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

Annual report
for the year ended 31 December 2019

This version of annual 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 annual report takes precedence over this translation

Content

Responsibility for the consolidated and unconsolidated financial statements

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

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

In preparing consolidated and unconsolidated financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and:
- financial statements are prepared under the going-concern assumption, unless going-concern assumption is not appropriate.

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

On behalf of the Management Board:

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

M San Grupa d.d.
Buzinski prilaz 10
10000 Zagreb
Republika Hrvatska

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

14 July 2020

MANAGEMENT REPORT

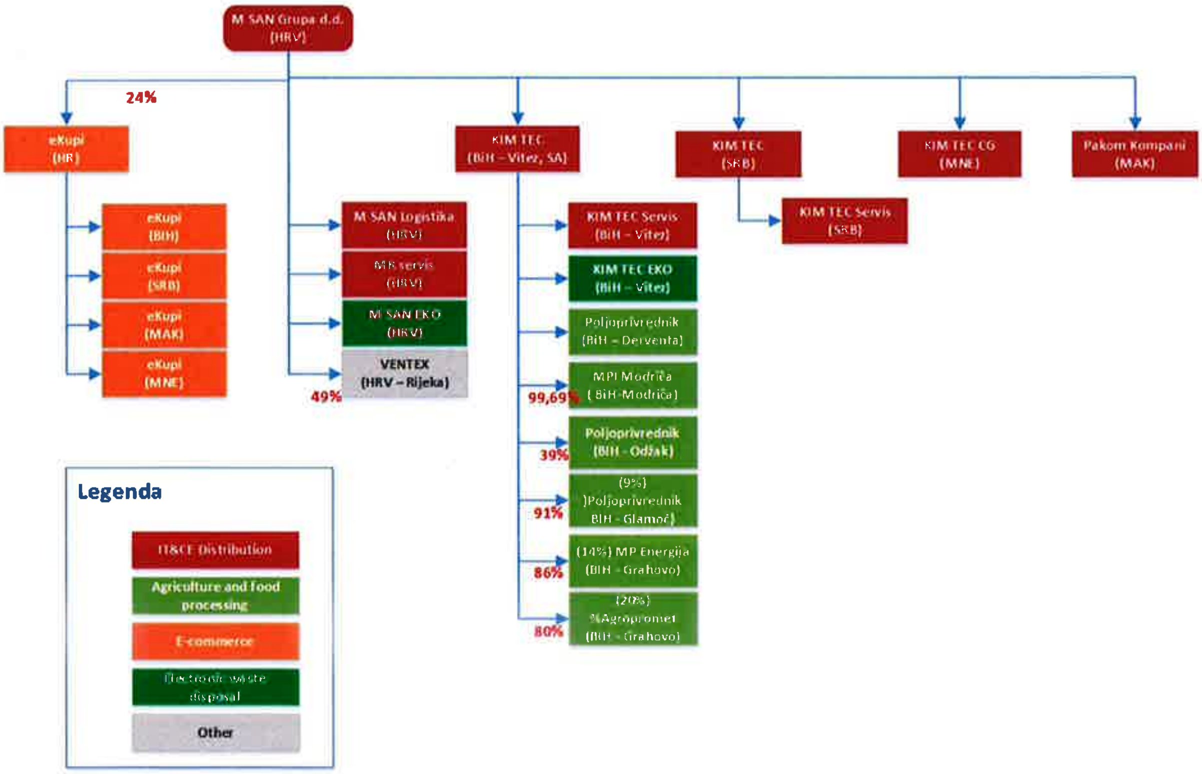
M SAN Grupa d.d. for computer production, trade and import-export based in Zagreb, Buzinski prilaz 10, represented by Mr. Miroslav Huzjak, MBS: 080157581, is registered at the Commercial Court of Zagreb in 1995. In 1997, the name M SAN d.o.o., and in 1997, it received its present name.

M SAN Grupa d.d. is the largest private IT company in the Republic of Croatia. Within M SAN Group, whose primary activity is the distribution of computer hardware, software and consumer electronics, companies in the region, Kim Tec Bosnia and Herzegovina, Kim Tec Serbia, Kim Tec Montenegro, Pakom Kompani Macedonia, and Ask Tec Kosovo, are also operating among others. Also owned by M SAN Grupa d.d. are companies in support of the group's operations – M SAN Logistics, MR Servis, Kim Tec Servis BIH, Kim Tec Servis Serbia.

Our mission. We provide maximum support to our partners by optimizing processes in the distribution chain to help them create a competitive advantage in the market.

Our vision. M SAN Group - a leader in distribution in every market region by all standards of modern business.

M SAN Grupa d.d. with its 22 affiliates forms a group that make their contribution within their business verticals. The company has no subsidiaries.



M SAN GROUP D.D. PRODUCT PORTFOLIO

M SAN Grupa d.d. is the leading distributor of IT products and consumer electronics for more than 60 of the world's most important manufacturers and has more than 15,000 premium products in its portfolio.
Among them stand out: Microsoft, Hewlett Packard, Samsung, Acer, Asus, IBM, LG Electronics Inc, Panasonic, Lenovo, Toshiba, Transcend, Western Digital...

M SAN Group market provides a wide range of quality products from which every user, business or private, can choose the product according to their preferences and capabilities.

M SAN Group logistics is among the most developed in the region, ensuring the rapid and accurate delivery of distributed products.

Figure 1 Principals M SAN Grupa d.d.

OWN BRANDS

M SAN Group also owns products under its own brands in its portfolio. By investing in production, distribution, marketing and development we have acquired a large number of satisfied partners and users. Own brands include: VIVAX in consumer electronics range, MS Industrial with an assortment of computer peripherals – from speakers, MP3 players and keyboards to housing and power, and MSGW with a wide range of desktop and AiO computer configurations.

Brand Vivax is a domestic product that has been on the Croatian market since 2004. Today, it offers more than 250 different products in its range. Vivax range consists of 6 product groups: Imago (LED TV, DVD), Cool (air conditioners), Home (small household appliances and whitegoods), Vox (audio, Hi-Fi), Smart (smartphones) and Tablets.

The company owns a line for the production of LED TV devices the size of a diagonal of up to 65" which takes place in its own premises in Rugvica. The production process has two levels of quality control, during production and after production which guarantees high stability and quality. Croatia, the regions and EU countries are the main markets to which M SAN Grupa market products from its production..

M SAN Group also has developed its own private brand of computer configuration – MSGW. All MSGW-branded computers are manufactured in M SAN's automated IT equipment manufacturing facility in Zagreb and have passed multiple levels of quality control tests to ensure superior quality of the finished products.
The Company has no research and development activities. All own brands go throughinternal procedures to determine the quality and satisfaction of the required functionalities before placing on the market.

HUMAN RESOURCES

During 2019, the Company had an average of 158 employees (2018: 150 employees) non-consolidated, i.e. an average of 634 employees (2018: 626 employees) consolidated. Business processes in M SAN Group are divided into four divisions: Consumer Electronics and Laptops, Enterprise, IT components and computers, and Own brands.
In order to increase the efficiency of the logistics and service business, wed out in separate companies M San Logistika d.o.o. and MR Servis d.o.o. which function as independent profit centers in the service of business support of distribution M SAN Grupa d.d.

ORGANIZATIONAL STRUCTURE, SALES CHANNELS, PARTNERS

M San Grupa d.d. is a shareholder company that does not compete on any stock exchange. The sole owner of the company is Mr. Stipo Matic, who is also the president of the assembly.
The Company does not have its own shares in the assets and does not implement a buyback program thereof.

