ZAGREBAČKI HOLDING d.o.o., Zagreb

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

Contents

Responsibility for the unconsolidated financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that unconsolidated 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., Zagreb (the "Company") for that period.

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

In preparing unconsolidated 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 unconsolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

These unconsolidated 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 unconsolidated financial statements of Zagrebački holding d.o.o. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2013 and the related unconsolidated statements of profit or loss and other 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 unconsolidated 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 unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the unconsolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report (continued)

Basis for qualified opinion

1) *Classification of leases*

As disclosed in Note 18 to the unconsolidated financial statements, the Company, 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 Company. Had the Company 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 unconsolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by European union.

Independent Auditor's Report (continued)

Emphasis of matter

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

a) Title to property

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

b) Consolidated financial statements

We draw attention to the fact that the Company has prepared separately consolidated financial statements of Zagrebački holding d.o.o. and its subsidiaries (jointly referred to as "the Group") dated 10 June 2014 and in accordance with the International Financial Reporting Standards adopted by European union. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements. Our opinion is not modified in this respect.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor and president of the Management Board

10 June 2014

Unconsolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013	2012
		(in HRK'000)	(in HRK'000)
OPERATING INCOME			
Sales	5	2,680,060	2,673,897
Other operating income	6	1,473,363	1,104,693
Total		**4,153,423**	**3,778,590**
OPERATING EXPENSES			
Cost of material and services	7	(1,240,598)	(1,249,458)
Staff costs	8	(1,683,929)	(1,701,393)
Depreciation	9	(527,921)	(490,948)
Other expenses	10	(32,600)	(30,296)
Impairment allowance	11	(175,420)	(178,911)
Provisions	12	(81,718)	(101,222)
Other operating expenses	13	(51,553)	(49,379)
Total		**(3,793,739)**	**(3,801,607)**
FINANCIAL INCOME	14	**467,398**	**69,679**
FINANCIAL EXPENSES	15	**(799,364)**	**(404,376)**
TOTAL INCOME		**4,620,821**	**3,848,269**
TOTAL EXPENSES		**(4,593,103)**	**(4,205,983)**
PROFIT/ (LOSS) BEFORE TAX		**27,718**	**(357,714)**
Income tax expense	16	(25,684)	(1,295)
PROFIT/ (LOSS) FOR THE YEAR		**2,034**	**(359,009)**
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss			
Loss from revalorization of property	30	(202,912)	(206)
Effects of income tax related to revalorization of property	30	40,582	41
Other comprehensive loss for the year		**(162,330)**	**(165)**
Total comprehensive loss for the year		**(160,296)**	**(359,174)**

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

Unconsolidated 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	17	28,978	45,752
Property, plant and equipment	18	9,134,588	13,719,461
Investment property	19	2,201,620	2,764,386
Investments in subsidiaries	20	2,415,421	336,542
Non-current receivables	22	2,098,230	1,741,511
Other financial assets	21	108,596	115,572
Deferred tax assets	16	28,367	61,571
Total non-current assets		**16,015,800**	**18,784,795**
CURRENT ASSETS			
Inventories	23	144,661	765,687
Current receivables			
Receivables from related companies	24	557,626	413,359
Trade receivables	25	207,529	704,014
Receivables from employees	26	2,371	3,014
Receivables from the State	27	53,762	8,623
Other receivables	28	188,922	138,538
Total current assets		*1,010,210*	*1,267,548*
Other financial assets	21	7,045	6,430
Cash and cash equivalents	29	136,541	49,455
Total current assets		**1,298,457**	**2,089,120**
TOTAL ASSETS		**17,314,257**	**20,873,915**
Off balance sheet items	42	244,298	879,665

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

Unconsolidated statement of financial position (continued)

At 31 December 2013

EQUITY	Notes	31/12/2013	31/12/2012
		(in HRK'000)	(in HRK'000)
Share capital	30	3,833,236	4,208,629
Revaluation reserve	30	2,617,349	2,782,305
Other reserves	30	319,977	97,300
Retained earnings / (accumulated loss)	30	2,034	(375,393)
Total equity		**6,772,596**	**6,712,841**
NON-CURRENT LIABILITIES			
Loans and borrowings payable	32	2,919,586	2,843,237
Liabilities in respect of issued bonds	33	2,291,293	2,263,687
Deferred tax liability	16	628,673	669,960
Provisions	31	230,456	378,627
Deferred income	35	2,415,675	4,516,492
Other long-term liabilities	34	45,936	255,730
Total non-current liabilities		**8,531,619**	**10,927,733**
CURRENT LIABILITIES			
Trade payables	38	208,279	840,539
Liabilities to related companies	36	157,635	216,482
Loans and borrowings	32	1,172,115	1,418,944
Liabilities in respect of advances, deposits and guarantees	37	9,365	27,028
Liabilities in respect of securities	37	48,000	-
Amounts due to employees	39	68,035	81,357
Taxes and contributions payable	40	78,921	115,914
Other current liabilities	41	267,692	533,077
Total current liabilities		**2,010,042**	**3,233,341**
TOTAL EQUITY AND LIABILITIES		**17,314,257**	**20,873,915**
Off balance sheet items	42	244,298	879,665

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

Unconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2013

	Note	Share capital	Other reserves	Reserves on revaluation of property	Retained earnings/ (accumulated loss)	Total
		(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
At 1 January 2012 (as restated)		**4,208,629**	**97,300**	**2,782,470**	**(16,384)**	**7,072,015**
Other comprehensive income		-	-	(165)	-	**(165)**
Loss for the year		-	-	-	(359,009)	**(359,009)**
Balance at 31 December 2012		**4,208,629**	**97,300**	**2,782,305**	**(375,393)**	**6,712,841**
Decrease in the share capital by the amount of losses brought forward		(375,393)	-	-	375,393	-
Decrease in share capital on the demerger		(2,069,128)	-	-	-	**(2,069,128)**
Increase in share capital – additional contributions		2,069,128	-	-	-	**2,069,128**
Assets transferred to capital reserves		-	222,677	-	-	**222,677**
Effect of the demerger	30	-	-	(2,626)	-	**(2,626)**
Other comprehensive loss	30	-	-	(162,330)	-	**(162,330)**
Profit for the year		-	-	-	2,034	**2,034**
Balance at 31 December 2013		**3,833,236**	**319,977**	**2,617,349**	**2,034**	**6,772,596**

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

Unconsolidated statement of cash flows

For the year ended 31 December 2013

	2013	2012
	(in HRK'000)	(in HRK'000)
Profit/ (loss) for the year	**2,034**	**(359,009)**
Tax expense recognised in the income statement	25,684	1,295
Finance cost recognised in profit or loss	691,273	384,569
Investment income recognised in profit or loss	(376,832)	(30,702)
Impairment allowance on current assets	124,561	114,007
Change in the fair value of investment property	(56,826)	59,297
Impairment allowance on other non-current assets	345	5,607
Depreciation and amortisation	527,921	490,946
(Gain) / loss from sale of assets	(23,442)	8,296
Decrease in deferred income on assets financed by others	(158,288)	(120,826)
(Decrease) / increase in long-term provisions	(82,786)	39,896
Foreign exchange loss	38,298	4,630
Changes in working capital:		
Decrease in inventories	475,765	24,525
Decrease of prepayments for non-current assets	45,719	4,287
Increase in trade receivables	(133,530)	(141,612)
(Increase) /decrease in receivables from related companies	(194,331)	93,588
Decrease / (increase) in amounts due from employees	547	(986)
Increase in receivables from the State	(45,734)	(462)
Increase in other receivables	(52,911)	(17,469)
Increase in financial assets	(5,794)	(767)
(Decrease) / increase in liabilities to suppliers and related parties	(322,857)	105,410
Increase in advances received	60,841	4,613
Decrease in taxes and contributions payable	(15,672)	(7,000)
Decrease in amounts due to employees	(6,568)	(7,730)
Decrease in other non-current liabilities	(147,426)	(75,423)
Decrease in other current liabilities	(52,269)	(76,838)
Net cash generated from operations	**317,722**	**502,142**

Unconsolidated 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	317,722	502,142
Interest paid	(697,266)	(279,379)
Net cash (used in) / generated from operating activities	**(379,544)**	**222,763**
Cash flows from investing activities		
Purchases of tangible and intangible assets	(1,152,274)	(268,738)
Proceeds from sale of tangible assets	1,454,195	6,204
(Increase) / decrease in non-current receivables	(326,104)	151,789
Increase in current financial assets	(614)	(1,717)
Interest paid	374,756	29,170
Spin-offs	(5,948)	-
Acquisition of subsidiaries, net of cash acquired	(9,751)	-
Net cash generated from / (used) in investing activities	**334,260**	**(83,292)**
Cash flows from financing activities		
Received loans and borrowings	1,562,949	1,058,863
Repayments of loans and borrowings	(1,430,579)	(1,238,672)
Net cash generated from / (used) in financing activities	**132,370**	**(179,809)**
Net increase / (decrease) in cash	**87,086**	**(40,338)**
Cash at 1 January	**49,455**	**89,793**
Cash at 31 December	**136,541**	**49,455**

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

1. GENERAL INFORMATION

History and incorporation

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

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

Upon the merger, the merged entities transferred all of their assets and liabilities to Zagrebački holding d.o.o. 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 100 percent of share capital in each of the entities.

#	Name of the branch	Year of merger	Note
1.	Gradsko stambeno komunalno gospodarstvo	2006	Separated from Holding into new trade company as of 7 November 2013
2.	Vodoopskrba i odvodnja	2006	Separated from Holding into new trade company as of 7 November 2013
3.	Čistoća	2006	
4.	Zagrebačke ceste	2006	
5.	Zrinjevac	2006	
6.	Gradska groblja	2006	
7.	Zagrebparking	2006	
8.	Tržnice Zagreb	2006	
9.	Autobusni kolodvor	2006	
10.	ZGOS	2006	
11.	Zagrebački digitalni grad	2006	
12.	Zagrebački električni tramvaj (ZET)	2006	
13.	Stanogradnja	2006	Part of branch isolated in trade company as of 7 November13
14.	Robni terminali Zagreb		
15.	Vladimir Nazor	2007	
16.	Zagrebački velesajam	2007	
17.	Zagreb film	2007	Separated from Holding and transferred to the City of Zagreb in 2007
18.	Zoološki vrt Grada Zagreba (The Zagreb Zoo)	2007	Separated from Holding and transferred to the City of Zagreb in 2007
19.	AGM	2007	Separated from Holding into new trade company as of 7 November 2013
20.	Tehnološki park	2007	Separated from Holding and transferred to the City of Zagreb in 2008
21.	Zagrebačka veletržnica	2007	Extinguished in 2007 and merged to branch Tržnice Zagreb
22.	Sports facility management	2007	
23.	Autobusna radionica Zagreb (ARZ)	2007	Wound-up in 2007 and merged to ZET

1. GENERAL INFORMATION (CONTINUED)

Principal activities

At 31 December 2013 Zagrebački holding d.o.o., Zagreb ("the Company") comprised the following business branches:

	Name of the branch	Headquarters	Form of organisation	Principal activity	Ownership interest 2013	Ownership interest 2012
	Zagrebački holding	Avenija grada 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.	Sports facility management	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)

Principal activities (continued)

	Name of the branch	Headquarters	Form of organisation	Principal activity	Ownership interest 2013	Ownership interest 2012
Companies and institutions owned by Zagrebački holding						
1.	Gradska plinara Zagreb d.o.o.	Radnička cesta 1	limited liability company	Gas distribution	100% Zg. holding	100% Zg. holding
2.	Gradska plinara Zagreb - Opskrba d.o.o.	Radnička cesta 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	limitied liability company	Facility management	100% Zg. holding	-
7.	Vodoopskrba i odvodnja d.o.o.	Folnegovićeva 1	limitied 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	-
10.	Centar d.o.o.	Palmotićeva 4	limited liability company	organizacija sportskog ljetovanja za mlade	100% Zg. holding	-

According to the Company's demerger plan in November 2013 the following four operating units were spun off: water supply (as a result of the underlying legislation changes), 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. (Note 4 Status changes).

