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

Consolidated and unconsolidated financial statements

For the year ended 31 December 2014

Together with Independent Auditor's Report

Contents

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.
ZAGREB, Buzinski prilaz 10

M San Grupa d.d.
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27 May 2015

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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 statement of financial position as at 31 December 2014, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Bases for qualified opinion

(i) Expired and doubtful receivables and prepayments for inventories

At 31 December 2014 trade receivables and prepayments made, which amount in total to HRK 11,864 thousand for the Company and HRK 17,128 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 are not able to determine the related potential effect on the 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 4,306 thousand, whereas the related revaluation reserve is reported in the negative amount of HRK 5,312 thousand and the related deferred tax assets in the amount of HRK 1,328 thousand. In previous year, 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 Measuremen* in the amount of HRK 5.175 thousand and HRK 137 thousand in current year. As a result, as at 31 December 2014, the revaluation reserve balance is understated by HRK 5,312 thousand, the balance of deferred tax assets is overstated by HRK 1,328 thousand, retained earnings balance is overstated by HRK 6,469 thousand, and profit for the year ended 31 December 2014 is overstated by HRK 171 thousand.

(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., for which indications of impairment existed at 31 December 2014. At 31 December 2014 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Qualified opinion

In our opinion, except for the effects of the matters described in the *Basis 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 2014, 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, 27 May 2015

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

	Notes	2014	2013
OPERATING INCOME			
Sales	5	1,857,968	1,654,506
Cost of goods sold	8	(1,611,426)	(1,447,544)
Gross profit		**246,542**	**206,962**
Other operating income	6	4,748	5.878
Increase/ (decrease) in inventories of finished goods and work in progress		816	882
OPERATING EXPENSES			
Cost of raw material and supplies	7	(15,123)	(13,560)
Other external charges	9	(103,656)	(97,036)
Staff costs	10	(50,875)	(47,442)
Depreciation and amortisation	11	(5,869)	(5,684)
Other expenses	12	(11,698)	(11,401)
Impairment allowance	13	(1,813)	(511)
Provisions for risks within the warranty period	38	(2,006)	(688)
Other operating expenses	14	(6,194)	(2,849)
Total operating expenses		**(197,234)**	**(179,171)**
Operating profit		**54,872**	**34,551**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	25,322	27,241
Financial expenses	16	(48,173)	(47,689)
Net financial expense		**(22,851)**	**(20,448)**
Profit before tax		**32,021**	**14,103**
Income tax	17	(5,734)	(2,089)
Profit for the year		**26,287**	**12,014**
OTHER COMPREHENSIVE LOSS			
Decrease in revaluation reserves		(171)	(7,894)
Exchange differences on translation of foreign operations		(1,717)	2,630
Deferred tax on other comprehensive loss items		34	1,579
Total comprehensive income for the year		**24,433**	**8,329**
Profit attributable to:			
Equity holders of the Company		25,201	10,965
Non-controlling interests		1,086	1,049
		26,287	**12,014**
Total comprehensive income attributable to:			
Equity holders of the Company		24,598	7,052
Non-controlling interest		(165)	1,277
		24,433	**8,329**
Earnings per share (in kunas and lipas), basic and diluted	36	**12.60**	**5.48**

Consolidated statement of financial position
At 31 December 2014
(all amounts sre expressed in thousands of kunas)

ASSETS	**Notes**	**2014**	**2013**
NON-CURRENT ASSETS			
Intangible assets	18	4,221	5,019
Goodwill	19	45,671	45,666
Property, plant and equipment	20	116,914	116,825
Financial assets	21	13,278	13,759
Given deposits	22	227	114
Long-term receivables	23	632	1,058
Deferred tax assets	17	1,578	1,547
TOTAL NON-CURRENT ASSETS		**182,521**	**183,988**
CURRENT ASSETS			
Inventories	24	198,015	183,012
Trade receivables	26	318,334	313,352
Prepayments made	25	9,464	9,306
Due from employees	27	1,066	1,135
Receivables from the State and other institutions	28	17,094	8,438
Given loans and deposits	29	251,607	234,430
Prepaid expenses and accrued income	30	49,924	40,194
Other receivables	31	40,706	30,262
Cash and cash equivalents	32	43,846	55,543
TOTAL CURRENT ASSETS		**930,056**	**875,672**
TOTAL ASSETS		**1,112,577**	**1,059,660**

(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	**Notes**	**2014**	**2013**
EQUITY			
Share capital	33	200,000	200,000
Legal reserves		6,280	6,248
Reservs from translation of foreign currencies		(1,375)	(909)
Revaluation reserves	34	(5,312)	(5,175)
Retained earnings	35	120,663	95,494
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**320,256**	**295,658**
Non-controlling interest	37	21,081	21,246
TOTAL EQUITY		**341,337**	**316,904**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	38	2,006	688
Long-term borrowings and finance lease obligations	39	232,772	260,614
Deferred tax liability	17	6	6
TOTAL NON-CURRENT LIABILITIES		**234,784**	**261,308**
CURRENT LIABILITIES			
Short-term bank borrowings and finance lease obligations	40	210,850	207,751
Advances received	41	1,544	2,958
Trade payables	42	274,157	226,636
Amounts due to employees	43	2,060	1,804
Taxes, contributions and similar duties payable	44	26,517	23,315
Other current liabilities	45	12,578	12,907
Accrued expenses and deferred income	46	8,750	6,077
TOTAL CURRENT LIABILITIES		**536,456**	**481,448**
TOTAL EQUITY AND LIABILITIES		**1,112,577**	**1,059,660**

Consolidated statement of changes in shareholder's equity
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Foreign currency translation reserves	Revalua-tion reserves	Retained earnings	Equity holders of the parent	Non-controlling interest	Total
Balance at 1 January 2013	**200,000**	**6,203**	**(3,311)**	**1,140**	**84,574**	**288,606**	**19,823**	**308,429**
Transfer of profit		45	-		(45)	-	-	-
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)
Total comprehensive income for the year	-	-	*2,402*	*(6,315)*	*10,965*	*7,052*	*1,277*	*8,329*
Balance at 31 December 2013	**200,000**	**6,248**	**(909)**	**(5,175)**	**95,494**	**295,658**	**21,247**	**316,904**
Transfer of profit	-	32	-	-	(32)	-	-	-
Profit payout to the owner	-	-	-	-	-	-	-	-
Increase in non-controlling interest by additional share purchased	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	25,201	25,201	1,086	26,287
Other comprehensive loss	-	-	(466)	(137)	-	(603)	(1,251)	(1,854)
Total comprehensive income for the year	-	-	*(466)*	*(137)*	*25,201*	*24,598*	*(165)*	*24,433*
Balance at 31 December 2014	**200,000**	**6,280**	**(1,375)**	**(5,312)**	**120,663**	**320,256**	**21,081**	**341,337**

Consolidated statement of cash flows
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	26,287	12,016
Adjusted by:		
Income tax	5,730	2,089
Depreciation of property, plant and eqipment and intangible assets	5,869	5,684
Gains on disposal of property, plant and equipment	(16)	(404)
Impairment of intangible assets	324	297
Share in the profit of associates	-	(190)
Impairment allowance and write-off of trade receivables	1,489	1,557
Net loss / (gain) from reversal of long term provisions	1,318	(1,043)
Net interest expense	11,629	10,770
Net foreign exchange loss and other non-cash adjustments	4,833	6,575
	57,495	**37,351**
CHANGES IN WORKING CAPITAL		
Increase in given deposit	(113)	(110)
(Increase) / decrease in inventory	(15,003)	11,292
Increase in trade receivables	(6,124)	(7,604)
Cash received on recovery of receivables previously written off	79	528
(Increase) / decrease in given advances	(158)	5,099
(Increase) / decrease in other receivables	(10,158)	11,287
Increase in prepaid expenses and accrued income	(9,730)	(13,094)
(Decrease) / increase in received advances	(1,414)	2,120
Increase in trade payables	47,521	12,553
Increase / (decrease) in other current liabilities	649	(2,070)
Increase in accrued expenses and deferred income	2,673	1,656
CASH GENERATED FROM OPERATIONS	**65,717**	**59,008**
Interests paid	(29,423)	(31,979)
Interests collected	6,485	6,361
Income taxes paid	(814)	(1,258)
Net cash generated from operating activities	**41,965**	**32,132**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(6,174)	(10,420)
Cash receipts from fixed assets	82	1,334
(Increase) / decrease in given short-term loans	(17,177)	7,167
Net cash used in from investing activities	**(23,269)**	**(1,919)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan institutions	224,664	334,926
Payments made to financial institutions	(255,394)	(342,335)
Received dividends	337	**-**
Net cash used in financing activities	**(30,393)**	**(7,409)**
Net (decrease) / increase in cash and cash equivalents	**(11,697)**	**22,804**
Cash and cash equivalents at the beginning of the year	**55,543**	**32,739**
Cash and cash equivalents at the end of year	**43,846**	**55,543**

Unconsolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

	Notes	2014	2013
OPERATING INCOME			
Sales	5	1,552,376	1,327,172
Cost of goods sold	8	(1,401,115)	(1,200,080)
Gross profit		**151,262**	**127,092**
Other operating income	6	2,549	3,335
OPERATING EXPENSES			
Cost of raw material and supplies	7	(2,016)	(2,133)
Other external charges	9	(76,806)	(73,785)
Staff costs	10	(21,587)	(19,582)
Depreciation and amortisation	11	(2,377)	(1,968)
Other expenses	12	(5,366)	(5,422)
Impairment allowance	13	(324)	(297)
Provisions for risks within the warranty period	38	(2,006)	(688)
Other operating expenses	14	(5,367)	(2,085)
Total operating expenses		**(115,849)**	**(105,960)**
OPERATING PROFIT		**37,961**	**24,467**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	26,450	25,245
Financial expenses	16	(41,762)	(44,163)
Net financial expense		**(15,312)**	**(18,918)**
Profit before tax		22,649	**5,549**
Income tax	17	(4,512)	(1,253)
PROFIT FOR THE YEAR		**18,137**	**4,296**
OTHER COMPREHENSIVE LOSS			
Decrease of revaluation reserves		(171)	(7,893)
Deferred tax on other comprehensive loss items		34	1,578
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**18,000**	**(2,019)**
Earnings per share (in kunas and lipas), basic and diluted	36	**9.07**	**2.15**

