ZAGREBAČKI HOLDING d.o.o. and its subsidiaries,

Zagreb

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Contents

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs") as published by the International Accounting Standards Board, which give a true and fair view of the financial position and results of operations of Zagrebački holding d.o.o. and its subsidiaries ("the Group").

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

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group 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 Group and the compliance of the consolidated financial statements of the Group with the Croatian Accounting Act. The Management is also responsible for safeguarding the assets of the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board by:

Ivo Čović, Graduate Engineer

Zagrebački Holding d.o.o., Zagreb
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30 September 2012

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Independent Auditor's Report

To the Owner of Zagrebački holding d.o.o.:

We have audited the accompanying consolidated financial statements of Zagrebački Holding d.o.o. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as provided below in Paragraph 1), Basis for qualified opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report (continued)

Basis for qualified opinion

1) Bus leases

During 2008 and 2009 the Group entered into lease agreements for 214 buses over a period of 96 months (8 years), with the total value of the agreements amounting to HRK 978,885 thousand. As per the agreements, the monthly lease payment includes additional charges such as registration, servicing, insurance and other costs related to the operability of the buses over the term of the lease. Since we could not satisfy ourselves as to the amount of such additional costs included in the lease payment and were not able to make full distinction between the principal, interest and other cost amounts included in the monthly lease payments charged by the lessors, we were not able to determine whether the lease agreements are financial or operating leases as specified in International Accounting Standard 17 "Leases" (IAS 17). As a result, we could not determine whether any of the amounts require restatement.

2) *Classification of leases*

As disclosed in Note 18 to the consolidated financial statements, the Group, as the lessor, entered into several lease agreements during 2009 and 2008, which have been accounted for as operating leases. However, the classification of these agreements at inception is not compliant with International Accounting Standard 17 "Leases" (IAS 17), according to which a lease where the present value of minimum future payments under the lease agreement approximates the fair value of the leased asset is classified as a financial lease, which is the nature of the leases entered into by the Group. Had the Group accounted for its lease agreements properly as financial leases, as of 31 December 2011, the receivables under financial lease, less future income earned, would have been be higher by HRK 773,124 thousand, property, plant and equipment would have been be lower by HRK 982,022 thousand, retained earnings would have been lower by HRK 163,661 thousand, and the result for the year then ended would have been lower by HRK 45,237 thousand.

Qualified opinion

In our opinion, except for the potential effects of the matters discussed in Paragraph 1) of the Basis of qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2011, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditor's Report (continued)

Emphasis of matter

Without further qualifying our opinion, we draw attention to the following matter:

Title to property

As discussed in Note 18, certain local municipal land registers have not been fully updated. The registration of the parent company's and its subsidiaries' ownership to buildings in appropriate registers, serving as evidence of ownership, is in progress. Although the Group possesses certain documents serving as evidence of title, there is uncertainty as to the final status of those assets.

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor whose report dated 11 July 2011 expressed a modified opinion on those statements because the Group accounted for a part of financial lease agreements as operating leases, due to which receivables under financial leases should be higher by HRK 898,885 thousand, property, plant and equipment should be lower by HRK 1,066,439 thousand, retained earnings should be lower by HRK 98,686 thousand, whereas the loss for the year ended 31 December 2010 should be higher by HRK 68,868 thousand.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

30 September 2012

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011	2010 As restated
		(HRK'000)	(HRK'000)
OPERATING INCOME			
Sales	5	4,019,061	4,093,307
Other operating income	6	1,355,687	1,309,803
Total		**5,374,748**	**5,403,110**
OPERATING EXPENSES			
Cost of material and services	7	2,509,154	2,625,730
Staff costs	8	1,842,958	1,949,190
Depreciation and amortisation	9	619,430	625,896
Other expenses	10	31,040	34,693
Impairment allowance on current and non-current assets	11	193,492	132,472
Provisions for risks and charges	12	58,230	98,464
Other operating expenses	13	60,892	42,643
Total		**5,315,196**	**5,509,088**
FINANCIAL INCOME	14	**111,670**	**124,620**
FINANCIAL EXPENSES	15	**498,948**	**479,282**
TOTAL INCOME		**5,486,418**	**5,527,730**
TOTAL EXPENSES		**5,814,144**	**5,988,370**
LOSS BEFORE TAX		**(327,726)**	**(460,640)**
INCOME TAX EXPENSE	16	**(5,963)**	**(8,037)**
LOSS FOR THE YEAR		**(333,689)**	**(468,677)**
Attributable to:			
Attributable to the equity holders of the Company		(335,331)	(467,872)
Non-controlling interests		1,642	(805)
Other comprehensive income	29	**805,248**	**1,073**
Total comprehensive income / (loss) for the year		**471,559**	**(467,604)**
Total comprehensive income / (loss) attributable to:			
Attributable to the equity holders of the Company		469,917	(466,799)
Non-controlling interests		1,642	(805)

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

	Notes	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
		(HRK'000)	(HRK'000)	(HRK'000)
NON-CURRENT ASSETS				
Property, plant and equipment	18	17,013,937	16,321,138	16,402,353
Intangible assets	17	21,622	20,422	27,623
Investment property	19	975,818	952,808	952,808
Other financial assets	20	121,827	120,807	123,175
Non-current receivables	21	1,903,015	2,017,752	2,147,990
Deferred tax assets	16	59,062	56,750	58,827
Total non-current assets		**20,095,281**	**19,489,677**	**19,712,776**
CURRENT ASSETS				
Inventories	22	840,020	837,701	921,928
Current receivables				
Amounts owed by related parties	23	505,374	596,793	723,625
Trade accounts receivable	24	1,020,274	1,086,254	937,457
Amounts due from employees	25	2,304	2,081	2,197
Receivables from the State and other institutions	26	18,186	17,758	29,365
Other receivables	27	125,823	137,570	182,657
Total current receivables		*1,671,961*	*1,840,456*	*1,875,301*
Other financial assets	20	56,813	23,343	105,226
Cash with banks and in hand	28	143,903	125,455	153,305
Total current assets		**2,712,697**	**2,826,955**	**3,055,760**
TOTAL ASSETS		**22,807,978**	**22,316,632**	**22,768,536**

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

	Notes	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
		(HRK'000)	(HRK'000)	(HRK'000)
EQUITY	29			
Share capital		4,208,629	4,208,629	4,208,629
Revaluation reserve		3,396,906	2,591,658	2,590,585
Other reserves		97,300	15,125	15,125
(Accumulated losses)/retained earnings		(176,940)	290,932	241,289
(Loss)/Profit for the year		(335,331)	(467,872)	49,643
Non-controlling interests		1,077	(565)	240
Total equity		**7,191,641**	**6,637,907**	**7,105,511**
NON-CURRENT LIABILITIES				
Provisions	30	355,960	398,460	347,923
Loans payable	31	3,171,605	3,457,060	3,790,778
Liabilities under issued long-term securities	32	2,259,126	2,215,552	2,216,365
Other non-current liabilities	33	227,559	224,527	223,806
Deferred income	34	5,487,487	5,794,042	6,014,139
Deferred tax liability	16	827,324	626,151	626,157
Total non-current liabilities		**12,329,061**	**12,715,792**	**13,219,168**
CURRENT LIABILITIES				
Liabilities to related parties	35	60,300	59,757	137,310
Loans and borrowings	31	1,270,316	995,301	540,101
Liabilities in respect of loans, deposits and similar	36	26,134	24,352	88,177
Trade payables	37	1,075,447	1,079,735	926,110
Amounts due to employees	38	97,077	93,856	89,429
Taxes and contributions payable	39	137,038	105,459	85,417
Other current liabilities	40	620,964	604,473	577,313
Total current liabilities		**3,287,276**	**2,962,933**	**2,443,857**
TOTAL EQUITY AND LIABILITIES		**22,807,978**	**22,316,632**	**22,768,536**

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

	Share capital	Other reserves	Reserves on revaluation of property	Reserves on revaluation of of financial assets	Retained earnings	Attributable to the equity holder of the Parent	Non-controlling interest	Total
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
Balance at 01/01/2009 (as restated)	4,208,629	15,125	2,584,957	6,981	239,589	7,055,281	164	7,055,445
Profit for the year	-	-	-	-	49,643	**49,643**	76	**49,719**
Other comprehensive income/(loss)	-	-	(633)	(720)	1,700	**347**	-	**347**
Balance at 1 January 2010 (as restated)	**4,208,629**	**15,125**	**2,584,324**	**6,261**	**290,932**	**7,105,271**	**240**	**7,105,511**
Loss for the year	-	-	-	-	(467,872)	**(467,872)**	(805)	**(468,677)**
Other comprehensive income/(loss)	-	-	1,773	(700)	-	**1,073**	-	**1,073**
Balance at 31 December 2010 (as restated)	**4,208,629**	**15,125**	**2,586,097**	**5,561**	**(176,940)**	**6,638,472**	**(565)**	**6,637,907**
Capital reserves allocated as per a decision of the equity holder	-	82,175	-	-	-	**82,175**	-	**82,175**
Loss for the year	-	-	-	-	(335,331)	**(335,331)**	1,642	**(333,689)**
Other comprehensive income/(loss)	-	-	805,488	(240)	-	**805,248**	-	**805,248**
Balance at 31 December 2011	**4,208,629**	**97,300**	**3,391,585**	**5,321**	**(512,271)**	**7,190,564**	**1,077**	**7,191,641**

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

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Loss for the year	**(333,689)**	**(468,677)**
Adjusted by:		
Income tax expense	5,963	8,037
Depreciation and amortisation	619,418	625,879
Gains from sale of assets	(3,457)	(3,574)
Impairment allowance on non-current assets	2,098	3,634
Impairment allowance on current assets	152,765	128,794
Foreign exchange losses	75,049	43,691
Changes in long-term provisions	(42,500)	50,537
Change in the fair value of investment property	(23,010)	-
Finance cost recognised in profit or loss	361,698	396,374
Investment income recognised in profit or loss	(36,495)	(72,951)
Operating cash flows before changes in working capital	**777,840**	**711,744**
Changes in working capital:		
Decrease in inventories	18,769	84,227
(Increase)/decrease in amounts due from the state	(428)	11,607
Decrease in receivables from related companies	91,419	126,832
(Increase)/decrease in employee receivables	(223)	116
Increase in trade receivables	(86,785)	(277,591)
(Increase)/decrease in non-current financial assets	(1,260)	1,493
Increase/(decrease) in advances received	1,782	(63,825)
Increase in other liabilities	16,491	27,160
Increase in other receivables	14,608	50,340
(Decrease)/increase in liabilities to suppliers and related parties	(3,745)	76,072
Increase in amounts due to employees	3,221	4,427
Decrease in other non-current liabilities	(92,796)	(148,614)
Increase in taxes and contributions payable	28,514	25,208
Cash generated from operations	**767,407**	**629,196**

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Cash generated from operations	**767,407**	**629,196**
Interest paid	(265,870)	(328,720)
Income taxes paid	(5,347)	(11,401)
Cash generated from operating activities	**496,190**	**289,075**
Purchases of tangible and intangible assets	(332,455)	(541,220)
Increase in non-current receivables	114,735	130,238
(Increase)/decrease in current financial assets	(33,470)	81,883
Proceeds from sale of assets	6,109	5,914
Interest paid	33,634	67,698
Decrease in deferred income on assets financed by others	(224,380)	(220,097)
Net cash used in investing activities	**(435,827)**	**(475,584)**
Repayments of long-term loans	(1,102,010)	(499,129)
Proceeds from long-term borrowings	1,060,095	657,788
Net cash (used in) / generated from financing activities	**(41,915)**	**158,659**
Net increase / (decrease) in cash	**18,448**	**(27,850)**
Balance at 1 January	**125,455**	**153,305**
Balance at 31 December	**143,903**	**125,455**

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

1. GENERAL INFORMATION

History and incorporation

On 27 December 2005, The City of Zagreb and the Company concluded several share transfer agreements involving 22 companies on the basis of which the ownership interests in these companies were transferred in full from the City of Zagreb to the Company. The transferred equity interests in the nominal amount of HRK 4,036,590 thousand represent assets that are at the free disposal of the Company. In addition, pursuant to these agreements, the City of Zagreb increased the subscribed capital of the Company, by converting the receivables under the Share Transfer Agreement by a total of HRK 4,036,590 thousand in equity.

In 2006 and 2007, several companies, which are enumerated below, were merged into the Company, and the Company underwent several changes in its status, all of which were registered at the Commercial Court in Zagreb.

Upon the merger, the merged entities transferred all of their assets and liabilities to Zagrebački Holding as the acquirer. Pursuant to the underlying merger agreements and the applicable provisions of the Companies Act, the share capital of Zagrebački Holding was not increased by the share capital of each of the merged entities because it held the entire share capital in each of the entities.

Activities

At 31 December 2011 Zagrebački Holding d.o.o., Zagreb ("the Company") comprised the following business units/branches:

	Name of the branch:	Headquarters	Form of organization	Principal activity	Ownership interest 2011	Ownership interest 2010
	Zagrebački holding	Avenija Vukovar 41	d.o.o.	Public transport; water supply; cleaning, waste collection and disposal; travel agency business; sports, facility and real estate management	100% City of Zagreb	100% City of Zagreb
1	GSKG	Savska cesta 1	branch	Facility management	100% Zg. holding	100% Zg. holding
2	Gradska groblja	Mirogoj 10	branch	Funeral and related services	100% Zg. holding	100% Zg. holding
3	Vodoopskrba i odvodnja	Folnegovićeva 1	branch	Water collection, treatment and supply	100% Zg. holding	100% Zg. holding
4	Čistoća	Radnička 82	branch	Public area cleaning, waste collection and disposal	100% Zg. holding	100% Zg. holding
5	Zagrebački električni tramvaj	Ozaljska 105	branch	Public passenger transport	100% Zg. holding	100% Zg. holding
6	Zrinjevac	Remetinečka 92	branch	Landscaping and plant growing	100% Zg. holding	100% Zg. holding

1. GENERAL INFORMATION (continued)

Activities (continued)

	Name of the branch:	Headquarters	Form of organisation	Principal activity	Ownership interest 2011	Ownership interest 2010
7	Zagrebparking	Šubićeva 40	branch	Public parking lots and garages	100% Zg. holding	100% Zg. holding
8	Zagrebačke ceste	Donje Svetice 48	branch	Regional and local road management, maintenance and construction	100% Zg. holding	100% Zg. holding
9	Autobusni kolodvor Zagreb	Avenija M.Držića 4	branch	Bus station	100% Zg. holding	100% Zg. holding
10	Tržnice Zagreb	Šubićeva 40	branch	Wholesale and retail markets, warehousing and storage	100% Zg. holding	100% Zg. holding
11	ZGOS	Zeleni trg 3	branch	Waste collection and removal	100% Zg. holding	100% Zg. holding
12	Zagrebački digitalni grad	Slavonska avenija bb	branch	Lease of IT cable and network systems	100% Zg. holding	100% Zg. holding
13	Stanogradnja	Bukovačka 4	branch	Flat construction and sale	100% Zg. holding	100% Zg. holding
14	Upravljanje sportskim objektima	Trg K.Ćosića 11	branch	Sports facility management and maintenance	100% Zg. holding	100% Zg. holding
15	AGM	Mihanovićeva 28	branch	Publishing	100% Zg. holding	100% Zg. holding
16	Robni terminali Zagreb	Jankomir 25	branch	Warehousing	100% Zg. holding	100% Zg. holding
17	Vladimir Nazor	Maksimir 52	branch	Travel agency business	100% Zg. holding	100% Zg. holding
18	Zagrebački velesajam	Av.Dubrovnik 15	branch	Organisation of fairs, congresses, seminars	100% Zg. holding	100% Zg. holding

1 GENERAL INFORMATION (continued)

Activities (continued)

Companies and institutions owned by Zagrebački holding d.o.o. that form the Zagrebački holding Group:

	Name of company	Headquarters	Form of organisation	Principal activity	Ownership interest 2011	Ownership interest 2010
1	Gradska plinara Zagreb d.o.o.	Radnička 1	d.o.o.	Gas distribution	100% Zg. holding	100% Zg. holding
2	Gradska plinara Zagreb - Opskrba d.o.o.	Radnička 1	d.o.o.	Gas supply	100% Zg. holding	100% Zg. holding
3	Zagreb plakat d.o.o.	Savska cesta 1	d.o.o.	Lease of advertising space	51% Zg. holding	51% Zg. holding
4	Gradska ljekarna Zagreb	Kralja Držislava 6	institution	Drugstore	100% Zg. holding	100% Zg. holding
5	Zagreb arena d.o.o.	Savska cesta 1	d.o.o.	Sports facility management and organisation of sporting events	100% Zg. holding	100% Zg. holding
6	Zagreb centrum d.d.	Av.Dubrovnik 15	d.d.	Real estate business	-	100% Zg. holding
7	Zagrebačko investicijsko društvo d.o.o.	Av.Dubrovnik 15	d.o.o.	Investment fund management	-	100% Zg. holding

In November 2011 the merger of Zagreb centrum d.d. and Zagrebačko investicijsko društvo d.o.o. into Zagrebački holding d.o.o. was entered in the registry of the Commercial Court in Zagreb based on the Decision of the Assembly of 13 September 2011 and the underlying merger agreements. The mergers were effected by transferring all the assets of those companies, together with all the rights and obligations attaching to them, without increasing the share capital.