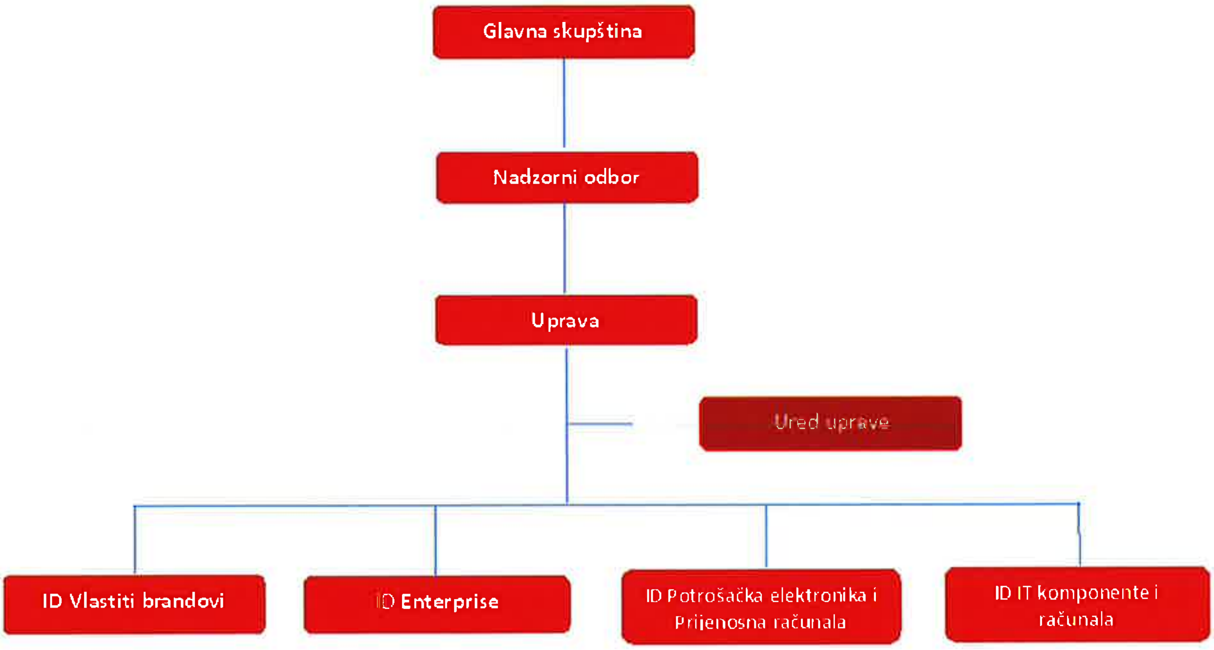


Figure 2 Organizational structure M SAN Grupa d.d.

The Supervisory Board shall form a three-member composition of which are members of:

Stipo Matic, Chairman of the Supervisory Board

Marko Rašić, Deputy Chairman of the Supervisory Board

Snježana Matic, Member of the Supervisory Board

The management of the company is responsible for the following members:

Miroslav Huzjak, CEO

Irena Langer Breznik, Vice-President

Žarko Kruljac, board member

Slaven Stipančić, board member,

Pavo Leko, board member

The organizational structure was created through four divisions whose leaders are also responsible for their divisions in regional member states. Divisions also make up four sales channels united through the motto "One company in several different markets!".

In the first quarter of 2020, the consumer electronics and laptop divisions and Components and Computers were merged into one operating division.

M SAN Grupa actively operates with more than 5,300 partners inside and outside Croatia. Sales channels are made up of department stores, IT and CE retail, and system integrators. In accordance with the sales channels within M SAN Group, internal sales teams according to product groups have also been developed. Through the 'Enterprise' sales segment M SAN Group provides high added value through specialist knowledge and complex IT solutions needed by specialized partners such as system integrators and the like.

M SAN Group continuously operates on active risk management through the diversification of the business to a large number of partners where the largest customer accounts for less than 2.80% of the company's total annual turnover.

M San Group invests significantly in sales channels of exports to third countries (countries in which there is no subsidiary) and thus the total share of exports to third parties is 9.9% in 2018. increased to 12.18% in 2019. Year.

M SAN Group in 2019

In 2019, M SAN Group achieved revenue growth of 7,43 % (unconsolidated) and 8,96 % (consolidated). The growth was achieved primarily in the IT distribution segment through increased sales of laptops and in the Vivax own brand segment. Significantly, the largest growth in sales of their own goods was achieved in foreign markets, primarily in countries within the EU.

In other segments of business that significantly affect total revenue and results, M SAN Group retained its existing high market share despite changes in the market caused by the arrival of foreign competition: by the takeover of Recro d.o.o. by Also Holding and RRC d.o.o. by Ingram Micro.

The company has made a strategic decision to exit the toy and baby equipment distribution segment. Despite relatively high margins, especially in relation to margins in the IT industry, the return on engaged capital is much slower and the estimate is that capital will be used more efficiently in existing distribution branches: IT, consumer electronics and Enterprise.

In 2019, the company invested significantly in business development. This is especially true of the Banja Luka office, which was opened with the aim of strengthening the business presence in Republika Srpska. Significant investments have also been made in the development of business tools, SAP business sofware and logistics operations as key activities for successful distribution management.

These investments and exit from the distribution of toys have led to a decrease in operating profit, the return expected in the coming period.

RISKS AND FINANCIAL INSTRUMENTS

Capital risk. The Group manages its capital to provide group entities with a timely resumption of operations, while also realizing the maximum possible return for interest parties through the optimization of the level and relationship between debt and equity.

Currency risk. Group and the Company perform certain transactions in foreign currency, and in this regard are exposed to the risks of changes in currency exchange rates.

Credit risk. Credit risk is the risk of non-payment or non-performance of contractual obligations by customers of the Group and the Company affecting the eventual financial loss of the Group and the Company. The Group and the Company have adopted procedures for dealing with customers through which they collect payment insurance instruments, wherever possible, in order to protect against possible financial risks and losses due to non-performance of payments and contractual obligations, and the company arranges a customer insurance policy in insurance. In addition to the insurance instruments taken by the company from customers and the agreed insurance policy, the credit risk is not potentially significant.

Interest rate risk. Due to the fact that the Company and The Group use fixed and variable interest rate loans, the Company and the Group are at risk of changing interest rates. At the group level, the ratio of fixed and variable interest rates is uniform, reducing this risk.

Liquidity risk. The ultimate responsibility for credit risk management rests with the Management Bord, which has set a quality framework for liquidity risk management for short, medium and long positions of the Company and defined requirements relaated to liquidity management.

Market risk. The market risk is that changes in market prices, exchange rates and interest rates will affect the Company's income, investment value or financial instruments. The objective of market risk management is to control market risk exposure within eligible values while optimising results. For market risk management, management has implemented a number of procedures and control mechanisms in procurement and sales procedures in the day-to-day operations of the division as well as the Company as a whole.

More detailed descriptions and analysis of risks can be found in the note 45 of the financial statements

PLANS AND EXPECTATIONS

In 2020, there will be 100,000 people in the united M SAN Group expected revenue and operating profit to rise but the pandemic of COVID-2019 coronavirus SARS-CoV-2 had a significant impact on the result and it is very difficult to predict the market movement and the effects on the pandemic that the pandemic will have by the end of the year..

The absence of major sporting events such as the European Football Championships and the Olympics certainly does not contribute to the increase in spending, nor does the postponement of the second wave of tv signal digitisation. However, it should be noted that in the first part of 2020, the Company recorded revenue growth of over 3% compared to previous year.It has also managed to maintain liquidity, which is an indication that despite its size, it is ready to adapt quickly to market developments.

It will continue to invest in SAP and other business tools, in the development of its own brands and logistics. The level of investment in employee development and education will continue to grow, as, despite the pandemic, quality and educated employees find jobs very easily in richer EU countries and more will be needed to invest in their retention and satisfaction at work.

Signed on behalf of the Management Bord on July 14, 2020:

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

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

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the owner of company and group M san Grupa d.d., Zagreb

Opinion

We have audited the financial statements of company M san Grupa d.d., Zagreb (the „Company") and its subsidiaries (together the „Group") which comprise the statement of financial position of the Company and Group as at 31 December 2019, statement of comprehensive income of the Company and Group, statement of changes in equity of the Company and Group and statement of cash flows of the Company and Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter „financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and Group as at 31 December 2019, 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 Company and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Company and Group, but does not include the financial statements of the Company and Group and our auditor's report.

Our opinion on the financial statements of the Company and Group 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. With respect to the Management Report of the Company and Group included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report of the Company and Group include required disclosures as set out in Article 21 and Article 24 of the Accounting Act.

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.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Directors: Marina Tonžetić and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/hr/about to learn more about our global network of member firms.

© 2020. For information, contact Deloitte Croatia.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

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

1. Information included in the other information is, in all material respects, consistent with the attached financial statements.
2. Management Report has been prepared, in all material respects, in accordance with Article 21 and Article 24 of the Accounting Act.

Based on the knowledge and understanding of the Company and Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company and Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group 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 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.

Marina Tonžetić
Director

For signature please refer to the original Croatian version.

Domagoj Vuković
Certified auditor

Deloitte d.o.o.

