

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

**Consolidated and unconsolidated financial statements
For the year ended 31 December 2016
Together with Independent Auditor's Report**

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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., Zagreb ("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

Slaven Stipančić
Member of Management
Board

Žarko Kruljac
Member of Management
Board

Irena Langer-Breznik
Member of Management
Board

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

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

10 April 2017

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited consolidated and unconsolidated financial statements of the Company M San Grupa d.d. (the Company) and its subsidiaries (the Group), which comprise the consolidated and unconsolidated statement of financial position as at December 31, 2016, and the consolidated and unconsolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and unconsolidated accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated and unconsolidated financial statements and our auditor's report. It is expected that the Annual Report will be available after the date of the auditor's report.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information(continued)

With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the attached annual consolidated and unconsolidated financial statements.
2. Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the consolidated and unconsolidated financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and unconsolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial consolidated and unconsolidated statements, including the disclosures, and whether the consolidated and unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


Branislav Vrtačnik,

President of the Board


Vanja Vlák,

Certified auditor

Deloitte d.o.o.

Zagreb, 10 April 2017

Radnička cesta 80,
10 000 Zagreb,
Croatia

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

	Notes	2016	2015 Restated
OPERATING INCOME			
Sales	5	1,944,039	1,989,142
Cost of goods sold	8	(1,655,558)	(1,725,401)
Gross profit		288,481	263,741
Other operating income	6	14,293	7,083
Increase in inventories of finished goods and work in progress		1,860	1,400
OPERATING EXPENSES			
Cost of raw material and supplies	7	(34,658)	(16,706)
Other external charges	9	(123,110)	(114,054)
Staff costs	10	(61,361)	(52,005)
Depreciation and amortisation	17,19	(7,696)	(7,477)
Other expenses	12	(14,486)	(13,336)
Impairment allowance	13	(1,647)	(672)
Provisions for risks within the warranty period	34	(2,771)	(1,127)
Other operating expenses	14	(1,840)	(3,956)
Total operating expenses		(247,569)	(209,333)
Operating profit		57,065	62,891
FINANCIAL INCOME AND EXPENSES			
Financial income	15	29,958	36,671
Financial expenses	16	(43,645)	(57,455)
Net financial expense		(13,687)	(20,784)
Profit before tax		43,378	42,107
Income tax	17	(7,755)	(5,367)
Profit for the year		35,623	36,740
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(3,013)	(2,401)
Total comprehensive income for the year		32,610	34,339
Profit attributable to:			
Equity holders of the Company		35,633	34,302
Non-controlling interests		(10)	2,438
		35,623	36,740
Total comprehensive income attributable to:			
Equity holders of the Company		33,181	32,103
Non-controlling interest		(571)	2,236
		32,610	34,339

Consolidated statement of financial position

At 31 December 2016

(all amounts are expressed in thousands of kunas)

ASSETS	Notes	31 December 2016	31 December 2015 (Restated)	1 January 2015 (Restated)
NON-CURRENT ASSETS				
Intangible assets	18	5,457	6,399	4,221
Goodwill	19	45,926	45,941	45,671
Property, plant and equipment	20	115,737	119,134	116,914
Financial assets	21	53,729	11,990	13,278
Given deposits		128	115	227
Long-term receivables		688	470	632
Deferred tax assets	17	1,809	1,830	1,572
TOTAL NON-CURRENT ASSETS		223,474	185,879	182,515
CURRENT ASSETS				
Inventories	22	171,359	228,064	198,015
Trade receivables	24	311,391	352,793	307,540
Prepayments made	23	9,585	15,411	9,162
Receivables from employees		193	135	68
Receivables from the State and other institutions	25	14,361	19,745	17,077
Given loans and deposits	26	210,288	217,478	251,380
Prepaid expenses and accrued income	27	6,797	7,838	3,541
Other receivables	28	53,438	52,122	40,451
Cash and cash equivalents	29	36,784	41,833	43,846
TOTAL CURRENT ASSETS		814,196	935,419	871,080
TOTAL ASSETS		1,037,670	1,121,298	1,053,595

Consolidated statement of financial position (continued)

At 31 December 2016

(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2016	31 December 2015 (Restated)	1 January 2015 (Restated)
EQUITY				
Share capital	30	210,000	200,000	200,000
Legal reserves		6,376	6,304	6,280
Reservs from exchange of foreign currencies		(6,025)	(3,574)	(1,375)
Retained earnings	31	162,009	136,925	102,758
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		372,360	339,655	307,663
Non-controlling interest	32	869	23,964	21,081
TOTAL EQUITY		373,229	363,619	328,744
NON-CURRENT LIABILITIES				
Provisions for risks within the warranty period	33	2,771	2,119	2,006
Long-term borrowings and finance lease obligations	34	192,956	185,940	232,772
TOTAL NON-CURRENT LIABILITIES		195,727	188,059	234,778
CURRENT LIABILITIES				
Short-term bank borrowings and finance lease obligations	35	175,077	219,029	210,850
Advances received	36	1,149	8,974	1,544
Trade payables	37	247,994	277,801	227,774
Amounts due to employees		3,641	2,651	2,060
Taxes, contributions and similar duties payable	38	25,920	29,659	26,517
Other current liabilities	39	3,571	18,861	12,578
Accrued expenses and deferred income	40	11,362	12,645	8,750
TOTAL CURRENT LIABILITIES		468,714	569,620	490,073
TOTAL EQUITY AND LIABILITIES		1,037,670	1,121,298	1,053,595

Consolidated statement of changes in shareholder's equity
For the year ended 31 December 2016
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Foreign currency translation reserves	Retained earnings	Equity holders of the parent	Non-controlling interest	Total
Balance at 1 January 2015	200,000	6,280	(1,375)	115,351	320,256	21,081	341,337
Balance at 1 January 2015 restated	200,000	6,280	(1,375)	102,758	307,663	21,081	328,744
Transfer of profit	-	24	-	(24)	-	-	-
Subsequently identified income tax liabilities	-	-	-	(111)	(111)	-	(111)
Increase in non-controlling interest by additional share purchased	-	-	-	-	-	647	647
Profit for the year	-	-	-	34,302	34,302	2,438	36,740
Other comprehensive loss	-	-	(2,199)	-	(2,199)	(202)	(2,401)
<i>Total comprehensive income for the year</i>	-	-	(2,199)	34,302	32,103	2,236	34,339
Balance at 31 December 2015	200,000	6,304	(3,574)	136,925	339,655	23,964	363,619
Transfer of profit	10,000	73	-	(10,073)	-	-	-
Decrease in non-controlling interest	-	-	-	(476)	(476)	(22,524)	(23,000)
Profit for the year	-	-	-	35,633	35,633	(10)	35,623
Other comprehensive loss	-	(1)	(2,451)	-	(2,452)	(561)	(3,013)
<i>Total comprehensive income for the year</i>	-	(1)	(2,451)	35,633	33,181	(571)	32,610
Balance at 31 December 2016	210,000	6,376	(6,025)	162,009	372,360	869	373,229

Consolidated statement of cash flows
For the year ended 31 December 2016
(all amounts are expressed in thousands of kunas)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	35,623	36,740
Adjusted by:		
Income tax	7,755	5,367
Depreciation of property, plant and equipment and intangible assets	7,696	7,477
Impairment of intangible assets	269	218
Value adjustment of financial assets	132	1,718
Impairment allowance and write-off of trade receivables	1,293	454
Reversed long-term provisions, net, charged to expenses	652	113
Net interest expense	7,931	11,954
Net foreign exchange profit	(5,427)	(2,187)
	56,104	61,854
CHANGES IN WORKING CAPITAL		
(Increase) / decrease in given deposit	(13)	112
Decrease / (increase) in inventory	56,726	(30,049)
Decrease / (increase) in trade receivables	39,871	(47,120)
Decrease / (increase) in given advances	5,825	(5,947)
Decrease in other receivables	6,048	231
Decrease / (increase) in prepaid expenses and accrued income	1,042	(4,298)
(Decrease) / increase in received advances	(7,825)	7,430
(Decrease) / increase in trade payables	(29,807)	50,027
(Decrease) / increase in other current liabilities	(26,014)	4,979
(Decrease) / increase in accrued expenses and deferred income	(1,282)	3,895
	100,675	41,114
CASH GENERATED FROM OPERATIONS		
Interests paid	(14,065)	(21,502)
Income taxes paid	(7,761)	(7,911)
Net cash generated from operating activities	78,849	11,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(5,284)	(12,595)
Interests received	12,060	3,761
Cash expenditure for shares in related companies	(23,000)	(1,200)
Cash expenditure for shares in joint companies	(41,871)	-
Decrease in given loans	7,563	33,902
Net cash (used in) / generated from investing activities	(50,532)	23,868
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from loan institutions	378,385	279,220
Payments made to financial institutions	(411,751)	(316,802)
Net cash used in financing activities	(33,366)	(37,582)
Net decrease in cash and cash equivalents	(5,049)	(2,013)
Cash and cash equivalents at the beginning of the year	41,833	43,846
Cash and cash equivalents at the end of year	36,784	41,833

Unconsolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2016
(all amounts are expressed in thousands of kunas)

	Notes	2016	2015 (Restated)
OPERATING INCOME			
Sales	5	1,531,814	1,637,999
Cost of goods sold	8	(1,368,137)	(1,479,536)
Gross profit		163,677	158,463
Other operating income	6	3,091	5,207
OPERATING EXPENSES			
Cost of raw material and supplies	7	(1,955)	(2,046)
Other external charges	9	(87,709)	(84,977)
Staff costs	10	(23,047)	(21,736)
Depreciation and amortisation	17,19	(4,072)	(3,847)
Other expenses	12	(6,834)	(6,224)
Impairment allowance	13	(270)	(577)
Provisions for risks within the warranty period	34	(1,368)	(1,037)
Other operating expenses	14	(1,382)	(3,756)
Total operating expenses		(126,637)	(124,200)
OPERATING PROFIT		40,131	39,470
FINANCIAL INCOME AND EXPENSES			
Financial income	15	28,271	39,024
Financial expenses	16	(37,942)	(52,830)
Net financial expense		(9,671)	(13,806)
Profit before tax		30,460	25,664
Income tax	17	(6,097)	(3,470)
PROFIT FOR THE YEAR		24,363	22,194
OTHER COMPREHENSIVE PROFIT			
Subsequently identified income tax liabilities		-	(111)
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		24,363	22,083

Unconsolidated statement of financial position

At 31 December 2016

(all amounts are expressed in thousands of kunas)

ASSETS	Notes	31 December 2016	31 December 2015 (Restated)	1 January 2015 (Restated)
NON-CURRENT ASSETS				
Intangible assets	18	5,284	6,198	4,020
Property, plant and equipment	20	17,303	18,862	15,689
Financial assets	21	232,256	167,892	167,982
Long-term receivables		688	472	632
Deferred tax assets	17	1,586	1,586	1,328
TOTAL NON-CURRENT ASSETS		257,117	195,010	189,651
CURRENT ASSETS				
Inventories	22	94,130	124,628	118,013
Trade receivables	24	199,616	267,833	230,484
Prepayments made	23	9,115	12,550	7,784
Receivables from employees		155	105	27
Receivables from the State and other institutions	25	10,206	16,002	14,081
Given loans and deposits	26	170,482	180,452	215,143
Prepaid expenses and accrued income	27	850	2,015	1,774
Other receivables	28	42,366	42,798	33,088
Cash and cash equivalents	29	26,343	27,522	35,023
TOTAL CURRENT ASSETS		553,263	673,905	655,417
TOTAL ASSETS		810,380	868,915	845,068