Principal activities

During the year, the principal activities of the Group comprised the provision of the following services:

- Cleaning and waste removal services
- Public passenger transport services
- Water collection, treatment and supply
- Landscaping and plant growing
- Management, maintenance, construction and protection of regional and local roads
- Cleaning and waste removal services
- Gas supply and distribution
- Drugstore business
- Warehousing and rental services
- Flat, business premises and garage construction and sale
- Other services.

1 GENERAL INFORMATION (continued)

Staff

At 31 December 2011, the Group had 12,731 employees (2010: 12,901 employees),as presented below:

Group	No. of staff 31/12/2011	No. of staff 31/12/2010
Zagrebački holding d.o.o.	11,779	11,950
Related companies	952	951
	12,731	**12,901**

Directors and management

In 2011, members of the Management Board of Zagrebački holding d.o.o. were as follows:

1 Ivo Čović, President

2 Branimir Delić, Member

3 Vlasta Pavić, Member

4 Alenka Košiša Čičin-Šain, Member

Subsidiaries	Managing Director at 31 December 2011
1 Gradska plinara Zagreb d.o.o.	Bruno Lacković
2 Gradska plinara Zagreb - Opskrba d.o.o.	Igor Pirija
3 Zagreb plakat d.o.o.	Boris Guina
4 Zagreb arena d.o.o.	Tomislav Pervan
5 Gradska ljekarna Zagreb	Mila Bucalić

Members of the Supervisory Board of Zagrebački holding during 2011:

1 President of the Supervisory Board (until 28 February 2012)

2 Josip Kregar, Deputy President of the Supervisory Board (until 28 February 2012)

3 Anđelka Buneta, Member (until 28 February 2012)

4 Dragan Kovačević, Member (until 1 May 2012)

5 Mato Crkvenac, President (since 28 February 2012)

6 Maruška Vizek, Deputy President (since 28 February 2012)

7 Hrvoje Šimović, Member (since 28 February 2012)

8 Nina Tepeš, Member (since 4 July 2012)

1. GENERAL INFORMATION (continued)

The members of the Assembly during 2011 were as follows:

1 Davor Bernardić

2 Boris Šprem (until 19 December 2011)

3 Zvane Brumnić

4 Mirando Mrsić (until 19 December 2011)

5 Jurica Meić

6 Tatjana Holjevac

7 Jasen Mesić (until 22/02/2011)

8 Velimir Srića (until 24/05/2012)

9 Radimir Čačić (until 12/07/2011)

10 Radimir Čačić (until 25/05/2012)

11 Darinko Kosor

12 Vesna Brezić

13 Dragan Korolija-Marinić (since 19 December 2011)

14 Dragan Vučić (since 19 December 2011)

15 Danira Bilić (since 22/02/2011)

16 Danira Bilić (since 24/05/2012)

17 Dragan Kovačević (since 25/05/2012)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1 *First-time Adoption of IFRS*-** Limited Exemption from Comparative IFRS 7 *Disclosures* for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IAS 24 *Related-party Disclosures*** – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 *Financial Instruments: Disclosure*** - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the Annual Qualitative Improvement of IFRSs, published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (to be applied for annual periods beginning on or after 1 July 2010 or on or after 1 January 2011, depending on the standard/interpretation),
- **Amendments to IFRIC 14 IAS 19 — *The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction* - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),**
- **IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010)

The adoption of the amended and revised Standards and Interpretation has not lead to changes in the Group's accounting policies.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- **IFRS 9 *Financial Instruments*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 10 *Consolidated Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 *Joint Arrangements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 *Disclosures of Involvement with Other Entities*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 *Fair Value Measurement*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (as revised in 2011) *Separate Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*** (effective for annual periods beginning on or after 1 January 2013)
- **Amendments to IFRS 1 *First-time Adoption of IFRS*** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 *Financial Instruments: Disclosures*** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 1 *Presentation of Financial Statements*** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012), **Amendments to IAS 12 *Income Taxes*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 19 *Employee Benefits*** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*** (effective for annual periods beginning on or after 1 January 2013),

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

3. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. GODINU

During 2012, the Group identified the following changes in accounting policies and corrections regarding prior periods where management believes that such corrections result in a more appropriate accounting presentation. The changes of accounting policies and corrections were made retrospectively to the consolidated financial statements for the years 2009 and 2010. The resulting effects are set out in the tables below.

a) Restated prior-period disclosures - 2009 Consolidated statement of comprehensive income

(HRK'000)	2009, as reported initially	previous IFRIC 18	Finance lease interest	Provisions under IAS 19	Beneficiary fee under the Agreement	Repaired gas meters	Other	2009, as restated	Reclassified	2009, as restated
OPERATING INCOME	**5,750,072**	**3,808**	-	-	**19,304**	**(7,190)**	**(87)**	**5,765,907**	-	**5,765,907**
Sales	4,417,402	3,808	-	-	19,304	(7,190)	-	4,433,324	-	4,433,324
Other operating income	1,332,670	-	-	-	-	-	(87)	1,332,583	-	1,332,583
OPERATING EXPENSES	**5,495,101**	-	-	**2,269**	-	**(3,625)**	**(1,450)**	**5,492,295**	**(27,843)**	**5,464,452**
Material expenses	2,695,861	-	-	-	-	(3,625)	92	2,692,328	(27,843)	2,664,485
Staff costs	1,949,711	-	-	-	-	-	-	1,949,711	-	1,949,711
Depreciation and	575,721	-	-	-	-	-	(1,635)	574,086	-	574,086
Other expenses	35,216	-	-	-	-	-	-	35,216	-	35,216
Value adjustments	135,155	-	-	-	-	-	-	135,155	-	135,155
Provisions	19,054	-	-	2,269	-	-	-	21,323	-	21,323
Other operating expenses	84,383	-	-	-	-	-	93	84,476	-	84,476
FINANCIAL INCOME	**212,375**	-	-	-	-	-	-	**212,375**	(27,843)	**184,532**
FINANCIAL EXPENSES	**403,350**	-	**8,237**	-	-	-	-	**411,587**	-	**411,587**
TOTAL INCOME	**5,962,447**	3,808	-	-	**19,304**	**(7,190)**	**(87)**	**5,978,282**	**(27,843)**	**5,950,439**
TOTAL EXPENSES	**5,898,451**	-	**8,237**	**2,269**	-	**(3,625)**	**(1,450)**	**5,903,882**	**(27,843)**	**5,876,039**
PROFIT/(LOSS) BEFORE TAXATION	**63,996**	**3,808**	**(8,237)**	**(2,269)**	**19,304**	**(3,565)**	**1,363**	**74,400**	-	**74,400**
TAX INCOME/(EXPENSE)	**(25,068)**	-	-	387	-	-	-	**(24,681)**	-	**(24,681)**
PROFIT FOR THE YEAR	**38,928**	**3,808**	**(8,237)**	**(1,882)**	**19,304**	**(3,565)**	**1,363**	**49,719**	-	**49,719**
Attributable to the equity holders of										49,643
Non-controlling interest										76

3 PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. GODINU (nastavak)

b) Restated prior-period disclosures - 2010 Consolidated statement of comprehensive income

(HRK'000)	2010, as reported initially	Beneficiary fee under the Agreement	Provisions under IAS 19	Cut-off error	Repaired gas meters	Other	2010 as restated	Reclassified	2010 as restated
OPERATING INCOME	**5,400,894**	**18,338**	-	-	**(9,914)**	**(6,208)**	**5,403,110**	-	**5,403,110**
Sales	4,084,883	18,338	-	-	(9,914)		4,093,307	-	4,093,307
Other operating income	1,316,011	-	-	-	-	(6,208)	1,309,803	-	1,309,803
OPERATING EXPENSES	**5,532,882**	-	**10,722**	**144**	**(6,268)**	**(1,587)**	**5,535,893**	**(26,805)**	**5,509,088**
Material expenses	2,658,740	-	-	-	(6,268)	63	2,652,535	(26,805)	2,625,730
Staff costs	1,949,190	-	-	-	-	-	1,949,190	-	1,949,190
Depreciation and amortisation	627,546	-	-	-	-	(1,650)	625,896	-	625,896
Other expenses	34,549	-	-	144	-	-	34,693	-	34,693
Value adjustments	132,472	-	-	-	-	-	132,472	-	132,472
Provisions	87,742	-	10,722	-	-	-	98,464	-	98,464
Other operating expenses	42,643	-	-	-	-	-	42,643	-	42,643
FINANCIAL INCOME	**151,425**	-	-	-	-	-	**151,425**	(26,805)	**124,620**
FINANCIAL EXPENSES	**484,154**	-	-	-	-	**(4,872)**	**479,282**	-	**479,282**
TOTAL INCOME	**5,552,319**	**18,338**	-	-	**(9,914)**	**(6,208)**	**5,554,535**	**(26,805)**	**5,527,730**
TOTAL EXPENSES	**6,017,036**	-	**10,722**	**144**	**(6,268)**	**(6,459)**	**6,015,175**	**(26,805)**	**5,988,370**
PROFIT/(LOSS) BEFORE TAXATION	**(464,717)**	**18,338**	**(10,722)**	**(144)**	**(3,646)**	**251**	**(460,640)**	-	**(460,640)**
TAX INCOME/(EXPENSE)	**(11,123)**	-	**2,147**	-	-	**939**	**(8,037)**	-	**(8,037)**
LOSS FOR THE YEAR	**(475,840)**	**18,338**	**(8,575)**	**(144)**	**(3,646)**	**1,190**	**(468,677)**	-	**(468,677)**

3 PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. (continued)

c) Restated prior-period disclosures Consolidated statement of financial position as of 31 December 2009

(HRK'000)	2009, as reported initially	previou	Finance lease principal	Investment property	Provisions under IAS 19	Beneficiary fee under the Agreement	Repaired gas meters	Other	2009, as restated
NON-CURRENT ASSETS									
Property, plant and equipment, and	17,359,168	-	-	(952,808)		-	(3,625)	(382)	16,402,353
Intangible assets	27,623	-	-	-		-	-	-	27,623
Investment property		-	-	952,808		-	-	-	952,808
Investments in subsidiaries		-	-	-		-	-	-	-
Non-current receivables	2,147,990	-	-	-		-	-	-	2,147,990
Other financial assets	123,175	-	-	-		-	-	-	123,175
Deferred tax assets	49,469	-	-	-	9,358	-	-	-	58,827
Total non-current assets	**19,707,425**	-	-	-	**9,358**	-	**(3,625)**	**(382)**	**19,712,776**
CURRENT ASSETS									
Inventories	921,868	-	-	-	-	-	60	-	921,928
Receivables	1,817,241	-	-	-	-	58,147	-	(87)	1,875,301
Financial assets	105,226	-	-	-	-	-	-	-	105,226
Cash with banks and in hand	153,305	-	-	-	-	-	-	-	153,305
Total current assets	**2,997,640**	-	-	-	-	**58,147**	**60**	**(87)**	**3,055,760**
TOTAL ASSETS	**22,705,065**	-	-	-	**9,358**	**58,147**	**(3,565)**	**(469)**	**22,768,536**
EQUITY									
Share capital	4,208,629	-	-	-	-	-	-	-	4,208,629
Revaluation reserve	2,588,769	-	-	-	-	-	-	1,816	2,590,585
Other reserves	15,125	-	-	-	-	-	-	-	15,125
Retained profit/accumulated losses	275,706	-	(35,502)	-	(35,549)	38,843	-	(2,209)	241,289
Profit /loss for the year	38,806	3,808	(8,237)	-	(1,882)	19,304	(3,565)	1,409	49,643
Non-controlling interests	286	-	-	-	-	-	-	(46)	240
Total equity	**7,127,321**	**3,808**	**(43,739)**	-	**(37,431)**	**58,147**	**(3,565)**	**970**	**7,105,511**
NON-CURRENT LIABILITIES	**6,822,246**	-	**36,677**	-	-	-	-	**(1,817)**	**6,857,106**
LONG-TERM PROVISIONS	**301,134**	-	-	-	**46,789**	-	-	-	**347,923**
DEFERRED INCOME	**6,017,947**	**(3,808)**	-	-	-	-	-	-	**6,014,139**
CURRENT LIABILITIES	**2,436,417**	-	**7,062**	-	-	-	-	**378**	**2,443,857**
TOTAL EQUITY AND LIABILITIES	**22,705,065**	-	-	-	**9,358**	**58,147**	**(3,565)**	**(469)**	**22,768,536**

3 PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. (continued)

d) Restated prior-period disclosures – Consolidated statement of financial position as of 31 December 2010

(HRK'000)	2010, as reported initially	2009 restatements	Receivables from the City of Zagreb	Provisions under IAS 19	Repaired gas meters	Other	2010 as restated
NON-CURRENT ASSETS							
Property, plant and equipment, and prepayments	17,281,163	(956,815)	-	-	(3,670)	460	16,321,138
Intangible assets	20,422	-	-	-	-	-	20,422
Investment property	-	952,808	-	-	-	-	952,808
Investments in subsidiaries	-	-	-	-	-	-	-
Non-current receivables	2,017,752	-	-	-	-	-	2,017,752
Other financial assets	120,807	-	-	-	-	-	120,807
Deferred tax assets	45,246	9,357	-	2,147	-	-	56,750
Total non-current assets	**19,485,390**	**5,350**	**-**	**2,147**	**(3,670)**	**460**	**19,489,677**
CURRENT ASSETS							
Inventories	836,483	60	-	-	24	1,134	837,701
Receivables	1,764,072	58,060	18,338	-	-	(14)	1,840,456
Financial assets	23,343	-	-	-	-	-	23,343
Cash with banks and in hand	125,455	-	-	-	-	-	125,455
Total current assets	**2,749,353**	**58,120**	**18,338**	**-**	**24**	**1,120**	**2,826,955**
TOTAL ASSETS	**22,234,743**	**63,470**	**18,338**	**2,147**	**(3,646)**	**1,580**	**22,316,632**
EQUITY							
Share capital	4,208,629	-	-	-	-	-	4,208,629
Revaluation reserve	2,590,795	1,816	-	-	-	(953)	2,591,658
Other reserves	15,125	-	-	-	-	-	15,125
Retained profit/accumulated losses	281,842	9,092	-	-	-	(2)	290,932
Profit /loss for the year	(475,035)	-	18,338	(8,575)	(3,646)	1,046	(467,872)
Non-controlling interests	(565)	(46)	-	-	-	46	(565)
Total equity	**6,620,791**	**10,862**	**18,338**	**(8,575)**	**(3,646)**	**137**	**6,637,907**
NON-CURRENT LIABILITIES	**6,525,348**	**(1,816)**	-	-	-	**(242)**	**6,523,290**
LONG-TERM PROVISIONS	**340,948**	**46,790**	-	**10,722**	-	-	**398,460**
DEFERRED INCOME	**5,797,621**	-	-	-	-	**(3,579)**	**5,794,042**
CURRENT LIABILITIES	**2,950,035**	**7,634**	-	-	-	**5,264**	**2,962,933**
TOTAL EQUITY AND LIABILITIES	**22,234,743**	**63,470**	**18,338**	**2,147**	**(3,646)**	**1,580**	**22,316,632**

3 PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. (continued)

During 2011, the Group identified the following changes in accounting policies and corrections regarding prior periods where management believes that such corrections result in a more appropriate accounting presentation. The changes of accounting policies and corrections were made retrospectively to the consolidated financial statements for the years 2009 and 2010. The resulting effects are set out in the tables below.

