

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

Consolidated financial statements
For the year ended 31 December 2012
Together with Independent Auditor's Report

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

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

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- 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 their compliance with the Croatian Accounting Act. The Management Board 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.

These consolidated financial statements were authorised for issue by the Management Board on 28 June 2013.

Signed on behalf of the Management Board:

Ivo Čović, Graduate Engineer


Zagrebački Holding d.o.o., Zagreb
Avenija Vukovar 41
10000 Zagreb
Republic of Croatia

ZAGREBAČKI HOLDING
d.o.o.
ZAGREB, Ulica grada Vukovara 41

28 June 2013

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the company Zagrebački Holding d.o.o. and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012 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 consolidated 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 unconsolidated 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 audit opinion.

The company is registered in the Court Register in Zagreb: MBS 030022063; paid up share capital 44.900,00 kuna; board members: Eric Daniel Olcott and Branislav Vrtacnik; commercial bank: Zagrebačka banka d.d., Paromiranska 2, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkova 6, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240906; SWIFT Code: RZBIHR2X IBAN: HR10 2484 0081 1002 4090 6

Deloitte refers to Deloitte Touche Tohmatsu Limited, a legal person established in accordance with the law of the United Kingdom of Great Britain and Northern Ireland (originally "UK private company limited by guarantee"), and its network of members, each of which is a separate and independent legal entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

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. Those leases are recognised in the Group's books as operating leases. 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 2012, the receivables under financial lease, less future income earned, would have been higher by HRK 646,454 thousand, property, plant and equipment would have been lower by HRK 888,037 thousand, retained earnings would have been lower by HRK 211,301 thousand, and the result for the year then ended would have been lower by HRK 30,282 thousand.

Qualified opinion

In our opinion, except for the potential effects of the matters discussed in Paragraph 1) and the effects of the matters presented in Paragraph 2) 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 2012, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

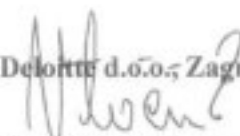
Independent Auditor's Report (continued)

Emphasis of matter

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

a) Title to property

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


Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor and Member of the Board

28 June 2013

Consolidated statement of comprehensive income

For the year ended 31 December 2012

		2012	2011
	Notes	(in HRK'000)	As restated (in HRK'000)
OPERATING INCOME			
Sales	5	4,284,495	4,019,061
Other operating income	6	1,267,982	1,296,178
Total		5,552,477	5,315,239
OPERATING EXPENSES			
Cost of material and services	7	(2,629,064)	(2,509,154)
Staff costs	8	(1,863,815)	(1,842,958)
Depreciation and amortisation	9	(621,722)	(601,260)
Other expenses	10	(35,887)	(31,040)
Impairment allowance on current and non-current assets	11	(244,070)	(275,101)
Provisions for risks and charges	12	(106,246)	(58,419)
Other operating expenses	13	(50,616)	(60,896)
Total		(5,551,420)	(5,378,828)
FINANCIAL INCOME	14	66,256	111,670
FINANCIAL EXPENSES	15	(403,309)	(509,334)
TOTAL INCOME		5,618,733	5,426,909
TOTAL EXPENSES		5,954,729	5,888,162
LOSS BEFORE TAX		(335,996)	(461,253)
INCOME TAX EXPENSE	16	(8,818)	(6,061)
LOSS FOR THE YEAR		(344,814)	(467,314)
Attributable to:		(344,814)	(467,314)
Attributable to the equity holders of the Company		(346,696)	(468,951)
Non-controlling interests		1,882	1,637
Other comprehensive(loss) / income			
Gains on revaluation of property, net of tax	29	(127)	694,086
Total comprehensive (loss) / income for the year		(344,941)	226,772
Total comprehensive (loss) / income attributable to:		(344,941)	226,772
Attributable to the equity holders of the Company		(346,823)	225,135
Non-controlling interests		1,882	1,637

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

Consolidated statement of financial position

At 31 December 2012

	Notes	31/12/2012	31/12/2011	01/01/2011
			As restated	As restated
		(in HRK'000)	(in HRK'000)	(in HRK'000)
NON-CURRENT ASSETS				
Intangible assets	17	54,446	21,622	20,422
Property, plant and equipment	18	15,033,194	15,345,469	14,773,457
Investment property	19	2,764,386	2,823,683	2,942,460
Other financial assets	20	122,522	121,827	120,807
Non-current receivables	21	1,744,683	1,896,740	2,017,752
Deferred tax assets	16	65,171	66,772	64,561
Total non-current assets		19,784,402	20,276,113	19,939,459
CURRENT ASSETS				
Inventories	22	788,494	840,020	837,701
<i>Current receivables</i>				
Amounts owed by related parties	23	413,615	505,374	596,793
Trade receivables	24	1,087,791	1,020,274	1,086,254
Amounts due from employees	25	3,206	2,304	2,081
Receivables from the State and other institutions	26	23,763	18,186	17,758
Other receivables	27	170,919	125,824	137,570
<i>Total current assets</i>		<i>1,699,294</i>	<i>1,671,962</i>	<i>1,840,456</i>
Other financial assets	20	40,279	56,813	23,343
Cash and cash equivalents	28	90,730	143,903	125,455
Total current assets		2,618,797	2,712,698	2,826,955
TOTAL ASSETS		22,403,199	22,988,811	22,766,414
OFF-BALANCE SHEET ITEMS	41	880,379	1,007,819	1,235,872

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

Consolidated statement of financial position (continued)

At 31 December 2012

	Notes	31/12/2012	31/12/2011	01/01/2011
EQUITY			As restated	As restated
		(in HRK'000)	(in HRK'000)	(in HRK'000)
Share capital	29	4,208,629	4,208,629	4,208,629
Revaluation reserve		2,861,456	2,861,583	2,167,497
Other reserves		97,300	97,300	15,125
(Accumulated losses) / retained earnings		(54,247)	292,449	761,400
Non-controlling interests		2,950	1,068	(569)
Total equity		7,116,088	7,461,029	7,152,082
NON-CURRENT LIABILITIES				
Provisions	30	422,299	394,522	437,517
Loans payable	31	2,843,237	3,171,605	3,457,060
Liabilities under issued long-term securities	32	2,263,687	2,259,126	2,215,552
Other non-current liabilities	33	257,128	227,559	224,619
Deferred income	34	5,293,442	5,487,487	5,794,042
Deferred tax liability	16	693,361	693,493	520,113
Total non-current liabilities		11,773,154	12,233,792	12,648,903
CURRENT LIABILITIES				
Amounts owed to related parties	35	141,341	60,300	59,757
Loans and borrowings	31	1,510,939	1,270,316	995,301
Liabilities in respect of loans, deposits and similar	36	28,663	26,134	24,352
Trade payables	37	1,060,304	1,082,159	1,082,323
Amounts due to employees	38	93,130	97,077	93,856
Taxes and contributions payable	39	126,889	137,037	105,459
Other current liabilities	40	552,691	620,967	604,381
Total current liabilities		3,513,957	3,293,990	2,965,429
TOTAL EQUITY AND LIABILITIES		22,403,199	22,988,811	22,766,414
OFF-BALANCE SHEET ITEMS	41	880,379	1,007,819	1,235,872

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

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital (in HRK'000)	Revaluation reserves (in HRK'000)	Other reserves (in HRK'000)	Retained earnings/ accumulated losses (in HRK'000)	Equity attributable to of the Parent (in HRK'000)	Non-controlling interest (in HRK'000)	Total (in HRK'000)
Opening balance at 01/01/2010 (As restated)	4,208,629	2,166,424	15,125	789,672	7,179,850	236	7,180,086
Other comprehensive income	-	1,073	-	-	1,073	-	1,073
Loss for the year	-	-	-	(28,272)	(28,272)	(805)	(29,077)
At 1 January 2011 (as restated)	4,208,629	2,167,497	15,125	761,400	7,152,651	(569)	7,152,082
Capital reserves allocated as per a decision of the equity holder	-	-	82,175	-	82,175	-	82,175
Other comprehensive income	-	694,086	-	-	694,086	-	694,086
Loss for the year	-	-	-	(468,951)	(468,951)	1,637	(467,314)
Balance at 31 December 2011 (As restated)	4,208,629	2,861,583	97,300	292,449	7,459,961	1,068	7,461,029
Other comprehensive loss	-	(127)	-	-	(127)	-	(127)
Loss for the year	-	-	-	(346,696)	(346,696)	1,882	(344,814)
Balance at 31 December 2012	4,208,629	2,861,456	97,300	(54,247)	7,113,138	2,950	7,116,088

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

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Loss for the year	(344,814)	(467,314)
Tax expense recognised in the income statement	8,818	6,061
Finance cost recognised in profit or loss	383,098	365,807
Investment income recognised in profit or loss	(41,878)	(36,846)
Impairment allowance on current assets	179,174	152,765
Change in the fair value of investment property	59,297	118,777
Impairment allowance on non-current assets	5,599	3,559
Depreciation and amortisation	621,722	601,260
Gains / (losses) from sale of assets	9,502	(3,216)
Increase / (decrease) in long-term provisions	27,777	(42,995)
Decrease in deferred income on assets financed by others	(194,045)	(224,380)
Foreign exchange losses	4,858	81,296
Changes in working capital:		
Decrease in inventories	29,475	18,772
Decrease of prepayments for non-current assets	4,287	13,748
Increase in trade receivables	(246,691)	(86,785)
Decrease in receivables from related companies	91,759	91,419
Increase in amounts due from employees	(902)	(223)
Increase in receivables from the State	(5,577)	(428)
(Increase) / decrease in other receivables	(32,387)	14,958
Increase in financial assets	(695)	(1,020)
Increase in liabilities to suppliers and related parties	59,186	379
Increase in advances received	2,529	1,782
(Decrease) / increase in taxes and contributions payable	(9,553)	28,489
(Decrease) / increase in amounts due to employees	(3,947)	3,221
Decrease in other non-current liabilities	(74,282)	(98,715)
(Decrease) / increase in other current liabilities	(68,276)	16,586
Net cash generated from operations	464,034	556,957

Consolidated statement of cash flows (continued)

For the year ended 31 December 2012

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Cash flows from operating activities		
Cash generated from operations	464,034	556,957
Income taxes paid	(7,812)	(5,407)
Interest paid	(279,379)	(264,349)
Net cash generated from operating activities	176,843	287,201
Cash flows from investing activities		
Purchases of tangible and intangible assets	(345,825)	(346,204)
Proceeds from sale of tangible assets	6,204	5,913
Increase in non-current receivables	151,714	113,287
Decrease / (increase) in current financial assets	16,534	(33,470)
Interest paid	29,170	33,634
Net cash used in investing activities	(142,203)	(226,840)
Cash flows from financing activities		
Repayments of loans and borrowings	(2,088,926)	(1,102,009)
Received loans and borrowings	2,001,113	1,060,096
Net cash (used in)/generated from financing activities	(87,813)	(41,913)
Net (decrease) / increase in cash	(53,173)	18,448
Cash at 1 January	143,903	125,455
Cash at 31 December	90,730	143,903

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 2012 Zagrebački Holding d.o.o., Zagreb ("the Company") comprised the following business units/branches:

Name of the branch:	Headquarters	Form of organisation	Principal activity	Ownership interest	
				2012	2011
Zagrebački holding	Avenija Vukovar 41	limited liability company	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	Folnegovičeva 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	Ozašjska 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

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

1. GENERAL INFORMATION (CONTINUED)

Activities (continued)