Unconsolidated statement of financial position
At 31 December 2014
(all amounts are expressed in thousands of kunas)

ASSETS	**Notes**	**2014**	**2013**
NON-CURRENT ASSETS			
Intangible assets	18	4,020	4,790
Property, plant and equipment	20	15,689	16,972
Financial assets	21	167,982	168,641
Long-term receivables	23	632	1,058
Deferred tax assets	17	1,328	1,294
TOTAL NON-CURRENT ASSETS		**189,651**	**192,755**
CURRENT ASSETS			
Inventories	24	118,013	110,810
Trade receivables	26	233,728	227,879
Prepayments made	25	7,784	8,581
Due from employees	27	27	45
Receivables from the State and other institutions	28	14,081	6,594
Given loans and deposits	29	215,143	201,367
Prepaid expenses and accrued income	30	48,157	38,735
Other receivables	31	33,343	24,876
Cash and cash equivalents	32	35,023	45,271
TOTAL CURRENT ASSETS		**705,299**	**664,158**
TOTAL ASSETS		**894,950**	**856,913**

Unconsolidated statement of financial position (continued)
At 31 December 2014
(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	2014	2013
EQUITY			
Share capital	33	200,000	200,000
Legal reserves		6,203	6,203
Revaluation reserve	34	(5,312)	(5,175)
Retained earnings	35	48,898	30,761
TOTAL EQUITY		**249,789**	**231,789**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	38	2,006	688
Long-term borrowings and finance lease obligations	39	223,839	251,574
TOTAL NON-CURRENT LIABILITIES		**225,845**	**252,262**
CURRENT LIABILITIES			
Short-term bank borrowings	40	140,562	144,480
Advances received	41	2,461	2,876
Trade payables	42	236,031	188,827
Amounts due to employees	43	1,163	1,016
Taxes, contributions and similar duties payable	44	24,281	21,010
Other current liabilities	45	10,326	11,036
Accrued expenses and deferred income	46	4,492	3,617
TOTAL CURRENT LIABILITIES		**419,316**	**372,862**
TOTAL EQUITY AND LIABILITIES		**894,950**	**856,913**

Unconsolidated statement of changes in equity
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2013	**200,000**	**6,203**	**1,140**	**26,465**	**233,808**
Dividends paid	-	-	-		
Profit for the year	-	-	-	4,296	4,296
Other comprehensive loss	-	-	(6,315)	-	(6,315)
Total comprehensive loss	*-*	*-*	*(6,315)*	*4,296*	*(2,019)*
Balance at 31 December 2013	**200,000**	**6,203**	**5,175**	**30,761**	**231,789**
Profit for the year	-	-	-	18,137	18,137
Other comprehensive loss	-	-	(137)	-	(137)
Total comprehensive loss	*-*	*-*	*(137)*	*18,137*	*18,000*
Balance at 31 December 2014	**200,000**	**6,203**	**(5,312)**	**48,898**	**249,789**

Unconsolidated statement of cash flows
For the year ended 31 December 2014
(all amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013
Profit for the year	18,137	4,296
Adjusted by:		
Income tax	4,512	1,253
Depreciation of property, plant and equipment and intangible assets	2,377	1,968
Impairment of intangible assets	324	297
Gains on disposal of property, plant and equipment	(8)	(159)
Net loss / (gain) from reversal of long term provisions	1,318	(1,043)
Net interest expense	10,133	9,997
Net foreign exchange loss and other non-cash adjustments	804	4,444
	37,597	**21,053**
CHANGES IN WORKING CAPITAL		
Decrease in given deposit	797	2,737
Increase in inventory	(7,203)	(729)
(Increase) / decrease in trade receivables	(5,454)	34,040
(Increase) / decrease in other receivables	(8,425)	15,062
Increase in prepaid expenses and accrued income	(9,422)	(13,046)
Cash received on recovery of receivables previously written off	31	129
Decrease in received advances	(415)	(3,255)
Increase in trade payables	47,204	10,860
(Increase) / decrease in other current liabilities	520	(4,666)
Increase in accrued expenses and deferred income	875	2,285
CASH GENERATED FROM OPERATIONS	**56,105**	**64,470**
Interests paid	(24,149)	(27,387)
Interests collected	4,692	4,005
Income taxes paid	(318)	(1,004)
Net cash generated from operating activities	**36,330**	**40,084**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(648)	(2,843)
(increase) / decrease in given loans	(13,776)	6,052
Proceeds from sale of property, plant and equipment	8	164
Net cash (used in) / generated from investing activities	**(14,416)**	**3,373**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash proceeds from loan institutions	45	62.050
Repayments to financial institutions	(32,544)	(81.299)
Dividends received	337	-
Net cash used in financing activities	**(32,162)**	**(19,249)**
Net (decrease) / increase in cash and cash equivalents	**(10,248)**	**24,208**
Cash and cash equivalents at the beginning of the year	**45,271**	**21,063**
Cash and cash equivalents at the end of year	**35,023**	**45,271**

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 2014 and 2013:

Miroslav Huzjak, President
Irena Langer-Breznik, Member
Slaven Stipančić, Member
Žarko Kruljac, Member

Supervisory Board in 2014 and 2013:

Stipo Matić, Chairman of Supervisory Board
Damir Krstičević, Deputy Chairman
Snježana Matić, Member

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

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union are effective for the current period:

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the European Union on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the European Union 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 European Union on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the European Union 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 European Union 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 European Union on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements”** – Investment Entities, adopted by the European Union on 20 November 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 European Union on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 “Impairment of assets”** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the European Union on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not lead to any changes in the Company's or Group's accounting policies.

2. ADOPTION OF NEW AND REVISED INERNATIONAL 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, amendments to the existing standards and interpretations issued by IASB and adopted by the European Union were in issue but not yet effective:

- **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 - adopted by the European Union on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **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 - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after 1 Februaey 2015),
- **IFRIC 21 "Levies**" adopted by the European Union on 13 June 2014 (effective for annual periods beginning on or after 17 June 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 interpretations, which were not endorsed for use as at the date of publication of the financial statements:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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.

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 and unconsolidated 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. Comparative information have been restated, where necessary, in order to be aligned with the figures presented for current year. Therefore, the Company and the Group have recognized all credit notes from suppliers within the cost of goods solds (note 8), and all credit notes issued to customers within sales revenue (note 5), while in previous years portion of received and issued credit notes was recognised in Other operating income and Other operating expense. Specified items have been reclassified in the Statement of profit and loss and other comprehensive income in such a way to be aligned with the 2014 depiction.

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 structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

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

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 and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. 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 or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses on transactions between a company which is a member of the Group and the associate or joint venture within the Group in the consolidated financial statements of the Group are recognized only to the extent of interests in the associate or joint venture that is not related to the Group.

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) <u>Service sales</u>

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.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of 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 on initial recognition.

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.

(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 2014 and 2013 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2014	Average rate for 2014	31/12/2013	Average rate for 2013
RSD	15.74658	15.30953	14.93890	14.90810
KM	0.25528	0.25618	0.25607	0.25607
MKD	8.04629	8.06168	8.11122	8.14670
EUR	7.661471	7.634434	7.63764	7.57554

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.

iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

(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 2014	2013
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%

On land owned no depreciation rate is applied.

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% (2013: 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 instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.
Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss' (FVTPL), ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.
Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

ii) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

ii) Financial assets at FVTPL

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses' line item. Fair value is determined in the manner described in note 48.

iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others [describe]) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

v) Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in note 40. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

vi) Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

vi) Impairment of financial assets (continued)

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

vii) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments

Classification as debtor equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 a group entity are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially recognised at fair value decreased for transaction cost.
Other financial liabilities are subsequently measured at amortised cost using the effective interest method.
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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group or the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 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 Group and the Company have 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 recognised in profit or loss in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events after the reporting date

Post-year-end events that provide additional information about the Company's and the Group'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, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION

As of 31 December 2014, 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, intra-segment sales.

Group segment revenue and results

2014	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,576,962	304,121	308,871	37,717	47,835	2,275,506	(417,538)	1,857,968
Cost of goods sold less supplier discounts and allowances	(1,401,097)	(259,878)	(261,229)	(33,150)	(40,801)	(1,996,155)	384,729	(1,611,426)
Changes in inventory	-	816	-	-	-	816	-	816
Other operating income	2,668	1,678	553	50	33	4,982	(234)	4,748
Other operating expenses	(140,949)	(36,222)	(41,073)	(5,138)	(6,125)	(229,507)	32,273	(197,234)
Profit from operations	**37,584**	**10,515**	**7,122**	**(521)**	**942**	**55,642**	**(770)**	**54,872**
Net finance expenses	(15,365)	(3,687)	(4,479)	(231)	(334)	(24,096)	1,245	(22,851)
Profit before taxes	**22,219**	**6,828**	**2,643**	**(752)**	**608**	**31,546**	**475**	**32,021**

The difference between the sales revenue, the costs of goods sold and between other operating income and other operating expenses presented in the statement of profit or loss and the statement of other comprehensive income arises from the inability to allocate certain allowances granted to customers and those received from suppliers according to the classification of sales and cost of goods sold defined for the segmentation purposes. Therefore, they are included within other operating income and other operating expenses.