Considering the restatements made to prior periods, the Group reported the balances for the earliest period presented i.e. as of 1 January 2010, as required by International Accounting Standard 1.

IFRIC 18 – Transfers of Assets from Customers;

IFRIC 18 became effective on 1 July 2009, and the Group adopted it as of 1 January 2010. Under IFRIC 18 cash received from customers for the construction of property, plant and equipment be used to connect those customers to a network should be recognised as revenue immediately, rather than deferred, as it was the case earlier (i.e. credited to income proportionally over the useful life of the asset received to the extent of the depreciation charge). According to IFRIC 18 and IAS 8, the Company corrected the consolidated financial statements for the year 2009 retrospectively for the period from 1 July to 31 December 2009. The impact of the change in the accounting policy on the statement of financial position and the statement of comprehensive income for the year 2009 is presented in this note.

Financial lease of trams - interest

During 2010, while reviewing tram financial lease agreements, the initial repayment schedule was determined to be unadjusted for the variable interest rate and that the recognition of interest per agreed instalments was not proportionate to the term of the lease, but rather that the portion of the interest in the first years of the repayment exceeds the principal. Thus, the Group restated retrospectively its statements of financial position and statements of comprehensive income for the period 2007 - 2009 and earlier periods.

Recognition of the fee to Vodoopskrba i Odvodnja (VIO) as the beneficiary under an agreement with the City of Zagreb

Since 2004 Branch VIO has been performing water treatment fee calculation, collection and transfer onto a specific-purpose deposit account with Zagrebačka banka in accordance with the Concession Agreement between the City of Zagreb and ZOV d.o.o. and the Agreement on the Settlement and Payment between the City, ZOV, VIO and Zagrebačka banka. Until April 2012, VIO performed those operations free of charge. In April 2012 the City Assembly adopted an annex to the Payment Agreement, under which the City of Zagreb is to pay to Branch VIO, as the beneficiary, a total fee of HRK 118,718 thousand, interest-free, including VAT in the amount of HRK 21,792 thousand, for the water treatment fee collected from customers for the public service in the period 1 January 2009 - 29 February 2012. Thus, the Group restated retrospectively its statements of financial position and statements of comprehensive income for the period 2007 - 2009, in accordance with IAS 1 and IAS 8.

3 PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2009 AND 2010 CONSOLIDATED FINANCIAL STATEMENTS I 2010. (continued)

Provisions under IAS 19 Employee Benefits

Provisions for termination benefits were recognised during 2011 in accordance with the provisions of the Collective Agreement. The change was made retrospectively. The impact of the change in the accounting policy on the statements of financial position and the statements of comprehensive income for the years 2009 and 2010 is presented in this note.

Investment property

According to IAS 40 Investment Property, the Group identified a group of properties not held for the purpose of its operating activities and therefore are investment properties in their nature. Since those assets were not properly classified as investment property in prior periods, the prior periods were restated, by reclassifying those properties from property, plant and equipment to investment property.

Remeasurement of repaired gas meters at cost

In prior-period financial statements, the Company recognised repaired gas meters at estimated cost. The remaining categories of fixed assets are not measured using the revaluation model, which is not compliant with the requirements of IAS 16 Property, Plant and Equipment. In 2011, the value adjustment of repaired gas meters was reclassified to cost, and the related change was made retrospectively in accordance with IAS 8.

Other restatements

Other restatements comprise mainly corrections of cut-off errors identified in revenue and expenses initially recognised in the periods in which they arose rather than to which they relate, and to the reversal of revaluation of a building (in Crikvenica), given that it is the policy of the Group to recognise buildings at cost.

Reclassifications

Reclassifications relate to reducing the balances of financial income and cost of goods (pharmaceuticals) sold by bonuses and rebates received from suppliers.

The effects of the corrections on the operating results for the years 2009 and 2010 are presented in the table below:

	As initially reported	As restated	Effect of the restatement
	(HRK'000)	(HRK'000)	(HRK'000)
2009 profit	38,928	49,719	10,791
2010 loss	(475,840)	(468,677)	7,163

4 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Group incorporate the financial statements of Zagrebački holding d.o.o. and of its subsidiaries.

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for certain non-current assets, which are stated at revalued amounts, as disclosed in Note 18 to the financial statements, and financial assets available for sale.

The preparation of the consolidated financial statements in accordance with IFRSs requires from management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and revenues and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4x.

c) Reporting currency

The consolidated financial statements of the Group are prepared in Croatian kunas. All amounts disclosed in these financial statements are presented in thousands of kunas unless stated otherwise. At 31 December 2011, the official exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.53042 and HRK 5.81994, respectively (31 December 2010: HRK 7.385173 and HRK 5.568252, respectively).

d) Intangible assets

Accounting software

Software licences are capitalised based on the cost of purchase and bringing software into a working condition for its intended use. The cost is amortised over the useful life of an asset.

Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Intangible assets (continued)

Internally generated intangible assets – research and development expenditure (continued)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

e) Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

Properties in the course of construction for production, supply or administrative purposes or purposes not yet defined are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, which is provided on the same basis as for other properties, commences when the assets are ready for their intended use.
Freehold land is not depreciated.
Installations and equipment are recognised initially at cost, less accumulated depreciation and accumulated impairment losses.

Depreciation is provided so as to write down the cost or revalued amount of an asset over the estimated useful life of the asset using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and recognised in profit or loss.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful life at the rates ranging from 1.25% to 25% annually:

	2011	2010
Buildings	20-80 years	20-80 years
Vehicles	4-20 years	4-20 years
Plant and equipment	4-10 years	4-10 years
Office equipment	4-5 years	4-5 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

Assets under construction comprise costs directly related to construction of tangible fixed assets plus an appropriate allocation of variable and fixed overheads that are incurred during construction. Assets under construction are depreciated once they are ready for use. Costs incurred in replacing major portions of the Company's plants, which increase their productive capacity or substantially extend their useful life, are capitalised. Maintenance, replacement or partial replacement costs are recognised as expenses in the period in which they are incurred.

Impairment of tangible and intangible assets

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the potential impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 future cash flow estimates have not been adjusted.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment property

Investment property represents property (land) held by the Group for increasing its market value. Investment property is measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Investment properties are derecognised on sale or permanent withdrawal from use, as well as when no future economic benefits from their disposal are expected. Any gain or loss arising from derecognition of an item of investment property, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the item is derecognised.

During 2011 investment properties were remeasured at fair value on the basis of appraisals by a certified property appraisal expert, upon which the gains and losses resulting from the change in the fair values were included in the income statement for the year 2011 as follows:

	(HRK'000)
Gains on remeasurement of investment property at fair value (Note 6)	60,177
Losses on remeasurement of investment property at fair value (Note 11)	(37,168)
Net change in the fair value of investment property	**23,009**

g) Non-current financial assets

The Group classifies its financial assets into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'loans and receivables', 'held-to-maturity investments' and 'financial assets available for sale'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Non-current financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when a financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Non-current financial assets (continued)

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturities dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Financial assets available for sale

Unlisted shares and listed redeemable notes held by the Group that are trade in an active market are classified as available for sale and stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are classified as financial assets available for sale and carried at fair value because the management considers that their fair value can be determined reliably. Gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated in equity within investment revaluation reserve, except for impairment losses, interest determined using the effective interest rate and exchange differences on monetary assets which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is transferred to profit or loss.

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

Loans and receivables

Trade, loan and other receivables with fixed or determinable payments that are not quoted on an active market are classified as loans and receivables and measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that currency and translated at the spot rate at the reporting date. Exchange differences arisen on translation and recognised in profit or loss are determined on the basis of the amortised cost of the monetary asset. Other exchange differences are recognised in other comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Non-current financial assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss reported in the statement of comprehensive income, are assessed for indications of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial restructuring.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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 the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Non-current financial assets (continued)

With the exception of AFS equity instruments carried at fair value through the statement of comprehensive income, 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 the statement of comprehensive income 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 at fair value through the statement of comprehensive income, impairment losses previously recognised in the statement of comprehensive income are not reversed through the statement of comprehensive income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

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

h) Cash and cash equivalents

Cash consists of cash on hand and with banks. Cash equivalents comprise demand deposits and term deposits with maturities of up to three months.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Trade receivables and prepayments

Trade receivables and prepayments are shown at amounts invoiced in accordance with the underlying agreement, order, delivery note and other documents serving as the billing basis, net of allowance for uncollectible amounts.

The management provides for bad and doubtful receivables past due beyond one year, and on the basis of the overall ageing structure of all receivables, as well as by reviewing individual significant amounts receivable.

j) Inventories

Inventories comprise mainly spare parts, materials, work in progress and finished products and are carried at the lower of weighted average price, net of allowance for obsolete and excessive inventories, and net realisable value. Management provides for inventories based on a review of the overall ageing of all inventories and a specific review of significant individual items included in inventories. Inventories of work in progress and finished products are carried at the lower of production cost and the net selling price.

k) Foreign currencies

The financial statements of the Group are presented in the currency of the primary economic environment in which the Group operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of comprehensive income, except for differences arising on the retranslation of non-monetary items available for sale in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

l) Retirement and long-service benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Retirement and long-service benefits (continued)

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as of the reporting date, adjusted by actuarial gains and unrecognised past service cost.

The Group provides one-off long-service benefits (jubilee awards) and retirement benefits to its employees. The obligation and the cost of these benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The retirement benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the bonds are consistent with the currency and estimated terms of the benefit obligation.

m) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Income tax (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the amount that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes for the period

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity, or where it arises from the initial accounting of a business combination.

Value-added tax (VAT)

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the balance sheet on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount of the debtor, which includes VAT.

n) Provisions

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Provisions (continued)

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. .

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

o) Borrowing costs

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

All other borrowing costs are recognised in net profit or loss for the period in which they are incurred.

Short-term borrowings and supplier credits are recognised at the original amount less balances repaid. Interest expense is charged to the statement of comprehensive income for the period to which the interest relates.

p) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial liabilities and equity instruments issued by the Group (continued)

Equity instruments

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

Obligations under financial guarantee contracts

Financial guarantee contract obligations are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities at fair value through profit or loss (FVTPL)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates interest paid on the financial liability. The fair value is determined as described in Note 44 - Financial instruments.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Operating segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of individual operating segments are disclosed in Note 5 to the financial statements.

The Group monitors and presents specifically the results of its major business segments. The business segments are the basis upon which the Group reports its primary segment information. Certain financial information, analysed by business and geographical segments, are presented in Note 5.

r) Contingent liabilities

Contingent liabilities have not been recognised in these financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. No contingent assets have been recognised in these financial statements. They are disclosed in the notes when the inflow of economic benefits becomes probable.

s) Events after the reporting period

Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post period-end events that are not adjusting events are disclosed in the notes when material.

t) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow into the Group and when the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts. Revenue from rendering services is recognised by reference to the days worked. Invoices are issued on the basis of authenticated documentary evidence of the ordering party of actual services performed by the last day in a month.

Revenue description:

- Water supply service income comprises income from connections, water meter installation, as well as from permanent monthly fees, increased by actual consumption based on the assessed consumption level, as adjusted at the end of the reporting period to reflect the actual consumption based on the readings;

- Public transport service revenue comprises income from the sale of tickets as per the public transport price list for the City of Zagreb;

- Cleaning and waste removal service revenue includes income from the cleaning and waste removal as per the applicable price list for the City of Zagreb;

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Revenue recognition (continued)

- Public road management and maintenance revenue is recognised to the extent of the services and works delivered, in accordance with the underlying contracts with customers;

- Income from the sale of flats is recognised when the significant risks and rewards of the ownership are passed onto the buyer, together with the related costs of selling (constructing) the flats;

- Warehousing and operating lease income is recognised in accordance with IAS 17 on a straight-line basis over the relevant lease term.

a) Product and merchandise sales are recognised when the delivery is made and accepted by the customer and when the collectability of the receivables is virtually certain. Revenue from the sale of goods is recognised when all the following conditions are satisfied:

   - the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
   - the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
   - the amount of the revenue can be measured reliably;
   - it is probable that the economic benefits associated with the transaction will flow to the Group; and
   - the costs incurred or to be incurred on those transactions can be measured reliably.

b) 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.

The stage of completion of the contract is determined as follows:

- fees for the laying of installations are recognised by reference to the stage of completion of installations, which is determined as a period from the end of the reporting period relative to the total expected period of installation completion.
- Servicing fees included in the cost of goods sold are recognised by based on the share of the total servicing cost of a product sold by reference to the number of services performed of products sold in prior periods and

  revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Revenue recognition (continued)

c) Income from government grants comprises the following:

- grants related to assets, including non-monetary grants at fair value, which are presented in the statement of financial position as deferred income, and are recognised as revenue over the period necessary to match them with the related costs (depreciation);
- grants receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs, which are recognised as income of the period in which it becomes receivable.

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received.

The benefit of a government grant approved at an interest rate below the market rate is accounted for as a government grant and disclosed as the difference between the funds received and the fair value of the loan on the basis of the prevailing market interest rates.

Grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised in the statement of financial position as deferred income and transferred to profit or loss on a systematic and rational basis over the useful life of the asset.

Other government subsidies are recognised systematically as revenue through the number of periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

d) Interest income is recognised on a time basis so as to capture the actual yield on an asset.

e) Dividend income is recognised when the right to receive payment has been established.

u) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Leases (continued)

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on the straight- line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight- line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are expensed in the period in which they arise.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals are expensed in the period in which they arise.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

v) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and currency swaps.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Derivative financial instruments (continued)

Embedded derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

w) Comparatives

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Use of estimates in the preparation of financial statements

Critical judgements in applying accounting policies

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Useful life of property, plant and equipment

The determination of the useful life of the assets is based on past experience involving similar assets, as well as on forecast changes in the economic environment and industry-specific factors. The useful life is reviewed annually or whenever there are indications of significant changes in the underlying assumptions. We believe this accounting estimate is significant considering the considerable share of depreciable assets in the total assets. Therefore, any change in the underlying assumptions could be material for the Group's financial position and the results of its operations.

Impairment of non-current assets

Impairment is recognised in the financial statements of the Group whenever the net carrying amount of an asset or a cash-generating unit exceeds the higher of the assets i.e. cash-generating unit's recoverable amount or fair value less costs to sell. Fair value less costs to sell is determined on the basis of observable inputs from identical selling transactions under normal market conditions involving similar assets or observable market prices less additional costs of disposal.