Zagreb, 14 July 2020
Radnička cesta 80,
10 000 Zagreb,
Croatia

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.

Consolidated statement of comprehensive income
For the year ended 31 December 2019
(all amounts are expressed in thousands of kunas)

	Notes	2019	2018
OPERATING INCOME			
Sales	5	2,440,569	2,239,884
Cost of goods sold	8	(2,143,442)	(1,919,809)
Gross profit		**297,127**	**320,075**
Other operating income	6	14,106	14,075
Increase in inventories of finished goods and work in progress		5,168	(335)
OPERATING EXPENSES			
Cost of raw material and supplies	7	(38,441)	(43,380)
Other external charges	9	(121,253)	(121,971)
Staff costs	10	(75,894)	(74,142)
Depreciation and amortisation	11	(8,938)	(8,848)
Other expenses	12	(17,430)	(15,706)
Impairment allowance	13	(949)	(724)
Provisions for risks within the warranty period	34	(2,114)	(2,526)
Other operating expenses	14	(2,377)	(3,937)
Total operating expenses		**(267,396)**	**(271,234)**
Operating profit		**49,005**	**62,581**
FINANCIAL INCOME AND EXPENSES			
Financial income	15a	8,322	22,736
Financial expenses	15b	(27,321)	(37,687)
Net financial expense		**(18,999)**	**(14,951)**
Share in profit from investments calculated using the equity method	16	255	(1,708)
Profit before tax		**30,261**	**45,920**
Income tax	17	(7,291)	(7,972)
Profit for the year		**22,970**	**37,949**
Profit for the year from discontinued operations	47	**91**	**-**
Profit for the year	5	**23,061**	**37,949**
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		1,751	(2,413)
Total comprehensive income for the year		**24,812**	**35,536**
Profit attributable to:			
Equity holders of the Company		23,498	39,067
Non-controlling interests		(437)	(1,118)
		23,061	**37,949**
Total comprehensive income attributable to:			
Equity holders of the Company		25,303	36,656
Non-controlling interest		(491)	(1,120)
		24,812	**35,536**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of financial position
At 31 December 2019
(all amounts sre expressed in thousands of kunas)

ASSETS	Notes	31 December 2019	31 December 2018
NON-CURRENT ASSETS			
Intangible assets	18	10,526	7,209
Goodwill	19	45,903	45,898
Property, plant and equipment	20	155,619	143,640
Right-of-use asset	21	1,754	-
Financial assets	22	64,264	64,072
Given deposits and loans		1,628	1,628
Long-term receivables		395	257
Deferred tax assets	17	316	322
TOTAL NON-CURRENT ASSETS		**280,405**	**263,026**
CURRENT ASSETS			
Inventories	23	237,455	224,892
Trade receivables	25	318,940	339,182
Prepayments made	24	17,248	7,797
Receivables from employees		145	103
Receivables from the State and other institutions	26	9,206	8,575
Given loans and deposits	27	50,143	45,848
Prepaid expenses and accrued income	28	7,908	8,490
Other receivables	29	13,756	8,706
Cash and cash equivalents	30	93,828	89,189
TOTAL CURRENT ASSETS	18	**748,629**	**732,782**
TOTAL ASSETS		**1,029,034**	**995,808**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of financial position (continued)
At 31 December 2019
(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2019	31 December 2018.
EQUITY			
Share capital	31	97,000	97,000
Legal reserves		6,634	6,452
Reservs from exchange of foreign currencies		(6,956)	(8,761)
Retained earnings	32	220,963	201,052
ATTRIBUTABLE TO THE EQUITY		**317,641**	**295,743**
Non-controlling interest	33	(420)	1,968
TOTAL EQUITY		**317,221**	**297,711**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	34	3,064	2,793
Long-term borrowings and finance lease obligations	35	139,152	116,981
Liabilities for property with the right of use	37	1,639	-
Long-term trade payables		3	10
Accrued tax liabilty	17	325	249
TOTAL NON-CURRENT LIABILITIES		**144,183**	**120,033**
KRATKOROČNE OBVEZE			
Short-term bank borrowings and finance lease obligations	36	144,229	174,027
Current portion of long-term liabilities for right-of-use asset	37	148	-
Advances received	38	6,266	1,885
Trade payables	39	355,993	344,928
Amounts due to employees		4,726	4,664
Taxes, contributions and similar duties payable	40	24,303	32,752
Liabilities based on profit sharing		1,000	-
Factoring liabilities	41	24,607	5,945
Other current liabilities	42	908	2,500
Accrued expenses and deferred income	43	5,449	11,363
TOTAL CURRENT LIABILITIES		**567,629**	**578,064**
TOTAL EQUITY AND LIABILITIES		**1,029,034**	**995,808**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of changes in shareholder's equity
For the year ended 31 December 2019
(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Foreign currency translation reserves	Retained earnings	Equity holders of the parent	Non-controlling interest	Total
Balance at 1 January 2018	**97,000**	**6,435**	**(6,353)**	**162,005**	**259,087**	**876**	**259,963**
Transfer of profit	-	20	-	(20)	-	-	-
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**
Transfer of profit	-	182	-	(182)	-	-	-
Decrease of non-controlling interest for additionally purchased shares	-	-	-	1,896	1,896	(1,896)	-
Retained earnings payment	-	-	-	(5,000)	(5,000)	-	**(5,000)**
Sale of related Company	-	(1)	-	(301)	(302)	-	**(302)**
Profit for the year	-	-	-	23,498	23,498	(437)	**23,061**
Other comprehensive loss	-	1	1,805	-	1,806	(55)	**1,751**
Total comprehensive income for the year	-	*1*	1,805	*23,498*	*25,304*	*(492)*	***24,812***
Balance at 31 December 2019	**97,000**	**6,634**	**(6,956)**	**220,963**	**317,641**	**(420)**	**317,221**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of cash flows
For the year ended 31 December 2019
(all amounts are expressed in thousands of kunas)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		22,970	37,949
Adjusted by:			
Income tax	17	7,291	7,972
Depreciation of property, plant and eqipment and intangible assets	11	8,938	8,848
Impairment of intangible assets	13	393	159
Impairment allowance and write-off of trade receivables	13	553	551
Net (gain) / loss from reversal of long term provisions		238	581
Net interest expense	15b	8,968	12,336
Net foreign exchange profit		1,291	(4,220)
		50,642	**64,176**
CHANGES IN WORKING CAPITAL			
Decrease / (increase) in given deposit		-	(15)
(Increase) / decrease in inventory		(12,564)	(12,865)
(Increase) / decrease in trade receivables		19,551	(6,863)
(Increase) / decrease in given advances		(9,451)	5,644
Decrease in other receivables		(8,963)	13,109
Increase in prepaid expenses and accrued income		582	(5,706)
Increase / (decrease) in received advances		4,381	(1,780)
Increase / (decrease) in trade payables		11,065	33,346
Increase in other current liabilities		5,361	3,592
Increase in accrued expenses and deferred income		(5,914)	4,809
CASH GENERATED FROM OPERATIONS		**54,690**	**97,447**
Interests paid		(1,167)	(9,506)
Income taxes paid		(8,123)	(8,077)
Net cash generated from operating activities		**45,400**	**79,864**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(24,722)	(9,196)
Interests collected		1,203	3,392
Cash expenditure for shares in related companies			
Cash expenditure for shares in joint companies		(192)	(14,880)
Decrease of financial assets available for sale and bonds held to maturity		-	1,140
Change in given loans		(4,294)	27,312
Net cash used in from investing activities		**(28,005)**	**(22,358)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		333,298	161,769
Payments made to financial institutions		(342,053)	(201,708)
Profit payment		(4,000)	-
Net cash used in financing activities		**(12,755)**	**(39,939)**
Net decrease in cash and cash equivalents		**4,640**	**17,567**
Cash and cash equivalents at the beginning of the year	30	**89,189**	**71,622**
Cash and cash equivalents at the end of year	30	**93,828**	**89,189**

Accounting policies and notes are integral part of these financial statement

Unconsolidated statement of comprehensive income
For the year ended 31 December 2019
(all amounts are expressed in thousands of kunas)

