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

Consolidated and unconsolidated financial statements
for the year ended 31 December 2018
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 President of the Management Board	Slaven Stipančić Member of Management Board	Žarko Kruljac Member of Management Bord	Irena Langer-Breznik Member of Management Board	Pavo Leko Member of Management Board

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Republic of Croatia

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

17 May 2019

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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 2018, 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 2018, 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.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation

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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.

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.

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INDEPENDENT AUDITOR'S REPORT (continued)

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

- 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.
- 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, 17 May 2019

Radnička cesta 80,

10 000 Zagreb,

Croatia

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2018
(all amounts are expressed in thousands of kunas)

	Notes	2018.	2017.
OPERATING INCOME			
Sales	5	2,239,884	2,113,116
Cost of goods sold	8	(1,919,809)	(1,799,915)
Gross profit		**320,075**	**313,201**
Other operating income	6	14,075	12,535
Increase in inventories of finished goods and work in progress		(335)	(138)
OPERATING EXPENSES			
Cost of raw material and supplies	7	(43,380)	(34,284)
Other external charges	9	(121,971)	(132,510)
Staff costs	10	(74,142)	(68,679)
Depreciation and amortisation	11	(8,848)	(7,677)
Other expenses	12	(15,706)	(14,269)
Impairment allowance	13	(724)	(411)
Provisions for risks within the warranty period	33	(2,526)	(2,205)
Other operating expenses	14	(3,937)	(2,030)
Total operating expenses		**(271,234)**	**(262,065)**
Operating profit		**62,581**	**63,533**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	22,962	33,044
Financial expenses	16	(39,622)	(34,931)
Net financial expense		**(16,660)**	**(1,887)**
Profit before tax		**45,921**	**61,646**
Income tax	17	(7,972)	(9,023)
Profit for the year		**37,949**	**52,623**
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(2,413)	(329)
Total comprehensive income for the year		**35,536**	**52,294**
Profit attributable to:			
Equity holders of the Company		39,067	52,615
Non-controlling interests		(1,118)	8
		37,949	**52,623**
Total comprehensive income attributable to:			
Equity holders of the Company		36,656	52,286
Non-controlling interest		(1,120)	8
		35,536	**52,294**

Consolidated statement of financial position
At 31 December 2018
(all amounts sre expressed in thousands of kunas)

ASSETS	Notes	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Intangible assets	18	7,209	5,137
Goodwill	19	45,898	45,917
Property, plant and equipment	20	143,640	114,394
Financial assets	21	64,072	50,333
Given deposits and loans		1,628	1,614
Long-term receivables		257	369
Deferred tax assets	17	322	359
TOTAL NON-CURRENT ASSETS		**263,026**	**218,123**
CURRENT ASSETS			
Inventories	22	224,892	212,027
Trade receivables	24	339,182	332,757
Prepayments made	23	7,797	13,441
Receivables from employees		103	204
Receivables from the State and other institutions	25	8,575	10,053
Given loans and deposits	26	45,848	73,159
Prepaid expenses and accrued income	27	8,490	2,784
Other receivables	28	8,706	19,637
Cash and cash equivalents	29	89,189	71,622
TOTAL CURRENT ASSETS		**732,782**	**735,684**
TOTAL ASSETS		**995,808**	**953,807**

Consolidated statement of financial position (continued)
At 31 December 2018
(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2018	31 December 2017
EQUITY			
Share capital	30	97,000	97,000
Legal reserves		6,452	6,435
Reservs from exchange of foreign currencies		(8,761)	(6,353)
Retained earnings	31	201,052	162,005
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**295,743**	**259,087**
Non-controlling interest	32	1,968	876
TOTAL EQUITY		**297,711**	**259,963**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	33	2,793	2,212
Long-term borrowings and finance lease obligations	34	116,981	149,400
Long-term trade payables		10	89
Accrued tax liabilty	17	249	161
TOTAL NON-CURRENT LIABILITIES		**120,033**	**151,862**
CURRENT LIABILITIES			
Short-term bank borrowings and finance lease obligations	35	174,027	184,628
Advances received	36	1,885	3,665
Trade payables	37	344,928	311,582
Amounts due to employees		4,664	3,940
Taxes, contributions and similar duties payable	38	32,752	28,158
Other current liabilities	39	8,445	3,455
Accrued expenses and deferred income	40	11,363	6,554
TOTAL CURRENT LIABILITIES		**578,064**	**541,982**
TOTAL EQUITY AND LIABILITIES		**995,808**	**953,807**

(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Foreign currency translation reserves	Retained earnings	Equity holders of the parent	Non-controllin g interest	Total
Balance at 1 January 2017	**210,000**	**6,376**	**(6,025)**	**162,009**	**372,360**	**869**	**373,229**
Transfer of profit	2,000	60	-	(2,060)	-	-	-
Decrease in share 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**
Transfer of profit	-	20	-	(20)	-	-	-
Decrease in capital and retained earnings	-	-	-	-	-	-	-
Acquisiton of the new Company	-	-	-	-	-	2,212	**2,212**
Profit for the year	-	-	-	39,067	39,067	(1,118)	**37,949**
Other comprehensive loss	-	(3)	(2,408)	-	(2,411)	(2)	**(2,413)**
Total comprehensive income for the year	-	*(3)*	(2,408)	*39,067*	*36,656*	*(1,120)*	***35,536***
Balance at 31 December 2018	**97,000**	**6,452**	**(8,761)**	**201,052**	**295,743**	**1,968**	**297,711**

Consolidated statement of cash flows
For the year ended 31 December 2018
(all amounts are expressed in thousands of kunas)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		37,949	52,623
Adjusted by:			
Income tax	17	7,972	9,023
Depreciation of property, plant and eqipment and intangible assets	11	8,848	7,677
Impairment of intangible assets	13	159	265
Value adjustment of financial assets	16	-	7
Impairment allowance and write-off of trade receivables	13	551	146
Net (gain) / loss from reversal of long term provisions		581	(566)
Net interest expense	15,16	12,336	7,204
Net foreign exchange profit		(4,220)	(145)
		64,175	**76,234**
CHANGES IN WORKING CAPITAL			
Decrease / (increase) in given deposit		(15)	15
(Increase) / decrease in inventory		(12,865)	(40,668)
(Increase) / decrease in trade receivables		(6,863)	(31,488)
(Increase) / decrease in given advances		5,644	(3,856)
Decrease in other receivables		13,109	32,059
Incresase in prepaid expenses and accrued income		(5,706)	4,013
Increase / (decrease) in received advances		(1,780)	2,517
Increase / (decrease) in trade payables		33,346	63,588
Increase in other current liabilities		3,592	(2,415)
Increase in accrued expenses and deferred income		4,809	(5,157)
CASH GENERATED FROM OPERATIONS		**97,447**	**94,842**
Interests paid		(9,506)	(12,265)
Income taxes paid		(8,077)	(7,513)
Net cash generated from operating activities		**79,864**	**75,064**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(9,196)	(7,505)
Interests collected		3,392	3,322
Cash expenditure for shares in related companies		-	-
Cash expenditure for shares in joint companies		(14,880)	-
Decrease of financial assets available for sale and bonds held to maturity	21	1,140	4,109
Change in given loans		27,311	(6,895)
Net cash used in from investing activities		**7,768**	**(6,969)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		161,769	218,662
Payments made to financial institutions		(201,708)	(251,919)
Net cash used in financing activities		**(39,939)**	**(33,257)**
Net decrease in cash and cash equivalents		**47,693**	**34,838**
Cash and cash equivalents at the beginning of the year	**29**	**71,622**	**36,784**
Cash and cash equivalents at the end of year	**29**	**89,189**	**71,622**

Unconsolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2018
(all amounts are expressed in thousands of kunas)

	Notes	2018	2017
OPERATING INCOME			
Sales	5	1,750,740	1,678,602
Cost of goods sold	8	(1,574,889)	(1,505,303)
Gross profit		**175,851**	**173,299**
Other operating income	6	6,286	3,431
OPERATING EXPENSES			
Cost of raw material and supplies	7	(5,747)	(2,483)
Other external charges	9	(93,336)	(97,131)
Staff costs	10	(25,189)	(24,197)
Depreciation and amortisation	11	(4,499)	(3,875)
Other expenses	12	(6,674)	(6,432)
Impairment allowance	13	(226)	(455)
Provisions for risks within the warranty period	33	(1,505)	(1,519)
Other operating expenses	14	(3,117)	(1,339)
Total operating expenses		**(140,293)**	**(137,431)**
OPERATING PROFIT		**41,844**	**39,299**
FINANCIAL INCOME AND EXPENSES			
Financial income	15	19,936	29,979
Financial expenses	16	(34,602)	(32,537)
Net financial expense		**(14,666)**	**(2,558)**
Profit before tax		27,178	36,742
Income tax	17	(5,488)	(7,127)
PROFIT FOR THE YEAR		**21,690**	**29,615**
OTHER COMPREHENSIVE PROFIT		-	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**21,690**	**29,615**

Unconsolidated statement of financial position
At 31 December 2018
(all amounts are expressed in thousands of kunas)