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2011, deferred tax assets on available tax differences were recognised. The carrying amount of deferred tax assets is disclosed in Note 16.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Use of estimates in the preparation of financial statements (continued)

Actuarial estimates used in determining employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2011 provisions for employee benefits amounted to HRK 231,317 thousand (at 31 December 2010 the total provisions amounted to HRK 261,265 thousand) (see Note 30).

Consequences of certain legal actions

The Parent and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 30).

5 SEGMENT INFORMATION

SALES

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Croatian market	4,015,447	4,088,700
EU market	3,614	4,607
	4,019,061	**4,093,307**

In accordance with IFRS 8, the Group identified its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group identified its operating segments on the basis of reports regularly reviewed by the Management and used by it in making strategic decisions. Operating segments have been formed by the nature of the business of the branches managed by the Group (see Note 1), identifying eleven activities as operating segments, whereas the twelfth segment includes all other activities of the Group.

The operating segments comprise the following:

1. Water distribution
2. Passenger transport
3. Cleaning and waste removal
4. Public road management and maintenance
5. Parking services
6. Warehousing and rentals
7. Waste disposal and management
8. Facility management
9. Flat construction and sale
10. Gas sale and distribution
11. Pharmaceutical sales
12. Other activities

5 SEGMENT INFORMATION (continued)
SALES (continued)

Set out below is a breakdown of revenue and results of the Group by its reporting segments presented in accordance with IFRS 8. The presented sales comprise sales to third parties.

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Gas distribution and sale	1,198,205	1,197,883
Water distribution revenue	431,740	452,831
Cleaning and waste removal	416,040	413,998
Passenger transport	318,426	275,876
Pharmaceutical sales	277,699	287,825
Public road maintenance and management	265,272	230,909
Facility management	91,478	87,153
Flat construction and sale	142,566	225,419
Parking services	136,766	150,596
Warehousing and rentals	203,587	202,772
Waste disposal and management	16,359	9,137
Other revenue	520,923	558,908
	4,019,061	**4,093,307**

5. SEGMENT INFORMATION (continued)

SALES (continued)

Other revenue comprises the following:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Landscaping and plant growing	160,442	146,405
Markets revenue	84,892	90,889
Sports facility management and maintenance	69,098	99,941
Funeral services	65,348	64,843
Trade fairs and congresses	51,617	58,075
Bus station	38,141	36,778
Travel agencies	24,239	24,512
Lease of telecom cable and network systems	9,366	7,902
Publishing	9,099	11,424
Other income	8,681	18,139
	520,923	**558,908**

5 SEGMENT INFORMATION (continued)

2010 segment revenue and results

2010	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road management and maintenance	Flat construction and sale	Parking services	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Pharmaceutical sales	Other	Eliminated	Total
(HRK'000)														
Revenue from third parties	87,153	452,831	275,876	413,998	230,909	225,419	150,596	202,772	9,137	1,197,883	287,825	558,908	-	4,093,307
Inter-segment sales	176,194	18,216	6,286	13,608	21,835	20	4,642	5,038	106,478	196,483	-	20,642	(569,442)	-
Total sales	**263,347**	**471,047**	**282,162**	**427,606**	**252,744**	**225,439**	**155,238**	**207,810**	**115,615**	**1,394,366**	**287,825**	**579,550**	**(569,442)**	**4,093,307**
Expenses from other operations, net of other ordinary income	**(206,155)**	**(435,783)**	**(493,925)**	**(430,518)**	**(263,400)**	**(186,179)**	**(127,593)**	**(161,871)**	**(59,675)**	**(1,375,910)**	**(285,762)**	**(741,956)**	**569,442**	**(4,199,285)**
Profit/loss from operations	*57,192*	*35,264*	*(211,763)*	*(2,912)*	*(10,656)*	*39,260*	*27,645*	*45,939*	*55,940*	*18,456*	*2,063*	*(162,406)*	-	*(105,978)*
Financial income	51,187	13,021	11,036	6,005	7,172	8,676	1,515	8,688	2,254	10,685	471	3,910	-	124,620
Financial expenses	(273,201)	(17,687)	(79,042)	(267)	(2,101)	(60,832)	(5,227)	(34,746)	(166)	(2,549)	(2)	(3,462)	-	(479,282)
Net financial result	*(222,014)*	*(4,666)*	*(68,006)*	*5,738*	*5,071*	*(52,156)*	*(3,712)*	*(26,058)*	*2,088*	*8,136*	*469*	*448*	-	*(354,662)*
Loss before taxation	**(164,822)**	**30,598**	**(279,769)**	**2,826**	**(5,585)**	**(12,896)**	**23,933**	**19,881**	**58,028**	**26,592**	**2,532**	**(161,958)**	-	**(460,640)**
Income tax expense														**(8,037)**
Net loss														**(468,677)**

5 SEGMENT INFORMATION (continued)

2011 segment revenue and results

2011	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road management and maintenance	Flat construction and sale	Parking services	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Pharmaceutical sales	Other	Eliminated	Total
(HRK'000)														
Revenue from third parties	91,478	431,740	318,426	416,040	265,272	142,566	136,766	203,587	16,359	1,198,205	277,699	520,923	-	4,019,061
Inter-segment sales	186,978	10,869	5,117	13,158	16,903	445	5,304	3,945	107,148	186,875	-	29,500	(566,242)	-
Total sales	**278,456**	**442,609**	**323,543**	**429,198**	**282,175**	**143,011**	**142,070**	**207,532**	**123,507**	**1,385,080**	**277,699**	**550,423**	**(566,242)**	**4,019,061**
Expenses from other operations, net of other ordinary income	**(217,281)**	**(382,845)**	**(620,120)**	**(411,444)**	**(266,586)**	**(62,578)**	**(129,275)**	**(100,334)**	**(59,655)**	**(1,358,461)**	**(275,954)**	**(641,218)**	**566,242**	**(3,959,509)**
Profit/loss from operations	*61,175*	*59,764*	*(296,577)*	*17,754*	*15,589*	*80,433*	*12,795*	*107,198*	*63,852*	*26,619*	*1,745*	*(90,795)*	-	*59,552*
Financial income	46,020	13,359	15,253	6,360	1,006	3,541	436	3,682	4,325	12,642	648	4,398	-	111,670
Financial expenses	(303,699)	(28,144)	(102,449)	(1,220)	(2,275)	(51,813)	(4,582)	(1,891)	(157)	(1,556)	(3)	(1,159)	-	(498,948)
Net financial result	*(257,679)*	*(14,785)*	*(87,196)*	*5,140*	*(1,269)*	*(48,272)*	*(4,146)*	*1,791*	*4,168*	*11,086*	*645*	*3,239*	-	*(387,278)*
Loss before taxation	**(196,504)**	**44,979**	**(383,773)**	**22,894**	**14,320**	**32,161**	**8,649**	**108,989**	**68,020**	**37,705**	**2,390**	**(87,556)**	-	**(327,726)**
Income tax expense														**(5,963)**
Net loss														**(333,689)**

5 SEGMENT INFORMATION (continued)

Segment assets and liabilities at 31 December 2010

Assets and liabilities at 31/12/2010	Facility manag-ement	Water distribution	Passenger transport	Cleaning and waste removal	Public road managem ent and maint-enance	Flat constructio n and sale	Parking services	Wareho-using and rentals	Waste colle-ction and removal	Gas sale and distribution	Pharmac eutical sales	Other	Eliminated	Total
(HRK'000)														
Property, plant and equipment	803,119	4,540,009	2,955,796	88,671	31,291	634,150	191,607	1,749,780	82,294	1,401,802	44,889	3,797,730	-	16,321,138
Intangible assets	600	3,571	5,374	2,017	39	-	761	1,078	51	3,323	951	2,657	-	20,422
Investment property	952,808	-	-	-	-	-	-	-	-	-	-	-	-	952,808
Inventories	1	31,594	51,070	10,586	30,829	641,375	1,082	1,053	60	7,298	21,928	40,825	-	837,701
Trade accounts receivable	15,784	446,081	21,273	75,412	18,923	12,828	46,722	23,374	1,473	294,213	73,766	56,405	-	1,086,254
Unallocated	4,538,175	111,491	786,407	76,241	214,497	255,233	87,570	16,143	310,275	155,162	60,075	(189,190)	(3,323,770)	3,098,309
Total assets	**6,310,487**	**5,132,746**	**3,819,920**	**252,927**	**295,579**	**1,543,586**	**327,742**	**1,791,428**	**394,153**	**1,861,798**	**201,609**	**3,708,427**	**(3,323,770)**	**22,316,632**
Trade payables	59,555	263,595	261,673	36,947	60,093	77,733	10,175	16,713	15,967	186,866	5,288	85,130	-	1,079,735
Amounts due to employees	4,295	9,422	34,384	9,337	4,462	4,462	3,443	2,775	342	3,997	3,958	12,979	-	93,856
Equity and unallocated liabilities	6,246,637	4,859,729	3,523,863	206,643	231,024	1,461,391	314,124	1,771,940	377,844	1,670,935	192,363	3,610,318	(3,323,770)	21,143,041
Total equity and liabilities	**6,310,487**	**5,132,746**	**3,819,920**	**252,927**	**295,579**	**1,543,586**	**327,742**	**1,791,428**	**394,153**	**1,861,798**	**201,609**	**3,708,427**	**(3,323,770)**	**22,316,632**
31/12/2010 Other segment information														
Capital expenditure:	**32,782**	**175,121**	**194,872**	**17,371**	**1,451**	**251**	**13,179**	**42,519**	**6,894**	**90,762**	**18,607**	**18,439**	**-**	**612,248**
Tangible assets	32,411	175,121	194,865	16,177	1,441	251	13,179	41,341	6,849	89,065	18,585	17,627	-	606,912
Intangible assets	371	-	7	1,194	10	-	-	1,178	45	1,697	22	812	-	5,336
Depreciation and amortisation	**18,347**	**155,946**	**128,724**	**10,697**	**6,583**	**43,694**	**12,098**	**57,634**	**10,036**	**125,305**	**2,324**	**54,491**	**-**	**625,879**

5 SEGMENT INFORMATION (continued)

Segment assets and liabilities at 31 December 2011

Assets and liabilities at 31/12/2011	Facility manag-ement	Water distribution	Passenger transport	Cleaning and waste removal	Public road manage-ment and maintenance	Flat constr-uction and sale	Parking services	Warehousing and rentals	Waste collec-tion and removal	Gas sale and distribution	Pharmaceutical sales	Other	Eliminated	Total
(HRK'000)														
Property, plant and equipment	2,181,764	4,936,624	2,909,008	164,340	114,303	528,804	178,996	1,219,689	78,498	1,321,152	43,646	3,337,113	-	17,013,937
Intangible assets	1,284	2,335	8,344	1,554	105	-	408	777	38	2,710	1,064	3,003	-	21,622
Investment property	975,818	-	-	-	-	-	-	-	-	-	-	-	-	975,818
Inventories	15	32,132	48,245	9,059	28,625	654,717	650	1,131	60	6,606	21,093	37,687	-	840,020
Trade accounts receivable	17,354	431,178	23,032	75,906	14,693	16,303	34,733	16,564	2,345	263,537	75,350	49,279	-	1,020,274
Unallocated	3,863,570	135,432	713,151	102,999	246,932	115,283	106,507	8,768	389,930	167,241	74,224	448,278	(3,436,008)	2,936,307
Total	**7,039,805**	**5,537,701**	**3,701,780**	**353,858**	**404,658**	**1,315,107**	**321,294**	**1,246,929**	**470,871**	**1,761,246**	**215,377**		**(3,436,008)**	**22,807,978**
Trade payables	61,961	212,737	258,679	27,340	90,439	58,955	5,994	16,237	26,089	200,276	17,325	99,415	-	1,075,447
Amounts due to employees	3,705	9,635	37,370	10,552	4,789	118	3,253	2,451	346	4,008	3,881	16,969	-	97,077
Equity and unallocated liabilities	6,974,139	5,315,329	3,405,731	315,966	309,430	1,256,034	312,047	1,228,241	444,436	1,556,962	194,171	3,758,976	(3,436,008)	21,635,454
Total equity and liabilities	**7,039,805**	**5,537,701**	**3,701,780**	**353,858**	**404,658**	**1,315,107**	**321,294**	**1,246,929**	**470,871**	**1,761,246**	**215,377**	**3,875,360**	**(3,436,008)**	**22,807,978**
31/12/2011 Other segment information														
Capital expenditure	**38,250**	**127,837**	**35,880**	**3,993**	**17,878**	**5,699**	**989**	**21,827**	**8,776**	**60,499**	**1,413**	**23,163**	-	**346,204**
Tangible assets	37,295	127,837	32,488	3,779	17,797	5,699	989	21,827	8,776	59,924	982	21,448	-	338,841
Intangible assets	955	-	3,392	214	81	-	-	-	-	575	431	1,715	-	7,363
Depreciation	**65,533**	**157,050**	**130,104**	**10,255**	**4,657**	**39,413**	**12,359**	**14,070**	**12,577**	**123,006**	**2,548**	**47,846**	-	**619,418**

6 OTHER OPERATING INCOME

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Grant and subsidy income	756,055	854,410
Reversal of deferred income	241,484	238,038
Income from reversal of provisions	90,223	11,496
Unrealised gains from changes in the fair value of investment property	60,177	-
Recovery of amounts previously written off	54,459	70,090
Damages collected	50,756	9,017
Income from sale of non-current assets, surplus and assessments	6,109	4,604
Other operating income	96,424	122,148
	1,355,687	**1,309,803**

Income from grants and subsidies represents principally the revenue from the City of Zagreb, comprising the following:

- financial support from the City Budget for purposes approved by the Assembly
- financial support for the repayment of loans (principal, interest, fees).

(in HRK'000)	2011			2010 As restated		
	City of Zagreb	Others	Total	City of Zagreb	Others	Total
ZET	593,916	18,822	612,738	735,235	18,790	754,025
Others	117,166	26,151	143,317	52,376	48,009	100,385
Total	**711,082**	**44,973**	**756,055**	**787,611**	**66,799**	**854,410**

Income from reversal of deferred income is recognised in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance over the period of utilisation and is systematically matched against the related costs (depreciation) (see Note 4(t)).

Income from reversal of provisions relates mainly to the following:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Reversal of provisions for long-service and termination benefits as per actuarial estimates	32,970	11,496
Reversal of provisions for future landfill maintenance costs	30,430	-
Reversal of provisions for accrued vacation days	23,091	-
Reversal of provisions for legal actions as per the attorneys' assessments	3,732	-
	90,223	**11,496**

6 OPERATING INCOME (continued)

Unrealised gains in the amount of HRK 60,177 thousand arose on the adoption of IAS 40 Investment Property in respect of a portion of properties held by the Group for the purpose of appreciation of assets. Gains arisen from the changes in the fair value of investment property are included in other income (revenue).

Income from collection of damages, liquidated damages and other income comprises principally the following:

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Reversal of excess of accrued expenses for the Sopnica Project following the final calculations provided by the contractor	27,061	-
Collected damages and liquidated damages	20,794	8,696
Other income (write-off of debt, approved discounts and similar)	2,901	321
	50,756	**9,017**

Income from damages and liquidated damages collected mainly relate to Stanogradnja Branch (HRK 13.3 million) which charged liquidated damages and fault removal penalties charged to the contractors performing the works on the Sopnica Project in accordance with the underlying construction contracts.

Other operating income comprise internal sales, surplus and other unspecified income.

