

**M SAN GRUPA D.D., ZAGREB  
AND  
ITS SUBSIDIARIES**

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

## Contents

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	Page
Responsibility for the unconsolidated and consolidated financial statements	1
Independent Auditor's Report	2-4
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of financial position	6-7
Consolidated statement of changes in shareholder's equity	8
Consolidated statement of cash flows	9
Unconsolidated statement of profit or loss and other comprehensive income	10
Unconsolidated statement of financial position	11-12
Unconsolidated statement of changes in shareholder's equity	13
Unconsolidated statement of cash flows	14
Notes to the consolidated and unconsolidated financial statements	15-89

## Responsibility for the consolidated and unconsolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management is responsible for ensuring that consolidated and unconsolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union, which provide a true and fair view of the financial position and results of operations of M San Grupa d.d. ("the Company") and its subsidiaries ("the Group") for that period.

After making appropriate enquiries, the Management has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to prepare the financial statements on a going-concern basis.

In preparing consolidated and 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
- financial statements are prepared under the going-concern assumption.

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

On behalf of the Management Board:

Miroslav Huzjak  
President of the Management Board

M San Grupa d.d.  
Buzinski prilaz 10  
10000 Zagreb  
Republic of Croatia



**M SAN GRUPA** d.d.  
ZAGREB, Buzinski prilaz 10

20 May 2014

## INDEPENDENT AUDITOR'S REPORT

### To the Owner of M San Grupa d.d., Zagreb:

We have audited the accompanying consolidated and unconsolidated financial statements of the Company M San Grupa d.d., Zagreb ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and unconsolidated statements of financial position as at 31 December 2013, and the consolidated and unconsolidated statements of profit or loss and other comprehensive income, consolidated and unconsolidated statements of changes in shareholder's equity and consolidated and unconsolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of consolidated and unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated and 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's and the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group'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 financial statements.

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtićnik i Eric Oicott; poslovna banka: Zagrebačka banka d.d., Paromilinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; devizni račun: 2100312441 SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; devizni račun: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; devizni račun: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

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## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### *Bases for qualified opinion*

#### *(i) Expired and doubtful receivables and prepayments made*

At 31 December 2013 trade receivables and prepayments made, which amount in total to HRK 11,892 thousand for the Company and HRK 16,036 thousand for the Group, show indications of impairment. The Company and the Group did not assess the recoverability of the receivables in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. As a result, we were not able to determine the related potential effect on the accompanying financial statements.

#### *(ii) Investments in available-for-sale assets*

As disclosed in Note 21, 'Financial assets', the Company and the Group recognised investments in the units of Quaestus Private Equity Capital Fund in the amount of HRK 4,477 thousand, whereas the related revaluation reserve is reported in the negative amount of HRK 5,175 thousand and the related deferred tax assets in the amount of HRK 1,294 thousand. At 31 December 2013 the Company and the Group did not charge the permanent impairment to profit or loss and other comprehensive income in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. As a result, the revaluation reserve balance is understated by HRK 5,175 thousand, and the balance of deferred tax assets and of profit for the year is overstated by HRK 1,294 thousand and HRK 6,469 thousand, respectively.

#### *(iii) Investments in subsidiaries*

As disclosed in Note 21, 'Financial assets', the Company presented the following investments in subsidiaries: HRK 10,310 thousand in M San Servis d.o.o. and HRK 500 thousand in M San Eko d.o.o., for which indications of impairment existed at 31 December 2013. At 31 December 2013 the Company did not assess whether the carrying amounts of the investments were recoverable, as required by IAS 36 *Impairment of Assets*. Therefore, we were not able to determine the potential effect of this matter on the accompanying financial statements.

#### *(iv) Covenants under long-term loan agreements*

At 31 December 2013 the Company and the Group did not comply with one of the covenants specified in certain long-term loan agreements with banks. At 31 December 2013 the Company and the Group did not reclassify the long-term portion of the loan debt in the amount of HRK 251,287 thousand as current, which is a requirement under IAS 1 'Presentation of Financial Statements'.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### *Qualified opinion*

In our opinion, except for the effects of the matters described in the *Bases for qualified opinion* paragraph, the accompanying consolidated and unconsolidated financial statements present fairly, in all material respects, the financial position of the Company and of the Group at 31 December 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union.



Deloitte d.o.o.

**Branislav Vrtačnik, Certified Auditor and President of the Board**

Zagreb, 20 May 2014

# Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

	Notes	2013	2012
<b>OPERATING INCOME</b>			
Sales	5	1,703,047	1,552,727
Allowances and discounts provided to buyers		(14,320)	(10,416)
Cost of goods sold	8	(1,499,206)	(1,359,579)
Allowances and discounts provided by suppliers		25,820	26,309
<b>Gross profit</b>		<b>215,341</b>	<b>209,041</b>
Other operating income	6	32,872	34,981
Increase/ (decrease) in inventories of finished goods and work in progress		882	(1,842)
<b>OPERATING EXPENSES</b>			
Cost of raw material and supplies	7	(13,560)	(16,031)
Other external charges	9	(97,036)	(97,092)
Staff costs	10	(47,442)	(48,393)
Depreciation and amortisation	11	(5,684)	(6,077)
Other expenses	12	(11,401)	(11,510)
Impairment allowance	13	(511)	(1,409)
Provisions for risks within the warranty period	38	(688)	(1,731)
Other operating expenses	14	(38,222)	(26,737)
<b>Total operating expenses</b>		<b>(214,544)</b>	<b>(208,980)</b>
<b>Operating profit</b>		<b>34,551</b>	<b>33,200</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	15	27,241	35,886
Financial expenses	16	(47,689)	(57,027)
<b>Net financial expense</b>		<b>(20,448)</b>	<b>(21,141)</b>
<b>Profit before tax</b>		<b>14,103</b>	<b>12,059</b>
Income tax	17	(2,089)	(909)
<b>Profit for the year</b>		<b>12,014</b>	<b>11,150</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Decrease in revaluation reserves		(7,894)	(4,707)
Exchange differences on translation of foreign operations		2,630	(5,418)
Deferred tax on other comprehensive loss items		1,579	941
<b>Total comprehensive income for the year</b>		<b>8,329</b>	<b>1,966</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		10,965	10,444
Non-controlling interests		1,049	706
		<b>12,014</b>	<b>11,150</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		7,052	2,995
Non-controlling interest		1,277	(1,029)
		<b>8,329</b>	<b>1,966</b>
<b>Earnings per share (in kunas and lipas), basic and diluted</b>	36	<b>5.48</b>	<b>5.22</b>

## Consolidated statement of financial position

At 31 December 2013

(all amounts are expressed in thousands of kunas)

ASSETS	Notes	2013	2012
<b>NON-CURRENT ASSETS</b>			
Intangible assets	18	5,019	5,833
Goodwill	19	45,666	45,648
Property, plant and equipment	20	116,825	111,381
Financial assets	21	13,759	21,460
Given deposits	22	114	4
Long-term receivables	23	1,058	1,101
Deferred tax assets	17	1,547	243
<b>TOTAL NON-CURRENT ASSETS</b>		<b>183,988</b>	<b>185,670</b>
<b>CURRENT ASSETS</b>			
Inventories	24	183,012	194,304
Trade receivables	26	313,352	307,790
Prepayments made	25	9,306	14,405
Due from employees	27	1,135	1,192
Receivables from the State and other institutions	28	8,438	20,409
Given loans and deposits	29	234,430	241,597
Prepaid expenses and accrued income	30	40,194	27,100
Other receivables	31	30,262	16,974
Cash and cash equivalents	32	55,543	32,739
<b>TOTAL CURRENT ASSETS</b>		<b>875,672</b>	<b>856,510</b>
<b>TOTAL ASSETS</b>		<b>1,059,660</b>	<b>1,042,180</b>



## Consolidated statement of financial position (continued)

At 31 December 2013

(all amounts are expressed in thousands of kunas)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
<b>EQUITY</b>			
Share capital	33	200,000	200,000
Legal reserves		6,248	6,203
Reservs from translation of foreign currencies		(909)	(3,311)
Revaluation reserves	34	(5,175)	1,140
Retained earnings	35	95,494	84,574
<b>ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT</b>		<b>295,658</b>	<b>288,606</b>
Non-controlling interest	37	21,246	19,823
<b>TOTAL EQUITY</b>		<b>316,904</b>	<b>308,429</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions for risks within the warranty period	38	688	1,731
Long-term borrowings and finance lease obligations	39	260,614	10,721
Deferred tax liability	17	6	289
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>261,308</b>	<b>12,741</b>
<b>CURRENT LIABILITIES</b>			
Short-term bank borrowings and finance lease obligations	40	207,751	460,102
Advances received	41	2,958	838
Trade payables	42	226,636	214,083
Amounts due to employees	43	1,804	1,799
Taxes, contributions and similar duties payable	44	23,315	23,767
Other current liabilities	45	12,907	16,000
Accrued expenses and deferred income	46	6,077	4,421
<b>TOTAL CURRENT LIABILITIES</b>		<b>481,448</b>	<b>721,010</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,059,660</b>	<b>1,042,180</b>

Consolidated statement of changes in shareholder's equity  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Foreign currency translation reserves	Revaluation reserves	Retained earnings	Equity holders of the parent	Non-controlling interest	Total
<b>Balance at 1 January 2012</b>	<b>200,000</b>	<b>5,633</b>	<b>372</b>	<b>4,906</b>	<b>74,419</b>	<b>285,330</b>	<b>21,133</b>	<b>306,463</b>
Transfer of profit	-	570	-	-	(570)	-	-	-
Decrease in non-controlling interest by additional share purchased	-	-	-	-	281	281	(281)	-
Profit for the year	-	-	-	-	10,444	10,444	706	11,150
Other comprehensive loss	-	-	(3,683)	(3,766)	-	(7,449)	(1,735)	(9,184)
<i>Total comprehensive income for the year</i>	-	-	(3,683)	(3,766)	10,444	2,995	(1,029)	1,966
<b>Balance at 31 December 2012</b>	<b>200,000</b>	<b>6,203</b>	<b>(3,311)</b>	<b>1,140</b>	<b>84,574</b>	<b>288,606</b>	<b>19,823</b>	<b>308,429</b>
Transfer of profit	-	45	-	-	(45)	-	-	-
Profit payout to the owner	-	-	-	-	-	-	-	-
Increase in non-controlling interest by additional share purchased	-	-	-	-	-	-	146	146
Profit for the year	-	-	-	-	10,965	10,965	1,049	12,014
Other comprehensive loss	-	-	2,402	(6,315)	-	(3,913)	228	(3,685)
<i>Total comprehensive income for the year</i>	-	-	2,402	(6,315)	10,965	7,052	1,277	8,329
<b>Balance at 31 December 2013</b>	<b>200,000</b>	<b>6,248</b>	<b>(909)</b>	<b>(5,175)</b>	<b>95,494</b>	<b>295,658</b>	<b>21,247</b>	<b>316,904</b>

Consolidated statement of cash flows  
For the year ended 31 December 2013  
(all amounts are expressed in thousands of kunas)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	12,016	11,150
<b>Adjusted by:</b>		
Income tax	2,089	909
Depreciation of property, plant and equipment and intangible assets	5,684	6,077
Gains on disposal of property, plant and equipment	(404)	(343)
Impairment of intangible assets	297	270
Share in the profit of associates	(190)	(150)
Impairment allowance and write-off of trade receivables	1,557	1,759
Net income from reversal of long term provisions	(1,043)	(108)
Net interest expense	10,770	12,015
Net foreign exchange loss / (gain) and other non-cash adjustments	6,575	(6,224)
	<b>37,351</b>	<b>23,355</b>
<b>CHANGES IN WORKING CAPITAL</b>		
(Increase) / decrease in given deposit	(110)	58
Decrease in inventory	11,292	23,617
(Increase) / decrease in trade receivables	(7,604)	25,766
Cash received on recovery of receivables previously written off	528	439
Decrease in given advances	5,099	1,615
Decrease in other receivables	11,287	5,803
Increase in prepaid expenses and accrued income	(13,094)	(3,443)
Increase in received advances	2,120	261
Increase in trade payables	12,553	8,434
Decrease in other current liabilities	(2,070)	(1,220)
Increase / (decrease) in accrued expenses and deferred income	1,656	(334)
	<b>59,008</b>	<b>86,351</b>
<b>CASH GENERATED FROM OPERATIONS</b>		
Interests paid	(31,979)	(36,490)
Interests collected	6,361	29,537
Income taxes paid	(1,258)	(2,258)
<b>Net cash generated from operating activities</b>	<b>32,132</b>	<b>77,140</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment and intangible assets	(10,420)	(21,983)
Cash receipts from fixed assets	1,334	736
Purchase of assets available for sale	-	(205)
Given short-term loans	7,167	(40,604)
<b>Net cash used in from investing activities</b>	<b>(1,919)</b>	<b>(62,056)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan institutions	334,926	77,987
Payments made to financial institutions	(342,335)	(111,749)
<b>Net cash used in financing activities</b>	<b>(7,409)</b>	<b>(33,762)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>22,804</b>	<b>(18,678)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>32,739</b>	<b>51,417</b>
<b>Cash and cash equivalents at the end of year</b>	<b>55,543</b>	<b>32,739</b>

## Unconsolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

	Notes	2013	2012
<b>OPERATING INCOME</b>			
Sales	5	1,362,121	1,250,533
Allowances and discounts provided to buyers		(12,121)	(10,998)
Cost of goods sold	8	(1,242,187)	(1,135,457)
Allowances and discounts provided by suppliers		24,874	25,345
<b>Gross profit</b>		<b>132,687</b>	<b>129,423</b>
Other operating income	6	21,721	22,753
<b>OPERATING EXPENSES</b>			
Cost of raw material and supplies	7	(2,133)	(2,280)
Other external charges	9	(73,785)	(80,556)
Staff costs	10	(19,582)	(20,918)
Depreciation and amortisation	11	(1,968)	(1,464)
Other expenses	12	(5,422)	(5,446)
Impairment allowance	13	(297)	(270)
Provisions for risks within the warranty period	38	(688)	(1,731)
Other operating expenses	14	(26,066)	(19,956)
<b>Total operating expenses</b>		<b>(129,941)</b>	<b>(132,621)</b>
<b>OPERATING PROFIT</b>		<b>24,467</b>	<b>19,555</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	15	25,245	33,373
Financial expenses	16	(44,163)	(49,446)
<b>Net financial expense</b>		<b>(18,918)</b>	<b>(16,073)</b>
<b>Profit before tax</b>		<b>5,549</b>	<b>3,482</b>
Income tax	17	(1,253)	(400)
<b>PROFIT FOR THE YEAR</b>		<b>4,296</b>	<b>3,082</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Decrease of revaluation reserves		(7,893)	(4,707)
Deferred tax on other comprehensive loss items		1,578	941
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(2,020)</b>	<b>(684)</b>
<b>Earnings per share (in kunas and lipas), basic and diluted</b>	36	<b>2.15</b>	<b>1.54</b>

## Unconsolidated statement of financial position

At 31 December 2013

(all amounts are expressed in thousands of kunas)

<b>ASSETS</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	18	4,790	5,533
Property, plant and equipment	20	16,972	15,656
Financial assets	21	168,641	176,534
Long-term receivables	23	1,058	1,101
Deferred tax assets	17	1,294	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>192,755</b>	<b>198,824</b>
<b>CURRENT ASSETS</b>			
Inventories	24	110,810	110,081
Trade receivables	26	227,879	262,005
Prepayments made	25	8,581	11,318
Due from employees	27	45	46
Receivables from the State and other institutions	28	6,594	16,706
Given loans and deposits	29	201,367	207,419
Prepaid expenses and accrued income	30	38,735	25,689
Other receivables	31	24,876	18,289
Cash and cash equivalents	32	45,271	21,063
<b>TOTAL CURRENT ASSETS</b>		<b>664,158</b>	<b>672,616</b>
<b>TOTAL ASSETS</b>		<b>856,913</b>	<b>871,440</b>

## Unconsolidated statement of financial position (continued)

At 31 December 2013

(all amounts are expressed in thousands of kunas)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
<b>EQUITY</b>			
Share capital	33	200,000	200,000
Legal reserves		6,203	6,203
Revaluation reserve	34	(5,175)	1,140
Retained earnings	35	30,761	26,465
<b>TOTAL EQUITY</b>		<b>231,789</b>	<b>233,808</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions for risks within the warranty period	38	688	1,731
Long-term borrowings and finance lease obligations	39	251,574	480
Deferred tax liability	17	-	285
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>252,262</b>	<b>2,496</b>
<b>CURRENT LIABILITIES</b>			
Short-term bank borrowings	40	144,480	410,379
Advances received	41	2,876	6,131
Trade payables	42	188,827	177,967
Amounts due to employees	43	1,016	943
Taxes, contributions and similar duties payable	44	21,010	22,544
Other current liabilities	45	11,036	15,840
Accrued expenses and deferred income	46	3,617	1,332
<b>TOTAL CURRENT LIABILITIES</b>		<b>372,862</b>	<b>635,136</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>856,913</b>	<b>871,440</b>

Unconsolidated statement of changes in equity  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Revaluation reserves	Retained earnings	Total
<b>Balance at 1 January 2012</b>	<b>200,000</b>	<b>5,633</b>	<b>4,906</b>	<b>23,953</b>	<b>234,492</b>
Distribution of profit	-	570	-	(570)	-
Profit for the year	-	-	-	3,082	3,082
Other comprehensive loss	-	-	(3,766)	-	(3,766)
<i>Total comprehensive loss</i>	-	-	(3,766)	3,082	(684)
<b>Balance at 31 December 2012</b>	<b>200,000</b>	<b>6,203</b>	<b>1,140</b>	<b>26,465</b>	<b>233,808</b>
Profit for the year	-	-	-	4,296	4,296
Other comprehensive loss	-	-	(6,315)	-	(6,315)
<i>Total comprehensive loss</i>	-	-	(6,315)	4,296	(2,019)
<b>Balance at 31 December 2013</b>	<b>200,000</b>	<b>6,203</b>	<b>(5,175)</b>	<b>30,761</b>	<b>231,789</b>

## Unconsolidated statement of cash flows

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2013</b>	<b>2012</b>
Profit for the year	4,296	3,082
<b>Adjusted by:</b>		
Income tax	1,253	400
Depreciation of property, plant and equipment and intangible assets	1,968	1,464
Impairment of intangible assets	297	270
Gains on disposal of property, plant and equipment	(159)	(183)
Written off trade receivables	-	128
Net loss / (gain) from reversal of long term provisions	1,043	(108)
Net interest expense	9,997	10,894
Net foreign exchange loss and other non-cash adjustments	4,281	485
	<b>20,890</b>	<b>16,432</b>
<b>CHANGES IN WORKING CAPITAL</b>		
Decrease in given deposit	2,737	3,746
(Increase) / decrease in inventory	(729)	37,546
Decrease in trade receivables	34,040	14,213
Decrease in other receivables	15,062	9,080
Increase in prepaid expenses and accrued income	(13,046)	(3,109)
Cash received on recovery of receivables previously written off	129	50
(Decrease) / increase in received advances	(3,255)	1,713
Increase / (decrease) in trade payables	10,860	(9,403)
Decrease / (increase) in other current liabilities	(4,666)	450
Increase in accrued expenses and deferred income	2,285	575
	<b>64,307</b>	<b>71,293</b>
<b>CASH GENERATED FROM OPERATIONS</b>		
Interests paid	(27,387)	(30,297)
Interests collected	4,005	25,697
Income taxes paid	(1,004)	(876)
<b>Net cash generated from operating activities</b>	<b>39,921</b>	<b>65,817</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment and intangible assets	(2,843)	(15,065)
Purchase of assets available for sale	-	(205)
Decrease / (increase) in given loans	6,052	(43,461)
Proceeds from sale of property, plant and equipment	164	245
<b>Net cash generated / (used in) investing activities</b>	<b>3,373</b>	<b>(58,486)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash proceeds from loan institutions	320,993	-
Repayments to financial institutions	(340,079)	(16,976)
<b>Net cash used in financing activities</b>	<b>(19,086)</b>	<b>(16,976)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>24,208</b>	<b>(9,645)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>21,063</b>	<b>30,708</b>
<b>Cash and cash equivalents at the end of year</b>	<b>45,271</b>	<b>21,063</b>



## Notes to the consolidated and unconsolidated financial statements

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)*

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### 1. GENERAL INFORMATION

M SAN GRUPA d.d., Zagreb, is a public limited company incorporated in Croatia on 17 July 1997. The sole owner and founder of the Company is Mr. Stipo Matić.

The Company is registered for the manufacture of office machines and computers, software consulting and supply, office machine and computer maintenance, sale and purchase of goods, trade mediation on domestic and international markets, and computer training.

The Company's registered seat is in Zagreb, Buzinski prilaz 10, Croatia.

The following organisational functions of the Company were transferred to the company Ured za podršku d.o.o., fully owned by Stipo Matić: Finances, Accounting, Controlling, Project management, IT Development and Support and Business Process Support (HR, General Affairs, Legal Affairs), which the company performs for all entities owned by both the Company and Mr. Stipo Matić, for which it charges a fee (see Note 47).

#### **Management Board in 2013 and 2012:**

Miroslav Huzjak, President

Irena Langer-Breznik, Member (since 1 July 2011)

Slaven Stipančić, Member

Žarko Kruljac, Member

#### **Supervisory Board in 2013 and 2012:**

Stipo Matić, Chairman of Supervisory Board

Damir Krstičević, Deputy Chairman

Snježana Matić, Member

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

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### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS“)

#### **Standards and Interpretations effective in the current period**

The following amendments to the existing standards issued by the International Accounting Standards Board ('IASB') and adopted in the European Union 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** (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 and interpretations “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 (most 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 or Group's accounting policies.

**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS“) (CONTINUED)**

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

At the date of authorization 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 Separate Financial Statements**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 28 (revised in 2011) Investments in Associates and Joint Ventures**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities – Transition Guidance**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 32 Financial Instruments: presentation – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretation which were not endorsed for use as at the date of publication of the financial statements:

- **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 IFRS 9 “Financial instruments” and IFRS 7 “Financial instruments: Disclosure”** - mandatory effective date and transition disclosures
- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS“) (CONTINUED)**

***Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)***

- **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 2014),
- **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 Company and the Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application.

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

These consolidated and unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 „Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in note below.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investments in associates

An associate is an entity over which the Group has significant influence but which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the net assets of the associate and any losses on investments individually determined as impaired. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are eliminated proportionate to the Group's interest in the associate.

Unrealised gains and losses from transactions with entities in which the Group has significant influence but no control (20 to 50% of voting rights) is eliminated to the extent of the Group's interest in those entities.

#### Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Interests in joint ventures (continued)

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

Unrealised gains and losses from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

#### Revenue recognition

Revenue is generated from the sale of goods and provision of services.

Revenue is measured at the fair value of the consideration received or receivable.

i) Service sales

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- income from partially performed services (those provided over several accounting periods) is recognised by reference to the stage of completion (measured based on the proportion of actual costs incurred relative to the total budgeted costs).

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue recognition (continued)

i) Service sales (continued)

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

ii) Sales of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

#### Interest income

Interest income is recognised when it is probable that economic benefits will flow into the Group and the amount of the income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Leasing**

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.

i) The Group as lessor

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

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

ii) The Group as lessee

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

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

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

#### **Foreign currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of consolidated financial statements, the results and financial position of each group entity are expressed in Croatian kunas (HRK), since this is the functional currency of the parent company and presentation currency of the consolidated financial statements.

Notes to the consolidated and unconsolidated financial statements (continued)  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currencies (continued)**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

The exchange rates applied as of 31 December 2013 and 2012 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2013	Average rate for 2013	31/12/2012	Average rate for 2012
RSD	14.93890	14.90810	15.000880	15.021078
KM	0.25607	0.25607	0.259197	0.259833
MKD	8.11122	8.14670	8.161485	8.180089
EUR	7.63764	7.57554	7.545624	7.527156

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the entire or a part of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Croatian kunas using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Foreign currencies (continued)

On the disposal of a foreign operation i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. All exchange differences previously attributable to non-controlling interests are derecognised but are not transferred to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

For all other partial disposals of ownership interest in associates or jointly controlled entities that do not result in a change of the accounting basis, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rates of exchange.

#### Taxation

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

i) Current tax

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

ii) Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Taxation (continued)**

ii) Deferred tax (continued)

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. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or 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 end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

**Property, plant and equipment**

Plant and equipment are recognised as tangible fixed assets if their individual useful life exceeds one year and unit cost is over HRK 3,500. Plant and equipment are carried at cost, which includes all costs directly attributable to bringing an asset to a working condition for its intended use.

Any gain on disposal of an item of tangible assets is credited directly to income.



## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment ( continued)

The estimated useful lives and the applicable annual depreciation/amortisation rates for principal categories of property and equipment were as follows:

	Depreciation rates	
	2013.	2012.
Buildings	2.50-3.00%	2.50-3.00%
Electronic equipment and software	25-50%	25-50%
Equipment	10-40%	10-40%
Personal cars	20-40%	20-40%
Vehicles (other than personal cars)	25-50%	25-50%
Furniture and office equipment	20-50%	20-50%

#### Intangible assets

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Intangible assets (continued)

##### Internally generated intangible assets - research and development expenditure (continued)

The amount initially recognised for internally-generated intangible assets 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.

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

##### Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Depreciation rates for intangible assets amounted from 20-25% (2012: 20 - 25%).

#### **Impairment of tangible and intangible assets, excluding goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Tangible assets recognised at historical cost are depreciated using the straight-line method over the useful life of an asset. Depreciation commences in the first months following the month in which an asset is put in use.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Under the applicable standards, inventories have been valued as follows:

- the cost of merchandise includes purchase price, import duties and other costs directly attributable to acquisition of merchandise. Merchandise on stock for wholesale purposes is carried at cost.
- The cost is determined using the FIFO method.
- Small inventory includes tools, plant and office fittings and similar items that are expected to be used for a period of up to one year, as well as assets not considered fixed assets.
- Small inventory, tyres and spare parts are fully expenses when put in use.
- The Company also determines the value of slow-moving and obsolete inventories, and makes an impairment allowance for such inventories by reference to their fair value.

#### **Trade receivables and given advances**

Trade receivables and prepayments are shown at amounts invoiced net of allowance for uncollectible amounts.

The Company and the Group provides for bad and doubtful receivables on the basis of the overall ageing structure of all receivables, as well as by reviewing individual significant amounts receivable.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand and the balance on bank accounts.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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, equities available for sale and those held to maturity. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition as well as reviewed at each reporting date.

#### Fair value estimates

Fair value of investments available for sale is estimated by reference to their market price at the balance sheet date. Key financial instruments of the Company that are not measured at fair value comprise long-term receivables, trade payables and other liabilities. The historical book values of receivables and liabilities subject to regular terms and conditions approximate their fair values.

Other non-financial assets are tested for impairment whenever there is an indication that the net carrying amount may not be recoverable.