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2013	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,359.962	284,242	301,273	45,012	53,120	2,043,609	(389,103)	1,654,506
Cost of goods sold less supplier discounts and allowances	(1,200,068)	(250,132)	(262,130)	(39,964)	(46,159)	(1,798,453)	350,909	(1,447,544)
Changes in inventory	-	882	-	-	-	882	-	882
Other operating income	3,559	1,826	477	54	39	5,955	(77)	5,878
Other operating expenses	(139,389)	(30,386)	(37,277)	(4,613)	(6,006)	(217,671)	38,500	(179,171)
Profit from operations	**24,064**	**6,432**	**2,343**	**489**	**994**	**34,322**	**229**	**34,551**
Net finance expenses	(18,962)	(632)	146	8	(340)	(19,780)	(668)	(20,448)
Profit before taxes	**5,102**	**5,800**	**2,489**	**497**	**654**	**14,542**	**(439)**	**14,103**

Segment assets and liabilities

2014	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	20,155	85,266	15,844	1,115	512	122,892	43,914	166,806
Other non-current assets	169,942	26,080	584	10	123	196,739	(181,024)	15,715
Current assets	708,410	150,090	96,851	16,597	19,179	991,127	(61,071)	930,056
Total assets	**898,507**	**261,436**	**113,279**	**17,722**	**19,814**	**1,310,758**	**(198,181)**	**1,112,577**
Long term liabilities	225,876	7,042	1,866	-	-	234,784	-	234,784
Short term liabilities	422,584	102,948	64,625	3,598	4,364	598,119	(61,663)	536,458
Total liabilities	**648,460**	**109,990**	**66,491**	**3,598**	**4,364**	**832,903**	**(61,663)**	**771,240**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

2013	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	22,220	82,258	17,080	1,101	647	123,306	44,204	167,510
Other non-current assets	170,993	25,886	602	12	122	197,615	(181,137)	16,478
Current assets	667,871	139,782	87,265	15,265	23,533	933,716	(58,044)	875,672
Total assets	**861,084**	**247,926**	**104,947**	**16,378**	**24,302**	**1,254,637**	**(194,977)**	**1,059,660**
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
Total liabilities	**628,577**	**103,034**	**57,999**	**1,543**	**9,451**	**800,604**	**(57,848)**	**742,756**

Other segment information

	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
2014								
Depreciation	(2,536)	(2,065)	(1,191)	(9)	(181)	(5,982)	113	(5,869)
Increase of tangible and intangible assets	795	4,935	806	18	40	6,594	(505)	6,089
2013								
Depreciation	(2,123)	(2,389)	(1,112)	(63)	(145)	(5,832)	148	(5,684)
Increase of tangible and intangible assets	2,954	5,351	760	423	928	10,416	-	10,416

(all amounts are expressed in thousands of kunas)

5. SALES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Domestic sales - goods	1,659,398	1,505,370	1,013,048	896,021
Foreign sales - goods	172,919	129,275	422,755	322,568
Service sales	52,877	51,887	29,498	26,730
Income from the sale of licences	12,972	10,673	12,968	10,706
Re-export sales	6,086	3,110	110,093	104,805
Other	5,324	2,732	2,837	1,291
Allowances and discounts provided to buyers	(51,608)	(48,540)	(38,823)	(34,949)
Total	**1,857,968**	**1,654.506**	**1,552,376**	**1,327,172**

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Croatia	1,019,104	917,055	1,018,907	916,438
Serbia	294,320	283,147	182,343	164,935
Bosnia and Herzegovina	293,452	253,295	141,964	118,936
Belgium	47,003	29,537	47,003	29,537
Macedonia	46,058	44,422	29,582	31,094
Austria	37,912	31,335	26,105	12,216
Montenegro	37,114	42,774	24,911	30,903
Poland	23,525	10,426	23,525	10,426
Slovenia	21,491	17,580	21,491	17,580
France	14,580	360	14,580	360
Germany	13,723	10,938	13,708	9,877
Uruguay	8,272	-	8,272	-
Kosovo	6,977	14,497	6,007	6,727
Switzerland	4,907	277	3,933	3,069
Other	41,138	47,404	28,868	10,024
Total	**1,909,576**	**1,703,047**	**1,591,199**	**1,362,122**

(all amounts are expressed in thousands of kunas)

6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Income from free of charge receipts	1,946	1,360	1,587	1,045
Long-term provisions turned to income	688	1,731	688	1,731
Inventory surplus	89	37	37	9
Income from recovery of bad and doubtful accounts	79	528	31	129
Income from sale of non-current assets	16	404	8	159
Other operating income	1,929	1,818	198	262
Total	**4,748**	**5,878**	**2,549**	**3.335**

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

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Basic and auxiliary materials, and office supplies	6,518	4,367	307	243
Energy and fuels for freight and personal vehicles	4,282	3,920	660	440
Small inventory, packaging and tyres lies	1,956	2,389	970	1,302
Servicing, replacement and repair costs under warranty	1,524	2,118	79	148
Ullage, spillage, breakage of raw materials and supplies	538	467	-	-
Cost of materials and spare parts for equipment maintenance	305	299	-	-
Total	**15,123**	**13,560**	**2,016**	**2,133**

(all amounts are expressed in thousands of kunas)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Cost of goods sold	1,677,848	1,498,740	1,457,794	1,242,071
Ullage, spillage, breakage	2,520	1,280	2,316	1,269
Cost of real estate for resale	1,056	-	1,056	-
Other cost of goods sold	146	76	-	-
Excessive deficits on stock	107	262	-	-
Allowances and discounts provided by suppliers	(70,251)	(52,814)	(60,051)	(43,260)
Total	**1,611,426**	**1,447,544**	**1,401,114**	**1,200,080**

9. OTHER EXTERNAL CHARGES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Business premise and equipment rental costs	14,887	15,062	4,413	4,566
Costs of the Support Office and bookkeeping services	13,762	14,038	11,769	11,830
Guarantee extension costs	13,122	13,371	4,339	5,054
Marketing, sponsorships and fairs	12,391	10,326	6,123	3,847
Licences for intellectual property	11,973	9,707	11,906	9,612
Telephone and transportation costs	10,606	7,444	8,530	9,839
Municipal utility fees and economic ownership	6,240	6,587	5,116	6,429
Outsourced repair of faulty goods under warranty	5,078	4,274	4,717	3,993
Maintenance and repairs	3,069	3,140	1,249	1,239
Entertainment	1,938	2,627	675	1,107
Intelectual services	1,756	1,703	424	806
Other external services	8,834	8,757	17,545	15,463
Total	**103,656**	**97,036**	**76,806**	**73,785**

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

(all amounts are expressed in thousands of kunas)

10. STAFF COSTS

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Net salaries	30,234	28,404	12,119	11,091
Taxes, surtaxes and contributions out of salaries	13,156	12,612	6,377	5,960
Contributions on salaries	7,485	6,426	3,091	2,531
Total	**50,875**	**47,442**	**21,587**	**19,582**

The average number of employees in the Group during the year 2014 was 431 (2013: 427 employees on average). The average number of employees in the Company during the year 2014 was 127 (2013: 122 employees on average).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Depreciation	5,312	5,164	1,871	1,522
Amortisation	557	520	506	446
Total	**5,869**	**5,684**	**2,377**	**1,968**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Bank and payment operation charges	2,013	2,299	1,106	1,221
Professional training and literature	1,501	861	1,237	622
Per diems and other business travel costs	1,411	1,489	646	695
Commutation allowance	1,408	1,343	533	494
Forest levies, other contributions and membership fees	1,073	934	612	594
Insurance premiums for equipment, vehicles and inventories	811	933	494	581
Taxes independent of the operating result	568	285	101	69
Christmas allowance, children's gifts, awards	306	445	110	219
Other expenses	2,607	2,812	527	927
Total	**11,698**	**11,401**	**5,366**	**5,422**

(all amounts are expressed in thousands of kunas)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2014	2013	2014	2013
Impairment allowance on trade receivables	1,489	214	-	-
Impairment allowance on intangible assets	324	297	324	297
Total	**1,813**	**511**	**324**	**297**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2014	2013	2014	2013
Written-off trade receivables	3,329	1,343	3,275	1,282
Fines	37	42	-	4
Other operating expenses	2,828	1,464	2,092	799
Total	**6,194**	**2,849**	**5,367**	**2,085**

15. FINANCIAL INCOME

	GROUP		COMPANY	
	2014	2013	2014	2013
Interest income	17,780	19,664	14,002	15,791
Foreign exchange gains	7,024	7,381	12,108	9,449
Share of profits of associates	515	190	337	-
Other financial income	3	6	3	5
Total	**25,322**	**27,241**	**26,450**	**25,245**

16. FINANCIAL EXPENSES

	GROUP		COMPANY	
	2014	2013	2014	2013
Interest expense	29,409	30,434	24,135	25,788
Foreign exchange losses	14,483	14,417	14,418	16,362
Bank guarantees fees	1,778	900	1,487	770
Loan origination costs	1,592	1,271	1,089	931
Factoring fees	688	634	633	312
Share of losses of associates	223	33	-	-
Total	**48,173**	**47,689**	**41,762**	**44,163**

(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.