7 COST OF MATERIALS AND SERVICES

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Energy costs	272,766	248,643
Raw material and supplies	249,185	247,992
Expensed small items	19,342	24,038
a) Total material costs	541,293	520,673
b) Changes in the value of inventories of work in progress and finished products	28,382	97,284
c) Cost of goods sold	1,229,050	1,223,856
Rental and lease costs	214,161	226,080
Maintenance	130,348	128,007
Municipal utility fees and charges	107,312	120,630
Subcontractor service costs	57,319	72,600
Transportation costs	38,655	39,911
Insurance premiums	31,572	30,343
Data processing and software maintenance services	35,923	32,762
Intellectual services	27,129	38,323
Bank and payment operation charges	13,465	11,779
Advertising and promotion	6,660	14,925
Other external services	47,885	68,557
d) Total external services	710,429	783,917
	2,509,154	**2,625,730**

Almost all the categories included in material and service costs, except for energy costs, maintenance costs and the cost of goods sold decreased in 2011 compared to 2010.

Because of the increased prices of energy-generating products in 2011, energy costs rose HRK 24 million compared to 2010 (the largest increase in attributable to ZET branch).

The change in the inventory balance for 2011 shows a decrease of HRK 68.9 million compared to 2010 because of lower flat and business premise sales in the quarter Sopnica-Jelkovec.

8 STAFF COSTS

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Net wages and salaries	1,014,423	1,064,367
Taxes and contributions	698,222	752,403
Reimbursements of costs to employees and other employee benefits	130,313	132,420
	1,842,958	**1,949,190**
Number of staff at 31 December	**12,731**	**12,901**

The total staff costs for the year 2011 decreased by HRK 106 million versus 2010 because of curtailed Christmas and vacation allowances to the extent of tax allowable amounts resulting in annual savings of HRK 86 million. The additional decrease of HRK 20 million is a result of a lower number of employees (170 employees less as a result of fluctuation and a lower number of staff hired for a limited period of time) and reduced overtime hours.

Costs reimbursed to employees and other employee benefits comprise benefits regulated by the Collective Agreement, such as commutation allowance to the extent of the public transport costs, gifts and bonuses (long-service benefits, Christmas and Easter allowances, vacation allowance, and similar), education and advanced training costs and similar.

9 DEPRECIATION AND AMORTISATION

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Depreciation (Note 18)	613,013	617,733
Amortisation (Note 17)	6,405	8,146
VAT on depreciation of personal cars	12	17
	619,430	**625,896**

10 OTHER EXPENSES

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Administrative fees and court costs	14,011	14,647
Taxes and contributions independent of operating results	7,581	8,388
Membership fees to professional organisations (Croatian Chamber of Commerce, Tourist Board and others)	3,916	3,340
Entertainment	1,653	1,808
Fees to Supervisory Board members	1,230	2,124
Professional literature	1,208	1,264
Cultural monument fees and environmental protection costs	996	2,658
Other expenses	445	464
	31,040	**34,693**

11 IMPAIRMENT ALLOWANCE ON CURRENT AND NON-CURRENT ASSETS

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Impairment allowance on current assets	152,765	128,794
Impairment allowance on non-current assets	40,727	3,678
	193,492	**132,472**

Included in the impairment allowance on non-current assets are unrealised losses arisen on changes in the fair value of investment property (Gredelj) which amount to HRK 37,168 thousand.

12 PROVISIONS FOR RISKS AND CHARGES

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Provisions for unused vacation days	38,505	33,574
Provisions for long-service benefits under IAS 19	10,139	16,393
Litigation provisions	9,586	48,497
	58,230	**98,464**

13 OTHER OPERATING EXPENSES

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Fines, penalties, damages	21,528	20,802
Written-off receivables	19,031	2,186
Net book value of assets sold or otherwise disposed of	2,527	1,541
Grants, donations and sponsorships	2,066	7,007
Other operating expenses	15,740	11,107
	60,892	**42,643**

Damages relate principally to ZGOS Branch in respect of environmental protection fee payable at a rate of HRK 50 per ton of disposed municipal waste on the Jakuševac Landfill.

Written-off receivables relate mainly to Zagrebparking Branch and represent receivables for parking tickets that were estimated as irrecoverable.

Other operating expenses comprise deficits, cost of inventories sold and other expenses not specified above.

14 FINANCIAL INCOME

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Financial income - unrelated entities	109,763	119,687
Financial income - related entities	350	2,159
Other financial income	1,557	2,774
	111,670	**124,620**

Financial income from unrelated entities comprises the following:

	2011	2010
		As restated
	(HRK'000)	(HRK'000)
Foreign exchange gains	62,231	39,191
Interest income	47,871	82,582
Other financial income	1,568	2,847
	111,670	**124,620**

15 FINANCIAL EXPENSES

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Financial expenses - unrelated entities	495,520	434,646
Financial expenses - related entities	1,593	1,701
Other financial expenses	1,835	42,935
	498,948	**479,282**

Financial expenses from transactions with unrelated entities comprise the following:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Interest expense	298,248	284,211
Foreign exchange losses	137,250	82,908
Interest on leases	60,019	58,293
Other	3	9,234
	495,520	**434,646**

Other financial expenses comprise expenses on the discount of receivables In 2010 they included expenses in respect of an interest rate swap on bonds, which was terminated in 2010, resulting in a financial expense of EUR 8.8 million (HRK 65.2 million), of which EUR 3.4 million (HRK 24.5 million) were accrued in the 2009 financial statements, whereas the difference up to the total amount payable in the amount of EUR 5.5 million (HRK 40.6 million) was charged to expenses in 2010.

16 INCOME TAX

The Group is not subject to taxation, but entities forming the Group are. Corporate income tax is determined by applying the rate of 20% to the taxable income.

Tax expense recognised in profit or loss

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Income tax expense comprises the following:		
Current tax	(8,275)	(5,793)
Accrued tax income/(deferred tax expense) on the origination and reversal of temporary differences	2,312	(2,244)
Total tax expense	**(5,963)**	**(8,037)**

The relationship between the accounting profit and tax income/(expense) for the year:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Profit/(loss) before taxation	(323,034)	(460,640)
Income tax at the rate of 20% (2010: 20%)	(64,607)	(92,128)
Effect of permanent differences, net	21,833	1,148
Effect of temporary differences recognised as deferred tax assets	(1,303)	(1,040)
Effect of unrecognised and unused tax losses brought forward	50,040	100,057
Tax expense recognised in profit or loss	**5,963**	**8,037**

Unused tax losses:	2011	2010 As restated
	(HRK'000)	(HRK'000)
Balance at beginning of the year	**(522,834)**	**(3,939)**
(Increase) during the year	(251,823)	(518,894)
Balance at end of year	**(774,657)**	**(522,833)**

Tax losses available for carry forward that originate from 2009 expire in 2014, and those incurred in 2010 expire in 2015.

16 INCOME TAX (continued)

Deferred tax assets and liabilities

2010 (as restated)	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Other	Closing balance
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
Temporary differences:					
Provisions	49,119	3,134	-	-	52,253
Other financial liabilities	4,901	(4,901)	-	-	-
Doubtful accounts	484	(484)	-	-	-
Financial assets at fair value	1,384	(141)	-	-	1,243
Other	1,480	(1,480)	-	-	-
Revaluation of land	620,233	-	443	-	620,676
Property, plant and equipment	938	-	-	(274)	664
Revaluation of financial assets	1,373	-	(175)	-	1,198
Deferred income	3,613	-	-	-	3,613
				-	-
Unused tax losses and tax credits				-	-
Tax losses	-	588	-	167	755
Tax credits	1,459	1,040	-	-	2,499
Deferred tax assets	**58,827**	**(2,244)**	**-**	**167**	**56,750**
Deferred tax liabilities	**626,157**	**-**	**268**	**(274)**	**626,151**

16 INCOME TAX

Deferred tax assets and liabilities (continued)

2011	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Closing balance
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
Temporary differences:					
Provisions	**52,253**	(5,990)	-	-	**46,263**
Financial assets at fair value	**1,243**	(124)	-	-	**1,119**
Value adjustment of land	-	7,479	-	-	**7,479**
Revaluation of land	**620,676**	-	201,372	-	**822,048**
Property, plant and equipment	**664**	-	-	(139)	**525**
Revaluation of financial assets	**1,198**	-	(60)	-	**1,138**
Deferred income	**3,613**	-	-	-	**3,613**
Unused tax losses and tax credits					
Tax losses	**755**	(356)	-	-	**399**
Tax credits	**2,499**	1,303	-	-	**3,802**
Deferred tax assets	**56,750**	**2,312**	**-**	**-**	**59,062**
Deferred tax liabilities	**626,151**	**-**	**201,312**	**(139)**	**827,324**

17 INTANGIBLE ASSETS

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Cost	157,389	152,678	158,384
Accumulated amortisation or impairment	(135,767)	(132,256)	(130,761)
	21,622	**20,422**	**27,623**

The structure of intangible assets is as follows:

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Patents, concessions and similar rights	11,651	9,430	11,987
Other intangible assets	6,129	5,764	10,706
Intangible assets under development	3,462	4,009	3,278
Development expenses	380	1,219	1,652
	21,622	**20,422**	**27,623**

17 INTANGIBLE ASSETS (continued)

(HRK'000) COST	Development expenses	Patents, licences and other rights	Other intangible assets	Intangible assets under development	Total intangible assets
Balance at 01/01/2010, as restated	**40,026**	**49,367**	**65,713**	**3,278**	**158,384**
Additions	17	1,496	2,227	1,596	**5,336**
Transfer from assets under development	-	695	155	(800)	**50**
Transferred (from)/to	-	4,387	(14,263)	(65)	**(9,941)**
Disposals and retirements	-	(654)	(498)	-	**(1,152)**
Balance at 31/12/2010, as restated	**40,043**	**55,291**	**53,334**	**4,009**	**152,677**
Additions	-	443	1,640	5,280	**7,363**
Transfer from assets under development	-	6,025	470	(5,581)	**914**
Transferred (from)/to	-	124	-	(124)	**-**
Disposals and retirements	-	(3,037)	(408)	(122)	**(3,567)**
Balance at 31/12/2011	**40,043**	**58,846**	**55,036**	**3,462**	**157,387**
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 01/01/2010, as restated	**38,374**	**37,381**	**55,006**	**-**	**130,761**
Charge for the year	450	4,748	2,948	-	**8,146**
Transferred (from)/to	-	4,387	(9,914)	-	**(5,527)**
Disposals and retirements	-	(655)	(470)	-	**(1,125)**
Balance at 31/12/2010, as restated	**38,824**	**45,861**	**47,570**	**-**	**132,255**
Charge for the year	410	4,251	1,744	-	**6,405**
Impairment allowance	429	-	-	-	**429**
Disposals and retirements	-	(2,917)	(407)	-	**(3,324)**
Balance at 31/12/2011	**39,663**	**47,195**	**48,907**	**-**	**135,765**
CARRYING AMOUNT					
Balance at 01/01/2010, as restated	**1,652**	**11,986**	**10,707**	**3,278**	**27,623**
Balance at 31/12/2010, as restated	**1,219**	**9,430**	**5,764**	**4,009**	**20,422**
Balance at 31/12/2011	**380**	**11,651**	**6,129**	**3,462**	**21,622**

18 PROPERTY, PLANT AND EQUIPMENT

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Cost or valuation	24,470,439	23,369,432	22,943,527
Accumulated amortisation or impairment	(7,513,486)	(7,119,027)	(6,682,935)
	16,956,953	**16,250,405**	**16,260,592**
Prepayments made	**56,984**	**70,733**	**141,761**
Total	**17,013,937**	**16,321,138**	**16,402,353**

Structure of property, plant and equipment:

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Land	5,538,858	4,513,274	4,510,988
Buildings	8,672,599	8,892,088	8,628,362
Plant and equipment	353,114	349,256	343,573
Tools and vehicles	1,717,795	1,805,310	1,749,621
Biological assets	19	14	42
Other tangible assets	50,271	50,149	47,798
Tangible assets under construction	624,297	640,314	980,208
	16,956,953	**16,250,405**	**16,260,592**
Prepayments made	56,984	70,733	141,761
Total	**17,013,937**	**16,321,138**	**16,402,353**

Movements in prepayments

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Opening balance	**70,733**	**141,761**
Additions	622	10,103
Disposals and retirements	(14,371)	(81,131)
Closing balance	**56,984**	**70,733**

18 PROPERTY, PLANT AND EQUIPMENT (continued)

(HRK'000) COST	Land	Buildings	Plant and equipment	Tools and vehicles	Biological assets	Other tangible assets	Assets under development	Total assets
Balance at 01/01/2010, as restated	**4,510,988**	**13,322,390**	**1,206,222**	**2,875,642**	**269**	**47,808**	**980,208**	**22,943,527**
Additions	95	36,308	69,752	4,795	-	109	495,853	606,912
Transfer from assets under development	6	630,271	29,302	175,711	-	241	(835,582)	(51)
Transferred (from)/to	-	8,112	1,242	(1,471)	-	1,991	67	9,941
Revaluation	2,196	21	-	-	-	-	-	2,217
Impairment allowance	-	-	-	-	-	-	(232)	(232)
Disposals and retirements	(11)	(117,047)	(39,137)	(36,687)	-	-	-	(192,882)
Balance at 31/12/2010, as restated	**4,513,274**	**13,880,055**	**1,267,381**	**3,017,990**	**269**	**50,149**	**640,314**	**23,369,432**
Additions	551	37,238	31,020	17,501	20	7	252,504	338,841
Transfer from assets under development	30,481	153,129	59,380	13,938	-	131	(257,973)	(914)
Transferred (from)/to	-	68	1,122	(1,036)	-	-	(154)	-
Revaluation	1,006,860	-	-	-	-	-	-	1,006,860
Impairment allowance	-	-	-	-	-	-	(1,020)	(1,020)
Disposals and retirements	(107)	(68,232)	(81,946)	(71,474)	(30)	(16)	134	(221,671)
Reclassified from inventories	(11,976)	-	395	-	-	-	(9,508)	(21,089)
Balance at 31/12/2011	**5,539,083**	**14,002,258**	**1,277,352**	**2,976,919**	**259**	**50,271**	**624,297**	**24,470,439**
ACCUMULATED DEPRECIATION								
Balance at 01/01/2010, as restated	**-**	**4,694,028**	**862,649**	**1,126,021**	**227**	**10**	**-**	**6,682,935**
Charge for the year	-	402,660	90,974	124,071	28	-	-	617,733
Impairment allowance	-	2,122	1,280	-	-	-	-	3,402
Transferred (from)/to	-	5,742	1,270	(1,475)	-	(10)	-	5,527
Disposals and retirements	-	(116,585)	(38,048)	(35,937)	-	-	-	(190,570)
Balance at 31/12/2010, as restated	**-**	**4,987,967**	**918,125**	**1,212,680**	**255**	**-**	**-**	**7,119,027**
Charge for the year	-	409,543	83,125	120,330	15	-	-	613,013
Impairment allowance	225	-	424	-	-	-	-	649
Transferred (from)/to	-	-	1,427	(1,427)	-	-	-	-
Disposals and retirements	-	(67,851)	(78,863)	(72,459)	(30)	-	-	(219,203)
Balance at 31/12/2011	**225**	**5,329,659**	**924,238**	**1,259,124**	**240**	**-**	**-**	**7,513,486**
CARRYING AMOUNT								
Balance at 01/01/2010, as restated	4,510,988	8,628,362	343,573	1,749,621	42	47,798	980,208	16,260,592
Balance at 31/12/2010, as restated	4,513,274	8,892,088	349,256	1,805,310	14	50,149	640,314	16,250,405
Balance at 31/12/2011	5,538,858	8,672,599	353,114	1,717,795	19	50,271	624,297	16,956,953

18 PROPERTY, PLANT AND EQUIPMENT (continued)

Title to land and buildings

The registration of the Group's title to land and buildings in appropriate registers, serving as evidence of ownership, is in progress. Since some municipal registries have not been fully updated, the process of registering the properties is longer than for new structures. In addition, the City of Zagreb has surrendered a significant portion of its assets to be managed by the Group. The status of such assets has not been fully defined. A part of those properties has been registered but the status of the remaining properties is still pending. An overview of the fixed asset ownership issues is presented below:

Land (at revalued amount)

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Registered title	4,058,951	3,573,167	3,175,145
Unregistered, eligible for registration	1,193,016	626,515	850,386
Unregistered, not eligible for registration	286,891	313,592	485,457
	5,538,858	**4,513,274**	**4,510,988**

Buildings (at cost)

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Registered title	4,143,551	3,215,468	2,893,276
Unregistered, eligible for registration	1,663,613	1,605,544	1,751,743
Unregistered, not eligible for registration	438,251	1,363,502	1,340,817
Communal infrastructure facilities	7,756,843	7,695,541	7,336,554
	14,002,258	**13,880,055**	**13,322,390**

Review of residual values

Following the requirements of to IAS 16 Property, Plant and Equipment that are effective for the current period, the Group reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised Standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods.