1. GENERAL INFORMATION (CONTINUED)

Principal activities

During the year, the principal activities of the Company 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. Warehousing and rental services
g. Flat construction and sale
h. Other services

Staff

At 31 December 2013, the Company had 9,859 employees (31 December 2012: 11,620 employees), as presented below:

Branch	31/12/2013	31/12/2012
ZET	4,194	4,276
Čistoća	1,518	1,570
Zrinjevac	771	773
Zagrebačke ceste	697	716
Sportski objekti	501	485
Zagreb parking	474	480
Tržnice Zagreb	374	382
Gradska groblja	310	314
Robni terminali Zagreb	293	342
Headquarters	232	205
Zagrebački velesajam	222	233
Autobusni kolodvor Zagreb	121	123
Vladimir Nazor	89	96
ZGOS	36	39
Zagrebački digitalni grad	17	15
Stanogradnja	10	13
AGM	-	38
GSKG	-	299
Vodoopskrba i odvodnja	-	1,221
	9,859	**11,620**

1. GENERAL INFORMATION (CONTINUED)

Directors and management

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

2013

1. Ivo Čović, President until 30 June 2013
2. Vlasta Pavić, Member until 30 June 2013
3. Alenka Košiša Čičin-Šain, Member until 30 June 2013
4. Tomislav Čulo, Member until 30 June 2013
5. Slobodan Ljubičić, President since 1 July 2013
6. Ivan Tolić, Member since 1 July 2013
7. Ante Samodol, Member since 1 July 2013
8. Daniela Franić, Member since 1 July 2013
9. Zdenko Milas, Member since 2 July 2013
10. Nike Nodilo Lakoš, Member since 17 August 2013
11. Darija Jurica Vuković, Member since 17 August 2013

2012

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

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

The directors of the companies and branches managed by the Company at 31 December 2013 were as follows:

Company / branch	**Director / Manager**
Zagrebački holding d.o.o.	Ivo Čović until 18 July 2013, Slobodan Ljubičić since 18 July 2013
1. Gradska groblja, a branch	Ljerka Ćosić
2. Čistoća, a branch	Branimir Valašek until 15 November 2013, Miljenko Benko since 15 November 2013
3. ZET, a branch	Dubravko Baričević until 15 November 2013, Ivan Tolić from 18 July 2013
4. Zrinjevac, a branch	Igor Toljan
5. Zagrebparking, a branch	Robert Mišeta until 15 November 2013, Nike Nodilo Lakoš until 16 December 2013, Ana Preost since 16 December 2013
6. Zagrebačke ceste, a branch	Alen Gospočić
7. Autobusni kolodvor, a branch	Ante Cicvarić until 15 November 2013, Martina Peričić since 15 November 2013
8. Tržnice Zagreb, a branch	Dario Kobešćak until 15 November 2013, Zdenka Palac since 15 November 2013
9. ZGOS, a branch	Zlatko Milanović until 02 August 2013, Anita Udovičić since 15 November 2013
10. Zagrebački digitalni grad, a branch	Ivana Krivić until 15 November 2013, Gordana Pokrajčić since 15 November 2013
11. Stanogradnja, a branch	Zdravko Juć
12. Robni terminali Zagreb, a branch	Tada Cigić until 15 November 2013, Darija Jurić Vuković until 01 January 2014
13. Vladimir Nazor, a branch	Srđan Vlaović until 18 July 2013, Predrag Alebić since 15 November 2013
14. Zagrebački velesajam, a branch	Milan Trbojević until 15 November 2013, Marina Pavković since 15 November 2013
15. Upravljanje sportskim objektima, a branch	Ivo Erić until 15 November 2013, Drago Kosić since 15 November 2013

1. GENERAL INFORMATION (CONTINUED)

Directors and management (continued)

Members of the **Supervisory Board** of Zagrebački holding during 2013:

1. Mato Crkvenac, President (until 30 June 2013)
2. Maruška Vizek, Deputy President (since 28 February 2012)
3. Hrvoje Šimović, Member (since 28 February 2012)
4. Nina Tepeš, Member (until 30 June 2013)
5. Vlado Leko, President (since 01 July 2013 until 21 October 2013)
6. Mirna Šitum, Deputy President (since 01 July 2013)
7. Vida Demarin, Member (since 01 July 2013)
8. Gojko Bežovan, Member (since 01 July 2013)
9. Ivan Šikić, Member (since 01 July 2013)
10. Davor Štern, Member (since 01 July 2013)

Members of the **Supervisory Board** of Zagrebački holding during 2012:

1. Ivo Družić, President (until 28 February 2012)
2. Josip Kregar, Deputy President of the Supervisory Board (until 28 February 2012)
3. Anđelka Buneta, Member (until 28 February 2012)
4. Dragan Kovačević, Member (until 01 May 2012)
5. Mato Crkvenac, President (since 28 February 2012)
6. Maruška Vizek, Deputy President (since 28 February 2012)
7. Hrvoje Šimović, Member (since 28 February 2012)
8. Nina Tepeš, Member (since 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 (until 19 June 2013)
2. Đurđica Jurić (until 19 June 2013)
3. Viktor Gotovac (until 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 May 2012)
10. Jozo Radoš (until 24 May 2012)
11. Darinko Kosor (until 27 September 2012)
12. Nenad Matić (from 24 May until 27 September 2012)
13. Dragan Kovačević (from 24 May 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 for the current period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) 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 the amended and revised Standards and Interpretation has not lead to changes in the Company'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 IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities (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 Management Board 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 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 unconsolidated 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 unconsolidated financial statements of the Company 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 unconsolidated financial statements of the Company because the Company is not engaged in the activities of this nature.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards adopted by European Union (IFRS).

b) Basis of preparation of the unconsolidated financial statements

The unconsolidated financial statements of the Company incorporate the financial statements of Zagrebački holding d.o.o. and of its branches.

The unconsolidated financial statements of the Company have been prepared under the historical cost basis, except for certain non-current assets, which are stated at revalued amounts, as disclosed in Note 18 and 19 to the financial statements.

The preparation of the unconsolidated 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 unconsolidated financial statements are disclosed in Note 3x.

c) Reporting currency

The unconsolidated financial statements are presented in Croatian kunas. All amounts disclosed in unconsolidated 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 EUR and 1 USD was HRK 7.637643 and HRK 5.549000, respectively (31 December 2012: HRK 7.545624 for 1 EUR and HRK 5.726794 for 1 USD).

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;
- intention to complete the intangible asset and its use or selling 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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

Properties in the course of construction for production, supply or administrative purposes or purposes not yet defined are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company'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 Company'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 Company 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 extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment property

Investment property represents property (land) held by the Company 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 gains and losses resulting from the change in the fair values were included in the statement of profit or loss and other comprehensive income for the year 2013 (Note 19).

g) Non-current financial assets

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

Effective interest method

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

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

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividends and 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 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 Company that are traded in an active market are classified as being AFS and are stated at fair value. The Company 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 Company'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 profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Non-current financial assets (continued)

With the exception of AFS equity instruments carried at fair value through the statement of comprehensive income, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Derecognition of financial assets

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

h) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Non-current financial assets (continued)

With the exception of AFS equity instruments carried at fair value through the statement of comprehensive income, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Derecognition of financial assets

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

h) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Trade receivables and prepayments

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

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

j) Inventories

Inventories comprise mainly spare parts, materials, work in progress and finished products and are carried at the lower of weighted average price, net of allowance for obsolete and excessive inventories, and net realisable value. Management provides impairment of 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 Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

l) Retirement and long-service benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Retirement and long-service benefits (continued)

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

The Company provides one-off long-service benefits (jubilee awards) and retirement benefits to its employees. The obligation and the cost of these benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The retirement benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the 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 the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet 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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes for the period

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

Value-added tax (VAT)

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

n) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each 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 Company has developed a detailed formal plan for the restructuring and has announced the plan to those affected by it.

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

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

o) Borrowing costs

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

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

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

p) Financial liabilities and equity instruments issued by the Company

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates interest paid on the financial liability. The fair value is determined as described in Note 45 - Financial instruments.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Operating segment reporting

In accordance with IFRS 8, the Company identified its operating segments on the basis of internal reports about components of the Company 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 Company monitors and presents specifically the results of its major business segments. The business segments are the basis upon which the Company reports its primary segment information. Certain financial information, analysed by business and geographical segments, are presented in Note 5.

r) Contingent liabilities

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

s) Events after the reporting period

Events after the reporting date that provide additional information about the Company'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 Company 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 pricelist 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 in statement of comprehensive income 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 Company 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 Company 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 Company 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 Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company'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 Company'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 Company as lessee

Assets held under finance leases are initially recognised as assets of the Company 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 Company'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 Company 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 Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

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

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

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

Fair value hedges

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

Hedge accounting is discontinued when the Company 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 unconsolidated financial statements

Critical judgements in applying accounting policies

In the application of the Company'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, the Company measures some of its assets and liabilities at fair value.

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 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

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 Company's financial position and the results of its operations.

Impairment of non-current assets

Impairment is recognised in the financial statements of the Company 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 unconsolidated 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 16.

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 110,709 thousand (at 31 December 2012 the total provisions amounted to HRK 280,615 thousand) (see Note 31).

Consequences of certain legal actions

The Company is 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 31).

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.

Some of the Company'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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) IFRS 13 „Fair value measurement"

The Group 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 Comapny has not made any new disclosures required by IFRS 13 within the comparative period (year 2012). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

4. STATUS CHANGES

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 No. 153/09, 63/11, 130/11 and 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.