	Notes	2019	2018
OPERATING INCOME			
Sales	5	1,880,801	1,750,740
Cost of goods sold	8	(1,717,053)	(1,574,889)
Gross profit		**163,748**	**175,851**
Other operating income	6	6,692	6,286
Increase / (decrease) in value of inventories of work in progress and finished goods		3,648	-
OPERATING EXPENSES			
Cost of raw material and supplies	7	(7,067)	(5,747)
Other external charges	9	(85,842)	(93,336)
Staff costs	10	(26,430)	(25,189)
Depreciation and amortisation	11	(3,668)	(4,499)
Other expenses	12	(7,666)	(6,674)
Impairment allowance	13	(393)	(226)
Provisions for risks within the warranty period	34	(1,167)	(1,505)
Other operating expenses	14	(1,218)	(3,117)
Total operating expenses		**(133,451)**	**(140,293)**
OPERATING PROFIT		**40,637**	**41,844**
FINANCIAL INCOME AND EXPENSES			
Financial income	15 a	8,038	19,936
Financial expenses	15 b	(23,811)	(34,602)
Net financial expense		**(15,773)**	**(14,666)**
Profit before tax		24,864	27,178
Income tax	17	(5,075)	(5,488)
PROFIT FOR THE YEAR	5	**19,789**	**21,690**
OTHER COMPREHENSIVE PROFIT		-	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**19,789**	**21,690**

Accounting policies and notes are integral part of these financial statement

Unconsolidated statement of financial position
At 31 December 2019
(all amounts are expressed in thousands of kunas)

ASSETS	Notes	31 December 2019	31 December 2018
NON-CURRENT ASSETS			
Intangible assets	18	10,314	6,999
Property, plant and equipment	20	15,401	14,734
Investments in associates	22	170,154	227,207
Given deposits and loans		1,500	1,500
Long-term receivables		235	257
Deferred tax assets	17	135	135
TOTAL NON-CURRENT ASSETS		**197,739**	**250,832**
CURRENT ASSETS			
Inventories	23	150,416	136,434
Trade receivables	25	184,412	205,170
Prepayments made	24	14,589	3,057
Receivables from employees		73	61
Receivables from the State and other institutions	26	5,943	5,088
Given loans and deposits	27	43,510	38,509
Prepaid expenses and accrued income	28	212	2,303
Receivables based on capital reduction and other receivables	29	65,756	8,193
Cash and cash equivalents	30	68,003	68,696
TOTAL CURRENT ASSETS	18	**532,914**	**467,511**
TOTAL ASSETS		**730,653**	**718,343**

Accounting policies and notes are integral part of these financial statement

(all amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES	Notes	31 December 2019	31 December 2018
EQUITY			
Share capital	31	97,000	97,000
Legal reserves		6,203	6,203
Retained earnings	32	90,068	75,279
TOTAL EQUITY		**193,271**	**178,482**
NON-CURRENT LIABILITIES			
Provisions for risks within the warranty period	34	1,167	1,505
Long-term borrowings and finance lease liabilities	35	96,798	82,467
TOTAL NON-CURRENT LIABILITIES		**97,965**	**83,972**
CURRENT LIABILITIES			
Short-term bank borrowings	36	91,204	120,974
Advances received	38	4,302	682
Trade payables	39	304,778	299,451
Amounts due to employees		1,658	1,378
Taxes, contributions and similar duties payable	40	20,561	24,436
Liabilities from profit sharing		1,000	-
Factoring liabilities	41	12,232	-
Other current liabilities	42	778	2,445
Accrued expenses and deferred income	43	2,904	6,523
TOTAL CURRENT LIABILITIES		**439,417**	**455,889**
TOTAL EQUITY AND LIABILITIES		**730,653**	**718,343**

Accounting policies and notes are integral part of these financial statement

(all amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2018	**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**
Profit payment	-	-	(5,000)	(5,000)
Profit for the year	-	-	19,789	19,789
Total comprehensive loss	-	-	*19,789*	*19,789*
Balance at 31 December 2019	**97,000**	**6,203**	**90,068**	**193,271**

Accounting policies and notes are integral part of these financial statement

Unconsolidated statement of cash flows
For the year ended 31 December 2019
(all amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2019	2018
Profit for the year		19,789	21,690
Adjusted by:			
Income tax	17	5,075	5,488
Depreciation of property, plant and equipment and intangible assets	11	3,668	4,499
Impairment of intangible assets	13	393	159
Value adjustment and write-off of trade receivables	13	-	67
Net loss / (gain) from reversal of long term provisions		(338)	(14)
Net interest expense	15a, 15b	6,709	10,080
Net foreign exchange profit		800	(1,963)
		36,096	**40,007**
CHANGES IN WORKING CAPITAL			
Increase in inventory		(13,982)	(10,344)
Decrease / (increase) in trade receivables		20,780	8,091
Decrease in given advances		(11,531)	4,142
Decrease in other receivables		(497)	1,873
Increase in prepaid expenses and accrued income		2,091	(1,443)
Decrease / (increase) in received advances		3,620	(1,835)
Increase in trade payables		5,327	20,786
Decrease in other current liabilities		3,408	(552)
Increase / (decrease) in accrued expenses and deferred income		(3,619)	3,886
CASH GENERATED FROM OPERATIONS		**41,693**	**64,611**
Interests paid		(5,197)	(8,408)
Income taxes paid		(5,118)	(6,162)
Net cash generated from operating activities		**31,378**	**50,041**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18,20	(8,072)	(5,132)
Interests collected		1,217	1,472
Decrease of financial assets available for sale and bonds held to maturity	22	-	941
Change in given loans		(5,001)	(4,611)
Net cash used in from investing activities		**(11,856)**	**(7,330)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from credit institution		66,522	-
Repayments to financial institutions		(82,737)	(33,098)
Profit payment		(4,000)	-
Net cash used in financing activities		**(20,215)**	**(33,098)**
Net increase / (decrease) in cash and cash equivalents		**(693)**	**9,613**
Cash and cash equivalents at the beginning of the year		**68,696**	**59,083**
Cash and cash equivalents at the end of year	30	**68,003**	**68,696**

Accounting policies and notes are integral part of these financial statement

(all amounts are expressed in thousands of kunas)

1. OPĆI PODACI

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.

Management Board in 2019 and 2018:

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 2019 and 2018:

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

Subsidiaries

		Ownership In %		
Name of related party	***Country***	***2019***	***2018***	***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 AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective for the current period

The following new standards and amended existing standards issued by the International Accounting Standards Board and interpretations published by the International Accounting Standards Board ("IASB") and adopted by the European Union are effective for the current reporting period:

- **IFRS 16 „Leases",** adopted by the EU 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 EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (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 – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019.).

The adoption of these amendments to existing standards and interpretations did not lead to significant changes in the Company's financial statements except in the application of IFRS 16.

Impact of initial application of IFRS 16 Leases

Impact of the new definition of a lease

The Company and the Group have made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company and Group apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company and the Group account for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Company and the Group:

- Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the cash flow statement.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in statement of profit or loss.

The Company and the Group have used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases in accordance with IAS 17.

- The Company and the Group have applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company and the Group have adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Company and the Group have elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company and the Group have excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company and the Group have used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.
- The Group recognised amounts of right-to-use assets and lease liabilities in the same amount on the date of first application.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Impact on Lessee Accounting(continued)

(i) Former finance leases(continued)

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company and the Group has elected to apply the low-value lease recognition exemption. The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

Leases

The Company and the Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately in note 3 e).

Standards and amendments to 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 amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Company and the Group have chosen not to apply the new standards, amendments to existing standards and interpretations prior to their effective date.

The Company and the Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

- **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"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that 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).

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 (IFRS).

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.

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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. Where appropriate, the entire carrying amount of an interest, including goodwill, is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount, which is the higher of its fair value and fair value less costs to sell, with its book value. Any recognized impairment loss is included in the carrying amount of the interest. An impairment loss is reversed in accordance with IAS 36 to the extent of a subsequent increase in the recoverable amount of the interest.

Upon loss of control, the Group derecognises the assets of an associate or joint venture, shares in non-controlling interests and other elements of equity and reserves relating to the associates or joint ventures. Any surplus or deficit arising from the cessation of control is recognized in the income statement. If the Group retains an interest in an associate or joint venture, that interest is stated at fair value at the date that control ceases. Thereafter, it is accounted for as an investment that is measured using the equity method or in accordance with the Group's accounting policy for financial instruments, depending on the level of retained influence.