18 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of assets

Under IAS 36, the carrying amount should be compared to the recoverable amount each time when there is an indication of impairment and, if higher, written down to the recoverable amount. The recoverable amount of an asset is greater of (i) net selling price if the asset can be sold and (ii) value in use, which is the net present value of future cash flows based on reasonable and supportable assumptions that represent management's best estimate of the future economic conditions and plans. In the opinion of the management, the stated amount of tangible assets is recoverable from future operations.

Assets pledged as collateral

	31/12/2011	31/12/2010
		As restated
	(HRK'000)	(HRK'000)
Real estate	98,625	105,969
Movable property	78,400	99,359
	177,025	**205,328**

Capitalised borrowing costs under IAS 23

In 2011, the Group capitalised borrowing costs in the amount of HRK 14,890 thousand, in 2010 HRK 5,313 thousand. The weighted average capitalisation rate is 5.2%.

Leases

The Group entered into several lease agreements during 2009 and 2008, which were accounted for and presented in the consolidated financial statements as operating leases. However, the classification of those agreements at the inception is not compliant with the provisions of International Accounting Standard 17 "Leases" (IAS 17), according to which, a lease where the present value of minimum future payments under the lease agreement approximates the fair value of the leased asset is classified as a financial lease, which is more similar to the nature of the leases entered into by the Group.

19 INVESTMENT PROPERTY

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Cost	952,809	952,808	952,808
Increase in the fair value	60,177	-	-
Decrease in the fair value	(37,168)	-	-
	975,818	**952,808**	**952,808**

During 2011 investment properties were remeasured at fair value on the basis of appraisals by a certified property appraisal expert, upon which the gains and losses resulting from the change in the fair values were included in the statement of comprehensive income for the year 2011 as follows:

	(HRK'000)
Gains on remeasurement of investment property at fair value	60,177
Losses on remeasurement of investment property at fair value	(37,167)
Net change in the fair value of investment property	**23,010**

20 OTHER FINANCIAL ASSETS

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Long-term portion			
Financial assets at fair value	544	618	1,020
Held-to-maturity investments at amortised cost	114,415	113,014	114,155
Financial assets available for sale	6,868	7,175	8,000
	121,827	**120,807**	**123,175**
Current portion			
Held-to-maturity investments at amortised cost	56,813	23,343	105,226
	56,813	**23,343**	**105,226**

20 OTHER FINANCIAL ASSETS (continued)

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Financial assets at fair value through profit or loss	544	618	1,020
Current portion	-	-	-
Long-term portion	*544*	*618*	*1,020*

Included in participating interests are financial assets (shares) carried at fair value through profit or loss. The shares represent non-controlling interests held in Zagrebačka banka d.d. and Samoborska banka d.d. in which the Group has no significant influence.

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Held-to-maturity investments at amortised cost			
Deposits with maturities over one year	114,415	113,014	114,155
Deposits with maturities of up to one year	53,544	20,619	102,590
Other held-to-maturity securities	3,269	2,724	2,636
	171,228	**136,357**	**219,381**
Current portion	*56,813*	*23,343*	*105,226*
Long-term portion	*114,415*	*113,014*	*114,155*

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Financial assets available for sale	6,868	7,175	8,000
Current portion	-	-	-
Long-term portion	*6,868*	*7,175*	*8,000*

21 NON-CURRENT RECEIVABLES

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Long-term portion			
Amounts owed by related parties	1,203,489	1,302,147	1,413,144
Receivables for investments in government bonds	13,390	13,334	13,184
Loan receivables	15,385	18,632	15,922
Receivables in respect of credit sales	14,384	15,904	18,299
Other receivables	656,367	667,735	687,441
	1,903,015	**2,017,752**	**2,147,990**
Current portion - Notes 23 and 27			
Amounts owed by related parties	132,176	128,659	128,240
Receivables for loans with maturities after 1 year	1,846	1,884	3,162
Receivables for loans due within up to 1 year	6,865	16,156	23,244
Receivables in respect of credit sales	1,911	2,497	1,240
Other receivables	28,442	27,918	27,591
	171,240	**177,114**	**183,477**

Long-term receivables from related parties

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Receivables from the owner	1,350,417	1,446,181	1,557,465
Impairment allowance on receivables from the owner	(14,752)	(15,375)	(16,081)
	1,335,665	**1,430,806**	**1,541,384**
Current portion	*132,176*	*128,659*	*128,240*
Long-term portion	*1,203,489*	*1,302,147*	*1,413,144*

Receivables from the owner comprise amounts owed by the City of Zagreb under guarantees furnished for long-term loans of ZET Branch in the amount of HRK 609,735 thousand (2010: HRK 701,015 thousand) and in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 684,265 thousand (2010: HRK 691,252 thousand), whereas the remaining balance of HRK 41,665 thousand (2010: HRK 38,539 thousand) represents receivables for constructed roads (Note 42).

21 NON-CURRENT RECEIVABLES (continued)

Receivables for investments in government bonds

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Investments in government bonds (frozen FX deposits)	16,816	16,694	16,509
Impairment allowance on receivables for investments in government bonds	(3,426)	(3,360)	(3,325)
	13,390	**13,334**	**13,184**
Current portion	-	-	-
Long-term portion	*13,390*	*13,334*	*13,184*

Receivables for loans with maturities after 1 year	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Long-term loans to unrelated companies	3,206	3,775	1,250
Long-term loans to the Management and employees	19,072	20,562	21,971
Impairment allowance on given loans	(5,047)	(3,821)	(4,137)
	17,231	**20,516**	**19,084**
Current portion	*1,846*	*1,884*	*3,162*
Long-term portion	*15,385*	*18,632*	*15,922*

Receivables for loans due within up to 1 year	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Short-term loans to unrelated companies	39,687	46,845	51,370
Impairment allowance on given loans	(32,822)	(30,689)	(28,126)
	6,865	**16,156**	**23,244**
Current portion	*6,865*	*16,156*	*23,244*
Long-term portion	-	-	-

21 NON-CURRENT RECEIVABLES (continued)

Receivables in respect of credit sales

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Receivables for flats sold	22,088	24,176	26,200
Value adjustment on discount	(5,793)	(5,775)	(6,661)
	16,295	**18,401**	**19,539**
Discount rate in %	***7.20%***	***6.20%***	***6.20%***
Current portion	*1,911*	*2,497*	*1,240*
Long-term portion	*14,384*	*15,904*	*18,299*

Receivables for flats sold are discounted each year using the rate that reflects the yield rate on the Croatian government bonds, which was 7.2 percent in 2011 (2010: 6.2%).

Other non-current receivables

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Due from the state	680,876	691,252	710,163
Other receivables	3,933	4,401	4,869
	684,809	**695,653**	**715,032**
Current portion	*28,442*	*27,918*	*27,591*
Long-term portion	*656,367*	*667,735*	*687,441*

Receivables from the state in the amount of HRK 680,876 thousand comprise amounts owed by the Croatian Government in respect of funding 50 percent of the Arena Sports Hall rental costs.

22 INVENTORIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Raw material and supplies	133,299	140,069	138,660
Work in progress	150,147	133,871	121,387
Finished products	527,369	531,170	627,436
Merchandise (and property in circulation)	29,083	32,048	33,929
Prepayments for inventories	122	543	516
	840,020	**837,701**	**921,928**

Inventories are broken down into raw material and supplies, which are expensed immediately when put into use, work in progress, finished products, merchandise and prepayments for inventories.

Work in progress comprises residential and commercial blocks in the quarter Sopnica-Jelkovec and the preparation for the construction works in the quarter Podbrežje. The Sopnica-Jelkovec structures were completed in late 2009, and the balance of work in progress as of 31 December 2011 was HRK 144.2 million and relates to the portion of the Sopnica Jelkovec Project still pending and the project documentation and purchase of land at the location Podbrežje.

Finished products comprise finished flats and business premises in the quarter Sopnica-Jelkovec that are available for sale and which amounted to HRK 510.5 million at 31 December 2011.

Cost of inventories recognised as expense for the year amounts to HRK 28.3 million (2010: HRK 97.2 million) (see Note 7).

23 AMOUNTS OWED BY RELATED PARTIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Receivables from the owner	373,198	468,134	595,385
Current portion of long-term receivables from the owner (Note 21)	132,176	128,659	128,240
	505,374	**596,793**	**723,625**

Receivables from the owner relate to short-term receivables for ordinary and other contracted works as well as receivables in respect of funding that are due in 2012.

24 TRADE RECEIVABLES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Trade receivables	1,616,270	1,602,200	1,425,202
Impairment allowance on trade receivables	(595,996)	(515,946)	(487,745)
	1,020,274	**1,086,254**	**937,457**

Trade receivables are carried at amortised cost. Late-payment interest is charged on outstanding balances at rates prescribed by law. The Group makes an allowance for all trade debtors past due beyond 365 days. Allowances for doubtful debts are recognised against trade receivables between 120 and 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Trade accounts receivable are reviewed at least twice annually, and reminders are sent for past due amounts, whereas forced collection proceedings are initiated for bad and doubtful accounts (distress and legal actions).

Receivables for delivery of communal services to individuals and business entities are not collateralised by any financial instruments. Receivables for provision of other services to businesses from the market operations are secured by various financial instruments (bills of exchange, promissory notes, debentures, bank guarantees, and similar).

In determining the recoverability of a trade receivable, the Company considers the business segment (communal or market activities, because of different factors affecting the pricing and delivery of those services) and the type of customer (citizens or businesses because of different statutes of limitations). The communal operations are governed by separate laws, and the related receivables are not secured by financial instruments. Trade accounts receivable from other activities are secured by various instruments (bills of exchange, promissory notes, debentures, etc.).

24 TRADE RECEIVABLES (continued)

As of the reporting date, the Group made an allowance for all accounts outstanding beyond 365 days, based on an estimate made by commissions for assessing collectability of receivables, as well as for all debtors outstanding up to 365 days (120 – 365 days) because, according to the past default history, they are considered doubtful of collection.

Ageing of past due but not impaired:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
0 - 60 days	176,287	183,904
60 - 180 days	98,493	123,383
180-365 days	79,936	99,704
Over 365 days	232,746	188,428
	587,462	**595,419**

Movement in impairment allowance for doubtful accounts

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Balance at beginning of the year	**515,946**	**487,745**
Impairment losses recognised	153,539	100,477
Amounts written-off as uncollectible	(19,029)	(2,186)
Amounts recovered during the year	(54,460)	(70,090)
Balance at end of year	**595,996**	**515,946**

Ageing of impaired trade receivables

	2011	2010 As restated
	(HRK'000)	(HRK'000)
60-180 days	2,004	1,331
180-365 days	6,480	5,935
Over 365 days	587,512	508,680
	595,996	**515,946**

25 AMOUNTS DUE FROM EMPLOYEES

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Amounts due from employees	3,652	3,453	3,562
Impairment allowance on amounts due from employees	(1,348)	(1,372)	(1,365)
	2,304	**2,081**	**2,197**

26 RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
VAT receivable	10,004	2,644	1,198
Receivables from the Croatian State Health Insurance Fund	5,303	7,700	9,474
Income tax refund	2,038	6,214	17,636
Receivables for other taxes, contributions and fees	841	1,200	1,057
	18,186	**17,758**	**29,365**

27 OTHER RECEIVABLES

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Prepaid expenses and accrued income	72,084	72,697	89,038
Current portion of long-term receivables	39,064	48,455	55,237
Prepayments made	8,066	9,930	14,344
Impairment allowance on given loans	(2,398)	(2,398)	(2,455)
Receivables from insurance companies and other damages receivable	968	1,588	1,611
Other receivables	8,039	7,298	24,882
	125,823	**137,570**	**182,657**

Prepaid expenses and accrued income comprise amounts paid in advance that are chargeable to future periods, accrued income not yet billed, accrued interest and fees on loans that are apportioned over the periods of the loan repayment using the effective interest rate, deferred bond issue costs (discount allocated annually to expenses for the period at the effective interest rate up to 2017).

28 CASH WITH BANKS AND IN HAND

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Current account balance - HRK denominated	131,263	113,974	124,926
FX current account balance	3,200	2,071	20,381
Cash in hand	1,669	1,819	1,687
Foreign-currency cash in hand	11	20	15
Other cash (court ordered deposits and similar)	7,760	7,571	6,296
	143,903	**125,455**	**153,305**

29 EQUITY

a) Share capital

The Parent's sole owner is the City of Zagreb. At 31 December 2011, the share capital of the Company amounts to HRK 4,208,629 thousand (31 December 2010: HRK 4,208,629 thousand).

b) Property revaluation reserve

Revaluation reserve has been established on the revaluation of properties. On disposal of a revalued asset, the portion of the revaluation surplus attributable to the asset is transferred to retained earnings.

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Balance at beginning of the year	**2,586,097**	**2,584,324**	**2,584,957**
Revaluation surplus - Note 18	1,006,860	2,216	1,334
Deferred tax liability	(201,372)	(443)	(267)
Transferred to retained earnings	-	-	(1,700)
Balance at end of year	**3,391,585**	**2,586,097**	**2,584,324**

c) Reserve on revaluation of investments in available-for-sale financial assets

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Balance at beginning of the year	5,561	6,261	6,981
Decrease on revaluation of financial assets	(300)	(875)	(900)
Deferred tax liability	60	175	180
Balance at end of year	**5,321**	**5,561**	**6,261**

d) Other reserves

Other reserves reported in the statement of financial position at 31 December 2011 in the amount of HRK 97,300 thousand (31 December 2010: HRK 15,125 thousand) comprise to the share capital of two companies merged in 2001 (Grad mladih Granešina d.o.o. and Omladinski turistički centar d.o.o.) to a Branch, for which no share capital was increased by HRK 15,125 thousand, as well as reserves formed as per the Decision of the Assembly regarding assets granted by the City of Zagreb in the amount of HRK 82,175 thousand.

