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

Consolidated financial statements
For the year ended 31 December 2013
Together with Independent Auditor's Report

Contents

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union which give a true and fair view of the state of affairs and results of 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 financial statements.

In preparing 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 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 must also ensure that the these comply with the Croatian Accounting Law. 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 10 June 2014.

Signed on behalf of the Management Board:

Slobodan Ljubičić

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

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10 June 2014

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the company Zagrebački holding d.o.o. and its subsidiaries („Group"), which comprise the consolidated statement of financial position as at 31 December 2013 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 adopted by European Union 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

Independent Auditor's Report (continued)

Basis for qualified opinion

1) *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 2013, the receivables under financial lease, less future income earned, would have been be higher by HRK 537,022 thousand, property, plant and equipment would have been be lower by HRK 797,045 thousand, retained earnings would have been lower by HRK 241,571 thousand, and the result for the year then ended would have been lower by HRK 18,452 thousand.

Qualified opinion

In our opinion, except for the potential effects of the matters discussed in Paragraph 1) of the Basis of qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2013, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by European union.

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 President of the Management Board

10 June 2014

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013	2012
		(in HRK'000)	(in HRK'000)
OPERATING INCOME			
Sales	4	4,450,494	4,284,495
Other operating income	5	1,675,709	1,267,982
Total		**6,126,203**	**5,552,477**
OPERATING EXPENSES			
Cost of material and services	6	(2,720,293)	(2,629,064)
Staff costs	7	(1,856,475)	(1,863,815)
Depreciation and amortisation	8	(670,186)	(621,722)
Other expenses	9	(40,230)	(35,887)
Impairment allowance on current and non-current assets	10	(269,851)	(244,070)
Provisions for risks and charges	11	(114,015)	(106,246)
Other operating expenses	12	(54,944)	(50,616)
Total		**(5,725,994)**	**(5,551,420)**
FINANCIAL INCOME	13	**486,316**	**66,256**
FINANCIAL EXPENSES	14	**(792,711)**	**(403,309)**
TOTAL INCOME		**6,612,519**	**5,618,733**
TOTAL EXPENSES		**(6,518,705)**	**5,954,729**
PROFIT / (LOSS) BEFORE TAX		**93,814**	**(335,996)**
INCOME TAX EXPENSE	15	**(43,832)**	**(8,818)**
PROFIT / (LOSS) FOR THE YEAR		**49,982**	**(344,814)**
Attributable to:		**49,982**	**(344,814)**
Attributable to the equity holders of the Company		47,357	(346,696)
Non-controlling interests		2,625	1,882
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to profit or loss (net)			
Loss on revaluation of property	29	(112,711)	(127)
Total comprehensive loss for the year		**(62,729)**	**(344,941)**
Total comprehensive loss attributable to:		**(62,729)**	**(344,941)**
Equity holders of the Company		(65,354)	(346,823)
Non-controlling interests		2,625	1,882

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

Consolidated statement of financial position

At 31 December 2013

	Notes	31/12/2013	31/12/2012
		(in HRK'000)	(in HRK'000)
NON-CURRENT ASSETS			
Intangible assets	16	56,442	54,446
Property, plant and equipment	17	15,100,678	15,033,194
Investment property	18	1,918,944	2,764,386
Other financial assets	20	123,980	122,522
Investment in related parties	19	9,751	-
Non-current receivables	21	2,114,357	1,744,683
Deferred tax assets	15	34,083	65,171
Total non-current assets		**19,358,235**	**19,784,402**
CURRENT ASSETS			
Inventories	22	313,964	788,494
Current receivables			
Amounts owed by related parties	23	382,207	413,615
Trade receivables	24	1,076,422	1,087,791
Amounts due from employees	25	2,643	3,206
Receivables from the State and other institutions	26	66,392	23,763
Other receivables	27	198,519	170,919
Total current assets		*1,726,183*	*1,699,294*
Other financial assets	20	28,934	40,279
Cash and cash equivalents	28	198,398	90,730
Total current assets		**2,267,479**	**2,618,797**
TOTAL ASSETS		**21,625,714**	**22,403,199**
OFF-BALANCE SHEET ITEMS	41	**249,090**	**880,379**

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

EQUITY	Notes	31/12/2013	31/12/2012
		(in HRK'000)	(in HRK'000)
Share capital	29	3,833,236	4,208,629
Revaluation reserve		2,748,745	2,861,456
Other reserves		319,977	97,300
Retained earnings / (Accumulated losses)		368,503	(54,247)
Non-controlling interests		5,575	2,950
Total equity		**7,276,036**	**7,116,088**
NON-CURRENT LIABILITIES			
Provisions	30	333,642	422,299
Loans payable	31	3,194,475	2,843,237
Liabilities under issued long-term securities	32	2,291,293	2,263,687
Other non-current liabilities	33	103,805	257,128
Deferred income	34	5,063,485	5,293,442
Deferred tax liability	15	665,135	693,361
Total non-current liabilities		**11,651,835**	**11,773,154**
CURRENT LIABILITIES			
Amounts owed to related parties	35	54,729	141,341
Liablities for issued securities	36	48,000	-
Loans and borrowings	31	1,273,751	1,510,939
Liabilities in respect of loans, deposits and similar	36	24,678	28,663
Trade payables	37	596,249	1,060,304
Amounts due to employees	38	88,785	93,130
Taxes and contributions payable	39	114,060	126,889
Other current liabilities	40	497,591	552,691
Total current liabilities		**2,697,843**	**3,513,957**
TOTAL EQUITY AND LIABILITIES		**21,625,714**	**22,403,199**
OFF-BALANCE SHEET ITEMS	41	**249,090**	**880,379**

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

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Notes	Share capital	Revaluation reserves	Other reserves	Retained earnings/ (accumulated losses)	Equity attributable to the Parent	Non-controlling interest	Total
		(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
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 income (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**
Decrease in capital – division of the Company		(2,069,128)	-	-	-	**(2,069,128)**	-	**(2,069,128)**
Increase in capital – Equity increase from the City of Zagreb	29	2,069,128	-	-	-	**2,069,128**	-	**2,069,128**
Decrease in share capital due to loss carried forward	29	(375,393)	-	-	375,393	**-**	-	**-**
Imported assets into capital reserves	29	-	-	222,677	-	**222,677**	-	**222,677**
Other comprehensive loss	29	-	(112,711)	-	-	**(112,711)**	-	**(112,711)**
Profit for the year		-	-	-	47,357	**47,357**	2,625	**49,982**
Balance at 31 December 2013		**3,833,236**	**2,748,745**	**319,977**	**368,503**	**7,270,461**	**5,575**	**7,276,036**

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 2013

	2013	2012
	(in HRK'000)	(in HRK'000)
Profit / (loss) for the year	**49,982**	**(344,814)**
Tax expense recognised in the income statement	43,832	8,818
Finance cost recognised in profit or loss	688,545	383,098
Investment income recognised in profit or loss	(379,953)	(41,878)
Impairment allowance on current assets	218,992	179,174
Change in the fair value of investment property	(56,826)	59,297
Impairment allowance on non-current assets	345	5,599
Depreciation and amortisation	670,186	621,722
(Gains) / losses from sale of assets	(22,235)	9,502
Decrease in long-term provisions	(229,957)	27,777
(Decrease) / increase in deferred income on assets financed by others	(88,657)	(194,045)
Foreign exchange losses	54,255	4,858
Changes in working capital:		
Decrease in inventories	474,530	29,475
Decrease of prepayments for non-current assets	46,969	4,287
Increase in trade receivables	(207,621)	(246,691)
Decrease in receivables from related companies	31,408	91,759
Decrease / (increase) in amounts due from employees	563	(902)
Increase in receivables from the State	(42,629)	(5,577)
Increase in other receivables	(21,696)	(32,387)
Increase in financial assets	(1,458)	(695)
(Decrease) / increase in liabilities to suppliers and related parties	(502,667)	59,186
(Decrease) / increase in advances received	(3,985)	2,529
Decrease in taxes and contributions payable	(18,165)	(9,553)
Decrease in amounts due to employees	(4,345)	(3,947)
Decrease in other non-current liabilities	(147,526)	(74,282)
Decrease in other current liabilities	(55,100)	(68,276)
Net cash generated from operations	**496,787**	**464,034**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2013

	2013	2012
	(in HRK'000)	(in HRK'000)
Cash flows from operating activities		
Cash generated from operations	496,787	464,034
Income taxes paid	(7,408)	(7,812)
Interest paid	(694,268)	(279,379)
Net cash (used in) / generated from operating activities	**(204,889)**	**176,843**
Cash flows from investing activities		
Purchases of tangible and intangible assets	(1,234,823)	(345,825)
Proceeds from sale of tangible assets	1,454,011	6,204
(Increase) / decrease in non-current receivables	(352,610)	151,714
Increase in current financial assets	11,345	16,534
Interest paid	374,049	29,170
Acquisition of subsidiaries	(9,751)	-
Net cash generated from / (used in) investing activities	**242,221**	**(142,203)**
Cash flows from financing activities		
Received loans and borrowings	(2,880,593)	(2,088,926)
Repayments of loans and borrowings	2,950,929	2,001,113
Net cash generated from / (used in) financing activities	**70,336**	**(87,813)**
Net increase / (decrease) in cash	**107,668**	**(53,173)**
Cash at 1 January	**90,730**	**143,903**
Cash at 31 December	**198,398**	**90,730**

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

1. GENERAL INFORMATION

History, incorporation and status changes

On 27 December 2005, The City of Zagreb and Zagrebački holding d.o.o. (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.

In 2013 the Company defined a Demerger plan involving the establishment of new companies and transfer of a part of its assets and liabilities to the new companies, in accordance with the adopted strategic highlights. Until the end of 2013 the following operating units had been spun off: Water supply (as a result of the underlying changes of Law on Waters, Official Gazette 153/09, 63/11, 130/11, 56/13), Facility management, Construction and sale of flats, and Publishing (as a result of the strategic focus to separate commercial operations from the communal activities), resulting in the establishment of four new companies.