The demerged assets and liabilities as of the demerger date are presented below:

	Facility management	Water supply	Construction and sale of flats	Publishing	Total demerged assets
	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)	(in HRK'000)
NON-CURRENT ASSETS					
Property, plant and equipment	2,101	4,386,318	-	121	**4,388,540**
Investments in subsidiaries	1,231	-	-	-	**1,231**
Other financial assets	7,604	-	-	-	**7,604**
Non-current receivables	28	6,624	2,503	525	**9,680**
Deferred tax asset	1,295	6,109		116	**7,520**
Total non-current assets	**12,259**	**4,399,051**	**2,503**	**762**	**4,414,575**
CURRENT ASSETS					
Inventories	-	12,476	124,708	8,077	**145,261**
Current receivables	7,148	553,300	-	361	**560,809**
Cash and cash equivalents	4,253	1,681	-	14	**5,948**
Total current assets	**11,401**	**567,457**	**124,708**	**8,452**	**712,018**
TOTAL ASSETS	**23,660**	**4,966,508**	**127,211**	**9,214**	**5,126,593**

4. STATUS CHANGES (CONTINUED)

	Facility management (in HRK'000)	Water supply (in HRK'000)	Construction and sale of flats (in HRK'000)	Publishing (in HRK'000)	Total demerged liabilities (in HRK'000)
EQUITY					
Share capital	2,000	2,011,000	51,000	5,128	**2,069,128**
Revalorization reserve	-	2,626	-	-	**2,626**
Total equity	**2,000**	**2,013,626**	**51,000**	**5,128**	**2,071,754**
NON-CURRENT LIABILITIES					
Provisions	6,473	58,330	-	581	**65,384**
Loans and borrowings payable	-	281,762	-	-	**281,762**
Liabilities to related companies	-	-	51,665	-	**51,665**
Other long-term liabilities	29	4,920	-	467	**5,416**
Deferred income	-	1,942,520	-	-	**1,942,520**
Total non-current liabilities	6,502	2,287,532	51,665	1,048	**2,346,747**
CURRENT LIABILITIES					
Liabilities to related companies	12,847	185,693	8,032	2,549	**209,121**
Loans and borrowings	-	68,138	-	-	**68,138**
Trade payables	-	174,550	-	-	**174,550**
Other short-term liabilities	2,311	236,969	16,514	489	**256,283**
Total current liabilities	**15,158**	**665,350**	**24,546**	**3,037**	**708,092**
TOTAL EQUITY AND LIABLITIES	**23,660**	**4,966,508**	**127,211**	**9,214**	**5,126,593**
Off-balance sheet items	176	-	-	-	176

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).

5. SEGMENT INFORMATION

SALES

	2013	2012
	(in HRK'000)	(in HRK'000)
Croatian market	2,677,865	2,670,813
EU market	2,195	3,084
	2,680,060	**2,673,897**

In accordance with IFRS 8, the Company identified its operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Company 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 Company (see Note 1), identifying nine activities as operating segments, whereas the tenth segment includes all other activities of the Group.

Upon the adoption of IFRS 8, the manner of identifying reporting segments remained unchanged because they were monitored in the same way even prior to those changes.

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. Other activities

5. SEGMENT INFORMATION (CONTINUED)

SALES (continued)

Set out below is a breakdown of revenue and results of the Company 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)
Passenger transport	464,673	443,906
Cleaning and waste removal	423,205	415,709
Water distribution revenue	418,261	467,699
Public road maintenance and management	335,168	290,287
Facility management	176,713	189,488
Flat construction and sale	122,519	124,117
Parking services	116,619	123,831
Warehousing and rentals	92,673	102,967
Waste disposal and management	7,507	10,043
Other income	522,722	505,850
	2,680,060	**2,673,897**

Other revenue comprises the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Landscaping and plant growing	192,260	164,867
Markets revenue	76,816	81,327
Sports facility management and maintenance	71,719	73,316
Funeral services	57,689	61,781
Trade fairs and congresses	43,018	44,023
Bus station	39,911	38,182
Travel agencies	23,734	23,633
Lease of telecom cable and network systems	11,256	10,547
Publishing	6,319	8,174
	522,722	**505,850**

5. SEGMENT INFORMATION (CONTINUED)

2013 segment revenue and results

2013 (in HRK'000)	Facility mgmt.	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat constru-ction and sale	Parking services	Warehous-ing and rentals	Waste collection and removal	Other	Eliminated	Total
Revenue from third parties	176,713	418,261	464,673	423,205	335,168	122,519	116,619	92,673	7,507	522,722	-	2,680,060
Inter-segment sales	297,140	16,669	3,404	19,104	20,166	47	9,760	2,266	107,215	9,873	(485,644)	-
Total sales	**473,853**	**434,930**	**468,077**	**442,309**	**355,334**	**122,566**	**126,379**	**94,939**	**114,722**	**532,595**	**(485,644)**	**2,680,060**
Expenses from other operations, net of other ordinary income	**(230,609)**	**(427,478)**	**(418,435)**	**(442,649)**	**(345,658)**	**(78,490)**	**(110,826)**	**(77,623)**	**(67,560)**	**(606,692)**	**485,644**	**(2,320,376)**
Profit / (loss) from operating activities	243,224	7,452	49,642	(340)	9,676	44,076	15,553	17,316	47,162	(74,097)	-	359,684
Finance revenue	407,797	13,603	15,536	6,072	1,234	16,205	2,218	954	7	3.772	-	467,398
Financial expenses	(631,122)	(15,422)	(99,516)	(1,697)	(3,019)	(40,569)	(3,799)	(862)	(252)	(3,106)	-	(799,364)
Net financial result	(223,325)	(1,819)	(83,980)	4,375	(1,785)	(24,364)	(1,581)	92	(245)	666	-	(331,966)
Profit / (loss) before taxation	19,919	5,633	(34,338)	4,035	7,891	19,712	13,972	17,408	46,917	(73,431)	-	27,718
Tax expense	(25,684)	-	-	-	-	-	-	-	-	-	-	(25,684)
Net profit / (loss)	**(5,765)**	**5,633**	**(34,338)**	**4,035**	**7,891**	**19,712**	**13,972**	**17,408**	**46,917**	**(73,431)**		**2,034**

5. SEGMENT INFORMATION (CONTINUED)

2012 segment revenue and results

2012 (in HRK'000)	Facility mgmt.	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat constru-ction and sale	Parking services	Warehous-ing and rentals	Waste collection and removal	Other	Eliminated	Total
Revenue from third parties	189,488	467,699	443,906	415,709	290,287	124,117	123,831	102,967	10,043	505,850	-	2,673,897
Inter-segmentalna prodaja	199,363	9,954	3,680	16,151	25,498	41	7,411	2,990	106,219	9,223	(380,530)	-
Total sales	**388,851**	**477,653**	**447,586**	**431,860**	**315,785**	**124,158**	**131,242**	**105,957**	**116,262**	**515,073**	**(380,530)**	**2,673,897**
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)**	**(598,750)**	**380,530**	**(2,696,914)**
Profit / (loss) from operating activities	89,337	28,989	(205,364)	9,401	24,281	52,062	28,793	(12,967)	46,128	(83,677)	-	(23,017)
Finance revenue	26,096	12,916	4,729	7,315	235	6,517	1,555	1,269	73	8,974	-	69,679
Financial expenses	(237,564)	(15,812)	(80,733)	(2,944)	(2,972)	(57,707)	(3,493)	(809)	(328)	(2,014)	-	(404,376)
Net financial result	(211,468)	(2,896)	(76,004)	4,371	(2,737)	(51,190)	(1,938)	460	(255)	6,960	-	(334,697)
Profit / (loss) before taxation	(122,131)	26,093	(281,368)	13,772	21,544	872	26,855	(12,507)	45,873	(76,717)	-	(357,714)
Tax expense	(1,295)	-	-	-	-	-	-	-	-	-	-	(1,295)
Net profit / (loss)	**(123,426)**	**26,093**	**(281,368)**	**13,772**	**21,544**	**872**	**26,855**	**(12,507)**	**45,873**	**(76,717)**	**-**	**(359,009)**

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2013

Assets and liabilities at 31/12/2013 (in HRK'000)	Facility mgmt.	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat constru-ction and sale	Parking services	Warehous-ing and rentals	Waste collection and removal	Other	Eliminated	Total
Property, plant and equipment	1,725,949	-	3,034,390	159,444	148,800	475,392	143,752	332,875	65,339	3,048,647	-	9,134,588
Intangible assets	2,608	-	15,916	1,911	51	4,917	63	390	17	3,105	-	28,978
Investment property	871,751	-	-	-	-	-	-	939,276	-	390,593	-	2,201,620
Inventories	2	-	44,181	10,058	41,636	15,879	339	936	60	31,570	-	144,661
Trade receivables, net	12,949	-	42,223	70,164	9,744	1,286	21,609	7,636	665	41,253	-	207,529
Unallocated	6,808,557	-	541,736	90,944	180,127	592,193	194,645	3,578	487,346	96,946	(3,399,191)	5,596,881
Total assets	**9,421,816**	**-**	**3,678,446**	**332,521**	**380,358**	**1,089,667**	**360,408**	**1,284,691**	**553,427**	**3,612,114**	**(3,399,191)**	**17,314,257**
Issued bonds	2,291,293	-	-	-	-	-	-	-	-	-	-	2,291,293
Trade payables	26,803	-	62,832	13,853	38,959	2,199	3,264	2,695	7,945	49,729	-	208,279
Amounts due to employees	2,196	-	32,051	8,546	4,714	65	3,181	1,919	725	14,638	-	68,035
Equity and unallocated liabilities	7,101,524	-	3,583,563	310,122	336,685	1,087,403	353,963	1,280,077	544,757	3,547,747	(3,399,191)	14,746,650
Total equity and liabilities	**9,421,816**	**-**	**3,678,446**	**332,521**	**380,358**	**1,089,667**	**360,408**	**1,284,691**	**553,427**	**3,612,114**	**(3,399,191)**	**17,314,257**
31/12/2013 Other segment information												
Capital expenditure:	**12,617**	**151,210**	**901,822**	**2,871**	**42,421**	**165**	**66**	**8,907**	**10,015**	**17,465**	**-**	**1,147,559**
Property, plant and equipment	12,617	151,210	899,360	2,024	42,421	165	62	8,790	10,015	16,207	-	1,142,871
Intangible assets	-	-	2,462	847	-	-	4	117	-	1,258	-	4,688
Depreciation and impairment	**75,987**	**149,205**	**177,222**	**9,193**	**6,686**	**41,976**	**10,430**	**3,848**	**13,257**	**40,117**	**-**	**490,948**

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities at 31 December 2012

Assets and liabilities at 31/12/2012 (in HRK'000)	Facility mgmt.	Water distribution	Passenger transport	Cleaning and waste removal	Public road mgmt. and maintenance	Flat construction and sale	Parking services	Warehousing and rentals	Waste collection and removal	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	3,075,135	-	13,719,461
Intangible assets	2,423	19,819	17,172	1,832	77	-	212	524	28	3,665	-	45,752
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	38,212	-	765,687
Trade receivables, net	16,275	490,009	29,025	70,546	9,183	999	31,891	11,150	1,006	43,930	-	704,014
Unallocated	4,103,028	82,741	608,559	162,146	262,307	108,223	176,133	4,175	440,727	122,027	(3,195,451)	2,874,615
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**	**3,680,950**	**(3,195,451)**	**20,873,915**
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	110,750	-	840,538
Amounts due to employees	3,707	10,174	30,696	10,445	4,799	97	3,165	2,401	326	15,547	-	81,357
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	3,554,653	(3,195,451)	17,688,333
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**	**3,680,950**	**(3,195,451)**	**20,873,915**
31/12/2012 Other segment information												
Capital expenditure:	**19,354**	**140,391**	**34,574**	**11,968**	**4,327**	**6,592**	**1,053**	**23,491**	**141**	**26,847**	**-**	**268,738**
Property, plant and equipment	17,676	140,391	23,596	11,040	4,327	6,592	1,053	23,489	2	25,271	-	253,437
Intangible assets	1,678	-	10,978	928	-	-	-	2	139	1,576	-	15,301
Depreciation and impairment	**66,704**	**160,719**	**139,379**	**9,903**	**5,896**	**39,813**	**12,228**	**4,557**	**11,817**	**39,932**	**-**	**490,948**

