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

Consolidated and unconsolidated financial statements

for the year ended 31 December 2017

together with Independent Auditor's Report

Contents

Responsibility for the consolidated and unconsolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management is responsible for ensuring that consolidated and unconsolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union, which provide a true and fair view of the financial position and results of operations of M San Grupa d.d., 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; and
- financial statements are prepared under the going-concern assumption, unless going-concern assumption is not appropriate.

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	Slaven Stipančić	Žarko Kruljac	Irena Langer-Breznik	Pavo Leko
President of the Management Board	Member of Management Board	Member of Management Bord	Member of Management Board	Member of Management Board

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Republic of Croatia

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

19 April 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Company M San Grupa d.d. and its subsidiaries

Opinion

We have audited consolidated financial statements of the Company M San Grupa d.d. (the „Company") and it's subsidiaries (the "Group"), which comprise the consolidated and unconsolidated statement of financial position as at 31 December 2017, and the consolidated and unconsolidated statement of profit or loss and other comprehensive income, consolidated and unconsolidated statement of changes in shareholder's equity and consolidated and unconsolidated 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 accompanying consolidated and unconsolidated financial statements present fairly, in all material respects, the financial position of the Group and Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

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 Group and 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.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include 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.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When reading the Annual Report, if we conclude that there is a material misrepresentation in it, we are required to give a message to those who are in charge of management.

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

Management is responsible for the preparation and fair presentation of the consolidated and unconsolidated financial statements in accordance with IFRSs 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 consolidated and unconsolidated financial statements, Management is responsible for assessing the Group's and 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 Group or Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the consolidated and unconsolidated 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. 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 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 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 Group´s and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- 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 Group´s and 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Branislav Vrtačnik,
President of the Board

Vanja Vlak,
Certified auditor

Deloitte d.o.o.
Zagreb, 19 April 2018
Radnička cesta 80,
10 000 Zagreb,
Croatia

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2017
(all amounts are expressed in thousands of kunas)

	Notes	2017	2016
OPERATING INCOME			
Sales	5	2,113,116	1,944,039
Cost of goods sold	8	(1,799,915)	(1,655,558)
Gross profit		**313,201**	**288,481**
Other operating income	6	12,535	14,293
Increase in inventories of finished goods and work in progress		(138)	1,860
OPERATING EXPENSES			
Cost of raw material and supplies	7	(34,284)	(34,658)
Other external charges	9	(132,510)	(123,110)
Staff costs	10	(68,679)	(61,361)
Depreciation and amortisation	11	(7,677)	(7,696)
Other expenses	12	(14,269)	(14,486)
Impairment allowance	13	(411)	(1,647)
Provisions for risks within the warranty period	33	(2,205)	(2,771)
Other operating expenses	14	(2,030)	(1,840)
Total operating expenses		**(262,065)**	**(247,569)**
Operating profit		**63,533**	**57,065**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	33,044	29,958
Financial expenses	16	(34,931)	(43,645)
Net financial expense		**(1,887)**	**(13,687)**
Profit before tax		**61,646**	**43,378**
Income tax	17	(9,023)	(7,755)
Profit for the year		**52,623**	**35,623**
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(329)	(3,013)
Total comprehensive income for the year		**52,294**	**32,610**
Profit attributable to:			
Equity holders of the Company		52,615	35,633
Non-controlling interests		8	(10)
		52,623	**35,623**
Total comprehensive income attributable to:			
Equity holders of the Company		52,286	33,181
Non-controlling interest		8	(571)
		52,294	**32,610**

Consolidated statement of financial position
At 31 December 2017
(all amounts sre expressed in thousands of kunas)

ASSETS	Notes	31 December 2017	31 December 2016
NON-CURRENT ASSETS			
Intangible assets	18	5,137	5,457
Goodwill	19	45,917	45,926
Property, plant and equipment	20	114,394	115,737
Financial assets	21	50,333	53,729
Given deposits		1,614	128
Long-term receivables		369	688
Deferred tax assets	17	359	1,809
TOTAL NON-CURRENT ASSETS		**218,123**	**223,474**
CURRENT ASSETS			
Inventories	22	212,027	171,359
Trade receivables	24	332,757	311,391
Prepayments made	23	13,441	9,585
Receivables from employees		204	193
Receivables from the State and other institutions	25	10,053	14,361
Given loans and deposits	26	73,159	210,288
Prepaid expenses and accrued income	27	2,784	6,797
Other receivables	28	19,637	53,438
Cash and cash equivalents	29	71,622	36,784
TOTAL CURRENT ASSETS		**735,684**	**814,196**
TOTAL ASSETS		**953,807**	**1,037,670**

Consolidated statement of financial position (continued)
At 31 December 2017
(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2017	31 December 2016
EQUITY			
Share capital	30	97,000	210,000
Legal reserves		6,435	6,376
Reservs from exchange of foreign currencies		(6,353)	(6,025)
Retained earnings	31	162,005	162,009
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**259,087**	**372.360**
Non-controlling interest	32	876	869
TOTAL EQUITY		**259,963**	**373,229**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	33	2,212	2,771
Long-term borrowings and finance lease obligations	34	149,400	192,956
Long-term trade payables		89	-
Accrued tax liabilty		161	-
TOTAL NON-CURRENT LIABILITIES		**151,862**	**195,727**
CURRENT LIABILITIES			
Short-term bank borrowings and finance lease obligations	35	184,628	175,077
Advances received	36	3,665	1,149
Trade payables	37	311,582	247,994
Amounts due to employees		3,940	3,641
Taxes, contributions and similar duties payable	38	28,158	25,920
Other current liabilities	39	3,455	3,571
Accrued expenses and deferred income	40	6,554	11,362
TOTAL CURRENT LIABILITIES		**541,982**	**468,714**
TOTAL EQUITY AND LIABILITIES		**953,807**	**1,037,670**

(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 2016	**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)**
Increase in non-controlling interest	-	-	-	-	-	-	-
Profit for the year	-	-	-	35,633	35,633	(10)	**35,623**
Other comprehensive loss	-	(1)	(2,451)	-	(2,452)	(561)	**(3,013)**
Total comprehensive income for the year	*-*	*(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**
Transfer of profit	2,000	60	-	(2,060)	-	-	-
Decrease in capital and retained earnings	(115,000)	-	-	(50,559)	(165,559)	-	**(165,559)**
Profit for the year	-	-	-	52,615	52,615	8	**52,623**
Other comprehensive loss	-	(1)	(328)	-	(329)	(1)	**(330)**
Total comprehensive income for the year	*-*	*(1)*	*(328)*	*52,615*	*52,286*	*7*	***52,293***
Balance at 31 December 2017	**97,000**	**6,435**	**(6,353)**	**162,005**	**259,087**	**876**	**259,963**

Consolidated statement of cash flows
For the year ended 31 December 2017
(all amounts are expressed in thousands of kunas)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		52,623	35,623
Adjusted by:			
Income tax	17	9,023	7,755
Depreciation of property, plant and eqipment and intangible assets	11	7,677	7,696
Impairment of intangible assets	13	264	269
Value adjustment of financial assets	16	7	132
Impairment allowance and write-off of trade receivables	13	147	1,293
Net (gain) / loss from reversal of long term provisions		(566)	652
Net interest expense	15,16	7,204	7,931
Net foreign exchange profit		(145)	(5,427)
		76,234	**56,104**
CHANGES IN WORKING CAPITAL			
Decrease/(Increase) in given deposit		15	(13)
(Increase) / decrease in inventory	22	(40,668)	56,726
(Increase) / decrease in trade receivables		(31,488)	39,871
(Increase) / decrease in given advances	23	(3,856)	5,825
Decrease in other receivables		32,059	6,048
Decrease in prepaid expenses and accrued income	27	4,013	1,042
Increase / (decrease) in received advances	36	2,517	(7,825)
Increase / (decrease) in trade payables	37	63,588	(29,807)
Decrease in other current liabilities		(2,415)	(26,014)
Decrease in accrued expenses and deferred income	40	(5,157)	(1,282)
CASH GENERATED FROM OPERATIONS		**94,842**	**100,675**
Interests paid		(12,265)	(14,065)
Income taxes paid		(7,513)	(7,761)
Net cash generated from operating activities		**75,064**	**78,849**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(7,505)	(5,284)
Interests collected		3,322	12,060
Cash expenditure for shares in related companies		-	(23,000)
Cash expenditure for shares in joint companies		-	(41,871)
Decrease of financial assets available for sale and bonds held to maturity	21	4,109	-
Change in given loans		(6,895)	7,563
Net cash used in from investing activities		**(6,969)**	**(50,532)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		218,662	378,385
Payments made to financial institutions		(251,919)	(411,751)
Net cash used in financing activities		**(33,257)**	**(33,366)**
Net decrease in cash and cash equivalents		**34,838**	**(5,049)**
Cash and cash equivalents at the beginning of the year		**36,784**	**41,833**
Cash and cash equivalents at the end of year	29	**71,622**	**36,784**

Unconsolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 201
(all amounts are expressed in thousands of kunas)

	Notes	2017	2016
OPERATING INCOME			
Sales	5	1,678,602	1,531,814
Cost of goods sold	8	(1,505,303)	(1,368,137)
Gross profit		**173,299**	**163,677**
Other operating income	6	3,431	3,091
OPERATING EXPENSES			
Cost of raw material and supplies	7	(2,483)	(1,955)
Other external charges	9	(97,131)	(87,709)
Staff costs	10	(24,197)	(23,047)
Depreciation and amortisation	11	(3,875)	(4,072)
Other expenses	12	(6,432)	(6,834)
Impairment allowance	13	(455)	(270)
Provisions for risks within the warranty period	34	(1,519)	(1,368)
Other operating expenses	14	(1,339)	(1,382)
Total operating expenses		**(137,431)**	**(126,637)**
OPERATING PROFIT		**39,299**	**40,131**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	29,979	28,271
Financial expenses	16	(32,537)	(37,942)
Net financial expense		**(2,558)**	**(9,671)**
Profit before tax		36,742	30,460
Income tax	17	(7,127)	(6,097)
PROFIT FOR THE YEAR		**29,615**	**24,363**
OTHER COMPREHENSIVE PROFIT			
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**29,615**	**24,363**

Unconsolidated statement of financial position
At 31 December 2017
(all amounts are expressed in thousands of kunas)

ASSETS	Notes	31 December 2017	31 December 2016 (Restated)
NON-CURRENT ASSETS			
Intangible assets	18	4,978	5,284
Property, plant and equipment	20	16,417	17,303
Financial assets	21	228,148	232,256
Given deposits and loans		1,500	-
Long-term receivables		370	688
Deferred tax assets	17	135	1,586
TOTAL NON-CURRENT ASSETS		**251,548**	**257,117**
CURRENT ASSETS			
Inventories	22	126,090	94,130
Trade receivables	24	213,215	199,616
Prepayments made	23	7,199	9,115
Receivables from employees		172	155
Receivables from the State and other institutions	25	6,352	10,206
Given loans and deposits	26	33,898	170,482
Prepaid expenses and accrued income	27	860	850
Other receivables	28	7,623	42,366
Cash and cash equivalents	29	59,083	26,343
TOTAL CURRENT ASSETS		**454,492**	**553,263**
TOTAL ASSETS		**706,040**	**810,380**

(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2017	31 December 2016 (Restated)
EQUITY			
Share capital	30	97,000	210,000
Legal reserves		6,203	6,203
Retained earnings	31	53,589	76,533
TOTAL EQUITY		**156,792**	**292,736**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	33	1,519	1,368
Long-term borrowings and finance lease obligations	34	106,535	159,720
Non-current trade payable		89	-
TOTAL NON-CURRENT LIABILITIES		**108,143**	**161,088**
CURRENT LIABILITIES			
Short-term bank borrowings	35	132,016	112,797
Advances received	36	2,517	2,033
Trade payables	37	278,665	209,909
Amounts due to employees		1,290	1,248
Taxes, contributions and similar duties payable	38	23,343	22,047
Other current liabilities	39	637	2,429
Accrued expenses and deferred income	40	2,637	6,093
TOTAL CURRENT LIABILITIES		**441,105**	**356,556**
TOTAL EQUITY AND LIABILITIES		**706,040**	**810,380**

Unconsolidated statement of changes in shareholder's equity
For the year ended 31 December 2017
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2016	**200,000**	**6,203**	**62,170**	**268,373**
Subsequently determined income tax liabilities	10,000	-	(10,000)	-
Profit for the year	-	-	24,363	24,363
Total comprehensive loss	-	-	*24,363*	*24,363*
Balance at 31 December 2016	**210,000**	**6,203**	**76,533**	**292,736**
Decrease in capital	(115,000)	-	-	(115,000)
Transfer of profit	2,000	-	(2,000)	-
Decrease in retained earnings	-	-	(50,479)	(50,479)
Subsequently determined income tax liabilities	-	-	(80)	(80)
Profit for the year	-	-	29,615	29,615
Total comprehensive loss	-	-	*29,615*	*29,615*
Balance at 31 December 2017	**97,000**	**6,203**	**53,589**	**156,792**

Unconsolidated statement of cash flows
For the year ended 31 December 2017
(all amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2017	2016
Profit for the year		29,615	24,363
Adjusted by:			
Income tax	17	7,127	6,097
Depreciation of property, plant and equipment and intangible assets	11	3,875	4,072
Impairment of intangible assets	13	264	270
Value adjustment of financial assets		-	33
Value adjustment and write-off of trade receivables	13	190	-
Net (gain) / loss from reversal of long term provisions		151	331
Net interest expense	15,16	5,053	5,141
Net foreign exchange profit		(864)	(2,176)
		45,411	**38,131**
CHANGES IN WORKING CAPITAL			
(Increase) / decrease in inventory	22	(31,960)	30,498
(Increase) / decrease in trade receivables	24,13,6	(23,764)	68,001
Increase in given advances	23	1,916	3,435
Decrease in other receivables		30,685	4,554
(Increase) / decrease in prepaid expenses and accrued income	27	(10)	1,166
Increase / (decrease) in received advances	36	484	(5,733)
Increase / (decrease) in trade payables	37	68,757	(27,168)
Decrease in other current liabilities		(2,335)	(18,243)
Decrease in accrued expenses and deferred income	40	(3,455)	(642)
CASH GENERATED FROM OPERATIONS		**85,729**	**93,999**
Interests paid		(10,672)	(14,068)
Income taxes paid		(5,838)	(5,193)
Net cash generated from operating activities		**69,219**	**74,738**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(3,076)	(1,908)
Interests collected		2,813	12,060
Cash paid for shares in subsidiaries		-	(23,000)
Cash paid for shares in joint companies		-	(41,493)
Decrease of financial assets available for sale and bonds held to maturity	21	4,107	-
Change in given loans		(7,440)	9,970
Net cash used in from investing activities		**(3,596)**	**(44,371)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from financial institutions		-	1,399
Repayments to financial institutions		(32,883)	(32,945)
Net cash used in financing activities		**(32,883)**	**(31,546)**
Net increase / (decrease) in cash and cash equivalents		**26,397**	**(1,179)**
Cash and cash equivalents at the beginning of the year		**26,343**	**27,522**
Cash and cash equivalents at the end of year	29	**59,083**	**26,343**

(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 2017 and 2016:

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

Supervisory Board in 2017 and 2016:

Stipo Matić, Chairman of Supervisory Board
Marko Rašić, Deputy Chairman of Supervisory Board
Snježana Matić, Member of Supervisory Bord

Subsidiaries

		Ownership in %		
Name of related party	***Country***	***2017***	***2016***	***Main activity***
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%	100%	*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 EE waste*
MR SERVIS D.O.O. Zagreb	Croatia	60%	60%	*Maintaince of IT equipment*

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

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 IRFS 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 financial statemens.

2. ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS") AND INTERPRETATIONS (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 19 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),

2. ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS") AND INTERPRETATIONS (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 Group and Company 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 Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. 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 Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company 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.

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) <u>Service sales</u>

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

- income from partially performed services (those provided over several accounting periods) is recognised by reference to the stage of completion (measured based on the proportion of actual costs incurred relative to the total budgeted costs).
- Revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

ii) <u>Sales of goods</u>

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

- the Group and the Company have transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the 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 Group and 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 Group and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) The Group and the Company as lessor

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

Assets held under finance leases are initially recognised as assets of the Group and 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 Group's and 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.

(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 2017 and 2016 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2017	Average exchange rate for 2017	31/12/2016	Average exchange rate for 2016
RSD	15.83789	16.26151	16.28651	16.34322
KM	0.26029	0.26214	0.25877	0.25983
MKD	8.19657	8.25218	8.14722	8.20612
EUR	7.51364	7.46075	7.55778	7.52708

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).

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 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 Group and 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 and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and Company expecte, 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.

(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 2017	2016
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% (2016: 20 - 25%).

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group and the Company review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate 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 Group and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Group and the Company become a party to the contractual provisions of the instruments.