Pursuant to the Decision (No Tt-13/25472-2) of the Commercial Court in Zagreb, dated 8 November 2013, the demerger of the Company involving the establishment of the following new companies was entered into the Court registry: Gradsko stambeno komunalno gospodarstvo d.o.o., Vodoopskrba i odvodnja d.o.o., Zagrebačka stanogradnja d.o.o., and AGM d.o.o.

As part of the demerger involving the establishment of the above-mentioned companies, the share capital was distributed by reducing the share capital of the Company by HRK 2,069,128 thousand from HRK 4,208,629 thousand to HRK 2,139,501 thousand.

Following the Company's status changes and registration of new companies the Company concluded Contract on transfer of business shares with City of Zagreb as transferor whereas the Company acquired for following companies: Gradsko stambeno komunalno društvo d.o.o., Vodoopskrba i odvodnja d.o.o., AGM d.o.o. and Zagrebačka stanogradnja d.o.o. Business shares are transferred to the Company in the total amount of HRK 2,069,128 thousand which is the same as nominal value of share capital for each of above mentioned companies. Based on transfer of business shares receivables from City of Zagreb are tranfered to additional share capital of the Company during the year 2013 as it is stated in Commercial Court in Zagreb.

1. GENERAL INFORMATION (CONTINUED)

Activities

At 31 December 2013 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 2013	Ownership interest 2012
	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	Gradska groblja	Mirogoj 10	branch	Funeral and related services	100% Zg. holding	100% Zg. holding
2	Čistoća	Radnička 82	branch	Public area cleaning, waste collection and disposal	100% Zg. holding	100% Zg. holding
3	Zagrebački električni tramvaj	Ozaljska 105	branch	Public passenger transport	100% Zg. holding	100% Zg. holding
4	Zrinjevac	Remetinečka 92	branch	Landscaping and plant growing	100% Zg. holding	100% Zg. holding
5	Zagrebparking	Šubićeva 40	branch	Public parking lots and garages	100% Zg. holding	100% Zg. holding
6	Zagrebačke ceste	Donje Svetice 48	branch	Regional and local road management, maintenance and construction	100% Zg. holding	100% Zg. holding
7	Autobusni kolodvor Zagreb	Avenija M.Držića 4	branch	Bus station	100% Zg. holding	100% Zg. holding
8	Tržnice Zagreb	Šubićeva 40	branch	Wholesale and retail markets, warehousing and storage	100% Zg. holding	100% Zg. holding
9	ZGOS	Zeleni trg 3	branch	Waste collection and removal	100% Zg. holding	100% Zg. holding
10	Zagrebački digitalni grad	Slavonska avenija bb	branch	Lease of IT cable and network systems	100% Zg. holding	100% Zg. holding
11	Stanogradnja	Bukovačka 4	branch	Flat construction and sale	100% Zg. holding	100% Zg. holding
12	Upravljanje sportskim objektima	Trg K.Ćosića 11	branch	Sports facility management and maintenance	100% Zg. holding	100% Zg. holding
13	Robni terminali Zagreb	Jankomir 25	branch	Warehousing	100% Zg. holding	100% Zg. holding
14	Vladimir Nazor	Maksimir 52	branch	Travel agency business	100% Zg. holding	100% Zg. holding
15	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 2013	Ownership interest 2012
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	Gradsko stambeno komunalno gospodarstvo d.o.o.	Savska cesta 1	limited liability company	Facility management	100% Zg.holding	-
7	Vodoopskrba i odvodnja d.o.o.	Folnegovićeva 1	limited liability company	Water collection, treatment and supply	100% Zg.holding	-
8	AGM d.o.o.	Mihanovićeva 28	limited liability company	Publishing	100% Zg.holding	-
9	Zagrebačka stanogradnja d.o.o.	Bukovačka cesta 4	limited liability company	Flat construction and sale	100% Zg.holding	-

In 2013 the Company defined a demerger plan four operating units had been spun off: Water supply (as a result of the underlying changes of Law on Waters), Facility management, Construction and sale of flats, and Publishing (as a result of the strategic focus to separate commercial operations from the communal activities), resulting in the establishment of four new companies.

Pursuant to the Decision (No Tt-13/25472-2) of the Commercial Court in Zagreb, dated 8 November 2013, the demerger of the Company involving the establishment of the following new companies was entered into the Court registry: Gradsko stambeno komunalno gospodarstvo d.o.o., Vodoopskrba i odvodnja d.o.o., Zagrebačka stanogradnja d.o.o., and AGM d.o.o.

1. GENERAL INFORMATION (CONTINUED)

Principal activities

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

a. Cleaning and waste removal services
b. Public passenger transport services
c. Water collection, treatment and supply
d. Landscaping and plant growing
e. Management, maintenance, construction and protection of regional and local roads
f. Cleaning and waste removal services
g. Gas supply and distribution
h. Drugstore
i. Warehousing and rental services
j. Flat, business premises and garage construction and sale
k. Other services

Staff

At 31 December 2013, the Group had 12,229 employees (31 December 2012: 12,575 employees), as presented below:

Group	No. of staff 31/12/2013	No. of staff 31/12/2012
Zagrebački holding d.o.o.	9,859	11,620
Subsidiaries	2,370	955
	12,229	**12,575**

1. GENERAL INFORMATION (CONTINUED)

Directors and management

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

2013	2012
1 Ivo Čović, President of the Management Bord until 30 June 2013	1 Ivo Čović, President of the Management Board
2 Vlasta Pavić, Member until 30 June 2013	2 Branimir Delić, Member until 12 October 2012
3 Alenka Košiša Čičin-Šain, Member until 30 June 2013	3 Vlasta Pavić, Member
4 Tomislav Ćulo, Member until 30 June 2013	4 Alenka Košiša Čičin-Šain, Member
5 Slobodan Ljubičić, president of the Management Bord from 1 July 2013	5 Tomislav Ćulo, Member since 12 October 2012
6. Ivan Tolić, Member from 1 July 2013	
7. Ante Samodol, Member from 1 July 2013 until 12 May 2014	
8. Daniela Franić, Member from 1 July 2013	
9. Zdenko Milas, Member from 2 July 2013	
10. Nike Nodilo Lakoš, Member from 17 July 2013	
11. Darija Jurica Vuković, Member from 17 July 2013	

Subsidiaries	Director as at 31 December 2013
1. Gradska plinara Zagreb d.o.o.	Ante Dodig
2. Gradska plinara Zagreb Opskrba d.o.o.	Miroslav Jerković
3. Zagreb plakat d.o.o.	Bosiljka Grbašić, Lovorko Mamić
4. Zagreb arena d.o.o.	Tomislav Pervan
5. Gradska ljekarna Zagreb	Mila Bucalić
6. Gradsko stambeno komunalno gospodarstvo d.o.o.	Joško Jakelić
7. Vodoopskrba i odvodnja d.o.o.	Štefica Mihalic
8. AGM d.o.o.	Svjetlana Dizdar
9. Zagrebačka Stanogradnja d.o.o.	Daniela Franić

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

Members of **the Supervisory Board** of Zagrebački holding during 2013 were as follows:

1. Mato Crkvenac, President (until 30 July 2013)
2. Maruška Vizek, Vice President (since 28 February 2012)
3. Hrvoje Šimović, Member (since 28 February 2012)
4. Nina Tepeš, Member (until 30 July 2013)
5. Vlado Leko, President (since 1 July 2013 until 21 October 2013)
6. Mirna Šitum, Vice President (since 1 July 2013)
7. Vida Demarin, Member (since 1 July 2013)
8. Gojko Bežovan, Member (since 1 July 2013)
9. Ivan Šikić, Member (since 1 July 2013)
10. Davor Štern, Member (since 1 July 2013)

Members of **the Supervisory Board** of Zagrebački holding d.o.o. 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, Member (until 28 February 2012)
4. Dragan Kovačević, Member (until 1 May 2012
5. Mato Crkvenac, President (since 28 February 2012)
6. Maruška Vizek, Vice President (since 28 February 2012)
7. Hrvoje Šimović, Member (since 28 February 2012)
8. Nina Tepeš, Member (since 28 February 2012)

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

The only member of the **Assembly** is City of Zagreb, and representatives of member during 2013 were as follows:

1. Mihaela Grubišić Šeba (since 19 June 2013)
2. Đurđica Jurić (since 19 June 2013)
3. Viktor Gotovac (since 19 June 2013)
4. Milan Bandić (since 19 June 2013)
5. Sandra Švaljek (since 28 June 2013)
6. Slavko Kojić (since 28 June 2013)

The only member of the **Assembly** is City of Zagreb, and representatives of member during 2012 were as follows:

1 Davor Bernardić (until 27 September 2012)

2 Dragan Korolija-Marinić (until 27 September 2012)

3 Zvane Brumnić (until 27 September 2012)

4 Dragan Vučić (until 27 September 2012)

5 Jurica Meić (until 27 September 2012)

6 Tatjana Holjevac (until 27 September 2012)

7 Vesna Brezić (until 27 September 2012)

8 Danira Bilić (until 27 September 2012)

9 Velimir Srića (until 24 September 2012)

10 Jozo Radoš (until 24 September 2012)

11 Darinko Kosor (until 27 September 2012)

12 Nenad Matić (since 24 May 2012 until 27 September 2012)

13 Dragan Kovačević (since 24 May 2012 until 27 September 2012)

14 Mihaela Grubišić Šeba (since 27 September 2012)

15 Đurđica Jurić (since 27 September 2012)

16 Viktor Gotovac (since 27 September 2012)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (2012)"** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013)

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

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

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting** (effective for annual periods beginning on or after 1 January 2014).