6. OTHER INCOME

	2013	2012
	(in HRK'000)	(in HRK'000)
Grant and subsidy income	879,908	744,957
Reversal of deferred income	188,278	164,690
Recovery of amounts previously written off	169,692	53,798
Unrealized gains from change in fair value of investment property	107,340	-
Income from reversal of provisions	44,468	54,066
Income from sale of non-current assets, surpluses and upon assessment	22,984	6,203
Damages collected	13,463	16,985
Other operating income	47,320	63,994
	1,473,363	**1,104,693**

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	86,444	3,788	**90,232**	96,802	1,803	**98,605**
	858,540	**21,368**	**879,908**	**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 on changes in the fair value of investment property were recognised for properties whose fair value increased in 2013 based on the appraisals performed by a court valuation expert. At the same time, HRK 50.5 million of unrealised losses were recognised on the remeasurement of investment property at fair value in respect of investment properties whose fair values decreased (see Note 11). Thus, the net change in the value of investment property measured at fair value is reflected in profit or loss as net urealised losses in the amount of HRK 56.8 million.

6. OTHER INCOME (CONTINUED)

Recovery of amounts previously written off relates mainly to the following:

	2013	2012 As restated
	(in HRK'000)	(in HRK'000)
a) Employee benefit provisions	141,091	7,443
b) Accrued vacation and other benefits	20,929	34,885
c) Litigation provisions, as per the attorney's assessment	7,672	11,470
	169,692	**53,798**

In 2013 annex 5 to the Main Collective Agreement was signed, under which long-service benefits have been reduced to non-taxable amounts (Note 44), resulting in a reduced present value of provisions for employee benefits and recognition of income from the reversed employee benefit provisions.

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

	2013	2012 As restated
	(in HRK'000)	(in HRK'000)
Collected damages and liquidated damages	7,798	13,126
Reversal of excess of accrued expenses for the Sopnica Project following the final calculations provided by the contractor	3,175	1,646
Other income (write-off of debt, approved discounts and similar)	2,490	2,213
	13,463	**16,985**

Income from damages and liquidated damages collected mainly relate to ZET branch in the amount of HRK 3.8 million (2012: nil) and comprise insurance indemnities and Stanogradnja branch in the amount of HRK 1.7 million (2012: HRK 5.8 million) which charged liquidated damages and fault removal penalties charged to the contractors performing the works on the Sopnica Project in accordance with the underlying construction contracts.

7. COST OF MATERIALS AND SERVICES

	2013	2012
	(in HRK'000)	(in HRK'000)
Energy costs	295,128	295,901
Cost of raw material and supplies	253,128	241,248
Expensed small items	17,629	17,666
a) Total material costs	*565,885*	*554,815*
b) Changes in the value of inventories of work in progress and finished products	*4,654*	*10,254*
c) Cost of goods sold	*8,333*	*6,932*
Maintenance	154,867	129,175
Rental and lease costs	125,921	189,211
Communal utility fees and charges	109,511	109,794
Subcontractor service costs	69,790	54,142
Transportation costs	36,867	35,412
Insurance premiums	32,212	30,201
Data processing and software maintenance services	28,188	32,015
Professional services	19,325	26,896
Bank and payment operation charges	15,944	7,694
Advertising and promotion	4,047	5,994
Other external services	65,054	56,923
d) Total external services	*661,726*	*677,457*
	1,240,598	**1,249,458**

The net costs of materials and services are lower by a total of HRK 8.9 million compared with 2012 due to the increased volume of work and higher raw material prices, the costs of raw materials and supplies, the costs of subcontractors and the maintenance costs became higher, while, on the other hand, the lease and rental costs decreased as a result of renegotiated bus leases (purchase of buses under lease).

8. STAFF COSTS

	2013	2012
	(in HRK'000)	(in HRK'000)
Net wages and salaries	913,503	926,280
Taxes and contributions	614,576	623,795
Reimbursement of costs to employees and other employee benefits	155,850	151,318
	1,683,929	**1,701,393**
Number of staff at 31 December	**9,859**	**11,620**

The reduction of the number of staff by 1,761 employees is due to the spin-off of the four operating units with a total of 1,506 employees and redundancy schemes that include termination benefits which were applied to a part of the employees. The average number of staff, based on the actual hours worked in 2013, amounts to HRK 11,359 (2012: 11,609).

The total staff costs for the year 2013 increased, on a net basis, by around HRK 17.4 million compared with 2012, with the payroll costs decreasing by approximately 22 million and employee benefits increasing by around HRK 5 million.

The net employee benefit cost increased by HRK 4.5 million compared with 2012. Within the employee benefits, the commutation allowances were reduced by around HRK 4 million, and the termination benefits increased by approximately HRK 10 million.

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

9. DEPRECIATION AND AMORTISATION

	2013	2012
	(in HRK'000)	(in HRK'000)
Depreciation (Note 18)	516,305	481,960
Amortisation (Note 17)	11,616	8,986
VAT on depreciation of personal cars	-	2
	527,921	**490,948**

The increase in the depreciation charge is mainly attributable to the ZET Branch which put into use a traffic monitoring system (Atron) in 2013.

10. OTHER EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Administrative fees and court costs	16,485	14,295
Membership fees to professional organisations (Croatian Chamber of Commerce, Tourist Board and others)	6,320	5,491
Taxes and contributions independent of operating results	5,359	5,268
Entertainment	1,244	1,859
Professional literature	966	1,090
Fees to Supervisory Board members	801	751
Cultural monument fees and environmental protection costs	772	721
Other expenses	653	821
	32,600	**30,296**

11. IMPAIRMENT ALLOWANCE

	2013	2012
	(in HRK'000)	(in HRK'000)
Impairment allowance on current assets	124,561	114,007
Impairment allowance on non-current assets	50,859	64,904
	175,420	**178,911**

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 50,514 thousand (2012: unrealised loss in the amount of HRK 59,297 thousand).

12. PROVISIONS

	2013	2012
	(in HRK'000)	(in HRK'000)
Litigation provisions	37,471	33,058
Provisions for long-service benefits under IAS 19	22,222	37,127
Provisions for unused vacation days	20,273	20,302
Provisions for the restoration of natural resources	1,752	10,735
	81,718	**101,222**

13. OTHER OPERATING EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Fines, penalties, damages	23,638	27,007
Written-off receivables	8,370	5,904
Grants, donations and sponsorships	4,027	2,556
Net book value of assets sold or otherwise disposed of	329	1,090
Other operating expenses	15,189	12,822
	51,553	**49,379**

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.

14. FINANCIAL INCOME

	2013	2012
	(in HRK'000)	(in HRK'000)
Interest income from sale of property	349,888	-
Financial income - unrelated entities	83,986	45,878
Financial income - related entities	24,381	15,865
Other financial income	9,143	7,936
	467,398	**69,679**

Financial income comprises the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Interest income from sale of property	349,888	-
Interest income	27,236	31,316
Foreign exchange gains	69,794	15,177
Dividend income - related companies	11,337	15,250
Other financial income	9,143	7,936
	467,398	**69,679**

Dividend income from related companies comprises the shares in the 2013 profits of the following companies:

- HRK 6.9 million from Gradska plinara Zagreb d.o.o. (50% of the 2012 profits, based on the Assembly Decision)
- HRK 4.4 million from Gradska plinara Opskrba d.o.o. (50% of the 2012 profits, based on the Assembly Decision).

The net exchange loss for 2013 amounts to HRK 38,2 million (2012: net exchange loss of HRK 4.7 million).

Other financial income mostly relates to interest income from the sale of the property (349.8 million kuna) and income from discounted receivables and liabilities and other financial income.

In 2013, the Company has sold buildings Gredelj and Zagrepčanka to the City of Zagreb with of 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 19).

15. FINANCIAL EXPENSES

	2013	2012
	(in HRK'000)	(in HRK'000)
Financial expenses - unrelated entities	437,638	400,022
Discount from receivables sale	345,221	-
Financial expenses - related entities	12,616	2,801
Other financial expenses	3,889	1,553
	799,364	**404,376**

Financial expenses comprise the following:

	2013	2012
	(in HRK'000)	(in HRK'000)
Discount from receivables sale	345,221	-
Interest	342,162	378,343
Foreign exchange losses	108,092	19,807
Other	3,889	6,226
	799,364	**404,376**

In year 2013 *Financial expenses* increased compared to year 2012 because of the higher balance of foreign exchange losses, as the exchange rate of the Euro against the Croatian kuna was higher by 1.2% in year 2013 than in year 2012.

Other financial expenses mostly relate to expenses from discounted due receivables for sold real estates (HRK 349.8 million).

In 2013, the Company has sold buildings Gredelj and Zagrepčanka to the City of Zagreb that are due in within 10 years. In connection with operating and restructuring program, receivables that are not due are sold to the banks with discount (Note 19).

