LIABILITIES			
Share capital	25	105,668	105,668
Share premium	26	23,506	52,011
Statutory reserves	27	-	3,172
Own shares	27	(1,446)	(1,446)
Reserves for own shares	27	1,446	6,343
Revaluation reserves	28	131,637	161,382
Accumulated losses		(199,647)	(219,239)
TOTAL EQUITY		61,164	107,891
Borrowings	29	303,552	211,037
Provisions	30	9,685	14,826
Deferred tax liabilities	14	32,909	39,849
Trade and other payables	31	43,154	9,886
NON-CURRENT LIABILITIES		389,300	275,598
Borrowings	29	189,951	281,990
Trade and other payables	31	84,984	161,550
Current tax payable		-	-
Advances received	32	3,791	12,858
Provisions	30	5,403	6,646
Accrued expenses and deferred income	33	7,661	1,074
CURRENT LIABILITIES		291,790	464,118
TOTAL EQUITY AND LIABILITIES		742,254	847,607

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

<i>(in thousands of HRK)</i>	Share capital	Share premium	Statutory reserves	Own shares	Reserves for shares	Revaluation reserves	(Accumulated losses)/ retained earnings	Total
At 31 December 2010	63,432	13,999	3,172	(1,446)	6,343	57,128	287,002	429,630
Total comprehensive income for the year	-	-	-	-	-	(1,640)	-	(1,640)
Net change in fair value of financial assets available for sale	-	-	-	-	-	(1,055)	2,266	1,211
Revaluation of land and buildings, net of tax	-	-	-	-	-	-	13,594	13,594
Profit for the year	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	(2,695)	15,860	13,165
At 31 December 2011	63,432	13,999	3,172	(1,446)	6,343	54,433	302,862	442,795
<i>Transactions with the owners</i>								
Share capital increase	42,236	38,012	-	-	-	-	-	80,248
<i>Total transactions with the owners</i>	42,236	38,012	-	-	-	-	-	80,248
<i>Total comprehensive income for the year</i>	-	-	-	-	-	(2,320)	2,320	-
Transfer from revaluation reserves	-	-	-	-	-	-	(524,421)	(524,421)
Loss for the year	-	-	-	-	-	-	-	-
Revaluation of land and buildings, net of tax	-	-	-	-	-	113,756	-	113,756
Net change in fair value of financial assets available for sale	-	-	-	-	-	(4,487)	-	(4,487)
<i>Total comprehensive income/(loss)</i>	-	-	-	-	-	106,949	(522,101)	(415,152)
At 31 December 2012	105,668	52,011	3,172	(1,446)	6,343	161,382	(219,239)	107,891
<i>Transactions with owners</i>								
Transfer from liabilities to retained earnings	-	-	-	-	-	-	383	383
Conversion of liabilities (note 40)	-	23,506	-	-	-	-	-	23,506
<i>Total transactions with owners</i>	-	23,506	-	-	-	-	383	23,889
<i>Other comprehensive income</i>								
Transfer from revaluation reserves	-	-	-	-	-	(4,455)	4,455	-
Loss for the year	-	-	-	-	-	-	(45,326)	(45,326)
Revaluation of land and buildings, net of tax	-	-	-	-	-	(23,302)	-	(23,302)
Coverage of losses from reserves (notes 26 and 27)	-	(52,011)	(3,172)	-	(4,897)	-	60,080	-
Net change in fair value of financial assets available for sale	-	-	-	-	-	(1,988)	-	(1,988)
<i>Total comprehensive income/(loss)</i>	-	(52,011)	(3,172)	-	(4,897)	(29,745)	19,209	(70,616)
At 31 December 2013	105,668	23,506	-	(1,446)	1,446	131,637	(199,647)	61,164

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	<u>2013</u>	<u>2012</u>
		<i>(in thousands of HRK)</i>	
Cash flows from operating activities			
Loss for the year		(45,326)	(524,421)
Adjustments:			
Tax expense	14	(1,114)	1,807
Depreciation and amortisation	15,16	11,727	13,601
Impairment losses	11	63,842	405,017
Interest income	13	(10,087)	(15,696)
Interest expense	13	30,669	44,977
Net increases/ (decreases) in provisions	30	(6,384)	14,080
Unrealised exchange differences (net)		5,499	911
Net change in fair value of financial assets available for sale	13	5,562	952
(Gain) /loss on sale of property plant and equipment		(927)	69
Net change in fair value of investment property	11.17	4,957	(6,692)
Income from discount of long term liabilities	13	(11,316)	-
Bad debts recovered and liability written off	8.13	(25,487)	(6,088)
Expenses from previous periods	12	825	38,293
		<u>22,440</u>	<u>(33,190)</u>
Decrease in inventories		812	-
(Increase)/decrease in trade receivables		(12,100)	97,300
Increase/(decrease) in trade payables		4,791	(66,807)
Cash generated from operating activities		<u>15,943</u>	<u>(2,697)</u>
Taxes paid		-	(4,967)
Interest paid		(3,666)	(43,111)
Net cash from operating activities		<u>12,277</u>	<u>(50,775)</u>
Cash flows from investing activities			
Proceeds from sale of tangible and intangible assets		10	2,243
Interest received		774	-
Other cash inflows from investing activities		734	9,051
Purchase of property, plant and equipment and intangible assets		(1,981)	(5,136)
Purchase of equity and debt instruments		-	(66)
Other cash outflows from investing activities		(2,968)	(19,700)
Net cash used in investing activities		<u>(3,431)</u>	<u>(13,608)</u>
Cash flows from financing activities			
Proceeds from issue of equity and debt financial instruments		-	105,925
Proceeds from loans, debentures, borrowings and other		2,368	37,564
Repayment of borrowings		(7,834)	(80,159)
Repayment of finance leases		(171)	(253)
Net cash from financing activities		<u>(5,637)</u>	<u>63,077</u>
Net increase/(decrease) in cash and cash equivalents		3,209	(1,306)
Cash and cash equivalents at beginning of year	22	<u>813</u>	<u>2,119</u>
Cash and cash equivalents at the end of year	22	<u>4,022</u>	<u>813</u>

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

NOTES TO UNCONSOLIDATED THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1 – GENERAL INFORMATION (CONTINUED)

The Management Board (continued)

During 2013 the Companies Management Board consisted of:

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

NOTE 2 – BASIS OF PREPARATION

(i) *Statement of compliance*

The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). The consolidated financial statements of the Company and its subsidiaries, which the Company is also required to prepare in accordance with IFRS and Croatian law, are published separately and issued simultaneously with these unconsolidated financial statements.

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

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

Statement of financial position amounts are presented as at 31 December 2013 unless otherwise stated.

(ii) *Basis of measurement*

The financial statements of the Company 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

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, 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 a regular basis.

Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

(iv) *Use of estimates and judgements (continued)*

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

(v) *Going concern*

In the year that ended 31 December 2013 the IGH Group has recognized an unconsolidated net loss in the amount of HRK 45,326 thousand (2012.: *loss of HRK 524,421 thousand*) and unconsolidated short term liabilities exceeded its unconsolidated current assets by HRK 37,643 thousand (2012.: *HRK 232,165 thousand*).

The Company's Management Board believes the Group has met the requirements to continue as a going concern which is relevant in the context of the going concern risk and points out that, as is evident from the financial statements, the Company operates in difficult liquidity conditions and is at risk of a permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company, by means of a pre bankruptcy settlement, reached an agreement with its creditors and restructured its debt. The going concern assumption is certainly also influenced by the fact that in the process of the pre bankruptcy settlement the Company limited its exposure arising from co-debtorship towards certain related parties which, if activated, would prevent the operational business activities of the Company.

Regardless of the financial restructuring, the Company, in order to ensure the necessary liquidity, is in the process of selling certain assets and plans to increase share capital by issuing new shares.

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

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 solution between the debtor IGH d.d. and creditors of pre-bankruptcy settlement.

The pre-bankruptcy settlement agreement became legally valid as of 28 December 2013. A summary of the effects of the pre-bankruptcy settlement is shown in note 40.

(vi) *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 Company 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 company 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 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment..

3.2 Investments in associates

An associated company is a company in which the Company has a substantial influence, but not the control, by participating in making of decisions on the associated company's financial and business policies but does not represent control or joint control. Investments in associates are initially recognized at cost and subsequently at cost less impairment losses. Impairment testing for investments in subsidiaries is conducted on an annual basis.

3.3 Revenue

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

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

(i) Revenue 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 comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income and gains and losses from foreign exchange differences.

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

Finance costs comprise 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 exchange difference losses. All borrowing costs are recognized in the profit or loss using the effective interest method.

3.4 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 profit or loss over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the profit or loss 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).

3.6 Borrowings and borrowing costs

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

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

3.7 Dividend

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

3.8 Taxation

Income tax

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 or substantively 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 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 or substantively 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 reviewed at each reporting date and 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 if they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, if they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Tax exposures

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

Value added tax (VAT)

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

3.9 Property plant and equipment

(i) Land and buildings

After 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 recorded to the revaluation reserve only to the extent that it does not exceed the amount held in the revaluation reserve for the same asset.

The evaluation is carried out with sufficient regularity in a way that the carrying amount does not differ materially from the amount which would be determined using fair values at the reporting date. Certain land and buildings are derecognized upon disposal or when no future economic 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) is included in profit or loss when it is derecognised.