In addition, the Group recognizes all amounts previously recognized in other comprehensive income relating to the associate or joint venture that are no longer accounted for using the equity method on the basis that would have been true if the associate or joint venture had sold the related assets or related liabilities directly. Therefore, upon termination of the equity method, the Group transfers the profit or loss that the associate or joint venture previously reported in other comprehensive income and then transfers to profit or loss after disposal of the related assets or liabilities from equity (as a reclassification adjustment) to profit and loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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 is 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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (accounting policy until 31 December 2018)

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.
The Company and the Group assess whether this is a lease agreement or whether the agreement contains a lease, at the beginning of the agreement. The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets, below HRK 30 thousand (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (accounting policy from 1 January 2019*)*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate,

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company and the Group did not make any such adjustments during the periods presented. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (accounting policy from 1 January 2019) *(continued)*

Right-of-use assets are depreciated over the shorter lease period term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company and the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

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.

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 2019 and 2018 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2019	Average exchange rate for 2019	31/12/2018	Average exchange rate for 2018
RSD	15,84082	15,86919	15,93982	15,94507
KM	0,26279	0,26370	0,26367	0,26379
MKD	8,26641	8,29663	8,30235	8,30289
EUR	7,442580	7,416821	7,417575	7,414231

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies(continued)

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).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(all amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

ii) 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 used in the production or delivery of goods or services or for administrative purposes are presented in the consolidated and unconsolidated statement of financial position at historical cost, less accumulated depreciation and impairment losses.

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.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance represent an expense in the income statement in the period in which they are incurred.

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

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

	Depreciation rates
Buildings	2,50-3,00%
Electronic equipment and software	25-50%
Equipment	10-40%
Personal cars	20-40%
Vehicles (other than personal cars)	25-50%
Furniture and office equipment	20-50%

On land owned no depreciation rate is applied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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%

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

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

Trade receivables and given advances

Trade receivables are initialy recognised at fair value and subseqently at depreciation cost less any impairment. The Company presents provisions for losses on trade receivables in the amount equal to lifelong expected credit losses (ECL). Expected credit losses are estimates of the weighted possibilities of credit losses. Credit losses are measured as the present value of all cash losses (the difference between the cash flows to which the Company is entitled under the contract and the cash flows that the Company expects to actually receive). Expected credit losses are discounted at the effective interest rate of the corresponding financial assets. Expected credit losses on trade receivables are estimated based on the matrix, taking into account the historical experience of the debtor's default status, and an analysis of the debtor's current financial position.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Classification of financial assets

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets at amortized cost

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows; and
- The contractual terms of a financial asset represent cash flows that are solely principal and interest payments (SPPI), at specific dates.

This category includes: given loans and deposits, trade receivables, cash and cash equivalents and placements with banks.

Financial assets at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- the purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets represent cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Group may irrevocably decide to recognize subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets at fair value through profit or loss

All other financial assets are classified as financial assets at fair value through profit or loss.

In addition, on initial recognition, the Group may irrevocably measure financial assets at fair value through profit or loss, although it meets the requirements for measurement at amortized cost or at fair value through other comprehensive income, if this eliminates or significantly diminishes accounting inconsistencies that would otherwise arose.

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.

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 and the Group).

Irrespective of the above analysis, the Company and the Group considers that default has occurred when a financial asset is more than 30 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. S SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments(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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting judgements and estimates(continued)

(b) Impairment allowance on trade receivables

For credit exposures for which there has been no significant increase in credit risk since initial recognition, expected credit losses are recognized for credit losses arising from the probability of default in the next 12 months. For credit exposures where there has been a significant increase in credit risk since initial recognition, an adjustment is required for expected credit losses over a lifetime, regardless of the borrowing time. For trade receivables and contractual assets, the Group applies a simplified approach in the calculation of expected credit losses and therefore does not monitor changes in credit risk but recognizes an allowance based on life expectancy at the end of each reporting period.

Expected credit losses on trade receivables are estimated based on the matrix, taking into account the historical experience of the occurrence of the default status of the debtor and the analysis of the debtor's current financial position.

In assessing expected credit losses, the Group considers reasonable and corroborating information that is relevant and available. This includes quantitative and qualitative information and analysis, based on the Group's historical experience and an assessment of creditworthiness, including information relating to the future. The value adjustment of receivables which are at risk in terms of collection certainty is debited to the profit and loss in the current year.

(c) Provision for warranty risk

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

(d) Evaluation of Impairment of goodwill

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

(all amounts are expressed in thousands of kunas)

4. BUSINESS INFORMATION BY GEOGRAPHICAL AREAS

As of 31 December 2019, 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. The presented sales comprise sales to third parties, intra-segment sales and other sales.

Group segment revenue and results

2019	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	1,967,778	289,304	417,638	93,844	86,401	2,854,965	(414,396)	2,440,569
Cost of goods sold less supplier discounts and allowances	(1,751,284)	(246,937)	(370,543)	(82,539)	(73,244)	(2,524,547)	381,105	(2,143,442)
Changes in inventory	3,649	1,003	-	-	-	4,652	516	5,168
Other operating income	15,544	2,747	1,331	135	113	19,870	(5,764)	14,106
Other operating expenses	(199,381)	(43,304)	(43,568)	(9,375)	(9,911)	(305,539)	38,143	(267,396)
Profit from operations	36,306	2,813	4,858	2,065	3,359	49,401	(396)	49,005
Net finance expenses	(16,114)	(1,583)	(646)	(426)	(135)	(18,904)	160	(18,744)
Profit before taxes	20,192	1,230	4,212	1,639	3,224	30,497	(236)	30,261

(all amounts are expressed in thousands of kunas)

4. BUSINESS INFORMATION BY GEOGRAPHICAL AREAS (CONTINUED)

Pr Group segment revenue and results (continued)

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**

Segment assets and liabilities

2019	Croatia	Bosnia and Herzegovina	Serbia	Monte -negro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	31,194	113,526	24,318	1,356	580	170,974	46,477	217,451
Other non-current assets	172,024	55,326	419	-	287	228,056	(161,454)	66,602
Current assets	535,442	144,517	105,875	28,371	27,913	842,118	(97,137)	744,981
Total assets	**738,660**	**313,369**	**130,612**	**29,727**	**28,780**	**1,241,148**	**(212,114)**	**1,029,034**
Long term liabilities	98,732	16,510	27,255	-	49	142,546	1,639	144,185
Short term liabilities	457,017	158,989	35,112	12,501	3,445	667,064	**(99,436)**	567,628
Total liabilities	**551,086**	**175,499**	**62,367**	**12,501**	3,494	804,947	**(96,132)**	**711,815**

(all amounts are expressed in thousands of kunas)

4. BUSINESS INFORMATION BY GEOGRAPHICAL AREAS (CONTINUED)

Segment assets and liabilities (continued)

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**

5. SALES

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Domestic sales of goods	2,145,937	1,989,364	1,308,604	1,199,627
Foreign sales of goods	248,066	213,919	455,414	437,874
Service provision	65,537	67,430	30,057	27,999
Income from the sale of licences	2,487	6,362	-	4,501
Sales of spare parts	18,428	7,822	-	-
Re-export sales	10,387	3,816	135,560	136,792
Other	2,999	7,823	406	497
Allowances and discounts provided to customers	(53,272)	(56,652)	(49,240)	(56,550)
Total	**2,440,569**	**2,239,884**	**1,880,801**	**1,750,740**

(all amounts are expressed in thousands of kunas)

5. SALES (CONTINUED)

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

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Croatia	1,330,447	1,219,602	1,326,324	1,222,107
Serbia	410,455	406,288	198,041	212,238
Bosnia and Herzegovina	272,100	276,284	86,431	99,637
Montenegro	94,075	69,041	37,463	41,758
Macedonia	73,586	66,227	48,653	46,219
Poland	40,089	22,129	39,137	19,978
Slovenia	30,257	29,811	30,157	26,970
Cezch Republic	28,098	11,631	25,772	8,184
Austria	25,376	16,641	3,747	4,331
Netherlands	21,238	3,489	20,710	2,449
Singapore	19,635	9,480	106	172
Slovakia	18,573	23,473	18,573	23,353
Kosovo	17,619	24,676	12,267	15,848
Germany	14,878	26,458	14,808	22,310
Bulgaria	11,347	2,133	5,884	2,105
Albania	9,712	18,969	1,610	2,083
Hungary	8,102	17,978	8,101	17,598
Great Britain	7,989	5,208	7,469	4,728
Lithuania	7,738	2,041	7,738	2,036
SAD	7,121	901	6,862	722
Romania	6,966	6,185	6,966	6,157
Switzerland	4,857	4,342	3,779	3,777
Italy	4,813	2,561	4,352	841
Switzerland	3,568	6,528	3,558	6,505
Armenia	2,072	-	2,072	-
Ireland	2,494	1,208	2,181	1,149
Denmark	1,565	6,969	1,566	6,929
United Arab Emirates	1,830	75	1,830	75
Estonia	1,805	5,261	1,805	5,260
France	1,701	1,394	1,596	1,286
Other	13,735	9,553	483	485
Total	**2,493,841**	**2,296,536**	**1,930,041**	**1,807,290**