16. INCOME TAX

The Company is subject to taxation in accordance with the tax laws and regulations of the Republic of Croatia. 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:		
Deferred tax expense on the origination and reversal of temporary differences	25,684	1,295
Tax expense	**25,684**	**1,295**

The relationship between the accounting profit and tax expense for the year:

	2013	2012
	(in HRK'000)	(in HRK'000)
Profit/ (loss) before taxation	27,718	(357,714)
Income tax at the rate of 20% (2012: 20%)	5,544	(71,543)
Effect of permanent differences, net	45,824	163,986
Effect of unrecognised and unused tax losses brought forward	-	(98,770)
Effect of reversal of temporary differences previously recognized as deferred tax assets	(27,896)	-
Effect of temporary differences recognised as deferred tax assets	2,212	7,622
Tax expense recognised in profit or loss	**25,684**	**1,295**

Unused tax losses:

	2013	2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**(280,807)**	**(774,657)**
Increase during the year	(94,867)	-
Decrease during the year	-	493,850
Balance at end of year	**(375,674)**	**(280,807)**

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

16. INCOME TAX (CONTINUED)

Deferred tax assets and liabilities

2013	**Opening balance**	**Effect of the spin-offs**	**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)	(in HRK'000)
Temporary differences:						
Provisions	56,123	(7,520)	(26,462)	-	-	22,141
Financial assets at fair value	520	-	(209)	-	-	311
Value adjustment of land	45	-	-	-	-	45
Revaluation of land	669,624	(657)	-	(40,582)	-	628,385
Property, plant and equipment	336	-	-	-	(48)	288
Unused tax losses and tax credits						
Tax losses	302	-	-	-	-	302
Tax credits	4,581	-	987	-	-	5,568
Deferred tax assets	**61,571**	**(7,520)**	**(25,684)**	**-**	**-**	**28,367**
Deferred tax liabilities	**669,960**	**(657)**	**-**	**(40,582)**	**(48)**	**628,673**

16. 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	50,166	5,957	-	-	56,123
Financial assets at fair value	1,118	(598)	-	-	520
Value adjustment of land	7,479	(7,434)	-	-	45
Revaluation of land	669,665	-	(41)	-	669,624
Property, plant and equipment	437	-	-	(101)	336
Unused tax losses and tax credits				-	-
Tax losses	303	-	-	-	303
Tax credits	3,800	780	-	-	4,580
Deferred tax assets	**62,866**	**(1,295)**	**-**	**-**	**61,571**
Deferred tax liabilities	**670,102**	**-**	**(41)**	**(101)**	**669,960**

17. INTANGIBLE ASSETS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Cost	110,100	178,223
Accumulated amortisation and impairment	(81,122)	(132,471)
	28,978	**45,752**

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	15,832	20,228
Intangible assets under development	10,502	2,262
Other intangible assets	2,644	5,403
Development expenses	-	17,859
	28,978	**45,752**

17. INTANGIBLE ASSETS (CONTINUED)

(in HRK'000)	Development expenses	Patents, licences and other rights	Other intangible assets	Intangible assets under development	Total intangible assets
COST					
Balance at 01/01/2012, as restated	**40,043**	**52,621**	**46,360**	**3,362**	**142,386**
Additions	-	933	2,390	11,978	**15,301**
Transfer from assets under development	20,313	14,575	-	(13,078)	**21,810**
Disposals and retirements	-	(125)	(1,149)	-	**(1,274)**
Balance at 31/12/2012	**60,356**	**68,004**	**47,601**	**2,262**	**178,223**
Additions	-	958	-	3,730	**4,688**
Transfer from assets under development	113	5,155	10	(1,556)	**3,722**
Transfer from long-term receivables	-	-	-	4,917	**4,917**
Transferred (from)/to	-	-	(1,149)	1,149	**-**
Disposals and retirements	-	(216)	(609)	-	**(825)**
Effect of the spin-offs	(60,040)	(20,168)	(417)	-	**(80,625)**
Balance at 31/12/2013	**429**	**53,733**	**45,436**	**10,502**	**110,100**
ACCUMULATED AMORTISATION					
Balance at 01/01/2012, as restated	**39,662**	**43,120**	**41,977**	**-**	**124,759**
Amortisation	2,835	4,781	1,370	-	**8,986**
Disposals and retirements	-	(125)	(1,149)	-	**(1,274)**
Balance at 31/12/2012	**42,497**	**47,776**	**42,198**	**-**	**132,471**
Amortisation	3,849	6,147	1,620	-	**11,616**
Disposals and retirements	-	(213)	(609)	-	**(822)**
Effect of the spin-offs	(45,917)	(15,809)	(417)	-	**(62,143)**
Balance at 31/12/2013	**429**	**37,901**	**42,792**	**-**	**81,122**
NET BOOK VALUE					
Balance at 31/12/2013	**-**	**15,832**	**2,644**	**10,502**	**28,978**
Balance at 31/12/2012	**17,859**	**20,228**	**5,403**	**2,262**	**45,752**

18. PROPERTY, PLANT AND EQUIPMENT

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Cost or valuation	12,960,929	20,103,391
Accumulated depreciation and impairment	(3,827,032)	(6,436,627)
	9,133,897	**13,666,764**
Prepayments for tangible assets	**691**	**52,697**
Property, plant and equipment, and prepayments	**9,134,588**	**13,719,461**

Structure of property, plant and equipment:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Land	3,897,367	4,307,065
Buildings	2,875,433	6,830,609
Tools and vehicles	1,905,395	1,617,469
Tangible assets under construction	237,984	618,147
Plant and equipment	168,022	243,228
Biological assets	21	28
Other tangible assets	49,675	50,218
	9,133,897	**13,666,764**

Movements in prepayments:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Opening balance	**52,697**	**56,984**
Additions	20,332	2,026
Disposals and retirements	(20,398)	(6,313)
Effect of the spin-offs	(51,940)	-
Closing balance	**691**	**52,697**

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(in HRK'000)	Land	Buildings and housing blocks	Plant and equipment	Vehicles	Tools, office and similar equipment	Biological assets	Other tangible assets	Assets under development	**Total tangible assets**
COST									
Balance at 01/01/2012, as restated	**4,306,757**	**11,057,230**	**956,262**	**2,794,714**	**140,447**	**259**	**50,234**	**607,600**	**19,913,503**
Additions	188	8,838	7,938	9,589	1,402	15	-	225,467	**253,437**
Transfer from assets under development	-	90,427	77,047	11,805	851	-	-	(201,940)	**(21,810)**
Transferred (from)/to	634	15,877	210	-	122	-	-	5,208	**22,051**
Impairment allowance	(26)	(694)	(5)	-	(1)	-	-	-	**(726)**
Disposals and retirements	(263)	(2,601)	(15,563)	(24,697)	(2,624)	(22)	(16)	(17,278)	**(63,064)**
Balance at 31/12/2012	**4,307,290**	**11,169,077**	**1,025,889**	**2,791,411**	**140,197**	**252**	**50,218**	**619,057**	**20,103,391**
Additions	-	8,440	45,060	2,532	859	-	-	1,085,980	**1,142,871**
(De)recognition of property	81,961	-	-	-	-	-	-	-	**81,961**
Transfer from assets under development	869	81,438	11,042	915,462	466	-	-	(1,012,999)	**(3,722)**
Transfer to inventory	-	(202)	-	-	-	-	-	-	**(202)**
Transferred (from)/to	(23)	23	8,470	-	-	-	-	(8,470)	**-**
Transfer to investment property	(314,355)	(90,869)	-	-	-	-	-	(45,935)	**(451,159)**
Disposals and retirements	-	(3,396)	(26,003)	(599,255)	(1,234)	-	-	-	**(629,888)**
Effect of the spin-offs	(178,150)	(6,315,684)	(296,816)	(75,703)	(16,688)	-	(543)	(398,739)	**(7,282,323)**
Balance at 31/12/2013	**3,897,592**	**4,848,827**	**767,642**	**3,034,447**	**123,600**	**252**	**49,675**	**238,894**	**12,960,929**
ACCUMULATED AMORTISATION									
Balance at 01/01/2012, as restated	**225**	**4,032,662**	**739,970**	**1,116,022**	**109,192**	**240**	**-**	**-**	**5,998,311**
Charge for the year	-	307,993	57,955	109,811	6,195	6	-	-	**481,960**
Impairment allowance	-	-	-	-	-	-	-	4,759	**4,759**
Transferred (from)/to	-	(20)	(93)	(13)	126	-	-	-	**-**
Disposals and retirements	-	(2,167)	(15,171)	(24,691)	(2,503)	(22)	-	(3,849)	**(48,403)**
Balance at 31/12/2012	**225**	**4,338,468**	**782,661**	**1,201,129**	**113,010**	**224**	**-**	**910**	**6,436,627**
Charge for the year	-	306,377	85,077	118,643	6,201	7	-	-	**516,305**
Transferred (from)/to	-	788	(788)	-	-	-	-	-	**-**
Transfer to investment property	-	(61,140)	-	-	-	-	-	-	**(61,140)**
Disposals and retirements	-	(6,519)	(25,836)	(112,685)	(1,168)	-	-	-	**(146,208)**
Effect of the spin-offs	-	(2,604,580)	(241,494)	(56,931)	(15,547)	-	-	-	**(2,918,552)**
Balance at 31/12/2013	**225**	**1,973,394**	**599,620**	**1,150,156**	**102,496**	**231**	**-**	**910**	**3,827,032**
CARRYING AMOUNT									
Balance at 31/12/2013	**3,897,367**	**2,875,433**	**168,022**	**1,884,291**	**21,104**	**21**	**49,675**	**237,984**	**9,133,897**
Balance at 31/12/2012	**4,307,065**	**6,830,609**	**243,228**	**1,590,282**	**27,187**	**28**	**50,218**	**618,147**	**13,666,764**

18. 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 Company'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, owner of Company has surrendered a significant portion of its assets to be managed by the Company. 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	2,893,378	3,324,003
Unregistered, eligible for registration	776,046	606,844
Unregistered, not eligible for registration	227,943	376,218
	3,897,367	**4,307,065**

Buildings (at cost)

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Registered title	3,497,894	3,637,676
Unregistered, eligible for registration	968,914	1,086,078
Unregistered, not eligible for registration	382,019	630,913
Communal infrastructure facilities	-	5,814,410
	4,848,827	**11,169,077**

18. 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 Company reviewed the residual values used for the purposes of depreciation calculation. 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 stated amount of tangible assets 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 Company 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.

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leases

The Company entered into several lease agreements during 2009 and 2008, which have been accounted for and presented in the unconsolidated 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 Company.

19. INVESTMENT PROPERTIES

	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
At 1 January	**2,764,386**	**2,823,683**
Sale	(948,203)	-
Transfer from property, plant and equipment	344,085	-
Additions - new investments	45,935	-
Decrease in the fair value through equity	(61,409)	-
Increase/(decrease) in the fair value through profit or loss (net)	56,826	(59,297)
Balance at 31 December	**2,201,620**	**2,764,386**

In 2013 the Company sold its properties 'Gredelj' and 'Zagrepčanka' to the City of Zagreb, with a repayment term of 10 years. In accordance with the Operational and Financial Restructuring Programme, the receivables not yet due from the City of Zagreb were sold to commercial banks at a discount (Notes 14 and 15).

During 2013, there was a separation of subsidiary Vodoopskrba i odvodnja from Zagrebački Holding during which properties used by the subsidiary are recognized in the financial statements of the Company which gave property in rent to the related Company, Vodoopskrba i odvodnja d.o.o. and in accordance with IAS 40 "Investment Property", the property is listed as an investment property.

During 2013 investment properties were remeasured at fair value on the basis of appraisals by a certified property appraisal expert, upon which gains resulting from the change in the fair values in the amount of HRK 56,826 thousand (2012: negative of HRK 59,297 thousand) were included in the statement of profit or loss and other comprehensive income for the year 2013.

20. INVESTMENTS IN SUBSIDIARIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Investments in related companies		
Vodoopskrba i odvodnja d.o.o.	2,011,000	-
Gradska plinara Zagreb d.o.o.	269,725	269,725
Zagrebačka stanogradnja d.o.o.	51,000	-
Gradska plinara Zagreb-Opskrba d.o.o.	40,000	40,000
Gradska ljekarna Zagreb d.o.o.	26,787	26,787
Centar d.o.o.	9,751	-
AGM d.o.o.	5,128	-
Gradsko stambeno komunalno gospodarstvo d.o.o.	2,000	-
Zagreb arena d.o.o.	20	20
Zagreb plakat d.o.o.	10	10
	2,415,421	**336,542**

Changes in the ownership interests during 2013 were as follows:

- acquisition of the 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. As a result, the Company recognised in its balance sheet at 31 December 2013 no assets or liabilities assumed on the transaction.