Unconsolidated statement of financial position (continued)

At 31 December 2016

(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2016	31 December 2015 (Restated)	1 January 2015 (Restated)
EQUITY				
Share capital	30	210,000	200,000	200,000
Legal reserves		6,203	6,203	6,203
Retained earnings	31	76,533	62,170	40,087
TOTAL EQUITY		292,736	268,373	246,290
NON-CURRENT LIABILITIES				
Provisions for risks within the warranty period	33	1,368	1,037	2,006
Long-term borrowings and finance lease obligations	34	159,720	172,304	223,839
TOTAL NON-CURRENT LIABILITIES		161,088	173,341	225,845
CURRENT LIABILITIES				
Short-term bank borrowings	35	112,797	134,069	140,562
Advances received	36	2,033	7,766	2,461
Trade payables	37	209,909	237,077	189,648
Amounts due to employees		1,248	1,183	1,163
Taxes, contributions and similar duties payable	38	22,047	25,333	24,281
Other current liabilities	39	2,429	15,038	10,326
Accrued expenses and deferred income	40	6,093	6,735	4,492
TOTAL CURRENT LIABILITIES		356,556	427,201	372,933
TOTAL EQUITY AND LIABILITIES		810,380	868,915	845,068

Unconsolidated statement of changes in equity
 For the year ended 31 December 2016
 (all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2015	200,000	6,203	43,586	249,789
Balance at 1 January 2015 (Restated)	200,000	6,203	40,087	246,290
Subsequently identified income tax liabilities	-	-	(111)	(111)
Profit for the year	-	-	22,194	22,194
<i>Total comprehensive loss</i>	-	-	22,083	22,083
Balance at 31 December 2015	200,000	6,203	62,170	268,373
Transfer of profit	10,000	-	(10,000)	-
Profit for the year	-	-	24,363	24,363
<i>Total comprehensive loss</i>	-	-	24,363	24,363
Balance at 31 December 2016	210,000	6,203	76,533	292,736

Unconsolidated statement of cash flows
For the year ended 31 December 2016
(all amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Profit for the year	24,363	22,194
Adjusted by:		
Income tax	6,097	3,470
Depreciation of property, plant and equipment and intangible assets	4,072	3,847
Impairment of intangible assets	270	218
Value adjustment of financial assets	33	1,708
Value adjustment and write-off of trade receivables	-	359
Net loss / (gain) from reversal of long term provisions	331	(969)
Net interest expense	5,141	9,484
Net foreign exchange profit	(2,176)	(1,355)
	28,131	38,519
CHANGES IN WORKING CAPITAL		
Decrease / (increase) in inventory	30,498	(6,615)
Decrease / (increase) in trade receivables	68,001	(37,804)
Decrease / (increase) in given advances	3,435	(4,766)
Decrease / (increase) in other receivables	4,554	(680)
Decrease / (increase) in prepaid expenses and accrued income	1,166	(242)
(Decrease) / increase in received advances	(5,733)	5,305
(Decrease) / increase in trade payables	(27,168)	47,429
(Decrease) / increase in other current liabilities	(18,243)	4,943
(Decrease) / increase in accrued expenses and deferred income	(642)	2,242
CASH GENERATED FROM OPERATIONS	93,999	48,331
Interests paid	(14,068)	(19,577)
Income taxes paid	(5,193)	(6,352)
Net cash generated from operating activities	74,738	22,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(1,908)	(9,455)
Interests collected	12,060	3,045
Cash paid for shares in subsidiaries	(23,000)	(1,200)
Cash paid for shares in joint companies	(41,493)	-
Decrease in given loans	9,970	34,690
Net cash (used in) / generated from investing activities	(44,371)	27,080
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash proceeds from loan institutions	1,399	10,629
Repayments to financial institutions	(32,945)	(67,612)
Net cash used in financing activities	(31,546)	(56,983)
Net decrease in cash and cash equivalents	(1,179)	(7,501)
Cash and cash equivalents at the beginning of the year	27,522	35,023
Cash and cash equivalents at the end of year	26,343	27,522

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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 41).

Management Board in 2016 and 2015:

Miroslav Huzjak, President of Management Board

Irena Langer-Breznik, Member of Management Board

Slaven Stipančić, Member of Management Board

Žarko Kruljac, Member of Management Board

Supervisory Board in 2016 and 2015:

Stipo Matić, Chairman of Supervisory Board

Marko Rašić, Deputy Chairman of Supervisory Board

Snježana Matić, Member of Supervisory Board

Subsidiaries

Name of related party	Country	Ownership in %		Main activity
		2016	2015	
KIM TEC D.O.O. VITEZ	Bosnia and Herzegovina	100%	100%	Distribution of IT equipment
KIM TEC D.O.O. CRNA GORA	Montenegro	100%	100%	Distribution of IT equipment
PAKOM KOMPANY SKOPJE	Macedonia	100%	100%	Distribution of IT equipment
KIM TEC D.O.O. BEOGRAD	Serbia	100%	55%	Distribution of IT equipment
M SAN LOGISTIKA D.O.O.	Croatia	100%	100%	Transport and logistics
M SAN EKO D.O.O.	Croatia	100%	100%	The collection of waste
MR SERVIS D.O.O. Zagreb	Croatia	60%	60%	Maintenance of IT equipment

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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

Initial application of new amendments to existing standards effective in the current reporting period

The following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (“IASB”) and adopted by the EU are effective for the current reporting period:

- **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 Exemption - adopted by the EU on 22 September 2016 (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 - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 „Presentation of Financial Statements“** – Disclosure Initiative - adopted by the EU on 18 December 2015 (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 - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 „Property, Plant and Equipment“ and IAS 41 „Agriculture“** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016)
- **Amendments to IAS 19 „Employee Benefits“** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 „Separate Financial Statements“** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards „Improvements to IFRSs (cycle 2010 -2012)“** resulting from the annual improvement project of IFRSs (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 EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards and interpretations „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 - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 „Revenue from Contracts with Customers“** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards 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 for the following standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 10 April 2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The new and revised International Financial Reporting Standards issued by the IASB that have been adopted in the EU and take effect after the reporting period

- **IFRS 9 Financial Instruments** was published in July 2014 (effective for annual periods beginning on or after 1 January 2018 with earlier application permitted) is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.
- **Classification and measurement** - IFRS 9 introduces a new approach to the classification of financial assets based on the characteristics of the cash flow and business model under which an item of financial assets is held. The new model also introduces a unique model of impairment which applies to all financial instruments.
- **Impairment** - IFRS 9 introduces a new model of impairment to expected losses, which will require more timely recording of expected credit losses.
- **Hedge accounting** - IFRS 9 introduces significantly altered model of hedge accounting, with expanded information that should be disclosed about the activities of risk management.

The Company and Group anticipate that the adoption of new standards and amendments to existing will not materially affect the financial statements 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.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company, i.e. its subsidiaries, including structured entities. Control is achieved when:

- The Company has power over the investee;
- The Company is exposed, or has rights, to variable returns from its involvement with the investee; and
- The Company 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 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 obtain 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 parent (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 Company'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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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 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 at the acquisition date.
- 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 its acquisition-date fair value 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 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 an 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. 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 and a joint venture is described at 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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. When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

An associate is an entity in which the Company has significant influence, but which is neither a subsidiary nor a joint venture. Significant influence is the power to make decisions about financial and operational policies of an investy, but not the control over those policies.

In these separate financial statements, investments in associates are presented at cost. The cost is tested for impairment at each reporting date.

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved when: the Company has power over the investee, the Company are exposed, or have rights, to variable returns from its involvement with the investee, and the Company have 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:

- 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 do not have, the current ability to direct the relevant activities at the time when is necessary to adopt such a decision.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries (continued)

A subsidiary is an entity in which the Company has control or exercises, directly or indirectly, a controlling influence. Control is achieved by acquiring more than 50 percent of shares or voting shares, exercising the right to appoint the majority of the management or supervisory board members, actual decision-making in a subsidiary through the controlling company having a control over the majority of vote in the subsidiary.

In these separate financial statements, investments in former subsidiaries are presented at cost. The cost is tested for impairment at each reporting date.

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 less estimated returns from customers, volume and similar discounts.

i) Service sales

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

- income from partially performed services (those provided over several accounting periods) is recognised by reference to the stage of completion (measured based on the proportion of actual costs incurred relative to the total budgeted costs).
- 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; 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 Company 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 Company 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.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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 Company as lessor

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

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

ii) The Company as lessee

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

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

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

Foreign currencies

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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 2016 and 2015 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2016	Average exchange rate for 2016	31/12/2015	Average exchange rate for 2015
RSD	16,28651	16,34322	15,89250	15,83319
KM	0,25877	0,25983	0,25616	0,25676
MKD	8,14722	8,20612	8,01174	8,07570
EUR	7,55778	7,52708	7,63504	7,61729

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 these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units 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 (and attributed to non-controlling interests as appropriate).

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, 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 (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income

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 and the Company'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 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. 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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	
	2016	2015
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% (2015: 20 - 25%).

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Company 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 Company 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)

Impairment of tangible and intangible assets, excluding goodwill (continued)

Impairment losses are recognised immediately as expenses. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 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.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Company 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 Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

ii) Financial assets at FVTPL(continued)

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 Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 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 43.

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 Company 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.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

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 Company 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 Company 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 43. 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 and the Company'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 and the Company 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 and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company 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 and the Company retains an option to repurchase part of a transferred asset), the Group and the Company 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 issued by the Group and the Company

Classification as liabilities or debtor equity

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

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 and the Company derecognises financial liabilities when, and only when, the Group's and the Company'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 or the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Provisions for termination benefits are recognised when the 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 Group's the Company's position at the financial statements date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Accounting judgements and estimates

In the application of the Group's and the Company'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.

The key areas of estimation in applying the Group's and the Company's accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

(a) Useful life of property, plant and equipment and of intangible assets

As described in the accounting policies above, the Group and the Company review the estimated useful lives of their property, plant and equipment as well as of intangible assets at the each reporting date. Property, plant and equipment, and intangible assets are recognised initially at cost, less accumulated depreciation and amortisation, respectively.

(b) Impairment allowance on trade receivables

Management provides for doubtful receivables based on a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the statement of profit or loss for the year.

(c) Provision for warranty risk

Provisions for estimated costs of guarantee itself recognized as a provision in the period when the sales made. The assessment reflects historical trends in the costs of warranty

(d) Evaluation of Impairment of goodwill

Goodwill is tested annually for impairment in accordance with the accounting policy. The recoverable amounts of cash generating units are determined based on the calculated value in use. These calculations require the use of estimates (Note 19).

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior-period restatement

Management of the Company in 2016 adopted a decision to revamp the consolidated and unconsolidated financial statements of prior period. As at 1.1.2015 the Group and the Company corrected the balance of assets by recognising a charge to retained earnings in the amount of HRK 12,593 thousand and a charge of HRK 437 thousand in the result for the year 2015.