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

Financial assets

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

i) Effective interest method

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

ii) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manage 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 Group's and 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 42.

iii) Held-to-maturity investments

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

iv) Loans and receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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

Listed redeemable notes held by the Group and 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 Group and the Company also have 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 42. 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 and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment 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 derecognise 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 transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continue 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 retain an option to repurchase part of a transferred asset), the Group and the Company allocate 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 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).

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION

As of 31 December 2017, 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

2017	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,738,982	306,095	375,455	59,164	74,328	2,554,024	(440,908)	2,113,116
Cost of goods sold less supplier discounts and allowances	(1,510,346)	(256,924)	(324,105)	(51,978)	(64,449)	(2,207,802)	407,887	(1,799,915)
Changes in inventory	-	(680)	-	-	-	(680)	542	(138)
Other operating income	11,993	3,043	1,794	44	78	16,952	(4,417)	12,535
Other operating expenses	(201,326)	(41,145)	(44,744)	(5,492)	(6,799)	(299,506)	37,441	(262,065)
Profit from operations	**39,303**	**10,389**	**8,400**	**1,738**	**3,158**	**62,988**	**545**	**63,533**
Net finance expenses	(2,756)	(702)	1,000	(6)	42	(2,422)	535	(1,887)
Profit before taxes	**36,547**	**9,687**	**9,400**	**1,732**	**3,200**	**60,566**	**1,080**	**61,646**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2016	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	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**

Segment assets and liabilities

2017	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	22,692	83,201	13,728	1,009	229	120,859	(1,328)	119,531
Other non-current assets	230,153	25,466	563	3	113	256,298	(157,706)	98,592
Current assets	466,099	157,419	110,692	19,968	34,575	787,253	(51,569)	735,684
Total assets	**717,444**	**266,086**	**124,983**	**20,980**	**34,917**	**1,164,410**	**(210,603)**	**953,807**
Long term liabilities	108,986	17,621	25,255	-	-	151,862	-	151,862
Short term liabilities	450,724	77,667	41,043	6,862	15,952	592,248	(50,266)	541,982
Total liabilities	**559,710**	**95,288**	**66,298**	**6,862**	**15,952**	**744,110**	**(50,266)**	**693,844**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

2016	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	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**

Other segment information

2017	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Depreciation	4,474	2,346	787	46	156	7,809	(132)	7,677
Increase of tangible and intangible assets	3,575	3,450	303	18	158	7,504	-	7,504
2016								
Depreciation	4,491	2,332	801	29	177	7,830	(134)	7,696
Increase of tangible and intangible assets	2,864	2,131	113	155	21	5,284	-	5,284

(all amounts are expressed in thousands of kunas)

5. SALES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Domestic sales of goods	1,900,220	1,731,194	1,176,995	1,061,040
Foreign sales of goods	152,159	166,869	399,282	380,521
Service provision	76,868	75,675	33,690	37,809
Income from the sale of licences	12,172	11,896	11,079	11,871
Sales of spare parts	8,299	7,668	-	-
Re-export sales	3,963	2,991	101,904	82,675
Other	4,572	3,386	713	944
Allowances and discounts provided to buyers	(45,137)	(55,640)	(45,061)	(43,046)
Total	**2,113,116**	**1,944,039**	**1,678,602**	**1,531,814**

(all amounts are expressed in thousands of kunas)

5. **SALES (CONTINUED)**

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Croatia	1,225,734	1,111,148	1,215,160	1,100,391
Serbia	366,409	314,260	198,087	167,592
Bosnia and Herzegovina	286,580	281,326	113,247	104,195
Montenegro	59,048	48,932	39,789	32,006
Macedonia	55,239	21,182	43,857	33,962
Germany	22,330	16,875	22,303	16,854
Slovenia	21,867	35,297	21,734	34,999
Kosovo	19,297	13,936	2,281	4,764
Turkey	14,437	19,364	-	-
Poland	13,201	15,911	10,613	15,239
Hungary	10,967	21,182	10,786	19,134
Austria	10,907	13,606	458	6,508
Slovakia	6,833	2,042	6,833	2,042
Letonia	5,785	4,322	5,785	4,322
Albania	5,155	8,258	2,120	6,128
Romania	4,380	2,272	4,380	1,980
Switzerland	4,171	5,049	3,085	4,240
France	4,093	3,324	4,002	3,213
Great Britain	3,712	2,605	3,186	2,064
Sweden	3,616	7,842	3,612	7,708
Netherlands	2,842	5,086	1,790	3,009
Greece	1,581	-	1,581	-
Lithuania	1,382	664	1,382	664
Ireland	1,248	1,131	1,205	753
Uruguay	1,106	1,034	1,106	1,034
Cezch Republic	84	6,483	4,468	1,751
Other	6,249	36,548	813	308
Total	**2,158,253**	**1,999,679**	**1,723,663**	**1,574,860**

(all amounts are expressed in thousands of kunas)

6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Income from approval of suppliers	3,355	5,321	-	66
Income from long-term provision (note 33)	2,771	2,119	1,368	1,037
Income from re-invoiced fees Environmental Protection Fund BiH	1,816	1,997	-	-
Income from free receipts	2,368	1,967	1,703	1,571
Income from incentives and subsidies	466	553	-	-
Income from the insurance fund	-	325	-	-
Income from sale of fixed assets	102	172	27	37
Income from approval of suppliers on the basis of warranty services	264	130	-	-
Income from collected bad and doubtful receivables from customers	216	122	85	91
Income from write-off of trade payablesa	54	72	-	-
Inventory surpluses	94	51	35	26
Other operating incomei	1,029	1,464	213	263
Total	**12,535**	**14,293**	**3,431**	**3,091**

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Cost of spare parts	19,476	18,031	-	-
Basic and auxiliary materials, and office supplies	5,116	6,226	1,002	408
Energy and fuels for freight and personal vehicles	3,896	3,347	530	502
Small inventory, packaging and tires	2,321	2,101	938	1,014
Servicing, replacement and repair costs under warranty	2,557	4,133	13	31
Ullage, spillage, breakage of raw materials and supplies	61	123	-	-
Inventory shortage	3	16	-	-
Cost of materials and spare parts for equipment maintenance	854	681	-	-
Total	**34,284**	**34,658**	**2,483**	**1,955**

(all amounts are expressed in thousands of kunas)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Cost of goods sold	1,899,599	1,738,237	1,586,262	1,434,837
Ullage, spillage, breakage	1,951	2,128	1,043	1,276
Cost of real estate for resale	398	566	-	-
Other cost of goods sold	139	297	-	-
Allowances and discounts provided by suppliers	(102,172)	(85,670)	(82,002)	(67,976)
Total	**1,799,915**	**1,655,558**	**1,505,303**	**1,368,137**

9. OTHER EXTERNAL CHARGES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Business premise and equipment rental costs	19,478	18,510	5,178	4,870
Guarantee extension costs	21,549	18,116	14,062	7,199
Licences for intellectual property	17,146	15,653	16,111	15,597
Telephone and transportation costs	13,411	14,749	13,488	10,634
Costs of the Support Office and bookkeeping services	15,475	14,493	11,770	11,771
Marketing, sponsorships and fairs	13,938	12,868	4,199	3,743
Municipal utility fees and economic ownership	7,689	8,056	6,620	6,411
Maintenance and repairs	5,350	5,156	778	2,761
Entertainment	4,465	3,237	2,285	1,235
Intelectual services	3,307	1,429	2,298	693
Outsourced repair of faulty goods under warranty	1,039	1,262	3,423	3,804
Other external services	9,663	9,581	16,919	18,991
Total	**132.510**	**123,110**	**97.131**	**87,709**

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

(all amounts are expressed in thousands of kunas)

10. STAFF COSTS

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Net salaries	42,456	37,497	14,342	13,467
Taxes, surtaxes and contributions out of salaries	16,887	15,394	6,533	6,373
Contributions on salaries	9,336	8,470	3,322	3,207
Total	**68,679**	**61,361**	**24,197**	**23,047**

The average number of employees in the Group during the year 2017 was 609 (2016: 560 employees on average).
The average number of employees in the Company during the year 2017 was 143 (2016: 134 employees).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Depreciation	6,497	6,704	2,710	3,105
Amortisation	1,180	992	1,165	967
Total	**7,677**	**7,696**	**3,875**	**4,072**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Insurance premiums for equipment, vehicles and inventories	2,525	2,251	1,551	1,598
Bank and payment operation charges	2,359	2,215	1,386	1,137
Commutation allowance	2,236	1,925	603	565
Professional training and literature	1,032	1,581	781	1,266
Per diems and other business travel costs	1,615	1,424	660	673
Forest levies, other contributions and membership fees	1,189	1,109	729	568
Taxes independent of the operating result	763	706	29	8
Christmas allowance, children's gifts, awards	295	248	127	109
Other expenses	2,255	3,027	566	910
Total	**14,269**	**14,486**	**6,432**	**6,834**