- following the completion of the status changes of the Company and the registration of the new companies, share transfer agreements were concluded between the City of Zagreb, as the Transferor, and the Company, as the Acquiror of the following 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 the Company into an additional capital contribution, which was registered at the Commercial Court in Zagreb.

Movements of investments in related companies	**31/12/2013**	**31/12/2012**
	(in HRK'000)	(in HRK'000)
Opening balance	**336,542**	**336,542**
Capital increase	2,069,128	-
Acquisition of a company	9,751	-
Closing balance	**2,415,421**	**336,542**

21. OTHER FINANCIAL ASSETS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Current portion		
Held-to-maturity investments at amortised cost	7,045	6,430
	7,045	**6,430**
Long-term portion		
Financial assets at fair value	454	521
Held-to-maturity investments at amortised cost	108,142	115,051
	108,596	**115,572**

Financial assets at fair value

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Participating interests	**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 Company has no significant influence.

Long term deposits and other financial assets

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Deposits with maturities over one year	108,142	115,052
Deposits with maturities of up to one year	1,772	1,686
Other held-to-maturity securities	5,273	4,744
	115,187	**121,482**
Current portion	7,045	6,430
Long-term portion	108,142	115,052

21. OTHER FINANCIAL ASSETS (CONTINUED)

Deposits with financial institutions due after 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Zagrebačka banka d.d.	56,000	63,604
BKS Bank d.d.	49,645	49,047
Erste&Steiermärkischebank d.d.	2,361	2,264
Others	136	137
	108,142	**115,052**

Deposits with financial institutions due within 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Zagrebačka banka d.d.	599	933
Other credit institutions and accrued interest	1,173	753
	1,772	**1,686**

Given loans and deposits are classified into deposits with and short-term loans to unrelated companies with maturities of up to one year. The interest on the deposits was accrued at market rates effective at inception, which ranged from 3.4% to 6.8%. The interest on short-term loans to unrelated companies was accrued at the average interest rate in effect at inception (6 to 12 percent).

22. NON-CURRENT RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Long-term portion		
Amounts owed by related parties	1,449,099	1,073,238
Receivables for investments in government bonds	8,771	12,333
Loan receivables	10,156	15,908
Receivables in respect of credit sales	9,168	13,527
Other receivables	621,036	626,505
	2,098,230	**1,741,511**
Current portion - Notes 24 and 28		
Amounts owed by related parties	133,909	132,443
Receivables for loans with maturities after 1 year	1,502	1,429
Receivables for loans due within up to 1 year	1,302	4,899
Receivables in respect of credit sales	1,361	1,930
Other receivables	27,496	28,320
	165,570	**169,021**

22. 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	1,816,999	1,217,442
Discount on receivables not yet due	(224,828)	(11,761)
Impairment allowance on receivables from the owner	(9,163)	-
	1,583,008	**1,205,681**
Current portion	133,909	132,443
Long-term portion	1,449,099	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 thousand (2012: HRK 44,656 thousand) represents receivables for residential and commercial properties sold in Sopnica Jelkovec (Note 23 and 43).

Receivables for investments in government bonds

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables for investments in government bonds	12,244	15,765
Impairment allowance on receivables for investments in government bonds	(3,473)	(3,432)
	8,771	**12,333**
Current portion	-	-
Long-term portion	8,771	12,333

22. NON-CURRENT RECEIVABLES (CONTINUED)

Receivables for loans with maturities after 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Long-term loans to unrelated companies	-	2,112
Long-term loans to the Management and employees	14,569	17,720
Impairment allowance on given loans	(2,911)	(2,495)
	11,658	**17,337**
Current portion	1,502	1,429
Long-term portion	10,156	15,908

Receivables for loans due within up to 1 year

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Short-term loans to unrelated companies	29,224	37,480
Impairment allowance on given loans	(27,922)	(32,581)
	1,302	**4,899**
Current portion	1,302	4,899

22. 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	12,123	18,033
Value adjustment on discount	(1,594)	(2,576)
Discount rate in %	***4.5%***	***4.2%***
	10,529	**15,457**
Current portion	*1,361*	*1,930*
Long-term portion	*9,168*	*13,527*

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: 4.16%).

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	2,883
	648,531	**654,825**
Current portion	27,496	28,320
Long-term portion	621,035	626,505

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

23. INVENTORIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Raw material and supplies	105,770	110,271
Work in progress	10,446	134,501
Finished products	21,400	512,203
Merchandise (and property in circulation)	6,874	8,008
Prepayments for inventories	171	704
	144,661	**765,687**

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. The decrease of the work in progress by HRK 124.7 million is a result of the transfer of the Podbrežje Project to newly established company Zagrebačka stanogradnja d.o.o. (Note 4).

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 (Note 22).

Cost of inventories recognised as expense for the year amounts to HRK 4.6 million (2012: HRK 10.2 million) and relates to the costs recognised for the flats sold (Note 7).

24. RECEIVABLES FROM RELATED COMPANIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Receivables from the owner	211,138	276,516
Current portion of long-term receivables from the owner	133,909	132,443
Receivables from related companies	27,426	833
Loans to related companies (due within 1 year)	185,153	3,567
	557,626	**413,359**

24. RECEIVABLES FROM RELATED COMPANIES (CONTINUED)

Receivables from related companies are broken down into amounts owed by the owner (City of Zagreb), receivables from other related companies (subsidiaries) and receivables for loans to related companies. Receivables from related companies comprise short-term receivables for regular deliveries of goods, works and services. Receivables from the owner relate to short-term receivables for ordinary and other contracted works as well as receivables in respect of funding that are due in 2013.

Loans to subsidiaries relate to loans provided to subsidiaries Zagreb plakat d.o.o. and Zagreb arena d.o.o. in the amount of HRK 0.6 million and HRK 1.1 million, Gradsko stambeno komunalno gospodarstvo d.o.o. in the amount of HRK 1.6 million, Vodoopskrbu i odvodnju d.o.o. in the amount of HRK 174.6 million, AGM d.o.o. in the amount of HRK 1.6 million and Zagrebačku stanogradnju in the amount of HRK 5.6 million, respectively. They accrue interest at rates equal to the commercial rates in effect at the time of approving the loans (6%).

25. TRADE RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Trade receivables	630,637	1,230,297
Impairment allowance on trade receivables	(423,108)	(526,283)
	207,529	**704,014**

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

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

Receivables for 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).

25. TRADE RECEIVABLES (CONTINUED)

Ageing of impaired trade receivables

	2013	2012
	(in HRK'000)	(in HRK'000)
120-180 days	1,059	2,471
180-365 days	2,908	5,287
Over 365 days	419,141	518,525
	423,108	**526,283**

26. AMOUNTS DUE FROM EMPLOYEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Amounts due from employees	2,372	4,331
Impairment allowance on amounts due from employees	(1)	(1,317)
	2,371	**3,014**

27. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
VAT receivable	48,609	1,566
Receivables from the Croatian State Health Insurance Fund	4,312	5,745
Income tax refund	8	10
Receivables for other taxes, contributions and fees	833	1,302
	53,762	**8,623**

28. OTHER RECEIVABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Prepaid expenses and accrued income	149,237	90,955
Current portion of long-term receivables	31,660	36,578
Prepayments made	6,758	11,107
Receivables from insurance companies and other damages receivable	1,212	1,317
Impairment allowance on prepayments	(386)	(2,381)
Other receivables	441	962
	188,922	**138,538**

Prepaid expenses and accrued income comprise amounts paid in advance that are chargeable to future periods, accrued income not yet billed (in 2013 prepaid expenses for the maintenance of the means of transport were increased as a result of the renegotiated lease contracts), 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).

29. CASH AND CASH EQUIVALENTS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Current account balance - HRK denominated	125,569	37,470
FX current account balance	5,785	2,664
Cash in hand	776	1,283
Foreign-currency cash in hand	10	8
Other cash (court ordered deposits and similar)	4,401	8,030
	136,541	**49,455**

30. EQUITY

Share capital

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

Change in share capital:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**4,208,629**	**4,208,629**
Decrease in the share capital by the amount of losses brought forward	(375,393)	-
Decrease in share capital on the demerger (Note 3)	(2,069,128)	-
Increase in share capital – additional contributions (Note 20)	2,069,128	-
Balance at end of the year	**3,833,236**	**4,208,629**

Revaluation reserve

Revaluation reserve has been established on the revaluation of land. 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	**2,782,305**	**2,782,470**
Decrease from revaluation	(49,758)	(206)
Deferred tax liabilities arising from revaluation	-	41
Reversal of revaluation and assets	(112,572)	-
Transferred to new companies	(2,626)	-
Balance at end of year	**2,617,349**	**2,782,305**

Other comprehensive loss for the year ended 31 December 2013 in the amount of HRK 162,330 thousand arose from the decrease in the value of land and building partly attributable to derecognition in the amount of HRK 112,572 thousand for property in Cimerman street and partly on the fair value measurement of assets reclassified as assets under operating lease in the amount of HRK 49,758 thousand (at 31 December 2012 other comprehensive loss of HRK 165 thousand on the sale of revalued land). Assets include land that has been in the books of Vodoopskrba i odvodnja d.o.o. which after being transferred in new company remained in Zagreb Holding. Since it was found that the land is not owned by the Zagrebački Holding d.o.o. write off was performed from business book and valuation of land, revaluation reserve and deferred tax liabilities was reduced.

30. EQUITY (CONTINUED)

Other reserves

Other reserves reported in the statement of financial position at 31 December 2013 in the amount of HRK 319,977 thousand (2012: 97,300 thousand) comprise to the share capital of two companies merged in 2001 (Grad mladih Granešina d.o.o. and Omladinski turistički centar d.o.o.) to a Branch, for which no share capital was increased by HRK 15,125 thousand, as well as capital reserves formed as per the Decision of the Assembly as of 13 September 2011 regarding assets granted by the City of Zagreb in the amount of HRK 304,852 thousand.

(Accumulated losses) / retained earnings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Balance at beginning of the year	**(375,393)**	**(16,384)**
Decrease in the share capital by the amount of losses brought forward	375,393	-
Profit / (loss) for the year	2,034	(359,009)
Balance at end of year	**2,034**	**(375,393)**

31. PROVISIONS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Provisions for employee benefits under IAS 19	110,709	280,615
Litigation provisions	111,532	116,617
Provisions for the landfill restoration	36,774	35,022
Current portion	(28,559)	(53,627)
	230,456	**378,627**
Current obligation (Note 41)	28,558	53,627
Long-term obligation	230,456	378,627
	259,014	**432,254**
Discount rate applied to employee benefits and landfill rehabilitation	5%	5%

31. PROVISIONS (CONTINUED)

The decrease in provisions for employee benefits resulted from signing annex 5 to the Main Collective Agreement, under which long-service benefit amounts, as inputs for the benefit provision calculation, were reduced (Notes 6 and 44).

