

INSTITUT IGH, d.d., Zagreb

Separate financial statements
for the year ended 31 December 2014
together with the Independent Auditor's Report

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MANAGEMENT'S RESPONSIBILITY FOR THE SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Ivan Paladina
President of the Management Board

Institut IGH d.d.

Janka Rakuše 1
10 000 Zagreb
Republic of Croatia

Zagreb, 27 April 2015



Independent Auditor's Report

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

We have audited the accompanying financial statements of Institut IGH d.d. (the "Company"), which comprise the balance sheet as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The Company has not applied the provisions of International Accounting Standard 11 *Construction contracts* ("IAS 11"), which requires an assessment of contract revenue and costs, which are recognised according to the stage of completion of the project. IAS 11 also requires fully recognising losses expected on long-term projects, regardless of the stage of completion, immediately after being identified. Given the aforementioned, we were unable to assess the impact of not applying IAS 11 on the Company's financial statements for the year ended 31 December 2014. Also, since the Company did not apply the above provisions of IAS 11 in previous periods, we were unable to assess the impact on comparative figures for the year ended 31 December 2013.

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Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of Matter

We draw attention to Note 2 (v) *Going concern* and the fact that the Company entered into a pre-bankruptcy settlement agreement, which became legally valid in late 2013, with the aim of restructuring commitments and being able to continue as a going concern. Note 39 *Effects of the pre-bankruptcy settlement agreement* sets out the Company’s activities for the purpose of realising the pre-bankruptcy settlement plan.

PricewaterhouseCoopers d.o.o.
Zagreb, 27 April 2015

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | 2014 | 2013 |
|---|------|------------------|------------------|
| <i>(in thousands of HRK)</i> | | | |
| Revenues | 7 | 194,540 | 226,545 |
| Other operating income | 8 | 28,514 | 17,212 |
| Total income | | 223,054 | 243,757 |
| Change in inventories | | (482) | - |
| Raw materials, consumables and services used | 9 | (56,982) | (74,954) |
| Employee expenses | 10 | (105,693) | (116,570) |
| Depreciation and amortisation | | (5,397) | (11,727) |
| Impairments | 11 | (23,975) | (68,799) |
| Other operating expenses | 12 | (14,953) | (18,370) |
| Total operating expenses | | (207,482) | (290,420) |
| Operating profit/(loss) | | 15,572 | (46,663) |
| Finance income | | 10,690 | 47,883 |
| Finance expenses | | (21,226) | (47,660) |
| Net finance (expense)/income | 13 | (10,536) | 223 |
| Profit/(loss) before tax | | 5,036 | (46,440) |
| Tax expense | 14 | 1,229 | 1,114 |
| Profit/(loss) for the year | | 6,265 | (45,326) |
| Other comprehensive income | | | |
| Revaluation of land and buildings, net of tax | | (715) | (23,302) |
| Change in fair value of financial asstes, net of tax | | - | (1,988) |
| Other comprehensive (loss) income for the year, net of tax | | (715) | (25,290) |
| Total comprehensive (loss)/income for the year | | 5,550 | (70,616) |
| Basic profit/(loss) per share (in HRK) | 40 | 12.68 | (174.35) |

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

| | Note | 2014 | 2013 |
|--|------|------------------------------|----------------|
| | | <i>(in thousands of HRK)</i> | |
| ASSETS | | | |
| Intangible assets and goodwill | 15 | 4,566 | 4,955 |
| Property, plant and equipment | 16 | 162,832 | 166,452 |
| Investment property | 17 | 10,986 | 10,986 |
| Investments in related parties and other investments | 18 | 284,761 | 286,350 |
| Loans given | 21 | 44,024 | 17,074 |
| Trade receivables and other receivables | 20 | 1,681 | 2,290 |
| NON-CURRENT ASSETS | | 508,850 | 488,107 |
| Inventories | 19 | 963 | 1,445 |
| Trade receivables and other receivables | 20 | 64,135 | 77,186 |
| Loans given | 21 | 6,211 | 9,197 |
| Accrued income and prepaid expenses | 24 | 3,930 | 942 |
| Cash and cash equivalents | 22 | 5,762 | 4,022 |
| Non-current assets held for sale | 23 | 116,616 | 4,022 |
| CURRENT ASSETS | | 197,617 | 254,147 |
| TOTAL ASSETS | | 706,467 | 742,254 |
| EQUITY AND LIABILITIES | | | |
| Share capital | 25 | 116,605 | 105,668 |
| Share premium | 26 | - | 23,506 |
| Shares | 27 | (1,446) | (1,446) |
| Reserves for own shares | 27 | 1,446 | 1,446 |
| Revaluation reserves | 28 | 126,007 | 131,637 |
| (Accumulated losses) | | (123,638) | (199,647) |
| TOTAL EQUITY | | 118,974 | 61,164 |
| Borrowings | 29 | 300,827 | 303,552 |
| Provisions | 30 | 11,483 | 9,685 |
| Deferred tax liabilities | 14 | 31,502 | 32,909 |
| Trade and other payables | 31 | 29,423 | 43,154 |
| NON-CURRENT LIABILITIES | | 373,235 | 389,300 |
| Borrowings | 29 | 139,406 | 189,951 |
| Trade and other payables | 31 | 58,439 | 84,984 |
| Provisions | 32 | 2,398 | 3,791 |
| Advances received | 30 | 5,045 | 5,403 |
| Accrued expenses and deferred income | 33 | 8,970 | 7,661 |
| CURRENT LIABILITIES | | 214,258 | 291,790 |
| TOTAL EQUITY AND LIABILITIES | | 706,467 | 742,254 |

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

| <i>(in thousands of HRK)</i> | Share capital | Share premium | Statutory reserves | Own shares | Reserves for own shares | Revaluation reserves | Accumulated losses | Total |
|---|----------------|---------------|--------------------|----------------|-------------------------|----------------------|--------------------|----------------|
| At 1 January 2013 | 105,668 | 52,011 | 3,172 | (1,446) | 6,343 | 161,382 | (219,239) | 107,891 |
| <i>Transactions with the owners</i> | | | | | | | | |
| Transfer from liabilities | - | - | - | - | - | - | 383 | 383 |
| Conversion of liabilities (note 39) | - | 23,506 | - | - | - | - | - | 23,506 |
| <i>Total transactions with the owners</i> | - | 23,506 | - | - | - | - | 383 | 23,889 |
| <i>Comprehensive income</i> | | | | | | | | |
| Transfer from revaluation reserves | - | - | - | - | - | (4,455) | 4,455 | - |
| Loss for the year | - | - | - | - | - | - | (45,326) | (45,326) |
| Revaluation od land and buildings, net of tax | - | - | - | - | - | (23,302) | - | (23,302) |
| Transfer | - | (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 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 |
| <i>Transactions with the owners</i> | | | | | | | | |
| Decrease of share capital | (64,829) | - | - | - | - | - | 64,829 | - |
| Increase of share capital (note 25) | 57,950 | - | - | - | - | - | - | 57,950 |
| Conversion of liabilities (note 39) | 17,816 | (23,506) | - | - | - | - | - | (5,690) |
| <i>Total transactions with the owners</i> | 10,937 | (23,506) | - | - | - | - | 64,829 | 52,260 |
| <i>Comprehensive income</i> | | | | | | | | |
| Transfer from revaluation reserves | - | - | - | - | - | (1,812) | 1,812 | - |
| Profit for the year | - | - | - | - | - | - | 6,265 | 6,265 |
| Revaluation od land and buildings, net of tax | - | - | - | - | - | (715) | - | (715) |
| Sale of revalued assets, net of tax | - | - | - | - | - | (3,103) | 3,103 | - |
| <i>Total comprehensive profit</i> | - | - | - | - | - | (5,630) | 11,180 | 5,550 |
| At 31 December 2014 | 116,605 | - | - | (1,446) | 1,446 | 126,007 | (123,638) | 118,974 |

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | 2014 | 2013 |
|--|-------|------------------------------|----------------|
| | | <i>(in thousands of HRK)</i> | |
| Cash generated from operations | | | |
| Profit/(loss) for the year | | 6,265 | (45,326) |
| Adjustments: | | | |
| Taxation | 14 | (1,229) | (1,114) |
| Depreciation and amortisation | 15,16 | 5,397 | 11,727 |
| Impairment losses | 11 | 23,975 | 63,842 |
| Interest income | 13 | (2,775) | (10,087) |
| Interest expense | 13 | 14,035 | 30,669 |
| Increases/ (decreases) in provisions | 30 | 1,440 | (6,384) |
| Unrealised exchange differences (net) | 13 | 966 | 5,499 |
| Remeasurement of investment property at fair value | | - | 4,957 |
| Unrealised losses from financial assets | 13 | 1,379 | 5,562 |
| Gain/(loss) from sale of tangible and intangible assets | | (122) | (927) |
| Income from collection of written off receivables and write off of liabilities | | (33,373) | (25,487) |
| Discount of long term liabilities | | 4,331 | (11,316) |
| Expenses from previous periods | | 1,377 | 825 |
| Cash generated from operations before working capital adjustments | | 21,666 | 22,440 |
| (Increase)/decrease in inventories | | 482 | 811 |
| (Increase)/decrease in trade receivables | | (2,140) | (12,100) |
| Increase/(decrease) in trade payables | | (37,741) | 4,792 |
| Cash generated from operations before interest and taxes | | (17,733) | 15,943 |
| Income taxes paid | | - | - |
| Interest paid | | (15,261) | (3,666) |
| Net cash from operating activities | | (32,994) | 12,277 |
| Cash flows from investing activities | | | |
| Proceeds from sale of tangible and intangible assets | | 43,873 | 10 |
| Proceeds from sale of equity and debt instruments | | 265 | 774 |
| Other cash inflows from investing activities | | 4,007 | 734 |
| Purchase of tangible and intangible assets | | (670) | (1,981) |
| Other cash outflows from investing activities | | (32,617) | (2,968) |
| Net cash from investing activities | | 14,858 | (3,431) |
| Cash flows from financing activities | | | |
| Proceeds from issue of equity and debt financial instruments | | 57,950 | - |
| Proceeds from loans, debentures, borrowings and other | | 4,322 | 2,368 |
| Repayment of borrowings and bonds | | (42,345) | (7,834) |
| Repayment of financial leases | | (51) | (171) |
| Net cash from financing activities | | 19,876 | (5,637) |
| Total cash flow increase | | 1,740 | 3,209 |
| Total cash flow decrease | | - | - |
| Cash and cash equivalents at beginning of year | 22 | 4,022 | 813 |
| Cash and cash equivalents at the end of year | 22 | 5,762 | 4,022 |

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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 Commercial Court in Zagreb under the entity number 080000959.