The correction of the retained earnings balance and the effect of the change on the prior-period financial statements were recognised in the financial statements for 2016.

The effect of the correction to the opening balances of the prior period (the year 2015) has been a decrease in the opening balance of retained earnings by HRK 12,593 thousand and an increase in the profit for the current year by HRK 437 thousand.

As a result of the correction, the expenses for the year ended 31 December 2015 were increased by HRK 437 thousand, and the profit for the year then ended was reduced by HRK 437 thousand.

The total effect of the resulting restatement on the financial statements of the Group at 31 December 2015 and 1 January 2015 is as follows:

	<u>As originally reported</u>	<u>As restated</u>	<u>The resulting increase / (decrease)</u>
Statement of financial position at 31 December 2015			
Trade receivables	364,000	352,793	(11,207)
Prepayments made	15,713	15,411	(302)
Receivables from employees	1,133	135	(998)
Receivables from the State and other institutions	19,762	19,745	(17)
Given loans and deposits	217,705	217,478	(227)
Other receivables	52,401	52,122	(279)
Prepaid expenses and accrued income (reclassification)	48,379	7,838	(40,541)
TOTAL CURRENT ASSETS	988,990	935,419	(53,571)
TOTAL ASSETS	1,174,875	1,121,298	(53,571)
Retained earnings	149,955	136,925	(13,030)
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	352,685	339,655	(13,030)
TOTAL EQUITY	376,649	363,619	(13,030)
Trade payables (reclassification)	318,342	277,801	40,541
TOTAL EQUITY AND LIABILITIES	1,174,875	1,121,298	(53,571)

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior-period restatement (continued)

	As originally reported	As restated	The resulting increase / (decrease)
Consolidated Statement of financial position at 1 January 2015			
Trade receivables	318,334	307,540	(10,794)
Prepayments made	9,464	9,162	(302)
Receivables from employees	1,066	68	(998)
Receivables from the State and other institutions	17,094	17,077	(17)
Given loans and deposits	251,607	251,380	(227)
Other receivables	40,706	40,451	(255)
Prepaid expenses and accrued income (reclassification)	49,924	3,541	(46,383)
TOTAL CURRENT ASSETS	930,056	871,080	(58,976)
TOTAL ASSETS	1,112,577	1,053,601	(58,976)
Retained earnings	115,351	102,758	(12,593)
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	320,256	307,663	(12,593)
TOTAL EQUITY	341,337	328,744	(12,593)
Trade payables (reclassification)	274,157	227,774	(46,383)
TOTAL EQUITY AND LIABILITIES	1,112,577	1,053,601	(58,976)

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior-period restatement (continued)

	<u>As originally reported</u>	<u>As restated</u>	<u>The resulting increase / (decrease)</u>
Consolidated Statement of comprehensive income for the year ended 31 December 2015			
Other expenses	(3,519)	(3,956)	(437)
Total operating expenses	(208,896)	(209,333)	(437)
Operating profit	63,328	62,891	(437)
Profit before tax	42,544	42,107	(437)
Profit for the year	37,177	36,740	(437)
Total comprehensive income for the year	34,776	34,339	(437)
Profit attributable	37,177	36,740	(437)
Total comprehensive income for attributable Owners of Company	32,540	32,103	(437)

The total effect of the resulting restatement on the financial statements of the Company at 31 December 2015 and 1 January 2015 is as follows:

	<u>As originally reported</u>	<u>As restated</u>	<u>The resulting increase / (decrease)</u>
Unconsolidated Statement of financial position at 31 December 2015			
Trade receivables	271,490	267,833	(3,657)
Other receivables	43,077	42,798	(279)
TOTAL CURRENT ASSETS	718,382	673,905	(44,477)
Retained earnings	66,106	62,170	(3,936)
TOTAL EQUITY	272,309	268,373	(3,936)
TOTAL CURRENT LIABILITIES	467,742	427,201	(40,541)
TOTAL EQUITY AND LIABILITIES	913,392	868,915	(44,477)

Statement of financial position at 1 January 2015

Trade receivables	233,728	230,484	(3,244)
Other receivables	33,343	33,088	(255)
TOTAL CURRENT ASSETS	705,299	655,417	(49,882)
Retained earnings	43,586	40,087	(3,499)
TOTAL EQUITY AND LIABILITIES	849,950	845,068	49,882

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior-period restatement (continued)

	<u>As originally reported</u>	<u>As restated</u>	<u>The resulting increase / (decrease)</u>
Unconsolidated Statement of comprehensive income for the year ended 31 December 2015			
Other expenses	3,319	3,756	(437)
Profit before tax	<u>26,101</u>	<u>25,664</u>	<u>(437)</u>
Profit for the year	<u>22,631</u>	<u>22,194</u>	<u>(437)</u>
Total comprehensive income for the year ended 31 December 2015	<u>22,631</u>	<u>22,194</u>	<u>(437)</u>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

In the current and comparative periods, certain reclassifications were made with respect to the line-items *Prepaid expenses and accrued income* and *Trade payables* were reclassified. Namely, in the prior reporting period the Group and the Company included in the line-item Prepaid expenses and accrued income future purchases of goods not owned by them at the reporting date. Given that goods in transit are subject to DEP delivery terms, the risks associated with the goods were not transferred from the supplier to the buyer (i.e. the Group and the Company), we consider the reclassification to be necessary for the purpose of fair presentation of the assets and liabilities.

As a result, the balance reported in the prior period under *Trade payables* was netted off against *Prepaid expenses and accrued income*, whereas in the current period the balances were presented on a gross basis within *Trade payables* and *Prepaid expenses and accrued income*. The resulting effect on the financial statements for the prior period is as follows:

	Notes	31 December 2015 (As originally reported)	Reclassification	31 December 2015 (Restated)
Group				
Prepaid expenses and accrued income	27	48,379	(40,541)	7,838
Trade payables	37	318,342	(40,541)	277,801
1 January 2015 (As originally reported)				
Prepaid expenses and accrued income		49,924	(46,383)	3,541
Trade payables		274,157	(46,383)	227,774
COMPANY				
Prepaid expenses and accrued income	27	42,556	(40,541)	2,015
Trade payables	37	277,618	(40,541)	237,077
1 January 2015 (As originally reported)				
Prepaid expenses and accrued income		48,157	46,383	1,774
Trade payables		236,031	46,383	189,648

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION

As of 31 December 2016, 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 and other sales.

Group segment revenue and results

2016	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,589,866	306,926	323,959	48,354	63,210	2,332,315	(388,276)	1,944,039
Cost of goods sold less supplier discounts and allowances	(1,374,349)	(260,460)	(274,640)	(42,753)	(54,804)	(2,007,006)	351,448	(1,655,558)
Changes in inventory	-	1,860	-	-	-	1,860	-	1,860
Other operating income	13,154	3,360	1,194	113	60	17,881	(3,588)	14,293
Other operating expenses	(188,169)	(42,786)	(45,103)	(5,674)	(6,752)	(288,484)	40,915	(247,569)
Profit from operations	40,502	8,900	5,410	40	1,714	56,566	499	57,065
Net finance expenses	(9,816)	(1,338)	(2,528)	(127)	(445)	(14,254)	567	(13,687)
Profit before taxes	30,686	7,562	2,882	(87)	1,269	42,312	1,066	43,378

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2015	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,664,199	317,117	340,353	49,496	58,291	2,429,456	(440,314)	1,989,142
Cost of goods sold less supplier discounts and allowances	(1,479,990)	(268,542)	(289,794)	(43,722)	(49,957)	(2,132,005)	406,604	(1,725,401)
Changes in inventory	-	1,400	-	-	-	1,400	-	1,400
Other operating income	6,241	695	385	99	41	7,461	(378)	7,083
Other operating expenses	(151,171)	(38,299)	(41,887)	(5,352)	(6,335)	(243,044)	33,711	(209,333)
Profit from operations	39,279	12,371	9,057	521	2,040	63,268	(377)	62,891
Net finance expenses	(13,903)	(3,125)	(3,169)	(257)	(363)	(20,817)	33	(20,784)
Profit before taxes	25,376	9,246	5,888	264	1,677	42,451	(344)	42,107

Segment assets and liabilities

2016	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	23,984	83,570	13,838	1,044	228	122,664	44,456	167,120
Other non-current assets	234,542	25,616	557	3	121	260,839	(204,481)	56,358
Current assets	562,439	139,562	91,475	15,679	27,136	836,291	(22,095)	814,196
Total assets	820,965	248,748	105,870	16,726	27,485	1,219,794	(182,120)	1,037,674
Long term liabilities	162,983	4,010	27,357	-	1,381	195,731	-	195,731
Short term liabilities	364,090	81,740	30,436	4,153	9,919	490,338	(21,624)	468,714
Total liabilities	527,073	85,750	57,793	4,153	11,300	686,069	(21,624)	664,445

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

2015	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
	Tangible and intangible assets	25,920	84,641	14,892	1,310	391	127,154	44,320
Other non-current assets	168,365	25,877	581	7	123	194,953	(180,542)	14,411
Current assets	683,026	162,517	110,840	18,367	30,043	1,004,793	(69,374)	935,419
Total assets	877,311	273,035	126,313	19,684	30,557	1,326,900	(205,596)	1,121,304
Long term liabilities	174,707	6,239	85	-	7,034	188,065	-	188,065
Short term liabilities	434,819	108,829	79,368	6,874	8,118	638,008	(68,388)	569,620
Total liabilities	609,526	115,068	79,453	6,874	15,152	826,073	(68,388)	757,685

Other segment information

2016	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
	Depreciation	4,491	2,332	801	29	177	7,830	(134)
Increase of tangible and intangible assets	2,864	2,131	113	155	21	5,284	-	5,284
2015								
Depreciation	(4,045)	(2,376)	(999)	(13)	(179)	(7,612)	135	(7,477)
Increase of tangible and intangible assets	10,081	2,061	189	211	58	12,600	(5)	12,595

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

5. SALES

	GROUP		COMPANY	
	2016	2015	2016	2015
Domestic sales of goods	1,731,194	1,795,647	1,061,040	1,098,822
Foreign sales of goods	166,869	151,051	380,521	416,691
Service provision	75,675	61,046	37,809	34,817
Income from the sale of licences	11,896	19,644	11,871	19,644
Sales of spare parts	7,668	847	-	-
Re-export sales	2,991	9,718	82,675	105,979
Other	3,386	5,804	944	3,384
Allowances and discounts provided to buyers	(55,640)	(54,615)	(43,046)	(41,338)
Total	1,944,039	1,989,142	1,531,814	1,637,999

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

	GROUP		COMPANY	
	2016	2015	2016	2015
Croatia	1,111,148	1,124,726	1,100,699	1,129,626
Serbia	314,260	325,055	167,592	189,477
Bosnia and Herzegovina	281,326	316,471	104,195	136,573
Belgium	5,077	17,155	5,077	17,155
Macedonia	21,182	48,447	33,962	34,558
Austria	13,606	23,203	6,508	15,220
Montenegro	48,932	34,165	32,006	29,548
Poland	15,911	12,458	15,239	12,440
Slovenia	35,297	38,523	34,999	38,426
Albania	8,258	7,160	6,128	5,141
France	3,324	17,922	3,213	17,918
Germany	16,875	10,211	16,854	10,190
Netherlands	5,086	8,989	3,009	8,776
Kosovo	13,936	7,003	4,764	660
Letonia	4,322	8,615	4,322	8,615
Sweden	7,842	5,625	7,708	5,522
Switzerland	5,049	5,062	4,240	3,950
Czech Republic	6,483	897	1,751	890
Hungary	21,182	948	19,134	872
Turkey	19,364	-	-	-
Great Britain	2,605	713	2,064	546
Uruguay	1,034	1,333	1,034	1,333
Other	37,580	29,076	362	11,901
Total	1,999,679	2,043,757	1,574,860	1,679,337