The Entity has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

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

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 10 June 2014:

- **IFRS 9 'Financial Instruments'** and subsequent amendments (effective date was not yet determined),
- **IFRS 14 'Regulatory Deferral Accounts'** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 'Employee Benefits'** under the heading 'Defined benefit plans: the payment of contributions by employees (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards 'Improvements to IFRSs (cycle 2010-2012)'** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, **IFRS 13**, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2013),
- **Amendments to various standards 'Improvements to IFRSs (cycle 2011-2013)'** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Management Board 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 consolidated 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 adopted by European Union.

b) Basis of preparation of the consolidated financial statements

The accompanying consolidated financial statements comprise the financial statements of the Company and the entities controlled by it, i.e. its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
- The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 17 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2013, the official exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.637643 and HRK 5.549000, respectively (31 December 2012: HRK 7.545624 for 1 EUR and HRK 5.726794 for 1 US dollar).

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)

d) 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.

e) Property, plant and equipment

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, and land is carried at revalued amount 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 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 recognised. A decrease in the carrying amount arising on the revaluation of such land 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:

	2013	2012
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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less that its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately 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 2013 investment properties were remeasured at fair value on the basis of appraisals by a certified property appraisal expert, upon which the losses resulting from the change in the fair values were included in the statement of comprehensive income for the year 2013 (Note 18).

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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Listed 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)

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, i.e. 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, jubilee awards and solidarity support

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)

l) Retirement, jubilee awards and solidarity support (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.

m) 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.

Value-added tax (VAT)

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

n) Provisions

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

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 communicated it to those affected by the plan.

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 44 - Financial instruments.

Other financial liabilities

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

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

The effective interest method is a method of calculating the amortised cost of a financial 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 4.

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.

Fair value hedges

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

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

w) Comparatives

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

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.

For the purpose of financial reporting Company measures part of its assets and liabilities at fair value.

In estimating the fair value of assets and liabilities, the Company uses market data where available. The Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2013, deferred tax assets on available tax differences were recognised. The carrying amount of deferred tax assets is disclosed in Note 15.

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 2013 provisions for employee benefits amounted to HRK 138,484 thousand (at 31 December 2012 the total provisions amounted to HRK 297,979 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).

Impairment of trade receivables

Trade receivables are estimated at each balance sheet date (and monthly) and are impaired based on estimated probability of their collection.

Fair value measurement and valuation process

Some of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group coordinates the evaluation process and works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) IFRS 13 „Fair value measurement"

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for previous period i.e. year 2012 . Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

z) Status changes

As a result of status changes and legal requirements, Zagrebački holding d.o.o. spun off the water supply services in accordance with the Water Act. The Act specifies the following restrictions applicable to municipal water structures:

- They cannot be encumbered or enforced (Art. 200.1);
- If owned by the public supplier, they are excluded from the bankruptcy or liquidation estate, and in the event of bankruptcy or liquidation of the public supplier of water services, they are separated to form the estate owned by the local government units (Art. 200.2);
- Private persons cannot acquire a majority share in the public water supplier who is also the owner of the water utility buildings. Should this happen, the status of a public water supplier ceases, and the supplier is no longer entitled to perform public supply and public sewerage services (Art. 200.3 and Art. 202.3).

Considering the consolidation policy disclosed in Note 3.b) and the eilgibility of the operation for the inclusion in the consolidated financial statements, the Management Board of the Group decised to include the operation in the accompanying financial statements.

4. SEGMENT INFORMATION

SALES

	2013	2012
	(in HRK'000)	(in HRK'000)
Croatian market	4,448,129	4,281,049
EU market	2,365	3,446
	4,450,494	**4,284,495**

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

4. 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.

	2013	2012
	(in HRK'000)	(in HRK'000)
Gas distribution and sale	1,446,111	1,329,240
Water distribution revenue	455,291	467,471
Cleaning and waste removal	423,003	415,526
Passenger transport	464,111	443,796
Pharmaceutical sales	262,808	272,195
Public road maintenance and management	329,236	288,799
Warehousing and rentals	92,659	102,953
Flat construction and sale	122,519	124,117
Parking services	116,525	123,716
Facility management	185,963	188,730
Waste disposal and management	7,507	10,043
Other income	544,761	517,909
	4,450,494	**4,284,495**

4. SEGMENT INFORMATION (CONTINUED)

SALES (CONTINUED)

Other revenue comprises the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Landscaping and plant growing	192,260	164,864
Markets revenue	76,811	81,327
Sports facility management and maintenance	71,689	73,285
Funeral services	57,689	61,781
Trade fairs and congresses	42,814	43,818
Bus station	39,911	38,182
Travel agencies	23,734	23,633
Lease of telecom cable and network systems	11,256	10,547
Publishing	6,320	8,165
Other income	22,277	12,307
	544,761	**517,909**

4. SEGMENT INFORMATION (CONTINUED)

2013 segment revenue and results

2013	Facility management	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenan	Flat construction and sale	Parking services	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Revenue from third parties	185,963	455,291	464,111	423,003	329,236	122,519	116,525	92,659	7,507	1,446,111	262,808	550,655	(5,894)	4,450,494
Inter-segment sales	298,390	17,538	3,966	19,307	26,098	46	9,854	2,280	107,215	212,583	-	10,430	(707,707)	-
Total sales	**484,353**	**472,829**	**468,077**	**442,310**	**355,334**	**122,565**	**126,379**	**94,939**	**114,722**	**1,658,694**	**262,808**	**561,085**	**(713,601)**	**4,450,494**
Expenses from other operations, net of other ordinary income	**(234,921)**	**(462,583)**	**(418,435)**	**(442,649)**	**(345,658)**	**(78,515)**	**(110,826)**	**(77,623)**	**(67,560)**	**(1,617,781)**	**(286,925)**	**(626,585)**	**719,776**	**(4,050,285)**
Result from operations	**249,432**	**10,246**	**49,642**	**(339)**	**9,676**	**44,050**	**15,553**	**17,316**	**47,162**	**40,913**	**(24,117)**	**(65,500)**	**6,175**	**400,209**
Financial income	408,059	18,457	15,536	6,072	1,234	16,205	2,218	954	7	20,674	25,164	3,846	(32,110)	486,316
Financial expenses	(631,122)	(16,367)	(99,516)	(1,697)	(3,019)	(40,569)	(3,799)	(862)	(252)	(4,810)	(54)	(5,240)	14,596	(792,711)
Net financial result	*(223,063)*	*2,090*	*(83,980)*	*4,375*	*(1,785)*	*(24,364)*	*(1,581)*	*92*	*(245)*	*15,864*	*25,110*	*(1,394)*	*(17,514)*	*(306,395)*
Gain / (loss) before taxation	**26,369**	**12,336**	**(34,338)**	**4,036**	**7,891**	**19,686**	**13,972**	**17,408**	**46,917**	**56,777**	**993**	**(66,894)**	**(11,339)**	**93,814**
Income tax expense	**(26,977)**	**(3,565)**	-	-	-	-	-	-	-	**(11,622)**	**(207)**	**(1,461)**	-	**(43,832)**
Net gain / (loss)	**(608)**	**8,771**	**(34,338)**	**4,036**	**7,891**	**19,686**	**13,972**	**17,408**	**46,917**	**45,155**	**786**	**(68,355)**	**(11,339)**	**49,982**

4. SEGMENT INFORMATION (CONTINUED)

2012 segment revenue and results

2012	Facility management	Water distribution	Passenoe transport	Cleaning and waste removal	Public road mgmt. and maintenan	Flat construction And sale	Parking services	Warehousing and rentals	Waste collection 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)**
Result from operations	**89,337**	**28,990**	**(205,364)**	**9,401**	**24,280**	**52,062**	**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*	*(255)*	*12,944*	*1,702*	*2,575*	*(12,617)*	*(337,053)*
(Loss) / gain 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) / gain	**(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)**

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2013

Assets and liabilities at 31/12/2013	Facility management	Water distribution	Passenger transport	Cleaning waste removal	Public road mgmt. and	Flat construction and sale	Parking services	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Property, plant and equipment	1,727,981	4,367,986	3,034,390	159,444	148,800	475,392	143,752	332,875	65,339	1,206,181	41,789	3,052,665	344,084	15,100,678
Intangible assets	2,608	18,798	15,916	1,911	51	4,917	63	390	17	7,752	850	3,169	-	56,442
Investment property	871,751	-	-	-	-	-	-	939,276	-	-	-	390,592	(282,676)	1,918,943
Inventories	2	12,609	44,181	10,058	41,636	140,586	339	936	60	6,323	17,758	39,476	-	313,964
Trade receivables, net	22,377	488,299	42,223	70,164	9,744	1,286	21,609	7,636	665	276,719	83,511	52,189	-	1,076,422
Unallocated	4,341,123	67,330	765,096	90,945	180,126	594,702	194,644	3,579	487,347	182,946	61,871	99,738	(3,910,182)	3,159,265
Total assets	**6,965,842**	**4,955,022**	**3,901,806**	**332,522**	**380,357**	**1,216,883**	**360,407**	**1,284,692**	**553,428**	**1,679,921**	**205,779**	**3,637,829**	**(3,848,774)**	**21,625,714**
Issued bonds	2,291,293	-	-	-	-	-	-	-	-	-	-	-	-	2,291,293
Trade payables	29,734	173,761	62,832	13,853	38,959	2,230	3,264	2,695	7,945	204,042	5,419	51,515	-	596,249
Amounts due to employees	4,028	9,097	32,051	8,546	4,714	65	3,181	1,919	725	6,233	3,215	15,011	-	88,785
Equity and unallocated liabilities	4,640,787	4,772,164	3,806,923	310,121	336,684	1,214,588	353,963	1,280,077	544,758	1,469,647	197,146	3,571,303	(3,848,774)	18,649,387
Total equity and liabilities	**6,965,842**	**4,955,022**	**3,901,806**	**332,520**	**380,357**	**1,216,883**	**360,408**	**1,284,691**	**553,428**	**1,679,922**	**205,780**	**3,637,829**	**(3,848,774)**	**21,625,714**
31/12/2013 Other segment information														
Capital expenditure:	**13,425**	**166,373**	**901,822**	**2,871**	**42,421**	**165**	**66**	**8,907**	**10,015**	**65,707**	**1,268**	**17,068**	**-**	**1,230,108**
Tangible assets	12,622	166,373	899,360	2,024	42,421	165	62	8,790	10,015	63,587	993	16,614	-	1,223,026
Intangible assets	803	-	2,462	847	-	-	4	117	-	2,120	275	454	-	7,082
Depreciation and impairment	**76,060**	**162,652**	**177,222**	**9,193**	**6,686**	**41,976**	**10,430**	**3,848**	**13,257**	**123,467**	**2,721**	**42,674**		**670,186**