#### i) Financial assets at fair value through profit or loss

This category has two sub-categories:

- financial instruments held for trading, and
- those designated by management as at fair value through profit or loss at inception.

A financial asset is classified in this category if it is acquired principally for the purpose of selling it in the near term or designated as such by management. Assets in this category are classified as current if held for trading or expected to be realised within 12 months from the balance sheet date.

Financial assets at fair value through profit or loss are recognised initially at fair value, with the cost recognised in the income statement.

Gains and losses from changes in the fair value of a financial asset at fair value through profit or loss are included in the income statement within "Other gains/(losses), net" in the period in which they arise. Dividend income on financial assets at fair value through profit or loss are included in the income statement within "Other income" when the right to receive dividend has been established.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial assets (continued)

##### ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except:

- those the entity intends to sell immediately or in a short-term that are classified as held for trading as well as those subsequently measured at fair value through profit or loss;
- those initially designated as available for sale; or
- those under which the holder will not be able to recover its entire initial investment for reasons other than impaired creditworthiness.

##### iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company management has the positive intent and ability to hold to maturity. If the Company would sell all significant held-to-maturity assets, the entire category would be reclassified as available for sale.

##### iv) Financial assets available for sale

Investments available for sale are those intended to be held for an indefinite period of time and that can be sold in response to current liquidity requirements or changes in interest rates, foreign exchange rates or equity prices. Regular-way purchase and sale of financial assets at fair value through profit or loss, those held to maturity and those available for sale are recognised at the transaction date, which is the date at which the Company has committed to purchase or sell the asset.

Financial assets are recognised initially at fair value, which is increased by transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are recognised initially at fair value, with the cost recognised in the income statement. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or when the Company has transferred substantially all the risks and rewards of ownership of the asset to another entity. Financial liabilities are derecognised when discharged i.e. when the obligation is settled, cancelled or expired.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial assets (continued)

##### iv) Financial assets available for sale (continued)

Financial assets available for sale and financial assets at fair value through profit or loss are subsequently measured at fair value. Held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses on changes in the fair value of financial assets available for sale are recognised directly in equity until such time the asset is derecognised or impaired, when accumulated gains and losses previously recognised in equity are transferred to profit or loss. However, the interest determined using the effective interest method as well as gains and losses on monetary assets classified as available for sale are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the right to receive the dividends is established.

#### Financial liabilities and equity instruments issued by the Group

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

##### *Financial guarantee contract liabilities*

Financial guarantee contract liabilities 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### *Other financial liabilities*

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

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

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

##### *Derecognition of financial liabilities*

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

#### **Provisions**

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate

Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. Where discounting is used, the reversal of such discounting in each year is recognized as finance costs.

Provisions for termination benefits are recognised when the Company has committed to terminate employment contracts with its employees i.e. when it has a detailed formal plan to terminate employment agreements that is reasonably unlikely to be abandoned.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Warranty provision**

Warranty provisions, representing provisions for repairs and replacements within a warranty period, are determined based on the volume and cost of goods complained of as faulty (goods received for servicing) by groups of products.

The amount of provision is determined by applying an annual percentage of individual groups of faulty products covered by warranty (i.e. received for servicing) as a share in the total annual quantity of the individual products sold during the year, with the aggregate cost of the product group concerned taken as the basis.

Provisions are determined by groups of products and duration of the warranty period.

Warranty provisions are reversed upon the expiry of the underlying warranty period and credited to income for the year in which the warranty expires.

#### **Contingent liabilities**

Contingent liabilities have not been recognised in these financial statements. They are disclosed in the notes, 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.

#### **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 included in profit or loss in the period in which they are incurred.

### **3. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)**

#### **Comparatives**

Comparatives have been reclassified as necessary to make them consistent with the current year.

#### **Events after the reporting date**

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

#### **Accounting judgements and estimates**

In the application of the Company's and the Group's accounting policies, the directors are required to make judgments, 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 historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**4. SEGMENT INFORMATION**

As of 31 December 2013, reporting segments of the Group comprise several operating segments: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and other countries.

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

**Group segment revenue and results**

2013	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,382,790	299,750	305,749	45,156	53,220	2,086,665	(397,938)	1,688,727
Cost of goods sold less supplier discounts and allowances	(1,217,314)	(256,975)	(270,854)	(40,421)	(46,777)	(1,832,341)	358,955	(1,473,386)
Changes in inventory	-	882	-	-	-	882	-	882
Other operating income	21,957	8,668	9,202	511	657	40,995	(8,123)	32,872
Other operating expenses	(163,369)	(45,891)	(41,754)	(4,757)	(6,108)	(261,879)	47,335	(214,554)
<b>Profit from operations</b>	<b>24,064</b>	<b>6,434</b>	<b>2,343</b>	<b>489</b>	<b>992</b>	<b>34,322</b>	<b>229</b>	<b>34,551</b>
Net finance expenses	(18,961)	(631)	145	9	(340)	(19,778)	(668)	(20,446)
<b>Profit before taxes</b>	<b>5,103</b>	<b>5,803</b>	<b>2,488</b>	<b>498</b>	<b>652</b>	<b>14,544</b>	<b>(439)</b>	<b>14,105</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2012	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,274,161	283,648	284,832	48,593	49,519	1,940,753	(398,442)	1,542,311
Cost of goods sold less supplier discounts and allowances	(1,110,112)	(241,163)	(255,824)	(44,245)	(43,361)	(1,694,705)	361,435	(1,333,270)
Other operating income	22,866	7,490	11,987	926	916	44,185	(11,046)	33,139
Other operating expenses	(167,923)	(44,065)	(33,873)	(4,905)	(6,401)	(257,167)	48,187	(208,980)
<b>Profit from operations</b>	<b>18,992</b>	<b>5,910</b>	<b>7,122</b>	<b>369</b>	<b>673</b>	<b>33,066</b>	<b>134</b>	<b>33,200</b>
Net finance expenses	(16,127)	(392)	(5,652)	(229)	(516)	(22,916)	1,775	(21,141)
<b>Profit before taxes</b>	<b>2,865</b>	<b>5,518</b>	<b>1,470</b>	<b>140</b>	<b>157</b>	<b>10,150</b>	<b>1,909</b>	<b>12,059</b>

Segment assets and liabilities

2013	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	22,220	82,258	17,080	1,101	647	123,306	44,205	167,511
Other non-current assets	170,993	25,886	602	12	122	197,615	(181,138)	16,477
Current assets	667,871	139,782	87,265	15,265	23,533	933,716	(58,044)	875,672
<b>Total assets</b>	<b>861,084</b>	<b>247,926</b>	<b>104,947</b>	<b>16,378</b>	<b>24,302</b>	<b>1,254,637</b>	<b>(194,977)</b>	<b>1,059,660</b>
Long term liabilities	252,261	4,467	126	-	4,454	261,308	-	261,308
Short term liabilities	376,316	98,567	57,873	1,543	4,997	539,296	(57,848)	481,448
<b>Total liabilities</b>	<b>628,577</b>	<b>103,034</b>	<b>57,999</b>	<b>1,543</b>	<b>9,451</b>	<b>800,604</b>	<b>(57,848)</b>	<b>742,756</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

2012	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	21,691	78,453	17,765	769	243	118,921	43,939	162,860
Other non-current assets	177,634	22,825	594	10	12	201,075	(178,266)	22,809
Current assets	675,801	139,415	89,708	19,865	24,137	948,926	(92,415)	856,511
<b>Total assets</b>	<b>875,126</b>	<b>240,693</b>	<b>108,067</b>	<b>20,644</b>	<b>24,392</b>	<b>1,268,922</b>	<b>(226,742)</b>	<b>1,042,180</b>
Long term liabilities	2,593	2,214	2,916	-	5,059	12,782	-	12,782
Short term liabilities	637,529	103,361	60,702	6,486	5,198	813,276	(92,307)	720,969
<b>Total liabilities</b>	<b>640,122</b>	<b>105,575</b>	<b>63,618</b>	<b>6,486</b>	<b>10,257</b>	<b>826,058</b>	<b>(92,307)</b>	<b>733,751</b>

Other segment information

2013	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Depreciation	(2,123)	(2,389)	(1,112)	(63)	(145)	(5,832)	148	(5,684)
Increase of tangible and intangible assets	2,954	5,355	760	423	928	10,420	-	10,420
<b>2012</b>								
Depreciation	(2,271)	(2,355)	(1,243)	(168)	(185)	(6,222)	145	(6,077)
Increase of tangible and intangible assets	15,384	6,369	216	12	25	22,006	(23)	21,983

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

5. SALES

	GROUP		COMPANY	
	2013	2012	2013	2012
Domestic sales - goods	1,505,370	1,460,484	896,021	845,366
Foreign sales - goods	129,275	27,623	322,568	310,466
Service sales	51,887	46,920	26,730	24,576
Income from the sale of licences	10,673	12,708	10,706	12,697
Re-export sales	3,110	-	104,805	54,948
Other	2,732	4,992	1,291	2,480
<b>Total</b>	<b>1,703,047</b>	<b>1,552,727</b>	<b>1,362,121</b>	<b>1,250,533</b>

An analysis of sales by country of destination is provided below:

	GROUP		COMPANY	
	2013	2012	2013	2012
Croatia	917,055	862,995	916,438	861,387
Serbia	283,147	267,249	164,935	162,578
Bosnia and Herzegovina	253,295	262,334	118,936	117,376
Macedonia	44,422	44,974	31,094	34,062
Montenegro	42,774	46,691	30,903	31,713
Slovenia	17,580	2,463	17,580	2,463
Kosovo	14,497	6,416	6,727	3,464
Poland	10,426	4,747	10,426	4,747
Great Britain	2,106	1,601	50	1,601
Albania	314	1,827	311	1,803
Switzerland	277	131	-	82
The Netherlands	219	735	97	527
Norway	42	181	42	181
Uruguay	-	494	-	494
Other	116,893	49,889	64,583	28,055
<b>Total</b>	<b>1,703,047</b>	<b>1,552,727</b>	<b>1,362,122</b>	<b>1,250,533</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**6. OTHER OPERATING INCOME**

	GROUP		COMPANY	
	2013	2012	2013	2012
Subsequently approved rebates from trade	26,994	27,100	18,386	18,624
Long-term provisions turned to income	1,731	1,838	1,731	1,838
Income from free of charge receipts	1,360	2,087	1,045	1,047
Income from recovery of bad and doubtful	528	439	129	50
Income from sale of non-current assets	404	343	159	183
Inventory surplus	37	168	9	25
Other operating income	1,818	3,006	262	986
<b>Total</b>	<b>32,872</b>	<b>34,981</b>	<b>21,721</b>	<b>22,753</b>

Subsequently approved rebates represents subsequently credited amounts arising from marketing and complaints resolved during the warranty period.

**7. COST OF RAW MATERIAL AND SUPPLIES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Basic and auxiliary materials, and office supplies	4,367	3,545	243	367
Energy and fuels for freight and personal vehicles	3,920	4,341	440	435
Small inventory, packaging and tyres lies	2,389	1,872	1,302	1,077
Servicing, replacement and repair costs under warranty	2,118	5,507	148	401
Ullage, spillage, breakage of raw materials and supplies	467	579	-	-
Cost of materials and spare parts for equipment maintenance	299	187	-	-
<b>Total</b>	<b>13,560</b>	<b>16,031</b>	<b>2,133</b>	<b>2,280</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**8. COST OF GOODS SOLD**

	GROUP		COMPANY	
	2013	2012	2013	2012
Cost of goods sold	1,498,740	1,358,485	1,242,071	1,134,702
Ullage, spillage, breakage	128	209	116	86
Excessive deficits on stock	262	148	-	-
Ostali troškovi prodane robe	76	737	-	669
<b>Total</b>	<b>1,499,206</b>	<b>1,359,579</b>	<b>1,242,187</b>	<b>1,135,457</b>

**9. OTHER EXTERNAL CHARGES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Business premise and equipment rental costs	15,062	15,236	4,566	4,603
Costs of the Support Office and bookkeeping services	14,038	15,203	11,830	13,339
Guarantee extension costs	13,371	8,539	5,054	3,802
Marketing, sponsorships and fairs	10,326	11,368	3,847	4,696
Licences for intellectual property	9,707	12,522	9,612	11,640
Telephone and transportation costs	7,444	6,347	9,839	9,767
Municipal utility fees and economic ownership	6,587	5,477	6,429	5,312
Outsourced repair of faulty goods under warranty	4,274	9,864	3,993	9,150
Maintenance and repairs	3,140	3,465	1,239	1,732
Entertainment	2,627	1,397	1,107	567
Intellectual services	1,703	1,880	806	755
Other external services	8,757	5,794	15,463	15,193
<b>Total</b>	<b>97,036</b>	<b>97,092</b>	<b>73,785</b>	<b>80,556</b>

Costs of the Support office comprise bookkeeping and other services described in Note 1.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

10. STAFF COSTS

	GROUP		COMPANY	
	2013	2012	2013	2012
Net salaries	28,404	28,510	11,091	11,449
Taxes, surtaxes and contributions out of salaries	12,612	13,344	5,960	6,692
Contributions on salaries	6,426	6,539	2,531	2,777
<b>Total</b>	<b>47,442</b>	<b>48,393</b>	<b>19,582</b>	<b>20,918</b>

The average number of employees in the Group during the year 2013 was 427 (2012: 403 employees on average).