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

The Company is engaged in the professional and scientific research in the field of construction, which includes: designing, conducting studies, supervision, 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 registered office is in Zagreb, Croatia, Janka Rakuše 1.

Management Board

General Assembly

President

Jure Radić

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

Supervisory Board

Members of the Supervisory Board at 31 December 2014 are as follows:

| | |
|---------------------------------------|--|
| Jure Radić, president | from 7 May 2014 - until 7 May 2018 |
| Veniamin Mezhibovskiy, vice president | from 7 May 2014 - until 7 May 2018 |
| Dušica Kerhač, member | from 2 April 2013 - until 11 April 2017 |
| Vlado Čović, member | from 20 December 2012 - until 20 December 2016 |
| Sergej Gljadelkin, member | from 7 May 2014 - until 7 May 2018 |
| Sergej Gljadelkin, member | from 28 August 2014 - until 28 August 2018 |
| Igor Tkach, member | from 28 August 2014 - until 28 August 2018 |

On 28 August 2014, the General Assembly made the following decisions:

- the Supervisory Board members, Tomislav Alpeza and Branka Kincl, are revoked
- two new Supervisory Board members, Sergej Gljadelkin and Igor Tkach, are appointed.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1 – GENERAL INFORMATION (CONTINUED)

Management Board (continued)

As at 31 December 2014, the Management Board consists of three members:

| | |
|-----------|--|
| President | Željko Grzunov, from 7 May 2014 |
| Member | Jelena Bleiziffer, from 16 December 2013 |
| Member | Ivan Paladina, from 2 October 2014 |

On 13 February 2015, the Supervisory Board issued a decision, based on which as of 1 March 2015 the Management Board consists of four members as follows:

| | |
|-----------|--|
| President | Ivan Paladina, from 1 March 2015 |
| Member | Željko Grzunov, from 1 March 2015 |
| Member | Jelena Bleiziffer, from 16 December 2013 |
| Member | Oliver Kumrić, from 1 March 2015 |

NOTE 2 – BASIS OF PREPARATION

(i) *Statement of compliance*

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The consolidated financial statements of the Company and its subsidiaries, which the Company prepares in accordance with IFRS and Croatian legislation, are published separately and issued simultaneously with the separate annual financial statements. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The consolidated financial statements as at and for the year ended 31 December 2014 are available together with these separate financial statements directly at the registered address of the Company stated above.

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

These separate financial statements were authorised for issue by the Management Board on 27 April 2015.

Balance sheet items were recorded as at 31 December 2014 unless otherwise stated.

(ii) *Basis of measurement*

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

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

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

(iii) *Functional and presentation currency*

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

(iv) *Use of estimates and judgements*

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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 ended 31 December 2014, the Company incurred a net profit of HRK 6,265 thousand (2013: loss of HRK 45,326 thousand) and at year-end, the Company's current liabilities exceeded its current assets by HRK 16,641 thousand (2013: HRK 37,643 thousand).

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

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

3.2 Investments in associates

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

3.3 Revenue

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

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

(i) Service revenues

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

(ii) Finance income and costs

Finance income and costs comprise interest payable on loans and borrowings using the effective interest method, interest receivable on funds invested, dividend income and gains and losses from foreign exchange differences.

Interest income is recognised in the income statement on an accrual basis using the effective interest rate. Dividend income is recognised in the income statement at the date when the Company's right to receive payment is established.

Finance costs comprise interest on loans, changes of fair value of financial assets at fair value through the profit and loss, impairment losses of financial assets and foreign exchange losses. Borrowing costs are recognised in profit or loss using the effective interest method.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.3 Revenue (continued)

(iii) Rental income

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

3.4 Leases

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

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

3.5 Foreign currencies

Transactions and balances in foreign currencies

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

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

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost are translated into the functional currency at the foreign exchange rate prevailing at the date of the transaction.

As at 31 December 2014, the official exchange rate was HRK 7.661471 for EUR 1 (2013: HRK 7.637643 for EUR 1).

3.6 Borrowings and borrowing costs

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

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

3.7 Dividend

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.8 Taxation

Income tax

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

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

(i) Deferred tax assets and liabilities

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

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

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

(ii) Tax exposures

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.9 Property, plant and equipment

(i) Land and buildings

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

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

When the carrying amount is increased as a result of revaluation, the increase should be recognised in equity under revaluation reserves. The revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

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

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

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

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

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

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

(ii) Plant and equipment

Plant and equipment are 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.9 Property, plant and equipment (continued)

(iii) Subsequent costs

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

(iv) Depreciation

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives 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 the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

3.10 Intangible assets

Patents, licenses and software

(i) Ownership of intangible assets

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

(ii) Subsequent costs

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

(iii) Amortisation

Intangible assets under construction are not amortised. Amortisation of other intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

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

3.11 Investment property

Investment property is recognised as an asset when it is likely that future economic benefits will arise from the investment and when the cost of investment can be reliably measured. Investment property includes property held either to earn rental income or for capital appreciation or both.

Investment property is initially recognised at cost including transaction costs incurred. Subsequently investment property is measured at fair value reflecting market conditions at the balance sheet date. Profit or loss from changes in fair value of investment property is recognised in the income statement of the period in which they are incurred.

3.12 Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Company assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.13 Inventories

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

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

Small inventory and tools are expensed when put into use.

3.14 Trade receivables

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

3.15 Cash and cash equivalents

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

3.16 Share capital

Ordinary shares are classified as equity. 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. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.17 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

Up to October 2012, the Company recognised a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the weighted average interest rate on the Company's debt. Upon the expiry of the collective agreement in October 2012, during 2013 and 2014 the Company is no longer obliged to pay jubilee awards to employees and ceased to recognize a liability for long-term employee benefits.

3.18 Provisions

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.19 Financial instruments

Non-derivative financial instruments

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

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

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of investments are recognised on trade-date, i.e. the date on which the Company commits to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Available-for-sale financial assets (AFS)

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

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

Dividends on AFS equity instruments are recognised in profit or loss when the right to receive the dividends is established.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.19 Financial instruments (continued)

Loans given and receivables

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

Interest income is recognised by applying the effective interest rate, except for current receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

For certain categories of financial assets, such as trade receivables, i.e. assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with the default on receivables.

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised under 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 SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3.20 Financial liabilities and equity instruments (continued)

Financial guarantee contracts

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

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

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

Derecognition of financial liabilities

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

3.21 Segment reporting

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

3.22 Earnings per share

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

This note includes details on (a) new and amended standards, which are effective for the first time for periods beginning on 1 January 2014 and (b) forthcoming requirements - that is, new and amended standards that have been issued and are not effective for periods beginning on 1 January 2014, but will be in effect in subsequent periods.

a) New and amended standards

Below is a list of standards/interpretations that have been issued and are effective for periods beginning on or after 1 January 2014.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes control as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance sheet vehicles.

IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendment to IFRSs 10, 11 and 12 on Transition Guidance (effective for annual periods beginning on or after 1 January 2014)

These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

Amendment to IAS 32, 'Financial Instruments: Presentation' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities at the balance sheet date.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives (effective for annual periods beginning on or after 1 January 2014)

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

IFRIC 21, 'Levies' (effective for annual periods beginning on or after 1 January 2014)

This is an interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised.

b) Forthcoming requirements

Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2014, but will be effective for later periods

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014)

These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:

- IFRS 2 'Share based payments,' and clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.
- IFRS 3, 'Business combinations,' and clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'. It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss.
- IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

- IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts where the effect of discounting is immaterial.
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014)

These annual improvements amend standards from the 2011 - 2013 reporting cycle. It includes changes to:

- IFRS 1, 'First time adoptions of IFRSs,' basis of conclusions is amended to clarify that where a new standard is not mandatory but is available for early adoption a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3, 'Business combinations' is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint venture under IFRS 11.
- IFRS 13, 'Fair value measurement' is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
- IAS 40, 'Investment property' is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014)

The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period.

The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary.

Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over the employees' working lives.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 July 2016)

This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016)

This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are correlated.

Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)

These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41.

The produce on bearer plants will remain in the scope of IAS 41.