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

6. OTHER OPERATING INCOME

	GRUPA		DRUŠTVO	
	2016.	2015.	2016.	2015.
Income from approval of suppliers	5,321	486	66	58
Income from long-term provision	2,119	2,006	1,037	2,006
Income from re-invoiced fees Environmental Protection Fund BiH	1,997	-	-	-
Income from free receipts	1,967	1,466	1,571	1,072
Income from incentives and subsidies	553	505	-	-
Income from the insurance fund	325	-	-	-
Income from sale of fixed assets	172	147	37	-
Income from approval of suppliers on the basis of warranty services	130	-	-	-
Income from collected bad and doubtful receivables from customers	122	107	91	81
Income from write-off of trade payables ^a	72	71	-	-
Inventory surpluses	51	40	26	24
Other operating income ^e	1,464	2,255	263	1,966
Total	14,293	7,083	3,091	5,207

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Cost of spare parts	18,031	1,467	-	-
Basic and auxiliary materials, and office supplies	6,226	4,455	408	426
Energy and fuels for freight and personal vehicles	3,347	3,219	502	516
Small inventory, packaging and tyres lies	2,101	1,975	1,014	1,100
Servicing, replacement and repair costs under warranty	4,133	4,929	31	4
Ullage, spillage, breakage of raw materials and supplies	123	53	-	-
Cost of materials and spare parts for equipment maintenance	681	608	-	-
Total	34,658	16,706	1,955	2,046

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2016	2015	2016	2015
Cost of goods sold	1,738,237	1,799,116	1,434,837	1,538,655
Ullage, spillage, breakage	2,128	2,590	1,276	1,885
Cost of real estate for resale	566	-	-	-
Other cost of goods sold	297	188	-	-
Allowances and discounts provided by suppliers	(85,670)	(76,493)	(67,976)	(61,004)
Total	1,655,558	1,725,401	1,368,137	1,479,536

9. OTHER EXTERNAL CHARGES

	GROUP		COMPANY	
	2016	2015	2016	2015
Business premise and equipment rental costs	18,510	14,917	4,870	4,356
Guarantee extension costs	18,116	17,386	7,199	8631
Licences for intellectual property	15,653	13,168	15,597	13,117
Telephone and transportation costs	14,749	11,647	10,634	9,680
Costs of the Support Office and bookkeeping services	14,493	14,162	11,771	11,776
Marketing, sponsorships and fairs	12,868	14,242	3,743	6,256
Municipal utility fees and economic ownership	8,056	6,878	6,411	5,777
Maintenance and repairs	5,156	4,006	2,761	1,692
Entertainment	3,237	2,656	1,235	1,119
Intellectual services	1,429	925	693	293
Outsourced repair of faulty goods under warranty	1,262	4,307	3,804	4,438
Other external services	9,581	9,760	18,991	17,842
Total	123,110	114,054	87,709	84,977

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

10. STAFF COSTS

	GROUP		COMPANY	
	2016	2015	2016	2015
Net salaries	37,497	31,480	13,467	12,617
Taxes, surtaxes and contributions out of salaries	15,394	12,920	6,373	5,989
Contributions on salaries	8,470	7,605	3,207	3,130
Total	61,361	52,005	23,047	21,736

The average number of employees in the Group during the year 2016 was 560 (2015: 502 employees on average).

The average number of employees in the Company during the year 2016 was 134 (2015: 127 employees).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2016	2015	2016	2015
Depreciation	6,704	6,445	3,105	2,842
Amortisation	992	1,032	967	1,005
Total	7,696	7,477	4,072	3,847

12. OTHER EXPENSES

	GROUP		COMPANY	
	2016	2015	2016	2015
Insurance premiums for equipment, vehicles and inventories	2,251	2,125	1,598	1,739
Bank and payment operation charges	2,215	2,300	1,137	1,155
Commutation allowance	1,925	1,489	565	549
Professional training and literature	1,581	943	1,266	764
Per diems and other business travel costs	1,424	1,270	673	560
Forest levies, other contributions and membership fees	1,109	1,156	568	626
Taxes independent of the operating result	706	680	8	74
Christmas allowance, children's gifts, awards	248	297	109	122
Other expenses	3,027	3,076	910	635
Total	14,486	13,336	6,834	6,224

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2016	2015	2016	2015
Impairment allowance on trade receivables	1,293	454	-	359
Impairment allowance on intangible assets	270	218	270	218
Impairment allowance on receivables from the State and other institutions	63	-	-	-
Impairment allowance on Inventories	21	-	-	-
Total	1,647	672	270	577

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2016	2015	2016	2015
Donations	1,158	3	1,141	-
Fine	198	83	20	1
Written-off trade receivables	70	1,718	33	1,708
Other operating expenses	414	2,152	1,88	2,047
Total	1,840	3,956	1,382	3,756

15. FINANCIAL INCOME

	GROUP		COMPANY	
	2016	2015	2016	2015
Interest income	14,488	16,436	11,116	13,138
Foreign exchange gains	14,893	20,233	17,155	25,886
Share of profits of associates	567	2	-	-
Other financial income	10	-	-	-
Total	29,958	36,671	28,271	39,024

16. FINANCIAL EXPENSES

	GROUP		COMPANY	
	2016	2015	2016	2015
Interest expense	22,419	28,390	16,257	22,622
Foreign exchange losses	16,942	23,431	18,317	25,446
Bank guarantees fees	2,163	2,052	1,753	1,660
Loan origination costs	1,496	1,575	990	1,096
Factoring fees	495	717	495	716
Permanent impairment of financial assets available for sale	-	1,290	-	1,290
Other financial expenses	130	-	130	-
Total	43,645	57,455	37,942	52,830

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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	
	2016	2015	2016	2015
Current tax	7,734	5,623	6,097	3,728
Deferred tax	21	(256)	-	(258)
Income tax expense	7,755	5,367	6,097	3,470

Current tax

	GROUP		COMPANY	
	2016	2015	2016	2015
Accounting profit before tax	43,378	42,107	30,460	25,664
Items increasing the profit / decreasing the loss	4,556	13,985	1,955	12,132
Items decreasing the profit / increasing the loss	(220)	(4,116)	(344)	(4,254)
Tax base	47,714	51,976	32,071	33,542
Use of tax loss	(88)	(184)	-	-
Taxable profit	47,626	51,792	32,071	33,542
Current tax	7,734	5,623	6,097	3,728

Deferred tax assets

	GROUP		COMPANY	
	2016	2015	2016	2015
Opening balance	1,834	1,578	1,586	1,328
Increase in the benefit of other comprehensive income	(21)	256	-	258
Closing balance	1,813	1,834	1,586	1,586

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

Changes of deferred tax liabilities are shown as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Balance at 1 January	4	6	-	-
Debited to other comprehensive income	-	-	-	-
Charged to profit or loss	-	(2)	-	-
Balance at 31 December	4	4	-	-

Net deferred tax assets is shown as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Deferred tax assets	1,813	1,834	1,586	1,586
Deferred tax liability	(4)	(4)	-	-
Net deferred tax assets	1,809	1,830	1,586	1,586

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, 2014, 2015 and 2016, which was still pending at the date of issue of these financial statements.

The Company utilised, a beneficiary, tax incentives provided under the Act on Scientific Activity and Higher Education and the Rules on Government Grants for Research and Development Projects.

In our opinion, the certificates verifying the eligibility of the project costs issued by the Ministry of Science, Education and Sports, prepared on request of the Tax Administration and serving to the Tax Administration as the basis for assessing the grounds for reducing the corporate income tax base are illegal and as such they are in the process of being challenged before the Administrative Court in Zagreb. The judgement issued so far by the Administrative Court in Zagreb has rendered the verification certificated issued by the Ministry of Science, Education and Sports null and void and instructed the Ministry to issue new verification certificates. Another five proceedings are pending before the Administrative Court in Zagreb regarding the remaining project cost eligibility verification certificates issued by the the Ministry of Science, Education and Sports.

Once all the court proceedings are final and new, legal verification certificates are issued by the Ministry of Science, Education and Sports as final administrative instruments, the Tax Administration will have legal grounds to bring the tax audit at the Company to completion.

Notes to the consolidated and unconsolidated financial statements (continued)

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(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 2015	9,689	53	1,992	111	3,762	15,607
Additions	-	-	-	-	3,399	3,399
Additions - assets of the acquiree	-	-	53	-	-	53
Transfer from assets under development	3,336	-	-	55	(3,391)	-
Disposals	(1,347)	-	-	-	-	(1,347)
Impairment	-	-	-	-	(218)	(218)
Exchange differences	(5)	-	-	-	-	(5)
At 31 December 2015	11,673	53	2,045	166	3,552	17,489
Additions	-	-	-	-	322	322
Transfer from assets under development	321	-	-	1	(322)	-
Impairment	-	-	-	-	(269)	(269)
Exchange differences	(13)	(1)	-	-	-	(14)
At 31 December 2016	11,981	52	2,045	167	3,283	17,528
ACCUMULATED AMORTISATION						
At 1 January 2015	9,274	9	1,992	111	-	11,386
Charge for the year	1,028	3	1	-	-	1,032
Additions - assets of the acquiree	-	-	24	-	-	24
Disposals	(1,347)	-	-	-	-	(1,347)
Exchange differences	(5)	-	-	-	-	(5)
At 31 December 2015	8,950	12	2,017	111	-	11,090
Charge for the year	962	3	13	14	-	992
Exchange differences	(11)	-	-	-	-	(11)
At 31 December 2016	9,901	15	2,030	125	-	12,071
CARRYING AMOUNT						
At 31 December 2016	2,080	37	15	42	3,283	5,457
At 31 December 2015	2,723	41	28	55	3,552	6,399

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

18. INTANGIBLE ASSETS (CONTINUED)

COMPANY	Software	Development expenses	Trade mark	Intangible assets under development	Total
COST					
At 1 January 2015	8,496	1,991	112	3,647	14,246
Additions	-	-	-	3,398	3,398
Transfer from assets under development	3,336	-	55	(3,391)	-
Disposals	(1,347)	-	-	-	(1,347)
Impairment	-	-	-	(218)	(218)
At 31 December 2015	10,485	1,991	167	3,436	16,079
Additions	-	-	-	322	322
Transfer from assets under development	321	-	1	(322)	-
Impairment	-	-	-	(269)	(269)
At 31 December 2016	10,806	1,991	168	3,167	16,132
ACCUMULATED AMORTISATION					
At 31 January 2015	8,123	1,991	112	-	10,226
Charge for the year	1,002	-	-	-	1,002
Disposals	(1,347)	-	-	-	(1,347)
At 31 December 2015	7,778	1,991	112	-	9,881
Charge for the year	953	-	14	-	967
At 31 December 2016	8,731	1,991	126	-	10,848
CARRYING AMOUNT					
At 31 December 2016	2,075	-	42	3,167	5,284
At 31 December 2015	2,707	-	55	3,436	6,198

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

19. GOODWILL

	31.12.2016	31.12.2015
Cost	45,926	45,941
	<u>45,926</u>	<u>45,941</u>
	2016	2015
Cost		
Balance at beginning of the year	45,941	45,671
Acquisition	-	275
Effect of exchange differences	(15)	(5)
Balance at end of year	<u>45,926</u>	<u>45,941</u>

Goodwill impairment testing requires estimating the value in use of cash-generating units to which goodwill has been allocated. In calculating the value in use, the Management Board is required to estimate future cash flows expected from the cash-generating unit as well as the discount rate to be applied to arrive at the present value. Where the actual cash inflow is below the expected, this may be an indication of material impairment losses.