Name of the branch:	Headquarters	Form of organisation	Principal activity	Ownership interest	
				2012	2011
7 Zagrebparking	Šubičeva 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	Šubičeva 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 Sports facility management	Trg K. Čosića 11	branch	Sports facility management and maintenance	100% Zg. holding	100% Zg. holding
15 AGM	Mihanovićeve 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	
				2012	2011
1 Gradska plinara Zagreb d.o.o.	Radnička 1	limited liability company	Gas distribution	100% Zg. holding	100% Zg. holding
2 Gradska plinara Zagreb - Opskrba d.o.o.	Radnička 1	limited liability company	Gas supply	100% Zg. holding	100% Zg. holding
3 Zagreb plakat d.o.o.	Savska cesta 1	limited liability company	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	limited liability company	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 activities	-	100% Zg. holding
7 Zagrebačko investicijsko društvo d.o.o.	Av.Dubrovnik 15	limited liability company	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
- Warehousing and rental services
- Flat, business premises and garage construction and sale
- Other services

1. GENERAL INFORMATION (CONTINUED)**Staff**

At 31 December 2012, the Group had 12,575 employees (31 December 2011: 12,731 employees), as presented below:

Group	No. of staff	No. of staff
	31/12/2012	31/12/2011
Zagrebački holding d.o.o.	11,620	11,779
Subsidiaries	955	952
	12,575	12,731

Directors and management

The members of the Management Board of Zagrebački holding d.o.o. were as follows:

2012	2011
1 Ivo Čović, President until 30 June 2013	1 Ivo Čović, President
2 Branimir Delić, Member until 12 October 2012	2 Branimir Delić, Member
3 Vlasta Pavić, Member until 30 June 2013	3 Vlasta Pavić, Member
4 Alenka Košiša Čičin-Šain, Member until 30 June 2013	4 Alenka Košiša Čičin-Šain, Member
5 Tomislav Čulo, Member since 12 October 2012 until 30 June 2013	

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

Subsidiaries:	Director as at 31 December 2012
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, Lovorko Mamić
4. Zagreb arena d.o.o.	Tomislav Pervan
5. Gradska ljekarna Zagreb	Mila Bucalić

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

The members of the Supervisory Board of Zagrebački Holding during 2012 were as follows:

1. Ivo Družić, President (until 28 February 2012)
2. Josip Kregar, Vice President (until 28 February 2012)
3. Anđelka Buneta, članica (until 28 February 2012)
4. Dragan Kovačević, Member (until 1 May 2012)
5. Mato Crkvenac, President (since 28 February 2012 until 30 June 2013)
6. Maruška Vizek, Vice President (since 28 February 2012 until 30 June 2013)
7. Hrvoje Šimović, Member (since 28 February 2012 until 30 June 2013)
8. Nina Tepeš, Member (since 28 February 2012 until 30 June 2013)

The members of the Supervisory Board of Zagrebački Holding during 2011 were as follows:

1. Ivo Družić, President (until 28 February 2012)
2. Josip Kregar, Vice President (until 28 February 2012)
3. Anđelka Buneta, Member (until 28 February 2012)
4. Dragan Kovačević, Member (until 1 May 2012)
5. Mato Crkvenac, President (until 28 February 2012)
6. Maruška Vizek, Vice President (until 28 February 2012)
7. Hrvoje Šimović, Member (until 28 February 2012)

1. GENERAL INFORMATION (CONTINUED)**Directors and management (continued)**

The members of the Assembly of Zagrebački Holding during 2012 were as follows:

1 Davor Bernardić (until 27/09/2012)	12 Nenad Matić (24/05-27/09/2012)
2 Dragan Korolija-Marinić (until 27/09/2012)	13 Dragan Kovačević (24/05-27/09/2012)
3 Zvane Brumnić (until 27/09/2012)	14 Mihaela Grubišić Šeba (since 27/09/2012)
4 Dragan Vučić (until 27/09/2012)	15 Đurđica Jurić (since 27/09/2012)
5 Jurica Meić (until 27/09/2012)	16 Viktor Gotovac (since 27/09/2012)
6 Tatjana Holjevac (until 27/09/2012)	
7 Vesna Brezić (until 27/09/2012)	
8 Danira Bilić (until 27/09/2012)	
9 Velimir Srića (until 24/05/2012)	
10 Jozo Radoš (until 24/05/2012)	
11 Darinko Kosor (until 27/09/2012)	

Zagreb Mayor issued on 19 June 2013 the conclusion according to which the Company is represented by the Mayor of Zagreb in the General Assembly. Previous conclusion was changed on 28th June 2013 in a way that City of Zagreb is represented in the General Assembly by three representatives:

1. Milan Bandić, Joint Representative
2. Sandra Švaljek, Representative
3. Slavko Kojić, Representative

The members of the Assembly during 2011 were as follows:

1 Davor Bernardić	12 Vesna Brezić
2 Boris Šprem (until 19 December 2011)	13 Dragan Korolija-Marinić (since 19 December 2011)
3 Zvane Brumnić	14 Dragan Vučić (since 19 December 2011)
4 Mirando Mirsić (until 19 December 2011)	15 Danira Bilić (since 22/02/2011)
5 Jurica Meić	16 Danira Bilić (since 24/05/2012)
6 Tatjana Holjevac	17 Dragan Kovačević (since 25/05/2012)
7 Jasen Mesić (until 22/02/2011)	
8 Velimir Srića (until 24/05/2012)	
9 Radimir Čačić (until 12/07/2011)	
10 Jozo Radoš (until 25/05/2012)	
11 Darinko Kosor	

1. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- **Amendments to IFRS 1 First-time Adoption of IFRS** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 Financial Instruments: Disclosures** – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 Income Taxes** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

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

Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 Financial Instruments**, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015)
- **IFRS 10 Consolidated Financial Statements**, published in May 2011 and amended in 2012, supersedes the previous version of IAS 27 (2008) "Consolidated and Separate Financial Statements", (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 11 Joint Arrangements**, published in May 2011 and amended in 2012, superseded IAS 31 "Interests in Joint Ventures" (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 12 Disclosure of Interests in Other Entities**, published in May 2011 and amended in 2012 (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 13 Fair Value Measurement**, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 Separate Financial Statements (as amended in 2011)** - Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 "Consolidated Financial Statements", (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013)
- **IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)**. This version supersedes IAS 28 (2003) Investments in Associates (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013)

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

Standards and Interpretations in issue not yet adopted (continued)

- **Amendments to IFRS 1 *First-time Adoption of IFRS***, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 1 *Presentation of Financial Statements*** - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 19 *Employee Benefits*** – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*** ((effective for annual periods beginning on or after 1 January 2013).
- **Amendments to various Standards and Interpretations from Annual improvements 2009 – 2011 Cycle**, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009 –2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013).
- **Transition guidance**, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to investment entities for IFRS 10, IFRS 12, IAS 27** published in October 2012 (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and

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

Standards and Interpretations in issue not yet adopted (continued)

anticipates that the adoption of IFRS 9 *Financial Instruments* will have a material impact on the measurement and disclosure of financial statements and the adoption of IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement* will result in more detailed disclosures in the consolidated financial statements.

The Management Board anticipates that the adoption of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* will not have a material impact on the financial statements of the Group in the period of their adoption.

It also anticipates that the adoption of the above-mentioned amendments to IAS 32 and IFRS 7 will result in enhanced disclosures about the offsetting of financial assets and financial liabilities in the future. In addition, the Management Board considers that IFRIC 20 will have no impact on the consolidated financial statements of the Group because the Group is not engaged in the activities of this nature.

3. 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., as the Parent, and 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 Notes 18 and 19 to the financial statements.

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 3x.

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 2012, the official exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.545624 and HRK 5.726794, respectively (31 December 2011: HRK 7.53042 for 1 US dollar and HRK 5.81994 for 1 euro).

d) Intangible assets

Computer 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;
- the intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Intangible assets (continued)

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

- 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.

f) 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 subsequently 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 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.

3. 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 life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being 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 at the rates ranging from 1.25% to 25 % annually, over the following useful lives:

	2012	2011
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.

3. 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 Group's facilities, 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.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense, 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 credited immediately to income, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment properties

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 2012 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 2012.

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 financial assets designated as at FVTPL.

3. 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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative not designated or effective as a hedging instrument.

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 Company'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 statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Non-current financial assets (continued)

Held-to-maturity (HTM) 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 included in profit or loss for the period.

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 foreign 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.

3. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Trade receivables and prepayments

Trade debtors 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. Actual gains and losses are recognised in the period in which they arise.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) 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), solidarity support (in case of death of the employee, the death of a close family of workers, disability, purchasing medical supplies, for the birth of the child, sick leave longer than 90 days, etc.), 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 government bonds are consistent with the currency and estimated terms of the benefit obligation.

l) Income tax

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

Current tax

The tax currently payable is based on 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.

3. 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.

Current and deferred taxes for the period

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

VAT (VAT return)

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.

3. 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.

3. 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.

3. 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) (continued)

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Operating segment reporting

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. 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;
- - Revenue from waste removal and cleaning contain income from the provided waste removal and cleaning services at rates determined in the applicable price list of the City of Zagreb;

3. 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.
- i. 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - the Company 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 entity; and
 - the costs incurred or to be incurred on those transactions can be measured reliably.
- ii. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Revenue recognition (continued)

iii. 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.

- iv. Interest income is recognised on a time basis so as to capture the actual yield on an asset.
- v. 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.

3. 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.

Incentives received to enter into operating leases are recognised as liabilities. 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.

3. 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 Group 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.

w) Comparatives

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

3. 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 and intangible assets

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.

Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and payments.

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 2012, deferred tax assets on available tax differences were recognised. The carrying amount of deferred tax assets is disclosed in Note 16.

3. 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 2012 provisions for employee benefits amounted to HRK 297,979 thousand (at 31 December 2011 the total provisions amounted to HRK 269,878 thousand) (see Note 30).

Consequences of certain legal actions

Parent and its subsidiaries are involved in legal actions which have arisen from the regular course of its 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).

4. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2010 AND 2011 FINANCIAL STATEMENTS I 2011. 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 2010 and 2011. 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 2011, as required by International Accounting Standard 8.

Investment properties - IAS 40

In 2012, the accounting policy for investment property changed, as a portion of properties previously measured in accordance with IAS 16 "Property, Plant and Equipment" became measured accounted for using another Standard - IAS 40 "Investment Property". According to the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the change should be applied retrospectively to prior periods if applicable. In 2012 all properties falling within the scope of IAS 40 were measured at fair value as appraised by a certified valuation expert. To meet the IAS 8 requirements, the certified valuation expert appraised the properties at the following three dates: at 31 December 2012, and retrospectively at 31 December 2011 and 31 December 2010. As required by IAS 8, all the components for each period presented should be restated as if the new policy (IAS 40) had always been applied, as presented in the statements of the financial position and of comprehensive income for the years 2010 and 2011.

Provisions for employee benefits (solidarity support) - IAS 19

In 2012 provisions were recognised for solidarity support specified under the Union Agreement (in case of death of the employee, a member of his/her close family, purchases of medical aids, childbirth, sick leave beyond 90 days, etc.). The change was made retrospectively. 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 2010 and 2011 is presented in this note.

Restatement of financial expenses and 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. The impact of the restatements is disclosed in this note.