ASSETS	Notes	31 December 2018	31 December 2017 (Restated)
NON-CURRENT ASSETS			
Intangible assets	18	6,999	4,978
Property, plant and equipment	20	14,734	16,417
Financial assets	21	227,207	228,148
Given deposits and loans		1,500	1,500
Long-term receivables		257	370
Deferred tax assets	17	135	135
TOTAL NON-CURRENT ASSETS		**250,832**	**251,548**
CURRENT ASSETS			
Inventories	22	136,434	126,090
Trade receivables	24	205,170	213,215
Prepayments made	23	3,057	7,199
Receivables from employees		61	172
Receivables from the State and other institutions	25	5,088	6,352
Given loans and deposits	26	38,509	33,898
Prepaid expenses and accrued income	27	2,303	860
Other receivables	28	8,193	7,623
Cash and cash equivalents	29	68,696	59,083
TOTAL CURRENT ASSETS		**467,511**	**454,492**
TOTAL ASSETS		**718,343**	**706,040**

Unconsolidated statement of financial position (continued)
At 31 December 2018
(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2018	31 December 2017 (Restated)
EQUITY			
Share capital	30	97,000	97,000
Legal reserves		6,203	6,203
Retained earnings	31	75,279	53,589
TOTAL EQUITY		**178,482**	**156,792**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	33	1,505	1,519
Long-term borrowings and finance lease obligations	34	82,467	106,535
Non-current trade payable		-	89
TOTAL NON-CURRENT LIABILITIES		**83,972**	**108,143**
CURRENT LIABILITIES			
Short-term bank borrowings	35	120,974	132,016
Advances received	36	682	2,517
Trade payables	37	299,451	278,665
Amounts due to employees		1,378	1,290
Taxes, contributions and similar duties payable	38	24,436	23,343
Other current liabilities	39	2,445	637
Accrued expenses and deferred income	40	6,523	2,637
TOTAL CURRENT LIABILITIES		455,889	**441,105**
TOTAL EQUITY AND LIABILITIES		**718,343**	**706,040**

Unconsolidated statement of changes in shareholder's equity
For the year ended 31 December 2018
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2017	**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**
Profit for the year			21,690	21,690
Total comprehensive loss	-	-	*21,690*	*21,690*
Balance at 31 December 2018	**97,000**	**6,203**	**75,279**	**178,482**

Unconsolidated statement of cash flows

For the year ended 31 December 2018

(all amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES	**Notes**	**2018**	**2017**
Profit for the year		21,690	29,615
Adjusted by:			
Income tax	17	5,488	7,127
Depreciation of property, plant and equipment and intangible assets	11	4,499	3,875
Impairment of intangible assets	13	159	265
Value adjustment and write-off of trade receivables	13	67	190
Net loss / (gain) from reversal of long term provisions		(14)	151
Net interest expense	15,16	10,080	5,053
Net foreign exchange profit		(1,963)	(864)
		40,007	**45,411**
CHANGES IN WORKING CAPITAL			
Increase in inventory		(10,344)	(31,960)
Decrease / (increase) in trade receivables		8,091	(23,764)
Decrease in given advances		4,142	1,916
Decrease in other receivables		1,873	30,685
Increase in prepaid expenses and accrued income		(1,443)	(10)
Decrease / (increase) in received advances		(1,835)	484
Increase in trade payables		20,786	68,757
Decrease in other current liabilities		(552)	(2,335)
Increase / (decrease) in accrued expenses and deferred income		3,886	(3,455)
CASH GENERATED FROM OPERATIONS		**64,611**	**85,729**
Interests paid		(8,408)	(10,672)
Income taxes paid		(6,162)	(5,838)
Net cash generated from operating activities		**50,041**	**69,219**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(5,132)	(3,076)
Interests collected		1,472	2,813
Decrease of financial assets available for sale and bonds held to maturity	21	941	4,107
Change in given loans		(4,611)	(7,440)
Net cash used in from investing activities		**(7,330)**	**(3,596)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments to financial institutions		(33,098)	(32,883)
Net cash used in financing activities		**(33,098)**	**(32,883)**
Net increase / (decrease) in cash and cash equivalents		**9,613**	**32,740**
Cash and cash equivalents at the beginning of the year		**59,083**	**26,343**
Cash and cash equivalents at the end of year	29	**68,696**	**59,083**

(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 2018 and 2017:

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 2018 and 2017:

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***	***2018***	***2017***	***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:

- **IFRS 9 "Financial Instruments"**, adopted by the European Union on 22 November 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 European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** - "Classification and Measurement of Share-based Payment Transactions", adopted by the European Union on 27 February 2018 (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'", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 "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 – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).
- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements. Details of the implementation of IFRS 9 are presented in Note 2. The implementation of IFRS 15 from January 1, 2018 in the Company did not have a significant impact on the financial statements.

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

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 Financial Instruments

In the current year the Group and the Company applied IFRS 9 Financial Instruments (amended in July 2014) and the related amendments of other IFRSs that are effective for the annual period beginning on or after 1 January 2018. The transitional provisions of IFRS 9 allow subjects to not adjust comparable data, which the Group and the Company took advantage of.
In addition, the Group and the Company adopted the amended IFRS 9 Financial instruments: Disclosures applied to disclosures for 2018.

IFRS 9 introduces new requirements for:

1) Classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) Hedge accounting.

Below are the details of these new requirements, as well as their impact on the Group's and Company's consolidated financial statements.

The Group and the Company has calculated the effect of IFRS 9 in accordance with the transitional provisions set out in IFRS 9 and concluded that the effects are not material for understanding of financial statements.

(a) Classification and measurement of financial assets

The date of first application (i.e. the date on which the Company and the Group assessed the existing financial assets and financial liabilities in accordance with the IFRS 9 requirements) is 1 January 2018. Accordingly, the Copmapy and the Group applied the IFRS 9 requirements to the instruments which continued to be recognised as of 1 January 2018 and did not apply requirements to the instruments that had already ceased to be recognised on 1 January 2018.
All recognised financial assets within the framework of IFRS 9 should be subsequently measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the business model of the subject for the management of financial assets and contractual cash flow characteristics of financial assets.

In particular:

- Debt instruments held within a business model whose objective is to gather contractual cash flows, and which have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at depreciated cost;
- Debt instruments held within the business model whose objective is to gather contracted cash flows and sell debt instruments, and which have contracted cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at fair value through other comprehensive income (FVTOCI);

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

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(a) Classification and measurement of financial assets (continued)

- All other debt investments and equity investments, allocated in other models or insofar as they have not met the criteria of contractual cash flows, they are subsequently measured at fair value through profit or loss.

Despite the aforementioned, the Company and the Group may upon the initial recognition of financial assets irrevocably determine the following:

- The Group may irrevocably decide on subsequent changes to the fair value of investments in equity that are not held for trading nor as contingent amounts recognised by an acquirer in a business merger, in other comprehensive income (FVTOCI option);
- The Group may irrevocably decide on debt investments that comply with depreciated costs or FVTOCI criteria that are measured at fair value through profit or loss if this eliminates or significantly reduces accounting discrepancies (FVTPL option).

In the current year, the Company and the Group have not designated any debt investments that meet the criterion of amortized cost or FVOSD criterion and are measured at fair value through profit or loss.

In the event that recognition of debt investment measured at FVTOCI ceases, cumulative profit or loss previously recognised in other comprehensive income is reclassified from capital in profit or loss as an adjustment due to reclassification. In the event that recognition of equity investment for which the FVTOCI option has been selected ceases, cumulative profit or loss previously recognised in other comprehensive income is later transferred to retained earnings.

Debt instruments that are subsequently measured at depreciated cost or at FVTOCI, are subject to impairment (see paragraph (b)).

Management of the Group has reviewed and assessed the existing financial assets of the Company and the Group as at 1 January 2018 on the basis of facts and circumstances that existed on this date and concluded that the initial application of IFRS 9 did not have an impact on the financial assets of the Company and the Group with respect to classification and measurements.

Based on the performed analysis, the Company and the Group concluded that the given loans do not comprise clauses which would lead to contractual cash flows test failure. Given loans were contracted with a fixed interest rate reflecting the time value of money. Following the aforementioned, there are no loans which would consequently be measured at fair value through profit or loss. More precisely, all financial asset is subsequently measured at depreciated cost.

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets

In relation to impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to the incurred loan loss model according to IAS 39. The expected credit loss model requires that the Company and the Group takes into account the expected credit losses and changes in these expected credit losses on each reporting date so as to reflect changes in credit risk from the initial recognition of financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Namely, IFRS 9 requires that the Company and the Group recognises expected credit losses on:

(1) Debt instruments subsequently measured at depreciated cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contracted assets; and
(4) Financial guarantee contracts to which IFRS 9 impairment requirements apply.

In particular, IFRS 9 requires the Company and the Group to measure provisions for expected loan losses for financial instruments in the amount equal to life-long expected credit losses (ECL) if the credit risk of the relevant financial instrument significantly increased since the initial recognition, if there is objective proof of an impairment, and in the case of purchased or incurred credit-impaired financial assets. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition (aside from purchased or incurred credit-impaired financial assets), the Company and the Group shall be obliged to measure the loss for this financial instrument in the amount equal to a 12-month ECL. IFRS 9 also requires a simplified approach to measuring provisions for losses in an amount equal to life-long ECL for trade receivables, contractual assets and receivables for leases under certain circumstances. The Company and the Group use simplified approach for trade receivables.