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)

The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS 14, 'Regulatory deferral accounts' (effective for annual periods beginning on or after 1 January 2016)

This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016)

These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' – The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution,' or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.
- IFRS 7, 'Financial instruments: Disclosures' – There are two amendments:
 - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
 - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.
- IAS 19, 'Employee benefits' – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
- IAS 34, 'Interim financial reporting' – the amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. This amendment is retrospective.

IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2017)

This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts,' IAS 18, 'Revenue' and related interpretations.

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

*IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception:
Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.*

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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) Recognition of deferred tax assets

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

(ii) Consequences of certain legal disputes

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

(iii) Useful lives of property, plant and equipment

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

(iv) Impairment of assets

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

(v) Non-derivative financial liabilities

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

(vi) Investment property

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

(vii) Going concern

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 6 – DETERMINATION OF FAIR VALUE

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

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

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

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, 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 is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

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

- Note 16: Property, plant and equipment
- Note 17: Investment property
- Note 18: Investments in related parties and other investments
- Note 23: Non-current assets held for sale

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – SEGMENT INFORMATION

Sales revenue

| | 2014 | 2013 |
|---------------------------------|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Revenue from services | 194,147 | 225,369 |
| Revenue from sale of apartments | 393 | 122 |
| Revenue from sale of goods | - | 1,054 |
| | 194,540 | 226,545 |

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

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

During 2014, the Company recorded revenue in the amount of HRK 40,202 thousand by rendering services to its most significant customer.

Segment revenues and results

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

| SEGMENTS | Segment revenue | | Segment profit | |
|--|------------------------------|-----------------|----------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | | | |
| Designing | 66,496 | 62,278 | 22,672 | 8,444 |
| Studies | 7,847 | 11,263 | 2,199 | 4,283 |
| Supervision | 67,937 | 98,486 | 25,631 | 40,696 |
| Advisory services | 7,126 | 9,473 | 2,337 | 3,387 |
| Laboratory testing | 27,490 | 33,141 | 9,461 | 12,248 |
| Research | 16,664 | 11,374 | 3,005 | 26 |
| Geotechnical research | 980 | 530 | (614) | (201) |
| Total revenue generated by segments | 194,540 | 226,545 | 64,691 | 68,883 |
| Revenue from sale of apartments | 393 | 122 | | |
| Revenue from sale of goods | - | 1,054 | | |
| Revenue from write off of liabilities | 13,196 | - | | |
| Other operating income | 14,925 | 16,036 | | |
| Total revenue | 28,514 | 17,212 | | |
| Central and administrative expenses | (32,240) | (34,221) | | |
| Depreciation | (5,397) | (11,727) | | |
| Impairments | (20,948) | (68,799) | | |
| Provisions | (2,296) | (1,574) | | |
| Changes in inventories | (482) | - | | |
| Cost of goods sold | - | (811) | | |
| Other operating expenses | (16,271) | (15,626) | | |
| Finance income | 10,691 | 47,883 | | |
| Finance expenses | (21,226) | (47,660) | | |
| Profit/(loss) before tax | 5,036 | (46,440) | | |
| Income tax | 1,229 | 1,114 | | |
| Profit/(loss) for the year | 6,265 | (45,326) | | |

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

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

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

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

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

The *Investigative services segment* includes performing investigations and preparing diagnostic reports.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

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

The Company does not allocate assets and liabilities by segments.

NOTE 8 – OTHER OPERATING INCOME

| | 2014 | 2013 |
|--|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Income from reversal of provisions | 857 | 7,958 |
| Gain on sale of property, plant and equipment | 122 | 10 |
| Rental income | 942 | 601 |
| Income from recovery of receivables previously written off | 9,419 | 2,335 |
| Income from reimbursement of damages | 402 | 870 |
| Compensation and grant income | 384 | 38 |
| Income from liabilities written off | 13,164 | 4,006 |
| Other income | 3,224 | 1,394 |
| | 28,514 | 17,212 |

NOTE 9 – RAW MATERIALS, CONSUMABLES AND SERVICES USED

| | 2014 | 2013 |
|--|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Raw materials and consumables used | 2,281 | 2,894 |
| Energy costs | 6,218 | 7,947 |
| Small inventory and spare parts used | 599 | 815 |
| Transportation, telephone, postal services | 3,035 | 2,595 |
| Subcontractors | 25,489 | 39,760 |
| Manufacturing services | 6,041 | 5,822 |
| Municipal services and fees | 1,815 | 1,826 |
| Maintenance costs | 3,524 | 3,950 |
| Rental expense | 5,658 | 5,008 |
| Other external expenses | 2,322 | 3,526 |
| Cost of goods sold | - | 811 |
| | 56,982 | 74,954 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 10 – STAFF COSTS

| | 2014 | 2013 |
|---|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Net salaries | 53,768 | 59,659 |
| Tax, contributions and other charges | 40,133 | 43,271 |
| Reimbursement of expenses (travel expenses, wages, transportation) | 10,485 | 11,889 |
| Termination, support and other benefits | 1,279 | 1,751 |
| Compensations, termination and support benefits in the excess of tax allowable amount | 28 | - |
| | 105,693 | 116,570 |

At 31 December 2014, the Company had 599 employees (2013: 655 employees). In 2014, non-taxable termination benefits were accrued in the amount of HRK 872 thousand for 20 employees (2013: for 29 employees in the amount of HRK 1,679 thousand).

During 2014, the Company accounted for contributions for the compulsory pension fund for 644 employees amounting to HRK 15,881 thousand (2013: for 693 employees amounting to HRK 17,512 thousand).

NOTE 11 – IMPAIRMENT

| | 2014 | 2013 |
|--|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Impairment of trade receivables | 20,261 | 12,636 |
| Impairment of other receivables | 687 | 5,438 |
| Impairment of investments in related parties | 341 | - |
| Impairment of joint venture investments | - | 383 |
| Impairment of loans given and other financial assets | 2,686 | 40,280 |
| Impairment of inventories | - | 2,017 |
| Fair value adjustments of investment property | - | 4,957 |
| Impairment of property, plant and equipment | - | 3,088 |
| | 23,975 | 68,799 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 12 – OTHER OPERATING EXPENSES**

| | 2014 | 2013 |
|--|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Legal, consultancy and other services | 4,884 | 4,377 |
| Entertainment | 623 | 635 |
| Insurance premiums | 769 | 1,162 |
| Education and training expenses | 340 | 1,455 |
| Bank fees and charges | 1,801 | 2,803 |
| VAT | 335 | 948 |
| Contributions to public bodies | 811 | 915 |
| Other expenses | 1,717 | 3,526 |
| Prior periods expenses | 563 | 825 |
| Penalties and similar expenses | 101 | 148 |
| Provisions for unused holiday | 690 | - |
| Provisions for retirement and jubilee awards | 632 | 355 |
| Provisions for legal cases | 974 | 1,219 |
| Other costs | 713 | 2 |
| | 14,953 | 18,370 |

NOTE 13 – FINANCE INCOME/(COSTS)

| Finance income | 2014 | 2013 |
|--|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Gain on foreign exchange differences | 515 | 6,416 |
| Interest income | 2,775 | 10,087 |
| Income from the sale of shares | - | 918 |
| Income from interest liabilities | 7,396 | 19,146 |
| Other finance income | 4 | 11,316 |
| | 10,690 | 47,883 |
| Finance expenses | | |
| Loss on foreign exchange differences | 1,481 | 11,064 |
| Interest expense | 14,035 | 30,669 |
| Change in fair value of financial assets | 1,379 | 5,562 |
| Other finance expense | 4,331 | 365 |
| | 21,226 | 47,660 |
| Net finance (expense)/income | (10,536) | 223 |

During 2014 and 2013, the Company did not have any investments for which interest could be capitalised.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 14 – INCOME TAX**

Tax income consists of:

| | 2014 | 2013 |
|--------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Current income tax | - | - |
| Deferred tax | 1,229 | 1,114 |
| | 1,229 | 1,114 |

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:

| | 2014 | 2013 |
|---|------------------------------|-----------------|
| | <i>(in thousands of HRK)</i> | |
| Profit/(loss) before taxation | 5,036 | (46,440) |
| Income tax at 20% (2013: 20%) | 1,007 | (9,288) |
| Non-deductible expenses and non-taxable income | 1,234 | 16,494 |
| Tax losses not recognised as deferred tax assets | - | (6,092) |
| Tax from realised profit | (1,013) | - |
| Income tax | 1,229 | 1,114 |
| Effective tax rate | 24% | -2% |

Unused gross tax losses amounting to HRK 62,767 thousand relate to the tax loss incurred in 2012 (31 December 2013: HRK 67,837 thousand) that are available for use until 2017. In 2014, the Company utilised available tax losses amounting to HRK 5,070 thousand. Unused tax losses are not recognised as deferred tax assets in the statement of financial position, as it is unlikely that there will be sufficient taxable profits realised for the utilisation of these deferred tax assets.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 14 – INCOME TAX (CONTINUED)

The Company did not recognise deferred tax assets in the total amount of HRK 90,397 thousand which is based on:

- unused tax losses generated in 2013 in the amount of HRK 12,554 thousand,
- impairment of non-current and current financial assets and receivables in the total amount of HRK 77,843 thousand.