The total effects of the corrections on the operating results for the years 2010 and 2011 are presented in the table below:

	As initially reported	Result,	Effect of
	iskazan rezultat	as restated	the
	(in HRK'000)	(in HRK'000)	restatements
			(in HRK'000)
2010 loss	(468,677)	(29,077)	439,600
2011 loss	(333,689)	(467,314)	(133,625)

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

4. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2010 AND 2011 FINANCIAL STATEMENTS I 2011. (CONTINUED)

a) Restated prior-period disclosures - 2010 Statement of comprehensive income

	2010, as initially reported	Investment property - IAS 40	Provisions under IAS 19	Financial expenses	Other	2010, as restated
(in HRK'000)						
OPERATING INCOME	5,403,110	485,909	376	-	140	5,889,535
Sales	4,093,307	-	-	-	-	4,093,307
Other operating income	1,309,803	485,909	376	-	140	1,796,228
OPERATING EXPENSES	5,509,088	43,202	105	-	982	5,553,377
Material expenses	2,625,730	-	-	-	245	2,625,975
Staff costs	1,949,190	-	-	-	-	1,949,190
Depreciation and amortisation	625,896	(12,166)	-	-	737	614,467
Other expenses	34,693	-	-	-	-	34,693
Impairment allowance	132,472	55,368	-	-	-	187,840
Provisions	98,454	-	105	-	-	98,559
Other operating expenses	42,643	-	-	-	-	42,643
FINANCIAL INCOME	124,620	-	-	-	-	124,620
FINANCIAL EXPENSES	479,282	-	-	2,482	-	481,764
TOTAL INCOME	5,527,730	485,909	376	-	140	6,014,155
TOTAL EXPENSES	5,988,370	43,202	105	2,482	982	6,035,141
PROFIT/(LOSS) BEFORE TAXATION	(460,640)	442,707	271	(2,482)	(842)	(20,986)
TAX INCOME/(EXPENSE)	(8,037)	-	(54)	-	-	(8,091)
PROFIT / LOSS FOR THE YEAR	(468,677)	442,707	217	(2,482)	(842)	(29,077)
Attributable to:						
Attributable to the equity holders of the Company	(468,677)	-	-	-	-	(29,077)
Non-controlling interests	(805)	-	-	-	-	(805)
Other comprehensive income, net						
Gains on revaluation of property, net of tax	1,073	-	-	-	-	1,073
Total comprehensive income / (loss) for the year	(467,604)	442,707	217	(2,482)	(842)	(28,004)
Attributable to:						
Attributable to the equity holders of the Company	(466,799)	-	-	-	-	(27,199)
Non-controlling interests	(805)	-	-	-	-	(805)

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

4. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2010 AND 2011 FINANCIAL STATEMENTS I 2011. (CONTINUED)

b) Restated prior-period disclosures - 2011 Statement of comprehensive income

	2011, as initially reported	Investment property - IAS 40	Provisions under IAS 19	Financial expenses	Other	2011, as restated
(in HRK'000)						
OPERATING INCOME	5,374,748	(60,177)	668	-	-	5,315,239
Sales	4,019,061	-	-	-	-	4,019,061
Other operating income	1,355,687	(60,177)	668	-	-	1,296,178
OPERATING EXPENSES	5,315,196	62,556	189	-	887	5,378,828
Material expenses	2,509,154	-	-	-	-	2,509,154
Staff costs	1,842,956	-	-	-	-	1,842,956
Depreciation and amortisation	619,430	(19,053)	-	-	883	601,260
Other expenses	31,040	-	-	-	-	31,040
Impairment allowance	193,492	81,609	-	-	-	275,101
Provisions	58,230	-	189	-	-	58,419
Other operating expenses	60,892	-	-	-	4	60,896
FINANCIAL INCOME	111,670	-	-	-	-	111,670
FINANCIAL EXPENSES	498,948	-	-	10,386	-	509,334
TOTAL INCOME	5,486,418	(60,177)	668	-	-	5,426,909
TOTAL EXPENSES	5,814,144	62,556	189	10,386	887	5,888,162
PROFIT/(LOSS) BEFORE TAXATION	(327,726)	(122,733)	479	(10,386)	(887)	(461,253)
TAX INCOME/(EXPENSE)	(5,963)	-	(98)	-	-	(6,061)
PROFIT FOR THE YEAR	(333,689)	(122,733)	381	(10,386)	(887)	(467,314)
Attributable to:						
Attributable to the equity holders of the Company	(335,331)	(122,733)	386	(10,386)	(887)	(468,951)
Non-controlling interests	1,642	-	(5)	-	-	1,637
Other comprehensive income, net						
Gains on revaluation of property, net of tax	805,248	(111,162)	-	-	-	694,086
Total comprehensive income / (loss) for the year	471,559	(233,895)	381	(10,386)	(887)	226,772
Attributable to:						
Attributable to the equity holders of the Company	469,917					225,135
Non-controlling interests	1,642					1,637

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

4. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2010 AND 2011 FINANCIAL STATEMENTS I 2011. (continued)

a) Restated prior-period disclosures – Statement of financial position at 31/12/2010

(in HRK'000)	2010, as initially reported	Investment property - IAS 40	Provisions under IAS 19	Financial expenses	Other	2010, as restated
NON-CURRENT ASSETS						
Property, plant and equipment, and prepayments	16,321,138	(1,546,945)	-	-	(736)	14,773,457
Intangible assets	20,422	-	-	-	-	20,422
Investment properties	952,808	1,989,652	-	-	-	2,942,460
Non-current receivables	2,017,752	-	-	-	-	2,017,752
Other financial assets	120,807	-	-	-	-	120,807
Deferred tax assets	56,750	-	7,811	-	-	64,561
Total non-current assets	19,489,677	442,707	7,811	-	(736)	19,939,459
CURRENT ASSETS						
Inventories	837,701	-	-	-	-	837,701
Receivables	1,840,456	-	-	-	-	1,840,456
Financial assets	23,343	-	-	-	-	23,343
Cash with banks and in hand	125,455	-	-	-	-	125,455
Total current assets	2,826,955	-	-	-	-	2,826,955
TOTAL ASSETS	22,316,632	442,707	7,811	-	(736)	22,766,414
EQUITY						
Share capital	4,208,629	-	-	-	-	4,208,629
Revaluation reserve	2,591,658	(424,161)	-	-	-	2,167,497
Other reserves	15,125	-	-	-	-	15,125
Retained earnings / (accumulated losses)	290,932	530,206	(31,463)	-	(3)	789,672
Loss for the year	(467,872)	442,707	217	(2,482)	(842)	(28,272)
Minority interest	(565)	(4)	-	-	-	(569)
Total equity	6,637,907	548,748	(31,246)	(2,482)	(845)	7,152,082
NON-CURRENT LIABILITIES	6,523,290	(108,041)	-	-	95	6,417,344
LONG-TERM PROVISIONS	398,460	-	39,057	-	-	437,517
DEFERRED INCOME	5,794,042	-	-	-	-	5,794,042
CURRENT LIABILITIES	2,962,933	-	-	2,482	14	2,965,429
TOTAL EQUITY AND LIABILITIES	22,316,632	442,707	7,811	-	(736)	22,766,414

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

4. PRIOR YEAR RESTATEMENTS – RESTATEMENTS TO THE 2010 AND 2011 FINANCIAL STATEMENTS I 2011. (continued)

b) Restated prior-period disclosures – Statement of financial position at 31/12/2011

	2011, as initially reported	Prepravci za 2010	Investment property - IAS 40	Provisions under IAS 19	Financial expenses	Other	2011, as restated
(in HRK'000)							
NON-CURRENT ASSETS							
Property, plant and equipment, and prepayments	17,013,937	(1,547,681)	(119,900)	-	-	(887)	15,345,469
Intangible assets	21,622	-	-	-	-	-	21,622
Investment properties	975,818	1,989,651	(141,786)	-	-	-	2,823,683
Non-current receivables	1,903,015	-	-	-	(6,275)	-	1,896,740
Other financial assets	121,827	-	-	-	-	-	121,827
Deferred tax assets	59,062	7,811	-	(100)	-	(1)	66,772
Total non-current assets	20,095,281	449,781	(261,686)	(100)	(6,275)	(888)	20,276,113
CURRENT ASSETS							
Inventories	840,020	-	-	-	-	-	840,020
Receivables	1,671,961	-	-	-	-	1	1,671,962
Financial assets	56,813	-	-	-	-	-	56,813
Cash with banks and in hand	143,903	-	-	-	-	-	143,903
Total current assets	2,712,697	-	-	-	-	1	2,712,698
TOTAL ASSETS	22,807,978	449,781	(261,686)	(100)	(6,275)	(887)	22,988,811
EQUITY							
Share capital	4,208,629	-	-	-	-	-	4,208,629
Revaluation reserve	3,396,906	(424,161)	(111,162)	-	-	-	2,861,583
Other reserves	97,300	-	-	-	-	-	97,300
Retained earnings / (accumulated losses)	(176,940)	938,340	(122,733)	385	(10,385)	(887)	761,400
Loss for the year	(335,331)	-	-	-	-	-	(468,951)
Minority interest	1,077	(4)	-	(5)	-	-	1,068
Total equity	7,191,641	514,175	(233,895)	380	(10,385)	(887)	7,461,029
NON-CURRENT LIABILITIES	6,485,614	(105,948)	(27,791)	-	-	(92)	6,351,783
LONG-TERM PROVISIONS	355,960	39,057	-	(495)	-	-	394,522
DEFERRED INCOME	5,487,487	-	-	15	4,110	92	5,487,487
CURRENT LIABILITIES	3,287,276	2,497	(261,686)	(100)	(6,275)	(887)	3,293,990
TOTAL EQUITY AND LIABILITIES	22,807,978	449,781	(261,686)	(100)	(6,275)	(887)	22,988,811

5. SEGMENT INFORMATION

SALES

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Croatian market	4,281,049	4,015,446
EU market	3,446	3,615
	4,284,495	4,019,061

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 nine 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.

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Gas distribution and sale	1,329,240	1,198,205
Water distribution revenue	467,471	431,740
Cleaning and waste removal	415,526	416,040
Passenger transport	443,796	318,426
Pharmaceutical sales	272,195	277,699
Public road maintenance and management	288,799	265,272
Warehousing and rentals	102,953	112,342
Flat construction and sale	124,117	142,566
Parking services	123,716	136,766
Facility management	188,730	182,723
Waste disposal and management	10,043	16,359
Other income	517,909	520,923
	4,284,495	4,019,061

5. SEGMENT INFORMATION (CONTINUED)

SALES (continued)

Other revenue comprises the following:

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Landscaping and plant growing	164,864	160,442
Markets revenue	81,327	84,892
Sports facility management and maintenance	73,285	69,068
Funeral services	61,781	65,348
Trade fairs and congresses	43,818	51,399
Bus station	38,182	38,141
Travel agencies	23,633	24,239
Lease of telecom cable and network systems	10,547	9,368
Publishing	8,165	9,099
Other income	12,307	8,927
	517,909	520,923

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

5. SEGMENT INFORMATION (CONTINUED)

2012 segment revenue and results

2012	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt and	Flat Prodaja stanova	Parking parkiranja	Warehousing and rentals	Waste collectio and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Revenue from third parties	188,730	467,471	443,796	415,526	288,799	124,117	123,716	102,953	10,043	1,329,240	272,195	517,909	-	4,284,495
Inter-segment sales	200,121	10,183	3,790	16,334	26,985	41	7,526	3,004	106,219	203,743	-	24,096	(602,042)	-
Total sales	388,851	477,654	447,586	431,860	315,784	124,158	131,242	105,957	116,262	1,532,983	272,195	542,005	(602,042)	4,284,495
Expenses from other operations, net of other ordinary income	(299,514)	(448,664)	(652,950)	(422,459)	(291,504)	(72,096)	(102,449)	(118,924)	(70,134)	(1,517,588)	(270,010)	(616,555)	599,409	(4,283,438)
Profit/loss from operations	89,337	28,990	(205,364)	9,401	24,280	52,082	28,793	(12,967)	46,128	15,395	2,185	(74,550)	(2,633)	1,057
Financial income	26,096	12,916	4,729	7,315	235	6,517	1,555	1,269	73	14,700	1,705	8,995	(19,849)	66,256
Financial expenses	(237,564)	(15,812)	(80,733)	(2,944)	(2,972)	(57,707)	(3,493)	(809)	(328)	(1,756)	(3)	(6,420)	7,232	(403,309)
Net financial result	(211,468)	(2,896)	(76,004)	4,371	(2,737)	(51,190)	(1,938)	460	(256)	12,944	1,702	2,575	(12,617)	(337,053)
Loss before taxation	(122,131)	26,094	(281,368)	13,772	21,543	872	26,855	(12,507)	45,873	28,339	3,887	(71,975)	(15,250)	(335,996)
Income tax expense	(1,295)	-	-	-	-	-	-	-	-	(5,662)	(844)	(1,017)	-	(8,818)
Net loss	(123,426)	26,094	(281,368)	13,772	21,543	872	26,855	(12,507)	45,873	22,677	3,043	(72,992)	(15,250)	(344,814)