The average number of employees in the Company during the year 2013 was 122 (2012: 108 employees on average).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2013	2012	2013	2012
Depreciation	5,164	5,307	1,522	905
Amortisation	520	770	446	559
<b>Total</b>	<b>5,684</b>	<b>6,077</b>	<b>1,968</b>	<b>1,464</b>

12. OTHER EXPENSES

	GROUP		COMPANY	
	2013	2012	2013	2012
Bank and payment operation charges	2,299	1,906	1,221	1,036
Per diems and other business travel costs	1,489	1,728	695	791
Commutation allowance	1,343	1,235	494	406
Forest levies, other contributions and membership fees	934	1,449	594	931
Insurance premiums for equipment, vehicles and inventories	933	985	581	594
Professional training and literature	861	903	622	734
Christmas allowance, children's gifts, awards	445	642	219	366
Taxes independent of the operating result	285	276	69	84
Other expenses	2,812	2,386	927	504
<b>Total</b>	<b>11,401</b>	<b>11,510</b>	<b>5,422</b>	<b>5,446</b>

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2013	2012	2013	2012
Impairment allowance on trade receivables	214	1,139	-	-
Impairment allowance on intangible assets	297	270	297	270
<b>Total</b>	<b>511</b>	<b>1,409</b>	<b>297</b>	<b>270</b>



Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2013	2012	2013	2012
Subsequently approved discounts	33,730	22,270	22,542	17,259
Subsequently approved bonuses	1,643	1,828	1,439	930
Written-off trade receivables	1,343	620	1,282	128
Fines	42	23	4	1
Other operating expenses	1,464	1,996	799	1,638
<b>Total</b>	<b>38,222</b>	<b>26,737</b>	<b>26,066</b>	<b>19,956</b>

Subsequently approved discounts represent discounts based on marketing and allowances in respect of complaints during the warranty period.

15. FINANCIAL INCOME

	GROUP		COMPANY	
	2013	2012	2013	2012
Interest income	19,664	23,736	15,791	18,899
Foreign exchange gains	7,381	11,997	9,449	14,472
Share of profits of associates	190	151	-	-
Other financial income	6	2	5	2
<b>Total</b>	<b>27,241</b>	<b>35,886</b>	<b>25,245</b>	<b>33,373</b>

16. FINANCIAL EXPENSES

	GROUP		COMPANY	
	2013	2012	2013	2012
Interest expense	30,434	35,751	25,788	29,793
Foreign exchange losses	14,417	17,388	16,362	17,004
Loan origination costs	1,271	2,285	931	1,723
Bank guarantees fees	900	879	770	591
Factoring fees	634	724	312	335
Share of losses of associates	33	-	-	-
<b>Total</b>	<b>47,689</b>	<b>57,027</b>	<b>44,163</b>	<b>49,446</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**17. INCOME TAX**

Corporate income tax in Croatia is determined by applying the rate of 20% (Serbia:15%, Montenegro:9%, Bosnia and Herzegovina: 10% i Macedonia: 10%) to taxable profit for the year. The tax rates in 2013 changed only in Serbia from 10% to 15%.

	GROUP		COMPANY	
	2013	2012	2013	2012
Current tax	2,089	1,008	1,253	400
Deferred tax	-	(99)	-	-
<b>Income tax expense</b>	<b>2,089</b>	<b>909</b>	<b>1,253</b>	<b>400</b>

**Current tax**

	GROUP		COMPANY	
	2013	2012	2013	2012
Accounting profit before tax	4,105	12,059	5,549	3,482
Items increasing the profit/ decreasing the loss	5,402	4,141	3,881	2,363
Items decreasing the profit/ increasing the loss	(3,826)	(5,752)	(3,164)	(3,847)
<b>Tax base</b>	<b>15,681</b>	<b>10,448</b>	<b>6,266</b>	<b>1,998</b>
Use of tax loss	(2,012)	(3,751)	-	-
<b>Taxable profit</b>	<b>13,669</b>	<b>6,697</b>	<b>6,266</b>	<b>1,998</b>
Current tax	2,089	1,008	1,253	400

**Deferred tax**

	GROUP		COMPANY	
	2013	2012	2013	2012
<b>Opening balance</b>	<b>243</b>	<b>152</b>	-	-
Increase in the benefit of other comprehensive income	1,294	103	1,294	-
Foreign exchange losses	10	(12)	-	-
<b>Closing balance</b>	<b>1,547</b>	<b>243</b>	<b>1,294</b>	-

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**17. INCOME TAX (CONTINUED)**

Changes of deferred tax liabilities are shown as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
<b>Balance at 1 January</b>	<b>289</b>	<b>1,226</b>	<b>285</b>	<b>1,226</b>
Debited to other comprehensive income	(285)	(941)	(285)	(941)
Charged to profit or loss	2	4	-	-
<b>Balance at 31 December</b>	<b>6</b>	<b>289</b>	<b>-</b>	<b>285</b>

Net deferred tax liability is shown as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
Deferred tax assets	1,547	243	1,294	-
Deferred tax liability	(6)	(289)	-	(285)
<b>Net deferred tax assets</b>	<b>1,541</b>	<b>(46)</b>	<b>1,294</b>	<b>(285)</b>

In accordance with local tax regulations, the tax authorities may at any time inspect the Company's books and records within the period defined by local tax regulation, and may impose additional tax assessments and penalties.

A tax audit was performed at the Company in 2013 and 2014. As of the date of issue of financial statements tax audit was not completed yet.

The Company uses tax incentives provided by The Scientific Activity and Higher Education Act. As of the date of issue of these financial statements, the approval by the competent Ministry of the tax incentive for year 2012 and 2013 was still pending.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**18. INTANGIBLE ASSETS**

<b>GROUP</b>	<b>Soft-ware</b>	<b>Conce-ssions</b>	<b>Development expenses</b>	<b>Trade mark</b>	<b>Intangible assets under development</b>	<b>Total</b>
<b>COST</b>						
<b>At 1 January 2012</b>	<b>8,319</b>		<b>1,992</b>	<b>111</b>	<b>4,635</b>	<b>15,057</b>
Additions	91	-	-	-	1,241	1,332
Transfer from assets under development	1,185	52	-	-	(1,237)	-
Impairment	-	-	-	-	(270)	(270)
Exchange differences	11	-	-	-	-	11
<b>At 31 December 2012</b>	<b>9,606</b>	<b>52</b>	<b>1,992</b>	<b>111</b>	<b>4,369</b>	<b>16,130</b>
Additions	-	-	-	-	4	4
Impairment	-	-	-	-	(297)	(297)
Exchange differences	19	-	-	-	-	19
<b>At 31 December 2013</b>	<b>9,625</b>	<b>52</b>	<b>1,992</b>	<b>111</b>	<b>4,076</b>	<b>15,856</b>
<b>ACCUMULATED AMORTISATION</b>						
<b>At 1 January 2012</b>	<b>7,735</b>	-	<b>1,731</b>	<b>111</b>	-	<b>9,577</b>
Charge for the year	681	2	87	-	-	770
Disposals	-	-	-	-	-	-
Exchange differences	(50)	-	-	-	-	(50)
<b>At 31 December 2012</b>	<b>8,366</b>	<b>2</b>	<b>1,818</b>	<b>111</b>	-	<b>10,297</b>
Charge for the year	433	3	87	-	-	520
Exchange differences	17	-	-	-	-	17
<b>At 31 December 2013</b>	<b>8,816</b>	<b>5</b>	<b>1,905</b>	<b>111</b>	-	<b>10,837</b>
<b>CARRYING AMOUNT</b>						
<b>At 31 December 2013</b>	<b>809</b>	<b>47</b>	<b>87</b>	-	<b>4,076</b>	<b>5,019</b>
<b>At 31 December 2012</b>	<b>1,240</b>	<b>50</b>	<b>174</b>	-	<b>4,369</b>	<b>5,833</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)***18. INTANGIBLE ASSETS (CONTINUED)**

	Software	Development expenses	Trade mark	Intangible assets under development	Total
<b>COST</b>					
<b>At 1 January 2012</b>	<b>7,230</b>	<b>1,992</b>	<b>111</b>	<b>4,538</b>	<b>13,871</b>
Additions	-	-	-	1,206	1,206
Transfer from investments in progress	1,206	-	-	(1,206)	-
Impairment	-	-	-	(270)	(270)
<b>At 31 December 2012</b>	<b>8,436</b>	<b>1,992</b>	<b>111</b>	<b>4,268</b>	<b>14,807</b>
Additions	-	-	-	-	-
Impairment	-	-	-	(297)	(297)
<b>At 31 December 2013</b>	<b>8,436</b>	<b>1,992</b>	<b>111</b>	<b>3,971</b>	<b>14,510</b>
<b>ACCUMULATED AMORTISATION</b>					
<b>At 1 January 2012</b>	<b>6,873</b>	<b>1,731</b>	<b>111</b>	-	<b>8,715</b>
Charge for the year	472	87	-	-	559
<b>At 31 December 2012</b>	<b>7,345</b>	<b>1,818</b>	<b>111</b>	-	<b>9,274</b>
Charge for the year	359	87	-	-	446
<b>At 31 December 2013</b>	<b>7,704</b>	<b>1,905</b>	<b>111</b>	-	<b>9,720</b>
<b>CARRYING AMOUNT</b>					
<b>At 31 December 2013</b>	<b>732</b>	<b>87</b>	<b>-</b>	<b>3,971</b>	<b>4,790</b>
<b>At 31 December 2012</b>	<b>1,091</b>	<b>174</b>	<b>-</b>	<b>4,268</b>	<b>5,533</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**19. GOODWILL**

	<b>2013</b>	<b>2012</b>
Cost	45,666	45,648
	<u><b>45,666</b></u>	<u><b>45,648</b></u>

	<b>2013</b>	<b>2012</b>
<b>Cost</b>		
Balance at beginning of the year	45,648	45,645
Effect of exchange differences	18	3
<b>Balance at end of year</b>	<u><b>45,666</b></u>	<u><b>45,648</b></u>

At the end of the reporting period, the Group reviewed the recoverable amount of goodwill and is satisfied that the goodwill is not impaired.

**Allocation of goodwill to cash-generating units**

For the purposes of impairment test, goodwill has been allocated to the following cash-generating units:

	<b>2013</b>	<b>2012</b>
KIM TEC BG	29,251	29,251
KIM TEC BIH	8,201	8,201
Pakom Kompani d.o.o.	6,714	6,714
Poljoprivrednik Derventa	1,500	1,482
<b>Total</b>	<u><b>45,666</b></u>	<u><b>45,648</b></u>

The recoverable amounts of the cash-generating units have been determined on the basis of the value in use, which is based on cash flow projections on the basis of five-year budgets approved by the Management Board and the use of a discount rate of 6.04 % p.a. (2012: 6.32% p.a.).

For budgeting purposes, cash-flow projections are based on projected performance of individual cash-generating units.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013  
(all amounts are expressed in thousands of kunas)

**20. PROPERTY, PLANT AND EQUIPMENT**

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Leasehold improvements	Assets under development	Total
<b>COST</b>							
<b>At 1 January 2012</b>	<b>100,483</b>	<b>31,333</b>	<b>15,167</b>	<b>12,563</b>	<b>1,427</b>	<b>1,654</b>	<b>162,628</b>
Additions	40	-	3	-	529	20,079	20,651
Increase for the funds of merged company	-	21	-	-	-	-	21
Transfer from assets under development	14,319	1,822	1,071	431	-	(17,643)	-
Disposals	-	(312)	(2,130)	(444)	-	-	(2,886)
Exchange differences	(1,295)	(94)	311	(129)	(101)	(26)	(1,334)
<b>At 31 December 2012</b>	<b>113,548</b>	<b>32,770</b>	<b>14,422</b>	<b>12,421</b>	<b>1,855</b>	<b>4,064</b>	<b>179,080</b>
Additions	801	-	36	-	1,285	8,294	10,416
Transfer from assets under development	2,964	5,465	512	212	27	(9,180)	-
Disposals	(335)	(533)	(2,312)	(43)	(472)	-	(3,695)
Reclassification	-	-	-	-	(529)	529	-
Exchange differences	1,097	266	22	47	6	18	1,456
<b>At 31 December 2013</b>	<b>118,075</b>	<b>37,968</b>	<b>12,680</b>	<b>12,637</b>	<b>2,172</b>	<b>3,725</b>	<b>187,257</b>



Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Leasehold improvements	Assets under development	Total
<b>ACCUMULATED AMORTISATION</b>							
At 1 January 2012	18,853	22,912	13,260	8,624	977	-	64,626
Charge for the year	1,463	1,151	1,214	1,275	204	-	5,307
Increase for the funds of merged company	-	21	-	-	-	-	21
Disposals	-	(257)	(2,002)	(234)	-	-	(2,493)
Exchange differences	91	(67)	286	(67)	(5)	-	238
<b>At 31 December 2012</b>	<b>20,407</b>	<b>23,760</b>	<b>12,758</b>	<b>9,598</b>	<b>1,176</b>	<b>-</b>	<b>67,699</b>
Charge for the year	1,485	1,919	601	1,024	135	-	5,164
Disposals	(5)	(419)	(2,180)	(27)	(134)	-	(2,765)
Exchange differences	229	49	18	33	5	-	334
<b>At 31 December 2013</b>	<b>22,116</b>	<b>25,309</b>	<b>11,197</b>	<b>10,628</b>	<b>1,182</b>	<b>-</b>	<b>70,432</b>
<b>CARRYING AMOUNT</b>							
At 31 December 2013	95,959	12,659	1,483	2,009	990	3,725	116,825
At 31 December 2012	93,141	9,010	1,664	2,823	679	4,064	111,381