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

(c) Classification and measurement of financial liabilities

A significant change introduced through IFRS 9 as regards the classification and measurement of financial liabilities refers to calculation of changes in the fair value of financial liabilities, measured at fair value through profit or loss, and which may be attributed to the changes in credit risk of the issuer.

Namely, IFRS 9 requires that changes in the fair value of financial liabilities that may be attributed to changes in credit risks of those liabilities are recorded in other comprehensive income, except in the case when the recognition of the impact of changes in the credit risk of liabilities in other comprehensive income would create or increase the accounting discrepancies in profit or loss. Changes in fair value that may be attributed to loan risk of financial liabilities are subsequently not reclassified to profit or loss, they are rather transferred to retained profit when the financial liability ceases to be recognised. According to IAS 39, the entire amount of changes to the fair value of financial liabilities carried measured at fair value through profit or loss was shown in the profit and loss account.

The Company and the Group has no financial liabilities that are measured at fair value through profit or loss.

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 the existing standards were issued by IASB and adopted by the EU, but not yet effective:

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Company and the Group has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates.

The Company and the Group have not assessed the impact of first-time adoption of IFRS 16 on the financial statements for the year ended 31 December 2019 by the date of approval of these financial statements. In addition to this, the Company and the Group expects that the application of these standards and the amendment of existing standards will not lead to material changes to the financial statements in the period of initial application.

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)

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 new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of these financial statements (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 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period),
- **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 IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020).

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)

According to the Copmapny's and Group's estimates, the adoption of relevant new accounting standards and amendments to existing standards will not materially affect their financial statement.

Accounting for hedges in a portfolio of financial assets and liabilities whose policies have not been adopted in the EU remains unregulated.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests. When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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) Service sales

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

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

ii) Sales of goods

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

- the 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 2018 and 2017 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2018	Average exchange rate for 2018	31/12/2017	Average exchange rate for 2017
RSD	15.93982	15.94507	15.83789	16.26151
KM	0.26367	0.26379	0.26029	0.26214
MKD	8.30235	8.30289	8.19657	8.25218
EUR	7.417575	7.414231	7.51364	7.46075

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 2018	2017
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% (2017: 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.

The Group and the Company always recognizes the provision for losses on customer receivables in the amount of the same lifetime ECL. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors. The Company recognized 100% loss on all receivables over 360 days, as historical experience suggests that these receivables can not recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade receivables and given advances (continued)

There were no changes in valuation techniques or significant assumptions during the current reporting period. The Company writes a trade receivable when there are data indicating that the borrower is in serious financial difficulties and does not have realistic returns, eg when the debtor has been liquidated or has entered bankruptcy proceedings or when the receivables from the buyer have exceeded a year, depending on what happens earlier. None of the written offs is subject to execution activities. Since the Company's historical credit loss experience does not show significantly different loss patterns for different segments of the customer, maturity-based impairment provisions do not differ from the different customer groups of the Company.

Cash and cash equivalents

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

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

Purchase or sale of financial assets is recognized on a straight-line basis and is recognized on a trading date. Regular purchases or sales are the purchase or sale of a financial asset that requires the delivery of the asset within the time frame established by the regulation or practice on the market.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Depreciated cost and effective interest rate method

The effective interest method is a method of calculating the depreciated cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, aside from purchased or incurred credit-impaired financial assets (i.e. assets which were credit-impaired during the initial recognition), the effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses, during the expected life of a debt instrument or, where appropriate, during a shorter period, to gross carrying amounts of the debt instrument at initial recognition. For purchased or incurred credit-impaired financial assets, the effective interest rate adjusted to the loan is calculated by discounting estimated future cash flows, including expected credit losses, to the depreciated cost of the debt instrument at initial measurement.

The depreciated cost of financial assets is the amount at which the financial instrument is measured at initial recognition, less of payments of principal and plus accumulated depreciation, using the effective interest rate method for any difference between the opening amount and amount at maturity, adjusted for any loss. Gross carrying amount of financial assets is the depreciated cost of financial assets before adjustments for any loss.

Interest income is recognised by applying the effective interest rate for debt instruments, which are subsequently measured at depreciated cost.

For financial assets, other than purchased or incurred credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, aside for the financial assets which subsequently became credit-impaired.

For financial assets which subsequently became credit-impaired, interest income is recognised by applying the effective interest rate to the depreciated cost of financial assets. If, in the following reporting periods, the credit risk for the credit-impaired financial instrument improves in the way that the financial instrument is no longer credit-impaired, the interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial assets.

For the purchased or incurred credit-impaired financial assets, the Company and the Group recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets

The Company and the Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company and the Group always recognises lifetime ECL for trade receivables based on simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors. The Company and the Group do no adjust loss rate for expected macroeconomics conditions since it has not prepare analysis of macroeconomics conditions on historical loss rates, including time value of money where appropriate.

However, if the credit risk on the financial instrument has not increased significantly from the initial recognition, the Company and the Group measure the loss for that financial instrument in the amount of the same 12-month ECL. Lifecycle ECL represents the expected credit losses that will arise from all possible events of non-fulfillment of liabilities over the expected life of the financial instrument.

By contrast, a 12-month ECL is part of a lifelong ECL due to the likelihood of a failure to meet obligations in the next 12 months after the reporting date.

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Company and the Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

In particular, for the loans given, the Company and the Group relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 360 days, then the Company and the Group assumes that there is a significant increase in credit risk.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

However, the Company and the Group does not currently use simplification of low credit risk when assessing a significant increase in credit risk. The Company and the Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company and the Group, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company and the Group considers that default has occurred when a financial asset is more than 360 days past due unless the Company and the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

(iv) Write-off policy

The Company and the Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's and Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurment and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default (PD), loss given default (LGD) (i.e. the magnitude of the loss if there is a default) and the exposure at default (EAD). The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For estimations of PD and LGD parameters, the Company relies on publications of external investment rating agencies.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company and the Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition of financial assets

The Company and the Group derecognises a financial asset only 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 entity.

If the Company and the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company and the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company and the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company and the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Furthermore, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss, except for equity instruments for which FVTOCI option is selected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The Company and the Group measures all financial liabilities at amortized cost

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company and the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.The effective interest rate method is the method of calculating the amortized cost of the financial liability and the allocation of interest expense over the relevant period.

The effective interest rate method is the rate that accurately discounts the estimated future cash payments (including any fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the financial obligation or, where appropriate, a shorter period, to the amortized cost of financial liability.

Classification in liabilities or equity

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

Equity instruments

The equity instrument is a contract that provides evidence of the remainder of the stake in the entity's property after deducting all of its liabilities. The equity instruments issued by the Company are recorded in the amount of income earned, less direct costs of issuance.

Financial liabilities

Other financial liabilities, including borrowings and loans, and bonds, are initially measured at fair value less transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, whereby interest expense is recognized on the basis of effective yield.

The effective interest method is a method for calculating the amortized cost of financial liabilities and interest expense allocations over the relevant period. Effective interest rate is the rate at which the estimated future cash outflows are discounted over the expected life of the financial liability or a shorter period if applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting judgements and estimates (continued)

(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 2018, 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

2018	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,823,367	285,159	414,441	68,472	91,400	2,682,839	(442,954)	2,239,885
Cost of goods sold less supplier discounts and allowances	(1,587,845)	(239,196)	(358,331)	(60,142)	(78,032)	(2,323,546)	403,737	(1,919,809)
Changes in inventory	-	(335)	-	-	-	(335)	-	(335)
Other operating income	14,571	2,637	1,467	152	22	18,849	(4,774)	14,075
Other operating expenses	(209,825)	(40,632)	(48,327)	(6,166)	(9,053)	(314,002)	42,768	(271,234)
Profit from operations	**40,268**	**7,633**	**9,250**	**2,316**	**4,337**	**63,804**	**(1,223)**	**62,581**
Net finance expenses	(14,904)	(1,494)	(1,632)	(383)	(339)	(18,752)	2,092	(16,660)
Profit before taxes	**25,364**	**6,139**	**7,618**	**1,933**	**3,998**	**45,052**	**869**	**45,921**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2017	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	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**

Segment assets and liabilities

2018	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	22,914	114,309	13,233	1,187	390	152,033	44,714	196,747
Other non-current assets	229,099	39,974	421	2	128	269,624	(203,344)	66,280
Current assets	476,888	141,347	111,238	23,841	33,816	787,130	(54,350)	732,780
Total assets	**728,901**	**295,630**	**124,892**	**25,030**	**34,334**	**1,208,787**	**(212,980)**	**995,807**
Long term liabilities	84,558	12,679	22,711	-	85	120,034	-	120,033
Short term liabilities	466,883	104,539	37,204	9,335	11,905	629,867	(51,803)	578,064
Total liabilities	**551,441**	**117,219**	**59,915**	**9,335**	**11,990**	**749,900**	**(51,803)**	**698,097**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

2017	Croatia	Bosnia and Herzegovin:	Serbia	Monte-negro	Macedo nia	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**

Other segment information

2018	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Macedonia	Total	Eliminations / Corrections	Total
Depreciation	5094	3,013	679	75	114	8,974	(126)	8,848
Increase of tangible and intangible assets	5,611	2,681	357	266	281	9,196	-	9,196
2017								
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	-	7,505