At the end of the reporting period, the Group reviewed the recoverable amount of goodwill and is satisfied that the goodwill is not impaired. The recoverable amount of goodwill has been determined based on the net present value of future cash flows using the appropriate weighted average cost of capital for the industry as the discount rate.

Discount rate: Future cash flows of the cash generating units are discounted using a discount rate ranging from 10.82 percent to 13.99 percent.

In estimating future growth rates, the Group has applied a conservative approach; hence, no significant departures of the growth from the estimated future inflation rates.

The allocation of goodwill to cash-generating units

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

	31.12.2016	31.12.2015
KIM TEC BG	29,251	29,251
KIM TEC BIH	8,201	8,201
MR SERVIS (bilješka 45)	275	275
Pakom Kompani d.o.o.	6,714	6,714
Poljoprivrednik Derventa	1,485	1,500
Total	<u>45,926</u>	<u>45,941</u>

The recoverable amounts of the cash-generating units have been determined on the basis of the value in use, which is based on cash flow projections on the basis of five-year budgets approved by the Management Board and the using of an appropriate discount rate.

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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 2015	119,030	42,842	13,589	12,809	2,795	983	192,048
Additions	-	(5)	-	-	441	8,760	9,196
Additions - assets of he acquiree	-	359	-	602	-	-	961
Transfer from assets under development	1,250	6,388	533	391	-	(8,562)	-
Disposals	(10)	(15)	(436)	(59)	-	-	(520)
Exchange differences	(480)	(70)	(12)	(37)	(13)	(3)	(615)
At 31 December 2015	119,790	49,499	13,674	13,706	3,223	1,178	201,070
Additions	-	-	-	-	38	4,924	4,962
Transfer from assets under development	847	1,927	1,359	385	195	(4,713)	-
Disposals	-	(614)	(1,225)	(5)	-	(378)	(2,222)
Exchange differences	(1,359)	(233)	(39)	(116)	(50)	(9)	(1,806)
At 31 December 2016	119,278	50,579	13,769	13,970	3,406	1,002	202,004

At 31 December 2016 the present value of property to which the liens Banks The loan amounts to 24,487 thousand (2015: 12,435 thousand). Mortgages on the said property is 50,658 thousand (2015: 20,228 thousand). The increase in assets under mortgage result is negotiating a long-term loan the company KIM TEC Belgrade in the amount of EUR 4 million which funded short-term loans and which commercial building societies put into stocks.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Leasehold improvements	Assets under development	Total
ACCUMULATED AMORTISATION							
At 1 January 2015	23,223	27,705	11,657	11,210	1,339	-	75,134
Charge for the year	1,248	3,756	672	544	225	-	6,445
Povećanja za sredstva pripojenog društva	-	260	-	587	-	-	847
Disposals	-	(15)	(282)	(16)	-	-	(313)
Exchange differences	(103)	(24)	(7)	(34)	(9)	-	(177)
At 31 December 2015	24,368	31,682	12,040	12,291	1,555	-	81,936
Charge for the year	1,224	4,120	649	449	262	-	6,704
Disposals	-	(609)	(1,191)	-	-	-	(1,800)
Exchange differences	(298)	(104)	(30)	(109)	(32)	-	(573)
At 31 December 2016	25,294	35,089	11,468	12,631	1,785	-	86,267
CARRYING AMOUNT							
At 31 December 2016	93,984	15,490	2,301	1,339	1,621	1,002	115,737
At 31 December 2015	95,422	17,817	1,634	1,415	1,668	1,178	119,134

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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
COST						
At 1 January 2015	11,346	24,276	5,247	5,898	300	47,067
Additions	-	-	-	-	6,057	6,057
Transfer from assets under development	-	5,648	147	262	(6,057)	-
Disposals	-	(10)	-	(43)	-	(53)
At 31 December 2015	11,346	29,914	5,394	6,117	300	53,071
Additions	-	-	-	-	1,586	1,586
Transfer from assets under development	-	591	826	169	(1,586)	-
Disposals	-	(593)	(274)	(7)	-	(874)
At 31 December 2016	11,346	29,912	5,946	6,279	300	53,783

The Company as at 31 December 2016 has no property which with registered banks mortgage as collateral.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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 2015	-	21,615	4,683	5,080	-	31,378
Charge for the year	-	2,373	290	179	-	2,842
Disposals	-	(11)	-	-	-	(11)
At 31 December 2015	-	23,977	4,973	5,259	-	34,209
Charge for the year	-	2,605	272	228	-	3,105
Disposals	-	(593)	(241)	-	-	(834)
At 31 December 2016	-	25,989	5,004	5,487	-	36,480
CARRYING AMOUNT						
At 31 December 2016	11,346	3,923	942	792	300	17,303
At 31 December 2015	11,346	5,937	421	858	300	18,862

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS

	GROUP		COMPANY	
	2016	2015	2016	2015
Investments in subsidiaries (Note 21.1)	-	-	183,102	160,101
Investments in shares available for sale (Note 21.3)	4,168	4,300	3,967	4,097
Investments in associates (Note 21.2)	48,480	6,609	44,106	2,613
Investments in held-to-maturity bonds (Note 21.4)	1,081	1,081	1,081	1,081
	53,729	11,990	232,256	167,892

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	
			2016	2015	2016	2015
			%	%		
Kim Tec Vitez d.o.o.	DISTRIBUTION	Bosnia and Hercegovina	100	100	63.643	63,643
Kim Tec BG	DISTRIBUTION	Serbia	100	55	77.946	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 Eko d.o.o.	COLLECTION AND DISTRIBUTION OF WASTE	Croatia	100	100	500	500
MR SERVIS d.o.o.	MAINTAINCE	Croatia	60	60	11.510	11,510
M San Logistika d.o.o.	LOGISTICS	Croatia	100	100	20	20
					183,101	160,101

As at 31 December 2015 had a 55% interest in the property in the associated company Kim Tec BG Ltd. while the remaining 45% stake was owned by Mr. Stipe Matic. During 2016, the Company performed acquire 45% ownership stake of g. Stipe Matic thereby acquired 100% interest in the property in the associated company Kim Tec BG ltd. Therefore, the consolidated financial statements of the Group for the year 2016 is no longer recognized minority interests of of the company's Kim Tec BG Ltd.

Notes to the consolidated and unconsolidated financial statements (continued)
 For the year ended 31 December 2016
 (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 2016 and 31 December 2015:

	GROUP		COMPANY	
	2016	2015	2016	2015
Share in Ventex d.o.o.	6,809	6,595	2,606	2,606
Share in Baks Nekretnine d.o.o.	-	7	-	7
Share in Elko kompjuteri d.o.o.	7	7	-	-
Share in E Kupi d.o.o.	41,664	-	41,500	-
	48,480	6,609	44,106	2,613

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	
			2016	2015
Ventex d.o.o., Rijeka	Mediation in miscellaneous trade	Rijeka	49%	49%
Baks nekretnine d.o.o.	Building construction project organisation	Zagreb	-	33.33%
Elko kompjuter d.o.o.e.l.	Retail trade	Skopje, Macedonia	49%	49%
E Kupi d.o.o.	E commerce	Zagreb	24%	-

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

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

	2016	2015
Total assets	36,447	17,984
Total liabilities	23,806	7,942
Net assets	12,641	10,042
Group's share in the net assets of the associates	5,958	4,921

Notes to the consolidated and unconsolidated financial statements (continued)
 For the year ended 31 December 2016
 (all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

	2016	2015
Total income	221,153	36,834
Total profit for the year	1,597	291
Attribution of profit / I(oss) from previous years	35	(218)
Unrealised gains from shares	<u>(126)</u>	<u>(77)</u>
The Group's share in the profits of the associates (49%)	<u>567</u>	<u>2</u>

21.3 INVESTMENTS IN AVAILABLE FOR SALE SHARES

	GROUP		COMPANY	
	2016	2015	2016	2015
Shares in Quaestus Private Equity Capital	2,886	3,016	2,886	3,016
Shares in Metronet telekomunikacije d.d, Shares on the custody account	1,081 201	1,081 203	1,081 -	1,081 -
	<u>4,168</u>	<u>4,300</u>	<u>3,967</u>	<u>4,097</u>

The Company's share in the private equity fund Quaestus Private Equity capital is 5,83 % (31 December 2015: 5.83%). The shares of the Fund are not quoted in an active market.

The Company has sold shares of the company Metronet d.d up to the moment of issuing these financial statements.

Fair value	Quaestus Private Equity Capital	Metronet	Shares in the custody account	Total
Balance at 1 January 2015	3,016	1,081	203	4,300
Change in fair value	(130)	-	(2)	(132)
Balance at 31 December 2015	<u>2,886</u>	<u>1,081</u>	<u>201</u>	<u>4,168</u>

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(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 2015: HRK 1,081 thousand). The Company has sold bonds of the company Metronet d.d up to the moment of issuing these financial statements.

22. INVENTORIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Merchandise	120,717	160,713	56,864	71,430
Goods in the customs warehouse	31,239	38,855	31,239	38,682
Goods in transport	6,048	18,820	5,645	14,134
Inventories of raw material and supplies	3,783	2,750	-	-
Other inventories	9,572	6,926	382	382
Total	171,359	228,064	94,130	124,628

23. PREPAYMENTS MADE

	GROUP		COMPANY	
	2016	2015	2016	2015
Prepayments made for goods	9,243	12,736	9,115	12,550
Prepayments made for services	342	2,675	-	-
Total	9,585	15,713	9,115	12,550

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

24. TRADE RECEIVABLES

	GROUP		COMPANY	
	2016	2015	2016	2015
Domestic trade receivables	307,711	348,492	178,473	193,611
Foreign trade receivables	37,846	37,603	32,501	85,708
Impairment allowance on trade receivables	<u>(34,166)</u>	<u>(33,302)</u>	<u>(11,358)</u>	<u>(11,486)</u>
Total	<u>311,391</u>	<u>352,793</u>	<u>199,616</u>	<u>267,833</u>

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2016	2015	2016	2015
At 1 January	33,302	33,093	11,486	11,615
Increase in impairment allowance (Note 13)	1,293	454	-	359
Reversed on collection (Note 6)	(122)	(107)	(91)	(81)
Write-off receivables	<u>(307)</u>	<u>(138)</u>	<u>(37)</u>	<u>(407)</u>
At 31 December	<u>34,166</u>	<u>33,302</u>	<u>11,358</u>	<u>11,486</u>

Ageing of past due but not impaired trade receivables:

	GROUP		COMPANY	
	2016	2015	2016	2015
Not yet due	230,767	262,743	152,761	204,975
Up to 60 days	31,073	38,367	15,919	25,786
60-90 days	4,763	9,581	1,548	8,956
90-120 days	3,472	3,277	533	1,248
120-365 days	20,941	22,712	11,135	14,212
Beyond 365 days	<u>20,375</u>	<u>16,113</u>	<u>17,720</u>	<u>12,656</u>
Total	<u>311,391</u>	<u>352,793</u>	<u>199,616</u>	<u>267,833</u>

The average credit period on sales in the Group in 2016 was 58 days (2015: 67 days), while in the Company it was 48 days (2015: 61 days).