(all amounts are expressed in thousands of kunas)

6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2019	2018	2019	2018
Income from approval of suppliers	3,210	3,207	-	-
Income from long-term provision (note 33)	1,876	2,052	1,505	1,519
Income from free receipts	5,812	4,978	4,873	4,096
Income from incentives and subsidies	474	963	-	-
Income from sale of fixed assets	194	195	83	80
Income from approval of suppliers on the basis of warranty services	146	275	-	-
Income from collected bad and doubtful receivables from customers	177	108	19	39
Income from write-off of trade payables	7	19	-	-
Inventory surpluses	81	88	42	45
Income from the use of own products	1,023	-	-	-
Other operating income	1,106	2,190	170	507
Total	**14,106**	**14,075**	**6,692**	**6,286**

The total recognized revenue of the group in accordance with International Financial Reporting Standard 15 amount to HRK 2,441,120 thousand (2018: HRK 2,235,738 thousand). The total recognized revenue of the group from performance obligations at point in time amount to HRK 2,437,764 thousand (2018: HRK 2,232,256 thousand). Total recognized revenue from performance obligations over time amounts to HRK 3,356 thousand (2018: HRK 3,482 thousand).

The company's total recognized income in accordance with International Financial Reporting Standard 15 amounts to HRK 1,880,478 thousand (2018: HRK 1,750,323 thousand). The total recognized revenue of the company from performance obligations at point in time amount to HRK 1,880,478 thousand (2018: HRK 1,750,323 thousand). Total recognized revenue from performance obligations over time amounts to HRK 0 thousand (2018: HRK 0 thousand).

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2019	2018	2019	2018
Cost of spare parts	16,930	21,825	-	-
Basic and auxiliary materials, and office supplies	5,844	8,751	1,475	2,359
Energy and fuels for freight and personal vehicles	5,306	4,437	578	531
Small inventory, packaging and tires	3,020	2,553	1,173	933
Servicing, replacement and repair costs under warranty	5,794	4,684	3,841	1,924
Ullage, spillage, breakage of raw materials and supplies	-	1	-	-
Inventory shortage	4	6	-	-
Cost of materials and spare parts for equipment maintenance	1,543	1,123	-	-
Total	**38,441**	**43,380**	**7,067**	**5,747**

(all amounts are expressed in thousands of kunas)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Cost of goods sold	2,301,258	2,050,177	1,843,878	1,680,076
Ullage, spillage, breakage	1,968	2,096	1,246	1,146
Cost of real estate for resale	502	277		722
Excessive shortages in inventories	79	73	-	-
Other cost of goods sold	5	722	3	23
Allowances and discounts provided by suppliers	(160,370)	(133,536)	(128,074)	(107,079)
Total	**2,143,442**	**1,919,809**	**1,717,053**	**1,574,889**

9. OTHER EXTERNAL EXPENSES

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Business premise and equipment rental costs	21,261	21,685	6,055	5,379
Guarantee extension costs	3,683	10,603	1,932	8,104
Licences for intellectual property	10,520	13,245	7,682	10,732
Telephone and transportation costs	17,088	14,531	22,200	18,423
Costs of the Support Office and bookkeeping services	20,898	18,927	16,396	15,555
Marketing, sponsorships and fairs	14,171	11,815	5,223	4,705
Municipal utility fees and economic ownership	7,700	7,575	6,408	6,131
Maintenance and repairs	5,479	4,361	1,476	701
Entertainment	5,978	6,657	3,406	2940
Intelectual services	2,013	2,129	796	1,168
Outsourced repair of faulty goods under warranty period	1,140	846	3,314	3,151
Other external services	11,322	9,597	10,954	16,347
Total	**121,253**	**121,971**	**85,842**	**93,336**

Support Office costs relate to accounting and administrative services.

(all amounts are expressed in thousands of kunas)

10. STAFF COSTS

	GROUP		COMPANY	
	2019	2018	2019	2018
Net salaries	47,277	46,094	15,935	15,069
Taxes, surtaxes and contributions out of salaries	18,631	18,364	7,356	6,923
Contributions on salaries	9,986	9,684	3,139	3,197
Total	**75,894**	**74,142**	**26,430**	**25,189**

The Group had an average of 634 employees in 2019 (2018: 626). The Company had an average of 158 employees in 2019 (2018:150).

11. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2019	2018	2019	2018
Depreciation	7,331	7,124	2,066	2,785
Amortisation	1,607	1,724	1,602	1,714
Total	**8,938**	**8,848**	**3,668**	**4,499**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2019	2018	2019	2018
Insurance premiums for equipment, vehicles and inventories	2,747	2,781	1,389	1,433
Bank and payment operation charges	2,257	2,250	1,214	1,264
Commutation allowance	2,302	2,344	691	651
Professional training and literature	2,105	1,517	1,561	1,090
Per diems and other business travel costs	2,190	1,728	672	632
Forest levies, other contributions and membership fees	1,276	1,189	706	688
Taxes independent of the operating result	521	814	24	12
Christmas allowance, children's gifts, awards	1,553	839	949	444
Other expenses	2,479	2,244	460	460
Total	**17,430**	**15,706**	**7,666**	**6,674**

(all amounts are expressed in thousands of kunas)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Impairment allowance on trade receivables	553	551	-	67
Impairment allowance on intangible assets	393	159	393	159
Impairment allowance on Inventories	3	14	-	-
Total	**949**	**724**	**393**	**226**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Donations	867	932	858	920
Fines	273	17	218	-
Written-off trade receivables	408	2,205	91	2,051
Other operating expenses	829	783	51	146
Total	**2,377**	**3,937**	**1,218**	**3,117**

15. a FINANCIAL INCOME

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Interest income	2,562	3,376	2,288	2,786
Foreign exchange gains	5,452	14,057	5,616	16,758
Revenue from sales of shares in related parties	34	16	-	16
Badwill	-	1,153		
Share of profits of associates	118	3,638	-	-
Other financial income	156	496	134	376
Total	**8,322**	**22,736**	**8,038**	**19,936**

(all amounts are expressed in thousands of kunas)

15.b FINANCIAL EXPENSES

	GROUP		COMPANY	
	2019	2018	2019	2018
Interest expense	11,530	15,712	8,759	12,009
Foreign exchange losses	10,931	17,900	11,149	19,553
Bank guarantees fees	1,916	2,205	1,608	1,822
Loan origination costs	1,639	799	1,430	626
Factoring fees	1,305	967	865	486
Permanent impairment of financial assets available for sale	-	105	-	106
Total	**27,321**	**37,687**	**23,811**	**34,602**

16. SHARES PROFIT FROM INVESTMENTS CALCULATED BY THE SHARE METHOD

	GROUP		COMPANY	
	2019	2018	2019	2018
Income from profit attribution from associates	514	226	238	857
Expenses from loss attributions from associates	(259)	(1,934)	-	-
Ukupno	**255**	**(1,708)**	**238**	**857**

17. INCOME TAX

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

	GROUP		COMPANY	
	2019	2018	2019	2018
Current tax	7,209	7,686	5,075	5,488
Deferred tax	82	286	-	-
Income tax expense	**7,291**	**7,972**	**5,075**	**5,488**

Current tax

	GROUP		COMPANY	
	2019	2018	2019	2018
Accounting profit before tax	30,496	45,921	24,864	27,178
Items increasing the profit / decreasing the loss	9,667	5,872	3,676	3,523
Items decreasing the profit / increasing the loss	(474)	(812)	(345)	(212)
Tax base	**39,689**	**50,981**	**28,195**	**30,489**
Use of tax loss	-	(697)	-	-
Taxable profit	**39,689**	**50,284**	**28,195**	**30,489**
Current tax	7,209	7,686	5,075	5,488

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

As at 31 December 2019, the Group recognized deferred tax assets related to temporary differences on trade receivables, depreciation, provisions and tax losses carried forward.