(all amounts are expressed in thousands of kunas)

5. SALES

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Domestic sales of goods	1,989,364	1,900,220	1,199,627	1,176,995
Foreign sales of goods	213,919	152,159	437,874	399,282
Service provision	67,430	76,868	27,999	33,690
Income from the sale of licences	6,362	12,172	4,501	11,079
Sales of spare parts	7,822	8,299	-	-
Re-export sales	3,816	3,963	136,792	101,904
Other	7,823	4,572	497	713
Allowances and discounts provided to customers	(56,652)	(45,137)	(56,550)	(45,061)
Total	**2,239,884**	**2,113,116**	**1,750,740**	**1,678,602**

(all amounts are expressed in thousands of kunas)

5. SALES (CONTINUED)

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

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Croatia	1,219,602	1,216,341	1,222,107	1,214,586
Serbia	406,288	366,409	212,238	198,087
Bosnia and Herzegovina	276,284	286,580	99,637	113,247
Montenegro	69,041	59,048	41,758	39,789
Macedonia	66,227	55,239	46,219	43,857
Germany	26,458	22,330	22,310	22,303
Slovenia	29,811	21,867	26,970	21,734
Kosovo	24,676	19,297	15,848	2,281
Turkey	-	14,437	-	-
Poland	22,129	13,201	19,978	10,613
Hungary	17,978	10,967	17,598	10,786
Austria	16,641	10,907	4,331	458
Slovakia	23,473	6,833	23,353	6,833
Letonia	901	5,785	901	5,785
Albania	18,969	5,155	2,083	2,120
Singapore	9,480	574	172	574
Romania	6,185	4,380	6,157	4,380
Switzerland	4,342	4,171	3,777	3,085
France	1,394	4,093	1,286	4,002
Great Britain	5,208	3,712	4,728	3,186
Sweden	6,528	3,616	6,505	3,612
Netherlands	3,489	2,842	2,449	1,790
Estonia	5,261	1,122	5260	1,122
Lithuania	2,041	1,382	2,036	1,382
Ireland	1,208	1,248	1,149	1,205
Uruguay	287	1,106	282	1,106
Cezch Republic	11,631	8,269	8,184	4,468
Denmark	6,969	136	6,929	84
Bulgaria	2,133	957	2,105	957
Other	11,902	6,249	940	231
Total	**2,296,536**	**2,158,253**	**1,807,290**	**1,723,663**

(all amounts are expressed in thousands of kunas)

6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Income from approval of suppliers	3,207	3,355	-	-
Income from long-term provision (note 33)	2,052	2,771	1,519	1,368
Income from re-invoiced fees to Environmental Protection Fund BiH	-	1,816	-	-
Income from free receipts	4,978	2,368	4,096	1,703
Income from incentives and subsidies	963	466	-	-
Income from sale of fixed assets	195	102	80	27
Income from approval of suppliers on the basis of warranty services	275	264	-	-
Income from collected bad and doubtful receivables from customers	108	216	39	85
Income from write-off of trade payablesa	19	54		-
Inventory surpluses	88	94	45	35
Other operating incomei	2,190	1,029	507	213
Total	**14,075**	**12,535**	**6,286**	**3,431**

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Cost of spare parts	21,825	19,476	-	-
Basic and auxiliary materials, and office supplies	8,751	5,116	2,359	1,002
Energy and fuels for freight and personal vehicles	4,437	3,896	531	530
Small inventory, packaging and tires	2,553	2,321	933	938
Servicing, replacement and repair costs under warranty	4,684	2,557	1,924	13
Ullage, spillage, breakage of raw materials and supplies	1	61	-	-
Inventory shortage	6	3	-	-
Cost of materials and spare parts for equipment maintenance	1,123	854	-	-
Total	**43,380**	**34,284**	**5,747**	**2,483**

(all amounts are expressed in thousands of kunas)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Cost of goods sold	2,050,177	1,899,599	1,680,076	1,586,262
Ullage, spillage, breakage	2,096	1,951	1,146	1,043
Cost of real estate for resale	277	398	722	-
Excessive shortages in inventories	73	139	-	-
Other cost of goods sold	722	-	23	-
Allowances and discounts provided by suppliers	(133,536)	(102,172)	(107,079)	(82,002)
Total	**1,919,809**	**1,799,915**	**1,574,889**	**1,505,303**

9. OTHER EXTERNAL CHARGES

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Business premise and equipment rental costs	21,685	19,478	5,379	5,178
Guarantee extension costs	10,603	21,549	8,104	14,062
Licences for intellectual property	13,245	17,146	10,732	16,111
Telephone and transportation costs	14,531	13,411	18,423	13,488
Costs of the Support Office and bookkeeping services	18,927	15,475	15,555	11,770
Marketing, sponsorships and fairs	11,815	13,938	4,705	4,199
Municipal utility fees and economic ownership	7,575	7,689	6,131	6,620
Maintenance and repairs	4,361	5,350	701	778
Entertainment	6,657	4,465	2,940	2,285
Intelectual services	2,129	3,307	1,168	2,298
Outsourced repair of faulty goods under warranty period	846	1,039	3,151	3,423
Other external services	9,597	9,663	16,347	16,919
Total	**121,971**	**132,510**	**93,336**	**97,131**

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	
	2018	2017	2018	2017
Net salaries	46,094	42,456	15,069	14,342
Taxes, surtaxes and contributions out of salaries	18,364	16,887	6,923	6,533
Contributions on salaries	9,684	9,336	3,197	3,322
Total	**74,142**	**68,679**	**25,189**	**24,197**

The average number of employees in the Group during the year 2018 was 626 (2017: 609 employees on average).

The average number of employees in the Company during the year 2018 was 150 (2017: 143 employees).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2018	2017	2018	2017
Depreciation	7,124	6,497	2,785	2,710
Amortisation	1,724	1,180	1,714	1,165
Total	**8,848**	**7,677**	**4,499**	**3,875**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2018	2017	2018	2017
Insurance premiums for equipment, vehicles and inventories	2,781	2,525	1,433	1,551
Bank and payment operation charges	2,250	2,359	1,264	1,386
Commutation allowance	2,344	2,236	651	603
Professional training and literature	1,517	1,032	1,090	781
Per diems and other business travel costs	1,728	1,615	632	660
Forest levies, other contributions and membership fees	1,189	1,189	688	729
Taxes independent of the operating result	814	763	12	29
Christmas allowance, children's gifts, awards	839	295	444	127
Other expenses	2,244	2,255	460	566
Total	**15,706**	**14,269**	**6,674**	**6,432**

(all amounts are expressed in thousands of kunas)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Impairment allowance on trade receivables	551	146	67	190
Impairment allowance on intangible assets	159	265	159	265
Impairment allowance on receivables from the State and other institutions	-	-	-	-
Impairment allowance on Inventories	14	-	-	-
Total	**724**	**411**	**226**	**455**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Donations	932	896	920	843
Fine	17	52	-	1
Written-off trade receivables	2,205	113	2,051	86
Other operating expenses	783	969	146	409
Total	**3,937**	**2,030**	**3,117**	**1,339**

15. FINANCIAL INCOME

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Interest income	3,376	9,883	1,929	7,660
Foreign exchange gains	14,057	20,345	16,758	20,257
Revenue from sales of shares in related parties	16	-	16	-
Badwill	1,153			
Share of profits of associates	3,638	719	-	-
Income from reversal of value adjusted financial assets	-	669	-	669
Income from sale of financial assets available for sale	226	1,393	857	1,393
Other financial income	496	35	376	-
Total	**22,962**	**33,044**	**19,936**	**29,979**

(all amounts are expressed in thousands of kunas)

16. FINANCIAL EXPENSES

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest expense	15,712	17,087	12,009	12,713
Foreign exchange losses	17,900	14,254	19,553	16,779
Expense from loss allocation in associates	1,934	-	-	-
Bank guarantees fees	2,205	1,995	1,822	1,596
Loan origination costs	799	1,084	626	979
Factoring fees	967	384	486	350
Permanent impairment of financial assets available for sale	105	120	106	120
Other financial expenses	-	7	-	-
Total	**39,622**	**34,931**	**34,602**	**32,537**

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 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Current tax	7,686	7,407	5,488	5,676
Deferred tax	286	1,616	-	1,451
Income tax expense	**7,972**	**9,023**	**5,488**	**7,127**

Current tax

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Accounting profit before tax	45,921	61,646	27,178	36,742
Items increasing the profit / decreasing the loss	5,872	2,650	3,523	2,139
Items decreasing the profit / increasing the loss	(812)	(7,535)	(212)	(7,350)
Tax base	**50,981**	**56,761**	**30,489**	**31,531**
Use of tax loss	(697)	(604)	-	-
Taxable profit	**50,284**	**56,157**	**30,489**	**31,531**
Current tax	7,686	7,407	5,488	5,676

Deferred tax assets	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Balance at 1 January	**359**	**1,813**	**135**	**1,586**
Increase in the benefit of profit or loss account	(37)	(1,454)	-	(1,451)
Balance at 31 December	**322**	**359**	**135**	**135**

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

Changes of deferred tax liabilities are shown as follows:

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Balance at 1 January	161	4	-	-
Charged to profit or loss	88	157	-	-
Balance at 31 December	**249**	**161**	**-**	**-**

Net deferred tax assets is shown as follows:

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Deferred tax assets	322	359	135	135
Deferred tax liability	(249)	(161)	-	-
Net deferred tax assets	**73**	**198**	**135**	**135**

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	Concessios	Development expenses	Trade mark	Intangible assets under development	Total
COST						
At 1 January 2017	**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**
Additions	-	-	-	-	4,138	4,138
Transfer from assets under development	3,895	-	-	-	(4,138)	(243)
Impairment	-	-	-	-	(158)	(158)
Increases for acquired company's asset	-	60	-	-	-	60
Disposals	(220)	-	-	-	-	(220)
Exchange differences	(12)	(1)	-	-	-	(13)
At 31 December 2018	**17,683**	**111**	**2,045**	**266**	**1,844**	**21,949**
ACCUMULATED AMORTISATION						
At 1 January 2017	**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**
Charge for the year	1,648	3	7	66	-	1,724
Disposals	(220)	-	-	-	-	(220)
Exchange differences	(12)	-	-	-	-	(12)
At 31 December 2018	**12,452**	**21**	**2,045**	**222**	**-**	**14,740**
CARRYING AMOUNT						
At 31 December 2018	**5,231**	**90**	**-**	**44**	**1,844**	**7,209**
At 31 December 2017	**2,984**	**34**	**7**	**110**	**2,002**	**5,137**

(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 2017	**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 of assets under development	-	-	-	(265)	(265)
At 31 December 2017	**12,848**	**1,991**	**267**	**1,885**	**16,991**
Additions				3,894	3,894
Transfer from assets under development	3,894	-	-	(3,894)	-
Impairment of assets under development	-	-	-	(158)	(158)
At 31 December 2018	**16,742**	**1,991**	**267**	**1,727**	**20,727**
ACCUMULATED AMORTISATION					
At 31 January 2017	**8,731**	**1,991**	**126**	**-**	**10,848**
Charge for the year	1134	-	31	-	1,165
At 31 December 2017	**9,865**	**1,991**	**157**	**-**	**12,013**
Charge for the year	1,648	-	66	-	1,714
At 31 December 2018	**11,513**	**1,991**	**223**	**-**	**13,727**
CARRYING AMOUNT					
At 31 December 2018	**5,229**	**-**	**44**	**1,727**	**6,999**
At 31 December 2017	**2,983**	**-**	**110**	**1,885**	**4,978**

(all amounts are expressed in thousands of kunas)

19. GOODWILL

	31/12/2018	31/12/2017
Cost	45,898	45,917
	45,898	**45,917**

	2018	2017
Cost		
Balance at beginning of the year	45,917	45,926
Acquisition	-	-
Effect of exchange differences	(19)	(9)
Balance at end of year	**45,898**	**45,917**

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:

	31/12/2018	31/12/2017
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	1,457	1,476
Total	**45,898**	**45,917**

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 2017	**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**
Additions		7	77		271	4,703	5,058
Transfer from assets under development	727	3,033	546	252	263	(4,579)	242
Increases for purchase value of assets acquired	102,853	9,958	-	252	-	128	113,191
Disposals	-	(1,003)	(905)	(2,484)	(1,118)	-	(5,510)
Exchange differences	(1,259)	(248)	(29)	(62)	(36)	(30)	(1,664)
At 31 December 2018	**221,595**	**64,299**	**13,606**	**12,224**	**3,391**	**2,519**	**317,634**

At 31 December 2018 the present value of property to which the liens Banks The loan amounts to HRK 33,909 thousand (2017: HRK 35,120 thousand). Mortgages on the said property is HRK 78,526 thousand (2017: HRK 74,941 thousand) while the amount of debt relating to those mortgages amounted to HRK 56,601 thousand.

(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 2017	**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**
Charge for the year	1,496	4,062	749	435	382	-	7,124
Increases for accumulated amortisation of assets acquired	74,140	6,250	-	356		-	80,746
Disposals		(991)	(710)	(2,462)	(1,118)	-	(5,281)
Exchange differences	(302)	(116)	(22)	(59)	(19)	-	(518)
At 31 December 2018	**101,641**	**47,998**	**11,709**	**11,294**	**1,352**		**173,994**
CARRYING AMOUNT							
At 31 December 2018	**119,954**	**16,301**	**1,897**	**930**	**2,039**	**2,519**	**143,640**
At 31 December 2017	**92,967**	**13,759**	**2,225**	**1,242**	**1,904**	**2,297**	**114,394**

(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 2017	**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**
Additions	-	-	-	-	-	1,239	1,239
Transfer from assets under development	-	1,151	-	88	-	(1,239)	-
Disposals	-	(35)	(186)	(96)	-	-	(317)
At 31 December 2018	**11,535**	**31,828**	**6,002**	**6,359**	**438**	**121**	**56,283**

The Company as at 31 December 2018 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 2017	-	**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**
Charge for the year		2,173	315	209	88	-	2,785
Disposals	-	(35)	(69)	(76)	-	-	(180)
At 31 December 2018	-	**30,237**	**5,358**	**5,865**	**89**	-	**41,549**
CARRYING AMOUNT							
At 31 December 2018	**11,535**	**1,591**	**644**	**494**	**349**	**121**	**14,734**
At 31 December 2017	**11,535**	**2,613**	**1,076**	**635**	**437**	**121**	**16,417**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Investments in subsidiaries	-	-	183,101	183,101
Investments in associates	64,072	49,192	44,106	44,106
Investments in assets available for sale	-	1,141	-	941
	64,072	**50,333**	**227,207**	**228,148**

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	
			31/12/2018 %	31/12/2017 %	31/12/2018	31/12/2017
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**

(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 2018 and 31 December 2017:

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Share in Ventex d.o.o.	4,457	7,022	2,606	2,606
Share in E Kupi d.o.o.	42,714	42,170	41,500	41,500
Share in Agropromet Grahovo	3,822	-	-	-
Share in MP Energija Grahovo	5,470	-	-	-
Share in Poljoprivrednik Glamoč	4,709	-	-	-
Share in Poljoprivrednik Odžak	2,900	-	-	-
	64,072	**49,192**	**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 2018	2017
Ventex d.o.o., Rijeka	Mediation in miscellaneous trade	Rijeka	49%	49%
E Kupi d.o.o.	E commerce	Zagreb	24%	24%
Agropromet Grahovo	Agriculture	Grahovo, Bosnia and Herzegovina	80%	-
MP Energija Grahovo	Agriculture	Grahovo, Bosnia and Herzegovina	85%	-
Poljoprivrednik Glamoč	Agriculture	Glamoč, Bosnia and Herzegovina	90%	-
Poljoprivrednik Odžak	Agriculture	Odža, Bosnia and Herzegovina	39%	-

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

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

	31/12/2018	31/12/2017
Total assets	82,674	38,952
Total liabilities	53,917	25,815
Net assets	**28,757**	**13,137**
Group's share in the net assets of the associates	**14,092**	**6,201**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

	31/12/2018	31/12/2017
Total income	321,359	268,523
Total profit for the year	7,777	3,208
Attribution of profit / (loss) from previous years	(5,846)	(509)
Unrealised gains from shares	681	(154)
The Group's share in the profits of the associates (49%)	**1,704**	**719**

21.3 INVESTMENTS IN AVAILABLE FOR SALE SHARES

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Shares in Quaestus Private Equity Capital	-	941	-	941
Shares on the custody account	-	199	-	-
	-	1,140	-	941

The company sold the shares of Metronet telecommunication d.d. and the rest of the investment fund portfolio in Quaestus Private Equity Capital, and realized the total revenue from the sale of financial assets available for sale in the amount of HRK 226 thousand (note No. 15).

Fair value	Quaestus Private Equity Capital	Metronet	Shares in the custody account	Total
Balance at 1 January 2017	**941**	**-**	**199**	**1,140**
Change in fair value	(941)	-	(199)	(1,140)
Balance at 31 December 2018	**-**	**-**	**-**	**-**

(all amounts are expressed in thousands of kunas)

21. FINANCIAL ASSETS (CONTINUED)

21.4 INVESTMENTS IN HELD TO MATURITY BONDS

The Company has sold bonds of the company Metronet telekomunikacije d.d. in 2017 and the rest of portfolio during the 2018.