29 EQUITY (continued)

e) (Accumulated losses)/retained earnings

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Balance at 1 January	(176,940)	290,932	239,589
(Loss)/Profit for the year	(335,331)	(467,872)	49,643
Reversal of revaluation reserve	-	-	1,700
Balance at 31 December	**(512,271)**	**(176,940)**	**290,932**

f) Non-controlling interests

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Balance at 1 January	(565)	240	164
Profit /(loss) for the year	1,642	(805)	76
Balance at 31 December	**1,077**	**(565)**	**240**

30 PROVISIONS

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Provisions for employee benefits under IAS 19	231,317	261,265	245,592
Litigation provisions	135,521	149,759	113,532
Provisions for the landfill restoration	24,293	28,024	30,059
Provisions for early retirement incentives	-	-	801
Current portion (Note 40)	(35,171)	(40,588)	(42,061)
	355,960	**398,460**	**347,923**
Current obligation (Note 40)	*35,171*	*40,588*	*42,061*
Long-term obligation	*355,960*	*398,460*	*347,923*

Balance and movements of long-term provisions:

	Provisions for employee benefits	Litigation provision	Landfill rehabilitation provision	Total
Balance at 1 January 2010	**246,393**	**113,532**	**30,059**	**389,984**
New provisions made	16,196	46,767	-	**62,963**
Amounts reversed / collected	(1,324)	(10,540)	(2,035)	**(13,899)**
Balance at 31 December 2010	**261,265**	**149,759**	**28,024**	**439,048**
New provisions made	6,258	7,320	-	**13,578**
Amounts reversed / collected	(36,206)	(21,558)	(3,731)	**(61,495)**
Balance at 31 December 2011	**231,317**	**135,521**	**24,293**	**391,131**

Litigation provision relates to provisions allocated for legal actions initiated against the Parent and its subsidiaries following the knowledge of a claim being initiated and on the basis of the estimated final outcome of the litigation. In the opinion of the management, the level of provisions is sufficient to cover any future potential liabilities.

The landfill rehabilitation provision relates to the cost of maintenance and surveillance over the Jakuševac Landfill over the next 30 years from its wind-up for environmental protection purposes in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The provisions are discounted.

The obligation to make provisions for employee benefits arises from the Collective Agreement, and the level of provisions was determined in accordance with IAS 19 Employee Benefits. They are measured at the present value of costs expected to be incurred to settle the obligation, using a discount rate of 7.2 percent (2010: 6.2%).

31 LOANS AND BORROWINGS

a) Long-term loans and borrowings

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Non-current			
Loans and borrowings payable	1,932,237	2,140,712	2,377,006
Finance lease obligations	1,239,368	1,316,348	1,413,772
	3,171,605	**3,457,060**	**3,790,778**
Current			
Loans and borrowings payable	1,065,623	808,609	360,425
Finance lease obligations	107,980	102,050	87,745
Other	96,713	84,642	91,931
	1,270,316	**995,301**	**540,101**
Total loans and borrowings payable	**4,441,921**	**4,452,361**	**4,330,879**

Long-term and short-term bank loans are secured by bills of exchange, promissory notes, debentures and cession agreements worth in total HRK 1,851,963 thousand, account pledges in the amount of HRK 159,611 thousand, a bank deposit in the amount of HRK 56,000 thousand, lien on real estate in the amount of HRK 91,798 thousand, lien on movable property in the amount of HRK 61,001 thousand and a guarantee of the City of Zagreb in the amount of HRK 777,487 thousand.

Some of the foreign bank loans are subject to restrictive financial and operating covenants The covenants, as defined in the applicable loan agreements, specifically require from the Company to meet certain prescribed levels of the following ratios: operating ratio, debt service coverage, internal cash generation, tangible net worth capital, and net borrowings. At 31 December 2011 the Company was compliant with all the financial covenants.

31 LOANS AND BORROWINGS (continued)

a) Long-term loans and borrowings

Movements in non-current loans and borrowings

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Balance at 1 January	2,413,914	2,654,359	2,660,021
Proceeds from new loans	46,928	28,213	277,049
Amounts repaid	(228,412)	(282,458)	(279,582)
Effect of exchange differences	24,686	13,800	(3,129)
Balance at 31 December	**2,257,116**	**2,413,914**	**2,654,359**
Current portion	(324,879)	(273,202)	(277,353)
Long-term portion	**1,932,237**	**2,140,712**	**2,377,006**

Analysis by currency:

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Euro (EUR)	1,256,473	1,318,828	1,478,108
Croatian kuna (HRK)	1,000,643	1,095,086	1,176,024
US dollar (USD)	-	-	227
	2,257,116	**2,413,914**	**2,654,359**

Repayments of long-term loans

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Within one year	324,879	273,202	277,353
In the second to inclusive the fifth year	1,091,028	1,051,939	1,055,410
After five years	841,209	1,088,773	1,321,596
	2,257,116	**2,413,914**	**2,654,359**

31 LOANS AND BORROWINGS (continued)

b) Finance lease obligations

	Minimum lease payments			Present value of minimum lease payments		
	31/12/2011	**31/12/2010** As restated	**01/01/2010** As restated	**31/12/2011**	**31/12/2010** As restated	**01/01/2010** As restated
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
Within one year	166,222	155,611	160,168	107,980	102,049	87,745
In the second to inclusive the fifth year	657,506	636,056	639,220	465,832	474,628	357,716
After five years	1,160,878	1,295,161	1,588,644	773,536	841,721	1,056,056
	1,984,606	**2,086,828**	**2,388,032**	**1,347,348**	**1,418,398**	**1,501,517**
Less: future finance charges	(637,258)	(668,430)	(886,515)			
Present value of minimum lease payments	**1,347,348**	**1,418,398**	**1,501,517**			

Included in the financial statements within:

Current liabilities (Note 31c)	*107,980*	*102,050*	*87,745*
Non-current liabilities (Note 31a)	*1,239,368*	*1,316,348*	*1,413,772*

Finance lease obligations relate to equipment (vehicles) and a building leased for a period of 5 - 28 years. Following the expiry of the lease, the Company has an option to purchase the leased items at contractually agreed values. The Company's liabilities under financial leases are secured by the title of the lessor to the leased assets. The average interest rate applied in determining the financial lease payments was 4.2 % (2010: 4.2%).

31 LOANS AND BORROWINGS (continued)

b) Finance lease obligations

Present value of items under financial lease arrangements:

	Buildings	Tools and vehicles	Total
	(HRK'000)	(HRK'000)	(HRK'000)
Cost	818,881	853,074	1,671,955
Accumulated depreciation	20,472	121,077	141,549
Net book value 31/12/2010 (as restated)	**798,409**	**731,997**	**1,530,406**
Cost	818,881	853,074	1,671,955
Accumulated depreciation	30,708	157,759	188,467
Net book value 31/12/2011	**788,173**	**695,315**	**1,483,488**

c) Short-term loans and borrowings

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Short-term loans and borrowings	1,065,623	808,609	360,425
Short-term loans and borrowings	*740,744*	*535,407*	*83,072*
Current portion of long-term debt	*324,879*	*273,202*	*277,353*
Finance leases (current portion)	107,980	102,050	87,745
Other (interest on borrowings and bonds)	96,713	84,642	91,931
	1,270,316	**995,301**	**540,101**

31 LOANS AND BORROWINGS (continued)

c) Short-term loans and borrowings

Movements in current loans and borrowings

	31/12/2011	31/12/2010 As restated
	(HRK'000)	(HRK'000)
Balance at 1 January	**808,609**	**360,425**
Proceeds from new loans and borrowings	1,013,168	615,274
Current portion of long-term borrowings	324,879	273,202
Amounts repaid	(1,088,738)	(445,611)
Effect of exchange differences	7,705	5,319
Balance at 31 December	**1,065,623**	**808,609**

Analysis by currency:

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Euro (EUR)	500,744	295,407	73,062
Croatian kuna (HRK)	240,000	240,000	10,010
	740,744	**535,407**	**83,072**

32 LIABILITIES FOR ISSUED LONG-TERM SECURITIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Issued bonds	2,259,126	2,215,552	2,191,860
Liabilities under swap	-	-	24,505
	2,259,126	**2,215,552**	**2,216,365**

In July 2007, the Parent issued bonds in the amount of EUR 300,000,000, with the effective coupon rate of 5.5 percent annually, which mature on a one-off basis in July 2017. The carrying amounts of the bonds approximate their fair values.

In connection with the bonds issue, an interest rate swap was entered into on 10 July 2007 in the amount of EUR 300 million, which resulted in a decrease of the average interest rate to fixed 2.5 percent in 2008 for the entire principal, fixed 2 percent in 2009 for the entire principal and 2 percent in 2010 for the entire principal.

Given the downgrading of the Parent's credit rating in late 2010 and in line with the contractual terms and conditions applicable to the financial derivative, the conditions were met for the counterparty to terminate the interest rate swap, and the Company paid the present value of the derivative at the termination date (November 2010) in the amount of EUR 8.8 million, upon which the mutual contractual rights and obligations of the parties were extinguished. The interest rate on the bonds from November 2010 until the ultimate maturity in July 2017 is determined at the fixed rate of 5.5 annually.

33 OTHER NON-CURRENT LIABILITIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Liabilities to related parties	196,795	199,795	197,757
Trade payables	2,047	2,694	3,286
Other non-current liabilities	28,717	22,038	22,763
	227,559	**224,527**	**223,806**

33 OTHER NON-CURRENT LIABILITIES (continued)

Liabilities to related parties reported in the statement of financial position at 31 December 2011 in the amount of HRK 196,795 thousand (2010: HRK 196,795 thousand) relate entirely to the obligation towards the owner, the City of Zagreb, as the owner of purchased real estate.

The entire amount of other non-current liabilities reported in the statement of financial position at 31 December 2011 in the amount of HRK 28,717 thousand relates to liabilities for the flats sold to employees under a government programme. According to the then applicable regulations, 65 of the income from the sale of flats to employees was to be transferred to the state upon collection. Based on the Law, the Group has no obligation to remit the funds before they have been collected from the employees.

34 DEFERRED INCOME

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Deferred income	5,487,487	5,794,042	6,014,139
	5,487,487	**5,794,042**	**6,014,139**

Deferred income relates to assets received or financed by local self-government units, the owner and other legal entities, free of charge, which are reported in the statement of financial position under deferred income. The decrease in deferred income is recognised in the statement of comprehensive income proportionally over the useful life of the assets to the extent of depreciation of the assets financed out of the budget, in accordance with IAS 20 Accounting for Government Grants and Government Assistance, whereas for repayments of long-term loans used to finance the assets of the Company, the income is recognised to the extent of the amount repaid by the City of Zagreb which assumed the obligation to repay those loans.

35 AMOUNTS OWED TO RELATED PARTIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Trade payables (related companies)	56,300	54,257	137,310
Borrowings from related parties	4,000	5,500	-
	60,300	**59,757**	**137,310**

36 ADVANCES, DEPOSITS AND GUARANTEES RECEIVED

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Advances received from unrelated companies	22,095	19,755	86,537
Advances received from the City of Zagreb	4,039	4,597	1,640
	26,134	**24,352**	**88,177**

37 TRADE PAYABLES

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Domestic trade payables	1,073,649	1,076,886	912,774
Foreign trade payables	939	1,197	1,038
Invoice accruals	859	1,652	12,298
	1,075,447	**1,079,735**	**926,110**

38 AMOUNTS DUE TO EMPLOYEES

	31/12/2011	31/12/2010 As restated	01/01/2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Net salaries payable	95,475	87,290	88,388
Benefits payable to employees	1,602	6,566	1,041
	97,077	**93,856**	**89,429**

39 TAXES AND CONTRIBUTIONS PAYABLE

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Payroll and benefit-related taxes and contributions	73,759	60,975	65,678
Value added tax	33,217	34,901	10,871
Membership and similar fees	26,073	5,486	6,323
Income tax payable	3,725	1,182	2,419
Other taxes payable	264	2,915	126
	137,038	**105,459**	**85,417**

40 OTHER CURRENT LIABILITIES

	31/12/2011	31/12/2010	01/01/2010
		As restated	As restated
	(HRK'000)	(HRK'000)	(HRK'000)
Liabilities under recharged services	371,723	253,768	242,063
Accrued expenses not yet billed	88,951	232,775	203,991
Other fees payable under decisions	73,788	33,262	22,020
Deferred sales	51,325	44,050	56,092
Current portion of long-term provisions for employee benefits (Note 30)	35,171	40,588	42,061
Accrued VAT on prepayments	6	30	11,086
	620,964	**604,473**	**577,313**

Liabilities in respect of recharged services comprise mainly those amounts owed to VIO Branch for services billed to end customers on own behalf but for the account of third parties (treatment fee to Zagrebačke otpadne vode; water use and protection fee to Hrvatske vode).

41 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if they, directly or indirectly, through one or several intermediaries, control, or are controlled by, have a significant influence in, or are under joint control with the reporting entity (which includes the parent, subsidiaries and branches). The City of Zagreb, being the sole owner of the Company, is the only having significant control over the Company's operations.

Trading transactions

Summarised below are transactions between the Group entities and those related parties that are not members of the Group:

	Sales		Purchases of goods and services	
	2011	2010 As restated	2011	2010 As restated
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
City of Zagreb	845,072	807,334	26,687	16,447
	845,072	**807,334**	**26,687**	**16,447**

41 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Outstanding balances from trading transactions at the end of the reporting period:

	Amounts owed by related parties			Liabilities to related parties		
	31/12/2011	31/12/2010 As restated	31/12/2009 As restated	31/12/2011	31/12/2010 As restated	31/12/2009 As restated
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
City of Zagreb	505,374	596,793	723,625	56,300	54,257	137,310
	505,374	**596,793**	**723,625**	**56,300**	**54,257**	**137,310**

Sales from related-party transactions were made at standard market prices that are comparable with the prices charged to unrelated parties.

The outstanding balances are not secured by any security instrument (debentures, bills of exchange, bank guarantees) and will be settled in cash.

Other transactions with related parties

	Receivables from other transactions with related parties			Liabilities from other transactions with related parties		
	31/12/2011	31/12/2010 As restated	31/12/2009 As restated	31/12/2011	31/12/2010 As restated	31/12/2009 As restated
	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)	(HRK'000)
City of Zagreb	1,203,489	1,302,147	1,413,144	196,795	199,795	197,757
	1,203,489	**1,302,147**	**1,413,144**	**196,795**	**199,795**	**197,757**

Other related party transactions include long-term receivables from the owner for guarantees provided for long-term loans to ZET Branch for loans raised for the reconstruction of public transport (2011: HRK 609,735 thousand; 2010: HRK 701,015 thousand). In 2009, long-term receivables from the owner were recorded with respect to the financing of 50% of the lease for the sports facility Arena Zagreb (2011: HRK 684,265 thousand; 2010: HRK 691,252 thousand) based on an agreement between the City of Zagreb and the Republic of Croatia. The remaining balance receivable from other related party transactions relates to amounts due under the agreement on the road construction financing.

41 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

In addition to the City of Zagreb, the Group's related parties include the members of its Management and Supervisory Board. The total remuneration paid to the directors (of Zagrebački holding and its Branches) and members of the supervisory bodies paid in 2011 amounted to HRK 10,855 thousand (2010: HRK 12,358 thousand), as presented below:

	31/12/2011	31/12/2010 As restated
Salaries of the key management personnel and Branch directors (in HRK'000)	9,489	9,791
Fees to the Supervisory Board members (in HRK'000)	1,377	2,567
	10,866	**12,358**

42 EMPLOYEE BENEFITS

At 31 December 2011 provisions for retirement and long-service benefits amount to HRK 231,317 thousand (31 December 2010: HRK 261,265 thousand).

Long-service and termination benefits

Defined benefit plan

According to the Collective Agreement, the Group has the obligation to pay long-service (jubilee awards) to its employees. The Group operates a defined benefit plan for qualifying employees. Under the plan, the employees are entitled to long-service benefits (jubilee awards) according to the average per-employee salary paid for the economic activities in the City of Zagreb according to the following tenure with the Group:

HRK 700 for 5 years of continuous service
1 average monthly salary for 10 years of continuous service
1.5 average monthly salary for 15 years of continuous service
2 average monthly salaries for 20 years of continuous service
2.5 average monthly salaries for 25 years of continuous service
3 average monthly salaries for 30 years of continuous service
3.5 average monthly salaries for 35 years of continuous service
4 average monthly salaries for 40 years of continuous service

42 EMPLOYEE BENEFITS (continued)

As per Collective Agreement, the employees retiring at regular age are entitled to a one-off retirement allowance amounting to 3 average monthly salaries paid from the economic activities in the City of Zagreb over the past three months.