The deferred tax liability arises from the following:

| 2014 | Recognised in other | | | Closing balance |
|-----------------------------------|------------------------|-------------------------|---------------------------------|--------------------|
| | Opening balance | comprehensive income | Recognised in profit or loss | |
| Temporary differences: | | | | |
| Revaluation of non-current assets | 32,909 | (178) | (1,229) | 31,502 |
| | 32,909 | (178) | (1,229) | 31,502 |

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 15 – INTANGIBLE ASSETS

| <i>(in thousand of HRK)</i> | Right to use property of third parties (Patents, licences and similar) | Assets under construction | Total |
|---------------------------------|---|---------------------------------|-----------------|
| Cost | | | |
| As at 1 January 2013 | 32,000 | 3,862 | 35,862 |
| Additions | 879 | - | 879 |
| Disposals | (461) | - | (461) |
| Sale or write off | (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) |
| Cost | | | |
| As at 1 January 2014 | 32,253 | 3,862 | 36,115 |
| Additions | - | 1,217 | 1,217 |
| Disposal or write off | (717) | - | (717) |
| Transfer | 1,214 | (1,214) | - |
| As at 31 December 2014 | 32,750 | 3,865 | 36,615 |
| Accumulated amortization | | | |
| As at 1 January 2014 | (29,892) | (1,268) | (31,160) |
| Charge for the year | (889) | - | (889) |
| As at 31 December 2013 | (30,781) | (1,268) | (32,049) |
| Net book value | | | |
| As at 31 December 2013 | 2,361 | 2,594 | 4,955 |
| As at 31 December 2014 | 1,969 | 2,597 | 4,566 |

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

| <i>(in thousand of HRK)</i> | Land | Buildings | Plant and equipment | Assets under construction | Advances Other for tangibles | Total | |
|---|---------------|----------------|------------------------|---------------------------------|---------------------------------|------------|------------------|
| 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) |
| Reclassification | 264 | 1,585 | (2,020) | 171 | - | - | - |
| Transfer | - | 380 | 728 | (1,108) | - | - | - |
| Decreases | - | - | (349) | - | - | (1,233) | (1,582) |
| Disposal or write off | - | - | (967) | - | - | - | (967) |
| Transfer to tangible 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 (disposals) | 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) |
| Reclassification to investment property | - | (67) | 67 | - | - | - | - |
| Disposal or write off | - | - | 967 | - | - | - | 967 |
| Transfer to tangible assets held for sale | 7,930 | 21,043 | - | - | - | - | 28,973 |
| As at 31 December 2012 | - | (2,367) | (137,612) | (2,918) | (655) | - | (143,552) |
| Cost or fair value | | | | | | | |
| As at 1 January 2014 | 63,759 | 76,140 | 139,612 | 29,467 | 959 | 67 | 310,004 |
| Increase due to revaluation | - | - | - | - | - | - | - |
| Additions | - | - | - | 963 | - | 830 | 1,793 |
| Transfer | - | - | 963 | (963) | - | - | - |
| Decreases | - | - | (178) | - | - | (727) | (905) |
| Disposal or write off | - | - | (2,224) | - | - | - | (2,224) |
| As at 31 December 2014 | 63,759 | 76,140 | 138,173 | 29,467 | 959 | 170 | 308,668 |
| Accumulated depreciation | | | | | | | |
| As at 1 January 2014 | - | (2,367) | (137,612) | (2,918) | (655) | - | (143,552) |
| Charge for the year | - | (3,967) | (539) | - | - | - | (4,506) |
| Disposal or write off | - | - | 2,222 | - | - | - | 2,222 |
| As at 31 December 2014 | - | (6,334) | (135,929) | (2,918) | (655) | - | (145,836) |
| Net book value | | | | | | | |
| As at 31 December 2013 | 63,759 | 73,773 | 2,000 | 26,549 | 304 | 67 | 166,452 |
| As at 31 December 2014 | 63,759 | 69,806 | 2,244 | 26,549 | 304 | 170 | 162,832 |

Land and buildings of the Company with a net carrying amount of HRK 159,831 thousand (2013: HRK 163,798 thousand) have been pledged as security for borrowings from commercial banks (Note 29).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT (continued)

The cost of property, plant and equipment that is fully depreciated amounts to HRK 164,851 thousand (2013: HRK 167,075 thousand). As at 31 December 2014, the net carrying amount of revalued assets before revaluation would have amounted to HRK 87,145 thousand (31 December 2013: HRK 89,410 thousand).

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

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

In the current year, the Company had no equipment under finance lease.

(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 |
|--|--|
| <i>Land and buildings</i> | |
| The 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. | Correction factors used in calculating the market price. Average yield: 7-9% |
| The calculation of the market value by further developing the cost method is performed by calculating the value of a newly built property and its impairment due to the passage of time, construction, furnishing, etc. The resulting price is adjusted to the market price through a number of factors specific to the observed building or land. | Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property. |
| The income method considers the present value of net cash flows that the assets could generate from rent taking into account the expected net rent based on comparable transactions. | Specific expenses used in determining the net cash flow in the income method. |
| The residual method is based on an analysis of a specific investment and is focused on determining the value of land planned for development. The method is applied in the context of developing a project, if the investor wishes to determine the maximum price to pay for land in order to profitably realise a project. | Specific 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 SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 17 – INVESTMENT PROPERTY

| | 2014 | 2013 |
|--------------------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Cost | | |
| As at 1 January | 10,986 | 56,724 |
| Transfer | - | (40,781) |
| Fair value adjustment | - | (4,957) |
| As at 31 December | 10,986 | 10,986 |

Investment property with a net carrying amount of HRK 7,369 thousand (2013: HRK 7,369 thousand) has been pledged as security for borrowings from commercial banks. The cost of investment property amounts to HRK 18,263 thousand. Since the property is encumbered by a lien on third-party borrowing liabilities, the fair value of the property was reduced by the amount of the subscribed lien to the carrying amount amounting to HRK 7,369 thousand.

(i) Valuation techniques and significant inputs

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

| Valuation methods and techniques | Significant unobservable inputs |
|---|--|
| <p><i>Land and buildings</i></p> <p>Valuation methods and techniques used are identical to those used in determining fair value of land and buildings in Note 16 (i).</p> | <p>Significant unobservable inputs are described in Note 16 (i).</p> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18 – INVESTMENTS IN RELATED PARTIES AND OTHER INVESTMENTS

| | 2014 | 2013 |
|------------------------------------|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Investment in subsidiaries | 226,983 | 227,265 |
| Investment in associates | 51,451 | 51,451 |
| Investment in private equity funds | 3,099 | 4,478 |
| Other equity investments | 1,063 | 126 |
| Bonds | 688 | 2,151 |
| Deposits and guarantees given | 1,477 | 879 |
| | 284,761 | 286,350 |

Investments in subsidiaries

| | 2014 | | 2013 | |
|---|---|-----------------------------|---|-----------------------------|
| <i>(in thousands of HRK)</i> | % of ownership and voting rights | Acquisition cost | % of ownership and voting rights | Acquisition cost |
| Geotehnika-inženjering d.o.o., Zagreb | 100 | 62,790 | 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 | - | 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 | 100 | 151,988 |
| DP AQUA d.o.o., Zagreb | 100 | 451 | 100 | 451 |
| ETZ Ekonomsko tehnički zavod d.d., Osijek | 80.2 | 6511 | 80.2 | 6511 |
| IGH Kosova Sha Priština | 74.8 | 39 | 74.8 | 39 |
| Projektni biro Palmotičeva 45 d.o.o., Zagreb | 77.3 | 15,634 | 77.3 | 15,634 |
| MBM Termoprojekt d.o.o., Zagreb | 60 | 1200 | 60 | 1200 |
| Impairment of investments in subsidiaries | | (199,451) | | (241,286) |
| | | 226,983 | | 227,265 |

In 2014, the Company sold shares in the subsidiary IGH Turizam d.o.o.

(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>The fair value of investments in related parties was estimated using methods applicable to each individual company. The following methods were used:</p> <ul style="list-style-type: none"> The valuation of properties was carried out by authorised independent valuers (methods described in Note 16 (i)) The estimation of the recoverable amount of assets, liabilities and equity of the Company as at 31 December <p>Future cash flow projections</p> | <ul style="list-style-type: none"> Significant unobservable inputs are described in Note 16 (i). Future cash flow projections with a growth rate of 5% |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Investments 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 |
| Sportski grad TPN d.o.o. u stečaju, Split | 40 | 8 | 40 | 8 |
| Auto cesta Bar Boljare d.o.o., Split | 40 | 8 | 40 | 8 |
| Centar Gradski podrum d.o.o., Zagreb | 37.5 | 21,533 | 37.5 | 21,533 |
| IGH Lux energija d.o.o. (ex Lux energija d.o.o.) , Zagreb | 30 | 14,918 | 30 | 14,918 |
| Prvi crnogorski autoput d.o.o., Podgorica | 25 | - | 25 | - |
| Impairment of investments in associates | | (16,325) | | (16,325) |
| | | 51,451 | | 51,451 |

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

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

Shares in investment funds

| | 2014 | 2013 |
|---------------------------------|-----------------------|--------------|
| | (in thousands of HRK) | |
| Quaestus private equity kapital | 2,825 | 4,195 |
| Nexus private equity | 274 | 283 |
| | 3,099 | 4,478 |

The decrease in fair value of investments funds was recognised as part of finance cost in the amount of HRK 1,379 thousand.