Deffered tax assets	**GROUP**		**COMPANY**	
	2019	**2018**	**2019**	**2018**
Balance at 1 January	**322**	**359**	**135**	**135**
Increase in the benefit of profit or loss account	(6)	(37)	-	-
Balance at 31 December	**316**	**322**	**135**	**135**

Changes of deferred tax liabilities are shown as follows:

	GROUP		**COMPANY**	
	2019	**2018**	**2019**	**2018**
Balance at 1 January	249	161	-	-
Charged to profit or loss	76	88	-	-
Balance at 31 December	**325**	**249**	-	-

As at 31 December 2019, the Group recognized a deferred tax liability related to temporary differences on the impairment of assets.

Net deferred tax assets is shown as follows:

	GROUP		**COMPANY**	
	2019	**2018**	**2019**	**2018**
Deferred tax assets	316	322	135	135
Deferred tax liability	(325)	(249)	-	-
Net deferred tax assets	**(9)**	**73**	**135**	**135**

Gross tax losses in the amount of HRK 32,162 thousand are available to reduce the future taxable profits of the Group at the end of 2019. Tax losses cannot be transferred and used within group members. The Group has not recognized deferred tax assets on the basis of tax losses carried forward as it is uncertain when individual companies within the Group will generate sufficient future taxable profit on the basis of which such tax assets could be used. At the next reporting date, the Group will reassess the assumptions for recognizing deferred tax assets.

(all amounts are expressed in thousands of kunas)

17. INCOME TAX (CONTINUED)

Table of transferred tax losses

	GROUP	
	2019	**2018**
Up to 1 year	3,209	3,029
Up to 2 year	2,264	3,209
Up to 3 year	2,233	2,264
Up to 4 year	15,784	2,233
Up to 5 year	8,672	15,784
Total tax loss available for transfer	**32,162**	**26,519**

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

GRUPA	Software	Concessions	Development expenses	Trade mark	Intangible assets under construction	Total
COST						
At 1 January 2018	**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**
Additions	-	-	-	-	5,329	5,329
Transfer from assets under development	2,878	-		20	(2,911)	(13)
Transfer from use to development	(1,985)	-	-	-	1,985	-
Impairment of assets under development	-	-	-	-	(393)	(393)
Disposals	-	-	-	-	-	-
Exchange differences	3	-	-	-	-	3
At 31 December 2019	**18,579**	**111**	**2,045**	**286**	**5,854**	**26,875**
ACCUMULATED AMORTISATION						
At 1 January 2018	**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**
Charge for the year	1,558	3	-	46	-	1,607
Disposals	-	-	-	-	-	-
Exchange differences	2	-	-	-	-	2
At 31 December 2019	**14,012**	**24**	**2,045**	**268**	**-**	**16,349**
CARRYING AMOUNT						
At 31 December 2019	**4,567**	**87**	**-**	**18**	**5,854**	**10,526**
At 31 December 2018	**5,231**	**90**	**-**	**44**	**1,844**	**7,209**

(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 2018	**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**
Additions				5,309	5,309
Transfer from assets under development	2,871	-	20	(2,891)	-
Prijenos iz upotrebe na pripremu	(1,985)	-	-	1,985	-
Impairment of assets under development	-	-	-	(393)	(393)
At 31 December 2019	**17,628**	**1,991**	**287**	**5,737**	**25,643**
ACCUMULATED AMORTISATION					
At 31 January 2018	**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**
Charge for the year	1,557	-	45	-	1,602
At 31 December 2019	**13,070**	**1,991**	**268**	**-**	**15,329**
CARRYING AMOUNT					
At 31 December 2019	**4,558**	**-**	**19**	**5,737**	**10,314**
At 31 December 2018	**5,229**	**-**	**44**	**1,727**	**6,999**

(all amounts are expressed in thousands of kunas)

19. GOODWILL

	31.12.2019	31.12.2018
Cost	45,903	45,898
	45,903	**45,898**

	2019,	2018,
Cost		
Balance at beginning of the year	45,898	45,917
Acquisition	-	-
Effect of exchange differences	5	(19)
Balance at end of year	**45,903**	**45,898**

The Group assesses the existence of impairment of goodwill at least annually, in accordance with accounting policy 3. This procedure requires an assessment of the use value of cash-generating units to which goodwill is allocated. The estimated value in use requires the Group to make estimates of the future cash flows of cash-generating units and to select an appropriate discount rate to calculate the present value of those cash flows.

The recoverable amount of cash-generating units is determined based on a use value calculation. These calculations use cash flow projections based on financial plans approved by the Group's Management Board and cover a period of ten years.

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

	31.12.2019	31.12.2018
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	1,462	1,457
Total	**45,903**	**45,898**

The Group performs an impairment test annually to assess whether the recoverable amount of goodwill shows a potential impairment of the carrying amount. The calculation of the recoverable amount of goodwill is based on a ten-year plan of revenues that the Companies generate in local and foreign markets developed by the Group, taking into account corporate and marketing strategies, and relevant market trends.

19. GOODWILL (CONTINUED)

The calculation of the recoverable amount implies terminal cash flow growth rates after a projection period of ten years of 2% -5%, depending on the industry in which the Company operates. The cash flows arising from these plans are discounted using a discount rate that reflects the return on the underlying assets, which is defined for the purposes of the goodwill impairment test as the weighted average cost of capital for the local market.

Use value calculations for cash-generating units are most sensitive under the following assumptions:

Revenues and Gross Margins - Revenues and gross margins are based on average values achieved in the last few years before the start of the business plan period. These increased during the business plan period for the expected customer retention rate, business expansion, synergies, and efficiency improvements.

Average revenue growth rates in the period of business plans range from 4.0% to 6.7%, while the highest growth rate is expected at MR Servis, 9.0% as a result of the implementation of new contracts in early 2020.

Discount rates - Discount rates are the current assessment of market risks specific to cash-generating units. It is a benchmark that the Group uses to assess business performance and to evaluate future investment proposals.

(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 2018	**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	-	(997)	(905)	(2,484)	(1,118)	-	(5,504)
Exchange differences	(1,259)	(248)	(29)	(62)	(36)	(30)	(1,664)
At 31 December 2018	**221,595**	**64,305**	**13,606**	**12,224**	**3,391**	**2,519**	**317,640**
Additions		2			196	19,078	19,276
Transfer from assets under development	12,605	4,297	1,844	398	48	(19,179)	13
Transfer from office and other equipment to plant and equipment	-	69	-	(69)	-	-	-
Change of the discontinued part of the business	-	(26)	-	-	-	-	(26)
Increases for purchase value of assets acquired	-	-	-	-	-	(30)	(30)
Disposals	-	(515)	(1,973)	(33)	-	-	(2,521)
Exchange differences	761	112	8	20	7	9	917
At 31 December 2019	**234,961**	**68,244**	**13,485**	**12,540**	**3,642**	**2,397**	**335,269**

At 31 December 2019 the present value of property to which the liens Banks The loan amounts to HRK 25,838 thousand (2018: HRK 33,909 thousand). Mortgages on the said property is HRK 65,644 thousand (2018: HRK 78,526 thousand) while the amount of debt relating to those mortgages amounted to HRK 53,120 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 2018	**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)	(110)	(22)	(59)	(19)	-	(512)
At 31 December 2018	**101,641**	**48,004**	**11,709**	**11,294**	**1,352**	**-**	**174,000**
Charge for the year	1,886	3,673	789	388	420	-	7,156
Change of the discontinued part of the business	-	(13)	-	-	-	-	(13)
Disposals	-	(202)	(1,727)	(32)	-	-	(1,961)
Exchange differences	366	72	6	20	4	-	468
At 31 December 2019	**103,893**	**51,534**	**10,777**	**11,670**	**1,776**	**-**	**179,650**
CARRYING AMOUNT							
At 31 December 2019	**131,068**	**16,710**	**2,708**	**870**	**1,866**	**2,397**	**155,619**
At 31 December 2018	**119,954**	**16,301**	**1,897**	**930**	**2,039**	**2,519**	**143,640**