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

COMPANY	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Assets under development	Total
<b>COST</b>						
<b>At 1 January 2012</b>	<b>536</b>	<b>19,904</b>	<b>5,866</b>	<b>5,485</b>	<b>116</b>	<b>31,907</b>
Additions	-	-	3	-	13,856	13,859
Transfer from assets under development	10,110	156	658	76	(11,000)	-
Disposals	-	(224)	(634)	-	(21)	(879)
<b>At 31 December 2012</b>	<b>10,646</b>	<b>19,836</b>	<b>5,893</b>	<b>5,561</b>	<b>2,951</b>	<b>44,887</b>
Additions	700	-	-	-	2,143	2,843
Reclassification	-	-	-	-	-	-
Transfer from assets under development	-	4,543	183	68	(4,794)	-
Disposals	-	(298)	(841)	-	-	(1,139)
<b>At 31 December 2013</b>	<b>11,346</b>	<b>24,081</b>	<b>5,235</b>	<b>5,629</b>	<b>300</b>	<b>46,591</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

COMPANY	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Assets under development	Total
<b>ACCUMULATED AMORTISATION</b>						
At 1 January 2012	-	19,531	5,335	4,277	-	29,143
Charge for the year	-	327	225	353	-	905
Disposals	-	(224)	(593)	-	-	(817)
At 31 December 2012	-	19,634	4,967	4,630	-	29,231
Charge for the year	-	921	303	298	-	1,522
Disposals	-	(294)	(840)	-	-	(1,134)
At 31 December 2013	-	20,261	4,430	4,928	-	29,619
<b>CARRYING AMOUNT</b>						
At 31 December 2013	11,346	3,820	805	701	300	16,972
At 31 December 2012	10,646	202	926	931	2,951	15,656

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**21. FINANCIAL ASSETS**

	GROUP		COMPANY	
	2013	2012	2013	2012
Investments in assets available for sale	-	-	158,901	158,901
Investments in shares available for sale	4,680	12,571	4,477	12,370
Investments in associates	6,959	6,769	3,143	3,143
Investments in held-to-maturity bonds	2,120	2,120	2,120	2,120
	<b>13,759</b>	<b>21,460</b>	<b>168,641</b>	<b>176,534</b>

**21.1. INVESTMENTS IN SUBSIDIARIES**

Set out in the table below are the Company's subsidiaries, together with the Company's ownership interests:

Name of subsidiary	Principal activity	Country of incorporation and business	Ownership share and share in the voting power		Amount	
			2013	2012	2013	2012
			%	%		
Kim Tec Vitez d.o.o.	DISTRIBUTION	Bosnia and Hercegovina	100	100	63,643	63,643
Kim Tec BG	DISTRIBUTION	Serbia	55	55	54,946	54,946
Kim Tec CG	DISTRIBUTION	Montenegro	100	100	11,698	11,698
Pakom Kompany d.o.o.	DISTRIBUTION	Macedonia	100	100	17,784	17,784
M San Servis d.o.o.	SERVICE	Croatia	100	100	10,310	10,310
M San Eko d.o.o.	COLLECTION AND DISTRIBUTION OF WASTE	Croatia	100	100	500	500
M San Logistika d.o.o.	LOGISTICS	Croatia	100	100	20	20
M San Učilište d.o.o.	EDUCATION	Croatia	100	100	-	-
					<b>158,901</b>	<b>158,901</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**21. FINANCIAL ASSETS (CONTINUED)**

**21.2 INVESTMENTS IN ASSOCIATES**

Set out in the table below is a summary of associates at 31 December 2013 and 31 December 2012:

	GROUP		COMPANY	
	2013	2012	2013	2012
Share in the company Ventex d.o.o.	6,952	6,755	3,136	3,136
Share in the company Baks Nekretnine d.o.o.	-	7	7	7
Share in the company Elko kompjuteri d.o.o.	7	7	-	-
	<u>6,959</u>	<u>6,769</u>	<u>3,143</u>	<u>3,143</u>

The disclosures about the associates within the Group are provided below:

Name of associate	Principal activity	Country of incorporation and business	Ownership share and share in the voting power	
			2013	2012
Ventex d.o.o., Rijeka	Mediation in miscellaneous trade	Rijeka	49%	49%
Baks nekretnine d.o.o.	Building construction project organisation	Zagreb	33.33%	33.33%
Elko kompjuter d.o.o.e.l.	Retail trade	Skopje, Macedonia	49%	49%

The shares in the associates are not quoted in active markets.

The financial disclosures pertaining to the Group's associates are provided below:

	2013	2012
Total assets	19,725	21,963
Total liabilities	<u>7,756</u>	<u>10,492</u>
<b>Net assets</b>	<b><u>11,969</u></b>	<b><u>11,471</u></b>
<b>Group's share in the net assets of the associates</b>	<b><u>5,865</u></b>	<b><u>5,621</u></b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

	2013	2012
Total income	37,667	36,285
Total profit / (loss) for the year	498	472
Unrealised profit in stock	(111)	(165)
<b>The Group's share in the profits of the associates (49%)</b>	<b>190</b>	<b>150</b>

21.3 INVESTMENTS IN AVAILABLE FOR SALE SHARES

	GROUP		COMPANY	
	2013	2012	2013	2012
Shares of Quaestus Private Equity Capital	4,477	12,370	4,477	12,370
Shares of Seberija a.d.	203	201	-	-
	<b>4,680</b>	<b>12,571</b>	<b>4,477</b>	<b>12,370</b>

The Company's share in the private equity fund Quaestus Private Equity capital is 5.83% (31 December 2012: 5.83%). The shares of the Fund are not quoted in an active market.

Fair value	Quaestus Private Equity Capital	Seberija a.d.	Total
<b>Balance at 1 January 2013</b>	<b>12,370</b>	<b>201</b>	<b>12,571</b>
Purchase	-	-	-
Other	(7,893)	-	(7,893)
Foreign exchange differences	-	2	2
<b>Balance at 31 December 2013</b>	<b>4,477</b>	<b>203</b>	<b>4,680</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

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### 21. FINANCIAL ASSETS (CONTINUED)

#### 21.4 INVESTMENTS IN HELD TO MATURITY BONDS

The Company has purchased bonds of the company Metronet d.d. in the amount of HRK 2,120 thousand (31 December 2012: HRK 2,120 thousand).

The bonds were issued on 17 July 2009, they mature on 17 July 2013 and bear interest at a rate of 12%, payable semi-annually. The bonds were not settled as of the due date because of the pre-bankruptcy settlement of Metronet telekomunikacije. According to the decision approving the pre-bankruptcy settlement over debtor Metronet telekomunikacije d.d., 50% of the claims are converted to equity shares, and the remaining 50% are to be settled within eight years from concluding the pre-bankruptcy settlement arrangement, with an annual interest rate of 4.5%.

During the first three years, which start running from entering into the pre-bankruptcy settlement arrangement, only the interest will be paid, with an annual rate of 4.5%.

### 22. GIVEN DEPOSITS

	GROUP		COMPANY	
	2013	2012	2013	2012
Deposits for leases	-	-	-	-
Other	114	4	-	-
<b>Total</b>	<b>114</b>	<b>4</b>	<b>-</b>	<b>-</b>



Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**23. RECEIVABLES IN RESPECT OF CREDIT SALES**

The Group and the Company have long-term receivable in the amount of HRK 1,058 thousand for assets sold on credit (2012: HRK 1,101 thousand). Majority of mentioned receivables is related to equipment sold to MR Servis in amount of HRK 400 thousand (2012: HRK 550 thousand).

**24. INVENTORIES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Merchandise	118,998	88,959	66,936	31,416
Goods in the customs warehouse	24,908	66,870	24,908	66,870
Goods in transport	24,214	21,141	17,514	10,357
Inventories of raw material and supplies	11,059	14,368	-	-
Other inventories	3,833	2,966	1,452	1,438
<b>Total</b>	<b>183,012</b>	<b>194,304</b>	<b>110,810</b>	<b>110,081</b>

**25. PREPAYMENTS MADE**

	GROUP		COMPANY	
	2013	2012	2013	2012
Prepayments made for goods	8,974	11,727	8,574	10,216
Prepayments made for services	332	2,678	7	1,102
<b>Total</b>	<b>9,306</b>	<b>14,405</b>	<b>8,581</b>	<b>11,318</b>

Notes to the consolidated and unconsolidated financial statements (continued)  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

**26. TRADE RECEIVABLES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Domestic trade receivables	316,439	314,011	173,692	183,158
Foreign trade receivables	30,039	27,597	65,091	89,999
Impairment allowance on trade receivables	(33,126)	(33,818)	(10,904)	(11,152)
<b>Total</b>	<b>313,352</b>	<b>307,790</b>	<b>227,879</b>	<b>262,005</b>

Movement in impairment allowance for doubtful accounts

	GROUP		COMPANY	
	2013	2012	2013	2012
At 1 January	33,818	35,229	11,152	12,649
Increase in impairment allowance (Note 13)	214	1,139	-	-
Reversed on collection (Note 6)	(528)	(439)	(129)	(50)
Reversed allowances	(378)	(2,111)	(119)	(1,447)
<b>At 31 December</b>	<b>33,126</b>	<b>33,818</b>	<b>10,904</b>	<b>11,152</b>

Ageing of past due but not impaired trade receivables

	GROUP		COMPANY	
	2013	2012	2013	2012
Not yet due	260,486	215,263	167,540	172,285
Up to 60 days	65,265	50,824	36,770	58,320
60-90 days	8,435	6,758	9,882	5,488
90-120 days	2,167	2,709	1,514	2,999
120-365 days	6,892	12,148	2,870	5,096
Beyond 365 days	17,022	20,088	9,303	17,817
<b>Total</b>	<b>360,267</b>	<b>307,790</b>	<b>227,879</b>	<b>262,005</b>

The average credit period on sales in the Group in 2013 was 67 days (2012: 74 days), while in the Company it was 62 days (2012: 80 days).

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

27. AMOUNTS DUE FROM EMPLOYEES

	GROUP		COMPANY	
	2013	2012	2013	2012
Advances paid to employees	83	176	25	31
Other amounts due from employees	<u>1,052</u>	<u>1,016</u>	<u>20</u>	<u>15</u>
<b>Total</b>	<b><u>1,135</u></b>	<b><u>1,192</u></b>	<b><u>45</u></b>	<b><u>46</u></b>

28. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	2013	2012	2013	2012
VAT refund	5,046	16,334	4,231	14,063
Receivables for overpaid income tax	2,440	3,196	1,992	2,241
Receivables for other taxes, contributions and membership fees	481	447	371	388
Customs duty refunds	157	164	-	-
Other amounts due from the state	<u>314</u>	<u>268</u>	<u>-</u>	<u>14</u>
<b>Total</b>	<b><u>8,438</u></b>	<b><u>20,409</u></b>	<b><u>6,594</u></b>	<b><u>16,706</u></b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**29. GIVEN LOANS AND DEPOSITS**

	GROUP		COMPANY	
	2013	2012	2013	2012
Loans to corporate entities	231,849	239,451	199,671	205,462
Loans to individuals	2,561	2,138	1,696	1,957
Deposits with banks	-	8	-	-
Given deposits to unrelated parties	20	-	-	-
<b>Total</b>	<b>234,430</b>	<b>241,597</b>	<b>201,367</b>	<b>207,419</b>

*Loans to corporate entities*

	Original currency	Amount	Maturity	2013	2012
<b>Company</b>					
<i>Loans to corporate entities within group</i>					
<b>M SAN GRUPA D.D.</b>					
M SAN EKO d.o.o.	HRK	500	9.1.2014.	457	-
<b>Total</b>				<b>457</b>	<b>-</b>
<i>Loans to other corporate entities</i>					
<b>M SAN GRUPA D.D.</b>					
Castalia projekt d.o.o.	HRK	4,000	30.10.2014.	3,486	500
Osnovna škola Montessori, Zagreb	HRK	80	28.5.2014.	45	50
Svjetlo riječi	HRK	14	2014.	14	14
Agram projekt d.o.o.	HRK	400	18.7.2014.	400	400
Autocentar Dankić d.o.o.	HRK	100	2014.	100	100
O-Tours d.o.o.	HRK	160	26.9.2014.	160	160
Stipić Grupa d.o.o.	HRK	250	2014.	250	250
Virentia savjetovanje	HRK	2,360	3.10.2014.	2,360	-
Conditum projekt d.o.o.	HRK	25,000	31.5.2014.	22,119	21,091
Corvus info d.o.o.	HRK	10,000	8.9.2014.	7,615	4,449
Litus projekt d.o.o.	HRK	3,000	21.3.2014.	522	2,752
M SAN Nekretnine D.O.O.	HRK	80,000	28.2.2014.	24,137	75,227
M SAN Ulaganja d.o.o.	HRK	10,000	30.12.2014.	45,000	467
Poljoprivredno poduzeće Orahovica d.d.	HRK	75,000	4.9.2014.	70,872	70,406
ASK Tec d.o.o.	EUR	93	28.2.2013.	-	698
Kim Tec informacijski inženjering, Ljubljana	EUR	150	30.10.2014.	1,147	264
Baks grupa d.o.o.	HRK	25,000	31.5.2014.	20,988	20,434
PPK Valpovo d.d.	HRK	15,000	31.3.2013.	-	8,200
<b>Total</b>				<b>199,215</b>	<b>205,462</b>
<b>Group</b>					
<b>KIM TEC BIH d.o.o.</b>					
MPI Modriča	KM	5,250	3.5.2014.	19,217	18,986
EKO-Bosanska Posavina d.o.o. Derventa	KM	2,150	31.12.2014.	5,617	5,850
Poljoprivrednik d.o.o. Glamoč	KM	1,000	31.12.2014.	1,166	3,380
MP ENERGIJA d.o.o. Bosansko Grahovo	KM	852	31.12.2014.	2,496	2,588
Ekupi d.o.o. Vitez	KM	52	6.12.2012.	-	201
Agropromet Grahovo d.o.o. Bosansko Grahovo	KM	629	31.12.2014.	1,615	1,720
<b>Total</b>				<b>30,111</b>	<b>32,725</b>