The fair valuation of shares in investment funds classified as available-for-sale financial assets was carried out using quoted market prices (unadjusted) in an active market - Level 1.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Other equity investments

| | 2014 | 2013 |
|---|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Grupacija Biotoplifikacija d.o.o. u likvidaciji, Zagreb | 15 | 15 |
| Viktor Lenac d.d. Rijeka | 47 | 47 |
| GP Dubrovnik d.d. u stečaju, Dubrovnik | 2,694 | 2,694 |
| Međimurje beton d.d., Čakovec | 383 | 383 |
| Projektgradnja d.d., Slavonski Brod | - | 126 |
| Industrogradnja Grupa d.d. | 372 | - |
| Metronet Telekomunikacije d.d. | 1,062 | - |
| Impairment of other equity investments | (3,511) | (3,139) |
| | 1,063 | 126 |

NOTE 19 – INVENTORIES

| | 2014 | 2013 |
|---------------------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Work in progress | 247 | 247 |
| Finished goods | 2,704 | 3,238 |
| Merchandise | 568 | 568 |
| Less: Impairment of inventories | (2,556) | (2,608) |
| | 963 | 1,445 |

Inventories of finished goods relate to unsold commercial property. All inventories are pledged as security for borrowings (Note 29).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 20 – TRADE AND OTHER RECEIVABLES

| | 2014 | 2013 |
|---|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| <i>Non current receivables</i> | | |
| Receivables for apartments sold and equipment with deferred payment | 1,665 | 1,890 |
| Receivables from pre-bankruptcy settlement | 9,214 | 13,425 |
| Less: impairment | (9,198) | (13,026) |
| | 1,681 | 2,289 |
| <i>Current receivables</i> | | |
| Domestic trade receivables | 98,023 | 106,170 |
| Foreign trade receivables | 24,369 | 14,700 |
| Less: Impairment of trade receivables | (65,932) | (51,682) |
| Receivables from state and other institutions | 1,504 | 2,338 |
| Receivables from employees | 765 | 709 |
| Receivables form related parties | 5,991 | 6,736 |
| Receivables from recharged interest | 7,444 | 7,444 |
| Advances given | 1,622 | 3,140 |
| Receivables for investments sold | - | 1,119 |
| Other receivables | 4,192 | 2,246 |
| Less: Impairment of other receivables | (13,843) | (15,734) |
| | 64,135 | 77,186 |

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

| | 2014 | 2013 |
|------------------------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| As at 1 January | 51,682 | 55,595 |
| Increase | 19,995 | 12,636 |
| Amounts collected | (2,763) | (2,335) |
| Written off as uncollectible | (2,982) | (14,214) |
| As at 31 December | 65,932 | 51,682 |

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

| | 2014 | 2013 |
|---------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Undue | 33,258 | 29,132 |
| 0-60 days | 10,200 | 13,588 |
| 60-120 days | 2,585 | 4,292 |
| 120-180 days | 4,918 | 13,358 |
| 180-360 days | 4,573 | 8,703 |
| over 360 days | 926 | 115 |
| | 56,460 | 69,188 |

During 2014, other receivables in the amount of HRK 9 thousand (2013: HRK 900 thousand) were permanently written off.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 21 – LOANS GIVEN**

| Non current | 2014 | 2013 |
|---------------------------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Loans given to subsidiaries | 58,571 | 60,281 |
| Loans given to associates | 28,120 | 28,120 |
| Loans given to third parties | 26,934 | - |
| Less: Impairment of loans given | (69,601) | (71,327) |
| | 44,024 | 17,074 |
| | | |
| Current | | |
| Loans given to subsidiaries | 29,101 | 31,486 |
| Loans given to associates | 2,320 | 2,290 |
| Loans given | 39 | 715 |
| Deposits given | 2,039 | 4,947 |
| Receivables for interests | 11 | 9,102 |
| Less: Impairment of loans given | (27,299) | (39,343) |
| | 6,211 | 9,197 |
| | 50,235 | 26,271 |

Loans to related parties were granted interest-free or at an interest rate of 7% or 9% for certain loans.

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

NOTE 22 – CASH AND CASH EQUIVALENTS

| | 2014 | 2013 |
|--------------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Current accounts | 3,900 | 3,380 |
| Cash in hand | 3 | 4 |
| Foreign currency account | 496 | 638 |
| Cash deposits | 1,363 | - |
| | 5,762 | 4,022 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE

| | 2014 | 2013 |
|---|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| As at 1 January | 161,355 | - |
| Transfer from property, plant and equipment | - | 120,574 |
| Transfer from investment property | - | 40,781 |
| Sale | (44,739) | - |
| As at 31 December | 116,616 | 161,355 |

Non-current assets held for sale are intended to settle the secured debt of financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. During 2014, properties were sold in the amount of HRK 44,739 thousand, whereby liabilities were settled with respect to a borrowing from a commercial bank.

Liabilities to secured creditors (Note 29) increased by underlying interest in the amount of HRK 3,700 thousand carry a total amount of HRK 116,616 thousand.

(ii) Valuation techniques and significant inputs

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

| Valuation methods and techniques | Significant unobservable inputs |
|--|--|
| <p>The fair value of investments was estimated using methods applicable to each individual company. The following methods were used:</p> <ul style="list-style-type: none"> • The valuation of properties was carried out by authorised independent valuers (methods described in Note 16 (i)) • Review of rights of secured creditors | <p>Significant unobservable inputs are described in Note 16 (i).</p> <p>Amount of secured debt</p> |

NOTE 24 – ACCRUED INCOME AND PREPAID EXPENSES

| | 2014 | 2013 |
|---|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Prepaid expenses | 1,504 | 658 |
| Accrued income (percentage of completion) | 2,230 | 12 |
| VAT on advances received | 196 | 272 |
| | 3,930 | 942 |

At 31 December 2014, the Company has accrued revenues arising from construction contracts in the amount of HRK 2,230 thousand (2013: HRK 12 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 25 – SHARE CAPITAL

| | Number of shares 2014 | % of ownership 2014 | Number of shares 2013 | % of ownership 2013 |
|--------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| Gljadelkin Sergej | 315,000 | 51.33% | 0 | 0.00% |
| Mezhibovskiy Veniamin | 50,000 | 8.15% | 60,000 | 22.71% |
| Akcionar d.o.o. | 20,086 | 3.27% | 20,086 | 7.60% |
| ZM d.o.o. (ex Zagreb-Montaža d.o.o.) | 15,000 | 2.44% | 15,000 | 5.68% |
| Zm-Montag d.o.o. | 15,000 | 2.44% | 15,000 | 5.68% |
| IGH-Esop d.o.o. | 2,840 | 0.46% | 3,715 | 1.41% |
| Dalekovod-Projekt d.o.o. | 2,661 | 0.43% | 0 | 0.00% |
| IPRO-INŽENJERING d.o.o. | 2,512 | 0.41% | 2,000 | 0.76% |
| Owns shares | 539 | 0.09% | 539 | 0.20% |
| Other shareholders | 190,071 | 30.97% | 147,830 | 55.96% |
| | 613,709 | 100% | 264,170 | 100% |

At the Management Board meeting held on 15 April 2014, the decision was made on increasing share capital. This decision was supported by the Supervisory Board at its meeting held on the same day. The share capital increase arose from the legally valid pre-bankruptcy settlement as of 28 December 2013 whereby 30% of total supplier claims in the amount of HRK 23,506 thousand are settled through Company shares. Suppliers have subscribed shares in the amount of HRK 17,815 thousand, and the Company share capital was increased from HRK 105,668 thousand by the amount of HRK 17,815 thousand to the amount of HRK 123,486 thousand by issuing 44,539 new ordinary shares, ticker IGH-R-C, with a nominal amount of HRK 400.00 per share.

After the share capital increase the Company's share capital amounts to HRK 123,483 thousand and is divided among 264,170 ordinary shares, ticker IGH-R-A, and 44,539 ordinary shares, ticker IGH-R-C, in the nominal amount of HRK 400.00 per share.

At the General Assembly held on 7 May 2014, the Company made a decision to reduce the share capital from the amount of HRK 123,483 thousand by the amount of HRK 64,829 thousand to the amount of HRK 58,755 thousand by reducing the nominal amount of ordinary shares, ticker IGH-R-A and IGH-R-C, from the amount of HRK 400.00 by the amount of HRK 210.00 to the amount of HRK 190.00 per share.

At the same meeting, the decision was made on increasing the share capital from the amount of HRK 58,655 thousand by the amount of HRK 57,950 thousand to the amount of HRK 116,605 thousand by issuing 305,000 thousand ordinary shares, ticker IGH-R-C with a nominal amount of HRK 190.00 per share.

After the share capital increase the Company's share capital amounts to HRK 116,605 thousand and is divided among 264,170 ordinary shares, ticker IGH-R-A, and 349,539 ordinary shares, ticker IGH-R-C, in the nominal amount of HRK 190.00 per share.

On 21 January 2015, 349,539 shares, ticker: IGH-R-C ISIN HRIGH0RC00004 with a nominal amount of HRK 190.00 per share were converted to 349,539 shares, ticker: IGH-R-A ISIN HRIGH0RC00006 with a nominal amount of HRK 190.00 per share.

Based on the decision of the Zagreb Stock Exchange Class:UP/I-451-01/15-01/12 Reg. no.: 536-15-2 dated 19 January 2015, 349,539 shares with a nominal amount of HRK 190.00 per share, ticker IGH-R-A, ISIN: HRIGH0RA00006 were listed on the Official ZSE quotation. The listing was performed on 21 January 2015.

After the listing, the Company's share capital comprises 613,709 shares, ticker IGH-R-A, ISIN: HRIGH0RA00006 and amounts to HRK 116,605 thousand.