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2012

Assets and liabilities at 31/12/2012	Facility management	Water distribution	Passenge transport	Cleaning and waste removal	Public road mgmt. and	Flat construction And sale	Parking services	Warehousing and rentals	Waste collection and removal	Gas sale and distribution	Drugstore operations	Other	Eliminated	Total
Property, plant and equipment	1,566,947	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	7,657	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	-	788,494
Trade receivables	16,275	490,009	29,025	70,546	9,183	999	31,891	11,150	1,006	270,567	104,853	52,287	-	1,087,791
Unallocated	4,103,028	82,741	608,559	162,146	262,307	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	65,723	8,083	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	5,282,086	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)	18,986,078
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**

5. OTHER OPERATING INCOME

	2013	2012
	(in HRK'000)	(in HRK'000)
Grant and subsidy income	880,265	744,957
Reversal of deferred income	271,629	244,099
Income from reversal of provisions	202,903	62,070
Unrealised gains from change in fair value of investment property	107,340	-
Recovery of amounts previously written off	88,639	88,902
Income from sale of non-current assets, surpluses and upon revaluation	23,113	6,562
Damages collected	14,646	17,329
Other operating income	87,174	104,063
	1,675,709	**1,267,982**

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).

	2013			2012		
	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	772,096	17,580	789,676	628,042	18,310	646,352
Others	86,626	3,963	90,589	96,802	1,803	98,605
Total	**858,722**	**21,543**	**880,265**	**724,844**	**20,113**	**744,957**

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).

Unrealised gains from change in fair value of property are recognized for the property whose fair value increased in 2013 based on the estimate made by court appointed expert. At the same time unrealised loss in the amount of HRK 50.5 millions were recognized for those property whose fair value decreased (see Note 18). The net effect from the movement in fair value of investment property resulted with the HRK 56.8 million of unrealised gains

5. OTHER INCOME (CONTINUED)

Income from reversal of provisions relates mainly to the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
a) Employee benefit provisions	169,766	10,280
b) Litigation provisions, as per the attorney's assessment	8,645	11,470
c) Accrued vacation and other benefits	24,492	40,320
	202,903	**62,070**

Fifth annex on Collective Agreement was signed during 2013 based on which jubilee awards on non-taxable amounts (Note 43) which resulted with decrease in employee benefit provisions and income from reversal of employee benefit provision.

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

	2013	2012
	(in HRK'000)	(in HRK'000)
Reversal of excess of accrued expenses for the Sopnica Project following the final calculations provided by the contractor	3,175	1,646
Collected damages and liquidated damages	7,997	13,470
Other income (write-off of debt, approved discounts and similar)	3,474	2,213
	14,646	**17,329**

Income from collection of damages and liquidated damages comprises principally on the subsidiary ZET in the amount of HRK 3.8 million (2012: Nil) for collection of damages from insurance companies and subsidiary Stanogradnja in the amount of HRK 1.7 million (2012: 5.8 million) which charged liquidated damages and cost of deficiencies removal to the contractors on the object Sopnica.

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

6. COST OF MATERIALS AND SERVICES

	2013	2012
	(in HRK'000)	(in HRK'000)
Energy costs	278,905	281,232
Cost of raw material and supplies	276,266	264,787
Expensed small items	18,416	18,380
a) Total material costs	*573,587*	*564,399*
b) Changes in the value of inventories of work in progress and finished products	*4,805*	*10,254*
c) Cost of goods sold	*1,402,726*	*1,313,143*
Rental and lease costs	147,209	209,502
Maintenance	168,872	138,060
Municipal utility fees and charges	116,749	114,129
Subcontractor service costs	78,543	63,476
Transportation costs	43,531	42,407
Data processing and software maintenance services	32,603	36,749
Insurance premiums	33,508	31,515
Intellectual services	22,853	29,745
Bank and payment operation charges	18,343	9,658
Advertising and promotion	4,284	6,571
Other external services	72,680	59,456
d) Total external services	*739,175*	*741,268*
	2,720,293	**2,629,064**

The net costs of materials and services are greater by a total of HRK 91.2 million compared to 2012. The increase relates mainly to the cost of gas sold at GPZ Opskrba d.o.o. (HRK 69.7 million), and the increased volume of work and higher prices, which resulted in higher costs of raw materials and supplies, the costs of subcontractors and maintenance costs. On the other hand, the lease and rental costs decreased as a result of renegotiated bus leases (purchase of buses under lease).

7. STAFF COSTS

	2013	2012
	(in HRK'000)	(in HRK'000)
Net wages and salaries	1,003,203	1,009,450
Taxes and contributions	680,182	685,871
Reimbursement of costs to employees and other employee benefits	173,090	168,494
	1,856,475	**1,863,815**
Number of staff at 31 December	**12,229**	**12,575**

Reducing the number of employees to 346 person is a consequence of the natural outflow and disposal of part of employees with severance pay.

Fifth annex to Collective Agreement was signed during 2013 which resulted with decrease in employee benefit provisions in a way that are reduced to the non-taxable amount in accordance with tax regulations (Notes 5 and 43) which further resulted with decrease in total staff costs.

The total staff costs for the year 2013 decreased by around HRK 7.3 million (on a net basis), with the payroll costs decreasing by approximately 11.9 million and employee benefits increasing by around HRK 5 million.

The employee benefits for the year 2013 increased by around HRK 5 million (on a net basis) compared to 2012. Within the structure of employee benefits, the cost od public transport is decreased by around 4 million and retirement benefits are increased by around 10 million.

8. DEPRECIATION AND AMORTISATION

	2013	2012
	(in HRK'000)	(in HRK'000)
Depreciation (Note 17)	656,657	611,259
Amortisation (Note 16)	13,529	10,462
VAT on depreciation of personal cars	-	1
	670,186	**621,722**

Depreciation increased principally due to the investment in transport monitoring system (Atron) made by subsidiary ZET in 2013.

9. OTHER EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Administrative fees and court costs	21,073	16,849
Taxes and contributions independent of operating results	6,997	6,687
Professional organisation membership fees (Croatian Chamber of Economy, Tourist Board, and others)	6,924	6,021
Entertainment	1,444	2,365
Professional literature	1,205	1,375
Cultural monument fees and environmental protection costs	887	841
Fees to Supervisory Board members	877	802
Other expenses	823	947
	40,230	**35,887**

10. IMPAIRMENT ALLOWANCE ON CURRENT AND NON-CURRENT ASSETS

	2013	2012
	(in HRK'000)	(in HRK'000)
Impairment allowance on current assets	218,992	179,174
Impairment allowance on non-current assets	50,859	64,904
	269,851	**244,070**

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 50.5 million (2012: unrealised losses in the amount of HRK 59.2 million).

11. PROVISIONS FOR RISKS AND CHARGES

	2013	2012
	(in HRK'000)	(in HRK'000)
Litigation provisions	62,521	34,068
Provisions for unused vacation days	26,033	23,165
Provisions under IAS 19 Employee Benefits	23,710	37,841
Provisions for the restoration of natural resources	1,751	11,172
	114,015	**106,246**

12. OTHER OPERATING EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Fines, penalties, damages	24,811	27,219
Written-off receivables	8,373	5,923
Grants, donations and sponsorships	4,205	2,766
Net book value of assets sold or otherwise disposed of	860	2,039
Other operating expenses	16,695	12,669
	54,944	**50,616**

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 2013 relates mainly to Čistoća Branch in the amount of HRK 7.7 million (2012: HRK 5.1 million) which were estimated as irrecoverable.

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

13. FINANCIAL INCOME

	2013	2012
	(in HRK'000)	(in HRK'000)
Interest income from property sales	349,888	-
Financial income - unrelated entities	104,571	58,205
Financial income - related entities	-	44
Other financial income	31,857	8,007
	486,316	**66,256**

Financial income comprises the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Interest income	30,153	41,878
Interest income from property sales	349,888	-
Foreign exchange gains	60,577	15,353
Other financial income	45,698	9,025
	486,316	**66,256**

The net exchange loss for 2013 amounts to HRK 43.5 million (2012: net exchange loss of HRK 4.9 million).

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

In 2013 the Company sold real estates Gredelj and Zagrepčanka to the City of Zagreb with a repayment period of 10 years. In line with the Operational and Financial Restructuring Programme, receivables outstanding from the City of Zagreb were sold to commercial banks at a discount (Note 18).

14. FINANCIAL EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Financial expense - unrelated entities	445,219	401,720
Financial expenses - related entities	-	36
Discount from the sales receivables	345,221	-
Other financial expenses	2,271	1,553
	792,711	**403,309**

Financial expenses from transactions with unrelated entities comprise the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Discount from the sales receivables	345,221	-
Interest expense	339,382	379,672
Foreign exchange losses	104,166	20,211
Other	3,942	3,426
	792,711	**403,309**

In 2013 *Financial expenses* increased compared to 2012 because of the discount from the sales receivables.

Other financial expenses in the amount of HRK 347.5 million comprise mainly the expense with respect to the discount of receivables for sold property.

In 2013 the Company sold real estates Gredelj and Zagrepčanka to the City of Zagreb with a repayment period of 10 years. In line with the Operational and Financial Restructuring Programme, receivables outstanding from the City of Zagreb were sold to commercial banks at a discount (Note 18).