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

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

Based on the revaluation performed by 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 recognized within other income in the profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Plant and equipment

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

3.9 Property plant and equipment (continued)

(iii) Subsequent 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 Company 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

Patents, licences and software

(i) Ownership of intangible assets

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

(ii) Subsequent expenditures

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

(iii) Amortisation

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

Right to use the third party property	1 to 2 years
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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 for 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 the statement of financial position. Profit or loss from changes in fair value of investment property is recognised in the profit or loss in the period in which they are incurred.

3.12 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company 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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Merchandise is carried at the lower of purchase cost and selling price (less applicable taxes and margins).

Small inventory and tools are expensed immediately when activated.

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, less an allowance for impairment. An impairment allowance for trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of 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 value and its recoverable amount measured as 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 share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3.17 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

The Company 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 Company's borrowings.

3.18 Provisions

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

3.19 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in shares and bonds, trade and other receivables, cash and cash equivalents, loans given, borrowings and commercial bills and also 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 or loss. Non-derivative financial instruments are subsequently measured as described below.

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. The Company 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 Company 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 (FVTPL).

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

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Company's 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 losses 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 other comprehensive income.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

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. Trade receivables, loans given 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 at FVTPL, 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 re-organisation; 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, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with 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 in the current 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 Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

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

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

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

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

3.20 Financial liabilities and equity instruments (continued)

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 deduced by 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 settled, cancelled or they expire.

3.21 Segment reporting

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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 Company are set out below. The Company does not plan to adopt these standards early.

(i) IFRS 9 Financial instruments

IFRS 9 Financial instruments (the complete version of this standard has not yet been adopted and the IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting), replaces IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 is obligatory for financial statements for periods beginning on or after 1 January 2015 with earlier adoption permitted. The standard introduces significant changes in terms of the classification and measurement of financial assets. The Company has not yet determined the date of the first adoption of IFRS 9 nor has it fully analysed the effects of its adoption.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

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 deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred 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 Company's obligations arising from these legal actions are recognised on a consistent basis.

(iii) Useful life of property, plant and equipment

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

(iv) Impairment of non-current assets

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

NOTE 6 – DETERMINATION OF FAIR VALUES

Policies applicable from 1 January 2013

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.

Fair values are categorized 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 balance sheet 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 16: Property, plant and equipment
- note 17: Investment property
- note 18: Investments in related parties, other investments and financial asstes available for sale
- note 23: Non-current assets held for sale

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 7 – SEGMENT INFORMATION

Revenue

	2013	2012
	<i>(in thousands of HRK)</i>	
Revenue from services	225,369	227,483
Revenue from sale of apartments	122	-
Revenue from sale of goods	1,054	-
	<u>226,545</u>	<u>227,483</u>

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

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

During 2013 the Company recorded revenue in the amount of HRK 53,037 thousand by rendering services to its most significant customer.

Segment revenues and results

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

SEGMENTS	Segment revenue		Segment profit	
	2013	2012	2013	2012
Designing and architectural planning	62,278	76,631	8,444	(10,012)
Studies	11,263	7,859	4,283	1,354
Supervision	98,486	77,202	40,696	17,106
Advisory services	9,473	15,137	3,387	1,866
Laboratory testing	33,141	38,214	12,248	13,941
Investigative services	11,374	12,204	26	(506)
Geotechnical research	530	236	(201)	(971)
Total revenue generated by segments	226,545	227,483	68,883	22,778
Revenue from sale of apartments	122	-		
Revenue from sale of goods	1,054	-		
Other operating income	16,036	23,041		
Total revenue	17,212	23,041		
Central and administrative expenses	(34,221)	(63,558)		
Depreciation and amortisation	(11,727)	(13,601)		
Impairments	(68,799)	(405,017)		
Provisions	(1,574)	(17,246)		
Cost of goods sold	(811)	-		
Other operating expenses	(15,626)	(35,482)		
Finance income	47,883	16,344		
Finance costs	(47,660)	(49,873)		
Loss before tax	(46,440)	(522,614)		
Income tax	1,114	(1,807)		
Loss for the year	(45,326)	(524,421)		

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

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

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

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

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

Investigative services segment includes performing investigations and preparing diagnosis reports.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 7 – SEGMENT INFORMATION (CONTINUED)**

The accounting policies of the reportable segments are the same accounting policies described in note 3.21. Segment profit represents the profit earned by each segment without allocation of central administration costs, depreciation, provisions, impairment, other income and financial income and expenses.

The Company does not allocate assets and liabilities to segments.

NOTE 8 – OTHER OPERATING INCOME

	2013	2012
	<i>(in thousands of HRK)</i>	
Change in fair value of investment properties	-	6,692
Income from reversal of provisions	7,958	3,166
Gain on sale of property, plant and equipment	10	1,872
Rental income	601	864
Income from recovery of receivables previously written off	2,335	5,959
Income from reimbursement of damages	870	623
Compensation and grant income	38	376
Income from liabilities written off	4,006	129
Other income	1,394	3,360
	17,212	23,041

NOTE 9 – RAW MATERIAL AND CONSUMABLES USED

	2013	2012
	<i>(in thousands of HRK)</i>	
Raw materials and consumables used	2,894	3,409
Energy costs	7,947	9,006
Small inventory and spare parts used	815	760
Transportation, telephone, postal services	2,595	2,793
Subcontractors	39,760	56,723
Manufacturing services	5,822	7,185
Municipal services and fees	1,826	1,603
Maintenance costs	3,950	4,051
Rental expense	5,008	7,045
Other external expenses	3,526	4,409
Cost of goods sold	811	-
	74,954	96,984

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 10 – EMPLOYEE EXPENSES

	2013	2012
	<i>(in thousands of HRK)</i>	
Net salaries	59,659	67,293
Tax, contributions and other charges	43,271	50,274
Reimbursement of expenses (travel expenses, wages, transportation)	11,889	14,935
Termination, support and other benefits	1,751	6,019
Compensations, termination and support benefits in the excess of tax allowable	-	6,741
	116,570	145,262

As at 31 December 2013 the number of staff employed by the Company was 655 (2012: 730). In 2013 termination benefits were accrued in the amount of HRK 1,679 thousand for 29 employees (2012: for 47 employees in the amount of HRK 3,449 thousand).

During 2013 the Company accounted for contributions for compulsory pension fund for 693 employees amounting to HRK 17,512 thousand (2012: for 842 employees amounting to HRK 19,727 thousand).

NOTE 11 – IMPAIRMENTS

	2013	2012
	<i>(in thousands of HRK)</i>	
Impairment of trade receivables	12,636	15,569
Impairment of other receivables	5,438	34,388
Impairment of investments in related parties	-	212,968
Impairment of joint venture investments	383	45,621
Impairment of loans given and other financial assets	40,280	96,471
Impairment of inventories	2,017	-
Fair value adjustments on investment property	4,957	-
Impairments of property, plant and equipment	3,088	-
	68,799	405,017

NOTE 12 - OTHER OPERATING EXPENSES

	2013	2012
	<i>(in thousands of HRK)</i>	
Legal, consultancy and other services	4,377	7,611
Entertainment	635	1,085
Insurance premiums	1,162	2,078
Education and training expenses	1,455	592
Bank fees and charges	2,803	4,276
VAT	948	1,042
Contributions to public bodies	915	853
Carrying value of disposed assets	-	2,312
Prior periods expenses	825	38,293
Penalties and similar expenses	148	148
Provisions for unused holiday	-	4,875
Provisions for retirement and jubilee awards	355	976
Provisions for legal cases	1,219	11,395
Other costs	3,528	3,209
	18,370	78,745

Prior period expenses arise from one-off write offs of accrued revenues which were not recoverable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTE 13 – NET FINANCE COSTS

Finance income	2013	2012
	<i>(in thousands of HRK)</i>	
Gain on foreign exchange differences	6,416	618
Interest income	10,087	15,696
Income from the sale of shares	918	-
Income from write off of interest liabilities (note 40)	19,146	-
Other finance income (note 40)	11,316	30
	47,883	16,344
Finance costs		
Loss on foreign exchange differences	11,064	2,167
Interest expense	30,669	44,977
Change in fair value of financial assets	5,562	952
Other finance costs	365	1,777
	47,660	49,873
Net finance expense	223	(33,529)

During 2013 and 2012 the Company did not have such capital expenditures for which interest could be capitalized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 14 – TAX EXPENSE

Tax income consists of:

	2013	2012
	<i>(in thousands of HRK)</i>	
Current income tax	-	-
Deferred tax	1,114	(1,807)
	<u>1,114</u>	<u>(1,807)</u>

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
	<i>(in thousands of HRK)</i>	
(Loss)/profit before taxation	<u>(46,440)</u>	<u>(522,614)</u>
Income tax at 20% (2012: 20%)	(9,288)	(104,523)
Non-deductible expenses and non-taxable income	16,494	85,230
Tax incentives	-	(367)
Tax losses not recognised as deferred tax assets	-	19,660
Utilised tax losses previously unrecognised as deferred tax assets	(6,092)	-
Derecognition of temporary differences previously recognised as deferred tax assets	-	1,807
Income tax	<u>1,114</u>	<u>1,807</u>
Effective tax rate	<u>-2%</u>	<u>0%</u>

Unused gross tax losses amounting to HRK 72,086 thousand gross relate to tax losses incurred in 2012 (31 December 2012: HRK 98,300 thousand) that are available for use until 2017. In 2013 the Company utilised available tax losses amounting to HRK 26,214 thousand. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 14 – INCOME TAX (CONTINUED)**

The Company did not recognize deferred tax assets in the amount of HRK 104,521 thousand which is based on:

- unused tax losses generated in 2012 in the amount of HRK 14,417 thousand,
- Impairment of non-current and current financial assets and receivables in the amount of HRK 91,040 thousand.