Notes to the consolidated and unconsolidated financial statements (continued)  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

29. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Amount	Maturity	2013	2012
<b>KIM TEC BG d.o.o.</b>					
Solution JM	RSD	3,700		247	-
EKUPI d.o.o. Beograd	RSD	17,450	31.12.2014	1,168	1,030
<b>Total</b>				<b>1,415</b>	<b>1,030</b>
<b>PAKOM KOMPANI d.o.o.</b>					
E kupi Skopje	MKD	950	1.4.2014	117	-
Korvus Skopje	MKD	3,500	1.5.2014	432	-
Kim Tec Tirana	EUR	20	23.8.2014	23	-
<b>Total</b>				<b>572</b>	<b>-</b>
<b>KIM TEC PODGORICA d.o.o.</b>					
EKUPI d.o.o. Podgorica	EUR	70	31.12.2014	536	234
<b>Total</b>				<b>536</b>	<b>234</b>
<b>Total loans to corporate entities</b>				<b>231,849</b>	<b>239,451</b>
<i>Loans to individuals</i>					
<i>Company</i>					
<b>M SAN GRUPA D.D.</b>					
Stipo Matić	HRK	250	31/12/2014	-	231
Mato Arelić	HRK	1,250	22/7/2014	620	620
Other individuals with smaller loans	HRK	2,303	2014	1,076	1,106
<b>Total</b>				<b>1,696</b>	<b>1,957</b>
<i>Group</i>					
<b>KIM TEC BIH</b>					
Loans to individuals	KM			168	166
<b>Total</b>				<b>168</b>	<b>166</b>
<b>POLJOPRIVREDNIK DERVENTA</b>					
Ostale fizičke osobe sa manjim zajmovima	KM			39	-
<b>Total</b>				<b>39</b>	<b>-</b>
<b>PAKOM KOMPANI d.o.o.</b>					
Other individuals with smaller loans	MKD			653	15
<b>Total</b>				<b>653</b>	<b>15</b>
<b>Other loans to individuals</b>				<b>5</b>	<b>-</b>
<b>Total loans to individuals</b>				<b>2,561</b>	<b>2,138</b>
<b>TOTAL LOANS</b>				<b>234,410</b>	<b>241,589</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**29. GIVEN LOANS AND DEPOSITS (CONTINUED)**

Loans were provided to branches, the Company's owner and companies related with the Company's owner (as an individual). No collateral has been sought for the loans, as they were provided to related companies. The Management Board of the Company is confident that the loans are not doubtful of collection.

**30. REPAID EXPENSES AND ACCRUED INCOME**

	GROUP		COMPANY	
	2013	2012	2013	2012
Prepaid expenses - goods in transport	24,418	16,165	24,418	16,165
Accrued income - subsequently approved discounts	12,258	8,584	12,258	8,584
Prepaid expenses	3,518	2,351	2,059	940
<b>Total</b>	<b>40,194</b>	<b>27,100</b>	<b>38,735</b>	<b>25,689</b>

**31. OTHER RECEIVABLES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Interest receivable	27,816	14,507	22,646	10,860
Other receivables	2,506	2,527	2,290	2,227
Value adjustment of receivables per interests	(60)	(60)	(60)	(60)
Receivables based on decrease of equity	-	-	-	5,262
<b>Total</b>	<b>30,262</b>	<b>16,974</b>	<b>24,876</b>	<b>18,289</b>

In 2012 the Company adopted a decision to reduce the share capital of subsidiary Kim tec Podgorica by EUR 950 thousand (equivalent to HRK 7,144 thousand). The decrease was registered in the Central Register of the Commercial Court of Montenegro on 2 August 2012. Based on the share capital decrease, a total of HRK 1,882 thousand were paid onto the Company's account; hence, while the remaining amount of HRK 5,262 thousand was paid in 2013.

Interests receivable are presented as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
Receivables per interests per loans	20,828	7,914	20,828	8,341
Receivables per contracted interests	7,108	6,593	1,878	2,519
Value adjustment of receivables per interest	(60)	(60)	(60)	(60)
<b>Total</b>	<b>27,876</b>	<b>14,447</b>	<b>22,646</b>	<b>10,800</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**32. CASH AND CASH EQUIVALENTS**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current account balance	32,370	26,353	26,626	17,022
Foreign currency account balance	23,053	6,250	18,548	3,931
Cash in hand	120	136	97	110
<b>Total</b>	<b>55,543</b>	<b>32,739</b>	<b>45,271</b>	<b>21,063</b>

**33. SHARE CAPITAL**

The share capital consists of:

	<b>2013</b>	<b>2012</b>
1,000,000 A-series ordinary shares fully paid in at 28/05/2007	100,000	100,000
700,000 B-series ordinary shares fully paid in at 16/10/2008	70,000	70,000
300,000 C-series ordinary shares fully paid in at 15/07/2009	30,000	30,000
<b>Total</b>	<b>200,000</b>	<b>200,000</b>

The fully paid-in ordinary shares with a nominal value of HRK 100 per share bear one vote and entitle the holder to receive dividends.



Notes to the consolidated and unconsolidated financial statements (continued)  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

**34. REVALUATION RESERVES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Revaluation of financial assets available for sale	(5,175)	1,140	(5,175)	1,140
<b>UKUPNO</b>	<b>(5,175)</b>	<b>1,140</b>	<b>(5,175)</b>	<b>1,140</b>

Changes of revaluation reserves are shown below:

	GROUP		COMPANY	
	2013	2012	2013	2012
Balance at 1 January	1,140	4,906	1,140	4,906
Revaluation of financial assets available for sale	(7,893)	(4,707)	(7,893)	(4,707)
Reversal of deferred tax liability	1,578	941	1,578	941
<b>Balance at 31 December</b>	<b>(5,175)</b>	<b>1,140</b>	<b>(5,175)</b>	<b>1,140</b>

**35. RETAINED EARNINGS**

	GROUP		COMPANY	
	2013	2012	2013	2012
Retained earnings	95,494	84,574	30,761	26,465
<b>TOTAL</b>	<b>95,494</b>	<b>84,574</b>	<b>30,761</b>	<b>26,465</b>

Changes of retained earnings are shown below:

	GROUP		COMPANY	
	2013	2012	2013	2012
Balance at 1 January	84,574	74,419	26,465	23,953
Profit for the year	10,965	10,444	4,296	3,082
Transfer to legal reserves	(45)	(570)	-	(570)
Decrease in non-controlling interest by additional share purchased	-	281	-	-
<b>Balance at 31 December</b>	<b>95,494</b>	<b>84,574</b>	<b>30,761</b>	<b>26,465</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**36. EARNINGS PER SHARE**

	GROUP		COMPANY	
	2013	2012	2013	2012
Profit for the year attributable to the equity holder of the parent (in HRK'000)	10,965	10,444	4,296	3,082
Weighted average number of ordinary shares (in pcs)	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
<b>Basic earnings per share (in kunas and lipas), basic and diluted</b>	<b><u>5.48</u></b>	<b><u>5.22</u></b>	<b><u>2.15</u></b>	<b><u>1.54</u></b>

**37. NON-CONTROLLING INTERESTS**

	GROUP	
	2013	2012
Net asset value at acquisition date	19,823	21,133
Other comprehensive income	228	(1,735)
Share in the current year's profit	1,049	706
Increase in non-controlling interest	146	-
Decrease in non-controlling interest by additional share purchased	-	(281)
<b>Balance at end of year</b>	<b><u>21,246</u></b>	<b><u>19,823</u></b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**38. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD**

	GROUP		COMPANY	
	2013	2012	2013	2012
Long-term provisions for risks within the warranty period	688	1,731	688	1,731
<b>Total</b>	<b>688</b>	<b>1,731</b>	<b>688</b>	<b>1,731</b>

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
At 1 January	1,731	1,839	1,731	1,839
New provisions made	688	1,731	688	1,731
Decreases	(1,731)	(1,839)	(1,731)	(1,839)
<b>At 31 December</b>	<b>688</b>	<b>1,731</b>	<b>688</b>	<b>1,731</b>

The provisions represent 0,05% of the cost of goods sold at the Company (31 December 2012: 0.15%).

**39. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS**

**Long-term liabilities from finance lease**

	GROUP		COMPANY	
	2013	2012	2013	2012
Total obligations under finance leases	924	1,239	540	709
Less: current portion	(431)	(531)	(253)	(229)
<b>Long-term finance lease obligations</b>	<b>493</b>	<b>708</b>	<b>287</b>	<b>480</b>
<b>Total long term liabilities from financial leasing</b>	<b>493</b>	<b>708</b>	<b>287</b>	<b>480</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)***39. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS (CONTINUED)****Long-term loan liabilities**

	GROUP		COMPANY	
	2013	2012	2013	2012
Total loans from financial institutions	294,308	17,092	280,764	480
Less: current portion of loans from financial institutions	(34,187)	(7,079)	(29,477)	-
Long-term loans from financial institutions	<u>260,121</u>	<u>10,013</u>	<u>251,287</u>	<u>480</u>
<b>Total long-term loans from financial institutions</b>	<b><u>260,121</u></b>	<b><u>10,013</u></b>	<b><u>251,287</u></b>	<b><u>-</u></b>
<b>Total long-term portion of long-term loans</b>	<b><u>260,614</u></b>	<b><u>10,721</u></b>	<b><u>251,574</u></b>	<b><u>480</u></b>

Financijsal institutions	Original currency	Deposit amount	Maturity	2013	2012
<b>POLJOPRIVREDNIK AD</b>					
NLB Razvojna banka	KM	750	11.4.2017.	2,055	2,565
NLB Razvojna banka	KM	1,000	1.2.2020.	3,451	-
<b>Total</b>				<b><u>5,506</u></b>	<b><u>2,565</u></b>
<b>PAKOM KOMPANI d.o.o.</b>					
NLB Tutunska banka	MKD	56,773	19.10.2015.	5,091	6,957
<b>Total</b>				<b><u>5,091</u></b>	<b><u>6,957</u></b>
<b>KIM TEC BEOGRAD d.o.o.</b>					
Intesa Sanpaolo Banka d.d.	EUR	999	31/5/2014	2,947	7,570
<b>Total</b>				<b><u>2,947</u></b>	<b><u>7,570</u></b>
<b>MSAN GRUPA D.D.</b>					
Splitska banka d.d.HBOR	KN	12,500	31.12.2016.	12,500	-
Zagrebačka banka d.d.	KN	176,020	15.1.2020.	174,305	-
Raiffeisen bank d.d.	EUR	4,435	15.1.2020.	32,050	-
Splitska banka d.d.	KN	61,168	30.9.2018.	61,909	-
<b>Total</b>				<b><u>280,764</u></b>	<b><u>-</u></b>
<b>Total long-term loans from financial institutions</b>				<b><u>294,308</u></b>	<b><u>17,092</u></b>
<b>Less: Current portion</b>				<b><u>(34,187)</u></b>	<b><u>(7,079)</u></b>
<b>Total</b>				<b><u>260,121</u></b>	<b><u>10,013</u></b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

40. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	2013	2012	2013	2012
Short-term bank borrowings	166,957	437,170	114,750	410,150
Revolving facilities with banks	6,176	15,322	-	-
<b>Total borrowings</b>	<b>173,133</b>	<b>452,492</b>	<b>114,750</b>	<b>410,150</b>
Current portion of long-term leases	431	531	253	229
Current portion of long-term loans	34,187	7,079	29,477	-
<b>Total</b>	<b>207,751</b>	<b>460,102</b>	<b>144,480</b>	<b>410,379</b>

An overview of bank borrowings of the M San Group:

Financial institutions	Original currency	Amount	Maturity	2013	2012
<b>KIM TEC BIH d.o.o.</b>					
UniCredit Bank Mostar d.d.	KM	2,000	22.4.2014.	7,810	7,717
Bosna Bank International d.d.	KM	2,000	30.12.2014.	7,810	-
Intesa Sanpaolo Banka d.d.	KM	1,500	15.11.2014.	5,858	5,787
Volksbank BH d.d.	KM	1,000	17.3.2013.	-	3,858
Intesa Sanpaolo Banka d.d.	KM	500	15.11.2014.	1,953	1,929
Okvirni kredit UNICREDIT BANK	KM	3,000	14.2.2014.	9,647	9,718
Okvirni kredit VOLKSBANK	KM	1,000	13.10.2013.	-	2,683
Okvirni kredit SBERBANK	KM	1,000	5.3.2014.	3,841	-
Okvirni kredit SPARKASSE BANK	KM	500	20.8.2014.	1,953	-
Bor banka d.d.	KM	1,900	11.7.2014.	4,328	4,398
<b>Total</b>				<b>43,200</b>	<b>36,090</b>
<b>KIM TEC BEOGRAD d.o.o.</b>					
Societe Generale d.d.	EUR	981	10.4.2013.	-	3,308
Procredit banka d.d.	RSD	83,000	31.8.2014.	3,151	-
Procredit banka d.d.	EUR	180	14.11.2014.	1,381	-
Procredit banka d.d.	EUR	160	20.12.2014.	1,228	-
Vojvođanska banka d.d.	RSD	57,193	10.9.2014.	3,828	-
Intesa Sanpaolo Banka d.d.	RSD	35,000	22.8.2014.	2,083	-
<b>Total</b>				<b>11,671</b>	<b>3,308</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)***40. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS (CONTINUED)**