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

5. SEGMENT INFORMATION (CONTINUED)

2011 segment revenue and results

2011	Facility managem ent	Water distribution	Passenge transport	Cleaning and waste removal	Public road mgmt. and maintenan	Fiat Prodaja stanova	Parking parkiranj	Warehous ing and rentals	Waste collection and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Revenue from third parties	182,723	431,740	318,426	418,040	265,272	142,666	136,766	112,342	16,359	1,198,205	277,699	520,923	-	4,019,061
Inter-segment sales	186,978	10,869	5,116	13,158	16,903	445	5,304	3,944	107,148	186,875	-	29,502	(566,242)	-
Total sales	369,701	442,609	323,542	429,198	282,175	143,011	142,070	116,286	123,507	1,385,080	277,699	550,425	(566,242)	4,019,061
Expenses from other operations, net of other ordinary income	(308,446)	(383,647)	(619,943)	(411,367)	(266,637)	(62,581)	(129,222)	(121,774)	(59,655)	(1,358,530)	(275,957)	(848,646)	563,755	(4,082,650)
Profit/loss from operations	61,255	58,962	(296,401)	17,831	15,538	80,430	12,848	(5,488)	63,852	26,550	1,742	(98,221)	(2,487)	(63,589)
Financial income	58,498	13,359	15,253	6,360	1,006	3,541	436	3,682	4,325	12,642	648	6,283	(14,363)	111,670
Financial expenses	(309,975)	(28,144)	(106,558)	(1,220)	(2,275)	(51,813)	(4,582)	(1,891)	(157)	(1,556)	(3)	(5,533)	4,373	(509,334)
Net financial result	(251,477)	(14,785)	(91,305)	5,140	(1,269)	(48,272)	(4,146)	1,791	4,168	11,086	645	750	(9,990)	(397,664)
Loss before taxation	(190,222)	44,177	(387,706)	22,971	14,269	32,158	8,702	(3,697)	68,020	37,636	2,387	(97,471)	(12,477)	(461,253)
Income tax expense	2,556	-	-	-	-	-	-	-	-	(7,272)	(480)	(865)	-	(6,061)
Net loss	(187,666)	44,177	(387,706)	22,971	14,269	32,158	8,702	(3,697)	68,020	30,364	1,907	(98,336)	(12,477)	(467,314)

Notes to the consolidated financial statements of the Group (continued)
For the year ended 31 December 2012

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2011

Assets and liabilities at 31/12/2012	Facility management	Water distribution	Passenger transport	Cleaning waste removal	Public road mgmt. and	Flat prodaja stanova	Parking parkiranje	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Drugs operations	Other	Eliminated	Total
Nekretnine, postrojenja i oprema	1,666,947	4,892,797	2,795,120	165,990	113,136	517,405	153,967	370,395	68,569	1,264,559	43,203	3,081,106	-	15,033,194
Intangible assets	2,423	19,819	17,172	1,832	77	-	212	524	28	7,667	894	3,808	-	54,446
Investment property	1,477,199	-	-	-	-	-	-	889,206	-	-	-	397,981	-	2,764,386
Inventories	8	14,430	46,544	9,690	31,484	623,768	380	1,111	60	5,893	16,862	38,264	-	785,494
Trade receivables, net	16,275	490,009	29,025	70,546	9,183	999	31,891	11,150	1,006	270,567	104,853	52,267	-	1,087,791
Unallocated	4,103,026	82,741	608,559	162,146	282,307	108,223	176,133	4,175	440,727	224,973	54,616	124,176	(3,676,916)	2,674,888
Total assets	7,165,880	5,499,796	3,496,420	410,204	416,187	1,250,395	362,583	1,276,561	510,390	1,773,649	220,428	3,697,622	(3,676,916)	22,403,199
Issued bonds	2,263,687	-	-	-	-	-	-	-	-	-	-	-	-	2,263,687
Trade payables	49,348	207,536	328,567	43,275	85,723	8,063	5,246	9,765	12,245	198,912	19,890	111,714	-	1,060,304
Amounts due to employees	3,707	10,174	30,696	10,445	4,799	97	3,165	2,401	326	7,644	3,933	15,743	-	93,130
Equity and unallocated liabilities	4,849,138	5,282,066	3,137,157	356,484	345,665	1,242,215	354,172	1,264,395	497,819	1,567,093	196,605	3,570,165	(3,676,916)	18,966,078
Total equity and liabilities	7,165,880	5,499,796	3,496,420	410,204	416,187	1,250,395	362,583	1,276,561	510,390	1,773,649	220,428	3,697,622	(3,676,916)	22,403,199

31/12/2012 Other segment information

Capital expenditure:	19,353	140,391	34,574	11,968	4,327	6,592	1,053	23,491	141	74,661	2,034	27,240	-	345,825
Tangible assets	17,675	140,391	23,596	11,040	4,327	6,592	1,053	23,489	2	68,647	1,877	25,660	-	324,349
Intangible assets	1,678	-	10,978	928	-	-	-	2	139	6,014	157	1,580	-	21,476
Depreciation and impairment	66,703	160,719	139,379	9,903	5,896	39,813	12,228	4,557	11,817	125,158	2,638	42,910	-	621,721

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2011

Assets and liabilities at 31/12/2011	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and	Flat Prodaja stanova	Parking parkiranja	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Property, plant and equipment	1,615,976	4,935,006	2,909,008	164,340	114,303	528,604	176,996	355,060	76,496	1,321,152	43,646	3,100,680	-	15,345,469
Intangible assets	1,264	2,335	8,344	1,554	105	-	408	777	38	2,710	1,064	3,003	-	21,622
Investment property	1,506,886	-	-	-	-	-	-	908,279	-	-	-	406,518	-	2,823,683
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 receivables	17,364	431,178	23,032	75,906	14,693	16,303	34,733	16,564	2,345	263,537	73,312	51,317	-	1,020,274
Unallocated	3,863,890	135,432	713,151	102,999	246,932	115,284	106,507	8,769	389,329	168,307	76,310	145,198	(3,134,965)	2,937,743
Total assets	7,007,405	5,636,063	3,701,780	353,858	404,658	1,315,108	321,294	1,290,580	470,870	1,762,312	215,425	3,744,403	(3,134,965)	22,888,811
Issued bonds	2,259,126	-	-	-	-	-	-	-	-	-	-	-	-	2,259,126
Trade payables	61,961	212,597	265,271	27,340	90,439	58,955	5,994	16,237	26,089	200,276	17,325	99,675	-	1,082,159
Amounts due to employees	3,705	9,635	37,370	10,552	4,789	118	3,253	2,451	346	4,008	3,861	16,969	-	97,077
Equity and unallocated liabilities	4,682,613	5,313,850	3,359,140	315,966	309,430	1,256,034	312,047	1,271,691	444,436	1,558,029	194,219	3,627,759	(3,134,965)	19,550,449
Total equity and liabilities	7,007,405	5,636,062	3,701,781	353,856	404,658	1,315,107	321,294	1,290,579	470,871	1,762,313	215,425	3,744,403	(3,134,965)	22,888,811
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	59,524	982	21,448	-	338,841
Intangible assets	955	-	3,392	214	81	-	-	-	-	575	431	1,715	-	7,363
Depreciation and impairment	58,338	157,933	130,104	10,255	4,657	39,413	12,359	5,506	12,577	123,005	2,548	44,566	-	601,260

6. OTHER OPERATING INCOME

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Grant and subsidy income	744,957	756,055
Reversal of deferred income	244,099	241,484
Recovery of amounts previously written off	88,902	54,459
Income from reversal of provisions	62,070	90,891
Damages collected	17,329	50,756
Income from sale of non-current assets, surpluses and upon revaluation	6,562	6,109
Other operating income	104,063	96,424
	1,267,982	1,296,178

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).

	2012			2011		
	City of Zagreb	Others	Total	City of Zagreb	Others	Total
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
ZET	628,042	18,311	646,353	593,916	18,822	612,738
Others	96,802	1,802	98,604	117,166	26,151	143,317
Total	724,844	20,113	744,957	711,082	44,973	756,055

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 3(t)).

6. OTHER INCOME (CONTINUED)

Income from reversal of provisions relates mainly to the following:

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
a) Employee benefit provisions	10,280	33,639
b) Litigation provisions, as per the attorney's assessment	11,470	30,430
c) Accrued vacation and other benefits	40,320	23,090
d) Future "Jakuševac" landfill maintenance costs	-	3,732
	62,070	90,891

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

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Reversal of excess of accrued expenses for the Sopnica Project following the final calculations provided by the contractor	1,646	27,061
Collected damages and liquidated damages	13,470	20,794
Other income (write-off of debt, approved discounts and similar)	2,213	2,901
	17,329	50,756

Income from damages and liquidated damages collected mainly relate to Stanogradnja Branch (HRK 5.8 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.

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

7. COST OF MATERIALS AND SERVICES

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Energy costs	281,232	272,766
Cost of raw material and supplies	264,787	249,185
Expensed small items	18,380	19,342
a) Total material costs	564,399	541,293
b) Changes in the value of inventories of work in progress and finished products	10,254	28,382
c) Cost of goods sold	1,313,143	1,229,050
Rental and lease costs	209,502	214,161
Maintenance	138,060	130,348
Municipal utility fees and charges	114,129	107,312
Subcontractor service costs	63,476	57,319
Transportation costs	42,407	38,655
Data processing and software maintenance services	36,749	35,923
Insurance premiums	31,515	31,572
Intellectual services	29,745	27,129
Bank and payment operation charges	9,658	13,465
Advertising and promotion	6,571	6,660
Other external services	59,456	47,885
d) Total external services	741,268	710,429
	2,629,064	2,509,154

8. STAFF COSTS

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Net wages and salaries	1,009,450	1,014,423
Taxes and contributions	685,871	698,222
Reimbursement of costs to employees and other employee benefits	168,494	130,313
	1,863,815	1,842,958
Number of staff at 31 December	12,575	12,731

The total staff costs for the year 2012 increased by around HRK 21 million (on a net basis), with the payroll costs decreasing by approximately 17 million and employee benefits increasing by around HRK 38 million. The average number of staff employed at the Group, based on the actual hours worked in 2012, was 12,532.

The increase in the employee benefits resulted from the increase in the public transport prices from 1 March 2012 (HRK 11.1 million), in retirement benefits paid (HRK 21.1 million) and in long-service benefits and other costs (HRK 5.8 million).

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

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Depreciation (Note 18)	611,259	594,869
Amortisation (Note 17)	10,462	6,391
VAT on depreciation of personal cars	1	-
	621,722	601,260

10. OTHER EXPENSES

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Administrative fees and court costs	16,849	14,011
Taxes and contributions independent of operating results	6,687	7,581
Professional organisation membership fees (Croatian Chamber of Economy, Tourist Board, and others)	6,021	3,916
Entertainment	2,365	1,653
Professional literature	1,375	1,208
Cultural monument fees and environmental protection costs	841	996
Fees to Supervisory Board members	802	1,230
Other expenses	947	445
	35,887	31,040

11. IMPAIRMENT ALLOWANCE ON CURRENT AND NON-CURRENT ASSETS

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Impairment allowance on current assets	179,174	152,765
Impairment allowance on non-current assets	64,904	122,336
	244,078	275,101

Included in the impairment allowance on non-current assets are unrealised losses arisen on changes in the fair value of investment property in the amount of HRK 59.2 million (2011: unrealised losses in the amount of HRK 118.8 million).