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Current tax	5,731	2,097	4,512	1,253
Deferred tax	3	(8)	-	-
Income tax expense	**5,734**	**2,089**	**4,512**	**1,253**

Current tax

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Accounting profit before tax	32,020	4,103	22,649	5,549
Items increasing the profit / decreasing the loss	8,502	5,402	6,385	3,881
Items decreasing the profit / increasing the loss	(6,300)	(3,826)	(6,472)	(3,164)
Tax base	**34,222**	**15,679**	**22,562**	**6,266**
Use of tax loss	(583)	(2,012)	-	-
Taxable profit	**33,639**	**13,667**	**22,562**	**6,266**
Current tax	5,731	2,081	4,512	1,253

Deferred tax	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Opening balance	**1,547**	**243**	**1,294**	**-**
Increase in the benefit of other comprehensive income	34	1,294	34	1,294
Foreign exchange (gains) / losses	(3)	10	-	-
Closing balance	**1,578**	**1,547**	**1,328**	**1,294**

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

Changes of deferred tax liabilities are shown as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Balance at 1 January	**6**	**289**	**-**	**285**
Debited to other comprehensive income	-	(285)	-	(285)
Charged to profit or loss	-	2	-	-
Balance at 31 December	**6**	**6**	**-**	**-**

Net deferred tax assets is shown as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Deferred tax assets	1,578	1,547	1,328	1,294
Deferred tax liability	(6)	(6)	-	-
Net deferred tax assets	**1,572**	**1,541**	**1,328**	**1,294**

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, 2013 and 2014 was still pending.

(all amounts are expressed in thousands of kunas)

18. INTANGIBLE ASSETS

GROUP	Soft-ware	Conce-ssions	Development expenses	Trade mark	Intangible assets under development	Total
COST						
At 1 January 2013	**9,606**	**52**	**1,992**	**111**	**4,369**	**16,130**
Additions	-	-	-	-	4	4
Impairment	-	-	-	-	(297)	(297)
Exchange differences	19		-	-	-	19
At 31 December 2013	**9,625**	**52**	**1,992**	**111**	**4,076**	**15,856**
Additions	-	-	-	-	85	85
Transfer from assets under development	75	-	-	-	(75)	-
Impairment	-	-	-	-	(324)	(324)
Exchange differences	(11)	1	-	-	-	(10)
At 31 December 2014	**9,689**	**53**	**1,992**	**111**	**3,762**	**15,607**
ACCUMULATED AMORTISATION						
At 1 January 2013	**8,366**	**2**	**1,818**	**111**	**-**	**10,297**
Charge for the year	433	3	87	-	-	520
Exchange differences	17	-	-	-	-	17
At 31 December 2013	**8,816**	**5**	**1,905**	**111**	**-**	**10,837**
Charge for the year	467	3	87	-	-	557
Exchange differences	(9)	1	-	-	-	(8)
At 31 December 2014	**9,274**	**9**	**1,992**	**111**	**-**	**11,386**
CARRYING AMOUNT						
At 31 December 2014	**415**	**44**	**-**	**-**	**3,762**	**4,221**
At 31 December 2013	**809**	**47**	**87**	**-**	**4,076**	**5,019**

(all amounts are expressed in thousands of kunas)

18. INTANGIBLE ASSETS (CONTINUED)

	Software	Development expenses	Trade mark	Intangible assets under development	Total
COST					
At 1 January 2013	**8,436**	**1,992**	**111**	**4,268**	**14,807**
Additions	-	-	-	-	-
Impairment	-	-	-	(297)	(297)
At 31 December 2013	**8,436**	**1,992**	**111**	**3,971**	**14,510**
Additions	-	-	-	60	60
Transfer from assets under development	60	-	-	(60)	-
Impairment	-	-	-	(324)	(324)
At 31 December 2014	**8,496**	**1.992**	**111**	**3,647**	**14,246**
ACCUMULATED AMORTISATION					
At 1 January 2013	**7,345**	**1,818**	**111**	**-**	**9,274**
Charge for the year	359	87	-	-	446
At 31 December 2013	**7,704**	**1,905**	**111**	-	**9,720**
Charge for the year	419	87	-	-	506
At 31 December 2014	**8,123**	**1,992**	**111**	**-**	**10,226**
CARRYING AMOUNT					
At 31 December 2014	**373**	**-**	**-**	**3,647**	**4,020**
At 31 December 2013	**732**	**87**	**-**	**3,971**	**4,790**

(all amounts are expressed in thousands of kunas)

19. GOODWILL

	2014	2013
Cost	45,671	45,666
	45,671	**45,666**

	2014	2013
Cost		
Balance at beginning of the year	45,666	45,648
Effect of exchange differences	5	18
Balance at end of year	**45,671**	**45,666**

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:

	2014	2013
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	1,505	1,500
Total	**45,671**	**45,666**

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 using of an appropriate discount rate

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

(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
COST							
At 1 January 2013	**113,548**	**32,770**	**14,422**	**12,421**	**1,855**	**4,064**	**179,080**
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)
Reclasification	-	-	-	-	(529)	529	-
Exchange differences	1,097	266	22	47	6	18	1,456
At 31 December 2013	**118,075**	**37,968**	**12,680**	**12,637**	**2,172**	**3,725**	**187,257**
Additions	-	630	62	-	142	5,255	6,089
Transfer from assets under development	1,788	4,316	1,015	351	-	(7,470)	-
Disposals	(86)	(37)	(146)	-	-	-	(269)
Exchange differences	(747)	(35)	(22)	(179)	481	(527)	(1,029)
At 31 December 2014	**119,030**	**42,842**	**13,589**	**12,809**	**2,795**	**983**	**192,048**

(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 develop-ment	Total
ACCUMULATED AMORTISATION							
At 1 January 2013	**20,407**	**23,760**	**12,758**	**9,598**	**1,176**	**-**	**67,699**
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
At 31 December 2013	**22,116**	**25,309**	**11,197**	**10,628**	**1,182**	**-**	**70,432**
Charge for the year	1,256	2,490	620	732	214	-	5,312
Disposals	-	(28)	(141)	(2)	-	-	(171)
Exchange differences	(149)	(66)	(19)	(148)	(57)	-	(439)
At 31 December 2014	**23,223**	**27,705**	**11,657**	**11,210**	**1,339**	**-**	**75,134**
CARRYING AMOUNT							
At 31 December 2014	**95,807**	**15,137**	**1,932**	**1,599**	**1,456**	**983**	**116,914**
At 31 December 2013	**95,959**	**12,659**	**1,483**	**2,009**	**990**	**3,725**	**116,825**

(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 develop-ment	Total
COST						
At 1 January 2013	**10,646**	**19,836**	**5,893**	**5,561**	**2,951**	**44,887**
Additions	700	-	-	-	2,143	2,843
Transfer from assets under development	-	4,543	183	68	(4,794)	-
Disposals	-	(298)	(841)	-	-	(1,139)
At 31 December 2013	**11,346**	**24,081**	**5,235**	**5,629**	**300**	**46,591**
Additions	-	-	-	-	588	588
Transfer from assets under development	-	195	124	269	(588)	-
Disposals	-	-	(112)	-	-	(112)
At 31 December 2014	**11,346**	**24,276**	**5,247**	**5,898**	**300**	**47,067**

(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**
ACCUMULATED AMORTISATION						
At 1 January 2013	**-**	**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**
Charge for the year	-	1,354	365	152	-	1,871
Disposals	-	-	(112)	-	-	(112)
At 31 December 2014	**-**	**21,615**	**4,683**	**5,080**	**-**	**31,378**
CARRYING AMOUNT						
At 31 December 2014	**11,346**	**2,661**	**564**	**818**	**300**	**15,689**
At 31 December 2013	**11,346**	**3,820**	**805**	**701**	**300**	**16,972**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Investments in assets available for sale	-	-	158,901	158,901
Investments in shares available for sale	5,590	4,680	5,387	4,477
Investments in associates	6,607	6,959	2,613	3,143
Investments in held-to-maturity bonds	1,081	2,120	1,081	2,120
	13,278	**13,759**	**167,982**	**168,641**

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	
			2014	**2013**	**2014**	**2013**
			%	%		
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
					158,901	**158,901**

(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 2014 and 31 December 2013:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Share in the company Ventex d.o.o.	6,593	6,945	2,606	3,136
Share in the company Baks Nekretnine d.o.o.	7	7	7	7
Share in the company Elko kompjuteri d.o.o.	7	7	-	-
	6,607	**6,959**	**2,613**	**3,143**

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**	
			2014	**2013**
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:

	2014	**2013**
Total assets	20,101	19,725
Total liabilities	9,344	7,756
Net assets	**10,757**	**11,969**
Group's share in the net assets of the associates	**5,271**	**5,865**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

	2014	2013
Total income	34,401	37,667
Total profit for the year	497	498
Attribution of profit from previous years	688	
Unrealised profit in stock	(135)	(111)
The Group's share in the profits of the associates (49%)	**515**	**190**

21.3 INVESTMENTS IN AVAILABLE FOR SALE SHARES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Shares of Quaestus Private Equity Capital	4,306	4,477	4,306	4,477
Shares in the company Metronet telekomunikacije d.d.	1,081	-	1,081	-
Shares in the custody account	203	203	-	-
	5,590	**4,680**	**5,387**	**4,477**

The Company's share in the private equity fund Quaestus Private Equity capital is 5.83% (31 December 2013: 5.83%). The shares of the Fund are not quoted in an active market. At 31 December 2013 the Company held long-term bonds of Metronet telekomunikacije d.d. in the amount of HRK 2,162 thousand. As a result of the pre-bankruptcy settlement proceedings against Metronet telekomunikacije d.d., HRK 1,081 thousand of the above-mentioned amount were converted into an equity share of Metronet telekomunicije d.d. and reclassified as available-for-sale assets. The remaining HRK 1,081 thousand were classified as receivables under long-term bonds held to maturity.