15. 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

	2013	2012
	(in HRK'000)	(in HRK'000)
Income tax expense comprises the following:		
Current tax	(12,744)	(7,217)
Deferred tax expense on the origination and reversal of temporary differences	(31,088)	(1,601)
Tax expense	**(43,832)**	**(8,818)**

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

	2013	2012
	(in HRK'000)	(in HRK'000)
Profit / (Loss) before taxation	93,814	(335,996)
Income tax at the rate of 20% (2012: 20%)	18,763	(67,199)
Effect of permanent differences, net	56,179	167,502
Effect of temporary differences recognised as deferred tax assets	2,447	7,285
Effect of reversal of temporary differences previously recognized as deferred tax assets	(33,557)	-
Effect of unrecognised and unused tax losses brought forward	(-)	(98,770)
Tax expense recognised in profit or loss	**43,832**	**8,818**

Unused tax losses:

	2013	2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**(281,441)**	**(774,657)**
Increase during the year	(100, 089)	(634)
Decreases during the year	-	493,850
Balance at end of year	**(381,530)**	**(281,441)**

Tax losses available for carry forward that originate from 2010 expire in 2015, and those incurred in 2011 expire in 2016.

15. INCOME TAX (CONTINUED)

Deferred taxes - deferred tax assets and deferred tax liabilities

2013	**Opening balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Recognised directly in equity**	**Closing balance**
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
Temporary differences:					
Provisions	59,596	(31,899)	-	-	27,697
Financial assets at fair value	520	(209)	-	-	311
Value adjustment of inventory	-	12		-	12
Value adjustment of land	45	-	-	-	45
Revaluation of land	688,264	-	(28,301)	-	659,963
Property, plant and equipment	336	-	-	(48)	288
Revaluation of financial assets	1,148	-	123	-	1,271
Deferred income	3,613	-	-	-	3,613
Unused tax losses and tax credits					
Tax losses	429	22	-	-	451
Tax credits	4,581	986	-	-	5,567
Deferred tax assets	**65,171**	**(31,088)**	**-**	**-**	**34,083**
Deferred tax liabilities	**693,361**	**-**	**(28,178)**	**(48)**	**665,135**

15. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities (continued)

2012	**Opening balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Recognised directly in equity**	**Closing balance**
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
Temporary differences:					
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
Unused tax losses and tax credits					
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**

16. INTANGIBLE ASSETS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Cost or valuation	214,137	199,397
Accumulated amortisation	(157,695)	(144,951)
	56,442	**54,446**

The structure of intangible assets is as follows:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Patents, concessions and similar rights	23,836	22,324
Development expenses	13,847	17,859
Intangible assets under development	15,282	7,592
Other intangible assets	3,477	6,671
	56,442	**54,446**

16. 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 01/01/2012 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**
Additions	65	2,194	47	4,776	**7,082**
Transfer from assets under development	112	6,558	10	(2,210)	**4,470**
Transfer from long-term receivables	-	-	-	4,917	**4,917**
Transferred (from)/to	-	1	(1150)	207	**(942)**
Retirement, disposal, sale	-	(216)	(571)	-	**(787)**
Balance at 31/12/2013	**60,533**	**83,689**	**54,633**	**15,282**	**214,137**
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 01/01/2012 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**
Charge for the year	**4,189**	**7,239**	**2,101**	**-**	**13,528**
Retirement, disposal, sale	**-**	**(214)**	**(571)**	**-**	**(784)**
Balance at 31/12/2013	**46,686**	**59,853**	**51,156**	**-**	**157,695**
CARRYING AMOUNT					
Balance at 01/01/2012 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**
Balance at 31/12/2013	**13,847**	**23,836**	**3,477**	**15,282**	**56,442**

17. PROPERTY, PLANT AND EQUIPMENT

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Cost or valuation	23,326,318	22,708,969
Accumulated depreciation or impairment	(8,231,367)	(7,728,472)
	15,094,951	**14,980,497**
Prepayments made	5,727	52,697
Total	**15,100,678**	**15,033,194**

Structure of property, plant and equipment:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Buildings	7,629,304	7,877,233
Land	4,495,217	4,412,410
Tools and vehicles	1,933,235	1,627,593
Tangible assets under construction	647,786	643,436
Plant and equipment	339,136	369,545
Biological assets	21	28
Other tangible assets	50,252	50,252
	15,094,951	**14,980,497**

Movements in prepayments:

	31/12/2013	31/12/2012
	As restated	As restated
	(in HRK'000)	(in HRK'000)
Opening balance	**52,697**	**56,984**
Additions	-	2,026
Disposals	(46,970)	(6,313)
Closing balance	**5,727**	**52,697**

17. 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 VALUATION								
COST								
Balance at 01/01/2012, As restated	**4,412,102**	**13,134,578**	**1,277,355**	**2,976,914**	**259**	**50,268**	**624,296**	**22,475,772**
Additions	188	15,751	27,813	11,600	15	-	268,982	**324,349**
Transfer from assets under	-	118,407	79,801	16,843	-	-	(236,861)	**(21,810)**
Transferred from inventories	634	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**
Additions	-	11,583	63,051	3,470	-	-	1,144,922	**1,223,026**
Input (write off) of property	81,961	21,936	-	-	-	-	-	**103,897**
Transfer from assets under	869	148,370	16,010	916,448	-	-	(1,086,167)	**(4,470)**
Transferred to inventories		(202)	-	-	-	-	-	**(202)**
Transferred (from) /to	(23)	965	8,470	-	-	-	(8,470)	**942**
Transfer to investment	-	-	-	-	-	-	(45,935)	**(45,935)**
Retirement, disposal, sale	-	(4,818)	(52,901)	(602,190)	-	-	-	**(659,909)**
Balance at 31/12/2013	**4,495,442**	**13,456,955**	**1,379,826**	**3,294,894**	**252**	**50,252**	**648,697**	**23,326,318**
ACCUMULATED DEPRECIATION								
Balance at 01/01/2012, 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	-	-	-	-	-	-	4,759	**4,759**
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**	**975,651**	**1,349,573**	**224**	**-**	**911**	**7,728,472**
Charge for the year	-	410,982	237,834	7,835	7	-	-	**656,658**
Transferred (from)/to	-	788	(6,517)	5,729	-	-	-	**-**
Retirement, disposal, sale	-	(7,943)	(166,278)	(1,478)	-	-	-	**(175,699)**
Input (write off) of property	-	21,936	-	-	-	-	-	**21,936**
Balance at 31/12/2013	**225**	**5,827,651**	**1,040,690**	**1,361,659**	**231**	**-**	**911**	**8,231,367**
CARRYING AMOUNT								
Balance at 01/01/2012, As restated	**4,411,877**	**8,131,113**	**353,124**	**1,717,788**	**19**	**50,268**	**624,296**	**15,288,485**
Balance at 31/12/2012	**4,412,410**	**7,877,233**	**369,545**	**1,627,593**	**28**	**50,252**	**643,436**	**14,980,497**
Balance at 31/12/2013	**4,495,217**	**7,629,304**	**339,136**	**1,933,235**	**21**	**50,252**	**647,786**	**15,094,951**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In 2013, in line with the Financial and Operational Restructuring Programme, the Company renegotiated the lease contract of the ZET Branch. As a result, 214 bus lease agreements were cancelled, and the buses were redeemed, and are now owned by the Company. The funds required to purchase the buses were obtained from the sales proceeds for 41 low-floor trams under sale and leaseback arrangements. The cost of the trams sold was recognised as a deduction from deferred income in respect of assets financed by the City of Zagreb.

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)

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Registered title	3,255,185	3,332,411
Unregistered, eligible for registration	994,912	703,001
Unregistered, not eligible for registration	245,120	376,998
	4,495,217	**4,412,410**

Buildings (at cost)

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Communal infrastructure facilities	8,061,742	7,821,035
Registered title	3,626,400	3,674,740
Unregistered, eligible for registration	1,136,164	1,152,433
Unregistered, not eligible for registration	632,649	630,913
	13,456,955	**13,279,121**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Review of residual values

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

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

	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
Real estate	75,861	83,530
Pledged movable property	-	53,375
	75,861	**136,905**

Capitalised borrowing costs under IAS 23

In 2013, the Group capitalised borrowing costs in the amount of HRK 7,580 thousand (2012: HRK 17,872 thousand). The weighted average capitalisation rate was 6.35 percent.

17. 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.

18. INVESTMENT PROPERTIES

	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
At 1 January	**2,764,386**	**2,823,683**
Sales	(948,203)	-
Increase in fair value through profit or loss (net)	56,826	(59,297)
Increase the value for new investments	45,935	-
At 31 December	**1,918,944**	**2,764,386**

In 2013 the Entity sold real estate Gredelj and Zagrepčanka to City of Zagreb with a maturity of 10 years. In line with the Program operational and financial restructuring, outstanding receivables from the City of Zagreb are sold to commercial banks at a discount (Notes 13 and 14).

During 2013 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 56,826 thousand (2012: HRK 59,297 thousand) were included in the income statement for the year 2013.

19. INVESTMENTS IN SUBSIDIARIES

At the end of 2013 the Company acquired a 100 percent equity share in Centar d.o.o. in the amount of HRK 9,751 thousand. The share was transferred at 31 December 2013, while the Company assumed the control in early 2014. Therefore, no assets or liabilities assumed on the transaction were recognised in the statement of financial position of the Group at 31 December 2013, as the consolidation requirements set out in Note 3.b) to the consolidated financial statements were not met.