22. INVENTORIES

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Merchandise	133,223	122,866	61,516	64,019
Goods in the customs warehouse	33,122	35,617	32,642	34,579
Goods in transport	43,835	27,256	41,867	26,765
Inventories of raw material and supplies	7,525	17,179	26	346
Other inventories	7,187	9,109	383	381
Total	**224,892**	**212,027**	**136,434**	**126,090**

23. PREPAYMENTS MADE

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Prepayments made for goods	6,765	12,968	3,050	7,189
Prepayments made for services	1,032	473	7	10
Total	**7,797**	**13,441**	**3,057**	**7,199**

(all amounts are expressed in thousands of kunas)

24. TRADE RECEIVABLES

	GROUP		COMPANY	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Domestic trade receivables	305,030	328,622	162,888	164,250
Foreign trade receivables	45,197	37,214	43,744	59,635
Impairment allowance on trade receivables	(11,045)	(33,079)	(1,462)	(10,670)
Total	**339,182**	**332,757**	**205,170**	**213,215**

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
At 1 January	33,079	34,166	10,670	11,358
Increase in impairment allowance (Note 13)	551	147	67	190
Reversed on collection (Note 6)	(108)	(216)	(38)	(85)
Write-off receivables	(22,477)	(1,018)	(9,237)	(793)
At 31 December	**11,045**	**33,079**	**1,462**	**10,670**

Ageing of past due but not impaired trade receivables:

	GROUP		COMPANY	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Not yet due	268,463	246,837	150,300	152,075
Up to 60 days	31,187	39,141	21,179	30,939
60-90 days	8,118	7,585	9,128	6,746
90-120 days	1,928	3,919	816	3,371
120-365 days	10,150	14,783	7,331	2,823
Beyond 365 days	19,336	20,492	16,416	17,261
Total	**339,182**	**332,757**	**205,170**	**213,215**

The average credit period on sales in the Group in 2018 was 43 days (2017: 57 days), while in the Company it was 55 days (2017: 46 days).

Of the total receivables past due beyond 365 days, the Group's receivables from related companies amount to HRK 16,389 thousand and its receivables from unrelated companies amount to HRK 2,946 thousand, whereas the balance owed to the Company by its related companies and unrelated companies amounts to HRK 15,177 thousand and HRK 1,239 thousand, respectively.

(all amounts are expressed in thousands of kunas)

25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
VAT refund	6,855	8,844	4,282	6,154
Receivables for other taxes, contributions and membership fees	175	178	175	175
Customs duty refunds	55	55		-
Receivables for overpaid income tax	1,074	458	613	-
Other amounts due from the state	416	518	18	23
Total	**8,575**	**10,053**	**5,088**	**6,352**

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)

26. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Loans to corporate entities	42,761	68,754	35,442	29,681
Loans to individuals	107	948	100	798
Given deposits to unrelated parties	2,980	3,457	2,967	3,419
Total	**45,848**	**73,159**	**38,509**	**33,898**

Loans to corporate entities

	Original currency	Loans Amount	Maturity	2018	2017
Company					
Loans to corporate entities within group					
M SAN GRUPA D,D,					
M SAN EKO d,o,o,	HRK	2,000	31/12/2019	1,524	967
MR SERVIS d.o.o.	HRK	230	31/12/2019	150	-
Total				**1,674**	**967**
Loans to other corporate entities					
M SAN GRUPA D,D,					
Related parties					
Litus projekt d,o,o,	HRK	600	31/12/2019	562	562
M SAN Nekretnine d,o,o,	HRK	3,000	31/12/2019	5,141	3,359
M SAN Ulaganja d,o,o,	HRK	5,000	31/12/2019	5,133	1,611
Baks grupa d,o,o,	HRK	18,309	31/12/2019	18,300	18,300
Third parties					
Castalia projekt d,o,o,	HRK	3,600	31/12/2019	2,032	2,282
MIG Dubrovnik d,o,o,	HRK	2,600	19/05/2019	2,600	2,600
Total				**33,768**	**28,714**
Total				**35,442**	**29,681**
Group					
KIM TEC BIH d,o,o,					
MPI Modriča	KM	5,250	31/12/2018	-	18,352
EKO-Bosanska Posavina d,o,o, Derventa	KM	3,243	31/12/2019	8,993	8,899
Poljoprivrednik Odžak	KM	1,000	31/12/2018	-	2,305
Poljoprivrednik d,o,o, Glamoč	KM	1,000	31/12/2018	-	3,468
MP ENERGIJA d,o,o, Bosansko Grahovo	KM	970	31/12/2018	-	3,018
Agropromet Grahovo d,o,o, Bosansko Grahovo	KM	670	31/12/2018	-	1,796
Total				**8,993**	**37,838**

(all amounts are expressed in thousands of kunas)

27. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Loans Amount	Maturity	31/12/ 2018	31/12/ 2017
KIM TEC BG d,o,o,					
EKUPI d,o,o, Beograd	RSD	2,000	31/7/2018	-	1,326
Total				**-**	**1,326**
PAKOM KOMPANI d,o,o,					
Korvus MK	MKD	5,089	31/12/2017	-	621
Kim Tec Tirana	EUR	34	27/7/2018	-	255
Total				**8,993**	**876**
Total loans to corporate entities				**42,761**	**68,754**
Loans to individuals					
Company					
M SAN GRUPA D,D,					
Mato Arelić	HRK	200	27/7/2018	-	620
Other individuals with smaller loans	HRK	1,678	31/12/2019	100	178
Total				**100**	**798**
Group					
KIM TEC BIH					
Other individuals with smaller loans	KM	50	31/12/2018	-	19
Total				**-**	**19**
Grupa					
KIM TEC BG					
Ostale fizičke osobe s manjim zajmovima	KM			5	-
Ukupno				**5**	**-**
Grupa					
VIVAX					
Ostale fizičke osobe s manjim zajmovima	KM			2	-
Ukupno				2	-
POLJOPRIVREDNIK DERVENTA					
Other individuals with smaller loans	KM			-	131
Total				**-**	**131**
Total loans to individuals				**107**	**948**
TOTAL LOANS				**42,868**	**69,702**

(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	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Accrued income - subsequently approved discounts	6,578	713	1,949	204
Accrued income - amounts not yet billed	201	114	-	-
Prepaid expenses	1,711	1,957	354	656
Total	**8,490**	**2,784**	**2,303**	**860**

28. OTHER RECEIVABLES

	GROUP		COMPANY	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Interest receivable	6,864	17,885	6,746	6,339
Other receivables	1,842	1,775	1,447	1,307
Value adjustment of receivables per interests	-	(23)	-	(23)
Total	**8,706**	**19,637**	**8,193**	**7,623**

Interests receivable are presented as follows:

	GROUP		COMPANY	
	31/12/2018	31/2/2017	31/12/2018	31/12/2017
Receivables per interests per loans	6,864	17,885	6,746	6,339
Value adjustment of receivables per interest	-	(23)	-	(23)
Total	**6,864**	**17,862**	**6,746**	**6,316**

(all amounts are expressed in thousands of kunas)

29. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017
Cash with banks	89,181	71,618	68,696	59,083
Cash in hand	8	4	-	-
Total	**89,189**	**71,622**	**68,696**	**59,083**

30. SHARE CAPITAL

The share capital consists of:

	31/12/2018	31/12/2017
1,000,000 A-series ordinary shares fully paid in at 28/05/2007	-	-
700,000 B-series ordinary shares fully paid in at 16/10/2008	-	-
300,000 C-series ordinary shares fully paid in at 15/07/2009	-	-
100,000 D-series ordinary shares fully paid in at 18/08/2016	-	-
970,000 ordinary shares with nominal value 100 HRK per share	97,000	97,000
Total	97,000	97,000

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 was transferred to M San Investments decreased capital by HRK 115,000 thousand and retained earning for HRK 50,479 thousand. Asset is decreaseed in amount of HRK 165,479 thousand and relates to loans receivable and their related interest, as well as receivables from customers and receivables from cession agreements.

	2018.	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 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Retained earnings	201,052	162,005	75,279	53,589
Total	**201,052**	**162,005**	**75,279**	**53,589**

Changes of retained earnings are shown below:

	2018	**2017**	**2018**	**2017**
Balance at 1 January	162,005	162,009	53,589	76,533
Increase of share capital and retained earnings		(2,000)		(2,000)
Profit for the year	39,067	52,615	21,690	29,615
Subsequently identified income tax liabilities	-	(80)	-	(80)
	-	(50,479)	-	(50,479)
Transfer to legal reserves	(20)	(60)		-
Balance at 31 December	**201,052**	**162,005**	**75,279**	**53,589**

32. NON-CONTROLLING INTERESTS

	GROUP	
	31/12/2018	**31/12/2017**
Net asset value at acquisition date	876	869
Acquisition of the new Company	2,212	-
Other comprehensive loss	(2)	(1)
Share in gain / (loss) for the current year	(1,118)	8
Balance at end of year	**1,968**	**876**

(all amounts are expressed in thousands of kunas)

33. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Long-term provisions for risks within the warranty period	2,793	2,212	1,505	1,519
Total	**2,793**	**2,212**	**1,505**	**1,519**

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
At 1 January	2,212	2,771	1,519	1,368
New provisions	2,526	2,205	1,505	1,519
Decreases	(2,052)	(2,771)	(1,519)	(1,368)
Exchange rate differences	107	7	-	-
At 31 December	**2,793**	**2,212**	**1,505**	**1,519**

The balance of the provisions account for 0.12% percent of the Company's and Group's cost of goods sold (31 December 2017: 0.13 %).

34. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS

Long-term liabilities from finance lease

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Total obligations under finance leases	1,213	1,743	400	777
Less: current portion of finance lease obligtions	(629)	(576)	(175)	(345)
Long-term finance lease obligations	**584**	**1,167**	**225**	**432**
Total long term liabilities from financial leasing	**584**	**1,167**	**225**	**432**

(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/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Total loans from financial institutions	168,560	210,462	126,809	158,998
Less: current portion of loans from financial institutions	(52,163)	(62,229)	(44,567)	(52,895)
Total long-term loans from financial institutions	**116,397**	**148,233**	**82,242**	**106,103**
Total long-term portion of long-term loans and leases	**116,981**	**149,400**	**82,467**	**106,535**

Financijal institutions	**Original currency**	**Loans amount**	**Maturity**	**31/12/ 2018**	**31/12/ 2017**
POLJOPRIVREDNIK AD					
IRB RS	KM	1,000	1/7/2019	482	1,300
NLB Razvojna banka	KM	750	1/2/2020	632	1,189
NLB Razvojna banka	KM	500	1/6/2020	625	1,027
NLB Razvojna banka	KM	500	16/06/2022	1,501	1,920
Total				**3,240**	**5,436**
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	EUR	1,500	22/7/2018	-	1,373
Total				**-**	**1,373**
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD.	EUR	4,000	23/12/2023	24,824	28,107
Total				**24,824**	**28,107**
KIM TEC BIH d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	2,500	28/2/2024	13,687	16,548
Total				**13,687**	**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/ 2018	31/12/ 2017
MSAN GRUPA D.D.					
Splitska banka d.d.HBOR	KN	12,500	31/12/2019	7,500	9,063
Syndicated loan	KN	176,020	15/1/2020	75,959	96,634
Raiffeisen bank d.d.	EUR	4,435	15/1/2020	14,011	17,716
Splitska banka d.d.	EUR	4,900	30/11/2019	21,713	25,676
Splitska banka d.d.	EUR	1,549	30/9/2018	-	886
Splitska banka d.d.	EUR	1,659	31/12/2019	7,626	9,023
Total				**126,809**	**158,998**
Total long-term loans from financial institutions				**168,560**	**210,462**
Less: Current portion				**(52,163)**	**(62,229)**
Total				**116,397**	**148,233**

On 8th of March 2019 the Company refinanced the long-term liabilities of Splitska banka and the syndicated loan with the new syndicate of banks consisting of Zagrebačka banka d.d., OTP Banka d.d. and Privredna banka Zagreb d.d. which on the day of refinancing amounted to HRK 104,897,081.56. The loan is repaid in monthly installments while the last installment is due on 15 March 2026.

(all amounts are expressed in thousands of kunas)

35. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Short-term bank borrowings	105,053	102,207	76,232	78,776
Revolving facilities with banks	16,182	19,616	-	-
Total borrowings	**121,235**	**121,823**	**76,232**	**78,776**
Current portion of long-term leases	629	576	175	345
Current portion of long-term loans	52,163	62,229	44,567	52,895
Total	**174,027**	**184,628**	**120,974**	**132,016**

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	28/5/2019	7,562	7,680
Intesa Sanpaolo Banka d.d.	KM	1,500	15/5/2019	3,793	5,763
Intesa Sanpaolo Banka d.d.	KM	500	16/5/2019	1,517	3,074
NLB Tuzlanska banka1 400 000	KM	1,400	30/4,2019	1,517	3,072
Bosna Bank International d,d	KM	2.000	10/7/2019	7,206	-
Total				**21,595**	**19,589**

(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	2018	2017
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka				3,433	-
Total				**3,433**	**-**
POLJOPRIVREDNIK AD					
Intesa Sanpaolo Banka d.d. okvirni kredit	KM			3,793	-
NLB Razvojna banka	KM			1,959	-
NLB Razvojna banka	KM			10,430	-
NLB Razvojna banka	KM			3,792	
NLB Razvojna banka	KM				3,842
NLB Revolving kredit	KM			-	11,525
NLB Revolving kredit	KM			-	3,229
ISP Revolving kredit	KM			-	1,912
Total				**19,974**	**20,508**
KIM TEC SERVIS Beograd d.o.o.					
Okvirni kredit Banka Intesa	RSD			-	28
Total				**-**	**28**
KIM TEC CG d.o.o					
Okvirni kredit HIPOTEKARNA BANK	EUR	400	29/5/2018.	-	2,923
Total				**-**	**2,923**
COMPANY					
Total short-term borrowings (see note below)				76,233	78,777
				76,233	**78,777**
Total				**121,235**	**121,824**
Plus: Current portion of long-term borrowings				629	576
Plus: Current portion of loans from financial institutions				52,163	62,229
Total current portion of long-term borrowings and short-term loans				**174,027**	**184,628**

(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/ 2018	31/12/ 2017
Zagrebačka banka d.d.	HRK	20,000	15/6/2019/	20,000	20,000
Zagrebačka banka d.d	HRK	20,000	15/2/2019/	20,000	20,000
Societe Generale-Splitska banka d.d.	HRK	20,000	15/04/2019/	20,000	20,000
Privredna banka d.d.	EUR	1,640	31/5/2019/	5,709	7,018
Hrvatska poštanska banka d.d.	HRK	15,000	1/10/2019/	10,523	11,758
Total				**76,232**	**78,776**
Plus: Current portion of long-term borrowings				175	345
Plus: Current portion of loans from financial institutions				44,567	52,895
Total current portion of long-term borrowings and short-term loans				**120,974**	**132,016**

36. ADVANCES RECEIVED

	GROUP		COMPANY	
	31/12/ 2018	31/12/ 2017	31/12 2018	31/12 2017
Advances received from domestic customers	1,474	3,620	682	2,517
Advances received from foreign customers	411	45	-	-
Total	**1,885**	**3,665**	**682**	**2,517**

(all amounts are expressed in thousands of kunas)

37. TRADE PAYABLES

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Foreign trade payables	277,691	234,328	246,299	219,729
Domestic trade payables	67,237	77,254	53,152	58,936
Total	**344,928**	**311,582**	**299,451**	**278,665**

38. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Liabilities for VAT	22,045	17,992	19,106	16,015
Liabilities to the customs office	7,141	7,271	4,400	6,328
Liabilities for income tax	865	355	-	61
Liabilities for taxes and contributions from and on salaries	2,427	2,308	865	861
Liabilities for memberships, contributions and other taxes	274	232	65	78
Total	**32,752**	**28,158**	**24,436**	**23,343**

(all amounts are expressed in thousands of kunas)

39. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Amounts due under factoring arrangements	5,945	2,753	-	-
Interest on borrowings	379	588	372	555
Other current liabilities	2,121	114	2,073	82
Total	**8,445**	**3,455**	**2,445**	**637**

40. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	31/12/ 2018	**31/12/ 2017**	**31/12/ 2018**	**31/12/ 2017**
Accrued expenses - not yet billed	8,873	4,561	6,523	2,637
Accrued income	1,859	1,284	-	-
Deferred income - late-payment interest	33	289	-	-
Other accrued expenses and deferred income	598	420	-	-
Total	**11,363**	**6,554**	**6,523**	**2,637**

41. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2018 and 2017 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
MPI Modriča

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
Poljoprivrednik d.o.o., Odžak
Poljoprivrednik Glamoč d.o.o., Glamoč
MP Energija d.o.o., Grahovo
AP Energija d.o.o., Grahovo

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.
Planet IX d.o.o.

(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 2018 and 2017 were as follows:

	Receivables		**Liabilities**	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Kim Tec d.o.o., Vitez	322	6,822	(2)	-
Kim Tec d.o.o., Beograd	3,839	16,671	(37)	(99)
Pakom Kompany, Skopje	6,061	12,480	-	-
M San Eko d.o.o., Zagreb	5	4	-	-
Kim Tec CG, Podgorica	3,016	655	28	(666)
M San Logistika d.o.o., Zagreb	(1)	18	(1,173)	(807)
MR Servis d.o.o.	1,724	2,240	(504)	(760)
	14,966	**38,890**	**(1,688)**	**(2,332)**

(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 2018 and 2017 were as follows:

	Receivables		Liabilities	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Kim Tec, Ljubljana	15,160	15,356	518	483
Ekupi d.o.o., Zagreb	11,618	15,500	(38)	(1,116)
Ask Tec d.o.o., Priština	8,890	224	-	-
PP Orahovica d.d.	108	118	-	(131)
MS Industrial Kina	479	4,627	568	(2,482)
M San Ulaganja d.o.o., Zagreb	190	103	(2,258)	(549)
Ventex d.o.o., Rijeka	465	2,906	-	-
King ICT d.o.o., Zagreb	17,669	21,119	(620)	(137)
Pametna energija d.o.o.	177	124	-	-
M San Nekrenine d.o.o., Zagreb	1,184	77	(29)	(19)
Corvus Info d.o.o., Zagreb	227	18	-	-
Ured za podršku d.o.o., Zagreb	70	465	(237)	(259)
King ICT d.o.o., Beograd	-	-	-	-
PPK Valpovo	-	9	-	-
Aktivis d.o.o., Zagreb	2	-	(25)	(25)
Metronet Telekomunikacije		-		(8)
Litus projekt d.o.o.	9			
	56,248	**60,646**	**(2,121)**	**(4,243)**

(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 2018 and 2017 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Kim Tec d.o.o., Beograd	212,224	198,232	12,493	11,526	1,825	662
Kim Tec d.o.o.,Vitez	97,838	112,589	4,375	2,203	615	245
Pakom Kompany, Skopje	46,228	43,484	2,039	2,075	293	15
Kim Tec CG, Podgorica	41,748	39,578	1,085	1,149	400	985
M San Logistika d.o.o., Zagreb	452	376	25,860	22,056		-
M San Eko d.o.o, Zagreb	7	11	-	-		-
MR Servis d.o.o.	4,511	5,437	7,505	6,750	790	2,266
	403,008	**399,707**	**53,357**	**45,759**	**3,923**	**4,173**