Each share holds voting and dividend rights.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 26 – CAPITAL RESERVES

Based on the final pre-bankruptcy settlement agreement of 28 December 2013 creditors transferred into the PIK and junior debt have the right, upon the maturity period of six years, to convert its remaining claims into share capital and thus become a part of the ownership structure of the Company. The PIK debt represents 63.6 % of debt towards banks in the pre-bankruptcy settlement and is to be paid in one instalment after six years at a fixed interest rate of 4.5% per annum, which will also be paid upon maturity. After three years, creditors have the right to exercise an option to convert debt into equity up to a maximum of 20% of the share capital at the time of conversion. The details of the pre-bankruptcy settlement agreement are described in Note 39.

Given the above, the Company has an obligation to calculate the probability and amount of conversion of debt into equity. Due to the significant uncertainty of key variables in the calculation the Company did not calculate and recognize the equity component as at 31 December 2014.

NOTE 27 – RESERVES

| | 2014 | 2013 |
|-------------------------|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Reserves for own shares | 1,446 | 1,446 |
| Own shares | (1,446) | (1,446) |
| | <u>-</u> | <u>-</u> |

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 28 – REVALUATION RESERVES**

| | 2014 | 2013 |
|--|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| As at 1 January | 131,637 | 161,382 |
| Revaluation of land and buildings | - | 1,186 |
| Decrease in value of land and buildings | - | (24,488) |
| Transfer to accumulated losses | (1,812) | (4,455) |
| Change in value of assets available for sale | - | (1,988) |
| Transfer to accumulated losses due to sale | (3,103) | - |
| Decrease due to write offs | (715) | - |
| As at 31 December | 126,007 | 131,637 |

Revaluation reserves are not distributable to shareholders.

NOTE 29 – BORROWINGS

| Bank | borrowing | |
|---------------------------------|------------------------------|----------------|
| | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | |
| Non-current | | |
| Secured bank loans | 2,625 | - |
| Bank loans - PIK debt | 182,908 | 182,439 |
| Bank loans - junior debt | 7,898 | 12,391 |
| Bank loans - senior debt | 107,316 | 108,545 |
| Finance lease | 9 | 75 |
| Other borrowings | 71 | 102 |
| | 300,827 | 303,552 |
| Bonds | 70,973 | 76,376 |
| Secured bank loans | 65,963 | 110,881 |
| Borrowings from related parties | 75 | - |
| Finance lease | 27 | - |
| Other borrowings | 2,368 | 2,694 |
| | 139,406 | 189,951 |
| Total borrowings | 440,233 | 493,503 |

s in the amount of HRK 366,710 thousand (2013: HRK 407,280 thousand) and liabilities arising from issued bonds in the amount of HRK 70,973 thousand are secured with the Company's land and buildings, shares in the associate Centar gradski podrum d.o.o. and inventories of the Company.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 29 – BORROWINGS (CONTINUED)

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

The “PIK debt” represents claims that will be settled by selling pledged assets of the Company and its related parties. Final maturity of the PIK claims is 6 years from the day the pre-bankruptcy settlement became final and it incorporates a fixed interest rate of 4.5% per annum.

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

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

Issued bonds

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

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

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

Pledged land and buildings amount to HRK 70,973 thousand and the value of bond payables was reduced to the stated amount.

The finance lease liability is as follows:

| | Minimum lease payments | | Finance cost | | Present value of min. lease payments | |
|-----------------------|------------------------------|-----------|--------------|------------|--------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | | | | | |
| Up to 1 year | 26 | 26 | (6) | (6) | 20 | 20 |
| Between 1 and 5 years | 9 | 9 | (1) | (1) | 8 | 8 |
| Total | 35 | 35 | (7) | (7) | 28 | 28 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 29 – BORROWINGS (CONTINUED)

The analytical review of borrowings is as follows:

| <i>(in thousands of HRK)</i> | Currency | Interest rate | 2014 | Up to 1 year | 1-2 years | 2-5 years | Over 5 years |
|--|----------|--------------------------|----------------|-----------------|---------------|---------------|-----------------|
| <i>Financial liabilities</i> | | | | | | | |
| Commercial bank | EUR | 4.50% | 196,779 | - | 8,963 | 26,888 | 160,928 |
| Commercial bank | EUR | 4.50% | 78,335 | - | 3,564 | 10,693 | 64,078 |
| Commercial bank | EUR | 4.50% | 12,476 | - | 568 | 1,703 | 10,205 |
| Commercial bank | EUR | 4.50% | 9,578 | - | 299 | 898 | 8,381 |
| Commercial bank | HRK | 6.50% | 3,500 | 875 | 875 | 1,750 | - |
| Commercial bank | EUR | 3 M EURIBOR+6.60 p.p. | 25,512 | 25,512 | - | - | - |
| Borrowings from related legal entities | HRK | 0% | 75 | 75 | - | - | - |
| Borrowings from unrelated legal entities | HRK | 5% | 954 | - | 30 | 90 | 834 |
| Other borrowings | RUB | 4% | 71 | - | 71 | - | - |
| Finance lease | EUR | 7.13-11% | 37 | 28 | 9 | - | - |
| <i>Total financial liabilities</i> | | | <i>327,317</i> | <i>26,490</i> | <i>14,379</i> | <i>42,022</i> | <i>244,426</i> |
| <i>Liabilities towards secured creditors</i> | | | | | | | |
| Commercial bank | EUR | 6 M EURIBOR+6.25 p.p. | 32,346 | 32,346 | - | - | - |
| Commercial bank | EUR | 8% | 7,229 | 7,229 | - | - | - |
| Borrowings from other financial institutions | HRK | 3 M EURIBOR+7.20 p.p. | 2,368 | 2,368 | - | - | - |
| Bonds | EUR | 9% | 70,973 | 70,973 | - | - | - |
| <i>Total liabilities towards secured creditors</i> | | | <i>112,916</i> | <i>112,916</i> | <i>-</i> | <i>-</i> | <i>-</i> |
| Total borrowings | | | 440,233 | 139,406 | 14,379 | 42,022 | 244,426 |

Interest rates during the year were in the following range:

- 3m EURIBOR from 6.25% to 7.20%
- 6 m EURIBOR+6.60%
- 4.00% to 11.00%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 30 – PROVISIONS

| <i>(in thousands of HRK)</i> | Jubilee awards | Unused holiday accrual | Retirement benefits | Warranty provision | Legal cases | Total |
|--------------------------------|-----------------------|-------------------------------|----------------------------|---------------------------|--------------------|---------------|
| As at 1 January 2014: | | | | | | |
| 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 |
| Increase in provisions | - | 691 | 1,606 | - | 974 | 3,271 |
| Utilised during the year | (974) | - | (25) | (819) | (13) | (1,831) |
| As at 31 December 2014 | - | 4,762 | 1,909 | 53 | 9,804 | 16,528 |
| As at 31 December 2014: | | | | | | |
| Non-current | - | - | 1,648 | 53 | 9,782 | 11,483 |
| Current | - | 4,762 | 261 | - | 22 | 5,045 |
| | - | 4,762 | 1,909 | 53 | 9,804 | 16,528 |

(i) *Jubilee awards*

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

Unused vacation days

In 2014, the provision for unused vacation days was accrued based on the expectations that unused vacation days holiday will be used in 2015.

(ii) *Termination benefits*

In 2014, the Company recognised a long-term provision for regular retirement benefits for all employees in the non-taxable amount of HRK 8 thousand per employee. By applying the discount rate of the CNB, the present value of termination benefits of all employees was determined in the amount of HRK 1,648 thousand.

(iii) *Warranty provision*

The Company reversed previously recognised 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 30 – PROVISIONS (CONTINUED)

(iv) *Legal disputes*

Legal provisions relate to a number of legal disputes initiated against the Company. Based on the expert opinion of legal counsel, the Company's Management believes that the outcome of these legal disputes will not give rise to any significant loss beyond the amount provided for as at 31 December 2014.

NOTE 31 – TRADE AND OTHER PAYABLES

| | 2014 | 2013 |
|---|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| <i>Long term liabilities</i> | | |
| Domestic creditors | 17,291 | 24,985 |
| Liabilities toward related parties | 839 | 1,071 |
| Liabilities toward individuals | 1,059 | 1,353 |
| Other long term liabilities - rescheduled tax debt | 10,234 | 15,745 |
| | 29,423 | 43,154 |
| <i>Short term liabilities</i> | | |
| Domestic creditors | 24,077 | 37,362 |
| Foreign creditors | 369 | 956 |
| Other short-term liabilities- rescheduled tax debt | 6,081 | 4,965 |
| Liabilities toward state and other institutions | 5,309 | 10,273 |
| Liabilities toward employees | 6,021 | 12,053 |
| Liabilities toward shares in profit and rewards to management | 1,733 | 1,733 |
| Interest payable | 6,006 | 8,541 |
| Municipal charges | 2,787 | 2,787 |
| Related party liabilities | 1,029 | 1,014 |
| Other liabilities | 5,027 | 5,300 |
| | 58,439 | 84,984 |
| | 87,862 | 128,138 |

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

As at 31 December 2014, the carrying value of current liabilities approximates their fair value, due to the short-term maturity of these liabilities. Non-current trade payables are measured at fair value using discounted cash flows and relate to creditors who will, based on the pre-bankruptcy settlement, be repaid in 10 equal semi-annual instalments without interest. The rate used for discounting non-current liabilities is 7%, which is the discount rate of the CNB at the reporting date.