Balance and movements of long-term provisions:

(in HRK'000)	Provisions for employee benefits	Litigation provision	Landfill restoration provision	Total
At 1 January 2012 (as restated)	**250,829**	**96,220**	**24,293**	**371,342**
New provisions made	37,229	30,922	10,729	78,880
Reversed provisions / amounts paid	(7,443)	(10,525)	-	(17,968)
Balance at 31 December 2012	**280,615**	**116,617**	**35,022**	**432,254**
New provisions made	7,013	37,112	1,752	45,877
Reversed provisions / amounts paid	(176,919)	(42,197)	-	(219,116)
Balance at 31 December 2013	**110,709**	**111,532**	**36,774**	**259,015**

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.

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 Company 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.

32. LOANS AND BORROWINGS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Non-current		
Loans and borrowings payable	1,176,688	1,715,090
Finance lease obligations	1,687,767	1,128,147
Financial obligation in respect of the sale of receivables	55,131	-
	2,919,586	**2,843,237**
Current		
Loans and borrowings payable	963,486	1,218,653
Finance lease obligations	111,125	112,340
Financial obligation in respect of the sale of receivables	15,546	-
Other	81,958	87,951
	1,172,115	**1,418,944**
Total loans and borrowings	**4,091,701**	**4,262,181**

Long-term and short-term bank loans are secured by bills of exchange, promissory notes, debentures and cession agreements worth in total HRK 1,021,830 thousand, a bank deposit in the amount of HRK 56,000 thousand, lien on real estate in the amount of HRK 75,861 thousand and a guarantee of the City of Zagreb in the amount of HRK 412,483 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 Company was compliant with all the financial covenants.

32. 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	(280,424)	(328,336)
Effect of exchange differences	7,033	2,181
Effect of the spin offs	(349,900)	-
Balance at 31 December	**1,407,707**	**2,000,085**
Current portion	(231,019)	(284,995)
Long-term portion	**1,176,688**	**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	231,019	284,995
In the second to inclusive the fifth year	771,784	1,076,319
After five years	404,904	638,771
	1,407,707	**2,000,085**

Analysis by currency:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
HRK	814,614	906,200
EUR	593,093	1,093,885
	1,407,707	**2,000,085**

32. 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**
(in HRK'000)				
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			111,125	112,340
Non-current liabilities	-	-	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 Company has an option to purchase the leased items at contractually agreed values. The Company's liabilities under financial leases are secured by the title of the lessor to the leased assets. The average interest rate applied in determining the financial lease payments was 4.7% (2012: 4.2%).

Lease contracts were renegotiated, and taking into account new information and requests IAS 17 Leases, found that the initial classification of the lease as an operating lease was valid. In accordance with the Financial and Operational Restructuring Programme transformation and reprogram of these lease agreements were carried out. 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 repayment deadlines for the current sale and leaseback contracts for 79 trams were have been extended.

32. LOANS AND BORROWINGS (CONTINUED)

Financial instruments (continued)

Present value of items under financial lease arrangements:

	Buildings	Tools and vehicles	Total
	(in HRK'000)	(in HRK'000)	(in HRK'000)
Cost	818,881	853,074	1,671,955
Accumulated depreciation	(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)	(241,331)	(292,511)
Net book value at 31/12/2013	**767,701**	**1,205,901**	**1,973,602**

Short-term loans and borrowings

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Short-term loans and borrowings	979,033	1,218,653
Short-term loans and borrowings	*732,467*	*933,658*
Current portion of long-term borrowings	*246,566*	*284,995*
Financial leases (current portion)	111,125	112,340
Other (interest on borrowings and bonds)	81,958	87,951
	1,172,116	**1,418,944**

32. 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	**1,218,653**	**1,065,623**
Proceeds from new loans	865,077	989,739
Less: paid current portion of long-term debt (see Note "Movements in long-term borrowings")	(284,995)	(324,879)
Current portion of long-term borrowings	246,566	284,995
Amounts repaid	(1,071,707)	(797,874)
Effect of exchange differences	5,439	1,049
Balance at 31 December	**979,033**	**1,218,653**

Analysis by currency:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
HRK	312,396	416,783
EUR	420,071	516,875
	732,467	**933,658**

33. LIABILITIES IN RESPECT OF ISSUED BONDS

	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 million 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.

34. OTHER NON-CURRENT LIABILITIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Liabilities to related companies	24,329	224,127
Trade payables	9,328	11,993
Other long-term liabilities	12,279	19,610
	45,936	**255,730**

34. 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 24,329 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. The decrease in the amounts owed to related company is mostly due to the long-term liability for the land at the location Mandlova-Maksimirska, paid in 2013 as part of an offsetting arrangement with the City of Zagreb.

Trade payables reported in the statement of financial position at 31 December 2013 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 12,279 thousand (2012: HRK 19,610 thousand) relate entirely to an amount owed to the State for flats sold to employees in accordance with the underlying government programme. According to the then applicable regulations, 65% of the income from the sale of flats to employees was to be transferred to the state upon collection. Based on the Law, the Company has no obligation to remit the funds before they have been collected from the employees.

35. DEFERRED INCOME

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Deferred income	2,415,675	4,516,492
	2,415,675	**4,516,492**

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

The decrease in deferred income is mainly attributable to the spin-off of a business unit and its transfer to new company Vodoopskrba i odvodnja d.o.o. in the amount of HRK 1,942,520 thousand (Note 4).

36. LIABILITIES TO RELATED COMPANIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Trade payables (related companies)	19,811	12,800
Borrowings from related parties	86,740	69,836
Due to the City of Zagreb	51,084	133,846
	157,635	**216,482**

37. ADVANCES, DEPOSITS AND GUARANTEES RECEIVED AND LIABILITIES IN RESPECT OF SECURITIES

37.1. LIABILITIES IN RESPECT OF ADVANCES, DEPOSITS AND GUARANTEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Advances received from unrelated companies	9,365	27,028
	9,365	**27,028**

37.2. LIABILITIES IN RESPECT OF 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).

38. TRADE PAYABLES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Domestic trade payables	207,710	838,893
Foreign trade payables	297	641
Invoice accruals	272	1,005
	208,279	**840,539**

The decrease in current trade payables is mainly a result of amounts settled and, to a lesser extent, i.e. HRK 174,550 thousand, of the status change (Note 4).

39. AMOUNTS DUE TO EMPLOYEES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Net salaries payable	66,349	76,129
Fees and benefits payable	1,686	5,228
	68,035	**81,357**

At 31 December 2013, the Company had 9,859 employees (31 December 2012: 11,620 employees).

40. TAXES AND CONTRIBUTIONS PAYABLE

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Payroll and benefit-related taxes and contributions	44,185	51,144
Value added tax	29,926	31,060
Membership and similar fees	4,680	33,039
Other taxes payable	130	671
	78,921	**115,914**

41. OTHER CURRENT LIABILITIES

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Deferred sales	157,701	45,082
Accrued expenses not yet billed	70,062	127,268
Other fees payable under decisions	11,343	46,902
Accrued VAT on prepayments	28	6
Liabilities under recharged servicesa (VIO)	-	260,192
Current portion of long-term provisions for employee benefits	28,558	53,627
	267,692	**533,077**

The decrease in other current liabilities is mainly attributable to the spin-off of a business unit and its transfer to new company Vodoopskrba i odvodnja d.o.o. in the amount of HRK 236,969 thousand (Note 4).

42. OFF-BALANCE SHEET ITEMS

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Off balance sheet items	244,298	879,665
	244,298	**879,665**

At 31 December 2013 off-balance sheet items comprise given guarantees and debentures in the amount of HRK 104.4 million (2012: HRK 101.3 million), received guarantees and debentures in the amount of HRK 107.4 million (2012: HRK 88.9 million), assets received under operating leases in the amount of HRK 25.6 million (2012: HRK 679.5 million) and other goods received or given under commission or consignment.

43. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Trading transactions

Transactions between the related entities are set out below:

	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	1,001,413	923,663	23,213	28,831
Gradska plinara Zagreb d.o.o.	4,231	2,534	2,229	66
Vodoopskrba i odvodnja d.o.o.	2,635	-	702	-
Gradsko stambeno komunalno gospodarstvo d.o.o.	479	-	95	-
Gradska plinara Zagreb Opskrba d.o.o.	436	672	24,520	15,846
Zagreb plakat d.o.o.	351	409	318	291
Gradska ljekarna Zagreb	143	249	1,177	62
Zagreb arena d.o.o.	56	49	-	-
AGM d.o.o.	13	-	-	-
	1,009,757	**927,576**	**52,254**	**45,096**

43. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Amounts owed by related parties	
	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
City of Zagreb	211,138	276,515
Vodoopskrba i odvodnja d.o.o.	14,301	-
Gradsko stambeno komunalno gospodarstvo d.o.o.	11,995	-
Gradska plinara Zagreb d.o.o.	966	538
AGM d.o.o.	113	-
Zagreb plakat d.o.o.	21	1
Zagreb arena d.o.o.	12	12
Gradska plinara Zagreb-Opskrba d.o.o.	11	260
Gradska ljekarna Zagreb	7	23
	238,564	**277,349**

	Amounts owed to related parties	
	31/12/2013	**31/12/2012**
	(in HRK'000)	(in HRK'000)
City of Zagreb	40,351	133,847
Vodoopskrba i odvodnja d.o.o.	24,136	-
Gradska plinara Zagreb - Opskrba d.o.o.	5,795	12,403
AGM d.o.o.	400	-
Gradsko stambeno komunalno gospodarstvo d.o.o.	120	-
Zagreb plakat d.o.o.	49	187
Gradska plinara Zagreb d.o.o.	45	94
Gradska ljekarna Zagreb	-	116
	70,896	**146,647**

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.

43. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Related-party loans	Receivables for loans to related parties	
	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Vodoopskrba i odvodnja d.o.o.	174,672	-
Zagrebačka stanogradnja d.o.o.	5,530	-
AGM d.o.o.	1,632	-
Gradsko stambeno komunalno gospodarstvo d.o.o.	1,562	-
Zagreb arena d.o.o.	1,148	1,042
Zagreb plakat d.o.o.	609	2,525
	185,153	**3,567**

Related-party loans	Loans payable to related parties	
	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Gradska plinara Zagreb - Opskrba d.o.o.	57,169	32,607
Gradska plinara Zagreb d.o.o.	18,889	33,228
Gradska ljekarna Zagreb	10,580	4,000
Vodoopskrba i odvodnja d.o.o.	102	-
	86,740	**69,835**

During the reporting periods presented, the Company approved several short-term and long-term loans (due within 2 years) to its related parties, which are specified above. The loan interest rates are comparable to average commercial rates prevailing at the time of the loan origination. The loans are secured by debentures (promissory notes) and bills of exchange.

43. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Amounts receivable under other related party transactions	
	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
City of Zagreb	1,583,008	1,205,681
	1,583,008	**1,205,681**

	Amounts payable under other related party transactions	
	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
City of Zagreb	24,329	224,127
	24,329	**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 recognised 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) based on an agreement between the City of Zagreb and the Republic of Croatia (Note 22). The remaining balance receivable from other related party transactions relates to amounts due under the agreement on the sold apartments and commercial spaces.

43. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

The Company's related parties include the members of its Management and Supervisory Boards. The total remuneration paid to the directors (of Zagrebački holding and its Branches) and members of the Supervisory bodies paid in 2013 was as follows:

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Salaries of the key management personnel and Branch directors	8,587	7,932
Fees to the Supervisory Board members	800	751
	9,387	**8,683**

44. EMPLOYEE BENEFITS

As of 31 December 2013, provisions for employee benefits, which include long-service benefits and solidarity support, amount to HRK 110,709 thousand (at 31 December 2012: HRK 280,615 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 Company operates a defined benefit plan for qualifying employees. Under annex 5 to the Main Collective Agreement, the long-service benefits, pegged until 31 December 2013 to the average salary in the business sector in the territory of the City of Zagreb, were reduced. The benefits are paid according to the following tenure:

- 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

44. 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.

44. 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 Company'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 termination benefit obligation	48,951	50,123
Present value of the long-service benefit obligation	32,779	198,076
Present value of the solidarity support	28,979	32,416
Obligation included in the statement of financial position	**110,709**	**280,615**

Of which by maturity:

	2013	2012
	(in HRK'000)	(in HRK'000)
Current liabilities	17,406	41,966
Non-current liabilities	93,303	238,649
	110,709	**280,615**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.2. Categories of financial instruments

	31/12/2013	31/12/2012
	(in HRK'000)	(in HRK'000)
Financial assets		
Cash with banks and in hand	136,541	49,455
Financial assets at fair value	454	521
Long-term deposits and other financial assets	115,187	121,482
Receivables from related companies and trade debtors	2,029,101	2,187,044
Receivables for investments in government bonds	8,771	12,333
Receivables for loans and credit sales	208,642	41,261
Amounts due from employees	2,371	3,014
Other receivables	805,794	756,783
Financial liabilities		
Finance lease agreements	1,798,892	1,240,487
Loans, borrowings and financial leases (long-term and current portion)	3,544,407	3,001,544
Liabilities under issued long-term securities	2,291,293	2,263,687
Liabilities to related companies and trade creditors	399,571	1,293,141
Liabilities in respect of loans, deposits and similar	9,365	27,028
Amounts due to employees	68,035	81,357
Other current liabilities	239,134	479,448

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.3. Financial risk management objectives

For the purpose of forecasting potential scenarios that may have a negative impact on the operations and achievement of the Company's objectives, the Company identifies financial risks, assesses their potential impact on the Company's future operations and manages those risks.

The various financial risks to which the Company 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 Company did not use any derivative instruments to manage the risks. The Company does not use derivatives for speculative purposes.

45.4. Market risk

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

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

45.5. Foreign currency risk management

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

	Liabilities		Property insurance	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	(in HRK'000)		(in HRK'000)	
EUR	5,275,228	5,250,930	1,775,408	1,897,849
USD	-	-	15	157
Other currencies	-	-	14	85

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.5. Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to euro (EUR), since most of its debt i.e. 65% is tied to that currency. The following table details the Company's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where the Croatian kuna changes against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact		Impact of other currencies	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**	**31/12/2013**	**31/12/2012**
	(in HRK'000)		(in HRK'000)		(in HRK'000)	
(Loss) / profit	(56,602)	(33,531)	-	-	-	1

45.6. Interest rate risk management

Given that 57 percent of the Company's loan debt bears interest at variable rates, the Company 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	31.88%	27.65%
LIBOR	6.00%	6.80%
ZIBOR	0.26%	0.23%
Treasury bills of the Ministry of Finance	19.33%	18.18%
Fixed rate of interest	42.67%	47.13%
	100.00%	**100.00%**

Out of the total loan debt of the Group, 43 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.

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.6. Interest rate risk management (continued)

EURIBOR and EUR LIBOR tied loan debt accounts for 37.88 percent of the total loan debt, whereas 19.33 percent of the loan debt is tied to the yield on the Treasury Bills of the Croatian Ministry of Finance. Thus, 57 percent of the loan debt bears interest at variable rates, which has been acknowledged as a significant uncertainty in developing future cash flow projections. For the purpose of managing credit risk, the Company 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 Company finds the interest rate risk acceptable and, consequently, has entered into no derivative instruments as a hedge against the interest rate risk.

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

45.7. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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 Company's history of trading with each customer.

The Company 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.

45.8. Liquidity risk management

Because of the liquidity problems prevailing in the Croatian economy, the liquidity risk has a highly negative impact on the Company'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.

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.8. Liquidity risk management (continued)

45.8.1. Liquidity and interest rate risk tables

The following tables detail the Company'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 Company can be required to pay. The tables include both principal and interest cash flows.

(in HRK'000)	Weighted average effective interest rate %	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
At 31 December 2013								
Non-interest bearing								
Liabilities to related companies and trade creditors		372,356	6,148	6,273	3,464	3,250	8,079	399,570
Liabilities in respect of loans, deposits and similar		9,365	-	-	-	-	-	9,365
Amounts due to employees		68,035	-	-	-	-	-	68,035
Other current liabilities		239,134	-	-	-	-	-	239,134
Variable-rate instruments								
Finance lease obligations	5.90%	91,856	96,512	101,420	106,593	112,046	519,812	1,028,239
Loans and borrowings payable	4.23%	1,060,890	244,202	242,336	196,286	144,091	405,004	2,292,809
Fixed-rate instruments								
Finance lease obligations	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
		1,986,925	**493,073**	**497,205**	**2,619,803**	**282,614**	**1,597,540**	**7,477,160**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.8. Liquidity risk management (continued)

45.8.1. Liquidity and interest rate risk tables (continued)

(in HRK'000)	Weighted average effective interest rate %	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
At 31 December 2012								
Non-interest bearing								
Liabilities to related companies and trade creditors	-	1,062,290	6,442	6,148	6,273	4,110	207,877	1,293,140
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	2.19%	105,622	105,624	105,625	105,627	67,531	5,802	495,831
Loans and borrowings payable	2.95%	1,332,204	354,890	341,827	329,638	272,285	740,994	3,371,837
								1,332,204
Fixed-rate instruments								
Finance lease obligations	4.70%	54,328	54,328	54,328	54,328	54,328	1,032,241	1,303,884
Loans and borrowings payable	7.00%	5,838	5,492	5,147	-	-	-	16,477
Issued bonds	5.50%	124,503	124,503	124,503	124,503	2,328,497	-	2,826,508
		3,272,618	**651,279**	**637,578**	**620,369**	**2,726,751**	**1,986,914**	**9,895,511**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.8. Liquidity risk management (continued)

45.8.1. Liquidity and interest rate risk tables (continued)

The following tables detail the Company'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.

(in HRK'000)	Weighted average effective interest rate %	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
At 31 December 2013								
Non-interest bearing								
Cash and cash equivalents	-	136,541	-	-	-	-	-	136,541
Financial assets at fair value	-	454	-	-	-	-	-	454
Receivables from related companies and trade debtors	-	632,658	186,466	186,466	171,492	81,400	770,619	2,040,243
Receivables for investments in government bonds	-	8,771	-	-	-	-	-	8,771
Amounts due from employees	-	2,371	-	-	-	-	-	2,371
Other receivables	-	186,033	28,750	28,452	28,247	28,122	506,191	805,795
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%	8,823	1,778	1,778	1,778	1,778	81,153	97,088
Given loans	6,14%	2,857	1,378	1,275	1,253	1,251	5,276	13,290
Receivables for given loans for flats	1,38%	1,342	1,326	1,312	1,294	1,280	4,580	11,134
Given loans to related parties and accrued loan interest	6,00%	185,153	-	-	-	-	-	185,153
		1,178,049	**221,602**	**221,187**	**205,968**	**115,735**	**1,435,380**	**3,377,921**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.8. Liquidity risk management (continued)

45.8.1. Liquidity and interest rate risk tables (continued)

(in HRK'000)	Weighted average effective interest rate	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	After 5 years	Total
	%							
At 31 December 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	177,028	132,372	132,372	112,727	518,809	2,187,044
Receivables for investments in government bonds	-	-	-	-	-	-	12,333	12,333
Amounts due from employees	-	3,014	-	-	-	-	-	3,014
Other receivables	-	130,279	27,967	27,677	27,480	27,260	516,121	756,783
Variable-rate instruments								
Long-term deposits and other financial assets	6.80%	2,128	2,128	2,128	2,128	2,128	64,117	74,757
Fixed-rate instruments								
Long-term deposits and other financial assets	3.39%	8,383	1,953	1,953	1,953	1,953	88,916	105,111
Given loans	6.14%	8,462	3,872	3,009	2,828	2,756	4,375	25,300
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 accrued loan interest	6.00%	3,567	-	-	-	-	-	3,567
		1,321,162	**215,066**	**169,262**	**168,827**	**148,852**	**1,211,226**	**3,234,393**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.9. Fair value of financial instruments

45.9.1. Fair value measurements recognized in the statement of financial position

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

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

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

				31/12/2012
(in HRK'000)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Participating interest - investment in shares	521	-	-	521
	521	**-**	**-**	**521**

46. COMITTMENTS

The Company has entered into contracts that are still in progress. 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.

47. CONTINGENT LIABILITIES

Environmental matters

Included in the Group is Branch ZGOS, whose principal business is communal and other waste disposal and the rehabilitation of the Jakuševac landfill, as well as to assist the City in establishing a long-term communal waste management development strategy for the City of Zagreb. The environmental effects are monitored by local and governmental environmental authorities. In respect of future costs of maintenance and supervision of the landfill the Group (i.e. ZGOS) recorded a provision of HRK 35,022 thousand, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (2012: HRK 24,293 thousand).

Taxation

The Company is subject to corporate income tax on their taxable profits in Croatia and those other tax jurisdictions in which they operate. The supervisory inspection of the value-added tax and corporate income tax for the year 2010 and 2011 by the Tax Administration is currently in progress.

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 18)

b) lease agreements were concluded for the remaining available housing and commercial facilities in Sopnica (Notes 22 and 23)

c) annex 5 to the Main Collective Agreement was signed reducing certain employee benefits to the tax-allowable amounts (Notes 6, 31 and 44)

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 14,15,19 and 38).

e) Demergers with the establishment of new companies were carried out (Note 4).

As a result of the implemented measures, the liquidity has improved, and current liabilities have decreased.

47. CONTINGENT LIABILITIES (CONTINUED)

Concession rights

Vodoopskrba i odvodnja, a branch within the Company (until November 2013), paid a concession fee for the water supply, which amounted to HRK 0.135 per sq. m. Total fee for concession rights amounted to HRK 4,795 thousand in 2013 (2012: HRK 4,907 thousand).

48. 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. Per demerger plan, total decrease of share capital would be 303.110 thousand kuna.

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

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

49. PENSION INSURANCE

The Company 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 Company 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 Company's present or former employees.

50. LEGAL AND REGULATORY ENVIRONMENT

The operations of the Company 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

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were adopted by the Management and authorized for issue 10 June 2014.

Slobodan Ljubičić

President of the Management Board

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