(all amounts are expressed in thousands of kunas)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Impairment allowance on trade receivables	146	1,293	190	-
Impairment allowance on intangible assets	265	270	265	270
Impairment allowance on receivables from the State and other institutions	-	63	-	-
Impairment allowance on Inventories	-	21	-	-
Total	**411**	**1,647**	**455**	**270**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Donations	896	1,158	843	1,141
Fine	52	198	1	20
Written-off trade receivables	113	70	86	33
Other operating expenses	969	414	409	1,88
Total	**2,030**	**1,840**	**1,339**	**1,382**

15. FINANCIAL INCOME

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Interest income	9,883	14,488	7,660	11,116
Foreign exchange gains	20,345	14,893	20,257	17,155
Share of profits of associates	719	567	-	-
Income from reversal of value adjusted financial assets	669	-	669	-
Income from sale of financial assets available for sale	1,393	-	1,393	-
Other financial income	35	10	-	-
Total	**33,044**	**29,958**	**29,979**	**28,271**

(all amounts are expressed in thousands of kunas)

16. FINANCIAL EXPENSES

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Interest expense	17,087	22,419	12,713	16,257
Foreign exchange losses	14,254	16,942	16,779	18,317
Bank guarantees fees	1,995	2,163	1,596	1,753
Loan origination costs	1,084	1,496	979	990
Factoring fees	384	495	350	495
Permanent impairment of financial assets available for sale	120	-	120	-
Other financial expenses	7	130	-	130
Total	**34,931**	**43,645**	**32,537**	**37,942**

(all amounts are expressed in thousands of kunas)

17. INCOME TAX

Corporate income tax in Croatia is determined by applying the rate of 18% (Serbia: 15%, Montenegro: 9%, Bosnia and Herzegovina: 10% i Macedonia: 10%) to taxable profit for the year.

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Current tax	7,407	7,734	5,676	6,097
Deferred tax	1,616	21	1,451	-
Income tax expense	**9,023**	**7,755**	**7,127**	**6,097**

Current tax

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Accounting profit before tax	61,646	43,378	36,742	30,460
Items increasing the profit / decreasing the loss	2,650	4,556	2,139	1,955
Items decreasing the profit / increasing the loss	(7,535)	(220)	(7,350)	(344)
Tax base	**56,761**	**47,714**	**31,530**	**32,071**
Use of tax loss	(604)	(88)	-	-
Taxable profit	**56,157**	**47,626**	**31,530**	**32,071**
Current tax	7,407	7,734	5,676	6,097

Deferred tax assets	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Opening balance	**1,813**	**1,834**	**1,586**	**1,586**
Increase in the benefit of profit or loss account	(1,454)	(21)	(1,451)	-
Closing balance	**359**	**1,813**	**135**	**1,586**

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

Changes of deferred tax liabilities are shown as follows:

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Balance at 1 January	4	4	-	-
Charged to profit or loss	157	-	-	-
Balance at 31 December	**161**	**4**	-	-

Net deferred tax assets is shown as follows:

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Deferred tax assets	359	1,813	135	1,586
Deferred tax liability	(161)	(4)	-	-
Net deferred tax assets	**198**	**1,809**	**135**	**1,586**

In accordance with local tax regulations, the tax authorities may at any time inspect the Company's and the Group'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.

(all amounts are expressed in thousands of kunas)

18. INTANGIBLE ASSETS

GROUP	Software	Concessions	Development expenses	Trade mark	Intangible assets under development	Total
COST						
At 1 January 2016	**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**
Additions	-	-	-	-	1,124	1,124
Transfer from assets under development	2,041	-	-	99	(2,140)	-
Impairment	-	-	-	-	(265)	(265)
Exchange differences	(2)	-	-	-		(2)
At 31 December 2017	**14,020**	**52**	**2,045**	**266**	**2,002**	**18,385**
ACCUMULATED AMORTISATION						
At 1 January 2016	**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**
Charge for the year	1,138	3	8	31	-	1,180
Exchange differences	(3)	-	-	-	-	(3)
At 31 December 2017	**11,036**	**18**	**2,038**	**156**	**-**	**13,248**
CARRYING AMOUNT						
At 31 December 2017	**2,984**	**34**	**7**	**110**	**2,002**	**5,137**
At 31 December 2016	**2,080**	**37**	**15**	**42**	**3,283**	**5,457**

(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 2016	**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**
Additions	-	-	-	1,124	1,124
Transfer from assets under development	2,042	-	99	(2,141)	-
Impairment	-	-	-	(265)	(265)
At 31 December 2017	**12,848**	**1,991**	**267**	**1,885**	**16,991**
ACCUMULATED AMORTISATION					
At 31 January 2016	**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**
Charge for the year	1,134	-	31	-	1,165
At 31 December 2017	**9,865**	**1,991**	**157**	**-**	**12,013**
CARRYING AMOUNT					
At 31 December 2017	**2,983**	**-**	**110**	**1,885**	**4,978**
At 31 December 2016	**2,075**	**-**	**42**	**3,167**	**5,284**

(all amounts are expressed in thousands of kunas)

19. GOODWILL

	31/12/2017	31/12/2016
Cost	45,917	45,926
	45,917	**45,926**

	2017	2016
Cost		
Balance at beginning of the year	45,926	45,941
Acquisition	-	-
Effect of exchange differences	(9)	(15)
Balance at end of year	**45,917**	**45,926**

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 10,6 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:

	31/12/2017	31/12/2016
KIM TEC BG	29,251	29,251
KIM TEC BIH	8,201	8,201
MR SERVIS	275	275
Pakom Kompani d.o.o.	6,714	6,714
Poljoprivrednik Derventa	1,476	1,485
Total	**45,917**	**45,926**

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

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

(all amounts are expressed in thousands of kunas)

20. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Leasehold improvements	Assets under development	Total
COST							
At 1 January 2016	**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**
Additions	-	-	-	-	134	6,247	6,381
Transfer from assets under development	1,163	2,164	796	372	452	(4,947)	-
Disposals	(1,158)	(160)	(651)	(151)	-	-	(2,120)
Exchange differences	(9)	(31)	3	75	19	(5)	52
At 31 December 2017	**119,274**	**52,552**	**13,917**	**14,266**	**4,011**	**2,297**	**206,317**

At 31 December 2017 the present value of property to which the liens Banks The loan amounts to HRK 35,120 thousand (2016: HRK 24,487 thousand). Mortgages on the said property is HRK 74,941 thousand (2016: HRK 50,658 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.

(all amounts are expressed in thousands of kunas)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Leasehold improvements	Assets under develop-ment	Total
ACCUMULATED AMORTISATION							
At 1 January 2016	**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**
Charge for the year	1,204	3,831	709	461	292	-	6,497
Disposals	(227)	(160)	(493)	(143)	-	-	(1,023)
Exchange differences	36	33	8	75	30	-	182
At 31 December 2017	**26,307**	**38,793**	**11,692**	**13,024**	**2,107**	**-**	**91,923**
CARRYING AMOUNT							
At 31 December 2017	**92,967**	**13,759**	**2,225**	**1,242**	**1,904**	**2,297**	**114,394**
At 31 December 2016	**93,984**	**15,490**	**2,301**	**1,339**	**1,621**	**1,002**	**115,737**

(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	Leasehold improvements	Assets under develop-ment	Total
COST							
At 1 January 2016	**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**
Additions	-	-	-	-	-	1,952	1,952
Transfer from assets under development	189	851	565	88	438	(2,131)	-
Disposals	-	(51)	(323)	-	-	-	(374)
At 31 December 2017	**11,535**	**30,712**	**6,188**	**6,367**	**438**	**121**	**55,361**

The Company as at 31 December 2017 has no property which with registered banks mortgage as collateral.

(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	Leasehold improvements	Assets under development	Total
ACCUMULATED AMORTISATION							
At 1 January 2016	-	**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**
Charge for the year	-	2,161	303	245	1	-	2,710
Disposals	-	(51)	(195)	-	-	-	(246)
At 31 December 2017	-	**28,099**	**5,112**	**5,732**	**1**	-	**38,944**
CARRYING AMOUNT							
At 31 December 2017	**11,535**	**2,613**	**1,076**	**635**	**437**	**121**	**16,417**
At 31 December 2016	**11,346**	**3,923**	**942**	**792**	-	**300**	**17,303**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Investments in subsidiaries	-	-	183,101	183,102
Investments in associates	49,192	48,480	44,106	44,106
Investments in shares available for sale	1,140	4,168	941	3,967
Investments in held-to-maturity bonds	-	1,081	-	1,081
	50,333	**53,729**	**228,148**	**232,256**

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	
			31/12/2017 %	31/12/2016 %	31/12/2017	31/12/2016
Kim Tec Vitez d.o.o.	DISTRIBUTION	Bosnia and Hercegovina	100	100	63,643	63,643
Kim Tec BG	DISTRIBUTION	Serbia	100	100	77,946	77,946
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	**183,101**

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 and 2017 is no longer recognized minority interests of of the company's Kim Tec BG Ltd.