Fair value	**Quaestus Private Equity Capital**	**Metronet**	**Shares in the custody account**	**Total**
Balance at 1 January 2014	**4,477**	**-**	**203**	**4,680**
Purchase	-	1,081	-	1,081
Foreign exchange differences	(171)	-	-	(171)
Balance at 31 December 2014	**4,307**	**1,081**	**203**	**5,590**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.4 INVESTMENTS IN HELD TO MATURITY BONDS

Investment in held to maturity bonds comprise bonds of the company Metronet d.d. in the amount of HRK 1,081 thousand (31 December 2013: HRK 2,120 thousand). According to the decision approving the pre-bankruptcy settlement over debtor Metronet telekomunikacije d.d., bonds 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 (19 March, 2014), only the interest will be paid, with an annual rate of 4.5%.

22. GIVEN DEPOSITS

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Deposits for leases	115	-	-	-
Other	112	114	-	-
Total	**227**	**114**	**-**	**-**

(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 632 thousand (2013: HRK 1,058 thousand). Majority of mentioned receivables is related to equipment sold to MR Servis in amount of HRK 200 thousand (2013: HRK 400 thousand) and to individuals in the amount of HRK 288 thousand (2013: HRK 387 thousand).

24. INVENTORIES

	GROUP		**COMPANY**	
	2014	**2013**	**2014**	**2013**
Merchandise	121,579	118,769	59,414	66,936
Goods in the customs warehouse	37,350	24,908	37,350	24,908
Goods in transport	31,825	24,214	20,853	17,514
Inventories of raw material and supplies	3,854	11,288	-	-
Other inventories	3,407	3,833	396	1,452
Total	**198,015**	**183,012**	**118,013**	**110,810**

25. PREPAYMENTS MADE

	GROUP		**COMPANY**	
	2014	**2013**	**2014**	**2013**
Prepayments made for goods	8,378	8,974	7,769	8,574
Prepayments made for services	1,086	332	15	7
Total	**9,464**	**9,306**	**7,784**	**8,581**

(all amounts are expressed in thousands of kunas)

26. TRADE RECEIVABLES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Domestic trade receivables	304,312	316,439	168,301	173,692
Foreign trade receivables	39,974	30,039	76,227	65,091
Impairment allowance on trade receivables	(25,952)	(33,126)	(10,800)	(10,904)
Total	**318,334**	**313,352**	**233,728**	**227,879**

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
At 1 January	33,126	33,818	10,904	11,152
Increase in impairment allowance (Note 13)	1,489	214	-	-
Reversed on collection (Note 6)	(79)	(528)	(31)	(129)
Reversed allowances	(8,584)	(378)	(73)	(119)
At 31 December	**25,952**	**33,126**	**10,800**	**10,904**

Ageing of past due but not impaired trade receivables:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Not yet due	220,949	225,113	162,839	167,540
Up to 60 days	47,307	55,519	43,304	36,770
60-90 days	5,454	7,132	4,066	9,882
90-120 days	3,497	2,140	1,153	1,514
120-365 days	22,998	6,890	13,330	2,870
Beyond 365 days	18,129	16,558	9,036	9,303
Total	**318,334**	**313,352**	**233,728**	**227,879**

The average credit period on sales in the Group in 2014 was 61 days (2013: 67 days), while in the Company it was 54 days (2013: 62 days).

(all amounts are expressed in thousands of kunas)

27. AMOUNTS DUE FROM EMPLOYEES

	GROUP		COMPANY	
	2014	2013	2014	2013
Advances paid to employees	16	83	9	25
Other amounts due from employees	1,050	1,052	18	20
Total	**1,066**	**1,135**	**27**	**45**

28. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	2014	2013	2014	2013
Prepaid benefit of EE waste	9,294	-	9,294	-
VAT refund	6,763	5,046	4,626	4,231
Receivables for other taxes, contributions and membership fees	218	481	161	371
Customs duty refunds	89	157		-
Receivables for overpaid income tax	18	2,440	-	1,992
Other amounts due from the state	712	314	-	-
Total	**17,094**	**8,438**	**14,081**	**6,594**

The Environmental Protection and Energy Efficiency Fund ('the Fund') implemented administrative proceedings for the years 2008 and 2010 in which it adopted a final decision verifying that M San Grupa d.d., as the mandatory payer of the electric and electronic waste fee, paid HRK 6,527 thousand into the Fund.

Following the adoption of the final decisions corroborating the actual payment of the liabilities by M San Grupa, the Fund adopted supplemental rulings decisions in 2011 determining an additional difference regarding the fees calculated and paid in 2008 and 2010.

M San Grupa appealed against the subsequent rulings, and the appeal was acknowledged by the Ministry of Environmental Protection that upheld the impossibility to adopt the so-called supplemental rulings, but rather declared that the difference could have been determined only in renewed administrative proceedings.

The Fund founded the claimed outstanding difference on the interpretation of the rules and regulations under which exported electronic and electrical devices are also subject to the fee, regardless of the devices not being put into circulation on the territory of the Republic of Croatia. Subsequent to that, the Fund adopted a decision to renew the procedure of determining the waste management fee resulting in a reassessed fee, i.e. a fee increased by the amount pertaining to devices sold outside the territory of the Republic of Croatia.

28. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS (CONTINUED)

As a result of the new decision for the same period, there are two administrative rulings regulating one and the same legal matter differently. In the period from July to November 2014 M San Grupa d.d. filed new appeals pertaining to the year 2008, which were rejected. In October 2014 M San Grupa d.d. lodged an appeal against the new rulings applicable to 2010, which is still pending. On 24 December 2014 the enforced collection of cash of M San Grupa d.d. in the total amount of HRK 9,294 thousand took place on the grounds of all the new rulings.

Following the enforcement, M San Grupa d.d. initiated administrative proceedings with respect to 2008 with a motion to render the appellate ruling of the Ministry and the first-instance ruling of the Fund null and void and to effect the recovery of entire monetary claim on the following grounds:

a) the challenged decisions of the Fund and of the Ministry violate the procedural regulations, i.e. the provisions of the general administrative procedure;
b) the rulings adopted in the renewed proceedings determine a difference with respect to a matter already finally determined following the procedures implemented in respect of 2008 and 2010;
c) the new rulings adopted contrary to the prescribed procedure, i.e. renewed procedures, encroached the finality of the administrative instruments from 2008, which is prohibited according to Art. 13 of the Act on the General Administrative Procedure which prohibits any encroachment of the already vested rights of the parties;
d) that the Fund's right to reinstitute the case
e) the claims from 2008 have expired under the statute of limitations, as they can no longer be determined in 2014.

For all the facts presented above, the Management Board expects the Administrative Court in Zagreb to invalidate the decisions of the Ministry and of the Fund and refund the enforced monetary claims to M San Grupa.

The situation regarding the year 2010 is similar to the one from 2008, whereby the Management Board considers the likelihood of the appeals being acknowledged not yet remote.

(all amounts are expressed in thousands of kunas)

29. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Loans to corporate entities	249,620	231,849	213,517	199,671
Loans to individuals	1,964	2,561	1,626	1,696
Given deposits to unrelated parties	23	20	-	-
Total	**251,607**	**234,430**	**215,143**	**201,367**

Loans to corporate entities

	Original currency	Amount	Maturity	2014	2013
Company					
Loans to corporate entities within group					
M SAN GRUPA D.D.					
M SAN EKO d.o.o.	HRK	500	8.1.2015	974	457
Total				**974**	**457**
Loans to other corporate entities					
M SAN GRUPA D.D.					
Castalia projekt d.o.o.	HRK	4,000	30.10.2015	3,116	3,486
Osnovna škola Montessori, Zagreb	HRK	80	26.5.2015	33	45
Svjetlo riječi	HRK	14	2014	-	14
Agram projekt d.o.o.	HRK	400	11.7.2015	400	400
Autocentar Dankić d.o.o.	HRK	100	2015	100	100
O-Tours d.o.o.	HRK	160	26.9.2015	134	160
Stipić Grupa d.o.o.	HRK	250	2014	-	250
Virentia savjetovanje	HRK	2,360	14.7.2015	5,361	2,360
Conditum projekt d.o.o.	HRK	25,000	31.7.2014	-	22,119
Corvus info d.o.o.	HRK	10,000	22.7.2015	11,727	7,615
Litus projekt d.o.o.	HRK	3,000	15.3.2015	537	522
M SAN Nekretnine D.O.O.	HRK	80,000	2.1.2015	36,960	24,137
M SAN Ulaganja d.o.o.	HRK	10,000	31.12.2015	40,383	45,000
Poljoprivredno poduzeće Orahovica d.d.	HRK	75,000	25.4.2015	95,482	70,872
Kim Tec informacijski inženjering, Ljubljana	EUR	150	30.10.2014	-	1,147
Baks grupa d.o.o.	HRK	25,000	29.5.2015	18,310	20,988
Total				**212,543**	**199.215**
Group					
KIM TEC BIH d.o.o.					
MPI Modriča	KM	5,250	3.5.2015	19,360	19,217
EKO-Bosanska Posavina d.o.o. Derventa	KM	2,150	31.12.2015	8,682	5,617
Poljoprivrednik d.o.o. Glamoč	KM	1,000	31.12.2015	2,204	1,166
MP ENERGIJA d.o.o. Bosansko Grahovo	KM	852	31.12.2015	3,018	2,496
Agropromet Grahovo d.o.o. Bosansko Grahovo	KM	629	31.12.2015	1,810	1,615
Total				**35,074**	**30,111**

(all amounts are expressed in thousands of kunas)

29. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Amount	Maturity	2014	2013
KIM TEC BG d.o.o.					
Solution JM	RSD	3,700		235	247
EKUPI d.o.o. Beograd	RSD	17,450	31.12.2015	1,108	1,168
Total				**1,343**	**1,415**
PAKOM KOMPANI d.o.o.					
E kupi Skopje	MKD	950	1.4.2014	-	117
Korvus Skopje	MKD	3,500	1.5.2014	-	432
Kim Tec Tirana	EUR	20	24.8.2015	80	23
Total				**80**	**572**
KIM TEC PODGORICA d.o.o.					
EKUPI d.o.o. Podgorica	EUR	70	31.12.2014	580	536
Total				**580**	**536**
Total loans to corporate entities				**249,620**	**231,849**
Loans to individuals					
Company					
M SAN GRUPA D.D.					
Mato Arelić	HRK	950	22.7.2015	620	620
Other individuals with smaller loans	HRK		2015	1,006	1,076
Total				**1,626**	**1,696**
Group					
KIM TEC BIH					
Other individuals with smaller loans	KM			129	168
Total				**129**	**168**
POLJOPRIVREDNIK DERVENTA					
Other individuals with smaller loans	KM			177	39
Total				**177**	**39**
PAKOM KOMPANI d.o.o.					
Other individuals with smaller loans	MKD			21	653
Total				**21**	**653**
Other loans to individuals				**11**	**5**
Total loans to individuals				**1,964**	**2,561**
TOTAL LOANS				**251,584**	**234,410**

(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	
	2014	**2013**	**2014**	**2013**
Prepaid expenses - goods in transport	33,443	24,418	33,443	24,418
Accrued income - subsequently approved discounts	12,940	12,258	12,940	12,258
Prepaid expenses	3,541	3,518	1,774	2,059
Total	**49,924**	**40,194**	**48,157**	**38,735**

31. OTHER RECEIVABLES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Interest receivable	39,231	27,816	32,016	22,646
Other receivables	1,535	2,506	1,387	2,290
Value adjustment of receivables per interests	(60)	(60)	(60)	(60)
Total	**40,706**	**30,262**	**33,343**	**24,876**

Interests receivable are presented as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Receivables per interests per loans	30,495	20,708	30,537	20,768
Receivables per contracted interests	8,736	7,108	1,479	1,878
Value adjustment of receivables per interest	(60)	(60)	(60)	(60)
Total	**39,171**	**27,756**	**31,956**	**22,586**

(all amounts are expressed in thousands of kunas)

32. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Current account balance	34,532	32,370	26,333	26,626
Foreign currency account balance	5,362	23,053	4,762	18,548
Term deposits	3,831	-	3,831	-
Cash in hand	121	120	97	97
Total	**43,846**	**55,543**	**35,023**	**45,271**

33. SHARE CAPITAL

The share capital consists of:

	2014	**2013**
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
Total	**200,000**	**200,000**

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. The owner of shares is Stipo Matić (100%).

(all amounts are expressed in thousands of kunas)

34. REVALUATION RESERVES

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Revaluation of financial assets available for sale	(5,312)	(5,175)	(5,312)	(5,175)
UKUPNO	**(5,312)**	**(5,175)**	**(5,312)**	**(5,175)**

Changes of revaluation reserves are shown below:

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Balance at 1 January	(5,175)	1,140	(5,175)	1,140
Revaluation of financial assets available for sale	(171)	(7,893)	(171)	(7,893)
Reversal of deferred tax liability	34	1,578	34	1,578
Balance at 31 December	**(5,312)**	**(5,175)**	**(5,312)**	**(5,175)**

35. RETAINED EARNINGS

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Retained earnings	120,663	95,494	48,898	30,761
TOTAL	**120,663**	**95,494**	**48,898**	**30,761**

Changes of retained earnings are shown below:

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Balance at 1 January	95,494	84,574	30,761	26,465
Profit for the year	25,201	10,965	18,137	4,296
Transfer to legal reserves	(32)	(45)	-	-
Balance at 31 December	**120,663**	**95,494**	**48,898**	**30,761**

(all amounts are expressed in thousands of kunas)

36. EARNINGS PER SHARE

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Profit for the year attributable to the equity holder of the parent (in HRK'000)	25,201	10,965	18,137	4,296
Weighted average number of ordinary shares (in pcs)	2,000,000	2,000,000	2,000,000	2,000,000
Basic earnings per share (in kunas and lipas), basic and diluted	**12.60**	**5.48**	**9.07**	**2.15**

37. NON-CONTROLLING INTERESTS

	GROUP	
	2014	**2013**
Net asset value at acquisition date	21,246	19,823
Other comprehensive (loss) / income	(1,251)	228
Share in the current year's profit	1,086	1,049
Increase in non-controlling interest	-	146
Decrease in non-controlling interest by additional share purchased	**-**	-
Balance at end of year	**21,081**	**21,246**

(all amounts are expressed in thousands of kunas)

38. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Long-term provisions for risks within the warranty period	2,006	688	2,006	688
Total	**2,006**	**688**	**2,006**	**688**

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
At 1 January	688	1,731	688	1,731
New provisions made	2,006	688	2,006	688
Decreases	(688)	(1,731)	(688)	(1,731)
At 31 December	**2,006**	**688**	**2,006**	**688**

The provisions represent 0,12% of the cost of goods sold at the Company (31 December 2013: 0.05%).

39. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS

Long-term liabilities from finance lease

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Total obligations under finance leases	**1,723**	**924**	**311**	**540**
Less: current portion	(531)	(431)	(218)	(253)
Long-term finance lease obligations	**1,192**	**493**	**93**	**287**
Total long term liabilities from financial leasing	**1,192**	**493**	**93**	**287**

(all amounts are expressed in thousands of kunas)

39. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS (CONTINUED)

Long-term loan liabilities

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Total loans from financial institutions	272,021	294,308	252,033	280,764
Less: current portion of loans from financial institutions	(40,441)	(34,187)	(28,287)	(29,477)
Long-term loans from financial institutions	231,580	260,121	223,746	251,287
Total long-term loans from financial institutions	**231,580**	**260,121**	**223,746**	**251,287**
Total long-term portion of long-term loans	**232,772**	**260,614**	**223,839**	**251,574**

Financijal institutions	Original currency	Deposit amount	Maturity	2014	2013
POLJOPRIVREDNIK AD					
IRB RS	KM	1.000	1.7.2019	3,559	-
NLB Razvojna banka	KM	750	11.4.2017	2,892	3,440
NLB Razvojna banka	KM	1,000	1.2.2020	1,502	2,066
Total				**7,953**	**5,506**
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	MKD	56,773	19.10.2015	2,566	5,091
Total				**2,566**	**5,091**
KIM TEC BEOGRAD d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	999	31.5.2014	-	2,947
Intesa Sanpaolo Banka d.d.	RSD	75.900	21.01.2016	4,820	-
Intesa Sanpaolo Banka d.d.	RSD	31.000	13.04.2016	1,968	-
Alpha bank AD Beograd	RSD	47.500	9.10.2016	2,681	-
Total				**9,469**	**2,947**
MSAN GRUPA D.D.					
Splitska banka d.d.HBOR	KN	12,500	31.12.2016	12,500	12,500
Zagrebačka banka d.d.	KN	176,020	15.1.2020	156,223	174,305
Raiffeisen bank d.d.	EUR	4,435	15.1.2020	28,702	32,050
Splitska banka d.d.	KN	61,168	30.9.2018	54,608	61,909
Total				**252,033**	**280,764**
Total long-term loans from financial institutions				**272,021**	**294,308**
Less: Current portion				**(40,441)**	**(34,187)**
Total				**231,580**	**260,121**

(all amounts are expressed in thousands of kunas)

40. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	2014.	**2013.**	**2014.**	**2013.**
Short-term bank borrowings	162,887	166,957	112,057	114,750
Revolving facilities with banks	6,991	6,176	-	-
Total borrowings	**169,878**	**173,133**	**112,057**	**114,750**
Current portion of long-term leases	531	431	218	253
Current portion of long-term loans	40,441	34,187	28,287	29,477
Total	**210,850**	**207,751**	**140,562**	**144,480**

An overview of bank borrowings of the M San Group:

Financial institutions	**Original currency**	**Amount**	**Maturity**	**2014**	**2013**
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	EUR	2.000	8.5.2015	7,835	7,810
UniCredit Bank Mostar d.d. RK 02	EUR	1.000	16.05.2015	3,917	-
Bosna Bank International d.d.	RSD	2.000	30.12.2014	-	7,810
Intesa Sanpaolo Banka d.d.	RSD	1.500	11.11.2015	5,876	5,858
Intesa Sanpaolo Banka d.d.	EUR	500	11.11.2015	1,959	1,953
Okvirni kredit UNICREDIT BANK	EUR	3.000	14.2.2014	-	9,647
Okvirni kredit SBERBANK	RSD	1.000	5.3.2014	-	3,841
Okvirni kredit SPARKASSE BANK	EUR	500	21.8.2015	1,275	1,953
Sberbank d.d.	RSD	1.000	4.3.2015	1,993	-
NLB Tuzlanska banka 2.000.000	RSD	2.000	9.7.2015	7,835	-
NLB Tuzlanska banka1 400 000	RSD	1.400	10.12.2015	5,484	-
Bor banka d.d.		1.900	17.7.2015	4,342	4,328
Total				**40,516**	**43,200**
KIM TEC BEOGRAD d.o.o.					
Procredit banka d.d.	EUR	190	27.2.2015	248	-
Procredit banka d.d.	EUR	300	30.05.2015	974	-
Procredit banka d.d.	RSD	50.000	21.11.2015	2,698	-
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	30.6.2015	2,434	3,828
Komercijalna banka	EUR	350	4.3.2015	896	-
Pireaus banka	RSD	80.000	24.4.2015	1,693	-
Komercijalna banka	RSD	50.000	5.11.2015	2,646	-
Intesa Sanpaolo Banka d.d.	RSD	35.000	22.8.2014	-	2,083
Total				**11,589**	**11.671**