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2018 and 2017 were as follows:

	Income / Sale		Expenses / Purchase		Purchase value of goods	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Ekupi d.o.o., Zagreb	193,901	169,638	8,132	5,388	111	121
King ICT d.o.o., Zagreb	89,591	72,971	754	765	227	657
King ICT d.o.o., BiH	393		-		-	-
King ICT d.o.o., Beograd	-	-	-	-	-	-
Ventex d.o.o., Rijeka	12,170	15,369	156	163	1	101
Kim Tec, Ljubljana	-	-	202	91	-	20
Ask Tec d.o.o., Priština	15,298	928	105	95	-	-
Pametna energija d.o.o.	3,764	2,022	-	22	-	-
PP Orahovica d.d.	188	166	188	174	16	8
M San Nekrenine d.o.o., Zagreb	994	1,285	4,031	3,920	404	-
Ured za podršku d.o.o.	352	212	15,556	11,771	-	-
Corvus Info d.o.o.	334	76	-	-	-	-
M San Ulaganja d.o.o., Zagreb	256	306	-	-	-	-
Aktivis d.o.o., Zagreb	38	99	55	20	-	-
PPK Valpovo d.d.	9	16	-	-	-	-
MS Industrial Kina	-	-	2,492	2,750	51,338	47,262
Metronet Telekomunikacije		-	-	118	-	-
	317,288	**263,088**	**31,671**	**25,277**	**52,097**	**48,169**

(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 2018 and 2017:

	Receivables		Income	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/1/2017**
M San Eko d.o.o., Zagreb	1,556	972	61	58
MR Servis d.o.o., Zagreb	151	34	81	98
	1,707	**1,006**	**142**	**156**

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2018 and 2017:

	Receivables		Income	
	31/12/2017	**31/12/2017**	**31/12/2017**	**31/1/2016**
PP Orahovica d,d,, Orahovica	-	-		40
M San Nekrenine d,o,o,, Zagreb	5,485	3,509	197	248
M San Ulaganja d,o,o,, Zagreb	5,311	1,629	177	4,410
Baks Grupa d,o,o,	23,096	23,252	830	910
Litus Projekt	735	710	25	28
Kim Tec, Ljubljana	13	13	-	-
	34,640	**29,113**	**1,229**	**5,636**

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

	GROUP		COMPANY	
	2018	**2017**	**2018**	**2017**
Short-term benefits - gross	4,615	4,442	2,472	2,608
Total	**4,615**	**4,442**	**2,472**	**2,608**

(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	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Debt	291,008	334,028	203,441	238,550
Less: cash in hand and with banks	(89,189)	(71,622)	(68,696)	(59,083)
	201,819	**262,406**	**134,745**	**179,467**
Equity	297,711	259,963	178,482	156,792
Net debt-to-equity ratio	**67,79%**	**100,94%**	**75,50%**	**114,46%**

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	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Financial assets				
Cash and cash equivalents	89,189	71,622	68,696	59,083
Loans and receivables	403,521	441,180	256,750	263,976
Financial assets available for sale	-	1,141	-	941
Total financial assets	**492,710**	**513,943**	**325,446**	**324,000**
Financial liabilities				
Bank borrowings	289,794	332,285	203,041	237,774
Finance lease obligations	1,213	1,743	401	777
Other financial liabilities	359,922	322,642	303,955	283,109
Total financial liabilities	**650,929**	**656,670**	**507,397**	**521,660**

(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 /2018	31/12/ 2017	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017
EUR	56,061	46,218	346,913	343,965	(290,852)	(297,747)
USD	22,028	29,711	85,983	77,729	(63,955)	(48,018)
CHF	10	6	32	-	(22)	6
GBP	94	87	936	35	(842)	52

COMPANY	Assets		Liabilities		Assets – Liabilities	
	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017	31/12/ 2018	31/12/ 2017
EUR	39.544	39.740	316.066	326.587	(276.522)	(286.847)
USD	31.028	54.837	82.240	75.361	(51.212)	(20.524)
CHF	10	6	31	-	(21)	6
GBP	94	87	936	35	(842)	52

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

The following table details the Group's sensitivity to a 10% increase and decrease of the Croatian kuna against the relevant currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Board's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Croatian kuna strengthens 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	
	2018	2017	2018	2017	2018	2017
Profit / (loss)	(29,085)	(29,775)	(6,396)	(4,802)	(84)	(5)

COMPANY	EUR impact		USD impact		GBP impact	
	2018	2017	2018	2017	2018	2017
Profit / (loss)	(27,652)	(28,684)	(5,121)	(2,052)	(84)	(5)

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/ 2018	GROUP 31/12/ 2017	COMPANY 31/12/ 2018	COMPANY 31/12/ 2017
Ekupi d.o.o.	CROATIA	194,541	169,784	193,916	169,638
KING ICT D.O.O.	CROATIA	94,088	75,743	89,644	72,971
PEVEC d.d	CROATIA	45,640	62,546	45,641	62,546
Links d.o.o.	CROATIA	44,768	46,824	44,761	46,824
S&T Hrvatska d.o.o.	CROATIA	40,299	46,012	40,294	46,012
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERCEGOVINA	38,276	43,468	-	-
COMBIS d.o.o.	CROATIA	28,121	41,234	28,106	41,234
Comping d.o.o.	CROATIA	23,617	33,951	23,616	33,951
Mikronis d.o.o.	CROATIA	32,316	29,069	32,315	29,069
WIN WIN SHOP d.o.o.	SERBIA	16,977	34,472	-	-
GIGATRON d.o.o.	SERBIA	13,021	24,649	-	-
KIM TEC d.o.o. Beograd	SERBIA	-	-	212,196	198,232
KIM TEC d.o.o. Vitez	BOSNIA AND HERCEGOVINA	-	-	97,838	112,589
PAKOM KOMPANI SKOPJE	MACEDONIA	-	-	46,218	43,484
KIM TEC CG d.o.o	MONTENEGRO	-	-	41,800	39,578

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 2018 would have changed by HRK 228 thousand (31 December 2017: HRK 213 thousand), and the Group as of 31 December 2018 would have changed by HRK 352 thousand (31 December 2017: HRK 354 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 291.009 thousand (31 Decemebr 2017: HRK 334,028 thousand) and HRK 203,442 thousand (31 December 2016: 238,551 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 2018	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	444,977	-	-	257	-	445,234
Fixed-rate instruments	-	-	47,348	128	-	47,476
Total assets	**444,977**	**-**	**47,348**	**385**	**-**	**492,710**
Liabilities						
Non-interest bearing	359,922	-	-	-	-	359,922
Liabilities based on financial lease	52	105	472	584	-	1,213
Variable-rate instruments	4,347	33,979	135,072	77,885	38,511	289,794
Total liabilities	364,321	34,084	135,544	78,469	38,511	650,929
Net asset / (liabilities)	**80,656**	**(34,084)**	**(88,196)**	**(78,084)**	**(38,511)**	**(158,219)**

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)**

(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 2018	**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	285,180	-	-	257	-	285,437
Fixed-rate instruments	-	-	40,009	-	-	40,009
Total	**285,180**	**-**	**40,009**	**257**	**-**	**325,446**
Liabilities						
Non-interest bearing	309,954					303,954
Liabilities based on financial lease	15	29	131	225	-	400
Variable-rate instruments	3,714	27,428	89,659	82,242	-	203,043
Total	**307,683**	**27,457**	**89,790**	**82,467**	**-**	**507,397**
Net asset / (liabilities)	**(22,503)**	**(27,457)**	**(49,781)**	**(82,210)**	**-**	**(181,951)**

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	287,293	-	-	369	941	288,603
Fixed-rate instruments	-	-	35,398	-	-	35,398
Total	**287,293**	**-**	**35,398**	**369**	**941**	**324,001**
Liabilities						
Non-interest bearing	283,109	-	-	-	-	283,109
Liabilities based on financial lease	29	59	259	432	-	779
Variable-rate instruments	4,408	28,815	98,447	106,103	-	237,773
Total	**287,546**	**28,874**	**98,706**	**106,535**	**-**	**521,661**
Net asset / (liabilities)	**(253)**	**(28,874)**	**(63,308)**	**(106,166)**	**941**	**(197,660)**

(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 2018, 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 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	-	-	-
Group	-	-	-	-

At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale				
Company	-	941	-	**941**
Group	-	1,140	-	**1,140**

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	
	2018	**2017**	**2018**	**2017**
Within one year	11,963	16,486	2,479	4,820
1-5 years	6,378	18,315	2,924	6,052
After 5 years	-	-	-	-
Total	**18,341**	**34,801**	**5,403**	**10,872**

44. EVENTS AFTER THE BALANCE SHEET DAY

There were no subsequent events after 31 December 2018 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 5 to 99, were approved by the Management Board and authorised for issue on 17 May 2019.

Signed on behalf of the Management Board 17 May 2019 by:

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

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