Other liabilities relate to liabilities for unpaid royalties and services contracts in the amount of HRK 2,497 thousand, liabilities toward municipal and city budgets from the sale of social housing in the amount of HRK 1,308 thousand and other current liabilities in the amount of HRK 1,222 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014**

NOTE 31 – TRADE AND OTHER PAYABLES (CONTINUED)

The ageing structure of trade payables is as follows:

| | 2014 | 2013 |
|---------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Undue | 32,524 | 56,681 |
| 0-90 days | 7,080 | 3,436 |
| 91-180 days | 753 | 1,663 |
| 181-360 days | 2,150 | 1,610 |
| over 360 days | 1,099 | 985 |
| | 43,606 | 64,375 |

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

NOTE 32 – ADVANCES AND DEPOSITS RECEIVED

| | 2014 | 2013 |
|----------------------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Advances from domestic debtors | 1,023 | 1,436 |
| Advances from foreign debtors | 1,144 | 2,247 |
| Deposits and guarantees received | 231 | 108 |
| | 2,398 | 3,791 |

NOTE 33 – ACCRUED EXPENSES AND DEFERRED INCOME

| | 2014 | 2013 |
|------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Accrued expenses | 8,970 | 7,661 |
| | 8,970 | 7,661 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 instruments to actively hedge its financial risk exposure.

Market risk

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

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

a) Price risk

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

Currently 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) Foreign currency risk

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

Transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the balance sheet date. The resulting exchange differences are credited or charged to the income statement. Changes in exchange rates may affect the profits mainly as a result of foreign exchange gains or losses arising on translation of receivables in foreign currency (EUR) and borrowings and obligations contracted with foreign currency clause (EUR). Due to part of its income being earned in foreign markets and liabilities denominated in other currencies, the Company is exposed to exchange rate risk primarily through EUR and therefore big changes are not expected.

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

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

| | Liabilities | | Assets | |
|------------------------------|------------------------------|-------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| European Union (EUR) | 404,965 | 428,781 | 74,288 | 33,458 |
| Bosnia and Herzegovina (BAM) | 23 | 18 | 1,077 | 1,095 |
| USA (USD) | 2,443 | 2,148 | 1,445 | 1,274 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

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

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

The exposure to the 1% fluctuation in the exchange rates for the currencies presented above is mainly attributable to borrowings, trade payables and related party receivables denominated in Euro (EUR).

| | EUR currency effect | | USD currency effect | |
|---------------------|------------------------------|-------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| Net result decrease | (3,307) | (3,953) | (10) | (9) |

| | BAM currency effect | |
|---------------------|------------------------------|-------------|
| | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | |
| Net result increase | 11 | 11 |

The mid-market exchange rates against the Croatian kuna significant for the Company are as follows:

| | 31 December | 31 |
|-----|--------------------|-----------------|
| | 2014 | December |
| EUR | 7.66147 | 7.63764 |
| BAM | 3.91725 | 3.90506 |
| USD | 6.30211 | 5.54900 |

c) Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company in whole or in part, at the time of maturity. Failure to fulfil obligations would endanger the Company's liquidity and reduce the value of its assets. As at 31 December 2014, the Company's financial assets that may potentially expose the Company to credit risk consist primarily of loans receivable, trade and other receivables.

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

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

Liquidity risk

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

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 2014****NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)***Table analysis of liquidity risk*

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

| <i>2014 (in thousand of HRK)</i> | Net carrying value | Contractual cash flow | Up to 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---------------------------|------------------------------|-----------------------|--------------------|------------------|------------------|---------------------|
| Non derivative financial liabilities | | | | | | | |
| Borrowings, finance lease and bonds | 327,317 | 406,230 | 4,255 | 29,959 | 20,258 | 51,745 | 300,013 |
| Trade and other payables | 90,260 | 91,324 | 52,064 | 5,609 | 14,114 | 19,537 | - |
| | <u>417,577</u> | <u>497,554</u> | <u>56,319</u> | <u>35,568</u> | <u>34,372</u> | <u>69,228</u> | <u>300,013</u> |
| | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| | | | | | | | |
| <i>2013 (in thousand of HRK)</i> | Net carrying value | Contractual cash flow | Up to 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
| 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> |
| | _____ | _____ | _____ | _____ | _____ | _____ | _____ |

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

| | Net carrying value | Contractual cash flow | Up to 6 months | 6-12 months | 1-2 years | 2-5 years |
|--|--------------------|-----------------------|----------------|---------------|---------------|---------------|
| <i>2014 (in thousand of HRK)</i> | | | | | | |
| Non derivative financial assets | | | | | | |
| Loans given | 50,235 | 55,152 | - | 11,320 | - | 43,832 |
| Trade and other receivables | 65,816 | 65,816 | 47,198 | 16,938 | 470 | 1,210 |
| | <u>116,051</u> | <u>120,968</u> | <u>47,198</u> | <u>28,258</u> | <u>470</u> | <u>45,042</u> |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| <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> | <u>-</u> |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices,
- The fair value of other financial assets and financial liabilities 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 ordinary course of business are recorded at the lower of cost and net amount less the portion repaid. The fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, except in the event of a forced sale or for liquidation purposes. The fair value of a financial instrument is its quoted market price, or the amount obtained using the discounted cash flow method.

At 31 December 2014, the reported amounts of cash, short-term deposits, receivables, current liabilities, calculated expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of those assets and liabilities.

Management believes that the carrying value of long-term deposits, receivables and borrowings as at 31 December 2014 approximates their fair value due to the application of liabilities with variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 34 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital risk management

Net debt-to-equity ratio (Gearing ratio)

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

| | 2014 | 2013 |
|---------------------------------------|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Debt (long term and short term loans) | 327,317 | 493,503 |
| Cash and cash equivalents | (5,762) | (4,022) |
| Net debt | 321,555 | 489,481 |
| Equity | 118,974 | 61,164 |
| Debt/Equity ratio | 270% | 800% |

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

| | 2014 | 2013 |
|---|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Geotecnika Inženjering d.o.o., Zagreb | 17 | 79 |
| IGH Mostar d.o.o., Mostar | 148 | 114 |
| ETZ d.d. Osijek | 25 | - |
| Radeljević d.o.o, Zagreb | 5 | 236 |
| Hidroinženjering d.o.o., ZAGREB | - | 115 |
| IGH Projektiranje d.o.o., Zagreb | 6,444 | 30 |
| Projektini biro Palmotičeva 45 d.o.o., Zagreb | 1,068 | 928 |
| Marterra d.o.o. Zagreb | - | 79 |
| | 7,707 | 1,581 |

Revenue from services to associates

| | 2014 | 2013 |
|------------------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Centar Bundek d.o.o. | - | 735 |
| Centar Gradski podrum d.o.o. | 750 | 1,037 |
| | 750 | 1,772 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)***Services received from subsidiaries*

| | 2014 | 2013 |
|---|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Geotehnika Inženjering d.o.o., Zagreb | 810 | 398 |
| IGH Mostar d.o.o., Mostar | 71 | 134 |
| ETZ d.d. Osijek | 20 | 971 |
| Hidroinženjering d.o.o., ZAGREB | - | 100 |
| IGH Projektiranje d.o.o., Zagreb | 168 | 361 |
| Projektini biro Palmotičeva 45 d.o.o., Zagreb | 586 | 2,951 |
| MBM Termoprojekt d.o.o., Zagreb | 303 | 402 |
| IGH Kosova, Priština | - | 261 |
| | 1,959 | 5,578 |

Interest income on loans given to subsidiaries

| | 2014 | 2013 |
|---------------------------------------|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Geotehnika Inženjering d.o.o., Zagreb | - | 162 |
| IGH Mostar d.o.o., Mostar | - | 374 |
| Incro d.o.o., Zagreb | - | 4,935 |
| Radeljević d.o.o., Zagreb | - | 253 |
| IGH Energija d.o.o., Zagreb | - | 3 |
| IGH Projektiranje d.o.o., Zagreb | - | 91 |
| IGH Turizam d.o.o., Zagreb | 30 | 140 |
| IGH Kosova Sha, Priština | - | 250 |
| Marterra d.o.o. Zagreb | - | 558 |
| Projket Šolta d.o.o., Zagreb | - | 1 |
| Forum centar d.o.o., Zagreb | - | 1 |
| ETZ d.d. Osijek | 11 | - |
| | 41 | 6,768 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)***Interest income on loans given to associates*

| | 2014 | 2013 |
|---------------------------------|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Sportski grad TPN d.o.o., Split | - | 303 |
| Elpida d.o.o., Zagreb | 2 | 1 |
| | 2 | 304 |

Interest expense on borrowings from subsidiaries and other finance costs

| | 2014 | 2013 |
|--------------------------------|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Gratius projekt d.o.o., Zagreb | - | 1 |
| | - | 1 |

Receivables for services provided to subsidiaries

| | 2014 | 2013 |
|--|------------------------------|-------------|
| | <i>(in thousands of HRK)</i> | |
| Geotehnika Inženjering d.o.o., Zagreb | 192 | 3,188 |
| IGH Mostar d.o.o., Mostar | 131 | 77 |
| Incro d.o.o., Zagreb | 22 | 22 |
| Radeljević d.o.o, Zagreb | 1,074 | 1,068 |
| Forum Cenatar d.o.o., Zagreb | 1 | 1 |
| IGH Projektiranje d.o.o., Zagreb | 1,622 | 33 |
| Projektni biro Palmotičeva 45 d.o.o., Zagreb | 1,011 | 570 |
| IGH Turizam d.o.o., Zagreb | - | 39 |
| Marterra d.o.o. Zagreb | 1,004 | 1,004 |
| ETZ, Ekonomsko tehnički zavod d.d., Osijek | 18 | - |
| DP Aqua d.o.o., Zagreb | 49 | - |
| IGH Energija d.o.o., Zagreb | 126 | - |
| Less: Impairment of trade receivables | (2,461) | (5,125) |
| | 2,790 | 877 |