(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	2014	2013
KIM TEC SERVIS BEOGRAD d.o.o.					
Intesa Sanpaolo Banka d.d.	RSD	500	31.12.2014	-	6
Ukupno				**-**	**6**
VIVAX BEOGRAD d.o.o.					
Intesa Sanpaolo Banka d.d.				-	17
Ukupno				**-**	**17**
POLJOPRIVREDNIK AD					
NLB Razvojna banka	KM	1,000	5.4.2014	-	3,107
NLB Razvojna banka	KM	1,000	31.3.2016	2,651	-
Ukupno				**2,651**	**3,107**
KIM TEC CG d.o.o					
Okvirni kredit HIPOTEKARNA BANK	EUR	400	9.4.2015	3,065	382
Ukupno				**3,065**	**382**
COMPANY					
Total short-term borrowings (see note below)				112,057	114,750
				112,057	**114,750**
Total				169,878	**173,133**
Plus: Current portion of long-term borrowings				531	431
Plus: Current portion liability from financial institution borrowings				40,441	34,187
Total current portion of long-term borrowings and short-term loans				**210,850**	**207,751**

(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):

COMPANY

Financial institutions	**Original currency**	**Amount**	**Maturity**	**2014**	**2013**
Erste&Steiermarkische bank d.d	EUR	3.392	31.8.2015	26,123	26,042
Zagrebačka banka d.d.	HRK	20.000	15.6.2015	20,000	20,000
Zagrebačka banka d.d	HRK	20.000	15.2.2015	20,000	20,000
Hypo Alpe Adria Bank d.d.	EUR	1.400	31.5.2014	-	1,556
Societe Generale-Splitska banka d.d.	HRK	20.000	15.1.2015	20,000	20,000
Privredna banka d.d.	EUR	1.515	30.6.2015	10,934	12,152
Hrvatska poštanska banka d.d.	HRK	15.000	15.7.2015	15,000	15,000
Total				**112,057**	**114,750**
Plus: Current portion of long-term borrowings				218	229
Plus: Current portion liability from financial institution borrowings				28,287	-
Total current portion of long-term borrowings and short-term loans				**140,562**	**144,480**

41. ADVANCES RECEIVED

	GROUP		**COMPANY**	
	2014	**2013**	**2014**	**2013**
Advances received from foreign customers	746	2,831	176	1,527
Advances received from domestic customers	798	127	2,285	1,349
Total	**1,544**	**2,958**	**2,461**	**2,876**

(all amounts are expressed in thousands of kunas)

42. TRADE PAYABLES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Foreign trade payables	241,225	198,932	213,904	171,683
Domestic trade payables	32,870	27,704	22,076	17,144
Domestic trade payables – unbilled goods	62	-	51	-
Total	**274,157**	**226,636**	**236,031**	**188,827**

43. AMOUNTS DUE TO EMPLOYEES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Net salaries payable	1,769	1,540	1,021	884
Other	291	264	142	132
Total	**2,060**	**1,804**	**1,163**	**1,016**

44. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Liabilities for VAT	16,646	17,068	16,071	16,194
Liabilities to the customs office	5,287	4,571	4,734	4,105
Liabilities for income tax	2,570	76	2,202	-
Liabilities for taxes and contributions from and on salaries	1,298	1,124	822	705
Liabilities for memberships, contributions and other taxes	716	476	452	6
Total	**26,517**	**23,315**	**24,281**	**21,010**

(all amounts are expressed in thousands of kunas)

45. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Amounts due under factoring arrangements	8,682	10,068	8,681	10,049
Interest on borrowings	1,124	1,138	951	965
Other current liabilities	2,772	1,701	694	22
Total	**12,578**	**12,907**	**10,326**	**11,036**

46. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Accrued expenses - not yet billed	6,486	4,343	2,721	3,503
Accrued income	1,617	-	1,617	-
Deferred income	321	1,403	-	-
Deferred income - late-payment interest	285	289	154	114
Other accrued expenses and deferred income	41	42	-	-
Total	**8,750**	**6,077**	**4,492**	**3,617**

47. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2014 and 2013 involve the following related parties:

Entities controlled or under significant influence by the Company:
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

Entities associated to the Company
Ventex d.o.o., Rijeka

Entities with joint ultimate owner:
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
KING ICT L.L.C, Priština
Aktivis d.o.o., Zagreb
Pametna energija d.o.o., Zagreb
M San Ulaganja d.o.o., Zagreb
M San Nekrenine d.o.o., Zagreb
MR Servis d.o.o.
PP Orahovica d.d.
PP Lješnjak d.o.o.
PP Stočarstvo d.o.o.
Poljoprivrednik d.o.o., Odžak
Poljoprivrednik Glamoč d.o.o., Glamoč
MP Energija d.o.o., Grahovo
AP Energija d.o.o., Grahovo
E kupi d.o.o., Zagreb
E kupi d.o.o., Beograd
E kupi d.o.o., Sarajevo
E kupi d.o.o., Podgorica
E kupi d.o.o., Skopje

(all amounts are expressed in thousands of kunas)

47. RELATED-PARTY TRANSACTIONS (CONTINUED)

Entities with joint ultimate owner (continued):
Corvus Info d.o.o., Zagreb
Korvus Makedonija dooel, Skopje
Maslina je obrana d.o.o., Rovinj
Conditum projekt d.o.o.
Litus projekt d.o.o.
Tectum projekt d.o.o.
Kim Tec, Ljubljana
Ask Tec d.o.o., Priština
Ured za podršku d.o.o., Zagreb
Ured za podršku d.o.o., Vitez
PPK Valpovo d.d., Valpovo
Geanium ICT d.o.o., Zagreb
Baks Grupa d.o.o., Zagreb
MS Industrial Kina
Metronet telekomunikacije d.o.o., Zagreb

The receivables and payables of the Company from transactions with its subsidiaries at 31 December 2014 and 2013 were as follows:

	Receivables		**Liabilities**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Kim Tec d.o.o., Vitez	26,794	12,302	-	(6)
Kim Tec d.o.o., Belgrade	17,618	27,148	(78)	(205)
Pakom Kompany, Skopje	602	1,198	(96)	-
M San Eko d.o.o., Zagreb	48	4	-	-
Kim Tec CG, Podgorica	-	-	(2,383)	(1,359)
M San Logistika d.o.o., Zagreb	-	-	(521)	(1,210)
Poljoprivrednik Derventa	-	76	-	-
	45,062	**40,728**	**(3,078)**	**(2,780)**

(all amounts are expressed in thousands of kunas)

47. RELATED-PARTY TRANSACTIONS (CONTINUED)

The receivables and payables of the Company from transactions with its associated companies and entities with joint owner at 31 December 2014 and 2013 were as follows:

	Receivables		Liabilities	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Kim Tec, Ljubljana	15,204	13,898	(177)	(149)
Ekupi d.o.o., Zagreb	11,569	8,825	(251)	(78)
Ask Tec d.o.o., Priština	7,099	4,206	(314)	(313)
PP Orahovica d.d.	6,637	1,571	(104)	(118)
MS Industrial Kina	2,791	3,034	-	(313)
M San Ulaganja d.o.o., Zagreb	2,370	2,340	-	-
Ventex d.o.o., Rijeka	2,062	2,891	-	-
MR Servis d.o.o., Zagreb	1,390	1,427	(902)	(1,031)
King ICT d.o.o., Zagreb	683	9,494	(250)	-
Pametna energija d.o.o.	454	284	-	-
M San Nekrenine d.o.o., Zagreb	317	70	(10)	(14)
Corvus Info d.o.o., Zagreb	56	7	(31)	(23)
Baks Grupa d.o.o., Zagreb	40	134	-	-
Ured za podršku d.o.o., Zagreb	5	630	(1,226)	(1,245)
King ICT d.o.e.l, Skopje	1	-	-	-
King ICT d.o.o., Sarajevo	1	-	-	-
King ICT d.o.o., Beograd	-	-	(10)	-
E Kupi d.o.o., Podgorica	-	7	-	-
PPK Valpovo	-	-	(18)	-
Metronet Telekomunikacije	-	-	(60)	(43)
	50,679	**48,818**	**(3,353)**	**(3,327)**

(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 2014 and 2013 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Kim Tec d.o.o., Beograd	182,249	164,836	9,026	7,021	1,941	4,241
Kim Tec d.o.o., Vitez	141,091	118,950	1,834	2.552	114	925
Pakom Kompany, Skopje	29,582	31,150	1,080	1,133	1	237
Kim Tec CG, Podgorica	24,908	30,903	468	752	157	18
M San Logistika d.o.o., Zagreb	465	591	20,381	19,805	-	1
M San Eko d.o.o., Zagreb	5	4	-	-	-	-
Poljoprivrednik Derventa	-	-	1	-	-	-
	378,300	**346,434**	**32,790**	**31,263**	**2,213**	**5,422**

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2014 and 2013 were as follows:

	Income / Sale		Expenses / Purchase		Purchase value of goods	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Ekupi d.o.o., Zagreb	107,292	42,463	2,070	1,121	76	537
King ICT d.o.o., Zagreb	55,966	85,386	398	1,233	184	4,440
Ventex d.o.o., Rijeka	14,417	16,879	170	223	38	-
Kim Tec, Ljubljana	13,490	15,611	5	442	236	48
MR Servis d.o.o.	6,725	6,237	10,144	8,472	1,071	774
Ask Tec d.o.o Priština	6,007	6,880	104	146	7	228
Pametna energija d.o.o.	2,657	1,379	-	-	-	-
King ICT d.o.o., Sarajevo	602	-	-	-	-	-
PP Orahovica d.d.	319	763	74	133	74	18
M San Nekrenine d.o.o., Zagreb	196	194	3,423	3,394	-	-
Ured za podršku d.o.o.	166	161	11,769	11,837	-	-
Corvus Info d.o.o.	82	55	125	135	-	-
M San Ulaganja d.o.o., Zagreb	24	234	-	1	-	-
Aktivis d.o.o., Zagreb	9	27	-	-	-	-
PPK Valpovo d.d.	6	37	9	-	-	-
Baks Grupa d.o.o.	2	40	-	-	-	-
MS Industrial Kina	1	-	2,023	2,260	144,866	137,161
King ICT d.o.e.l., Skopje	1	-	-	-	-	-
E Kupi d.o.o. Beograd	-	5	-	-	-	-
E Kupi d.o.o. Podgorica	-	1	-	-	-	-
Metronet Telekomunikacije	-	-	207	236	-	-
	207,962	**176,352**	**30,521**	**29,633**	**146,552**	**143,206**

(all amounts are expressed in thousands of kunas)

47. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2014 and 2013:

	Receivables		Income	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
M San Eko d.o.o., Zagreb	1,017	463	43	13

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2014 and 2013:

	Receivables		Income	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
PP Orahovica d.d., Orahovica	110,333	80,241	5,482	5,740
M San Nekrenine d.o.o., Zagreb	45,841	30,860	2,052	4,642
M San Ulaganja d.o.o., Zagreb	42,988	45,007	2,598	35
Baks Grupa d.o.o.	21,558	23,064	1,172	1,285
Corvus Info d.o.o.	12,006	7,686	576	381
Litus Projekt	596	550	32	94
MR Servis d.o.o., Zagreb	352	493	59	93
Kim Tec, Ljubljana	14	1,178	6	31
Conditum projekt d.o.o., Zagreb	-	24,237	616	1,303
Ask Tec d.o.o Priština	-	-	-	5
PPK Valpovo d.d.	-	40	-	241
	233,688	**213,356**	**12,593**	**13,850**

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Short-term benefits	6,153	5,236	1,966	2,060
Total	**6,153**	**5,236**	**1,966**	**2,060**

(all amounts are expressed in thousands of kunas)

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	
	2014	**2013**	**2014**	**2013**
Debt	443,622	468,365	364,401	396,054
Less: cash in hand and with banks	(43,846)	(55,543)	(35,023)	(45,271)
	399,776	**412,822**	**329,378**	**350,783**
Equity	341,337	316,904	249,789	231,789
Net debt-to-equity ratio	117.12%	130.27%	131.86%	151.34%

(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 <u>Categories of financial instruments</u>

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Financial assets				
Cash and cash equivalents	43,846	55,543	35,023	45,271
Loans and receivables	622,036	589,657	490,657	463,806
Financial assets available for sale	5,590	4,680	5,387	4,477
Investments held to maturity	1,081	2,120	1,081	2,120
Total financial assets	**672,554**	**652,000**	**532,148**	**515,674**
Financial liabilities				
Bank borrowings	441,899	467,441	364,090	395,514
Finance lease obligations	1,723	924	311	540
Other financial liabilities	290,339	244,305	249,981	203,755
Total financial liabilities	**733,961**	**712,670**	**614,382**	**599,809**

(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**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
EUR	81,986	60,631	480,668	481,407	(398,682)	(420,776)
USD	25,058	33,700	58,664	38,920	(33,606)	(5,220)
CHF	-	-	-	10	-	(10)
BAM	-	1	-	-	-	-
GBP	31	29	1	553	30	(524)

COMPANY	**Assets**		**Liabilities**		**Assets – Liabilities**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
EUR	76,491	142,238	451,648	444,218	(375,157)	(301,980)
USD	56,770	100,814	53,911	44,430	2,859	56,384
BAM	-	-	-	-	-	-
CHF	-	1	-	10	-	(9)
GBP	31	30	1	519	30	(489)

48.2.1 <u>Foreign currency sensitivity analysis</u>

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.

(all amounts are expressed in thousands of kunas)

48. FINANCIAL INSTRUMENTS (CONTINUED)

48.2 Foreign currency risk management (continued)

48.2.1. Foreign currency sensitivity analysis (continued)

GROUP	**EUR impact**		**USD impact**		**GBP impact**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Profit / (loss)	(39,868)	(42,078)	(3,361)	(522)	3	(52)

COMPANY	**EUR impact**		**USD impact**		**GBP impact**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Profit / (loss)	(37,516)	(30,198)	286	56,384	3	(49)

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.

(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.

		GROUP		COMPANY	
Customer	**Domicile country**	**2014.**	**2013.**	**2014.**	**2013.**
Ekupi d.o.o.	CROATIA	106,110	41,784	106,110	41,784
KING ICT D.O.O.	CROATIA	55,820	85,310	55,820	85,310
PEVEC d.d.	CROATIA	40,523	25,108	40,523	25,108
HT-Hrvatske telekomunikacije d.d.	CROATIA	38,715	11,263	38,715	11,263
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERCEGOVINA	37,509	28,909	-	-
FLIBA d.o.o.	CROATIA	33,678	11,623	33,678	11,623
ALTI d.o.o.	SERBIA	32,156	33,851	-	-
Links d.o.o.	CROATIA	27,369	26,459	27,370	26,459
Mikronis d.o.o.	CROATIA	27,355	24,370	27,355	24,370
TEHNOMANIJA d.o.o.	SERBIA	25,222	16,063	-	-
METRO cash & carry d.o.o.	CROATIA	20,309	27,172	20,309	27,172
Atos IT Solutions and Services d.o.o.	CROATIA	20,213	7,072	7,072	20,213
KIM TEC d.o.o. Beograd	SERBIA	-	-	181,390	164,847
KIM TEC d.o.o. Vitez	BOSNIA AND HERCEGOVINA	-	-	140,102	118,936
PAKOM KOMPANI SKOPJE	MACEDONIA	-	-	29,273	31,094
KIM TEC CG d.o.o	MONTENEGRO	-	-	24,533	30,903

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 2014 would have changed by HRK 1,822 thousand (31 December 2013: HRK 1.980 thousand), and the Group as of 31 December 2014 would have changed by HRK 2,218 thousand (31 December 2013: HRK 2.349 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 443,619 thousand (31 Decemebr 2013: HRK 469.704 thousand) and HRK 364,399 thousand (31 December 2013: 396.053 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.

(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 2014	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**After 5 years**	**Total**
Assets						
Non-interest bearing	317,916	95,500	23	860	6,671	420,970
Fixed-rate instruments	36,960	537	214,087	-	-	251,584
Total assets	**354,876**	**96,037**	**214,110**	**860**	**6,671**	**672,554**
Liabilities						
Non-interest bearing	290,339	-	-	-	-	290,339
Liabilities based on financial lease	44	89	398	1,192	-	1,723
Variable-rate instruments	23,370	12,528	176,987	229,014	-	441,899
Total liabilities	**313,753**	**12,617**	**177,385**	**230,206**	**-**	**733,961**
Net asset/(liabilities)	**41,123**	**83,421**	**36,725**	**(229,346)**	**6,671**	**(61,407)**

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**
Assets						
Non-interest bearing	315,592	94,006	-	1,172	6,800	417,570
Fixed-rate instruments	-	24,659	209,771	-	-	234,430
Total assets	**315,592**	**118,665**	**209,771**	**1,172**	**6,800**	**652,000**
Liabilities						
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
Total liabilities	**247,882**	**39,880**	**164,292**	**185,895**	**74,719**	**712,668**
Net asset/(liabilities)	**67,710**	**78,785**	**45,479**	**(184,723)**	**(67,919)**	**(60,668)**

(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)

COMPANY 31 December 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
Assets						
Non-interest bearing	239,786	70,118	-	632	6,468	317,004
Fixed-rate instruments	37,934	537	176,673	-	-	215,144
Total	**277,720**	**70,655**	**176,673**	**632**	**6,468**	**532,148**
Liabilities						
Non-interest bearing	249,981	-	-	-	-	249,981
Liabilities based on financial lease	18	36	164	93	-	311
Variable-rate instruments	22,038	5,640	113,807	222,605	-	364,090
Total	**272,037**	**5,676**	**113,971**	**222,698**	**-**	**614,382**
Net asset/(liabilities)	**5,683**	**64,979**	**62,702**	**(222,066)**	**6,468**	**(82,234)**

COMPANY 31 December 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 years	Total
Assets						
Non-interest bearing	238,288	68,364	-	1,058	6,597	314,307
Fixed-rate instruments	457	24,659	176,251	-	-	201,367
Total	**238,745**	**93,023**	**176,251**	**1,058**	**6,597**	**515,674**
Liabilities						
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
Total	**206,672**	**25,836**	**115,727**	**176,855**	**74,719**	**599,809**
Net asset/(liabilities)	**32,073**	**67,187**	**60,524**	**(175,797)**	**(68,122)**	**(84,135)**

(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 2014, 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).

At 31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	4,306	-	**4,306**
Group	-	4,509	-	**4,509**

At 31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	4,477	-	**4,477**
Group	-	4,680	-	**4,680**

(all amounts are expressed in thousands of kunas)

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	
	2014	**2013**	**2014**	**2013**
Within one year	7,857	11,568	4,310	1,549
1-5 years	12,307	5,693	9,735	1,203
After 5 years	-	-	-	-
Total	**20,164**	**17,261**	**14,045**	**2,752**

50. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 4 to 94, were approved by the Management Board and authorised for issue on 27 May 2015.

Signed on behalf of the Management Board on 27 May 2015 by:

Miroslav Huzjak

President of the management board

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