20. OTHER FINANCIAL ASSETS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Current portion		
Held-to-maturity investments at amortised cost	28,934	40,279
	28,934	**40,279**
Long-term portion		
Financial assets at fair value	454	521
Held-to-maturity investments at amortised cost	115,993	115,083
Financial assets available for sale	7,533	6,918
	123,980	**122,522**

	31/12/2013	31/12/2012 As restated
	(in HRK'000)	(in HRK'000)
Financial assets at fair value through profit or loss	454	521
Current portion	-	-
Long-term portion	454	521

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)

Long-term deposit and other financial assets

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Deposits with maturities over one year	115,993	115,083
Deposits with maturities of up to one year	21,772	33,686
Other held-to-maturity securities	7,162	6,593
	144,927	**155,362**
Current portion	28,934	40,279
Long-term portion	115,993	115,083

Financial assets available for sale

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Financial assets available for sale	7,533	6,918
Current portion	-	-
Long-term portion	7,533	6,918

21. NON-CURRENT RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Long-term portion		
Amounts owed by related parties	1,451,603	1,073,238
Receivables for investments in government bonds	13,928	13,786
Loan receivables	13,670	15,908
Receivables in respect of credit sales	14,120	15,245
Other receivables	621,036	626,506
	2,114,357	**1,744,683**
Current portion - Notes 23 and 27		
Receivables from related companies (Note 23)	133,909	132,443
Receivables for loans with maturities up to 1 year (Note 27)	6,241	4,971
Receivables for loans with maturities after 1 year (Note 27)	1,575	1,429
Receivables in respect of credit sales (Note 27)	1,361	1,930
Other receivables (Note 27)	27,495	28,320
	170,581	**169,093**

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

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables from the owner	1,819,503	1,217,442
Discount of outstanding receivables	(224,828)	(2,598)
Impairment allowance on receivables from the owner	(9,163)	(9,163)
	1,585,512	**1,205,681**
Current portion	133,909	132,443
Long-term portion	1,451,603	1,073,238

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 405,292 thousand (2012: HRK 505,688 thousand) and in respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb in the amount of HRK 643,329 thousand (2012: HRK 655,337 thousand), whereas the remaining balance of HRK 534,387 represents receivables for sold apartments and business premises in Sopnica Jelkovec (Notes 23 and 42), and the balance of HRK 2,504 represents receivables from the Project Podbrežje.

Receivables for investments in government bonds

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables for investments in government bonds	17,401	17,218
Impairment allowance on receivables for investments in government bonds	(3,473)	(3,432)
	13,928	**13,786**
Current portion	-	-
Long-term portion	13,928	13,786

21. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables for loans with maturities longer than 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Long-term loans to unrelated companies	3,335	2,112
Long-term loans to the Management and employees	14,821	17,720
Impairment allowance on given loans	(2,911)	(2,494)
	15,245	**17,338**
Current portion	1,575	1,429
Long-term portion	13,670	15,909

Receivables for loans due within 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Short-term loans to unrelated companies	36,163	37,551
Impairment allowance on given loans	(29,922)	(32,580)
	6,241	**4,971**
Current portion	6,241	4,971
Long-term portion	-	-

21. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables in respect of credit sales

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables for flats sold	17,906	19,986
Value adjustment on discount	(2,425)	(2,811)
Discount rate in %	***7.2%***	***7.2%***
	15,481	**17,175**
Current portion	1,361	1,930
Long-term portion	14,120	15,245

Receivables for flats sold are discounted each year using the rate that reflects the yield rate on the Croatian government bonds, which was 4.5 percent in 2013 (2012: 4.2%).

Other non-current receivables

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables from the State	646,800	651,942
Other receivables	1,731	2,884
	648,531	**654,826**
Current portion	27,495	28,320
Long-term portion	621,036	626,506

Receivables from the state in the amount of HRK 646,800 thousand (2012: HRK 651,942) comprise amounts owed by the Croatian Government in respect of funding 50 percent of the Arena Sports Hall rental costs.

22. INVENTORIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Raw material and supplies	125,445	116,888
Work in progress	135,715	134,501
Finished products	27,425	512,203
Merchandise (and property in circulation)	24,928	24,138
Prepayments for inventories	451	764
	313,964	**788,494**

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. The Sopnica Jelkovec structures were completed in late 2009, and the balance of work in progress as of 31 December 2013 was HRK 5.5 million and relates to the portion of the Sopnica Jelkovec Project still pending and the project documentation.

Finished products comprise finished flats and business premises in the quarter Sopnica Jelkovec that are available for sale and amounted to HRK 10.3 million at 31 December 2013. The decrease in the inventories of finished products by HRK 480.4 million is a result of a contract concluded with the City of Zagreb transferring which the management and lease of the remaining flats, garages and commercial facilities on stock in Sopnica Jelkovec.

Cost of inventories recognised as expense for the year amounts to HRK 4.8 million (2012: HRK 10.2 million) and relates to the costs recognised for the flats sold.

23. AMOUNTS OWED BY RELATED PARTIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables from the owner	248,298	281,172
Current portion of long-term receivables from the owner (Note 21)	133,909	132,443
	382,207	**413,615**

24. TRADE RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Trade receivables	1,794,122	1,728,536
Impairment allowance on trade receivables	(717,700)	(640,745)
	1,076,422	**1,087,791**

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:

	2013	2012
	(in HRK'000)	(in HRK'000)
0-60 days	167,661	203,030
60-180 days	105,370	94,405
180-365 days	70,851	84,117
Over 365 days	281,768	253,118
	625,650	**634,670**

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

	2013	2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**640,745**	**595,996**
Impairment losses recognised	173,967	158,774
Amounts written-off as uncollectible	(8,373)	(25,122)
Amounts recovered during the year	(88,639)	(88,903)
Balance at end of year	**717,700**	**640,745**

24. TRADE RECEIVABLES (CONTINUED)

Ageing analysis of impaired trade receivables

	2013	2012
	(in HRK'000)	(in HRK'000)
120-180 days	1,159	2,690
180-365 days	3,256	8,325
Over 365 days	713,285	629,730
	717,700	**640,745**

25. AMOUNTS DUE FROM EMPLOYEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Amounts due from employees	3,985	4,552
Impairment allowance on amounts due from employees	(1,342)	(1,346)
	2,643	**3,206**

26. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
VAT receivable	56,311	14,732
Receivables from the Croatian State Health Insurance Fund	4,970	6,071
Income tax refund	4,202	1,632
Other taxes, contributions and amounts receivable	909	1,328
	66,392	**23,763**

27. OTHER RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Prepaid expenses and accrued income	152,734	92,270
Current portion of long-term receivables (Note 21)	36,672	36,650
Prepayments made	8,771	41,485
Receivables from insurance companies and other damages receivable	1,478	1,319
Impairment allowance on prepayments	(2,387)	(2,398)
Other receivables	1,251	1,593
	198,519	**170,919**

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

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Current account balance - HRK denominated	181,771	77,694
FX current account balance	6,291	3,013
Cash in hand	1,513	1,985
Foreign-currency cash in hand	10	8
Other cash (court ordered deposits and similar)	8,813	8,030
	198,398	**90,730**

29. EQUITY

a) Share capital

The Company's sole owner is the City of Zagreb. At 31 December 2013, the share capital of the Group amounts to HRK 3,833,236 thousand (31 December 2012: HRK 4,208,629 thousand).

In 2013 the share capital was both decreased and increased by HRK 2,069,128 thousand. A decrease resulted from the demerger with the establishment of the following new companies: Gradsko stambeno komunalno gospodarstvo d.o.o., Vodoopskrba i odvodnja d.o.o., Zagrebačka stanogradnja d.o.o., and AGM d.o.o. Following the completion of the status changes of the Company and the registration of the new companies: Gradsko stambeno komunalno društvo d.o.o., Vodoopskrba i odvodnja d.o.o., AGM d.o.o., and Zagrebačka stanogradnja d.o.o. The shares were transferred to the Company in the total amount of HRK 2,069,128 thousand, reflecting the nominal amount of the share capital of each of the new companies and resulting in prerequisites being created to increase the share capital of the Company, by converting the amounts owed to the City of Zagreb by the Company into an additional capital contribution, which was registered at the Commercial Court in Zagreb.

The net capital decrease in the amount of HRK 375,393 thousand reflects the amount of the Company's tax losses brought forward.

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.

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**2,856,823**	**2,856,988**
Revaluation surplus	(141,503)	(206)
Deferred tax liabilities arising from revaluation	28,300	41
Balance at end of year	**2,743,620**	**2,856,823**

29. EQUITY (CONTINUED)

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

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**4,633**	**4,595**
Revaluation surplus	615	47
Deferred tax liabilities arising from revaluation	(123)	(9)
Balance at end of year	**5,125**	**4,633**

Other comprehensive loss for the year ended 31 December 2013 in the total amount of HRK 112,711 thousand arose on the derecognition of a part of revalued amounts (at 31 December 2012 other comprehensive loss of HRK 165 thousand on the sale of revalued land) and net gains in the amount of HRK 492 thousand on the fair value remeasurement of financial assets availablefor sale (at 31 December 2012: a net gain in the amount of HRK 38 thousand).

d) Other reserves

Other reserves reported in the statement of financial position at 31 December 2013 in the amount of HRK 319,977 thousand (31 December 2012: 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, without any share capital increase by HRK 15,125 thousand on the merger, as well as capital reserves formed under the Decision of the Assembly of 13 September 2011 regarding assets granted by the City of Zagreb in the amount of HRK 304,852 thousand (at 31 December 2012: HRK 82,175 thousand).

29. EQUITY (CONTINUED)

e) (Accumulated losses) / retained earnings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
At 1 January	**(54,247)**	**292,449**
Decrease of share capital for the transferred losses	375,393	
Loss for the year	47,357	(346,696)
At 31 December	**368,503**	**(54,247)**

f) Non-controlling interests

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
At 1 January	2,950	1,068
Profit for the year	2,625	1,882
At 31 December	**5,575**	**2,950**

30. PROVISIONS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Provisions for employee benefits under IAS 19	138,484	297,979
Litigation provisions	203,277	156,928
Provisions for the landfill restoration	36,773	35,022
Current portion	(44,892)	(67,630)
	333,642	**422,299**
Current obligation (Note 40)	*44,892*	*67,630*
Long-term obligation	*333,642*	*422,299*
	378,534	***489,929***
Discount rate applied to employee benefits and landfill rehabilitation	5%	5%

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 31 December 2012	**297,979**	**156,928**	**35,022**	**489,929**
New provisions made	23,710	62,521	1,751	87,982
Reversed provisions / Amounts paid	(183,205)	(16,172)	-	(199,377)
Balance at 31 December 2013	**138,484**	**203,277**	**36,773**	**378,534**

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 consists 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 (2012: 5%).