(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 2017 and 31 December 2016:

	GROUP		COMPANY	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Share in Ventex d.o.o.	7,022	6,809	2,606	2,606
Share in Elko kompjuteri d.o.o.	-	7	-	-
Share in E Kupi d.o.o.	42,170	41,664	41,500	41,500
	49,192	**48,480**	**44,106**	**44,106**

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** 2017	2016
Ventex d.o.o., Rijeka	Mediation in miscellaneous trade	Rijeka	49%	49%
Elko kompjuter d.o.o.e.l.	Retail trade	Skopje, Macedonia	-	49%
E Kupi d.o.o.	E commerce	Zagreb	24%	24%

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

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

	2017	**2016**
Total assets	38,952	36,447
Total liabilities	25,845	23,806
Net assets	**13,137**	**12,641**
Group's share in the net assets of the associates	**6,201**	**5,958**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

	31/12/2017	31/12/2016
Total income	268.523	221,153
Total profit for the year	3.208	1,597
Attribution of profit / (loss) from previous years	(509)	35
Unrealised gains from shares	(154)	(126)
The Group's share in the profits of the associates (49%)	**719**	**567**

21.3 INVESTMENTS IN AVAILABLE FOR SALE SHARES

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Shares in Quaestus Private Equity Capital	941	2,886	941	2,886
Shares in Metronet telekomunikacije d.d,	-	1,081	-	1,081
Shares on the custody account	199	201	-	-
	1,140	**4,168**	**941**	**3,967**

The Company's share in the private equity fund Quaestus Private Equity capital is 5,83 % (31 December 2016: 5.83%). The shares of the Fund are not quoted in an active market.

The Company has sold shares of the company Metronet telekomunikacije d.d. and a part of the investment fund portfolio with private offering of Quaestus Private Equity Capital and gained the total income from the sale of financial assets available for sale in the amount of 1,393 thousand kuna (Note 15).

Fair value	**Quaestus Private Equity Capital**	**Metronet**	**Shares in the custody account**	**Total**
Balance at 1 January 2017	**2,886**	**1,081**	**201**	**4,168**
Change in fair value	(1,945)	(1,081)	(2)	(3,028)
Balance at 31 December 2017	**941**	**-**	**199**	**1,140**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.4 INVESTMENTS IN HELD TO MATURITY BONDS

In 2017, the Company has sold bonds of the company Metronet telekomunikacije d.d.

22. INVENTORIES

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Merchandise	122,866	120,717	64,019	56,864
Goods in the customs warehouse	35,617	31,239	34,579	31,239
Goods in transport	27,256	6,048	26,765	5,645
Inventories of raw material and supplies	17,179	3,783	346	-
Other inventories	9,109	9,572	381	382
Total	**212,027**	**171,359**	**126,090**	**94,130**

23. PREPAYMENTS MADE

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Prepayments made for goods	12,968	9,243	7,189	9,115
Prepayments made for services	473	342	10	-
Total	**13,441**	**9,585**	**7,199**	**9,115**

(all amounts are expressed in thousands of kunas)

24. TRADE RECEIVABLES

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Domestic trade receivables	328,622	307,711	164,250	178,473
Foreign trade receivables	37,214	37,846	59,635	32,501
Impairment allowance on trade receivables	(33,079)	(34,166)	(10,670)	(11,358)
Total	**332,757**	**311,391**	**213,215**	**199,616**

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2017	2016	2017	2016
At 1 January	34,166	33,302	11,358	11,486
Increase in impairment allowance (Note 13)	147	1,293	190	-
Reversed on collection (Note 6)	(216)	(122)	(85)	(91)
Write-off receivables	(1,018)	(307)	(793)	(37)
At 31 December	**33,079**	**34,166**	**10,670**	**11,358**

Ageing of past due but not impaired trade receivables:

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Not yet due	246,837	230,767	152,075	152,761
Up to 60 days	39,141	31,073	30,939	15,919
60-90 days	7,585	4,763	6,746	1,548
90-120 days	3,919	3,472	3,371	533
120-365 days	14,783	20,941	2,823	11,135
Beyond 365 days	20,492	20,375	17,261	17,720
Total	**332,757**	**311,391**	**213,215**	**199,616**

The average credit period on sales in the Group in 2017 was 57 days (2016: 58 days), while in the Company it was 46 days (2016: 48 days).

Of the total receivables past due beyond 365 days, the Group's receivables from related companies amount to HRK 16,903 thousand and its receivables from unrelated companies amount to HRK 3,588 thousand, whereas the balance owed to the Company by its related companies and unrelated companies amounts to HRK 15.568 thousand and HRK 1,693 thousand, respectively.

(all amounts are expressed in thousands of kunas)

25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Prepaid benefit of EE waste	-	5,541	-	5,541
VAT refund	8,844	7,481	6,154	4,475
Receivables for other taxes, contributions and membership fees	178	212	175	175
Customs duty refunds	55	68	-	-
Receivables for overpaid income tax	458	317	-	-
Other amounts due from the state	518	742	23	15
Total	**10,053**	**14,361**	**6,352**	**10,206**

The Administrative Court in Zagreb annulled all the decisions of the Ministry and the Fund from 2008 and 2010, and the Fund, by means of the mentioned resolutions from 2008 and 2010, returned the funds enforced M SAN GROUP d.d.

(all amounts are expressed in thousands of kunas)

25. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Loans to corporate entities	68,754	198,800	29,681	159,314
Loans to individuals	948	1,740	798	1,473
Given deposits to unrelated parties	3,457	9,748	3,419	9,695
	73,159	**210,288**	**33,898**	**170,482**

Loans to corporate entities

	Original currency	Loans Amount	Maturity	2017	2016
Company					
Loans to corporate entities within group					
M SAN GRUPA D.D.					
M SAN EKO d.o.o.	HRK	2,000	31.12.2017.	967	967
Total				**967**	**967**
Loans to other corporate entities					
M SAN GRUPA D.D.					
Related parties					
Litus projekt d.o.o.	HRK	600	31.12.2018.	562	553
M SAN Nekretnine d.o.o.	HRK		31.12.2018.	3,359	62
M SAN Ulaganja d.o.o.	HRK	5,000	02.01.2019.	1,611	122,061
Poljoprivredno poduzeće Orahovica d.d.	HRK	100,000	31.12.2017.	-	5,650
Baks grupa d.o.o.	HRK	18,309	31.12.2018.	18,300	18,309
Third parties					
Castalia projekt d.o.o.	HRK	3,600	31.12.2018.	2,282	2,312
MIG Dubrovnik d.o.o.	HRK	2,600	19.05.2018.	2,600	-
O-Tours d.o.o.	HRK	74	31.12.2017.	-	74
Virentia savjetovanje	HRK	9,500	14.7.2017.	-	9,326
Total				**28,714**	**158,347**
Total				**29,681**	**159,314**
Group					
KIM TEC BIH d.o.o.					
MPI Modriča	KM	5,250	31.12.2018.	18,352	18,460
EKO-Bosanska Posavina d.o.o. Derventa	KM	3,243	31.12.2018.	8,899	8,951
Poljoprivrednik Odžak	KM	1,000	31.12.2018.	2,305	2,319
Poljoprivrednik d.o.o. Glamoč	KM	1,000	31.12.2018.	3,468	3,487
MP ENERGIJA d.o.o. Bosansko Grahovo	KM	970	31.12.2018.	3,018	3,036
Agropromet Grahovo d.o.o. Bosansko Grahovo	KM	670	31.12.2018.	1,796	1,806
Total				**37,838**	**38,059**

(all amounts are expressed in thousands of kunas)

26. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Loans Amount	Maturity	31/12/ 2017	31/12/ 2016
KIM TEC BG d.o.o.					
EKUPI d.o.o. Beograd	RSD	2.000	31.7.2018.	1,326	1,665
Total				**1,326**	**1,665**
PAKOM KOMPANI d.o.o.					
Korvus MK	MKD	5.089	31.12.2017.	621	533
Kim Tec Tirana	EUR	34	27.7.2018.	255	196
Total				**876**	**729**
Total loans to corporate entities				**68,754**	**198,800**
Loans to individuals					
Company					
M SAN GRUPA D.D.					
Mato Arelić	HRK	200	27.7.2018.	620	620
Other individuals with smaller loans	HRK	1.678	31.12.2018.	178	853
Total				**789**	**1,473**
Group					
KIM TEC BIH					
Other individuals with smaller loans	KM	50	31.12.2018.	19	19
Total				**19**	**19**
POLJOPRIVREDNIK DERVENTA					
Other individuals with smaller loans	KM			131	248
Total				**131**	**248**
Total loans to individuals				**948**	**1,740**
TOTAL LOANS				**69,702**	**200,540**

(all amounts are expressed in thousands of kunas)

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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Accrued income - subsequently approved discounts	713	2,793	204	-
Accrued income - amounts not yet billed	114	1,550	-	-
Prepaid expenses	1,957	2,454	656	850
Total	**2,784**	**6,797**	**860**	**850**

28. OTHER RECEIVABLES

	GROUP		COMPANY	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Interest receivable	17,885	49,419	6,339	39,254
Other receivables	1,775	4,083	1,307	3,176
Value adjustment of receivables per interests	(23)	(64)	(23)	(64)
Total	**19,637**	**53,438**	**7,623**	**42,366**

Interests receivable are presented as follows:

	GROUP		COMPANY	
	31/12/2017	31/2/2016	31/12/2017	31/12/2016
Receivables per interests per loans	17,885	49,419	6,339	39,254
Value adjustment of receivables per interest	(23)	(64)	(23)	(64)
Total	**17,862**	**49,355**	**6,316**	**39,190**

(all amounts are expressed in thousands of kunas)

29. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
Cash with banks	71,618	36,779	59,083	26,343
Cash in hand	4	5	-	-
Total	**71,622**	**36,784**	**59,083**	**26,343**

30. SHARE CAPITAL

The share capital consists of:

	31/12/2017	31/12/2016
1,000,000 A-series ordinary shares fully paid in at 28/05/2007	-	100,000
700,000 B-series ordinary shares fully paid in at 16/10/2008	-	70,000
300,000 C-series ordinary shares fully paid in at 15/07/2009	-	30,000
100,000 D-series ordinary shares fully paid in at 18/08/2016	-	10,000
970,000 ordinary shares with nominal value 100 HRK per share	97.000	-
Total	97.000	**210,000**

All paid ordinary shares per share carry one vote and are entitle to dividends. The shareholder is Stipo Matić (100%). Based on a contract signed between M San Group d.d. and M San Ulaganja d.o.o. whereby part of the assets and capital transferred to M San Investments decreased capital by HRK 115,000 thousand and retained earning for HRK 50,479 thousand. Assets are a decrease of HRK 165,479 thousand and relate to loans receivable and their related interest, as well as receivables from customers and receivables from cession agreements.

	2017
Decrease of receivables from loans and interest	155,456
Decerase of trade receivables and receivables from cession agreements	10,023
Decrease of capital	(115,000)
Decrease of retained earnings	(50,479)
Total	-

(all amounts are expressed in thousands of kunas)

31. RETAINED EARNINGS

	GROUP			COMPANY		
	31 December 2017	**31 December 2016**	**1 January 2016**	**31 December 2017**	**31 December 2016**	**1 January 2016**
Retained earnings	162,005	162,009	136,925	53,589	76,533	62,170
Total	**162,005**	**162,009**	**136,925**	**53,589**	**76,533**	**62,170**

Changes of retained earnings are shown below:

	2017	**2016**	**2017**	**2016**
Balance at 1 January	162,009	136,925	76,533	62,170
Increase of share capital and retained earnings	(2,000)	(10,000)	(2,000)	(10,000)
Profit for the year	52,615	35,633	29,615	24,363
Decrease in non-controlling interest	-	(476)	-	-
Subsequently identified income tax liabilities	(80)	-	(80)	-
	(50,479)		(50,479)	
Transfer to legal reserves	(60)	(73)	-	-
Balance at 31 December	**162,005**	**162,009**	**53,589**	**76,533**

32. NON-CONTROLLING INTERESTS

	GROUP	
	31/12/2017	**31/12/2016**
Net asset value at acquisition date	869	23,964
Other comprehensive loss	(1)	(561)
Share in the current year's profit	8	(10)
Increase in non-controlling interest	-	(22,524)
Balance at end of year	**876**	**869**

(all amounts are expressed in thousands of kunas)

33. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD

	GROUP		COMPANY	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
Long-term provisions for risks within the warranty period	2,212	2,771	1,519	1,368
Total	**2,212**	**2,771**	**1,519**	**1,368**

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
At 1 January	2,771	2,119	1,368	1,037
New provisions	2,205	2,771	1,519	1,368
Decreases	(2,771)	(2,119)	(1,368)	(1,037)
Exchange rate differences	7	-	-	-
At 31 December	**2,212**	**2,771**	**1,519**	**1,368**

The balance of the provisions account for 0,13% percent of the Company's and Group's cost of goods sold (31 December 2016: 0.16 %).

34. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS

Long-term liabilities from finance lease

	GROUP		COMPANY	
	2017	2016	2017	2016
Total obligations under finance leases	1,743	1,781	777	588
Less: current portion of finance lease obligtions	(576)	(529)	(345)	(320)
Long-term finance lease obligations	**1,167**	**1,252**	**432**	**268**
Total long term liabilities from financial leasing	**1,167**	**1,252**	**432**	**268**

(all amounts are expressed in thousands of kunas)

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

Long-term loan liabilities

	GROUP		COMPANY	
	31/12/ 2017	**31/12/ 2016**	**31/12/ 2017**	**31/12/ 2016**
Total loans from financial institutions	210,462	233,246	158,998	190,497
Less: current portion of loans from financial institutions	(62,229)	(41,542)	(52,895)	(31,043)
Long-term loans from financial institutions	148,233	191,704	106,103	159,454
Total long-term loans from financial institutions	**148,233**	**191,704**	**106,103**	**159,454**
Total long-term portion of long-term loans and leases	**149,400**	**192,956**	**106,535**	**159,720**

Financijal institutions	**Original currency**	**Loans amount**	**Maturity**	**31/12/ 2017**	**31/12/ 2016**
POLJOPRIVREDNIK AD					
IRB RS	KM	1,000	1.7.2019.	1,300	2,093
NLB Razvojna banka	KM	750	1.2.2020.	1,189	1,748
NLB Razvojna banka	KM	500	1.6.2020.	1,027	1,407
NLB Razvojna banka	KM	1,000	11.4.2017.	-	227
NLB Razvojna banka	KM			1,920	-
Total				**5,436**	**5,475**
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	EUR	1.500	22.7.2018.	1,373	6,904
Total				**1,373**	**6,904**
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD.	EUR	4.000	23.12.2023.	28,107	30,370
Intesa Sanpaolo Banka d.d.	RSD	75,900	21.01.2016.	-	-
Intesa Sanpaolo Banka d.d.	RSD	31,000	13.04.2016.	-	-
Total				**28,107**	**30,370**
KIM TEC BIH d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	2.500	28.2.2024.	16,548	-
Total				**16,548**	-

(all amounts are expressed in thousands of kunas)

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

Financijal institutions	Original currency	Loans amount	Maturity	31/12/ 2017	31/12/ 2016
MSAN GRUPA D.D.					
Splitska banka d.d.HBOR	KN	12,500	31.12.2019	9,063	10,313
Zagrebačka banka d.d.	KN	176,020	15.1.2020	96,634	116,740
Raiffeisen bank d.d.	EUR	4,435	15.1.2020	17,716	21,417
Splitska banka d.d.	EUR	4,900	31.8.2018	25,676	29,627
Splitska banka d.d.	EUR	1,549	30.9.2018	886	2,072
Splitska banka d.d.	EUR	1,659	31.12.2019	9,023	10,328
Total				**158,998**	**190,497**
Total long-term loans from financial institutions				**210,462**	**233,246**
Less: Current portion				**(62,229)**	**(41,542)**
Total				**148,233**	**191,704**

(all amounts are expressed in thousands of kunas)

35. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
Short-term bank borrowings	102,207	115,854	78,776	81,434
Revolving facilities with banks	19,616	17,152	-	-
Total borrowings	**121,823**	**133,006**	**78,776**	**81,434**
Current portion of long-term leases	576	529	345	320
Current portion of long-term loans	62,229	41,542	52,895	31,043
Total	**184,628**	**175,077**	**132,016**	**112,797**

An overview of bank borrowings of the M San Group:

Financial institutions	Original currency	Loans Amount	Maturity	31/12/ 2017	31/12/ 2016
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	KM	2,000	1.6.2018.	7,680	7,725
Intesa Sanpaolo Banka d.d.	KM	1,500	15.5.2018.	5,763	5,796
Intesa Sanpaolo Banka d.d.	KM	500	15.5.2018.	3,074	3,091
Okvirni kredit NLB	KM	500	13.3.2017.	-	1,259
Okvirni kredit Intesa	KM	500	15.5.2018.	-	1,799
Okvirni kredit UNICREDIT BANK	KM	1,000	1.6.2018.	-	2,318
Okvirni kredit SPARKASSE BANK	KM	500	18.8.2017.	-	1,408
Okvirni kredit Asa Banka	KM	800	25.5.2017.	-	3,070
NLB Tuzlanska banka 2.000.000		2,000	12.3.2017.	-	7,729
NLB Tuzlanska banka1 400 000	KM	1,400	28.2.2018.	3,072	5,410
Bor banka d.d.	KM	1,400	31.5.2017.	-	2,254
Total				**19,589**	**41,859**

(all amounts are expressed in thousands of kunas)

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	2017	2016
KIM TEC BEOGRAD d.o.o.					
Intesa Sanpaolo Banka d.d.	RSD	30.000	28.7.2017	-	46
Total				**-**	**46**
POLJOPRIVREDNIK AD					
Intesa Sanpaolo Banka d.d. okvirni kredit	KM	1,000	15.12.2016	-	3,864
NLB Razvojna banka	KM	1,000	15.3.2017	-	2,415
NLB Razvojna banka	KM			3,842	-
NLB Revolving kredit	KM			11,525	-
NLB Revolving kredit	KM			3,229	-
ISP Revolving kredit	KM			1,911	-
Total				**20,507**	**6,279**
KIM TEC SERVIS Beograd d.o.o.					
Okvirni kredit Banka Intesa	RSD			28	5
Total				**28**	**5**
KIM TEC CG d.o.o					
Okvirni kredit HIPOTEKARNA BANK	EUR	400	29.5.2018.	2,923	3,383
Total				**2,923**	**3,383**
COMPANY					
Total short-term borrowings (see note below)				78.777	81,434
				78,777	**81,434**
Total				**121,823**	**133,006**
Plus: Current portion of long-term borrowings				576	529
Plus: Current portion of loans from financial institutions				62,229	41,542
Total current portion of long-term borrowings and short-term loans				**184,628**	**175,077**

(all amounts are expressed in thousands of kunas)

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**	**31/12/ 2017**	**31/12/ 2016**
Zagrebačka banka d.d.	HRK	20,000	15.6.2018.	20,000	20,000
Zagrebačka banka d.d	HRK	20,000	15.2.2018.	20,000	20,000
Societe Generale-Splitska banka d.d.	HRK	20,000	15.10.2018.	20,000	20,000
Privredna banka d.d.	EUR	1,640	31.5.2018.	7,018	8,302
Hrvatska poštanska banka d.d.	HRK	15,000	1.9.2018.	11,758	13,132
Total				**78,776**	**81,434**
Plus: Current portion of long-term borrowings				345	320
Plus: Current portion of loans from financial institutions				52,895	31,043
Total current portion of long-term borrowings and short-term loans				**132,016**	**112,797**

36. ADVANCES RECEIVED

	GROUP		**COMPANY**	
	31/12/ 2017	**31/12/ 2016**	**31/12 2017**	**31/12 2016**
Advances received from domestic customers	3,620	414	2,517	57
Advances received from foreign customers	45	735	-	1,976
Total	**3,665**	**1,149**	**2,517**	**2,033**

(all amounts are expressed in thousands of kunas)

37. TRADE PAYABLES

	GROUP		COMPANY	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
Foreign trade payables	234,328	203,036	219,729	180,855
Domestic trade payables	77,254	44,958	58,936	29,054
Total	**311,582**	**247,994**	**278,665**	**209,909**

38. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GROUP		COMPANY	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
Liabilities for VAT	17,992	17,345	16,015	15,863
Liabilities to the customs office	7,271	5,363	6,328	4,687
Liabilities for income tax	355	319	61	223
Liabilities for taxes and contributions from and on salaries	2,308	2,167	861	805
Liabilities for memberships, contributions and other taxes	232	726	78	469
Total	**28,158**	**25,920**	**23,343**	**22,047**

(all amounts are expressed in thousands of kunas)

39. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	31/12/ 2017	**31/12/ 2016**	**31/12/ 2017**	**31/12/ 2016**
Amounts due under factoring arrangements	2,753	-	-	-
Interest on borrowings	588	560	555	442
Other current liabilities	114	3,011	82	1,987
Total	**3,455**	**3,571**	**637**	**2,429**

40. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	31/12/ 2017	**31/12/ 2016**	**31/12/ 2017**	**31/12/ 2016**
Accrued expenses - not yet billed	4,910	9,762	2,637	5,228
Accrued income	1,284	1,361	-	865
Deferred income - late-payment interest	289	113	-	-
Other accrued expenses and deferred income	71	126	-	-
Total	**6,554**	**11,362**	**2,637**	**6,093**

41. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2017 and 2016 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 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

(all amounts are expressed in thousands of kunas)

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

The receivables and payables of the Company from transactions with its subsidiaries at 31 December 2017 and 2016 were as follows:

	Receivables		Liabilities	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Kim Tec d.o.o., Vitez	6,822	285	-	(612)
Kim Tec d.o.o., Beograd	16,671	7,000	(99)	14
Pakom Kompany, Skopje	12,480	2,378	-	-
M San Eko d.o.o., Zagreb	4	5	-	-
Kim Tec CG, Podgorica	655	-	(666)	(1,915)
M San Logistika d.o.o., Zagreb	18	-	(807)	(1,307)
MR Servis d.o.o.	2,240	1,272	(760)	(459)
	38,890	**10,940**	**(2,332)**	**(4,279)**

(all amounts are expressed in thousands of kunas)

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 2017 and 2016 were as follows:

	Receivables		Liabilities	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Kim Tec, Ljubljana	15,356	15,447	483	242
Ekupi d.o.o., Zagreb	15,500	8,244	(1,116)	(388)
Ask Tec d.o.o., Priština	224	90	-	(5)
PP Orahovica d.d.	118	7,003	(131)	(87)
MS Industrial Kina	4,627	6,394	(2,482)	(516)
M San Ulaganja d.o.o., Zagreb	103	2,833	(549)	-
Ventex d.o.o., Rijeka	2,906	689	-	-
King ICT d.o.o., Zagreb	21,119	14,233	(137)	(2)
Pametna energija d.o.o.	124	531	-	-
M San Nekrenine d.o.o., Zagreb	77	399	(19)	(22)
Corvus Info d.o.o., Zagreb	18	1	-	(82)
Ured za podršku d.o.o., Zagreb	465	581	(259)	(1,226)
King ICT d.o.o., Beograd	-	-	-	(42)
PPK Valpovo	9	-	-	-
Aktivis d.o.o., Zagreb	-	15	(25)	-
Metronet Telekomunikacije	-	-	(8)	(15)
	60,646	**56,460**	**(4,243)**	**(2,143)**

(all amounts are expressed in thousands of kunas)

41. RELATED-PARTY TRANSACTIONS (CONTINUED)

The income and expenses of the Company from transactions with its subsidiaries during 2017 and 2016 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Kim Tec d.o.o., Beograd	198,232	167,130	11,526	10,241	662	485
Kim Tec d.o.o.,Vitez	112,589	104,022	2,203	2,612	245	780
Pakom Kompany, Skopje	43,484	33,962	2,075	1,032	15	2,249
Kim Tec CG, Podgorica	39,578	31,997	1,149	948	985	3
M San Logistika d.o.o., Zagreb	376	544	22,056	21,415	-	-
M San Eko d.o.o, Zagreb	11	13	-	1	-	-
MR Servis d.o.o.	5,437	5,289	6,750	7,246	2,266	2,292
	399,707	**342,957**	**45,759**	**43,495**	**4,173**	**5,809**

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2017 and 2016 were as follows:

	Income / Sale		Expenses / Purchase		Purchase value of goods	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Ekupi d.o.o., Zagreb	169,638	138,337	5,388	3,406	121	136
King ICT d.o.o., Zagreb	72,971	83,269	765	616	657	1,529
King ICT d.o.o., Beograd	-	-	-	-	-	36
Ventex d.o.o., Rijeka	15,369	12,990	163	71	101	5
Kim Tec, Ljubljana	-	1,912	91	164	20	149
Ask Tec d.o.o., Priština	928	4,758	95	1,383	-	5
Pametna energija d.o.o.	2,022	7,635	22	-	-	-
PP Orahovica d.d.	166	345	174	111	8	16
M San Nekrenine d.o.o., Zagreb	1,285	242	3,920	3,519	-	-
Ured za podršku d.o.o.	212	268	11,771	11,773	-	-
Corvus Info d.o.o.	76	127	-	2,007	-	-
M San Ulaganja d.o.o., Zagreb	306	1,307	-	-	-	-
Aktivis d.o.o., Zagreb	99	36	20	-	-	-
PPK Valpovo d.d.	16	21	-	-	-	-
MS Industrial Kina	-	-	2,750	2,953	47,262	44,789
Metronet Telekomunikacije	-	-	118	150	-	-
	263,088	**251,247**	**25,277**	**26,153**	**48,169**	**46,665**

(all amounts are expressed in thousands of kunas)

41. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2017 and 2016:

	Receivables		Income	
	31/12/2017	31/12/2016	31/12/2017	31/1/2016
M San Eko d.o.o., Zagreb	972	971	58	63
MR Servis d.o.o., Zagreb	34	-	98	54
	1,006	**971**	**156**	**117**

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2017 and 2016:

	Receivables		Income	
	31/12/2017	31/12/2016	31/12/2017	31/1/2016
PP Orahovica d.d., Orahovica	-	29,033	40	3,272
M San Nekrenine d.o.o., Zagreb	3,509	3,271	248	160
M San Ulaganja d.o.o., Zagreb	1,629	127,225	4,410	4,664
Baks Grupa d.o.o.	23,252	23,548	910	944
Litus Projekt	710	672	28	28
Kim Tec, Ljubljana	13	14	-	-
	29,113	**183,763**	**5,636**	**9,068**

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

	GROUP		COMPANY	
	2017	2016	2017	2016
Short-term benefits - gross	4,442	6,147	2,608	1,723
Total	**4,442**	**6,147**	**2,608**	**1,723**

(all amounts are expressed in thousands of kunas)

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	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Debt	334,028	368,032	238,550	272,516
Less: cash in hand and with banks	(71,622)	(36,784)	(59,083)	(26,343)
	262,406	**331,248**	**179,467**	**246,173**
Equity	259,963	373,229	156,792	292,736
Net debt-to-equity ratio	**100,94%**	**88,75%**	**114,46%**	**84,09%**

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

(all amounts are expressed in thousands of kunas)

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	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Financial assets				
Cash and cash equivalents	71,622	36,784	59,083	26,343
Loans and receivables	441,180	585,707	263,976	422,422
Financial assets available for sale	1,141	4,168	941	3,967
Investments held to maturity	-	1,081	-	1,081
Total financial assets	**513,943**	**627,740**	**324,000**	**453,813**
Financial liabilities				
Bank borrowings	332,285	366,251	237,774	271,930
Finance lease obligations	1,743	1,781	777	586
Other financial liabilities	322,642	256,359	283,109	215,620
Total financial liabilities	**656,670**	**624,391**	**521,660**	**488,136**

(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	
	31/12 /2017	31/12/ 2016	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
EUR	46,218	53,208	343,965	360,248	(297,747)	(307,040)
USD	29,711	34,158	77,729	67,861	(48,018)	(33,703)
CHF	6	4	-	-	6	4
GBP	87	76	35	1,390	52	(1,314)

COMPANY	Assets		Liabilities		Assets – Liabilities	
	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
EUR	39,740	48,754	326,587	417,463	(286,847)	(292,885)
USD	54,837	32,956	75,361	58,657	(20,524)	(32,711)
CHF	6	4	-	-	6	4
GBP	87	76	35	(1)	52	(1,314)

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 10% against the relevant currency. For a 10% weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

(all amounts are expressed in thousands of kunas)

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	
	2017	2016	2017	2016	2017	2016
Profit / (loss)	(29,775)	(30,704)	(4,802)	(3,370)	(5)	(131)

COMPANY	EUR impact		USD impact		GBP impact	
	2017	2016	2017	2016	2017	2016
Profit / (loss)	(28,684)	(29,288)	(2,052)	(3,271)	(5)	(131)

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.

(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 31/12/2017	GROUP 31/12/2016	COMPANY 31/12/2017	COMPANY 31/12/2016
Ekupi d.o.o.	CROATIA	169,784	138,998	169,638	138,665
KING ICT D.O.O.	CROATIA	75,743	85,847	72,971	83,232
PEVEC d.d	CROATIA	62,546	41,462	62,546	41,462
Links d.o.o.	CROATIA	46,824	40,362	46,824	40,362
S&T Hrvatska d.o.o.	CROATIA	46,012	27,101	46,012	27,101
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERCEGOVINA	43,468	42,545	-	-
COMBIS d.o.o.	CROATIA	41,234	32,440	41,234	32,440
Comping d.o.o.	CROATIA	33,951	29,423	33,951	29,423
Mikronis d.o.o.	CROATIA	29,069	27,908	29,069	27,908
WIN WIN SHOP d.o.o.	SERBIA	34,472	3,753	-	-
GIGATRON d.o.o.	SERBIA	24,649	22,163	-	-
KIM TEC d.o.o. Beograd	SERBIA	-	-	198,232	167,112
KIM TEC d.o.o. Vitez	BOSNIA AND HERCEGOVINA	-	-	112,589	104,020
PAKOM KOMPANI SKOPJE	MACEDONIA	-	-	43,484	33,962
KIM TEC CG d.o.o	MONTENEGRO	-	-	39,578	32,006

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 2017 would have changed by HRK 213 thousand (31 December 2016: HRK 1,363 thousand), and the Group as of 31 December 2017 would have changed by HRK 354 thousand (31 December 2016: HRK 1,840 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 334,028 thousand (31 Decemebr 2016: HRK 368,058 thousand) and HRK 238,551 thousand (31 December 2016: 272,516 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.

(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 2017	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	437,661	-	-	369	1,141	439,171
Fixed-rate instruments	-	-	74,659	113		74,772
Total assets	**437,661**	**-**	**74,659**	**482**	**1,141**	**513,943**
Liabilities						
Non-interest bearing	322,642	-	-	-	-	322,642
Liabilities based on financial lease	48	96	432	1,168	-	1,744
Variable-rate instruments	5,186	39,713	139,152	103,578	44,655	332,284
Total liabilities	327,876	39,809	139,584	104,746	44,655	656,670
Net asset / (liabilities)	**109,785**	**(39,809)**	**(64,925)**	**(104,264)**	**(43,514)**	**(142,727)**

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**	**(192,14)**	**4,168**	**3,349**

(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 2017	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	287,292	-	-	369	941	288,602
Fixed-rate instruments	-	-	35,398	-	-	35,398
Total	**287,292**	**-**	**35,398**	**369**	**941**	**324,000**
Liabilities						
Non-interest bearing	283,109	-	-	-	-	283,109
Liabilities based on financial	29	59	259	432	-	778
Variable-rate instruments	4,408	28,816	98,447	106,103	-	237,773
Total	**287,546**	**28,874**	**98,705**	**106,535**	**-**	**521,660**
Net asset / (liabilities)	**(254)**	**(28,874)**	**(63,307)**	**(106,166)**	**941**	**(197,660)**

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	681	3,967	283,331
Fixed-rate instruments	-	-	170,482	-	-	170,482
Total	**277,595**	**-**	**178,357**	**1,553**	**4,097**	**536,910**
Liabilities						
Non-interest bearing	215,620	-	-	-	-	215,620
Liabilities based on financial lease	27	53	240	265	-	585
Variable-rate instruments	2,856	26,001	83,451	159,623	-	271,931
Total	**218,5**	**26,054**	**83,691**	**159,888**	**-**	**488,136**
Net asset / (liabilities)	**59,092**	**(26,054)**	**87,872**	**(159,200)**	**3,967**	**(34,323)**

(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 2017, 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 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	941	-	**941**
Group	-	1,140	-	**1,140**

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	3,967	-	**3,967**
Group	-	4,168	-	**4,168**

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 and the Company lease 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	
	2017	**2016**	**2017**	**2016**
Within one year	16,486	16,146	4,820	4,306
1-5 years	18,315	30,190	6,052	8,890
After 5 years	-	-	-	-
Total	**34,801**	**46,336**	**10,872**	**13,196**

44. EVENTS AFTER THE BALANCE SHEET DAY

There were no subsequent events after 31 December 2017 that would have material impact on consolidated and unconsolidated financial statements at the date or for the period then ended or where of such importance for the operations of the Group and the Company that would require adjustments or to be disclosed in the consolidated and unconsolidated financial statements.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 6 to 95, were approved by the Management Board and authorised for issue on 19 April 2018.

Signed on behalf of the Management Board 19 April 2018 by:

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

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