Deferred tax liability consists of:

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

	Opening balance	Recognised through equity	Closing balance
2012			
Temporary differences:			
Revaluation of non-current assets	4,209	35,640	39,849
	4,209	35,640	39,849

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 15 – INTANGIBLE ASSETS AND GOODWILL

<i>(in thousand of HRK)</i>	Right to use property of third parties (Patents, licences and similar)	Assets under construction	Goodwill	Total
Cost				
As at 1 January 2012	30,464	3,862	13,356	47,682
Additions	96	1,678	-	1,774
Disposal or write off	(238)	-	-	(238)
Transfers to tangible assets	-	-	(13,356)	(13,356)
Transfer	1,678	(1,678)	-	-
As at 31 December 2012	32,000	3,862	-	35,862
Accumulated amortization				
As at 1 January 2012	(26,442)	(1,268)	-	(27,710)
Charge for the year	(2,267)	-	-	(2,267)
Disposal or write off	238	-	-	238
As at 31 December 2012	(28,471)	(1,268)	-	(29,739)
Cost				
As at 1 January 2013	32,000	3,862	-	35,862
Additions	879	-	-	879
Disposal or write off	(461)	-	-	(461)
Transfer	(165)	-	-	(165)
As at 31 December 2013	32,253	3,862	-	36,115
Accumulated amortization				
As at 1 January 2013	(28,471)	(1,268)	-	(29,739)
Charge for the year	(1,586)	-	-	(1,586)
Disposal or write off	165	-	-	165
As at 31 December 2013	(29,892)	(1,268)	-	(31,160)
Net book value				
As at 31 December 2012	3,529	2,594	-	6,123
As at 31 December 2013	2,361	2,594	-	4,955

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousand of HRK)</i>	Land	Buildings	Plant and equipment	Assets under construction	Other	Advances for tangibles	Total
Cost or fair value							
As at 1 January 2012	45,616	226,431	143,502	29,516	959	88	446,112
Increase due to revaluation	60,979	88,417	-	-	-	-	149,396
Additions	-	-	-	2,564	-	-	2,564
Decrease due to revaluation	-	(132,018)	-	-	-	-	(132,018)
Transfer from intangible assets	-	13,356	-	-	-	-	13,356
Reclassification to investment property	(231)	(8,345)	-	-	-	-	(8,576)
Transfer	414	1,755	564	(2,733)	-	-	-
Decreases	-	-	-	-	-	(64)	(64)
Disposal or write off	-	-	(1,848)	-	-	-	(1,848)
As at 31 December 2012	106,778	189,596	142,218	29,347	959	24	468,922
Accumulated depreciation							
As at 1 January 2012	-	(131,602)	(138,879)	-	(627)	-	(271,108)
Charge for the year	-	(10,358)	(948)	-	(28)	-	(11,334)
Decrease due to revaluation	-	132,018	-	-	-	-	132,018
Reclassification to investment property	-	7,511	-	-	-	-	7,511
Disposal or write off	-	-	1,811	-	-	-	1,811
As at 31 December 2012	-	(2,431)	(138,016)	-	(655)	-	(141,102)
Cost or fair value							
As at 1 January 2013	106,778	189,596	142,218	29,347	959	24	468,922
Increase due to revaluation	201	1,281	-	-	-	-	1,482
Additions	-	-	2	1,057	-	1,276	2,335
Decrease due to revaluation	(3,514)	(7,125)	-	-	-	-	(10,639)
Reclassifications of tangible assets	264	1,585	(2,020)	171	-	-	-
Transfer	-	380	728	(1,108)	-	-	-
Decreases	-	-	(349)	-	-	(1,233)	(1,582)
Disposal or write off	-	-	(967)	-	-	-	(967)
Reclassification to non-current assets held for sale	(39,970)	(109,577)	-	-	-	-	(149,547)
As at 31 December 2013	63,759	76,140	139,612	29,467	959	67	310,004
Accumulated depreciation							
As at 1 January 2013	-	(2,431)	(138,016)	-	(655)	-	(141,102)
Charge for the year	-	(9,511)	(630)	-	-	-	(10,141)
Decrease due to revaluation	3,514	7,125	-	-	-	-	10,639
Decrease due to revaluation	(6,042)	(7,378)	-	(2,918)	-	-	(16,338)
Decrease due to secured rights	(5,402)	(11,148)	-	-	-	-	(16,550)
Reclassifications of tangible assets	-	(67)	67	-	-	-	-
Disposal or write off	-	-	967	-	-	-	967
Reclassification to non-current assets held for sale	7,930	21,043	-	-	-	-	28,973
As at 31 December 2013	-	(2,367)	(137,612)	(2,918)	(655)	-	(143,552)
Net book value							
As at 31 December 2012	106,778	187,165	4,202	29,347	304	24	327,820
As at 31 December 2013	63,759	73,773	2,000	26,549	304	67	166,452

As at 31 December land and buildings of the Company with a carrying amount of HRK 137,532 thousand (2012: HRK 293,943 thousand) have been pledged as security for loan liabilities towards commercial banks. Property, plant and equipment amounting to HRK 161,355 thousand intended to settle the secured debt has been reclassified as non-current assets held for sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost of property, plant and equipment that is fully depreciated amounts to HRK 167,009 thousand (2012: HRK 165,167 thousand). At 31 December 2013 carrying amount of revalued assets (land and buildings) before revaluation amounted to HRK 89,410 thousand (31 December 2012: HRK 99,945 thousand).

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

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

	2013	2012
	<i>(in thousands of HRK)</i>	
Finance leases (cost)	941	660
Accumulated depreciation	(636)	(448)
Net book value	305	212

(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
<p><i>Land and buildings</i></p> <p>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.</p> <ul style="list-style-type: none"> • The calculation of the market value by further developing the cost method is performed by calculating the value of a newly built property and its impairment due to the passage of time, construction, furnishing, etc. The resulting price is adjusted to market price through a number of factors specific to the observed land or building. • The income method considers the present value of net cash flows that the assets could generate from rent taking into account the expected net rent based on comparable transactions. • The residual method is based on an analysis of a specific investment and is focused on determining the value of land planned for development. The method is applied in the context of developing a project, if the investor wishes to determine the maximum price to pay for land in order to profitably realise a project. 	<ul style="list-style-type: none"> • Correction factors used in calculating the market price. • Average yield: 7.9% • Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property. • Specific expenses used in determining the net cash flow in the income method. • Specific information related to costs of construction, periods of financing, interest rates, required profit margins and other expenses in calculating the residual method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 17 – INVESTMENT PROPERTY

	2013	2012
	<i>(in thousands of HRK)</i>	
Cost		
As at 1 January	56,724	37,932
Additions	-	13,310
Disposals	-	(1,824)
Carrying value of disposed property	-	(451)
Reclassification from property, plant and equipment	-	1,065
Reclassification to non-current assets held for sale	(40,781)	-
Fair value adjustment	(4,957)	6,692
As at 31 December	10,986	56,724

Investment property mainly relates to investments 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 Company generates income of HRK 504 thousand per year from renting the property.

Investment property in the amount of HRK 10,986 thousand (2012: HRK 56,274 thousand) is pledged as security for the borrowings 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
Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in note 16 (i).	Significant unobservable inputs are described in note 16 (i).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS

	2013	2012
	<i>(in thousands of HRK)</i>	
Investment in subsidiaries	227,265	114,595
Investment in associates	51,451	51,451
Investment in private equity funds	4,478	12,028
Joint ventures	126	-
Bonds	2,151	3,672
Deposits and guarantees given	879	1,095
	286,350	182,841

Investment in subsidiaries:

<i>(in thousands of HRK)</i>	2013		2012	
	% of ownership and voting rights	Acquisition cost	% of ownership and voting rights	Acquisition cost
Geotehnika-inženjering d.o.o., Zagreb	100	55,803	100	55,803
IGH Mostar d.o.o., Mostar	100	6,004	100	6,004
IGH Energija d.o.o. (ex IGH Razum d.o.o.), Zagreb	100	222	100	222
Incro d.o.o. (ex Adepto d.o.o.), Zagreb	100	20	100	20
IGH Turizam d.o.o. (ex Dubrovačka investicijska grupa d.o.o.)	100	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	116,828	100	116,828
Gratius Projekt d.o.o., Zagreb	100	100	100	100
Novi Črnomerec centar d.o.o., Zagreb	100	151,988	-	-
DP AQUA d.o.o., Zagreb	100	451	-	-
ETZ Ekonomsko tehnički zavod d.d., Osijek	80.2	6,511	-	-
IGH Kosova Sha Priština	74.8	39	74.8	39
Projektni biro Palmotićeva 45 d.o.o., Zagreb	67.8	15,634	80.08	18,453
MBM Termoprojekt d.o.o., Zagreb	60	1,200	-	-
IGH d.o.o. Mostar	-	-	51	20
Impairment of investments in subsidiaries		<u>(241,286)</u>		<u>(196,645)</u>
		227,265		114,595

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Investment in IGH Turizam d.o.o. has been pledged by Company as security for the borrowings towards commercial banks.