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

	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
Long-term borrowings		
Loans and borrowings payable	1,451,577	1,715,090
Liabilities from sales receivables	55,131	-
Finance lease obligations	1,687,767	1,128,147
	3,194,475	**2,843,237**
Short-term borrowings		
Loans and borrowings payable	1,064,851	1,310,648
Finance lease obligations	111,125	112,340
Liabilities from sales receivables	15,546	-
Other	82,229	87,951
	1,273,751	**1,510,939**
Total loans and borrowings	**4,468,226**	**4,354,176**

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 2013 the Group was compliant with all the financial covenants.

31. LOANS AND BORROWINGS (CONTINUED)

Movements in non-current loans and borrowings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at 1 January	2,000,085	2,257,116
New loans raised	30,914	69,124
Amounts repaid	(284,137)	(328,336)
Effect of exchange differences	3,697	2,181
Balance at 31 December	**1,750,559**	**2,000,085**
Current portion	(298,982)	(284,995)
Long-term portion	**1,451,577**	**1,715,090**

Repayment schedule of long-term loans and borrowings

	31/12/2013	31/12/2012
	(in HRK '000)	(in HRK '000)
Within one year	298,982	284,995
In the second to inclusive the fifth year	1,024,281	1,076,319
After five years	427,296	638,771
	1,750,559	**2,000,085**

Analysis by currency:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
HRK	814,614	906,200
EUR	935,945	1,093,885
	1,750,559	**2,000,085**

31. LOANS AND BORROWINGS (CONTINUED)

Finance lease obligations

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
Within one year	195.855	159,951	111.125	112,340
In the second to inclusive the fifth year	783.419	601,720	503.311	442,273
After five years	1.537.118	1,038,044	1.184.456	685,874
	2,516,392	**1,799,715**	**1,798,892**	**1,240,487**
Less: future finance charges	(717,500)	(559,228)		
Present value of minimum lease payments	**1,798,892**	**1,240,487**		

Included in the financial statements within:

Current liabilities (Note - Current borrowings)	111,125	112,340
Current liabilities (Note - Non-current loans and borrowings)	1,687,767	1,128,147
	1,798,892	**1,240,487**

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 4.7% (2012: 4.2%).

In 2013, in line with the Financial and Operational Restructuring Programme, the Company renegotiated the lease contract of the ZET Branch. As a result, 214 bus lease agreements were cancelled, and the buses were redeemed, and are now owned by the Group. The funds required to purchase the buses were obtained from the sales proceeds for 41 low-floor trams under sale and leaseback arrangements. The cost of the trams sold was recognised as a deduction from deferred income in respect of assets financed by the City of Zagreb.

31. LOANS AND BORROWINGS (CONTINUED)

Financial lease obligations (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	(40,944)	(194,441)	(235,385)
Net book value At 31/12/2012	**777,937**	**658,633**	**1,436,570**
Cost	818,881	1,447,232	2,266,113
Accumulated depreciation	(51,180)	(241,330)	(292,510)
Net book value At 31/12/2013	**767,701**	**1,205,902**	**1,973,603**

Short-term loans and borrowings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Short-term loans and borrowings	1,080,397	1,310,648
Short-term loans and borrowings	*765,870*	*1,025,653*
Current portion of long-term borrowings	*314,527*	*284,995*
Financial leases (current portion)	111,125	112,340
Other (interest on borrowings and bonds)	82,229	87,951
	1,273,751	**1,510,939**

31. LOANS AND BORROWINGS (CONTINUED)

Short-term loans and borrowings (continued)

Movements in short-term loans and borrowings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at 1 January	1,310,648	1,065,623
Proceeds from new loans	2,253,057	1,931,989
Repayment of current portion of non-current loans and borrowings	(1,731,567)	(324,879)
Current portion of long-term borrowings	314,527	284,995
Amounts repaid	(1,071,707)	(1,648,129)
Effect of exchange differences	5,439	1,049
Balance at 31 December	**1,080,397**	**1,310,648**

Analysis by currency

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
HRK	345,799	508,778
EUR	420,071	516,875
	765,870	**1,025,653**

32. LIABILITIES UNDER ISSUED BILLS OF EXCHANGE

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Issued bonds	2,291,293	2,263,687
	2,291,293	**2,263,687**

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

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Amounts owed to related parties	75,994	224,127
Trade payables	9,328	11,993
Other non-current liabilities	18,483	21,008
	103,805	**257,128**

33. OTHER NON-CURRENT LIABILITIES (CONTINUED)

Liabilities to related parties reported in the statement of financial position at 31 December 2013 in the amount of HRK 75,994 thousand (2012: HRK 224,127 thousand) relate entirely to the obligation towards the owner, the City of Zagreb, as the owner of purchased real estate, for purchased properties. Decrease in amounts due to related parties mainly refers to long-term commitment to land in the location Mandlova-Maksimir paid by compensation to the City of Zagreb during 2013.

Trade payables reported in the statement of financial position at 31 December 2012 in the amount of HRK 9,328 thousand (2012: HRK 11,993 thousand) relate entirely to advances received.

Other non-current liabilities reported in the statement of financial position at 31 December 2013 in the amount of HRK 18,483 thousand (2012: HRK 21,008 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 percent of the income from the sale of flats to employees was to be transferred to the state upon collection. Based on the Law, the Company has no obligation to remit the funds before they have been collected from the employees.

34. DEFERRED INCOME

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Deferred income	5,063,484	5,293,442
	5,063,484	**5,293,442**

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 Group, the income is recognised to the extent of the amount repaid by the City of Zagreb which assumed the obligation to repay those loans.

35. LIABILITIES TO RELATED COMPANIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Borrowings from related parties	604	2,500
Due to the City of Zagreb	54,125	138,841
	54,729	**141,341**

36. ADVANCES, DEPOSITS AND GUARANTEES RECEIVED

36.1. LIABILITIES FOR PREPAYMENTS, DEPOSITS AND GUARANTEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Advances received from unrelated companies	24,293	28,084
Advances received from the City of Zagreb	385	579
	24,678	**28,663**

36.2. LIABILITIES FOR ISSUED SECURITIES

Liabilities in respect of securities refer to bills of exchange discounted at banks Kent Bank d.d., Croatia banka d.d. and BKS Bank d.d. in the total amount of HRK 48,000 thousand (31 December 2012: nil).

37. TRADE PAYABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Domestic trade payables	595,227	1,045,063
Foreign trade payables	543	14,235
Invoice accruals	479	1,006
	596,249	**1,060,304**

38. AMOUNTS DUE TO EMPLOYEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Net salaries payable	82,826	83,898
Fees and benefits payable	5,959	9,232
	88,785	**93,130**

39. TAXES AND CONTRIBUTIONS PAYABLE

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Payroll and benefit-related taxes and contributions	52,985	57,773
Value added tax	36,403	34,013
Income tax payable	2,247	1,507
Membership and similar fees payable	5,721	33,118
Other taxes payable	16,704	478
	114,060	**126,889**

40. OTHER CURRENT LIABILITIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Liabilities under recharged servicesa (VIO)	195,293	260,192
Accrued expenses not yet billed	84,321	131,365
Other fees payable under decisions	13,998	48,418
Deferred sales	159,060	45,082
Current portion of long-term provisions for employee benefits (Note 30)	44,892	67,630
Accrued VAT on prepayments	27	4
	497,591	**552,691**

41. OFF-BALANCE SHEET ITEMS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Off balance sheet items	249,090	880,379
	249,090	**880,379**

At 31 December 2013 off-balance sheet items comprise given guarantees and debentures in the amount of HRK 105.7 million (2012: HRK 101.5 million),received guarantees and debentures in the amount of HRK 103.2 million (2012: HRK 101.1 million), assets received under operating leases in the amount of HRK 26.8 million (2012: HRK 679.5 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	
	2013	2012	2013	2012
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
City of Zagreb	1,006,476	1,436,337	23,508	27,262
	1,006,476	**1,436,337**	**23,508**	**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	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
City of Zagreb	382,207	413,615	54,125	138,841
	382,207	**413,615**	**54,125**	**138,841**

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	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
City of Zagreb	1,449,099	1,073,238	75,994	224,127
	1,449,099	**1,073,238**	**75,994**	**224,127**

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 405,292 thousand (2012: HRK 505,688 thousand). In 2009, a long-term receivable from the owner was recognisedin respect of funding 50 percent of the lease costs for the sports facility Arena Zagreb, in 2013 the amount of HRK 643,329 thousand (2012: HRK 655,337 thousand) based on an agreement between the City of Zagreb and the Republic of Croatia. The remaining balance receivable from other transactions with the Owner comprises amounts owed for sold flats and commercial spaces (Note 22).

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 members of the Management Board (of Zagrebački holding and its Branches) and members of the Supervisory bodies paid in 2013 was as follows:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Salaries of Management Board and branch directors	10,091	9,280
Fees to the Supervisory Board members	876	802
	10,967	**10,082**

43. EMPLOYEE BENEFITS

As of 31 December 2013, provisions for employee benefits, which include long-service benefits and solidarity support, amount to HRK 138,484 thousand (at 31 December 2012: HRK 297,979 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. According to Appendix 5 to the basic Collective Agreement long-service benefits (jubilee awards) have decreased. Until 31 December 2013 these depended on 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

43. EMPLOYEE BENEFITS (CONTINUED)

According to Annex 5 to the Main Collective Agreement, the amounts of the long-service benefits were reduced to non-taxable amounts, as defined in the applicable tax regulations, and from 1 January 2014 they are determined as follows:

- HRK 1,500 for 10 years of continuous service
- HRK 2,000 for 15 years of continuous service
- HRK 2,500 for 20 years of continuous service
- HRK 3,000 for 25 years of continuous service
- HRK 3,500 for 30 years of continuous service
- HRK 4,000 for 35 years of continuous service
- HRK 4,500 for 40 years of continuous service

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

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 (2012: 5%), which reflects the market yield on government bonds.