12. PROVISIONS FOR RISKS AND CHARGES

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Provisions under IAS 19 Employee Benefits	37,841	10,328
Litigation provisions	34,068	9,586
Provisions for unused vacation days	23,165	38,505
Provisions for the restoration of natural resources	11,172	-
	106,246	58,419

13. OTHER OPERATING EXPENSES

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Fines, penalties, damages	27,219	21,528
Written-off receivables	5,923	19,031
Grants, donations and sponsorships	2,766	2,066
Net book value of assets sold or otherwise disposed of	2,039	2,531
Other operating expenses	12,669	15,740
	50,616	60,896

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.

The balance of written-off receivables for the year 2012 relates mainly to Čistoća Branch (2011: Zagrebparking Branch) which were estimated as irrecoverable.

Other operating expenses comprise deficits, cost of inventories sold, subsequently identified costs and expenses not specified above.

14. FINANCIAL INCOME

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Financial income - unrelated entities	58,205	109,763
Financial income - related entities	44	350
Other financial income	8,007	1,557
	66,256	111,670

Financial income comprises the following:

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Interest income	41,878	36,846
Foreign exchange gains	15,353	62,231
Other financial income	9,025	12,593
	66,256	111,670

The net exchange loss for 2012 amounts to HRK 4.8 million (2011: net exchange loss of HRK 81.3 million).

Other financial income comprises mainly income from discounting of receivables and payables and other financial income.

15. FINANCIAL EXPENSES

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Financial income - unrelated entities	401,720	505,906
Financial expenses - related entities	36	1,593
Other financial expenses	1,553	1,835
	403,309	509,334

Financial expenses from transactions with unrelated entities comprise the following:

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Interest expense	324,924	302,357
Interest on leases	54,712	60,019
Foreign exchange losses	20,211	143,527
Other	1,873	3
	401,720	505,906

In 2012 *Financial expenses* decreased compared to 2011 because of the lower balance of foreign exchange losses, as the exchange rate of the Euro against the Croatian kuna was higher in 2011 than in 2012.

Other financial expenses comprise mainly the expense with respect to the discount of receivables.

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

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Income tax expense comprises the following:		
Current tax	(7,217)	(8,272)
Deferred tax expense on the origination and reversal of temporary differences	(1,601)	2,211
Tax income / (expense)	(8,818)	(6,061)

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

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Loss before taxation	(335,996)	(461,253)
Income tax at the rate of 20% (2011: 20%)	(67,199)	(92,251)
Effect of permanent differences, net	167,502	21,886
Effect of temporary differences recognised as deferred tax assets	7,285	(1,567)
Effect of unrecognised and unused tax losses brought forward	(98,770)	77,993
Tax (income)/expense recognised in profit or loss	8,818	6,061

Unused tax losses:

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	(774,657)	(522,834)
Increase during the year	(634)	(251,823)
Decreases during the year	493,850	-
Balance at end of year	(281,441)	(774,657)

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

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

16. INCOME TAX (CONTINUED)

Deferred taxes - deferred tax assets and deferred tax liabilities

2012	Opening balance (in HRK'000)	Recognised in profit or loss (in HRK'000)	Recognised in other comprehensive income (in HRK'000)	Recognised directly in equity (in HRK'000)	Closing balance (in HRK'000)
<i>Temporary differences:</i>					
Provisions	53,976	5,620	-	-	59,596
Financial assets at fair value	1,118	(598)	-	-	520
Value adjustment of land	7,477	(7,431)	-	-	46
Revaluation of land	688,304	-	(41)	-	688,263
Property, plant and equipment	438	-	-	(100)	338
Revaluation of financial assets	1,138	-	9	-	1,147
Deferred income	3,613	-	-	-	3,613
<i>Unused tax losses and tax credits</i>					
Tax losses	400	28	-	-	428
Tax credits	3,801	780	-	-	4,581
Deferred tax assets	66,772	(1,601)	-	-	65,171
Deferred tax liabilities	693,493	-	(32)	(100)	693,361

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

16. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities (continued)

2011, as restated	Opening balance (in HRK'000)	Recognised in profit or loss (in HRK'000)	Recognised in other comprehensive income (in HRK'000)	Recognised directly in equity (in HRK'000)	Closing balance (in HRK'000)
<i>Temporary differences:</i>					
Provisions	60,064	(6,088)	-	-	53,976
Financial assets at fair value	1,242	(124)	-	-	1,118
Value adjustment of land	-	7,477	-	-	7,477
Revaluation of land	514,727	-	173,573	4	688,304
Property, plant and equipment	575	-	-	(137)	438
Revaluation of financial assets	1,198	-	(60)	-	1,138
Deferred income	3,613	-	-	-	3,613
<i>Unused tax losses and tax credits</i>					
Tax losses	756	(356)	-	-	400
Tax credits	2,489	1,302	-	-	3,801
Deferred tax assets	64,561	2,211	-	-	66,772
Deferred tax liabilities	520,113	-	173,513	(133)	693,493

17. INTANGIBLE ASSETS

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Cost or valuation	199,397	157,385	152,675
Accumulated amortisation	(144,951)	(135,763)	(132,253)
	54,446	21,622	20,422

The structure of intangible assets is as follows:

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Patents, concessions and similar rights	22,324	11,646	9,428
Development expenses	17,859	381	1,220
Intangible assets under development	7,592	3,462	4,009
Other intangible assets	6,671	6,133	5,765
	54,446	21,622	20,422

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

17. INTANGIBLE ASSETS (CONTINUED)

(in HRK'000)	Development expenses	Patents, licences and other rights	Other intangible assets	Intangible assets under development	Total intangible assets
COST					
Balance at 01/01/2011, as restated	40,043	55,289	53,334	4,009	152,675
Additions	-	442	1,640	5,281	7,363
Transfer from assets under development	-	6,025	472	(5,582)	915
Transferred (from)/to	-	124	-	(124)	-
Retirement, disposal, sale	-	(3,038)	(408)	(122)	(3,568)
Balance at 31/12/2011, as restated	40,043	58,842	55,038	3,462	157,385
Additions	-	1,760	2,408	17,308	21,476
Transfer from assets under development	20,313	14,675	-	(13,178)	21,810
Retirement, disposal, sale	-	(125)	(1,149)	-	(1,274)
Balance at 31/12/2012	60,356	75,152	56,297	7,592	199,397
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 01/01/2011, as restated	38,823	45,861	47,569	-	132,253
Charge for the year	397	4,251	1,743	-	6,391
Impairment allowance	442	-	-	-	442
Retirement, disposal, sale	-	(2,916)	(407)	-	(3,323)
Balance at 31/12/2011, as restated	39,662	47,196	48,905	-	135,763
Charge for the year	2,835	5,757	1,870	-	10,462
Retirement, disposal, sale	-	(125)	(1,149)	-	(1,274)
Balance at 31/12/2012	42,497	52,828	49,626	-	144,951
CARRYING AMOUNT					
Balance at 01/01/2011, as restated	1,220	9,428	5,765	4,009	20,422
Balance at 31/12/2011, as restated	381	11,646	6,133	3,462	21,622
Balance at 31/12/2012	17,859	22,324	6,671	7,592	54,446

18. PROPERTY, PLANT AND EQUIPMENT

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Cost or valuation	22,708,969	22,475,772	21,513,727
Accumulated depreciation or impairment	(7,728,472)	(7,187,287)	(6,811,003)
	14,980,497	15,288,485	14,702,724
Prepayments made	52,697	56,984	70,733
Total	15,033,194	15,345,469	14,773,457

Structure of property, plant and equipment:

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Buildings	7,877,233	8,131,113	8,332,433
Land	4,412,410	4,411,877	3,525,249
Tools and vehicles	1,627,593	1,717,788	1,805,309
Tangible assets under construction	643,436	624,296	640,313
Plant and equipment	369,545	353,124	349,259
Biological assets	28	19	14
Other tangible assets	50,252	50,268	50,147
	14,980,497	15,288,485	14,702,724

Movements in prepayments:

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Opening balance	56,984	70,733	141,761
Additions	2,026	622	172
Disposals and retirements	(6,313)	(14,371)	(71,200)
Closing balance	52,697	56,984	70,733

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(in HRK'000)	Land	Buildings and housing blocks	Plant and equipment	Tools and vehicles	Biological assets	Other tangible assets	Assets under development	Total tangible assets
COST OR ESTIMATED VALUE								
COST								
Balance at 01/01/2011, as restated	3,525,249	13,012,376	1,267,383	3,017,990	269	50,147	640,313	21,513,727
Additions	551	36,048	31,136	18,575	20	7	252,504	338,841
Transfer from assets under development	30,481	153,129	59,360	13,939	-	130	(257,974)	(915)
Transferred (from)/to	-	1,258	-	(1,105)	-	-	(153)	-
Revaluation	867,887	-	-	-	-	-	-	867,887
Impairment allowance	-	-	-	-	-	-	(1,020)	(1,020)
Retirement, disposal, sale	(88)	(68,233)	(80,939)	(72,485)	(30)	(16)	134	(221,657)
Reclassified to inventories	(11,978)	-	395	-	-	-	(9,508)	(21,091)
Balance at 31/12/2011, as restated	4,412,102	13,134,578	1,277,355	2,976,914	259	50,268	624,296	22,476,772
Additions	188	15,751	27,813	11,600	15	-	268,982	324,349
Transfer from assets under development	-	118,407	79,801	16,843	-	-	(236,851)	(21,810)
Transferred from inventories	534	15,313	775	122	-	-	5,208	22,052
Impairment allowance	(26)	(694)	(5)	(1)	-	-	-	(726)
Retirement, disposal, sale	(263)	(4,234)	(40,543)	(28,312)	(22)	(16)	(17,278)	(90,668)
Balance at 31/12/2012	4,412,635	13,279,121	1,345,196	2,977,166	252	50,252	644,347	22,708,969
ACCUMULATED DEPRECIATION								
Balance at 01/01/2011, as restated	-	4,679,943	918,124	1,212,881	255	-	-	6,811,003
Charge for the year	-	391,374	83,149	120,331	15	-	-	594,869
Impairment allowance	225	-	395	-	-	-	-	620
Transferred (from)/to	-	-	1,426	(1,426)	-	-	-	-
Retirement, disposal, sale	-	(67,852)	(78,863)	(72,460)	(30)	-	-	(219,205)
Balance at 31/12/2011, as restated	225	5,003,465	924,231	1,259,126	240	-	-	7,187,287
Charge for the year	-	402,243	91,293	117,717	6	-	-	611,259
Impairment allowance	-	-	-	-	-	-	4,769	4,769
Transferred (from)/to	-	(20)	(93)	113	-	-	-	-
Retirement, disposal, sale	-	(3,800)	(39,780)	(27,383)	(22)	-	(3,848)	(74,833)
Balance at 31/12/2012	225	5,401,888	975,551	1,349,573	224	-	911	7,728,472
CARRYING AMOUNT								
Balance at 01/01/2011, as restated	3,525,249	8,332,433	349,259	1,805,309	14	50,147	640,313	14,702,724
Balance at 31/12/2011, as restated	4,411,877	8,131,113	353,124	1,717,788	19	50,268	624,296	15,268,485
Balance at 31/12/2012	4,412,410	7,877,233	369,545	1,627,593	28	50,252	643,436	14,990,497

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 (land and buildings) ownership structure is presented below:

Land (at revalued amount)

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Registered title	3,332,411	2,931,971	2,585,140
Unregistered, eligible for registration	703,001	1,193,017	626,515
Unregistered, not eligible for registration	376,998	286,889	313,594
	4,412,410	4,411,877	3,525,249

Buildings (at cost)

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Registered title	3,674,740	3,276,717	2,348,682
Unregistered, eligible for registration	1,152,433	1,684,036	1,625,946
Unregistered, not eligible for registration	630,913	436,982	1,362,233
Communal infrastructure facilities	7,821,035	7,736,843	7,675,515
	13,279,121	13,134,578	13,012,376

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)***Review of residual values***

Following the requirements of 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.