In 2013 the Company purchased a 100% shareholding (amounting to HRK 151,988 thousand) in Novi Črnomerec Centar d.o.o. from its related party Črnomerec centar d.o.o. The transaction has been carried out mostly through compensations netting of HRK 82,388 thousand of loan and interest receivables and receivables for the sale of shares from Niva inženjering d.o.o. and HRK 69,600 thousand of interest and trade receivables from Črnomerec centar d.o.o.

Additionally, in 2013 shareholding of ETZ d.o.o, DP Aqua d.o.o. and MBM Termoprojekt d.o.o. has been purchased from the related party IGH Projektiranje d.o.o. The transaction has been carried out through compensating trade receivables and loans given.

(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
<p>Fair value of investments in subsidiaries and associates was determined using methods applicable to each individual company. The following methods were used:</p> <ul style="list-style-type: none">• Valuation of land and buildings carried out by independent evaluators (methods described in Note 16 (i))• Estimation of recoverable amounts of assets, liabilities and equity as at 31 December• Estimations of future cash flows	<ul style="list-style-type: none">• Significant unobservable inputs are described in note 16 (i).• Projections with a growth rate of 5%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Investment in associates:

(in thousands of HRK)

	2013		2012	
	% of ownership and voting rights	Acquisition cost	% of ownership and voting rights	Acquisition cost
Elpida d.o.o. Zagreb	50	31,300	50	31,300
Institut za infrastrukturne projekte, Sofija	50	9	50	9
Institut gradevinarstva Sarajevo d.o.o., Sarajevo	49	-	49	-
Sportski grad TPN d.o.o., Split	40	8	40	8
Auto cesta Bar Boljare d.o.o., Split	40	8	40	8
Centar Gradski podrum d.o.o., Zagreb	37.5	21,533	37.5	21,533
Gratius Projekt d.o.o., Zagreb	-	-	-	-
IGH Lux energija d.o.o. (ex Lux energija d.o.o.), Zagreb	30	14,918	30	14,918
Prvi crnogorski autoput d.o.o., Podgorica	25	-	25	-
Impairment of investments in associates		(16,325)		(16,325)
		<u>51,451</u>		<u>51,451</u>

In 2012 investments in Elipda d.o.o., Sportski grad TPN d.o.o. and Institut za infrastrukturne projekte, Sofija have been impaired.

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

Investment in Centar Gradski Podrum d.o.o. has been pledged by Company as security for the loan liabilities of commercial banks.

Investment in private equity funds

	2013	2012
	(in thousands of HRK)	
Quaestus private equity kapital	4,195	11,590
Nexus private equity	283	438
	<u>4,478</u>	<u>12,028</u>

Decrease in fair value of investment funds has been recognized as a loss as part of financial expenses in the amount of HRK 5,562 thousand and through other comprehensive income in the amount of HRK 1,988 thousand.

Fair valuation of investments in private equity funds classified as financial assets available for sale was carried out using quoted prices (unadjusted) in active markets – Level 1.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Joint ventures

	2013	2012
	<i>(in thousands of HRK)</i>	
Črnomerec Centar d.o.o. Zagreb	-	45,559
Grupacija Biotoplifikacija d.o.o. Zagreb	15	15
Viktor Lenac d.d. Rijeka	47	47
GP Dubrovnik d.d. u stečajju, Dubrovnik	2,694	2,694
Međimurje beton d.d., Čakovec	383	-
Projektgradnja d.d., Slavonski Brod	126	-
Impairment of joint ventures	(3,139)	(48,315)
	<u>126</u>	<u>-</u>

NOTE 19 – INVENTORIES

	2013	2012
	<i>(in thousands of HRK)</i>	
Work in progress	247	247
Finished goods	3,238	3,238
Merchandise	568	1,380
Less: Impairment of inventories	(2,608)	(591)
	<u>1,445</u>	<u>4,274</u>

Finished goods comprise unsold commercial property. In 2013 inventories have been impaired by 2,017 thousand. The impairment is included in note 11 – *Impairments*. All inventories have been pledged as security for loan liabilities.

NOTE 20 – TRADE AND OTHER RECEIVABLES

	2013	2012
	<i>(in thousands of HRK)</i>	
<i>Non current receivables</i>		
Receivables for apartments sold and equipment with deferred payment	1,890	2,154
Receivables from the pre-bankruptcy settlement	400	-
	<u>2,290</u>	<u>2,154</u>
<i>Current receivables</i>		
Domestic trade receivables	106,170	105,813
Foreign trade receivables	14,700	17,921
Less: Impairment of trade receivables	(51,682)	(55,595)
Receivables from state and other institutions	2,338	1,510
Receivables from employees	709	777
Receivables form related parties	6,736	22,819
Receivables from recharged interest	7,444	8,356
Advances given	3,140	1,488
Receivables for investments sold	1,119	38,525
Other receivables	2,246	4,677
Less: Impairment of other receivables	(15,734)	(16,634)
	<u>77,186</u>	<u>129,657</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 20 – TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2013	2012
	<i>(in thousands of HRK)</i>	
As at 1 January	55,595	47,984
Increase	12,636	15,569
Amounts collected	(2,335)	(5,959)
Written off as uncollectable	(14,214)	(1,999)
As at 31 December	51,682	55,595

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

	2013	2012
	<i>(in thousands of HRK)</i>	
Neither past due nor impaired	29,132	32,825
0-60 days	13,588	14,146
60-120 days	4,292	5,568
120-180 days	13,358	3,564
180-360 days	8,703	9,045
over 360 days	115	2,991
	69,188	68,139

During 2013, other receivables in the amount of HRK 900 thousand were permanently written off.

NOTE 21 – LOANS GIVEN

	2013	2012
Non current	<i>(in thousands of HRK)</i>	
Loans given to subsidiaries	60,281	60,225
Loans given to associates	28,120	28,120
Less: Impairment of loans given	(71,327)	(48,353)
	17,074	39,992
Current		
Loans given to subsidiaries	31,486	33,818
Loans given to associates	2,290	-
Loans given to joint ventures	-	68,254
Loans given	715	899
Deposits given	4,947	4,516
Interest receivables	9,102	4,955
Less: Impairment of loans given	(39,343)	(22,625)
	9,197	89,817
	26,271	129,809

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 22 – CASH AND CASH EQUIVALENTS

	2013	2012
	<i>(in thousands of HRK)</i>	
Current accounts	3,380	435
Cash in hand	4	6
Foreign currency account	638	372
	4,022	813

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE

	2013.	2012.
	<i>(in thousands of HRK)</i>	
Land	67,477	-
Buildings	93,878	-
As at 31 December	161,355	-

Non-current assets held for sale are intended to cover 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
<p>Fair value of investments was determined using methods applicable to each individual type of asset. The following methods were used:</p> <ul style="list-style-type: none"> • Valuation of land and buildings carried out by independent evaluators (methods described in Note 18 (i)) • Review of secured creditors rights 	<ul style="list-style-type: none"> • Significant unobservable inputs are described in note 18(i). • Amounts of secured debt

NOTE 24 – ACCRUED REVENUE AND PREPAID EXPENSES

	2013	2012
	<i>(in thousands of HRK)</i>	
Prepaid expenses	658	1,748
Accrued income (percentage of completion)	12	1,270
VAT on advances received	272	369
	942	3,387

At 31 December 2013 the Company has accrued revenue arising from construction contracts in the amount of HRK 12 thousand (2012:HRK 1,270 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 25 – SHARE CAPITAL

	Number of shares 2013	% of ownership 2013	Number of shares 2012	% of ownership 2012
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Mezhibovskiy Veniamin	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%
Projektni biro Palmotićeveva 45 d.o.o.	2,500	0.95%	2,500	0.95%
Žarko Dešković	2,508	0.95%	2,508	0.95%
Owns shares	539	0.20%	539	0.20%
Other shareholders	141,890	53.71%	137,940	52.22%
	264,170	100%	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 26 – CAPITAL RESERVES

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 realized capital gains from the issue of new shares in the amount of 38,012 thousand were used to cover losses incurred 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 creditor 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 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 40.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 27 – RESERVES

	2013	2012
	<i>(in thousands of HRK)</i>	
Legal reserves	-	3,172
Reserves for own shares	1,446	6,343
Own shares	(1,446)	(1,446)
	<u>-</u>	<u>8,069</u>

The legal reserve is required under Croatian law according to which the Company is committed to building up legal reserves 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.