An overview of bank borrowings of the M San Group (continued):

Financial institution	Original currency	Amount	Maturity	2013	2012
<b>KIM TEC SERVIS BEOGRAD d.o.o.</b>					
Intesa Sanpaolo Banka d.d.	RSD	500	31.12.2014	6	23
<b>Ukupno</b>				<b>6</b>	<b>23</b>
<b>VIVAX BEOGRAD d.o.o.</b>					
Intesa Sanpaolo Banka d.d.				17	-
<b>Ukupno</b>				<b>17</b>	<b>-</b>
<b>POLJOPRIVREDNIK AD</b>					
NLB Razvojna banka	KM	1,000	5.4.2014.	3,107	2,921
<b>Ukupno</b>				<b>3,107</b>	<b>2,921</b>
<b>KIM TEC CG d.o.o</b>					
Okvirni kredit HIPOTEKARNA BANK	EUR	400	24.1.2014	382	-
<b>Ukupno</b>				<b>382</b>	<b>-</b>
<b>COMPANY</b>					
Ukupni kratkoročni krediti (u nastavku bilješke)				114,750	410,150
				<b>114,750</b>	<b>410,150</b>
<b>Total</b>				<b>173,133</b>	<b>452,492</b>
Plus: Current portion of long-term borrowings				431	531
Plus: Current portion liability from financial institution borrowings				34,187	7,079
<b>Total current portion of long-term borrowings and short-term loans</b>				<b>207,751</b>	<b>460,102</b>
<b>COMPANY</b>					
Financial institutions	Original currency	Amount	Maturity	2013	2012
Erste&Steiermarkische bank d.d.	EUR	3,410	31.8.2014.	26,042	25,735
Zagrebačka banka d.d.	HRK	116,000	15.6.2014.	40,000	114,544
Hypo Alpe Adria Bank d.d.	EUR	1,400	31.5.2014.	1,556	3,650
Splitska banka d.d.	EUR	11,000	26.8.2013.	-	77,971
Splitska banka d.d.	HRK	20,000	15.7.2014.	20,000	20,000
Privredna banka d.d.	EUR	13,085	30.6.2014.	12,152	90,738
Volksbank d.d.	EUR	4,100	31.5.2013.	-	28,899
Raiffeisen bank d.d.	CHF	5,450	15.12.2013.	-	33,613
Hrvatska poštanska banka d.d.	HRK	15,000	15.7.2014.	15,000	15,000
<b>Total</b>				<b>114,750</b>	<b>410,150</b>
Plus: Current portion of long-term borrowings				253	229
Plus: Current portion liability from financial institution borrowings				29,477	-
<b>Total current portion of long-term borrowings and short-term loans</b>				<b>144,480</b>	<b>410,379</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

41. ADVANCES RECEIVED

	GROUP		COMPANY	
	2013	2012	2013	2012
Advances received from foreign customers	2,831	806	1,527	562
Advances received from domestic customers	127	32	1,349	5,569
<b>Total</b>	<b>2,958</b>	<b>838</b>	<b>2,876</b>	<b>6,131</b>

42. TRADE PAYABLES

	GROUP		COMPANY	
	2013	2012	2013	2012
Foreign trade payables	198,932	171,651	171,683	146,425
Domestic trade payables	27,704	39,039	17,144	28,157
Foreign trade payables – unbilled goods	-	1,335	-	1,335
Domestic trade payables – unbilled goods	-	2,058	-	2,050
<b>Total</b>	<b>226,636</b>	<b>214,083</b>	<b>188,827</b>	<b>177,967</b>

43. AMOUNTS DUE TO EMPLOYEES

	GROUP		COMPANY	
	2013	2012	2013	2012
Net salaries payable	1,540	1,537	884	818
Other	264	262	132	125
<b>Total</b>	<b>1,804</b>	<b>1,799</b>	<b>1,016</b>	<b>943</b>

44. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GROUP		COMPANY	
	2013	2012	2013	2012
Liabilities for taxes and contributions from and on salaries	17,696	9,580	16,899	8,950
Liabilities to the customs office	4,571	13,442	4,105	13,426
Liabilities for VAT	496	36	-	-
Liabilities for memberships, contributions and other taxes	476	708	6	168
Liabilities for income tax	76	1	-	-
<b>Total</b>	<b>23,315</b>	<b>23,767</b>	<b>21,010</b>	<b>22,544</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**45. OTHER CURRENT LIABILITIES**

	GROUP		COMPANY	
	2013	2012	2013	2012
Amounts due under factoring arrangements	10,068	10,798	10,049	10,765
Interest on borrowings	1,138	2,683	965	2,564
Interest on financial lease payments due in the current year	-	2,500	-	2,500
Other current liabilities	1,701	19	22	11
<b>Total</b>	<b>12,907</b>	<b>16,000</b>	<b>11,036</b>	<b>15,840</b>

**46. ACCRUED EXPENSES AND DEFERRED INCOME**

	GROUP		COMPANY	
	2013	2012	2013	2012
Accrued expenses - not yet billed	4,343	3,496	3,503	1,133
Deferred income	1,403	450	-	-
Deferred income - late-payment interest	289	384	114	199
Other accrued expenses and deferred income	42	91	-	-
<b>Total</b>	<b>6,077</b>	<b>4,421</b>	<b>3,617</b>	<b>1,332</b>



## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)*

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### 47. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2013 and 2012 involve the following related parties:

**Company's subsidiaries:**

Kim Tec d.o.o., Vitez  
Kim Tec - servis d.o.o., Vitez  
Poljoprivrednik a.d., Derventa  
Kim tec eko d.o.o. Vitez  
Kim Tec CG, Podgorica  
Kim Tec d.o.o., Beograd  
Kim Tec servis d.o.o., Beograd  
Vivax d.o.o., Beograd  
Pakom Kompany, Skopje  
M San Servis, Zagreb  
M San Logistika d.o.o., Zagreb  
M San Eko d.o.o., Zagreb

**Company's associates:**

Ventex d.o.o., Rijeka

**Entities with joint ultimate owner:**

Kim Tec, Ljubljana  
M San Nekrenine d.o.o., Zagreb  
M San Ulaganja d.o.o., Zagreb  
MR Servis d.o.o.  
King ICT d.o.o., Zagreb  
King ICT d.o.o., Beograd  
King ICT d.o.o., Sarajevo  
King ICT d.o.e.l., Skopje  
Aktivis d.o.o., Zagreb  
PP Orahovica d.d.  
Ekupi d.o.o., Zagreb  
Corvus Info d.o.o., Zagreb  
Conditum projekt d.o.o., Zagreb  
Baks Grupa d.o.o., Zagreb  
PPK Valpovo d.d.  
Ured za podršku d.o.o., Zagreb  
Litus projekt d.o.o.  
MS Industrial Kina  
E kupi d.o.o., Beograd  
E kupi d.o.o., Sarajevo  
E kupi d.o.o., Podgorica  
E kupi d.o.o., Skopje  
Ask Tec d.o.o. Priština

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**47. RELATED-PARTY TRANSACTIONS (CONTINUED)**

The receivables and payables of the Company from transactions with its subsidiaries at 31 December 2013 and 2012 were as follows:

	Receivables		Liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Kim Tec d.o.o., Vitez	12,302	34,888	(6)	(65)
Kim Tec CG, Podgorica	-	5,262	(1,359)	(5,745)
Kim Tec d.o.o., Belgrade	27,148	31,794	(205)	(411)
Pakom Kompany, Skopje	1,198	1,422	-	(58)
M San Servis, Zagreb	-	-	-	-
M San Logistika d.o.o., Zagreb	-	-	(1,210)	(1,101)
M San Eko d.o.o., Zagreb	4	5	-	(13)
	<b>40,652</b>	<b>73,371</b>	<b>(2,780)</b>	<b>(7,393)</b>

The receivables and payables of the Company from transactions with its associated companies and entities with joint owner at 31 December 2013 and 2012 were as follows:

	Receivables		Liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Ventex d.o.o., Rijeka	2,891	3,918	-	-
Kim Tec, Ljubljana	13,898	13,279	(149)	-
M San Nekrenine d.o.o., Zagreb	70	2	(14)	-
M San Ulaganja d.o.o., Zagreb	2,340	2,048	-	-
MR Servis d.o.o.	1,427	1,807	(1,031)	(916)
King ICT d.o.o., Zagreb	9,494	11,060	-	(433)
Aktivis d.o.o., Zagreb	-	9	-	-
Ekupi d.o.o.	8,825	4,954	(78)	-
Baks Grupa d.o.o.	134	96	-	-
Conditum projekt d.o.o., Zagreb	-	320	-	-
Corvus Info d.o.o.	7	12	(23)	(129)
Pametna energija d.o.o.	284	1	-	-
PP Orahovica d.d.	1,517	825	(118)	(85)
PPK Valpovo d.d.	-	-	-	(14)
Ured za podršku d.o.o.	630	429	(1,245)	(3,341)
King ICT, Makedonija	-	2	-	-
Ask Tec d.o.o. Priština	4,206	1,828	-	-
MS Industrial Kina	3,034	4,422	(313)	-
	<b>48,811</b>	<b>45,012</b>	<b>(2,971)</b>	<b>(4,918)</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**47. RELATED-PARTY TRANSACTIONS (CONTINUED)**

The income and expenses of the Company from transactions with its subsidiaries during 2013 and 2012 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2013	2012	2013	2012	2013	2012
Kim Tec d.o.o., Vitez	118,950	117,122	2,552	3,333	925	116
Kim Tec CG, Podgorica	30,903	31,418	752	1,210	18	110
Kim Tec d.o.o., Beograd	164,836	162,679	7,021	7,908	4,241	441
Pakom Kompany, Skopje	31,150	34,086	1,133	1,399	237	171
M San Logistika d.o.o., Zagreb	591	972	19,805	19,804	1	90
M San Eko d.o.o., Zagreb	4	4	-	-	-	-
	<b>346,434</b>	<b>346,281</b>	<b>31,263</b>	<b>33,654</b>	<b>5,422</b>	<b>928</b>

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2013 and 2012 were as follows:

	Income / Sale		Expenses / Purchase		Purchase value of goods	
	2013	2012	2013	2012	2013	2012
Ventex d.o.o., Rijeka	16,878	17,452	223	239	-	26
Kim Tec, Ljubljana	15,611	7	442	4	48	72
M San Nekrenine d.o.o., Zagreb	194	93	3,394	3,486	-	-
M San Ulaganja d.o.o., Zagreb	234	44	1	-	-	-
MR Servis d.o.o.	6,237	7,586	8,472	9,903	774	1,828
King ICT d.o.o., Zagreb	85,386	67,092	1,233	296	4,440	6,777
King ICT d.o.o., Beograd	-	1	-	-	-	-
King ICT d.o.o., Sarajevo	-	291	-	3	-	-
Aktivis d.o.o., Zagreb	27	13	-	-	-	-
Ekupi d.o.o.	42,456	32,793	1,121	763	537	35
Baks Grupa d.o.o.	40	14	-	-	-	-
Corvus Info d.o.o.	55	74	135	547	-	-
Pametna energija d.o.o.	1,379	2	-	-	-	-
PP Orahovica d.d.	763	702	133	89	18	338
PPK Valpovo d.d.	37	28	-	17	-	-
Ured za podršku d.o.o.	161	149	11,837	12,270	-	-
King ICT, Makedonija	-	1	-	-	-	-
MS Industrial Kina	-	-	2,260	1,879	137,161	121,254
Ask Tec d.o.o Priština	6,880	3,717	146	93	228	-
	<b>176,338</b>	<b>130,059</b>	<b>29,397</b>	<b>29,589</b>	<b>143,206</b>	<b>130,330</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**47. RELATED-PARTY TRANSACTIONS (CONTINUED)**

U donjoj tablici su prikazana potraživanja i prihodi koje je Društvo imalo s ovisnim društvima iz kreditnih transakcija na dan 31. prosinca 2013. i 2012. godine:

	Potraživanja		Prihodi	
	31. prosinca 2013.	31. prosinca 2012.	31. prosinca 2013.	31. prosinca 2012.
M San Eko d.o.o., Zagreb	463	-	13	-

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2013 and 2012:

	Receivables		Income	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Kim Tec Ljubljana	1,178	265	31	1
M San Nekrenine d.o.o., Zagreb	30,860	77,476	4,542	4,211
M San Ulaganja d.o.o., Zagreb	45,007	467	35	-
MR Servis d.o.o.	493	753	93	113
Baks Grupa d.o.o.	23,064	21,225	1,285	1,102
Conditum projekt d.o.o., Zagreb	24,237	21,905	1,303	1,143
Corvus Info d.o.o.	7,686	4,513	381	192
PP Orahovica d.d.	80,241	74,035	5,740	5,726
PPK Valpovo d.d.	40	8,200	241	719
Ask Tec d.o.o. Priština	-	722	5	22
	<b>212,806</b>	<b>209,561</b>	<b>13,656</b>	<b>13,229</b>

Fees to directors and other key members of management through the year were as it follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
Short-term benefits	5,236	5,038	2,060	2,770
<b>Total</b>	<b>5,236</b>	<b>5,038</b>	<b>2,060</b>	<b>2,770</b>

At 31 December 2013 loans provided to the majority shareholder amounted to HRK 0 thousand (31 December 2012: HRK 231 thousand).