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 Board, the carrying amount of tangible assets presented above is recoverable from future operations.

Assets pledged as collateral

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Real estate	83,530	91,798	98,625
Pledged movable property	53,375	61,000	78,401
	136,905	152,798	177,026

Capitalised borrowing costs under IAS 23

In 2012, the Group capitalised borrowing costs in the amount of HRK 17,872 thousand (2011: HRK 14,890 thousand). The weighted average capitalisation rate was 5.7 percent.

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leases

The Group entered into several lease agreements during 2009 and 2008, which have been accounted for and presented in the accompanying 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 PROPERTIES

	31/12/2012	31/12/2011
		As restated
	(in HRK'000)	(in HRK'000)
At 1 January	2,823,683	2,942,460
Fair value change (net)	(59,297)	(118,777)
At 31 December	2,764,386	2,823,683

During 2012 investment properties were remeasured at fair value on the basis of appraisals by a certified property appraisal expert, upon which losses resulting from the change in the fair values in the amount of HRK 59,297 thousand were included in the income statement for the year 2012 (Note 11).

20. OTHER FINANCIAL ASSETS

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Current portion			
Held-to-maturity investments at amortised cost	40,279	56,813	23,343
	40,279	56,813	23,343
Long-term portion			
Financial assets at fair value	521	543	617
Held-to-maturity investments at amortised cost	115,083	114,416	113,015
Financial assets available for sale	6,918	6,868	7,175
	122,522	121,827	120,807
	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Financial assets at fair value through profit or loss	521	543	617
<i>Current portion</i>	-	-	-
<i>Long-term portion</i>	521	543	617

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.

20. OTHER FINANCIAL ASSETS (CONTINUED)**Held-to-maturity investments at amortised cost**

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Deposits with maturities over one year	115,083	114,415	113,014
Deposits with maturities of up to one year	33,686	53,544	20,619
Other held-to-maturity securities	6,593	3,270	2,725
	155,362	171,229	136,358
<i>Current portion</i>	40,279	56,813	23,343
<i>Long-term portion</i>	115,083	114,416	113,015

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Financial assets available for sale	6,918	6,868	7,175
<i>Current portion</i>	-	-	-
<i>Long-term portion</i>	6,918	6,868	7,175

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

21. NON-CURRENT RECEIVABLES

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Long-term portion			
Amounts owed by related parties	1,073,238	1,203,489	1,302,147
Receivables for investments in government bonds	13,786	13,390	13,334
Loan receivables	15,908	15,385	18,632
Receivables in respect of credit sales	15,245	14,384	15,904
Other receivables	626,506	650,092	667,735
	1,744,683	1,896,740	2,017,752
Current portion - Notes 23 and 27			
Receivables from related companies (Note 23)	132,443	132,176	128,659
Receivables for loans with maturities after 1 year (Note 27)	1,429	1,846	1,884
Receivables for loans with maturities up to 1 year (Note 27)	4,971	6,865	16,156
Receivables in respect of credit sales (Note 27)	1,930	1,911	2,497
Other receivables (Note 27)	28,320	28,442	27,918
	169,093	171,240	177,114

21. NON-CURRENT RECEIVABLES (CONTINUED)

Included in long-term receivables from related parties are amounts due for works and services delivered as well as loans provided to related parties.

Long-term receivables from related companies

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Receivables from the owner	1,217,442	1,350,417	1,446,180
Impairment allowance on receivables from the owner	(11,761)	(14,752)	(15,374)
	1,205,681	1,335,665	1,430,806
<i>Current portion</i>	132,443	132,176	128,659
<i>Long-term portion</i>	1,073,238	1,203,489	1,302,147

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 505,688 thousand (2011: HRK 609,735 thousand) and in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 655,337 thousand (2011: HRK 684,265 thousand), whereas the remaining balance of HRK 44,656 thousand (2011: HRK 41,665 thousand) represents receivables for constructed roads.

Receivables for investments in government bonds

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Investments in government bonds (frozen FX deposits)	17,218	16,815	16,694
Impairment allowance on receivables for investments in government bonds	(3,432)	(3,425)	(3,360)
	13,786	13,390	13,334
<i>Current portion</i>	-	-	-
<i>Long-term portion</i>	13,786	13,390	13,334

21. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables for loans with maturities after 1 year

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Long-term loans to unrelated companies	2,112	3,206	3,774
Long-term loans to the Management and employees	17,720	19,072	20,562
Impairment allowance on given loans	(2,494)	(5,047)	(3,820)
	17,338	17,231	20,516
<i>Current portion</i>	1,429	1,846	1,884
<i>Long-term portion</i>	15,909	15,385	18,632

Receivables for loans due within up to 1 year

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Short-term loans to unrelated companies	37,551	39,687	46,845
Impairment allowance on given loans	(32,580)	(32,822)	(30,689)
	4,971	6,865	16,156
<i>Current portion</i>	4,971	6,865	16,156
<i>Long-term portion</i>	-	-	-

21. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables in respect of credit sales

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Receivables for flats sold	19,986	22,088	24,176
Value adjustment on discount	(2,811)	(5,793)	(5,775)
Discount rate in %	7.2%	7.2%	6.2%
	17,175	16,295	18,401
<i>Current portion</i>	1,930	1,911	2,497
<i>Long-term portion</i>	15,245	14,384	15,904

Receivables for flats sold are discounted each year using the rate that reflects the yield rate on the Croatian government bonds, which was 4.2 percent in 2012 (2011: 7.2%).

Other non-current receivables

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Receivables from the State	651,942	674,600	691,252
Other receivables	2,884	3,934	4,401
	654,826	678,534	695,653
<i>Current portion</i>	28,320	28,442	27,918
<i>Long-term portion</i>	626,506	650,092	667,735

Receivables from the state in the amount of HRK 674,600 thousand (2011: HRK 674,000) comprise amounts owed by the Croatian Government in respect of funding 50 percent of the Arena Sports Hall rental costs

22. INVENTORIES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Raw material and supplies	116,888	133,299	140,069
Work in progress	134,501	150,147	133,871
Finished products	512,203	527,369	531,170
Merchandise (and property in circulation)	24,138	29,083	32,048
Prepayments for inventories	764	122	543
	788,494	840,020	837,701

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 2012 was HRK 128.3 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 (2011.: 144.2 million).

Finished products comprise finished flats and business premises in the quarter Sopnica Jelkovec that are available for sale and amounted to HRK 495 million at 31 December 2012 (2011.: 511.8 million).

Cost of inventories recognised as expense for the year amounts to HRK 10.2 million (2011: HRK 28.3 million) and relates to the costs recognised for the flats sold (Note 7).

23. AMOUNTS OWED BY RELATED PARTIES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Receivables from the owner	281,172	373,198	468,134
Current portion of long-term receivables from the owner (Note 21)	132,443	132,176	128,659
	413,615	505,374	596,793

24. TRADE RECEIVABLES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Trade receivables	1,728,536	1,616,270	1,602,199
Impairment allowance on trade receivables	(640,745)	(595,996)	(515,945)
	1,087,791	1,020,274	1,086,254

Trade receivables are carried at amortised cost. Late-payment interest is charged on outstanding balances at rates prescribed by law. The Group recognises 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 delivered municipal services to individuals and businesses are not covered by any financial instruments. Receivables for other services delivered to commercial businesses are secured with various financial instruments (bills of exchange, debentures, bank guarantees and similar).

24. TRADE RECEIVABLES (CONTINUED)

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.).

As of the reporting date, the Company 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:

	2012	2011
	As restated	As restated
	(in HRK'000)	(in HRK'000)
0-60 days	203,030	176,287
60-180 days	94,405	98,492
180-365 days	84,117	79,936
Over 365 days	253,118	232,747
	634,670	587,462

Receivables past due beyond 365 days, but not impaired comprise receivables of the Group on its own behalf, but for the account of other parties (receivables for water treatment for the account of ZOV).

Movement in impairment allowance for doubtful accounts

	2012	2011
	As restated	As restated
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	595,996	515,946
Impairment losses recognised	158,774	153,538
Amounts written-off as uncollectible	(25,122)	(19,029)
Amounts recovered during the year	(88,903)	(54,459)
Balance at end of year	640,745	595,996

24. TRADE RECEIVABLES (CONTINUED)

Ageing analysis of impaired trade receivables

	2012	2011
		As restated
	(in HRK'000)	(in HRK'000)
120-180 days	2,690	2,004
180-365 days	8,325	6,480
Over 365 days	629,730	587,512
	640,745	595,996

25. AMOUNTS DUE FROM EMPLOYEES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Amounts due from employees	4,552	3,652	3,453
Impairment allowance on amounts due from employees	(1,346)	(1,348)	(1,372)
	3,206	2,304	2,081

26. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
VAT receivable	14,732	10,004	2,644
Receivables from the Croatian State Health Insurance Fund	6,071	5,303	7,700
Income tax refund	1,632	2,038	6,214
Other taxes, contributions and amounts receivable	1,328	841	1,200
	23,763	18,186	17,758

27. OTHER RECEIVABLES

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Prepaid expenses and accrued income	92,270	72,084	72,697
Prepayments made	41,485	8,066	9,930
Current portion of long-term receivables (Note 21)	36,650	39,064	48,455
Receivables from insurance companies and other damages receivable	1,319	968	1,588
Impairment allowance on prepayments	(2,398)	(2,398)	(2,398)
Other receivables	1,593	8,040	7,298
	170,919	125,824	137,570

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 AND CASH EQUIVALENTS

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Current account balance - HRK denominated	77,694	131,263	113,974
Cash in hand	1,985	1,669	1,819
FX current account balance	3,013	3,200	2,071
Foreign-currency cash in hand	8	11	20
Other cash (court ordered deposits and similar)	8,030	7,760	7,571
	90,730	143,903	125,455

29. EQUITY**a) Share capital**

The Company's sole owner is the City of Zagreb. At 31 December 2012, the share capital of the Group amounts to HRK 4,208,629 thousand (31 December 2011: HRK 4,208,629 thousand).

b) Revaluation reserve

Revaluation reserve has been established on the revaluation of land and financial assets available for sale. On disposal of a revalued asset, the portion of the revaluation surplus attributable to the asset is transferred to retained earnings.