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

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

NOTE 28 – REVALUATION RESERVES

	2013	2012
	<i>(in thousands of HRK)</i>	
As at 1 January	161,382	54,433
Revaluation of land and buildings	1,186	113,756
Decrease in value of land and buildings	(24,488)	-
Transfer to accumulated losses	(4,455)	(2,320)
Change in value of assets available for sale	(1,988)	(4,487)
As at 31 December	<u>131,637</u>	<u>161,382</u>

Revaluation reserves are not distributable to shareholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 29 – BORROWINGS

	2013	2012
	<i>(in thousands of HRK)</i>	
Non-current		
Issued bonds	-	67,910
Secured bank loans	-	143,055
Bank loans - PIK debt	182,439	-
Bank loans - junior debt	12,391	-
Bank loans - senior debt	108,545	-
Finance lease	75	72
Other liabilities	102	-
	303,552	211,037
Current		
Issued bonds	76,376	7,546
Secured bank loans	110,881	266,902
Borrowings from related parties	-	2,880
Finance lease	-	174
Other borrowings	2,694	4,488
	189,951	281,990
Total interest bearing loans and borrowings	493,503	493,027

Bank borrowings in the amount of HRK 407,280 thousand (2012: HRK 409,957 thousand) and liabilities arising from issued bonds in the amount of HRK 76,376 thousand are secured with Company's land and buildings, shares in subsidiary IGH Turizam d.o.o. and associate Centar Gradski Podrum d.o.o. and with inventories of the Company.

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 or its related parties.

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

“Senior” debt comprises parts 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 29 – BORROWINGS (CONTINUED)

“Junior” debt relates to part of creditors’ 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 yearly 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 reprogramming of liabilities arising from previously issued financial instruments and financing of the working capital. Bonds are convertible into 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 a depository and settlement services. In order to ensure payment of all bond obligations, pledges have been created on specific properties which were under ownership of the bond issuer at time the financial documents were finalised.

On 10 June 2013 the Settlement council of the Financial Agency adopted the Decision to open 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 of 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 further (complete) settlement of outstanding claims, but their claims are considered to be settled 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
	<i>(in thousands of HRK)</i>					
Up to 1 year	-	202	-	(28)	-	174
Between 1 and 5 years	-	74	-	(2)	-	72
Total	-	276	-	(30)	-	246

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 29 – BORROWINGS (CONTINUED)

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

<i>(in thousands of HRK)</i>	Currency	Interest rate	Up to 1					Over 5
			2013	year	1-2 years	2-5 years	years	
Commercial bank	EUR	4.50%	196,369	-	-	26,804	169,565	
Commercial bank	EUR	4.50%	78,008	-	-	10,648	67,360	
Commercial bank	EUR	4.50%	12,476	-	-	1,703	10,773	
Commercial bank	EUR	1 M EURIBOR+ 5%	9,547	-	-	895	8,652	
Commercial bank	HRK	3 MM EURIBOR+5.75-6.75 p.p.	41,474	41,474	-	-	-	
Commercial bank	EUR	8%	7,229	7,229	-	-	-	
Commercial bank	EUR	6 M EURIBOR+6.25 p.p.	32,346	32,346	-	-	-	
Commercial bank	HRK	9%	4,397	4,397	-	-	-	
Commercial bank	EUR	3 M EURIBOR+6.60 p.p.	25,435	25,435	-	-	-	
Borrowings from third parties	HRK	8%	6,975	-	2,089	4,182	704	
Borrowings from related parties	HRK	3 M EURIBOR+7.20 p.p.	2,694	2,694	-	-	-	
Other borrowings		4%	102	-	-	102	-	
Finance lease	EUR	7.13-11%	75	-	75	-	-	
Bonds	EUR	9%	76,376	76,376	-	-	-	
			493,503	189,951	2,164	44,334	257,054	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 30 - PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Unused holiday accrual	Retirement benefits	Waranty provision	Legal cases	Total
As at 1 January 2013:						
Non-current	1,370	-	180	1,154	12,122	14,826
Current	-	4,875	977	-	794	6,646
	1,370	4,875	1,157	1,154	12,916	21,472
Increase in provisions	-	-	355	-	1,219	1,574
Utilised during the year	(396)	(804)	(1,184)	(282)	(5,292)	(7,958)
As at 31 December 2013	974	4,071	328	872	8,843	15,088
As at 31 December 2013:						
Non-current	576	-	248	53	8,808	9,685
Current	398	4,071	80	819	35	5,403
	974	4,071	328	872	8,843	15,088

(i) *Jubilee awards*

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

(ii) *Unused holiday provision*

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

(iii) *Retirement benefits*

In 2013 the Company recognized long term provision for regular retirement benefits for all employees in the amount of HRK 8 thousand per employee which is non-taxable. Applying a discount rate of 7% the present value of retirement benefits for all employees is established in the amount of HRK 303 thousand.

(iv) *Warranty provision*

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

(v) *Legal cases*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 31 – TRADE AND OTHER PAYABLES

	2013	2012
	<i>(in thousands of HRK)</i>	
<i>Long term liabilities</i>		
Domestic creditors	24,985	-
Related party liabilities	1,072	-
Liabilities for social housing	-	1,432
Liabilities for guarantees and deposits	1,353	61
Other long term liabilities - rescheduled tax debt	15,744	8,393
	43,154	9,886
<i>Short term liabilities</i>		
Domestic creditors	37,362	92,527
Foreign creditors	956	2,354
Other short-term liabilities- rescheduled tax debt	4,965	5,301
Liabilities toward state and other institutions	10,273	13,011
Liabilities toward employees	12,053	14,600
Liabilities toward shares in profit and rewards to management	1,733	2,151
Cessions payable	-	6,148
Interest payable	8,541	11,810
Municipal charges	2,787	2,787
Related party liabilities	1,014	1,628
Other liabilities	5,300	9,233
	84,984	161,550
	128,138	171,436

In 2013 reversal of liabilities for social housing in the amount of HRK 1,432 thousand was treated as income based on the statute of limitations. The reversal of liabilities is included in note 8 *Other operating revenues*. Based on the pre-bankruptcy settlement agreement the Company recognized income from the discounting of the rescheduled tax debt in the amount of HRK 4,117 thousand. The amount was recognized in other financial income and the discount rate used was 7%. Long-term liabilities for the rescheduled tax debt are stated at fair value using the discounted cash flow method. The liability will be repaid over 60 equal monthly instalments, without interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 31 – TRADE AND OTHER PAYABLES (CONTINUED)**

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. Long-term 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 recognized income from the discounting of non-current liabilities in the amount of HRK 7,199 thousand. The income is recognized in other financial income and the discount rate used was 7%. Other liabilities relate to liabilities for unpaid royalties and service contracts in the amount of HRK 2,597 thousand, liabilities toward municipal and city budgets from sale of social housing in the amount of HRK 1,072 thousand and other current liabilities in the amount of HRK 1,372 thousand.

The ageing analysis of trade payables:

	2013	2012
	<i>(in thousands of HRK)</i>	
Undue	56,681	-
0-90 days	3,436	32,816
91-180 days	1,663	6,457
181-360 days	1,610	16,050
over 360 days	985	39,558
	64,375	94,881

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

NOTE 32 – ADVANCES RECEIVED

	2013	2012
	<i>(in thousands of HRK)</i>	
Advances from domestic debtors	1,436	1,554
Advances from foreign debtors	2,247	3,435
Deposits and guarantees received	108	7,869
	3,791	12,858

NOTE 33 – ACCRUED EXPENSES AND DEFERRED INCOME

	2013	2012
	<i>(in thousands of HRK)</i>	
Accrued expenses	7,661	955
Deferred income	-	119
	7,661	1,074

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to various financial risks related to foreign currency, interest rate, credit and liquidity risk. The Company monitors these risks and seeks to minimize their potential impact on the Company's financial exposure. The Company does not use derivative 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 Company operates on Croatian and international markets. Management determines the prices of its services based on the market price in the relevant market.

a) Price risk

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

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

b) Currency risk

The official currency of the Company is the Croatian kuna. However, the Company has invested in financial instruments and entered into transactions denominated in currencies that represent its functional currency. Accordingly, the Company 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 Company.

Transactions in foreign currencies are translated into Croatian kuna by applying the exchange rates effective at the reporting 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 Company, due to part of the income earned in foreign markets and liabilities denominated in other currencies, is exposed to currency risk primary through change of EUR and therefore the expected changes are not significant.

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

	Liabilities		Assets	
	2013	2012	2013	2012
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	428,781	471,683	33,458	93,811
Bosnia and Herzegovina (BAM)	18	237	1,095	1,081
USA (USD)	2,148	2,017	1,274	1,340

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

The Company 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
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Net result decrease	(3,953)	(3,779)	(9)	(7)

	BAM currency effect	
	2013	2012
	<i>(in thousands of HRK)</i>	
Net result increase	11	8

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

	31 December 2013	31 December 2012
EUR	7.63764	7.54562
BAM	3.90506	3.85802
USD	5.54900	5.72679

b) 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 Company uses loans with variable interest rates it is exposed to interest rate risk. The Company does not hedge its exposure to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk

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

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

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

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – 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. The following table presents principal cash flows and interest.