The present value of defined benefit obligations and the related current and past service costs have been determined using the Projected Credit Unit method and the discount rate of 7.2 percent (2010: 6.2 %), which reflects the yield on government bonds.

The present value of defined benefit obligations and the related current and past service cost have been determined using the Projected Credit Unit method.

Key assumptions:	2011	2010
Discount rate (in %)	7.2	6.2
Fluctuation rate (%)	3.5	5.5
Average expected remaining service period (in years)	20	20

The amount included in the statement of financial position arising from the Company's obligation in respect of its defined long-service and retirement benefits is as follows:

	2011	2010
	(HRK'000)	(HRK'000)
Present value of the long-service benefit obligation	173,197	202,565
Present value of the termination benefit obligation	58,120	58,700
Obligation included in the statement of financial position	**231,317**	**261,265**

Of which by maturity:

	2011	2010
	(HRK'000)	(HRK'000)
Current	35,171	40,588
Non-current	196,146	220,677
	231,317	**261,265**

43 FINANCIAL INSTRUMENTS

41.1 Capital risk management

Gearing ratio

The capital structure is reviewed at least semi-annually by analysing the cost of capital and the related risks.

Gearing ratio at the end of the reporting period:

	2011	2010 As restated
	(HRK'000)	(HRK'000)
Debt	***5,296,331***	***5,171,187***
Loans, borrowings and financial leases (long-term and current portion)	4,441,921	4,452,361
Liabilities under issued long-term securities	2,259,126	2,215,552
- Liability under financial lease of the Arena Zagreb (as it reported as receivable from the City of Zagreb and the Croatian Government)	(794,981)	(795,711)
- Loan debt of ZET, for which an amount receivable from the City of Zagreb has been included (on the basis of the City guarantees provided for the loan debt)	(609,735)	(701,015)
Less: cash in hand and with banks	***143,903***	***125,455***
Net debt	***5,152,428***	***5,045,732***
Equity	***7,191,641***	***6,637,907***
Net debt-to-equity ratio	**71.6%**	**76.0%**

43 FINANCIAL INSTRUMENTS (continued)

43.2 Categories of financial instruments

	31/12/2011	31/12/2010 As restated
	(HRK'000)	(HRK'000)
Financial assets		
Cash with banks and in hand	143,903	125,455
Financial assets at fair value	544	618
Long-term deposits and other financial assets	171,228	136,357
Receivables from related companies and trade debtors	2,729,137	2,985,194
Receivables for investments in government bonds	13,390	13,334
Receivables for loans and credit sales	40,391	55,073
Amounts due from employees	2,304	2,081
Other receivables	771,568	784,768
Financial liabilities		
Finance lease agreements	1,347,348	1,418,397
Loans, borrowings and financial leases (long-term and current portion)	3,094,573	3,033,964
Liabilities under issued long-term securities	2,259,126	2,215,552
Liabilities to related companies and trade debtors	1,334,589	1,341,981
Liabilities in respect of loans, deposits and similar	26,134	24,352
Amounts due to employees	97,077	93,856
Other current liabilities	585,793	563,885

43 FINANCIAL INSTRUMENTS (continued)

43.3 Financial risk management objectives

For the purpose of forecasting potential scenarios that may have a negative impact on the operations and achievement of the Group's objectives, the Financial Service Unit of Zagrebački holding d.o.o. identifies financial risks and their potential impact on the Group's future operations as well as manages those risks.
The various financial risks to which the Group is exposed in the course of its operations are sought to be minimised, avoided and rolled over in order to safeguard its operations. If economically feasible, certain financial risks are accepted.
The Financial Unit performs financial services for the Group and coordinates its financial operations on the domestic financial market, as well as monitors and manages financial risks that arise from the operations of the Group. The key risks comprise liquidity risk, foreign exchange risk and interest rate risk.
They are described below, along with the methods applied to manage those risks. In 2011, the Group did not use any derivative instruments to manage the risks. The Group does not use derivatives for speculative purposes.

43.4 Market risk

The communal service prices are proposed by the Management Board based on the market prices, and determined and approved by the City of Zagreb..

The activities of the Group expose it to the financial risks of changes in foreign exchange and interest rates (see below). The market risk exposure is supplemented by sensitivity analyses. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

43.5 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below

	Liabilities		Assets	
	31/12/2011	31/12/2010 As restated	31/12/2011	31/12/2010 As restated
	(HRK'000)		(HRK'000)	
EUR	5,440,505	5,313,450	2,061,260	2,172,026
USD	-	-	193	206
Other currencies	-	-	55	38

43 FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to euro (EUR), since most of its debt i.e. 78% is tied to that currency. The following table details the Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact		Impact of other currencies	
	31/12/2011	**31/12/2010** As restated	**31/12/2011**	**31/12/2010** As restated	**31/12/2011**	**31/12/2010** As restated
	(HRK'000)		(HRK'000)		(HRK'000)	
(Loss)/profit	(33,792)	(31,414)	2	2	1	-

43.6 Interest rate risk management

Given that 57 percent of the Company's loan debt bears interest at variable rates, the Group is exposed to interest rate risk. Set out below are the interest rates at 31 December 2011 and 31 December 2010 on loans and borrowings, and issued bonds:

	2011	**2010** As restated
Euribor	22.90%	18.68%
Libor	11.05%	12.01%
Zibor	0.32%	0.36%
Treasury bills of the Ministry of Finance	22.35%	25.49%
Fixed rate of interest	43.38%	43.46%
	100.00%	**100.00%**

43 FINANCIAL INSTRUMENTS (continued)

Out of the total loan debt of the Group, 43.38 percent are agreed at fixed rates. The majority of the loan debt bearing fixed rates of interest comprises issued bonds with a fixed coupon rate of 5.50 % p.a.

EURIBOR and EUR LIBOR tied loan debt accounts for 33.95 of the total loan debt, whereas 22.35 of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 56.62 percent of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections. For the purpose of managing credit risk, the Group is actively monitoring the interest rate market and liquidity of the instruments on the market. Given the volatility of the EURIBOR and the yield on the Treasury Bills of the Croatian Ministry of Finance, the Group finds the interest rate risk acceptable and, consequently, has entered into no derivative instruments as a hedge against the interest rate risk.

The Group identifies the mismatch between the interest-bearing transactions in which the Group is the payee and the payer and seeks to achieve balance with the interest receivable while agreeing the interest rates payable.

43.7 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class. Customers are classified mainly on the basis of their official financial statements and the Group's history of trading with each customer.

The Group transacts with a large number of customers from various industries and of various size, as well as with citizens. Trade receivables are presented net of allowance for bad and doubtful accounts.

43.8 Liquidity risk management

Because of the liquidity problems prevailing in the Croatian economy, the liquidity risk has a highly negative impact on the Group's operations. Instruments used to monitor and mitigate liquidity risk are as follows: analysing and managing cash flows; analysing assets and the sources of financing those assets; analysing customer creditworthiness; collateral; credit and revolving facilities, and similar.

43 FINANCIAL INSTRUMENTS (continued)

43.8 Liquidity risk management (continued)

43.8.1 Liquidity and interest rate risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both principal and interest cash flows.

	Weighted average effective interest rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
(HRK'000)	%							
At 31 December 2010, as restated								
Non-interest bearing								
Liabilities to related companies and trade debtors	-	1,139,492	4,060	530	530	530	196,839	1,341,981
Liabilities in respect of loans, deposits and similar	-	24,352	-	-	-	-	-	24,352
Amounts due to employees	-	93,856	-	-	-	-	-	93,856
Other current liabilities	-	563,885	-	-	-	-	-	563,885
Variable-rate instruments								
Finance lease obligations	3.84%	155,611	160,410	158,567	158,540	158,540	1,295,161	2,086,829
Loans and borrowings payable	4.64%	963,253	371,605	356,795	339,738	325,340	1,214,224	3,570,955
Fixed-rate instruments								
Loans and borrowings payable	6.92%	11,175	8,767	6,600	5,291	4,897		36,730
Issued bonds	5.50%	121,855	121,855	121,855	121,855	121,855	2,459,263	3,068,538
		3,073,479	**666,697**	**644,347**	**625,954**	**611,162**	**5,165,487**	**10,787,126**

43 FINANCIAL INSTRUMENTS (continued)

43.8 Liquidity risk management (continued)

43.8.1 Liquidity and interest rate risk tables (continued)

	Weighted average effective interest rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
(HRK'000)	%							
At 31 December 2011								
Non-interest bearing								
Liabilities to related companies and trade debtors	-	1,135,747	1,060	530	458	-	196,794	1,334,589
Liabilities in respect of loans, deposits and similar	-	26,134	-	-	-	-	-	26,134
Amounts due to employees	-	97,077	-	-	-	-	-	97,077
Other current liabilities	-	585,793	-	-	-	-	-	585,793
Variable-rate instruments								
Finance lease obligations	4.16%	166,222	164,424	164,361	164,361	164,361	1,160,878	1,984,607
Loans and borrowings payable	5.08%	1,246,069	370,167	356,379	340,675	326,091	992,798	3,632,179
Fixed-rate instruments								
Loans and borrowings payable	7.00%	7,972	5,813	5,470	5,127	380		24,762
Issued bonds	5.50%	124,252	124,252	124,252	124,252	124,252	2,321,252	2,942,512
		3,389,266	**665,716**	**650,992**	**634,873**	**615,084**	**4,671,722**	**10,627,653**

43 FINANCIAL INSTRUMENTS (continued)

43.8 Liquidity risk management (continued)

43.8.1 Liquidity and interest rate risk tables (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets until contractual maturities, including interest to be earned on those assets.

(HRK'000)	Weighted average effective interest rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
	%							
At 31 December 2010, as restated								
Non-interest bearing								
Cash and cash equivalents	-	125,455	-	-	-	-	-	125,455
Financial assets at fair value through profit or loss	-	-	-	-	-	-	618	618
Receivables from related companies and trade debtors	-	1,683,047	128,659	128,659	165,467	130,392	748,970	2,985,194
Receivables for investments in government bonds	-	-	-	-	-	-	13,334	13,334
Amounts due from employees	-	2,081	-	-	-	-	-	2,081
Other receivables	-	117,038	27,769	27,427	27,016	26,704	558,814	784,768
Variable-rate instruments								
Long-term deposits and other financial assets	5.05%	2,660	2,660	2,660	2,660	2,660	77,945	91,245
Fixed-rate instruments								
Long-term deposits and other financial assets	2.58%	25,543	2,583	1,940	1,942	1,944	89,645	123,597
Given loans	6.07%	19,379	4,804	1,494	1,493	1,404	10,001	38,575
Receivables for given loans for flats	1.17%	2,497	1,976	1,885	1,797	1,715	8,531	18,401
		1,977,700	**168,451**	**164,065**	**200,375**	**164,819**	**1,507,858**	**4,183,268**

43 FINANCIAL INSTRUMENTS (continued)

43.8 Liquidity risk management (continued)

43.8.1 Liquidity and interest rate risk tables (continued)

	Weighted average effective interest rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
(HRK'000)	%							
At 31 December 2011								
Non-interest bearing								
Cash and cash equivalents	-	143,903	-	-	-	-	-	143,903
Financial assets at fair value through profit or loss	-	-	-	-	-	-	544	544
Receivables from related companies and trade debtors	-	1,525,648	132,176	173,841	132,176	132,176	633,120	2,729,137
Receivables for investments in government bonds	-	-	-	-	-	-	13,390	13,390
Amounts due from employees	-	2,304	-	-	-	-	-	2,304
Other receivables	-	115,201	28,118	27,738	27,439	27,234	545,838	771,568
Variable-rate instruments								
Long-term deposits and other financial assets	6.80%	3,812	3,812	3,812	3,812	3,812	79,619	98,679
Fixed-rate instruments								
Long-term deposits and other financial assets	3.97%	59,536	1,971	1,971	1,971	1,971	89,709	157,129
Given loans	6.14%	10,252	5,204	1,997	1,989	1,933	4,428	25,803
Receivables for given loans for flats	1.18%	1,911	2,004	1,998	1,992	1,986	6,403	16,294
		1,862,567	**173,285**	**211,357**	**169,379**	**169,112**	**1,373,051**	**3,958,751**

43. FINANCIAL INSTRUMENTS (continued)

43.9. Fair value of financial instruments

43.9.1. Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 indicators - indicators of fair value derived from data other than quoted prices from Level 1 for observable assets or liabilities (i.e. their prices) or indirectly (derived from the price); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(HRK'000)	Level 1	Level 2	Level 3	31/12/2011 Total
Financial assets at fair value through profit or loss				
Investments in shares entitling to an ownership share of not more than 20%	544	-	-	544
Financial assets available for sale				
Investments in shares entitling to an ownership share of not more than 20%	6,868	-	-	6,868
	7,412	**-**	**-**	**7,412**

(HRK'000)	Level 1	Level 2	Level 3	31/12/2010 As restated Total
Financial assets at fair value through profit or loss				
Investments in shares entitling to an ownership share of not more than 20%	617	-	-	617
Financial assets available for sale				
Investments in shares entitling to an ownership share of not more than 20%	7,175	-	-	7,175
	7,792	**-**	**-**	**7,792**

44 COMITTMENTS

The Group has entered into contracts that are still in progress. Costs to be incurred under those contracts have been estimated at HRK 137,555 thousand, whereas the estimated value of investments amounts to HRK 150,733 thousand.

45 CONTINGENT LIABILITIES

Environmental matters

Included in the Group is Branch **ZGOS**, whose principal business is communal and other waste disposal and the rehabilitation of the Jakuševac landfill, as well as to assist the City in establishing a long-term communal waste management development strategy for the City of Zagreb. The environmental effects are monitored by local and governmental environmental authorities. In respect of future costs of maintenance and supervision of the landfill the Group (i.e. ZGOS) recorded a provision of HRK 24,293 thousand, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (2010: HRK 28,025 thousand).

Taxation

The Parent and its subsidiaries are subject to corporate income tax on their taxable profits in Croatia and those other tax jurisdictions in which they operate. The supervisory inspection of the value-added tax and corporate income tax for the year 2010 by the Tax Administration is currently in progress.

Restructuring

In 2010 the Management of the Group adopted a programme of measures and activities aimed at restructuring and streamlining the operations, which will continue in the following periods.

Concession rights

Vodoopskrba i odvodnja, a branch within the Company, pays a concession fee for the water supply, which amounts to HRK 0,08 per sq. m.

46 EVENTS AFTER THE REPORTING DATE

As from 1 March 2012, increased prices for water supply and public transport services become effective.

47 PENSION INSURANCE

The Group does not operate a separate retirement plan for its employees or management, either in Croatia or abroad. Thus, no provisions for those obligations have been made.

The Group pays pension contributions on behalf of its employees in the Republic of Croatia in accordance with applicable legal regulations. These contributions form the basis for the pensions payable out of the Croatian National Pension Fund to Croatian employees upon their retirement. Currently, there are no outstanding retirement benefit obligations, either for the Group's present or former employees.

48 LEGAL AND REGULATORY ENVIRONMENT

The operations of the Group and its revenue are regulated by several laws, the most significant ones being as follows:

- The Law on Communal Management
- The Law on Local Self-government
- The Law on Waste
- The Institutions Act
- The Law on Waters
- The Cemeteries Act
- The Building Maintenance Act
- The Act on Free Zones

49 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue 30 September 2012.

Ivo Čović, Graduate Engineer

President of the Management Board

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