	31/12/2012	31/12/2011
	(in HRK'000)	As restated (in HRK'000)
Balance at beginning of the year	2,856,988	2,162,696
Revaluation surplus	(206)	867,865
Deferred tax liabilities arising from revaluation	41	(173,573)
Balance at end of year	2,856,823	2,856,988

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

	31/12/2012	31/12/2011
	(in HRK'000)	As restated (in HRK'000)
Balance at beginning of the year	4,595	4,801
Revaluation surplus	47	(258)
Deferred tax liabilities arising from revaluation	(9)	52
Balance at end of year	4,633	4,595

29. EQUITY (CONTINUED)**d) Other reserves**

Other reserves reported in the statement of financial position at 31 December 2012 in the amount of HRK 97,300 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.

e) (Accumulated losses)/retained earnings

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
At 1 January	292,449	761,400	789,672
Loss for the year	(346,696)	(468,951)	(28,272)
At 31 December	(54,247)	292,449	761,400

Non-controlling interests

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
At 1 January	1,068	(569)	236
Profit /(loss) for the year	1,882	1,637	(805)
At 31 December	2,950	1,068	(569)

30. PROVISIONS

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Provisions for employee benefits under IAS 19	297,979	269,878	300,322
Litigation provisions	156,928	135,521	149,759
Provisions for the landfill restoration	35,022	24,294	28,024
Current portion	(67,630)	(35,171)	(40,588)
	422,299	394,522	437,517
<i>Current obligation (Note 40)</i>	<i>67,630</i>	<i>35,171</i>	<i>40,588</i>
<i>Long-term obligation</i>	<i>422,299</i>	<i>394,522</i>	<i>437,517</i>
	489,929	429,693	478,105
Discount rate applied to employee benefits and landfill rehabilitation	5%	7.2%	6.2%

Balance and movements of long-term provisions:

(in HRK'000)	Provisions for employee benefits	Provisions for legal actions	Provisions for landfill rehabilitation	Total
Balance at 1 January 2011	300,322	149,759	28,024	478,105
New provisions made	6,257	7,320	-	13,577
Reversed provisions/Amounts paid	(36,701)	(21,558)	(3,730)	(61,989)
Balance at 31 December 2011	269,878	135,521	24,294	429,693
New provisions made	43,972	31,932	10,728	86,632
Reversed provisions/Amounts paid	(15,871)	(10,525)	-	(26,396)
Balance at 31 December 2012	297,979	156,928	35,022	489,929

30. PROVISIONS (CONTINUED)

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 consist of provisions for termination and retirement benefits, long-service benefits and solidarity support. They are measured at the present value of costs expected to be incurred to settle the obligation, using a discount rate of 5 percent (2011: 7.2%).

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.

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.

31. LOANS AND BORROWINGS

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Long-term borrowings			
Loans and borrowings payable	1,715,090	1,932,237	2,140,712
Finance lease obligations	1,128,147	1,239,368	1,316,348
	2,843,237	3,171,605	3,457,060
Short-term borrowings			
Loans and borrowings payable	1,310,648	1,065,623	808,609
Finance lease obligations	112,340	107,980	102,049
Other	87,951	96,713	84,643
	1,510,939	1,270,316	995,301
Total loans and borrowings	4,354,176	4,441,921	4,452,361

Long-term and short-term bank loans are secured by bills of exchange, promissory notes, debentures and cession agreements worth in total HRK 1,923,173 thousand, account pledges in the amount of HRK 206,496 thousand, a bank deposit in the amount of HRK 56,000 thousand, lien on real estate in the amount of HRK 85,530 thousand, lien on movable property in the amount of HRK 53,375 thousand and a guarantee of the City of Zagreb in the amount of HRK 611,168 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 2012 the Company was compliant with all the financial covenants.

31. LOANS AND BORROWINGS (CONTINUED)**Movements in non-current loans and borrowings**

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Balance at 1 January	2,257,116	2,413,914	2,654,359
New loans raised	69,124	46,928	28,213
Amounts repaid	(328,336)	(228,412)	(282,458)
Effect of exchange differences	2,181	24,686	13,800
Balance at 31 December	2,000,085	2,257,116	2,413,914
Current portion	(284,995)	(324,879)	(273,202)
Long-term portion	1,715,090	1,932,237	2,140,712

Repayment schedule of long-term loans and borrowings

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK '000)	(in HRK '000)	(in HRK '000)
Within one year	284,995	324,879	273,202
In the second to inclusive the fifth year	1,076,319	1,091,028	1,051,939
After five years	638,771	841,209	1,088,773
	2,000,085	2,257,116	2,413,914

Analysis by currency:

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
HRK	906,200	1,000,643	1,095,086
EUR	1,093,885	1,256,473	1,318,828
	2,000,085	2,257,116	2,413,914

31. LOANS AND BORROWINGS (CONTINUED)**Finance lease obligations**

	Minimum lease payments			Present value of minimum lease payments		
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011
Within one year	159,951	166,222	155,611	112,340	107,980	102,049
In the second to inclusive the fifth year	601,720	657,506	636,056	442,273	465,832	474,628
After five years	1,038,044	1,160,878	1,295,160	685,874	773,536	841,720
	<u>1,799,715</u>	<u>1,984,606</u>	<u>2,086,827</u>	<u>1,240,487</u>	<u>1,347,348</u>	<u>1,418,397</u>
Less: future finance charges	(559,228)	(637,258)	(668,430)			
Present value of minimum lease payments	<u>1,240,487</u>	<u>1,347,348</u>	<u>1,418,397</u>			

Included in the financial statements within:

Current liabilities (Note - Current borrowings)	112,340	107,980	102,049
Current liabilities (Note - Non-current loans and borrowings)	<u>1,128,147</u>	<u>1,239,368</u>	<u>1,316,348</u>
	<u>1,240,487</u>	<u>1,347,348</u>	<u>1,418,397</u>

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 Group has an option to purchase the leased items at contractually agreed values. The Group'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% (2011: 4.2%).

31. LOANS AND BORROWINGS (CONTINUED)

Financial instruments (continued)

Present value of items under financial lease arrangements:

	Buildings	Tools and vehicles	Total
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Cost	818,881	853,074	1,671,955
Accumulated depreciation	(30,708)	(157,759)	(188,467)
Net book value At 31/12/2011	788,173	695,315	1,483,488
Cost	818,881	853,074	1,671,955
Accumulated depreciation	(40,944)	(194,441)	(235,385)
Net book value At 31/12/2012	777,937	658,633	1,436,570

Short-term loans and borrowings

	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
Short-term loans and borrowings	1,310,648	1,065,623	808,609
<i>Short-term loans and borrowings</i>	1,025,653	740,744	535,407
<i>Current portion of long-term borrowings</i>	284,995	324,879	273,202
Financial leases (current portion)	112,340	107,980	102,049
Other (interest on borrowings and bonds)	87,951	96,713	84,643
	1,510,939	1,270,316	995,301

31. LOANS AND BORROWINGS (CONTINUED)**Financial instruments (continued)****Movements in short-term loans and borrowings**

	31/12/2012	31/12/2011	01/01/2011
	<u>(in HRK'000)</u>	<u>As restated (in HRK'000)</u>	<u>As restated (in HRK'000)</u>
Balance at 1 January	1,065,623	808,609	637,778
Proceeds from new loans	1,931,989	1,013,168	615,274
Repayment of current portion of non-current loans and borrowings	(1,175,134)	(273,202)	(277,353)
Current portion of long-term borrowings	284,995	324,879	273,202
Amounts repaid	(797,874)	(815,536)	(445,611)
Effect of exchange differences	1,049	7,705	5,319
Balance at 31 December	1,310,648	1,065,623	808,609

	31/12/2012	31/12/2011	01/01/2011
	<u>(in HRK'000)</u>	<u>As restated (in HRK'000)</u>	<u>As restated (in HRK'000)</u>
HRK	508,778	240,000	240,000
EUR	516,875	500,744	295,407
	1,025,653	740,744	535,407

32. LIABILITIES UNDER ISSUED BILLS OF EXCHANGE

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Issued bonds	2,263,687	2,259,126	2,215,552
	2,263,687	2,259,126	2,215,552

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.

33. OTHER NON-CURRENT LIABILITIES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Amounts owed to related parties	224,127	196,795	199,795
Trade payables	11,993	2,047	2,694
Other non-current liabilities	21,008	28,717	22,130
	257,128	227,559	224,619

33. OTHER NON-CURRENT LIABILITIES (CONTINUED)

Liabilities to related parties reported in the statement of financial position at 31 December 2012 in the amount of HRK 224,127 thousand (2011: HRK 196,795 thousand) relate entirely to the obligation towards the owner, the City of Zagreb, as the owner of purchased real estate, for purchased properties.

Trade payables reported in the statement of financial position at 31 December 2012 in the amount of HRK 11,993 thousand (2011: HRK 2,047 thousand) relate entirely to advances received.

Other non-current liabilities reported in the statement of financial position at 31 December 2012 in the amount of HRK 21,008 thousand (2011: HRK 28,717 thousand) relate entirely to an amount owed to the State for flats sold to employees in accordance with the underlying 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

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Deferred income	5,293,442	5,487,487	5,794,042
	5,293,442	5,487,487	5,794,042

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 respective 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.

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

35. LIABILITIES TO RELATED COMPANIES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Borrowings from related parties	2,500	4,000	5,500
Due to the City of Zagreb	138,841	56,300	54,257
	141,341	60,300	59,757

36. ADVANCES, DEPOSITS AND GUARANTEES RECEIVED

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Advances received from unrelated companies	28,084	22,095	19,755
Advances received from the City of Zagreb	579	4,039	4,597
	28,663	26,134	24,352

37. TRADE PAYABLES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Domestic trade payables	1,045,063	1,080,361	1,079,474
Foreign trade payables	14,235	939	1,197
Invoice accruals	1,006	859	1,652
	1,060,304	1,082,159	1,082,323

38. AMOUNTS DUE TO EMPLOYEES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Net salaries payable	83,898	95,475	87,290
Fees and benefits payable	9,232	1,602	6,566
	93,130	97,077	93,856

39. TAXES AND CONTRIBUTIONS PAYABLE

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Payroll and benefit-related taxes and contributions	57,773	73,759	60,975
Value added tax	34,013	33,217	34,901
Income tax payable	1,507	3,727	1,182
Membership and similar fees payable	33,118	26,073	5,486
Other taxes payable	478	261	2,915
	126,889	137,037	105,459

40. OTHER CURRENT LIABILITIES

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Liabilities under recharged servicesa (VIO)	260,192	371,723	253,768
Accrued expenses not yet billed	131,365	88,951	232,777
Other fees payable under decisions	48,418	73,790	33,171
Deferred sales	45,082	51,325	44,050
Current portion of long-term provisions for employee benefits (Note 30)	67,630	35,171	40,588
Accrued VAT on prepayments	4	7	27
	552,691	620,967	604,381

41. OFF-BALANCE SHEET ITEMS

	31/12/2012	31/12/2011	01/01/2011
		As restated	As restated
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Off balance sheet items	880,379	1,007,819	1,235,872
	880,379	1,007,819	1,235,872

At 31 December 2012 off-balance sheet items comprise given guarantees and debentures in the amount of HRK 102 million (HRK 79.9 million), received guarantees and debentures in the amount of HRK 88.9 million (2011: HRK 77.8 million), assets received under operating leases in the amount of HRK 679.5 million (2011: HRK 833.5 million) and other goods received or given under commission or consignment.

42. 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 Parent company, is the only having significant control over the companies' 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
	2012	2011	2012
		As restated	As restated
	HRK	HRK	HRK
City of Zagreb	1,436,337	845,072	27,262
	1,436,337	845,072	27,262

42. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Amounts owed by related parties			Amounts owed to related parties		
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
City of Zagreb	413,615	505,374	596,793	138,841	56,300	54,257
	413,615	505,374	596,793	138,841	56,300	54,257

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 related-party transactions

	Amounts receivable under other related party transactions			Amounts payable under other related party transactions		
	31/12/2012	31/12/2011	01/01/2011	31/12/2012	31/12/2011	01/01/2011
	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)	(in HRK'000)	As restated (in HRK'000)	As restated (in HRK'000)
City of Zagreb	1,073,238	1,203,489	1,302,147	224,127	196,795	199,795
	1,073,238	1,203,489	1,302,147	224,127	196,795	199,795

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 in the amount of HRK 505,688 thousand (2011: HRK 609,735 thousand). In 2009, a long-term receivable from the owner was recognised in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 655,337 thousand (2011: HRK 684,265 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.