	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<i>2013. (in thousand of HRK)</i>							
Non derivative financial liabilities							
Borrowings, finance lease and bonds	493,503	596,236	56,136	161,936	6,311	56,849	315,004
Trade and other payables	131,929	143,200	60,163	21,936	15,250	45,851	-
	<u>625,432</u>	<u>739,436</u>	<u>116,299</u>	<u>183,872</u>	<u>21,561</u>	<u>102,700</u>	<u>315,004</u>
	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<i>2012. (in thousand of HRK)</i>							
Non derivative financial liabilities							
Borrowings, finance lease and bonds	493,027	552,997	206,721	105,892	63,337	163,589	13,458
Trade and other payables	174,408	184,294	97,927	76,481	9,886	-	-
	<u>667,435</u>	<u>737,291</u>	<u>304,648</u>	<u>182,373</u>	<u>73,223</u>	<u>163,589</u>	<u>13,458</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

	Net carrying value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years
<i>2013 (in thousand of HRK)</i>					
Non derivative financial assets					
Loans given	26,271	28,963	151	10,543	18,269
Trade and other receivables	77,186	77,186	69,131	8,055	-
	<u>103,457</u>	<u>106,149</u>	<u>69,282</u>	<u>18,598</u>	<u>18,269</u>
<i>2012 (in thousand of HRK)</i>					
Non derivative financial assets					
Loans given	129,809	167,855	4,340	109,414	54,101
Trade and other receivables	129,657	129,657	65,822	63,835	-
	<u>259,466</u>	<u>297,512</u>	<u>70,162</u>	<u>173,249</u>	<u>54,101</u>

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 flow.

As 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 long-term deposits, receivables and bank loans reported at 31 December 2013 approximate their fair values due to the application of liabilities with the variable interest rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital risk management

Net debt to equity ratio (Gearing ratio)

The gearing ratio at the reporting date was as follows:

	2013	2012
	<i>(in thousands of HRK)</i>	
Debt (long term and short term loans)	493,503	493,027
Cash and cash equivalents	(4,022)	(813)
Net debt	489,481	492,214
Equity	61,164	107,891
Debt/equity ratio	800%	456%

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

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

The Company, in order to ensure the necessary liquidity and thereby also to improve the gearing ratio of debt to equity, plans to carry out share capital increase by issuing new shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 35 – RELATED PARTY TRANSACTIONS**

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

Revenue from services to subsidiaries

	2013	2012
	<i>(in thousands of HRK)</i>	
Geotehnika Inženjering d.o.o., Zagreb	79	797
IGH Mostar d.o.o., Mostar	114	61
ETZ d.d. Osijek	-	81
Radeljević d.o.o, Zagreb	236	4
Hidroinženjering d.o.o., ZAGREB	115	56
IGH Projektiranje d.o.o., Zagreb	30	1
Projektni biro Palmotićeva 45 d.o.o., Zagreb	928	169
CTP Projekt d.o.o., Zagreb	-	21
Marterra d.o.o. Zagreb	79	131
MBM Termoprojekt d.o.o., Zagreb	-	8
	1,581	1,329

Revenue from services to associates

	2013	2012
	<i>(in thousands of HRK)</i>	
Centar Bundek d.o.o.	735	2,175
Centar Gradski podrum d.o.o.	1,037	1,259
	1,772	3,434

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Services received from subsidiaries

	2013	2012
	<i>(in thousands of HRK)</i>	
Geotecnika Inženjering d.o.o., Zagreb	398	2,387
IGH Mostar d.o.o., Mostar	134	148
ETZ d.d. Osijek	971	398
Hidroinženjering d.o.o., ZAGREB	100	17
IGH Projektiranje d.o.o., Zagreb	361	2,560
Projektni biro Palmotićeva 45 d.o.o., Zagreb	2,951	1,126
Tehničke konstrukcije d.o.o., Zagreb	-	93
CTP Projekt d.o.o., Zagreb	-	1,197
MBM Termoprojekt d.o.o., Zagreb	402	221
IGH Kosova, Priština	261	-
	5,578	8,147

Interest income on loans given to subsidiaries

	2013	2012
	<i>(in thousands of HRK)</i>	
Geotecnika Inženjering d.o.o., Zagreb	162	58
IGH Mostar d.o.o., Mostar	374	213
Incro d.o.o., Zagreb	4,935	4,880
Radeljević d.o.o., Zagreb	253	267
IGH Energija d.o.o., Zagreb	3	2
IGH Projektiranje d.o.o., Zagreb	91	357
Projektni biro Palmotićeva 45 d.o.o., Zagreb	-	10
IGH Turizam d.o.o., Zagreb	140	109
IGH Kosova Sha, Priština	250	233
Marterra d.o.o. Zagreb	558	137
Projket Šolta d.o.o., Zagreb	1	1
Forum centar d.o.o., Zagreb	1	1
	6,768	6,268

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Interest income on loans given to associates

	2013	2012
	<i>(in thousands of HRK)</i>	
Sportski grad TPN d.o.o., Split	303	2,128
Elpida d.o.o., Zagreb	1	-
	304	2,128

Interest expense on borrowings from subsidiaries and other finance costs

	2013	2012
	<i>(in thousands of HRK)</i>	
Projektni biro Palmotićeva 45 d.o.o., Zagreb	-	223
ETZ d.d. Osijek	-	34
Gratius projekt d.o.o., Zagreb	1	-
	1	257

Receivables from subsidiaries

	2013	2012
	<i>(in thousands of HRK)</i>	
Geotehnika Inženjering d.o.o., Zagreb	3,188	2,876
IGH Mostar d.o.o., Mostar	77	73
Incro d.o.o., Zagreb	22	22
Radeljević d.o.o., Zagreb	1,068	1,071
Forum Centar d.o.o., Zagreb	1	1
Hidroinženjering d.o.o., ZAGREB	-	148
IGH Projektiranje d.o.o., Zagreb	33	16,741
Projektni biro Palmotićeva 45 d.o.o., Zagreb	570	96
IGH Turizam d.o.o., Zagreb	39	39
Marterra d.o.o. Zagreb	1,004	905
Less: Impairment of trade receivables	(5,125)	(4,008)
	877	17,964

During the year HRK 1,117 thousand of impairment of receivable from subsidiaries was recognized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Receivables from associates

	2013	2012
	<i>(in thousands of HRK)</i>	
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
	<i>(in thousands of HRK)</i>	
Črnomerec Centar d.o.o.	-	147
	-	147

Related party payables

	2013	2012
	<i>(in thousands of HRK)</i>	
Centar Gradski podrum d.o.o.	913	1
Geotehnika Inženjering d.o.o., Zagreb	150	-
IGH Mostar d.o.o., Mostar	75	71
ETZ d.d. Osijek	70	-
IGH Projektiranje d.o.o., Zagreb	269	709
Projektni biro Palmotićeva 45 d.o.o., Zagreb	443	299
Tehničke konstrukcije d.o.o., Zagreb	234	120
CTP Projekt d.o.o., Zagreb	-	404
MBM Termoprojekt d.o.o., Zagreb	212	24
Less: Fair value resulting from the pre-bankruptcy settlement	(280)	-
	2,086	1,628

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Loans given to subsidiaries

	Principal 2013	Interest	Principal 2012	Interest
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Geotehnika Inženjering d.o.o., Zagreb	4,045	222	4,045	59
IGH Mostar d.o.o., Mostar	5,502	378	5,436	-
Incro d.o.o., Zagreb	64,785	14,899	64,784	9,964
Radeljević d.o.o., Zagreb	3,316	188	3,584	68
Forum Cenatar d.o.o., Zagreb	16	4	17	3
IGH Projektiranje d.o.o., Zagreb	-	-	5,004	1,291
IGH Turizam d.o.o., Zagreb	2,092	247	1,521	107
Marterra d.o.o. Zagreb	8,305	695	6,124	137
IGH Kosova Sha, Priština	3,649	745	3,471	486
IGH Energija d.o.o., Zagreb	41	10	41	8
Projekt Šolta d.o.o., Zagreb	10	1	10	1
Slavonija centar, pos. zona , V. Kapanica	6	-	6	-
Less: Impairment of loans given	(70,388)	(17,389)	(42,858)	(11,719)
	21,379	-	51,185	405

During the year, HRK 11,424 thousand of impairment of loans given and accrued interest was recognized in statement of comprehensive income.

During the year, HRK 22,974 thousand of impairment of loans given was recognized in statement of comprehensive income.

Loans given to associates

	Principal 2013	Interest	Principal 2012	Interest
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Sportski grad TPN d.o.o., Split	30,400	13,376	28,120	11,175
Elpida d.o.o., Zagreb	10	1	-	-
Less: Impairment of loans given	(30,410)	(13,377)	(28,120)	(11,175)
	-	-	-	-

During the year, HRK 642 thousand of impairment of loans given and accrued interest was recognized in the statement of comprehensive income. In addition, a transfer has been made reclassifying deferred income to impairment of loans given amounting to HRK 1,560 thousand.

Loans given to joint ventures

	Principal 2013	Interest	Principal 2012	Interest
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Črnomerec Centar d.o.o.	6,584	566	68,254	4,188
Less: Impairment of loans given	(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Borrowings from related parties

	Principal 2013	2012	Interest 2013	2012
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Gratius Projekt d.o.o.	-	43	-	2
Projektni biro Palmotićeveva 45 d.o.o., Zagreb	-	2,837	-	27
	-	2,880	-	29

Information about co-debtorship and guarantees issued to related parties are disclosed in note 36.