Of the total receivables past due beyond 365 days, the Group's receivables from related companies amount to HRK 17,016 thousand and its receivables from unrelated companies amount to HRK 3,359 thousand, whereas the balance owed to the Company by its related companies and unrelated companies amounts to HRK 15,890 thousand and HRK 1,830 thousand, respectively.

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	2016	2015	2016	2015
Prepaid benefit of EE waste	5,541	10,563	5,541	10,563
VAT refund	7,481	7,555	4,475	4,538
Receivables for other taxes, contributions and membership fees	212	235	175	179
Customs duty refunds	68	95	-	-
Receivables for overpaid income tax	317	710	-	680
Other amounts due from the state	742	587	15	42
Total	14,361	19,745	10,206	16,002

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 under which M San Grupa settled the liabilities, the Fund adopted supplemental rulings 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 ruling 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.

As a result, following the new resolutions, there were two administrative rulings for each period regulating one and the same legal matter differently. In the period from July to November 2014 M San Grupa d.d. filed new appeals against the new rulings pertaining to the year 2008, which were rejected. In October 2014 M San Grupa d.d. appealed against the new rulings applicable to 2010, which were adopted not earlier than in late 2016. 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 based on all the new rulings.

Notes to the consolidated and unconsolidated financial statements (continued)

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25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS (continued)

M San Grupa d.d. initiated administrative proceedings before the Administrative Court in Zagreb with respect to the rulings of the Ministry pertaining to the year 2008, with a motion to render the appellate rulings of the Ministry and the first-instance ruling of the Fund null and void and to effect the recovery of entire monetary claim which was enforced.

Because of the different closing of the items, the Fund enforced the collection of HRK 1,271 million from the Company in 2015. Namely, M SAN GRUPA d.d. paid the waste management fee for specified months in accordance with the Energy Efficiency and Environmental Protection Fund rulings, whereas the Fund was closing periods other than those specified on the payment receipts because of items the Fund accounted for as outstanding with respect to challenged decisions for 2008 and 2010.

In 2016 the Administrative Court in Zagreb rendered the majority of the Ministry's and the Fund's rulings null and void, and ordered the recovery of the majority of the funds to M San Grupa d.d., which was effected. The remaining proceedings before the Administrative Court in Zagreb are expected to be finalised, and the claims which the Fund collected by means of enforcement are expected to be recovered, together with the statutory late-payment interest, in the first half of 2017.

Regarding the year 2010, the Fund refunded to M San Grupa d.d. all the funds collected by means of enforcement, together with the statutory late-payment interest, in late 2016 following the Ministry's decision rendering the Fund's first-instance rulings null and void.

Notes to the consolidated and unconsolidated financial statements (continued)

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(all amounts are expressed in thousands of kunas)

26. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	2016	2015	2016	2015
Loans to corporate entities	198,800	215,589	159,314	178,791
Loans to individuals	1,740	1,868	1,473	1,661
Given deposits to unrelated parties	9,748	21	9,695	-
Total	210,288	217,478	170,482	180,452

Loans to corporate entities

	Original currency	Loans Amount	Maturity	2016	2015
Company					
<i>Loans to corporate entities within group</i>					
M SAN GRUPA D.D.					
M SAN EKO d.o.o.	HRK	500	31.12.2017.	967	1,549
Total				967	1,549

Loans to other corporate entities

M SAN GRUPA D.D.

Related parties

Litus projekt d.o.o.	HRK	1,500	31.12.2017.	553	546
M SAN Nekretnine d.o.o.	HRK		31.12.2017.	62	-
M SAN Ulaganja d.o.o.	HRK	60,000	31.12.2017.	122,061	60,275
Poljoprivredno poduzeće Orahovica d.d.	HRK	100,00	31.12.2017.	5,650	86,281
Baks grupa d.o.o.	HRK	19,000	31.12.2017.	18,309	18,309

Third parties

Castalia projekt d.o.o.	HRK	3,900	31.10.2017.	2,312	3,426
O-Tours d.o.o.	HRK	160	31.12.2017.	74	74
Virentia savjetovanje	HRK	9,500	14.7.2017.	9,326	8,331
Total				158,347	177,242

Total

159,314 **178,791**

Group

KIM TEC BIH d.o.o.

MPI Modriča	KM	5,250	31.12.2017.	18,460	18,649
EKO-Bosanska Posavina d.o.o.		3,243	31.12.2017.	8,951	9,042
Derventa	KM		31.12.2017.	2,319	2,073
Poljoprivrednik Odžak	KM	1,000	31.12.2017.	3,487	1,962
Poljoprivrednik d.o.o. Glamoč	KM	1,000	31.12.2017.		
MP ENERGIJA d.o.o. Bosansko Grahovo	KM	852	31.12.2017.	3,036	3,092
Agropromet Grahovo d.o.o. Bosansko Grahovo	KM	629	31.12.2017.	1,806	1,803
Total				38,059	36,621

Notes to the consolidated and unconsolidated financial statements (continued)
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26. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Loans Amount	Maturity	2016	2015
KIM TEC BG d.o.o.					
EKUPI d.o.o. Beograd	RSD	2.000	26.9.2017.	1,665	1,581
Total				1,665	1,581
PAKOM KOMPANI d.o.o.					
Korvus MK	MKD	6.340	31.12.2016.	533	-
Kim Tec Tirana	EUR	30	27.7.2017.	196	139
Total				729	139
Total loans to corporate entities				198,800	215,583
Loans to individuals					
Company					
M SAN GRUPA D.D.					
Mato Arelić	HRK	200	27.7.2017.	620	620
Other individuals with smaller loans	HRK	853	25.5.2017.	853	1,068
Total				1,473	1,688
Group					
KIM TEC BIH					
Other individuals with smaller loans	KM	50	31.12.2017.	19	59
Total				19	59
POLJOPRIVREDNIK DERVENTA					
Other individuals with smaller loans	KM			248	137
Total				248	137
PAKOM KOMPANI d.o.o.					
Other individuals with smaller loans	MKD			-	4
Total				-	4
Other loans to individuals				-	7
Total loans to individuals				1,740	1,895
TOTAL LOANS				200,540	217,478

Notes to the consolidated and unconsolidated financial statements (continued)
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26. 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.

27. REPAID EXPENSES AND ACCRUED INCOME

	GROUP		COMPANY	
	2016	2015	2016	2015
Accrued income - subsequently approved discounts	2,793	2,000	-	125
Accrued income - amounts not yet billed	1,550	56	-	-
Prepaid expenses	2,454	5,782	850	1,890
Total	6,797	7,838	850	2,015

28. OTHER RECEIVABLES

	GROUP		COMPANY	
	2016	2015	2016	2015
Interest receivable	49,419	50,101	39,254	41,266
Other receivables	4,083	2,093	3,176	1,604
Value adjustment of receivables per interests	(64)	(72)	(64)	(72)
Total	53,438	52,122	42,366	42,798

Interests receivable are presented as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Receivables per interests per loans	49,419	50,101	39,252	41,266
Value adjustment of receivables per interest	(64)	(72)	(64)	(72)
Total	49,355	50,029	39,188	41,194

Notes to the consolidated and unconsolidated financial statements (continued)

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29. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2016	2015	2016	2015
Cash with banks	36,779	41,710	26,343	27,426
Cash in hand	5	123	-	96
Total	36,784	41,833	26,343	27,522

30. SHARE CAPITAL

The share capital consists of:

	2016	2015
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
100,000 D-series ordinary shares fully paid in at 18/08/2016	10,000	-
Total	210,000	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 Matic (100%).

Notes to the consolidated and unconsolidated financial statements (continued)

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31. RETAINED EARNINGS

	GROUP				COMPANY	
	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	1 January 2015
Retained earnings	162,009	136,925	102,758	76,535	62,170	40,087
Total	162,009	136,925	102,758	76,535	62,170	40,087

Changes of retained earnings are shown below:

	2016	2015 restated	2016	2015 restated
Balance at 1 January	136,925	102,758	62,170	40,087
Increase of share capital and retained earnings	(10,000)	-	(10,000)	-
Profit for the year	35,633	34,302	24,365	22,194
Decrease in non- controlling interest	(476)	-	-	-
Subsequently identified income tax liabilities	-	(111)	-	(111)
Transfer to legal reserves	(73)	(24)	-	-
Balance at 31 December	162,009	136,925	76,535	62,170

32. NON-CONTROLLING INTERESTS

	GROUP	
	2016	2015
Net asset value at acquisition date	23,964	21,081
Other comprehensive loss	(561)	(202)
Share in the current year's profit	(10)	2,438
Increase in non-controlling interest	(22,524)	647
Balance at end of year	869	23,964

Notes to the consolidated and unconsolidated financial statements (continued)

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(all amounts are expressed in thousands of kunas)

33. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD

	GROUP		COMPANY	
	2016	2015	2016	2015
Long-term provisions for risks within the warranty period	2,771	2,119	1,368	1,037
Total	2,771	2,119	1,368	1,037

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
At 1 January	2,119	2,006	1,037	2,006
Transferred from MR Servis	-	992	-	-
New provisions made	2,771	1,127	1,368	1,037
Decreases	(2,119)	(2,006)	(1,037)	(2,006)
At 31 December	2,771	2,119	1,368	1,037

The balance of the provisions account for 0,16% percent of the Company's and Group's cost of goods sold (31 December 2015: 0.11 %).

34. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS

Long-term liabilities from finance lease

	GROUP		COMPANY	
	2016	2015	2016	2015
Total obligations under finance leases	1,781	1,425	588	190
Less: current portion of finance lease obligations	(529)	(263)	(320)	(100)
Long-term finance lease obligations	1,252	1,162	268	90
Total long term liabilities from financial leasing	1,252	1,162	268	90

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

Long-term loan liabilities

	GROUP		COMPANY	
	2016	2015	2016	2015
Total loans from financial institutions	233,246	242,253	190,497	222,085
Less: current portion of loans from financial institutions	(41,542)	(57,475)	(31,043)	(49,871)
Long-term loans from financial institutions	<u>191,704</u>	<u>184,778</u>	<u>159,454</u>	<u>172,214</u>
Total long-term loans from financial institutions	<u>191,704</u>	<u>184,778</u>	<u>159,454</u>	<u>172,214</u>
Total long-term portion of long-term loans and leases	<u>192,956</u>	<u>185,940</u>	<u>159,720</u>	<u>172,304</u>

Financijal institutions	Original currency	Loans amount	Maturity	2016	2015
POLJOPRIVREDNIK AD					
IRB RS	KM	1,000	1.7.2019	2,093	2,876
NLB Razvojna banka	KM	750	1.2.2020	1,748	2,324
NLB Razvojna banka	KM	500	1.6.2020	1,407	1,779
NLB Razvojna banka		1,000	1.2.2017	<u>227</u>	<u>887</u>
Total				<u>5,475</u>	<u>7,866</u>
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	EUR	1.500	22.7.2018	<u>6,904</u>	<u>11,254</u>
Total				<u>6,904</u>	<u>11,254</u>
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD.	EUR	4.000	23.12.2023	30,370	-
Intesa Sanpaolo Banka d.d.	RSD	75,900	21.01.2016	-	398
Intesa Sanpaolo Banka d.d.	RSD	31,000	13.04.2016	<u>-</u>	<u>650</u>
Total				<u>30,370</u>	<u>1,048</u>

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

Financijal institutions	Original currency	Loans amount	Maturity	2016	2015
MSAN GRUPA D.D.					
Splitska banka d.d.HBOR	KN	12,500	31.12.2019	10,313	11,250
Zagrebačka banka d.d.	KN	176,020	15.1.2020	116,740	137,121
Raiffeisen bank d.d.	EUR	4,435	15.1.2020	21,417	25,167
Splitska banka d.d.	EUR	4,900	31.8.2018	29,627	33,671
Splitska banka d.d.	EUR	1,549	30.9.2018	2,072	3,177
Splitska banka d.d.	EUR	1,659	31.12.2019	10,328	11,699
Total				<u>190,497</u>	<u>222,085</u>
Total long-term loans from financial institutions				<u>233,246</u>	<u>242,253</u>
Less: Current portion				<u>(41,542)</u>	<u>(57,475)</u>
Total				<u>191,704</u>	<u>184,778</u>

Notes to the consolidated and unconsolidated financial statements (continued)

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35. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	2016.	2015.	2016.	2015.
Short-term bank borrowings	115,854	149,094	81,434	84,097
Revolving facilities with banks	17,152	12,197	-	-
Total borrowings	133,006	161,291	81,434	84,097
Current portion of long-term leases	529	263	320	101
Current portion of long-term loans	41,542	57,475	31,043	49,871
Total	175,077	219,029	112,797	134,069

An overview of bank borrowings of the M San Group:

Financial institutions	Original currency	Loans Amount	Maturity	2016	2015
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	KM	2,000	1.6.2017	7,725	7.808
Intesa Sanpaolo Banka d.d.	KM	1,500	10.2.2017	5,796	5.855
Intesa Sanpaolo Banka d.d.	KM	500	10.2.2017	3,091	3.904
Okvirni kredit NLB	KM	500	13.3.2017	1,259	-
Okvirni kredit Intesa	KM	500	15.2.2017	1,799	-
Okvirni kredit UNICREDIT BANK	KM	1,000	1.6.2017	2,318	284
Okvirni kredit SPARKASSE BANK	KM	500	18.8.2017	1,408	1.841
Okvirni kredit Asa Banka	KM	800	25.5.2017	3,070	3.114
NLB Tuzlanska banka 2.000.000		2,000	12.3.2017	7,729	7.808
NLB Tuzlanska banka 1 400 000	KM	1,400	24.2.2017	5,410	5.465
Bor banka d.d.	KM	1,400	31.5.2017	2,254	2.733
Total				41,859	38,812

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35. OBVEZE PO KRATKOROČNIM KREDITIMA OD FINANCIJSKIH INSTITUCIJA (NASTAVAK)

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

Financial institutions	Original currency	Amount	Maturity	2016	2015
KIM TEC BEOGRAD d.o.o.					
Procredit banka d.d.	EUR	440	23.3.2016	-	858
Procredit banka d.d.	EUR	600	10.9.2016	-	4.592
Vojvođanska banka d.d.	EUR	660	29.2.2016	-	5.510
Vojvođanska banka d.d.	EUR	600	26.6.2016	-	918
Mirabank	RSD	100,000	21.7.2016	-	6.292
VTB Banka	RSD	85,000	21.10.2016	-	4.457
Hypo banka	RSD	85,000	31.12.2016	-	5.348
Intesa Sanpaolo Banka d.d.	RSD	40,000	22.7.2016	-	1.958
Intesa Sanpaolo Banka d.d.	RSD	23,000	27.10.2016	-	1.491
Intesa Sanpaolo Banka d.d.	RSD	30.000	28.7.2017	46	-
Total				46	31,424

Notes to the consolidated and unconsolidated financial statements (continued)

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35. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS (CONTINUED)

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

Financial institution	Original currency	Loans Amount	Maturity	2016	2015
POLJOPRIVREDNIK AD					
Intesa Sanpaolo Banka d.d. okvirni kredit	KM	1,000	15.12.2016	3,864	3,904
NLB Razvojna banka	KM	1,000	15.3.2017	2,415	-
Total				6,279	3,904
KIM TEC SERVIS Beograd d.o.o.					
Okvirni kredit Banka Intesa	RSD	5		5	-
Ukupno				5	-
KIM TEC CG d.o.o					
Okvirni kredit HIPOTEKARNA BANK	EUR	400	20.5.2017	3,383	3,054
Total				3,383	3,054
COMPANY					
Total short-term borrowings (see note below)				81,434	84,097
Total				81,434	84,097
Plus: Current portion of long-term borrowings				529	263
Plus: Current portion of loans from financial institutions				41,542	57,475
Total current portion of long-term borrowings and short-term loans				175,077	219,029

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 For the year ended 31 December 2016
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35. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS (CONTINUED)

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

COMPANY					
Financial institutions	Original currency	Loans Amount	Maturity	2016	2015
Zagrebačka banka d.d.	HRK	20,000	15.6.2017	20,000	20,000
Zagrebačka banka d.d.	HRK	20,000	15.2.2017	20,000	20,000
Societe Generale-Splitska banka d.d.	HRK	20,000	15.10.2017	20,000	20,000
Privredna banka d.d.	EUR	1,640	31.5.2017	8,302	9,642
Hrvatska poštanska banka d.d.	HRK	15,000	1.8.2017	13,132	14,455
Total				81,434	84,097
Plus: Current portion of long-term borrowings				320	101
Plus: Current portion of loans from financial institutions				31,043	49,871
Total current portion of long-term borrowings and short-term loans				112,797	134,069

36. ADVANCES RECEIVED

	GROUP		COMPANY	
	2016	2015	2016	2015
Advances received from domestic customers	414	8,404	57	7,766
Advances received from foreign customers	735	570	1,976	-
Total	1,149	8,974	2,033	7,766

Notes to the consolidated and unconsolidated financial statements (continued)

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37. TRADE PAYABLES

	GROUP		COMPANY	
	2016	2015	2016	2015
Foreign trade payables	203,036	223,301	180,855	197,717
Domestic trade payables	44,958	54,500	29,054	39,360
Total	247,994	277,801	209,909	237,077

38. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GROUP		COMPANY	
	2016	2015	2016	2015
Liabilities for VAT	17,345	20,847	15,863	19,873
Liabilities to the customs office	5,363	5,947	4,687	4,622
Liabilities for income tax	319	718	223	-
Liabilities for taxes and contributions from and on salaries	2,167	1,576	805	806
Liabilities for memberships, contributions and other taxes	726	571	469	32
Total	25,920	29,659	22,047	25,333

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39. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	2016	2015	2016	2015
Amounts due under factoring arrangements	-	11,286	-	11,286
Interest on borrowings	560	1,022	442	839
Other current liabilities	3,011	6,553	1,987	2,913
Total	3,571	18,861	2,429	15,038

40. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	2016	2015	2016	2015
Accrued expenses - not yet billed	9,762	11,627	5,228	6,578
Accrued income	1,361	896	865	152
Deferred income - late-payment interest	113	96	-	5
Other accrued expenses and deferred income	126	26	-	-
Total	11,362	12,645	6,093	6,735

Notes to the consolidated and unconsolidated financial statements (continued)

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41. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2016 and 2015 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 d.o.o., Zagreb (merged into the new acquiree, MR Servis d.o.o.)
M San Logistika d.o.o., Zagreb
MR Servis d.o.o.
M San Eko d.o.o., Zagreb

Entities associated to the Company

Ventex d.o.o., Rijeka
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

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
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

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41. 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
 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
 PPK Valpovo d.d., Valpovo
 Geanium ICT d.o.o., Zagreb
 Baks Grupa d.o.o., Zagreb
 MS Industrial Kina

Other companies:

Metronet telekomunikacije d.o.o., Zagreb

The receivables and payables of the Company from transactions with its subsidiaries at 31 December 2016 and 2015 were as follows:

	Receivables		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Kim Tec d.o.o., Vitez	285	33,457	(612)	-
Kim Tec d.o.o., Beograd	7,000	20,845	14	(208)
Pakom Kompany, Skopje	2,378	147	-	(1,445)
M San Eko d.o.o., Zagreb	5	63	-	-
Kim Tec CG, Podgorica	-	662	(1,915)	-
M San Logistika d.o.o., Zagreb	-	51	(1,307)	(242)
MR Servis d.o.o.	1,272	644	(459)	(497)
	10,940	55,869	(4,279)	(2,392)

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41. 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 2015 and 2014 were as follows:

	Receivables		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Kim Tec, Ljubljana	15,447	16,059	242	19
Ekupi d.o.o., Zagreb	8,244	6,600	(388)	(304)
Ask Tec d.o.o., Priština	90	7,965	(5)	(313)
PP Orahovica d.d.	7,003	6,529	(87)	-
MS Industrial Kina	6,394	6,352	(516)	(98)
M San Ulaganja d.o.o., Zagreb	2,833	1,191	-	-
Ventex d.o.o., Rijeka	689	1,107	-	(61)
King ICT d.o.o., Zagreb	14,233	14,733	(2)	(5,027)
Pametna energija d.o.o.	531	1,800	-	-
M San Nekrenine d.o.o., Zagreb	399	560	(22)	(75)
Corvus Info d.o.o., Zagreb	1	31	(82)	(135)
Ured za podršku d.o.o., Zagreb	581	279	(1,226)	(1,226)
King ICT d.o.o., Beograd	-	-	(42)	(16)
PPK Valpovo	-	11	-	-
Aktivis d.o.o., Zagreb	15	-	-	(72)
Metronet Telekomunikacije	-	-	(15)	(14)
	59,792	63,217	(2,143)	(7,322)

Notes to the consolidated and unconsolidated financial statements (continued)

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41. RELATED-PARTY TRANSACTIONS (CONTINUED)

The income and expenses of the Company from transactions with its subsidiaries during 2016 and 2015 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2016	2015	2016	2015	2016	2015
Kim Tec d.o.o., Beograd	167,130	189,531	10,241	10,847	485	4,236
Kim Tec d.o.o., Vitez	104,022	136,571	2,612	3,046	780	1,712
Pakom Kompany, Skopje	33,962	34,558	1,032	1,440	2,249	1,298
Kim Tec CG, Podgorica	31,997	29,545	948	770	3	12
M San Logistika d.o.o., Zagreb	544	473	21,415	20,278	-	-
M San Eko d.o.o, Zagreb	13	8	1	-	-	-
MR Servis d.o.o.	5,289	5,894	7,246	8,997	2,292	1,957
	342,957	396,580	43,495	45,378	5,809	9,215

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2016 and 2015 were as follows:

	Income / Sale		Expenses / Purchase		Purchase value of goods	
	2016	2015	2016	2015	2016	2015
Ekupi d.o.o., Zagreb	138,337	119,809	3,406	2,672	136	686
King ICT d.o.o., Zagreb	83,269	98,415	616	141	1,529	4,740
King ICT d.o.o., Beograd	-	-	-	-	36	6
Ventex d.o.o., Rijeka	12,990	13,837	71	127	5	53
Kim Tec, Ljubljana	1,912	9,933	164	17	149	38
Ask Tec d.o.o., Priština	4,758	660	1,383	22	5	-
Pametna energija d.o.o.	7,635	14,100	-	4	-	-
PP Orahovica d.d.	345	266	111	152	16	27
M San Nekrenine d.o.o., Zagreb	242	383	3,519	3,579	-	1
Ured za podršku d.o.o.	268	220	11,773	11,782	-	-
Corvus Info d.o.o.	127	442	2,007	712	-	-
M San Ulaganja d.o.o., Zagreb	1,307	16	-	-	-	-
Aktivis d.o.o., Zagreb	36	47	-	-	-	-
PPK Valpovo d.d.	21	16	-	10	-	-
Baks Grupa d.o.o.	-	12	-	-	-	-
MS Industrial Kina	-	-	2,953	2,791	44,789	84,127
Metronet	-	-	150	162	-	-
Telekomunikacije	-	-	-	-	-	-
	251,113	258,156	26,153	22,171	46,665	89,678

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41. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2016 and 2015:

	Receivables		Income	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
M San Eko d.o.o., Zagreb	971	1,656	63	74
MR Servis d.o.o., Zagreb	-	-	54	49
	971	1,656	117	123

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2016 and 2015:

	Receivables		Income	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
PP Orahovica d.d., Orahovica	29,033	106,392	3,272	5,260
M San Nekrenine d.o.o., Zagreb	3,271	9,842	160	1,833
M San Ulaganja d.o.o., Zagreb	127,225	65,513	4,664	2,884
Baks Grupa d.o.o.	23,548	22,604	944	1,097
Corvus Info d.o.o.	-	-	-	833
Litus Projekt	672	638	28	33
Kim Tec, Ljubljana	14	14	-	-
	183,763	205,003	9,068	11,940

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

	GROUP		COMPANY	
	2016	2015	2016	2015
Short-term benefits - gross	6,147	5,622	1,723	1,698
Total	6,147	5,622	1,723	1,698

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42. FINANCIAL INSTRUMENTS

42.1. 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 includes borrowings disclosed in Notes 34 and 35, 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.

42.1.2 Gearing ratio

Gearing ratio at the end of the reporting period:

	GROUP		COMPANY	
	2016	2015	2016	2015
Debt	368,032	404,969	272,516	306,373
Less: cash in hand and with banks	<u>(36,784)</u>	<u>(41,833)</u>	<u>(26,343)</u>	<u>(27,522)</u>
	<u>331,248</u>	<u>363,136</u>	<u>246,173</u>	<u>278,851</u>
Equity	<u>373,229</u>	<u>363,619</u>	<u>292,738</u>	<u>268,373</u>
Net debt-to-equity ratio	<u>88,75%</u>	<u>99,86%</u>	<u>84,09%</u>	<u>103,40%</u>

Debt consists of long-term borrowings and finance lease obligations and short-term loans from financial institutions.

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42.1. Capital risk management (continued)

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

42.1.2 Categories of financial instruments

	GROUP		COMPANY	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	36.784	41.833	26.343	27.522
Loans and receivables	585.707	638.525	422.422	504.210
Financial assets available for sale	4.168	4.300	3.967	4.097
Investments held to maturity	1.081	1.081	1.081	1.081
Total financial assets	627.740	685.739	453.813	536.910
Financial liabilities				
Bank borrowings	366.251	403.543	271.930	306.181
Finance lease obligations	1.781	1.425	586	190
Other financial liabilities	256.359	308.288	215.620	261.066
Total financial liabilities	624.391	713.256	488.136	567.437

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For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.2. Foreign currency risk management

The Group and the Company 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	
	2016	2015	2016	2015	2016	2015
EUR	53,208	79,651	360,248	488,055	(307,040)	(408,404)
USD	34,158	60,983	67,861	96,588	(33,703)	(35,605)
CHF	4	-	-	-	4	-
GBP	76	32	1,390	(1)	(1,314)	33
COMPANY	Assets		Liabilities		Assets – Liabilities	
	2016	2015	2016	2015	2016	2015
EUR	48,754	57,156	341,639	417,463	(292,885)	(360,307)
USD	32,956	56,703	65,667	58,657	(32,711)	(1,954)
CHF	4	-	-	-	4	-
GBP	76	32	1,390	(1)	(1,314)	33

43.2.1 Foreign currency sensitivity analysis

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.2. Foreign currency risk management (continued)

42.2.1. Foreign currency sensitivity analysis (continued)

GROUP	EUR impact		USD impact		GBP impact	
	2016	2015	2016	2015	2016	2015
Profit / (loss)	(30,704)	(40,840)	(3,370)	(3,560)	(131)	3

COMPANY	EUR impact		USD impact		GBP impact	
	2016	2015	2016	2015	2016	2015
Profit / (loss)	(29,288)	(36,031)	(3,271)	(195)	(131)	3

42.3 Credit risk management

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

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.3. Credit risk management (continued)

Presented in the table below are the sales revenues of the Group and the Company from the top ten customers at the end of the reporting period.

Customer	Domicile country	GROUP		COMPANY	
		2016	2015	2016	2015
Ekupi d.o.o.	CROATIA	138,998	119,869	138,665	119,869
KING ICT D.O.O.	CROATIA	85,847	98,416	83,232	98,416
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERCEGOVINA	42,545	44,564	-	-
PEVEC d.d.	CROATIA	41,462	47,031	41,462	47,031
Links d.o.o.	CROATIA	40,362	36,759	40,362	36,759
COMBIS d.o.o.	CROATIA	32,440	27,130	32,440	27,130
Comping d.o.o.	CROATIA	29,423	16,627	29,423	16,627
Mikronis d.o.o.	CROATIA	27,908	26,640	27,908	26,640
S&T Hrvatska d.o.o.	CROATIA	27,101	23,513	27,101	23,513
FLIBA d.o.o.	CROATIA	26,917	35,229	26,917	35,229
KIM TEC d.o.o. Beograd	SERBIA	-	-	167,112	189,448
KIM TEC d.o.o. Vitez	BOSNIA AND HERCEGOVINA	-	-	104,020	136,573
PAKOM KOMPANI SKOPJE	MACEDONIA	-	-	33,962	34,801
KIM TEC CG d.o.o.	MONTENEGRO	-	-	32,006	29,548

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.4. 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 2016 would have changed by HRK 1,363 thousand (31 December 2015: HRK 1,532 thousand), and the Group as of 31 December 2016 would have changed by HRK 1,840 thousand (31 December 2015: HRK 2,025 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 368,058 thousand (31 Decemebr 2015: HRK 404.969 thousand) and HRK 272,516 thousand (31 December 2015: 306,373 thousand) respectively.

42.5. 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.

42.5.1. Liquidity tables

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

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.5. Liquidity risk management (continued)

42.5.1. Liquidity and interest rate risk tables (continued)

GROUP 31 December 2016	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	411,387	-	1,081	688	4,168	417,324
Fixed-rate instruments	-	-	210,288	128	-	210,416
Total assets	411,387	-	211,369	816	4,168	627,740
Liabilities						
Non-interest bearing	256,359	-	-	-	-	256,359
Liabilities based on financial lease	44	88	397	1,253	-	1,782
Variable-rate instruments	3,462	31,332	139,754	191,703	-	366,250
Total liabilities	259,865	31,420	140,151	192,956	-	624,391
Net asset / (liabilities)	151,522	(31,420)	71,218	(192,140)	4,168	3,349

GROUP 31 December 2015	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	342,344	119,949	-	1,668	4,300	468,261
Fixed-rate instruments	-	546	216,933	-	-	217,479
Total assets	342,344	120,495	216,933	1,668	4,300	685,740
Liabilities						
Non-interest bearing	308,286	-	-	-	-	308,286
Liabilities based on financial lease	22	44	197	1,162	-	1,425
Variable-rate instruments	23,122	33,544	162,101	184,778	-	403,545
Total liabilities	331,430	33,588	162,298	185,940	-	713,256
Net asset / (liabilities)	10,914	86,907	54,635	(184,272)	4,300	(27,516)

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.5 Liquidity risk management (continued)

42.5.1 Liquidity and interest rate risk tables (continued)

COMPANY 31 December 2016	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	277,595	-	1,081	688	3,967	283,331
Fixed-rate instruments	-	-	170,482	-	-	170,482
Total	277,595	-	171,563	688	3,967	453,813
Liabilities						
Non-interest bearing	215,620	-	-	-	-	215,620
Liabilities based on	27	53	240	265	-	585
Variable-rate instruments	2,856	26,001	83,451	159,623	-	271,931
Total	218,503	26,054	83,691	159,888	-	488,136
Net asset / (liabilities)	59,092	(26,054)	87,872	(159,200)	3,967	(34,323)
COMPANY 31 December 2015	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	259,745	91,063	-	1,553	4,097	356,458
Fixed-rate instruments	1,549	546	178,357	-	-	180,452
Total	261,294	91,609	178,357	1,553	4,097	536,910
Liabilities						
Non-interest bearing	261,064	-	-	-	-	261,064
Liabilities based on financial	8	17	75	90	-	190
Variable-rate instruments	22,488	25,909	85,570	172,216	-	306,183
Total	283,560	25,926	85,645	172,306	-	567,437
Net asset / (liabilities)	(22,266)	65,683	92,712	(170,753)	4,097	(30,527)

Notes to the consolidated and unconsolidated financial statements (continued)

For the year ended 31 December 2016

(all amounts are expressed in thousands of kunas)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.6. 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 2016, 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 2016	Level 1	Level 2	Level 3	Total
<i>Financial assets available for sale</i>				
Company	-	2,886	-	2.886
Group	-	3,089	-	3.089
At 31 December 2015	Level 1	Level 2	Level 3	Total
<i>Financial assets available for sale</i>				
Company	-	3,016	-	3.016
Group	-	3,219	-	3.219

Bilješke uz konsolidirane i nekonsolidirane financijske izvještaje (nastavak)

Za godinu koja je završila 31. prosinca 2016.

(svi iznosi su izraženi u tisućama kuna)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.7 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.

43. 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	
	2016	2015	2016	2015
Within one year	16,146	14,189	4,306	4,246
1-5 years	30,190	31,225	8,890	6,387
After 5 years	-	-	-	-
Total	46,336	45,414	13,196	10,633

Bilješke uz konsolidirane i nekonsolidirane financijske izvještaje (nastavak)





Za godinu koja je završila 31. prosinca 2016.

(svi iznosi su izraženi u tisućama kuna)

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 6 to 100, were approved by the Management Board and authorised for issue on 10 April 2017.

Signed on behalf of the Management Board 10 April 2017 by:

Miroslav Huzjak	Slaven Stipančić	Žarko Kruljac	Irena Langer-Breznik
President of the	Member of Management	Member of Management	Member of Management
Management Board	Bord	Board	Board
			

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