42. 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 Boards. The total remuneration paid to the directors (of Zagrebački holding and its Branches) and members of the supervisory bodies paid in 2012 was as follows:

	31/12/2012	31/12/2011
		As restated
	(in HRK'000)	(in HRK'000)
Salaries of the key management personnel and Branch directors	9,280	9,489
Fees to the Supervisory Board members	802	1,377
	10,082	10,866

43. EMPLOYEE BENEFITS

As of 31 December 2012, provisions for employee benefits, which include long-service benefits and solidarity support, amount to HRK 297,979 thousand (at 31 December 2011: HRK 269,878 thousand).

Long-service and termination and solidarity support

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

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.

43. EMPLOYEE BENEFITS (CONTINUED)

Solidarity support is based on the average salary paid to businesses in the territory of the City of Zagreb and is paid in the following cases:

- death of the employee or a member of his/her close family;
- severe disability of the employee, his/her children or spouse;
- sick leave of the employee beyond 90 days
- support to the children of employees who fell victims during the Homeland War
- purchases of medical aids, coverage of the participation component in purchasing necessary pharmaceuticals required in the opinion of the competent doctor
- restoration of damage resulting from an Act of God;
- birth of a child
- severe occupational injury.

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 5 percent (2011: 7.2%), which reflects the market yield on government bonds.

43. EMPLOYEE BENEFITS (CONTINUED)

Key assumptions underlying the actuarial estimates:

	2012	2011
Discount rate	5%	7.2%
Fluctuation rate	4.5%	3.5%
Average expected remaining service period (in years)	20	20

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

	2012 (in HRK'000)	2011 (in HRK'000)
Present value of the long-service benefit obligation	207,051	173,191
Present value of the termination benefit obligation	52,690	58,111
Present value of the support obligation	38,238	38,576
Obligation included in the statement of financial position	297,979	269,878

Of which by maturity:

	2012 (in HRK'000)	2011 (in HRK'000)
Current liabilities	50,567	21,619
Non-current liabilities	247,412	248,259
	297,979	269,878

44. FINANCIAL INSTRUMENTS

44.1. 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:

	2012	2011
	(in HRK'000)	As restated (in HRK'000)
Debt	5,332,787	5,296,331
Loans, borrowings and financial leases (long-term and current portion)	4,354,176	4,441,921
Liabilities under issued long-term securities	2,263,687	2,259,126
- Liability under financial lease of the Arena Zagreb (as it reported as receivable from the City of Zagreb and the Croatian Government)	(779,388)	(794,981)
- 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)	(505,688)	(609,735)
Less: cash in hand and with banks	(90,730)	(143,903)
Net debt	5,242,057	5,152,428
Equity	7,116,090	7,461,031
Net debt-to-equity ratio	73.7%	69.1%

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.2. Categories of financial instruments

	31/12/2012	31/12/2011
	(in HRK'000)	As restated (in HRK'000)
Financial assets		
Financial assets at fair value	7,439	7,411
Loans and Deposits (including cash and cash equivalents)	4,578,319	4,818,768
Financial assets available for sale	6,919	6,868
Financial liabilities		
Financial liabilities at amortized cost	8,662,480	8,751,353

44. FINANCIAL INSTRUMENTS (CONTINUED)**44.3. 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 Group identifies financial risks, assesses their potential impact on the Group's future operations and 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 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. The Group did not use any derivative instruments to manage the risks. The Group does not use derivatives for speculative purposes.

44.4. 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.

44.5. 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	
	31/12/2012	31/12/2011, as restated	31/12/2012	31/12/2011, as restated
	(in HRK'000)		(in HRK'000)	
EUR	5,250,930	5,440,490	1,897,849	2,053,011
USD	-	-	157	160
Other currencies	-	-	85	55

45. FINANCIAL INSTRUMENTS (CONTINUED)**44.5. Foreign currency risk management (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. 79% 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 and represents the Group's assessment of the reasonably possible change of the Croatian kuna against euro. 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		Impact of other currencies	
	31/12/2012	31/12/2011, as restated	31/12/2012	31/12/2011, as restated
	(in HRK'000)		(in HRK'000)	
(Loss) / profit	(33,531)	(33,875)	1	1

44.6. Interest rate risk management

Given that 53 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 2012 and 31 December 2011 by type of liability:

	2012	2011 As restated
EURIBOR	27.65%	22.90%
LIBOR	6.80%	11.05%
ZIBOR	0.23%	0.32%
Yield on Treasury bills of the Ministry of Finance	18.18%	22.35%
Fixed rate of interest	47.13%	43.38%
	100.00%	100.00%

Out of the total loan debt of the Group, 47 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., and the rest relates to the finance lease obligation for Arena Zagreb.

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.6 Interest rate risk management (continued)

EURIBOR and EUR LIBOR tied loan debt accounts for 34.45 of the total loan debt, whereas 18.18 of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 53 percent of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections.

44.6.1. Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates on underivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant:

- the loss of the Group for the year ended 31 December 2012 would have been higher/lower by HRK 17,251 thousand (2011: higher/lower by HRK 17,293 thousand), mainly attributable to the exposure of the Group to variable-rate borrowings.

For the purpose of managing credit risk, the Group is actively monitoring the interest rate movements. 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.

44.7 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 (individuals). Trade receivables are presented net of allowance for bad and doubtful accounts.

44.8 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.

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.8 Liquidity risk management (continued)

44.8.1 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.

	rate %	Up to 1 year HRK 000	1 to 2 years tis. HRK	2 to 3 years tis. HRK	3 to 4 years tis. HRK	4 to 5 years tis. HRK	After 5 years tis. HRK	Total tis. HRK
At 31 December 2012								
Non-interest bearing								
Liabilities to related companies and trade creditors		1,437,765	-	-	-	-	-	1,437,765
Liabilities in respect of loans, deposits and similar								
Amounts due to employees		93,130	-	-	-	-	-	93,130
Other current liabilities		485,059	-	-	-	-	-	485,059
Variable-rate instruments								
Finance lease obligations		105,622	105,624	105,625	105,627	67,531	5,802	495,831
Loans and borrowings payable		1,332,204	354,890	341,827	328,538	272,285	740,994	3,371,838
Fixed-rate instruments								
Loans and borrowings payable	4.70%	54,328	54,328	54,328	54,328	54,328	1,032,241	1,303,861
Issued bonds	7.00%	5,838	5,492	5,147	-	-	-	16,477
	5.50%	124,503	124,503	124,503	124,503	2,328,497	-	-
TOTAL		3,542,609	520,334	506,927	489,593	394,144	1,779,037	7,232,644

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.8 Liquidity risk management (continued)

44.8.1 Liquidity and interest rate risk tables (continued)

	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
	%	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK
<i>At 31 December 2011, as restated</i>								
Non-interest bearing								
Liabilities to related companies and trade creditors		1,341,302	-	-	-	-	-	1,341,302
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	3.36%	112,003	110,205	110,142	110,142	110,142	78,497	629,131
Loans and borrowings payable	5.08%	1,246,069	370,167	366,379	340,675	326,091	992,798	3,632,178
Fixed-rate instruments								
Loans and borrowings payable	4.70%	54,219	54,219	54,219	54,219	54,219	1,084,360	1,355,476
Issued bonds	7.00%	7,972	5,813	5,470	5,127	380	24,761	24,761
	5.50%	124,252	124,252	124,252	124,252	124,252	2,321,252	2,942,512
		3,470,569	540,404	526,210	510,163	490,832	2,153,675	7,691,852

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.8 Liquidity risk management (continued)

44.8.1 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.

	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
	%	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK
At 31 December 2012								
Non-interest bearing								
Cash and cash equivalents		90,730	-	-	-	-	-	90,730
Financial assets at fair value		-	-	-	-	-	7,439	7,439
								3,510,914
Receivables from related companies and trade debtors		1,330,103	242,312	242,312	242,312	242,312	1,211,562	4
Receivables for investments in government bonds		-	-	-	-	-	13,786	13,786
Amounts due from employees		3,206	-	-	-	-	-	3,206
Other receivables		1,594	-	-	-	-	-	1,594
Prepayments made		39,087	-	-	-	-	-	39,087
Receivables from insurance companies and other damages receivable		1,319	-	-	-	-	-	1,319
								92,270
Prepaid expenses and accrued income		92,270	-	-	-	-	-	92,270
Variable-rate instruments								
Given loans and other held-to-maturity securities	6.80%	2,128	2,128	2,128	2,128	2,128	64,117	74,757
Fixed-rate instruments								
Given loans and other held-to-maturity securities	3.39%	8,383	1,953	1,953	1,953	1,953	88,916	105,111
Given loans	6.14%	8,462	3,872	3,009	2,828	2,756	4,375	25,300
Given loans	1.38%	2,139	2,118	2,123	2,066	2,028	6,034	16,508
Receivables for given loans for flats	6.00%	3,567	-	-	-	-	-	3,567
		1,492,258	252,383	251,525	251,287	251,177	1,388,790	3,887,419

Notes to the consolidated financial statements of the Group (continued)

For the year ended 31 December 2012

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.8 Liquidity risk management (continued)

44.8.1 Liquidity and interest rate risk tables (continued)

	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
	%	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK	tis. HRK
<i>At 31 December 2011 As restated</i>								
Non-interest bearing		143,903	-	-	-	-	-	143,903
Cash and cash equivalents								7,411
Financial assets at fair value								3,706,356
Receivables from related companies and trade debtors		1,262,586	242,312	242,312	242,312	242,312	1,474,520	13,390
Receivables for investments in government bonds								2,304
Amounts due from employees		2,304	-	-	-	-	-	8,039
Other receivables		8,039	-	-	-	-	-	5,669
Prepayments made		5,669	-	-	-	-	-	968
Receivables from insurance companies and other damages receivable		968	-	-	-	-	-	72,084
Prepaid expenses and accrued income		72,084	-	-	-	-	-	194,394
Variable-rate instruments								
Given loans and other held-to-maturity securities		7,786	5,243	4,600	4,602	4,604	167,559	56,735
Receivables for loans and credit sales		22,976	6,611	3,216	3,133	2,967	17,832	33,591
Given loans	5.75%	14,395	4,804	1,494	1,493	1,404	10,001	16,461
Receivables for given loans for flats	6.20%	1,898	1,807	1,722	1,640	1,563	7,831	6,683
Given loans to related parties and accrued loan interest	6.00%	6,683	-	-	-	-	-	4,116,674
		1,405,388	260,777	253,344	253,180	252,850	1,691,133	

44. FINANCIAL INSTRUMENTS (CONTINUED)**44.9 Fair value of financial instruments****44.9.1 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 indicators 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).

	31/12/2012			
(in HRK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Participating interests - investments in shares	7,439	-	-	7,439
	7,439	-	-	7,439

	31/12/2011			
(in HRK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Participating interests - investments in shares	7,411	-	-	7,411
	7,411	-	-	7,411

45. COMMITMENTS

The Group has entered into contracts that are still in progress. Costs to be incurred under those contracts have been estimated at HRK 147,146 thousand, whereas the estimated value of investments amounts to HRK 194,493 thousand.

46. 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 35,022 thousand, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (2011: HRK 24,294 thousand).

Taxation

The Group is 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 Board 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. The total concession fee for 2012 amounts to HRK 4,795 thousand (2011: HRK 4,907 thousand).

47. EVENTS AFTER THE REPORTING PERIOD

As from 1 January 2013, the concession fee for the water supply services amounts to HRK 0.135 per sold sq. m.

48. 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.

49. 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

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue 28 June 2013.

Ivo Čović, Graduate Engineer

President of the Management Board



ZAGREBAČKI HOLDING

1 d.o.o.

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