During the year, HRK 229 thousand of impairment of receivables from subsidiaries was recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014****NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)***Receivables for services provided to associates*

| | 2014. | 2013. |
|--|--------------------------|--------------|
| | <i>(u tisućama kuna)</i> | |
| Sportski grad TPN d.o.o., Split | 475 | 475 |
| Centar Gradski podrum d.o.o. | 265 | 259 |
| Minus: Vrijednosno usklađenje potraživanja | (475) | (475) |
| | 265 | 259 |

Liabilities to related parties based on services received

| | 2014 | 2013 |
|---|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Centar Gradski podrum d.o.o. | 430 | 913 |
| Geotehnika Inženjering d.o.o., Zagreb | 219 | 150 |
| IGH Mostar d.o.o., Mostar | 43 | 75 |
| ETZ d.d. Osijek | 56 | 70 |
| IGH Projektiranje d.o.o., Zagreb | 545 | 269 |
| Projektini biro Palmotičeva 45 d.o.o., Zagreb | 118 | 443 |
| Tehničke konstrukcije d.o.o., Zagreb | 272 | 234 |
| MBM Termoprojekt d.o.o., Zagreb | 185 | 212 |
| Less: fair value resulting from pre-bankruptcy settlement | (175) | (280) |
| | 1,693 | 2,086 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Loans given to subsidiaries

| | Principal 2014 | Interest | Principal 2013 | Interest |
|--|------------------------------|-----------------|---------------------------|-----------------|
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of</i> | |
| Geotehnika Inženjering d.o.o., Zagreb | 1,543 | - | 4,045 | 222 |
| IGH Mostar d.o.o., Mostar | 5,520 | 276 | 5,502 | 378 |
| Incro d.o.o., Zagreb | 64,788 | 14,899 | 64,785 | 14,899 |
| Radeljević d.o.o, Zagreb | 3,316 | 188 | 3,316 | 188 |
| Forum Cenatar d.o.o., Zagreb | 17 | 4 | 16 | 4 |
| IGH Turizam d.o.o., Zagreb | - | - | 2,092 | 247 |
| Marterra d.o.o. Zagreb | 8,305 | 695 | 8,305 | 695 |
| IGH Kosova Sha, Priština | 3,841 | 746 | 3,649 | 745 |
| IGH Energija d.o.o., Zagreb | 47 | 10 | 41 | 10 |
| Projekt Šolta d.o.o., Zagreb | 15 | 2 | 10 | 1 |
| Slavonija centar, pos. zona , V. Kapanica | 6 | - | 6 | - |
| ETZ, Ekonomsko tehnički zavod d.d., Osijek | 273 | 11 | - | - |
| Less: Impairment of loans given | (64,461) | (16,822) | (70,388) | (17,389) |
| | 23,211 | 11 | 21,379 | - |

During the year, HRK 2,243 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

Loans given to associates

| | Principal 2014 | Interest | Principal 2013 | Interest |
|---------------------------------|------------------------------|-----------------|------------------------------|-----------------|
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| Sportski grad TPN d.o.o., Split | 30,400 | 16,060 | 30,400 | 13,376 |
| Elpida d.o.o., Zagreb | 40 | 2 | 10 | 1 |
| Less: Impairment of loans given | (30,440) | (16,062) | (30,410) | (13,377) |
| | - | - | - | - |

During the year, HRK 31 thousand of impairment of receivables for loans given and accrued interest was recognised in profit or loss.

Loans given to other related parties

| | Principal 2014 | Interest | Principal 2013 | Interest |
|---------------------------------|------------------------------|-----------------|------------------------------|-----------------|
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| Črnomerec Centar d.o.o. | 568 | 6,584 | 566 | 6,584 |
| Less: Impairment of loans given | (568) | (6,584) | (566) | (6,584) |
| | - | - | - | - |

Following the sale of the shareholding in the company Črnomerec Centar, as at 31 December 2014 the stated company is no longer a related party.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2014**

Borrowings from related parties

| | Principal | | Interest | |
|---------------------------------------|------------------------------|-------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | <i>(in thousands of HRK)</i> | | <i>(in thousands of HRK)</i> | |
| Geotehnika Inženjering d.o.o., Zagreb | 75 | - | - | - |
| | 75 | - | - | - |

Information on co-debtors and guarantees issued to related parties are stated in Note 36.

Management and Supervisory Board compensation:

| | 2014 | 2013 |
|--|------------------------------|--------------|
| | <i>(in thousands of HRK)</i> | |
| Gross salaries and other compensations | 2,687 | 4,662 |
| Compensations to Supervisory board | 1,346 | 430 |
| | 4,033 | 5,092 |

As at 31 December 2014, the Company had a liability towards members of the Management Board and the Supervisory Board in the amount of HRK 865 thousand (2013: HRK 2,551 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 36 – CONTINGENCIES

| | 2014 | 2013 |
|---|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Legal cases | 76,910 | 76,043 |
| Guarantees given and warranties-external | 40,732 | 49,513 |
| Co-debtorship in related party bank loans | 30,521 | 30,437 |
| Issued guarantees for related party | 959 | 6,581 |
| | 149,122 | 162,574 |

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

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

| | 2014 | 2013 |
|--------------------------------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Geotehnika Inženjering d.o.o. Zagreb | 14,616 | 14,582 |
| Incro d.o.o. Zagreb | 15,905 | 15,855 |
| | 30,521 | 30,437 |

NOTE 37 – COMMITMENTS

Future payments under operating leases for transport vehicles and other commitments are as follows:

| | 2014 | 2013 |
|--------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Up to 1 year | 6,603 | 4,375 |
| 1 - 5 years | 19,971 | 21,846 |
| | 26,574 | 26,221 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 38 – GOING CONCERN

In the year ended 31 December 2014, the Company incurred an unconsolidated net profit of HRK 6,265 thousand (2013: loss of HRK 45,326 thousand) and at year-end, the Company's unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 16,640 thousand (2013: HRK 37,643 thousand).

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

NOTE 39 - EFFECTS OF THE PRE-BANKRUPTCY SETTLEMENT AGREEMENT

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

I. Settlement with creditors

An agreement was reached according to which 30% of claims is converted into the Company's share capital. 20% of claims will be repaid in cash after the share capital increase or the sale of the Company's assets. The remaining 50% of claims will be repaid in 10 equal semi-annual instalments over the period of 5 years. During 2014, the Company settled trade payables totalling HRK 50,503 thousand as prescribed in the provisions of the pre-bankruptcy settlement.

II. Settlement with banks

PIK debt

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

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

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

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

Senior debt

The first instalment becomes due 24 months from the date the pre-bankruptcy settlement will have become legally valid. The repayment dates are 30 June and 31 December. Payments are semi-annual with a fixed interest rate of 4.5% per annum and are paid throughout the settlement period. During 2014, interest was paid in the amount of HRK 4,834 arising from senior debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

Junior debt

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

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

| | 2014 | 2013 |
|---|------------------------------|----------------|
| | <i>(in thousands of HRK)</i> | |
| Conversion of liabilities to equity (note 26) | 17,816 | 23,506 |
| PIK debt (note 29) | 182,908 | 182,439 |
| Senior debt (note 29) | 107,316 | 108,545 |
| Junior debt (note 29) | 7,898 | 12,391 |
| | 315,938 | 326,881 |

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

| | 2014 | 2013 |
|---------------------------------|------------------------------|---------------|
| | <i>(in thousands of HRK)</i> | |
| Write off of trade payables | 5,690 | - |
| Write offs of interest and fees | - | 19,146 |
| Long term liabilities discount | (4,436) | 11,316 |
| Interest not accrued | - | 13,811 |
| | 1,254 | 44,273 |

The debt towards creditors who have not waived their right to separate settlement in the process of the pre-bankruptcy settlement agreement (secured creditors) is classified as short-term and is presented in Note 29 in the amount of HRK 112,916 thousand.

Pledged assets are intended to cover the secured debt and are classified as non-current assets held for sale as presented in Note 23 in the amount of HRK 116,616 thousand.

Since the legally valid pre-bankruptcy settlement until 31 December 2014, the Company settled an amount of HRK 81,067 thousand, incurred before initiating the pre-bankruptcy settlement, by payments in cash, issuing registered shares, converting a part of receivables of a part of creditors into equity, payment of priority claims and other claims of employees with accompanying taxes and contributions, and write-off in accordance with the provisions of the pre-bankruptcy settlement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 40 – EARNINGS PER SHARE

Basic earnings per share is calculated as follows:

| | 2014 | 2013 |
|---|------------------------------|-----------------|
| | <i>(in thousands of HRK)</i> | |
| Profit/(loss) of the current year (in thousands of HRK) | 6,265 | (45,326) |
| Weighted average number of shares | 494,049 | 259,975 |
| Basic profit/(loss) per share (in HRK) | 12.68 | (174.35) |

As stated in Notes 26 and 39, as part of the pre-bankruptcy settlement a portion of the Company's debt cannot be converted into equity 3 years after the settlement will have become legally valid, up to 20% of the share capital at the time of conversion. Due to the uncertainty of significant variables in the calculation, the Company did not calculate diluted earnings per share in the event of conversion of the stated portion of debt into equity.