43. EMPLOYEE BENEFITS (CONTINUED)

Key assumptions underlying the actuarial estimates:

	2013	2012
Discount rate	5%	5%
Fluctuation rate	4.4%	4.5%
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:

	2013	2012
	(in HRK'000)	(in HRK'000)
Present value of the long-service benefit obligation	40,311	207,051
Present value of the termination benefit obligation	57,870	52,690
Present value of the support obligation	40,303	38,238
Obligation included in the statement of financial position	**138,484**	**297,979**

Of which by maturity:

	2013	2012
	(in HRK'000)	(in HRK'000)
Current liabilities	24,564	50,567
Non-current liabilities	113,920	247,412
	138,484	**297,979**

44. FINANCIAL INSTRUMENTS

44.1. 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.

44.2. 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.

44.3. 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	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	(in HRK'000)		(in HRK'000)	
EUR	5,618,326	5,250,930	1,791,022	1,897,849
USD	-	-	15	157
Other currencies	-	-	14	85

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.3. 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. Sensitivity rate of 1% is used when reporting foreign currency risk internally and represents the Group's assessment of the reasonably possible change of the Croatian kuna aganist 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	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
	(in HRK'000)		(in HRK'000)	
(Loss) / profit	(60,067)	(33,531)	1	1

44.4. Interest rate risk management

Given that 51 percent of the Company's loan debt, leasing liablities and liablities for issued shares bear interest at variable rates, the Group is exposed to interest rate risk. Set out below are the interest rates at 31 December 2013 and 31 December 2012 by type of liability:

	2013	**2012**
EURIBOR	21.11%	27.65%
LIBOR	7.41%	6.80%
ZIBOR	0.30%	0.23%
Yield on Treasury bills of the Ministry of Finance	22.13%	18.18%
Fixed rate of interest	49.05%	47.14%
	100.00%	**100.00%**

Out of the total loan debt of the Group, 49 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)

44.5. Interest rate risk management (continued)

EURIBOR and EUR LIBOR tied loan debt accounts for 28% of the total loan debt, whereas 18% of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 53% of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections.

44.5.1. 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 2013 would have been highr/lower by HRK 38,663 thousand (2012: higher/lowwer by HRK 17,251 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.

44.6. 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.

44.7. 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.

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7. Liquidity risk management (continued)

44.7.1. Liqudity 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 HRK '000	2 to 3 years HRK '000	3 to 4 years HRK '000	4 to 5 years HRK '000	After 5 years HRK '000	Total HRK '000
At 31 December 2013								
Non-interest bearing								
Liabilities to related companies and trade creditors		657,420	6,148	6,273	3,464	3,250	59,745	736,300
Liabilities in respect of loans, deposits and similar		24,678	-	-	-	-	-	24,678
Amounts due to employees		88,785	-	-	-	-	-	88,785
Other current liabilities		257,405	-	-	-	-	-	257,405
Variable-rate instruments								
Finance lease obligations		91,856	96,512	101,420	106,593	112,046	519,812	1,028,239
Loans and borrowings payable		1,162,801	311,096	305,396	259,347	203,573	427,396	2,669,609
Fixed-rate instruments								
Loans and borrowings payable	4.70%	19,268	20,190	21,155	22,167	23,227	664,645	770,652
Issued bonds	5.50%	126,021	126,021	126,021	2,291,293	-	-	2,669,356
TOTAL		**2,428,234**	**559,967**	**560,265**	**2,682,864**	**342,096**	**1,671,598**	**8,245,024**

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7. Liquidity risk management (continued)

44.7.1 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
	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
At 31 December 2012								
Non-interest bearing								
Liabilities to related companies and trade creditors		1,062,290	6,442	6,148	6,273	4,110	207,877	1,293,141
Liabilities in respect of loans, deposits and similar		27,028	-	-	-	-	-	27,028
Amounts due to employees		81,357	-	-	-	-	-	81,357
Other current liabilities		479,448	-	-	-	-	-	479,448
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	329,638	272,285	740,994	3,371,837
Fixed-rate instruments								
Loans and borrowings payable	4.70%	54,328	54,328	54,328	54,328	54,328	1,032,241	1,303,884
Issued bonds	7.00%	5,838	-	5,147	-	-	-	16,477
	5.50%	124,503	124,503	124,503	124,503	2,328,497	-	2,826,508
		3,272,619	**651,279**	**637,579**	**620,369**	**2,726,751**	**1,986,914**	**9,895,512**

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7. Liquidity risk management (continued)

44.7.1. 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
	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
At 31 December 2013								
Non-interest bearing								
Cash and cash equivalents		198,398	-	-	-	-	-	198,398
Financial assets at fair value		454	-	-	-	-	-	454
Receivables from related companies and trade debtors		1,092,993	186,466	186,466	171,492	81,400	773,122	2,926,803
Receivables for investments in government bonds		13,928	-	-		-	-	13,928
Amounts due from employees		2,643	-	-	-	-	-	2,643
Other receivables		28,770	28,750	28,452	28,247	28,122	506,191	648,531
Prepayments made		6,383	-	-	-	-	-	6,383
Receivables from insurance companies and other damages receivable		1,478	-	-	-	-	-	1,478
Prepaid expenses and accrued income		152,734	-	-	-	-	-	152,734
Variable-rate instruments								
Given loans and other held-to-maturity securities	6.80%	1,904	1,904	1,904	1,904	1,904	67,561	77,081
Fixed-rate instruments								
Given loans and other held-to-maturity securities	3.39%	31,029	2,064	2,064	2,064	2,064	88,898	128,182
Given loans	6.14%	6,526	1,710	1,612	1,611	1,611	6,976	20,046
Receivables for given loans for flats	1.38%	1,650	1,633	1,614	1,596	1,577	9,313	17,382
		1,538,892	**222,526**	**222,111**	**206,913**	**116,678**	**1,452,060**	**4,194,044**

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7 Liquidity risk management (continued)

44.7.1. 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
	%	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
At 31 December 2012								
Non-interest bearing								
Cash and cash equivalents		49,455	-	-	-	-	-	49,455
Financial assets at fair value		-	-	-	-	-	521	521
Receivables from related companies and trade debtors		1,113,735	177,-28	132,372	132,372	112,727	518,8-9	2,187,044
Receivables for investments in government bonds		-	-	-	-	-	12,333	12,333
Amounts due from employees		3,014	-	-	-	-	-	3,014
Other receivables		29,283	27,967	27,677	27,48-	27,26-	516,121	655,787
Prepayments made		8,726	-	-	-	-	-	8,726
Receivables from insurance companies and other damages receivable		1,317	-	-	-	-	-	1,317
Prepaid expenses and accrued income		90,953	-	-	-	-	-	90,953
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 %	6,526	1,710	3,009	2,828	2,756	4,375	21,203
Receivables for given loans for flats	1.38 %	2,139	2,118	2,123	2,066	2,028	6,034	16,508
Given loans to related parties and calculated interest on given loans	6.00 %	3,567	-	-	-	-	-	3,567
		1,319,227	**212,904**	**169,262**	**168,828**	**148,852**	**1,211,224**	**3,230,296**

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7. Fair value of financial instruments

44.7.2 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 fair value measurements – those 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)
- Level 3 fair value measurements – those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				31/12/2013
(in HRK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Participating interests - investments in shares	454	-	-	454
	454	**-**	**-**	**454**

45. COMMITMENTS

The Group has entered into contracts that are still in progress, but not completed, and therefore conditions are not recognized for the recognition of these amounts in the accompanying consolidated financial statements.Costs to be incurred under those contracts have been estimated at HRK 124,254 thousand, whereas the estimated value of investments amounts to HRK 16,708 thousand.

46. CONTINGENT LIABILITIES

46.1. 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.

46.2. 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 years 2010 and 2011 by the Ministry of Finance - Tax Administration is currently in progress.

46.3. Restructuring

A significant part of the Financial and Operational Restructuring Measures were implemented during 2013, comprising the following:

a) the renegotiation of the lease contracts for the ZET Branch means of transport (Note 17);
b) lease agreements were concluded for the remaining available housing and commercial facilities in Sopnica (Notes 21 and 22);
c) Annex 5 to the Main Collective Agreement was signed reducing certain employee benefits to the tax-allowable amounts (Notes 5 and 43);
d) Parts of the non-core assets were disposed of (properties 'Gredelj' and 'Zagrepčanka') and receivables under the property sales agreements were sold to commercial banks at a discount. Proceeds from the sale of receivables were used to settle current liabilities (Notes 18 and 37).
e) Demergers with the establishment of new companies were carried out (Note 1 History, incorporation and status changes).

As a result of the implemented measures, the liquidity has improved, and current liabilities have decreased (Notes 28, 31 and 37).

46.4. 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 2013 amounts to HRK 4,795 thousand (2012: HRK 4,907 thousand).

47. EVENTS AFTER THE REPORTING PERIOD

On 30 April 2014 the Management of the Company adopted a decision to develop a Demerger plan, representing a further step in the restructuring of the Company and envisaging the spin-off of certain businesses covered by the following branches: Robni terminali Zagreb, Zagrebački električni tramvaj, Zagrebački velesajam, Vladimir Nazor, and a part of Tržnice Zagreb.

Effective 1 January 2014 the management and ownership of the Sports Facility Management Branch (without the hotel segment) were transferred to the City of Zagreb.

The rescheduling of the short-term loan debt into long-term debt is in progress.

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 10 June 2014.

Slobodan Ljubičić

President of the Management Board

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