## 48. FINANCIAL INSTRUMENTS

### 48.1 Capital risk management

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

The Group's capital consists of debt, which included borrowings disclosed in Notes 39 and 40, less cash and cash equivalents (the so-called net debt), and equity, which comprises share capital, reserves and retained earnings as reported in the statement of changes in equity and Notes 33, 34 and 35.

#### 48.1.1 Gearing ratio

Gearing ratio at the end of the reporting period:

	GROUP		COMPANY	
	2013	2012	2013	2012
Debt	468,365	470,822	396,054	410,859
Less: cash in hand and with banks	<u>(55,543)</u>	<u>(32,739)</u>	<u>(45,271)</u>	<u>(21,063)</u>
	<b><u>412,822</u></b>	<b><u>438,083</u></b>	<b><u>350,783</u></b>	<b><u>389,796</u></b>
Equity	<b><u>316,904</u></b>	<b><u>308,429</u></b>	<b><u>231,789</u></b>	<b><u>233,807</u></b>
Net debt-to-equity ratio	<b><u>130.27%</u></b>	<b><u>142.04%</u></b>	<b><u>151.34%</u></b>	<b><u>166.72%</u></b>

Notes to the consolidated and unconsolidated financial statements (continued)  
 For the year ended 31 December 2013  
 (all amounts are expressed in thousands of kunas)

**48 FINANCIAL INSTRUMENTS (CONTINUED)**

**48.1. Capital risk management (continued)**

The Group and the Company are exposed to the following risks arising from financial instruments:

**48.1.2 Categories of financial instruments**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Financial assets</b>				
Cash and cash equivalents	55,543	32,739	45,271	21,063
Loans and receivables	589,657	583,063	463,806	500,178
Financial assets available for sale	4,680	12,571	6,597	12,370
Investments held to maturity	2,120	2,120	-	2,120
<b>Total financial assets</b>	<b>652,000</b>	<b>630,493</b>	<b>515,674</b>	<b>535,731</b>
<b>Financial liabilities</b>				
Bank borrowings	467,441	469,583	395,514	410,150
Finance lease obligations	924	1,239	540	709
Other financial liabilities	244,304	232,721	203,755	200,881
<b>Total financial liabilities</b>	<b>712,669</b>	<b>703,543</b>	<b>599,809</b>	<b>611,740</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

### 48. FINANCIAL INSTRUMENTS (CONTINUED)

#### 48.2 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign-currency denominated monetary assets and liabilities at the reporting date are provided in the table below:

GROUP	Assets		Liabilities		Assets-Liabilities	
	2013	2012	2013	2012	2013	2012
EUR	60,631	28,924	481,407	417,121	(420,776)	(388,197)
USD	33,700	23,327	38,920	40,095	(5,220)	(16,768)
CHF	-	20	10	109	(10)	(89)
BAM	-	-	-	-	-	-
GBP	29	-	553	302	(524)	(302)

COMPANY	Assets		Liabilities		Assets - Liabilities	
	2013	2012	2013	2012	2013	2012
EUR	142,238	159,978	444,218	374,976	(301,980)	(214,998)
USD	100,814	88,479	44,430	39,762	56,384	48,717
BAM	-	1,249	-	-	-	1,249
CHF	1	1	10	5	(9)	(4)
GBP	30	24	519	304	(489)	(280)

#### 48.2.1 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease of the Croatian kuna against the relevant currencies. 10% 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 only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Croatian kuna strengthens 1% against the relevant currency. For a 10% weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

**48. FINANCIAL INSTRUMENTS (CONTINUED)**

**48.2 Foreign currency risk management (continued)**

**48.2.1. Foreign currency sensitivity analysis (continued)**

<b>GROUP</b>	<b>EUR impact</b>		<b>USD impact</b>		<b>CHF impact</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Profit / (loss)	(42,078)	(38,820)	(522)	(1,677)	(1)	(9)

<b>COMPANY</b>	<b>EUR impact</b>		<b>USD impact</b>		<b>CHF impact</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Profit / (loss)	(30,198)	(21,500)	56,384	4,872	(1)	-

**48.3 Credit risk management**

Credit risk is the risk of default by counterparty in settling its liability or contractual obligations to the Company and the Group, as a result of which the Group and the Company may incur financial losses. The Group and the Company have adopted procedures they apply in transacting with their customers and, where possible, they obtain payment security instruments to protect themselves from potential financial and default risks.

Trade receivables are continuously monitored so as to identify any potential risk of default and take appropriate measures. The Group and the Company monitor regularly their credit exposures to customers and revise the risk assessment at least once a year. The Group and the Company operate with a large number of customers from various industries and of various size as well as individuals with a specific type of credit risk. The Group and the Company have developed separate procedures for each of the groups of customers in order to ensure that credit risk is adequately managed.



Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

48. FINANCIAL INSTRUMENTS (CONTINUED)

48.3 Credit risk management (continued)

U tablici dolje Grupa i Društvo su prezentirali prihode od prodaje od 10 najvećih kupaca na kraju izvještajnog razdoblja.

Customer	Domicile country	GROUP		COMPANY	
		2013.	2012.	2013.	2012.
Kim Tec d.o.o., Beograd	SERBIA	-	-	160,084	157,132
Kim Tec d.o.o., Vitez	BOSNIA AND HERCEGOVINA	-	-	118,104	116,010
King ICT d.o.o., Zagreb	CROATIA	84,157	83,945	84,157	83,945
Ekupi d.o.o.	CROATIA	38,676	-	38,676	-
Combis d.o.o.	CROATIA	10,233	31,670	10,233	31,670
Fliba d.o.o.	CROATIA	14,063	11,901	14,063	11,901
Kim Tec CG, Podgorica	MONTENEGRO	-	-	30,652	30,884
Pakom Kompany, Skopje	MAKEDONIJA BOSNIA AND HERCEGOVINA	-	-	30,243	33,268
BH Telecom d.d.	HERCEGOVINA	8,215	41,587	-	-
JP Hrvatske telekomunikacije d.d.	BOSNIA AND HERCEGOVINA	28,230	30,761	-	-
Alti d.o.o.	SERBIA	34,762	35,108	-	-
Tehnomanija d.o.o.	SERBIA	16,945	25,561	-	-
Links d.o.o.	CROATIA	25,457	25,755	25,457	25,755
Metro cash & carry d.o.o.	CROATIA	25,443	29,768	25,443	29,768
Narodne novine d.d.	CROATIA	10,922	30,175	10,922	30,175
King ICT d.o.o., Sarajevo	BOSNIA AND HERCEGOVINA	12,471	12,121	-	-

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)*

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### 48. FINANCIAL INSTRUMENTS (CONTINUED)

#### 48.4 Interest risk management

Since the Company and the Group use both fixed and variable rate loans, they are exposed to the interest rate risk. Most of the Company's and Group's loans bear interest at a fixed rate.

##### Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2013 would have changed by HRK 1.980 thousand (31 December 2012: HRK 2,054 thousand), and the Group as of 31 December 2013 would have changed by HRK 2.349 thousand (31 December 2012: HRK 2,354 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 469.704 thousand (31 December 2012: HRK 470,823 thousand) and HRK 396.053 thousand (31 December 2012: 410,859 thousand) respectively.

#### 48.5 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

##### 48.5.1 Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Disclosures of non-derivative financial assets and liabilities are necessary for understanding the manner in which the Group manages its liquidity risk, as it is managed on the basis of net amounts of financial assets and liabilities.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

48. FINANCIAL INSTRUMENTS (CONTINUED)

48.5 Liquidity risk management (continued)

48.5.1 Liquidity and interest rate risk tables (continued)

GROUP 31 December 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
<b>Assets</b>						
Non-interest bearing	315,592	94,006	-	1,172	6,800	417,570
Fixed-rate instruments	-	24,659	209,771	-	-	234,430
<b>Total assets</b>	<b>315,592</b>	<b>118,665</b>	<b>209,771</b>	<b>1,172</b>	<b>6,800</b>	<b>652,000</b>
<b>Liabilities</b>						
Non-interest bearing	244,304	-	-	-	-	244,304
Liabilities based on financial lease	36	72	323	493	-	924
Variable-rate instruments	3,542	39,808	163,969	185,402	74,719	467,440
<b>Total liabilities</b>	<b>247,882</b>	<b>39,880</b>	<b>164,292</b>	<b>185,895</b>	<b>74,719</b>	<b>712,668</b>
<b>Net asset/(liabilities)</b>	<b>67,710</b>	<b>78,785</b>	<b>45,479</b>	<b>(184,723)</b>	<b>(67,919)</b>	<b>(60,668)</b>
GROUP 31 December 2012	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
<b>Assets</b>						
Non-interest bearing	270,871	102,241	-	1,101	14,691	388,904
Fixed-rate instruments	-	131,922	109,667	-	-	241,589
<b>Total assets</b>	<b>270,871</b>	<b>234,163</b>	<b>109,667</b>	<b>1,101</b>	<b>14,691</b>	<b>630,493</b>
<b>Liabilities</b>						
Non-interest bearing	232,720	-	-	-	-	232,720
Liabilities based on financial lease	-	531	-	708	-	1,239
Variable-rate instruments	-	94,695	364,877	10,013	-	469,585
<b>Total liabilities</b>	<b>232,720</b>	<b>95,226</b>	<b>364,877</b>	<b>10,721</b>	<b>-</b>	<b>703,544</b>
<b>Net asset/(liabilities)</b>	<b>38,151</b>	<b>138,937</b>	<b>(255,210)</b>	<b>(9,620)</b>	<b>14,691</b>	<b>(73,051)</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

**48. FINANCIAL INSTRUMENTS (CONTINUED)**

**48.5 Liquidity risk management (continued)**

48.5.1 Liquidity and interest rate risk tables (continued)

<b>COMPANY 31 December 2013</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>After 5 years</b>	<b>Total</b>
<b>Assets</b>						
Non-interest bearing	238,288	68,364	-	1,058	6,597	314,307
Fixed-rate instruments	457	24,659	176,251	-	-	201,367
<b>Total</b>	<b>238,745</b>	<b>93,023</b>	<b>176,251</b>	<b>1,058</b>	<b>6,597</b>	<b>515,674</b>
<b>Liabilities</b>						
Non-interest bearing	203,755	-	-	-	-	203,755
Liabilities based on financial lease	21	42	190	287	-	540
Variable-rate instruments	2,896	25,794	115,537	176,568	74,719	395,514
<b>Total</b>	<b>206,672</b>	<b>25,836</b>	<b>115,727</b>	<b>176,855</b>	<b>74,719</b>	<b>599,809</b>
<b>Net asset/(liabilities)</b>	<b>32,073</b>	<b>67,187</b>	<b>60,524</b>	<b>(175,797)</b>	<b>(68,122)</b>	<b>(84,135)</b>

<b>COMPANY 31 December 2012</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>After 5 years</b>	<b>Total</b>
<b>Assets</b>						
Non-interest bearing	225,908	86,813	-	1,101	14,490	328,312
Fixed-rate instruments	-	108,628	98,791	-	-	207,419
<b>Total</b>	<b>225,908</b>	<b>195,441</b>	<b>98,791</b>	<b>1,101</b>	<b>14,490</b>	<b>535,731</b>
<b>Liabilities</b>						
Non-interest bearing	200,880	-	-	-	-	200,880
Liabilities based on financial lease	-	229	-	480	-	709
Variable-rate instruments	-	79,348	330,802	-	-	410,150
<b>Total</b>	<b>200,880</b>	<b>79,577</b>	<b>330,802</b>	<b>480</b>	<b>-</b>	<b>611,739</b>
<b>Net asset/(liabilities)</b>	<b>25,028</b>	<b>115,864</b>	<b>(232,011)</b>	<b>621</b>	<b>14,490</b>	<b>(76,008)</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

### 48. FINANCIAL INSTRUMENTS (CONTINUED)

#### 48.6. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

At 31 December 2013, the carrying amounts of cash, short-term deposits, receivables and short-term liabilities, accrued expenses and other financial instruments approximate their fair values due to the short-term maturity of these financial instruments.

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

<b>At 31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Company	-	4.477	-	<b>4.477</b>
Group	-	4.680	-	<b>4.680</b>

<b>At 31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets available for sale</i>				
Company	-	12.370	-	<b>12.370</b>
Group	-	12.571	-	<b>12.571</b>

## Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

(all amounts are expressed in thousands of kunas)

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### 48. FINANCIAL INSTRUMENTS (CONTINUED)

#### 48.7 Market risk

Market risk is the risk that changes in market prices, exchange rates and interest rates will affect the income, investments or financial instruments of the Company. The objective of market risk management is to maintain the market risk exposure within acceptable limits, while optimising the result.

### 49. OPERATING LEASES

The Group leases business premises, offices, warehouses and vehicles. The lease terms range from 1 to 5 years, and most of the lease agreements are renewable on expiry.

The most significant leases included in the lease obligations comprise leases of business premises and warehouses.

The table below details the Group's and the Company's future operating lease payments:

	GROUP		COMPANY	
	2013	2012	2013	2012
Within one year	11,568	14,076	1,549	4,327
1-5 years	5,693	6,026	1,203	1,274
After 5 years	-	-	-	-
<b>Total</b>	<b>17,261</b>	<b>20,102</b>	<b>2,752</b>	<b>5,601</b>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2013

*(all amounts are expressed in thousands of kunas)*

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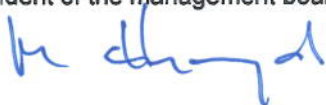
**50. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements, set out on pages 4 to 89, were approved by the Management Board and authorised for issue on 20 May 2014.

Signed on behalf of the Management Board on 20 May 2014 by:

Miroslav Huzjak

President of the management board



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