Management Board and Supervisory Board compensation:

	2013	2012
	<i>(in thousands of HRK)</i>	
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 has a liability towards members of the Management Board and the Supervisory Board in the amount of HRK 2,551 thousand (2012:HRK 339 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2013****NOTE 36 – CONTINGENT LIABILITIES**

	2013	2012
	<i>(in thousands of HRK)</i>	
Legal cases	76,043	4,200
Guarantees given and warranties-external	49,513	95,998
Co-debtorship in related party bank loans	30,437	861,042
Issued guarantees to related parties	6,581	79,602
	162,574	1,040,842

For other legal cases and guarantees granted, contingent liabilities are not reported in the statement of financial position as at 31 December, as per the estimates of the Company's Management Board at 31 December 2013 it is not probable that a liability will arise for the Company.

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

	2013	2012
	<i>(in thousands of HRK)</i>	
Centar Bundek d.o.o. Zagreb	-	424,482
Centar Gradski podrum d.o.o. Zagreb	-	351,935
Geotehnika Inženjering d.o.o. Zagreb	14,582	17,085
Incro d.o.o. Zagreb	15,855	15,664
ETZ d.d. Osijek	-	500
Marterra d.o.o. Zagreb	-	7,923
IGH Turizam d.o.o. Zagreb	-	43,453
	30,437	861,042

NOTE 37 – COMMITMENTS

The future payments under operating leases for transportation vehicles and other contractual obligations are as follows:

	2013	2012
	<i>(in thousands of HRK)</i>	
Up to 1 year	4,375	4,441
1 - 5 years	21,846	364
	26,221	4,805

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 38 – GOING CONCERN

In the year that ended 31 December 2013 the Company has recognized an unconsolidated net loss in the amount of HRK 45,326 thousand (2012: loss of HRK 524,421 thousand) and unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 37,643 thousand (2012: HRK 232,165 thousand).

The Company's Management Board believes that the Company has met the requirements to continue as going concern that is relevant in the context of the going concern risk and points out that, as it is evident from the financial statements, the Company operates in a difficult liquidity conditions and risk of permanent inability to refinance short-term financial liabilities towards banks. Precisely for this reason, the Company has, through the pre-bankruptcy settlement, reached an agreement for debt restructuring with its creditors. The going concern basis is certainly influenced by the fact that the Company, in the course of the pre-bankruptcy settlement, limited its exposure arising from co-debtorship towards certain related parties which could, if activated, prevent the operational business activities of the Company.

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

The Management and Supervisory board proposed to the General Assembly to issue a decision which would reduce the share capital of the Company from HRK 105,668,000.00 to HRK 50,192,300.00. Funds amounting to HRK 55,475,000.00 obtained in the course of the reduction would be used to cover losses generated in previous periods.

NOTE 39 – 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.

In the period after the reporting date the Company 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 40 – 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 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 final. 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 became 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 prior year EBITDA.

Three years after the settlement became legally valid and through the process of converting PIK debt to senior debt, 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 immediately 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 sale results in a surplus of cash over 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 became 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 dynamics as PIK debt and 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 became legally valid with a fixed interest rate of 4.5% per annum which becomes due in one instalment after six years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 40 – EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT (CONTINUED)

The following is a short overview of the effects of the pre-bankruptcy settlement agreement on the statement of financial position:

	31 December 2013
Conversion of equity into share capital (note 26)	23,506
PIK debt (note 29)	182,439
Senior debt (note 29)	108,545
Junior debt (note 29)	12,391
	<u>326,881</u>

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

	<u>2013</u>
Write off of interest and fees (note 13)	19,146
Other finance income (note 13)	11,316
Interest not accrued	13,811
	<u>44,273</u>

Other finance income relates to discounting of long term 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 29 in the amount of HRK 110,881 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 23 in the amount of HRK 161,355 thousand.

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

In addition, based on the pre-bankruptcy settlement co-debtorships amounting to HRK 805,362 thousand were cancelled.

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

Attachment 1.

Reporting period:

01.01.2013

do

31.12.2013

ANNUAL FINANCIAL STATEMENTS OF THE ENTREPRENEUR - GFI-POD

Tax number (MB):	03750272	
Company registration number (MRS):	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 address:	igh@igh.hr	
Internet address:	http://www.institutigh.com	
Municipality/city code and name:	133	ZAGREB
County code and name:	21	GRAD ZAGREB
Consolidated report:	NO	
Number of employees (quarter end)		648
NKD code:		7219
Companies of the consolidation subject (according to IFRS)	Seat:	MB:

Bookkeeping service:		
Contact person:	ŠPINDERK JADRANKA	
	(please enter only contact person's family name and name)	
Telephone:	01 6125 444	Telefax: 01 6125 404
E-mail address:	igh@igh.hr	
Family name and name:	prof. dr. JURE RADIĆ, dipl. ing. grad.	
	(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. Statements
5. Decision on the Proposal for distribution of profit or loss coverage

Seal

(signature of the person authorized to represent the company)



BALANCE SHEET
as of 31.12.2012

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	615.653.014	488.105.004
I. INTANGIBLE ASSETS (004 to 009)	003	6.122.867	4.954.974
1. Assets development	004		
2. Concessions, patents, licence fees, merchandise and service brands, software and other rights	005	3.529.440	2.361.547
3. Goodwill	006		
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	384.543.616	177.437.271
1. Land	011	106.777.588	63.760.082
2. Buildings	012	188.949.215	73.772.567
3. Plant and equipment	013	822.158	534.653
4. Instruments, plant inventories and transportation assets	014	1.425.936	1.464.331
5. Biological assets	015	0	0
6. Prepayments for tangible assets	016	24.080	67.375
7. Tangible assets in preparation	017	29.518.535	26.548.838
8. Other material assets	018	303.336	303.336
9. Investment in buildings	019	56.722.768	10.986.089
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	222.831.971	303.423.690
1. Shares (stocks) in related parties	021	166.046.942	278.715.624
2. Loans given to related parties	022	39.991.807	17.074.602
3. Participating interests (shares)	023	0	125.800
4. Loans to entrepreneurs in whom the entity hold participating interests	024	0	0
5. Investment in securities	025	0	0
6. Loans, deposits and similar assets	026	1.092.825	878.094
7. Other long - term financial assets	027	15.700.397	6.629.570
8. Investments accounted by equity method	028	0	0
IV. RECEIVABLES (030 to 032)	029	2.154.560	2.289.069
1. Receivables from related parties	030	0	0
2. Receivables based on trade loans	031	2.154.560	1.889.610
3. Other receivables	032	0	399.459
V. DEFERRED TAX ASSETS	033	0	0
C) SHORT TERMS ASSETS (035+043+050+058)	034	228.566.151	253.148.298
I. INVENTORIES (036 to 042)	035	4.274.005	162.799.842
1. Raw material	036	0	0
2. Work in progress	037	247.493	247.493
3. Finished goods	038	2.646.935	629.512
4. Merchandise	039	1.379.577	568.162
5. Prepayments for inventories	040	0	0
6. Long - term assets held for sale	041	0	161.354.675
7. Biological assets	042	0	0
II. RECEIVABLES (044 to 049)	043	133.661.757	77.129.155
1. Receivables from related parties	044	18.336.501	1.192.571
2. Accounts receivable	045	68.139.070	69.130.263
3. Receivables from participating entrepreneurs	046	146.963	0
4. Receivables from employees and shareholders	047	775.906	708.512
5. Receivables from government and other institutions	048	5.515.259	2.283.289
6. Other receivables	049	40.748.058	3.814.520
III. SHORT - TERM FINANCIAL ASSETS (051 to 057)	050	89.817.711	9.197.249
1. Shares (stocks) in related parties	051	0	0
2. Loans given to related parties	052	11.608.421	4.305.460
3. Participating interests (shares)	053	0	0
4. Loans to entrepreneurs in whom the entity hold participating interests	054	72.441.725	0
5. Investments in securities	055	0	0
6. Loans, deposits and similar assets	056	5.767.565	4.891.789
7. Other financial assets	057	0	0
IV. CASH AT BANK AND IN CASHIER	058	812.678	4.022.052
D) PREPAID EXPENSES AND ACCRUED INCOME	059	3.387.336	942.435
E) TOTAL ASSETS (001+002+034+059)	060	847.606.501	742.195.737
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	107.892.190	61.161.834
I. SUBSCRIBED CAPITAL	063	105.668.000	105.668.000
II. CAPITAL RESERVES	064	52.011.040	0
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	8.068.491	23.505.600
1. Reserves prescribed by law	066	3.171.600	0
2. Reserves for treasury stocks	067	6.343.200	1.446.309
3. Treasury stocks and shares (deduction)	068	1.446.309	1.446.309
4. Statutory reserves	069	0	0
5. Other reserves	070	0	23.505.600
IV. REVALUATION RESERVES	071	161.382.667	131.636.563
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	305.182.937	-154.322.133
1. Retained earnings	073	305.182.937	4.836.344
2. Accumulated loss	074	0	159.158.477
VI. PROFIT / LOSS FOR THE CURRENT YEAR (076-077)	075	-524.420.945	-45.326.196
1. Profit for the current year	076		
2. Loss for the current year	077	524.420.945	45.326.196
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	14.826.843	10.956.469
1. Provisions for pensions, severance pay and similar liabilities	080	1.550.087	1.277.055
2. Reserves for tax liabilities	081	0	0
3. Other reserves	082	13.276.756	9.679.414
C) LONG TERM LIABILITIES (084 to 092)	083	260.769.741	379.614.257
1. Liabilities to related parties	084	0	1.072.102
2. Liabilities for loans, deposits etc.	085	0	101.700
3. Liabilities to banks and other financial institutions	086	142.879.410	303.375.114
4. Liabilities for received prepayments	087	0	0
5. Accounts payable	088	245.600	25.059.210
6. Liabilities arising from debt securities	089	67.910.616	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	090	0	0
8. Other long-term liabilities	091	9.885.554	17.096.990
9. Deferred tax liability	092	39.848.561	32.909.141
D) SHORT - TERM LIABILITIES (094 to 105)	093	456.400.328	278.670.613
1. Liabilities to related parties	094	1.657.261	1.013.661
2. Liabilities for loans, deposits etc.	095	4.216.138	2.694.140
3. Liabilities to banks and other financial institutions	096	266.904.025	110.880.449
4. Liabilities for received prepayments	097	12.859.124	3.790.980
5. Accounts payable	098	98.206.704	38.318.080
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	0	0
8. Liabilities to employees	101	14.600.048	12.053.289
9. Liabilities for taxes, contributions and similar fees	102	18.310.027	15.230.119
10. Liabilities to share - holders	103	418.051	0
11. Liabilities for long term assets held for sale	104	0	0
12. Other short - term liabilities	105	31.683.326	18.313.465
E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD	106	7.717.399	11.792.564
F) TOTAL CAPITAL AND LIABILITIES (062+079+083+093+106)	107	847.606.501	742.195.737
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		
2. Attributed to minority interests	110		

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

PROFIT AND LOSS ACCOUNT
for period 01.01.2013 to 31.12.2013

Legal entity: INSTITUT IGH D.D.

Position 1	AOP 2	Previous year 3	Current year 4
I. OPERATING REVENUES (112+113)	111	250.527.194	243.759.533
1. Sales revenues	112	227.483.421	226.546.667
2. Other operating revenues	113	23.043.773	17.212.866
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	740.566.453	290.423.440
1. Changes in the value of work in progress and finished goods	115	0	0
2. Material costs (117 to 119)	116	96.985.070	74.953.573
a) Raw material and material costs	117	13.174.525	11.654.621
b) Costs of goods sold	118		811.415
c) Other external costs	119	83.810.545	62.487.537
3. Staff costs (121 to 123)	120	117.566.192	102.929.108
a) Net salaries and wages	121	67.292.978	59.658.651
b) Costs for taxes and contributions from salaries	122	33.992.386	29.443.194
c) Contributions on gross salaries	123	16.280.828	13.827.263
4. Depreciation	124	13.600.683	11.726.937
5. Other costs	125	48.435.333	29.461.812
6. Impairment (127+128)	126	49.957.417	23.179.074
a) Impairment of long-term assets (excluding financial assets)	127	0	3.089.486
b) Impairment of short-term assets (excluding financial assets)	128	49.957.417	20.089.588
7. Provisions	129	17.245.792	1.574.877
8. Other operating expenses	130	396.775.966	46.598.059
III. FINANCIAL INCOME (132 to 136)	131	16.343.510	47.882.050
1. Interest income, foreign exchange gains, dividends and similar income from related	132	6.268.591	7.352.205
2. Interest income, foreign exchange gains, dividends and similar income from non-related	133	4.928.213	9.430.392
3. Share in income from affiliated entrepreneurs and participating interests	134	5.117.043	0
4. Unrealized gains (income) from financial assets	135	0	0
5. Other financial income	136	29.663	31.099.453
IV. FINANCIAL EXPENSES (138 to 141)	137	48.918.234	47.658.248
1. Interest expenses, foreign exchange losses and similar expenses from related parties	138	256.857	1.540
2. Interest expenses, foreign exchange losses and similar expenses from non - related	139	46.999.850	41.730.275
3. Unrealized losses (expenses) on financial assets	140	0	5.561.803
4. Other financial expenses	141	1.661.527	364.630
V. INCOME FROM INVESTMENT SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS	142		
VI. LOSS FROM INVESTMENT SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS	143		
VII. EXTRAORDINARY - OTHER INCOME	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	266.870.704	291.641.583
X. TOTAL EXPENSES (114+137+143 + 145)	147	789.484.687	338.081.688
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-522.613.983	-46.440.105
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	522.613.983	46.440.105
XII. PROFIT TAX	151	1.806.962	-1.113.909
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-524.420.945	-45.326.196
1. Profit for the period(149-151)	153	0	0
2. Loss for the period (151-148)	154	524.420.945	45.326.196

APPENDIX TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	155		
2. Attributed to minority interests	156		
STATEMENT OF COMPREHENSIVE INCOME (IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	-524.420.945	-45.326.196
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX(159 to 165)	158	137.711.031	-31.115.978
1. Exchange differences on translation of foreign operations	159		
2. Movements in revaluation reserves of long-term tangible and intangible assets	160	142.195.601	-29.127.555
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	28.439.120	-5.825.511
IV. NET OTHER COMPREHENSIVE INCOME/ LOSS FOR THE PERIOD (158-166)	167	109.271.911	-25.290.467
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD(157+167)	168	-415.149.034	-70.616.663
APPENDIX to Statement of comprehensive income (only for consolidated financial statements)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	169		
2. Attributed to minority interests	170		

STATEMENT OF CASH FLOWS - Indirect method
period 01.01.2013 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	-522.613.984	-46.440.105
2. Depreciation	002	13.600.683	11.726.937
3. Increase in short-term liabilities	003		
4. Decrease in short term receivables	004	97.300.904	
5. Decrease in inventories	005		801.415
6. Other cash flow increases	006	427.743.872	63.080.532
I. Total increase in cash flow from operating activities (001 to 006)	007	16.031.475	29.168.779
1. Decrease in short - term liabilities	008	66.807.230	4.791.345
2. Increase in short - term receivables	009	0	12.100.111
3. Increase in inventories	010	0	0
4. Other cash flow decreases	011	0	0
II. Total decrease in cash flow from operating activities (008 to 011)	012	66.807.230	16.891.456
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	0	12.277.323
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	50.775.755	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash flow from sale of long - term tangible and intangible assets	015	2.242.687	10.310
2. Cash inflows from sale of equity and debt financial instruments	016	0	0
3. Interest receipts	017	0	774.653
4. Dividend receipts	018	0	0
5. Other cash inflows from investing activities	019	9.051.030	734.564
III. Total cash inflows from investing activities(015 to 019)	020	11.293.717	1.519.527
1. Cash outflows for purchase of long - term tangible and intangible assets	021	5.137.528	1.981.510
2. Cash outflows for purchase of equity and debt financial instruments	022	66.000	
3. Other cash outflows from investing activities	023	19.698.187	2.968.545
IV. Total cash outflows from investing activities (021 to 023)	024	24.901.715	4.950.055
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	13.607.998	3.430.528
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	37.565.098	2.368.000
3. Other cash inflows from financing activities	029		
V. Total cash inflows from financing activities (027 to 029)	030	143.490.930	2.368.000
1. Cash outflows for repayment of loans and bonds	031	80.159.015	7.834.000
2. Dividends paid	032	0	
3. Cash outflows for finance lease	033	254.710	171.421
4. Cash outflows for purchase of own stocks	034	0	0
5. Other cash outflows from financing activities	035	0	0
VI. Total cash outflows from financing activities (031 do 035)	036	80.413.725	8.005.421
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	63.077.205	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	5.637.421
Total increases of cash flows (013 – 014 + 025 – 026 + 037 – 038)	039	0	3.209.374
Total decreases of cash flows (014 – 013 + 026 – 025 + 038 – 037)	040	1.306.548	0
Cash and cash equivalents at the beginning of period	041	2.119.226	812.678
Increase in cash and cash equivalents	042		3.209.374
Decrease in cash and cash equivalents	043	1.306.548	
Cash and cash equivalents at the end of period	044	812.678	4.022.052

STATEMENT OF CHANGES IN EQUITY

from **01.01.2013** to **31.12.2013**

Position 1	AOP 2	Previous year 3	Current year 4
1. Subscribed capital	001	105.668.000	105.668.000
2. Capital reserves	002	52.011.040	0
3. Reserves from profit	003	8.068.491	23.505.600
4. Retained earnings or accumulated loss	004	305.182.937	-154.322.134
5. Profit / loss for the current year	005	-524.420.945	-45.326.196
6. Revaluation of long - term tangible assets	006	159.394.244	131.636.563
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	1.988.423	0
9. Other revaluation	009	0	0
10. Total capital and reserves (AOP 001 to 009)	010	107.892.190	61.161.833
11. Currency gains and losses arising from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow hedging	013		
14. Changes in accounting policies	014		
15. Correction of significant errors in prior periods	015		
16. Other changes in capital	016		
17. Total increase or decrease in capital (AOP 011 to 016)	017	0	0
17 a. Attributed to equity holders of parent company	018		
17 b. Attributed to minority interest	019		

Items decreasing the capital are entered with a negative number sign

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