(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 2018	**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**
Additions	-	6	-	-	-	2,757	2,763
Transfer from assets under development	-	2,528	86	143	-	(2,757)	-
Prijenos sa materijalne na nematrijelnu imovinu	-	-	-	-	-	(30)	(30)
Disposals	-	(78)	(495)	-	-	-	(573)
At 31 December 2019	**11,535**	**34,284**	**5,593**	**6,502**	**438**	**91**	**58,443**

The Company as at 31 December 2019 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	Vehicle	Office and other equipment	Leasehold improvements	Assets under development	Total
ACCUMULATED AMORTISATION							
At 1 January 2018	-	**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**
Charge for the year		1,532	265	182	88	-	2,067
Disposals	-	(78)	(495)	-	-	-	(573)
At 31 December 2019	-	**31,691**	**5,128**	**6,047**	**176**	-	**43,042**
CARRYING AMOUNT							
At 31 December 2019	**11,535**	**2,593**	**465**	**455**	**262**	**91**	**15,401**
At 31 December 2018	**11,535**	**1,591**	**644**	**494**	**349**	**121**	**14,734**

(all amounts are expressed in thousands of kunas)

21. RIGHT-OF-USE ASSETS

GROUP	Land	Total- Assets with the right of use
COST		
Balance 31 December 2018	-	-
Initial recognition 1 January 2019	1,929	1,929
Additions	-	-
Transfer to use	-	-
Derecognised by alienation, sale, revocation of rights	-	-
Balance 31 December 2019	**1,929**	**1,929**
Value adjustment		
Balance 1 January 2018	-	-
Amortization of the period	-	-
Derecognised by alienation, sale, revocation of rights	-	-
Balance 31. December 2018	-	-
Amortization of the period	175	175
Derecognised by alienation, sale, revocation of rights	-	-
Balance 31 December 2019	**175**	**175**
Present value		
As at 31 December 2018	-	-
As at 31 December 2018	**1,754**	**1,754**

(all amounts are expressed in thousands of kunas)

22. FINANCIAL ASSETS

	GROUP		COMPANY	
	31.12. 2019	31.12.2018	31.12. 2019	31.12.2018
Investments in subsidiaries	-	-	126,048	183,101
Investments in associates	64,264	64,072	44,106	44,106
	64,264	**64,072**	**170,154**	**227,207**

22.1. 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. 2019 %	31.12. 2018 %	31.12. 2019	31.12. 2018
Kim Tec Vitez d.o.o.	DISTRIBUTION	Bosnia and Hercegovina	100	100	6,590	63,643
Kim Tec BG d.o.o.	DISTRIBUTION	Serbia	100	100	77,946	77,946
Kim Tec CG d.o.o.	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.	MAINTAINANCE	Croatia	60	60	11,510	11,510
M San Logistika d.o.o.	LOGISTICS	Croatia	100	100	20	20
					126,048	**183,101**

Movement and description of the change in the value of the share of Kim Tec Vitez d.o.o. can be found in note 29.

(all amounts are expressed in thousands of kunas)

22. FINANCIAL ASSETS (CONTINUED)

22.2. INVESTMENTS IN ASSOCIATES

Set out in the table below is a summary of associates at 31 December 2019 and 31 December 2018:

	GROUP		COMPANY	
	31.12. 2019	**31.12. 2018**	**31.12. 2019**	**31.12. 2018**
Share in Ventex d.o.o.	4,325	4,457	2,606	2,606
Share in E Kupi d.o.o.	43,123	42,714	41,500	41,500
Share in Agropromet Grahovo	3,574	3,822	-	-
Share in MP Energija Grahovo	5,518	5,470	-	-
Share in Poljoprivrednik Glamoč	4,748	4,709	-	-
Share in Poljoprivrednik Odžak	2,976	2,900	-	-
	64,264	**64,072**	**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 2019	2018
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%	80%
MP Energija Grahovo	Agriculture	Grahovo, Bosnia and Herzegovina	85%	85%
Poljoprivrednik Glamoč	Agriculture	Glamoč, Bosnia and Herzegovina	90%	90%
Poljoprivrednik Odžak	Agriculture	Odža, Bosnia and Herzegovina	39%	39%

These companies represent associates as the Group has no control over the companies in which the investment is made.

The shares and stakes of these companies are not listed on active markets.

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

	31.12.2019	**31.12.2018**
Total assets	91,575	82,674
Total liabilities	61,625	53,917
Net assets	**29,950**	**28,757**
Group's share in the net assets of the associates	**14,057**	**14,092**

(all amounts are expressed in thousands of kunas)

22. FINANCIAL ASSETS (CONTINUED)

22.3. INVESTMENTS IN ASSOCIATES (CONTINUED)

	31.12.2019	31.12.2018
Total income	348,946	321,359
Total profit for the year	2,755	7,777
Attribution of profit / (loss) from previous years	(1,422)	(5,846)
Unrealised gains from shares	17	681
The Group's share in the profits of the associates	**140**	**1,704**

23. INVENTORIES

	GROUP		COMPANY	
	31.12.201	31.12.2018	31.12.2019	31.12.2018
Merchandise	129,529	133,223	59,651	61,516
Goods in the customs warehouse	24,316	33,122	23,361	32,642
Goods in transport	64,275	43,835	63,359	41,867
Inventories of raw material and supplies	6,941	7,525	-	26
Work in progress	9,227	4,286	3,648	-
Spare parts	1,906	1,698	-	-
Other inventories	1,261	1,203	397	383
Total	**237,455**	**224,892**	**150,416**	**136,434**

24. PREPAYMENTS

	GROUP		COMPANY	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Prepayments made for goods	16,730	6,765	12,250	3,050
Prepayments made for services	518	1,032	2,339	7
Total	**17,248**	**7,797**	**14,589**	**3,057**

(all amounts are expressed in thousands of kunas)

25. TRADE RECEIVABLES

	GROUP		COMPANY	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Domestic trade receivables	274,044	305,030	130,401	162,888
Foreign trade receivables	52,085	45,197	55,454	43,744
Impairment allowance on trade receivables	(7,189)	(11,045)	(1,443)	(1,462)
Total	**318,940**	**339,182**	**184,412**	**205,170**

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2019	2018	2019	2018
At 1 January	11,045	33,079	1,462	10,670
Increase in impairment allowance (Note 13)	553	551	-	67
Reversed on collection (Note 6)	(177)	(108)	(19)	(38)
Write-off receivables	(4,232)	(22,477)	-	(9,237)
At 31 December	**7,189**	**11,045**	**1,443**	**1,462**

Ageing of past due but not impaired trade receivables:

	GROUP		COMPANY	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Not yet due	243,711	268,463	128,471	150,300
Up to 60 days	25,842	31,187	17,193	21,179
60-90 days	9,633	8,118	7,025	9,128
90-120 days	3,331	1,928	1,514	816
120-365 days	14,038	10,150	10,122	7,331
Beyond 365 days	22,385	19,336	20,086	16,416
Total	**318,940**	**339,182**	**184,412**	**205,170**

The average credit period on sales in the Group in 2019 was 47 days (2018: 43 days), while in the Company it was 35 days (2018: 55 days).

Of the total receivables past due beyond 365 days, the Group's receivables from related companies amount to HRK 20,525 thousand and its receivables from unrelated companies amount to HRK 3,621 thousand, whereas the balance owed to the Company by its related companies and unrelated companies amounts to HRK 19,061 thousand and HRK 1,025 thousand, respectively.

(all amounts are expressed in thousands of kunas)

26. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
VAT refund	7,355	6,855	5,092	4,282
Receivables for other taxes, contributions and membership fees	176	175	175	175
Customs duty refunds	59	55	-	-
Receivables for overpaid income tax	1,342	1,074	656	613
Other amounts due from the state	274	416	20	18
Total	**9,206**	**8,575**	**5,943**	**5,088**

27. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Loans to corporate entities	47,739	42,761	41,190	35,442
Loans to individuals	95	107	87	100
Given deposits to unrelated parties	2,309	2,980	2,233	2,967
Total	**50,143**	**45,848**	**43,510**	**38,509**

(all amounts are expressed in thousands of kunas)

27. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Loans- Amount	Maturity	31.12.2019	31.12.2018
Loans to corporate entities					
Company					
Loans to corporate entities within group					
M SAN GRUPA D,D,					
M SAN EKO d,o,o,	HRK	2,000	31.12.2020	1,991	1,524
MR SERVIS d.o.o.	HRK	230	31.12.2020	750	150
Total				**2,741**	**1,674**
Loans to other corporate entitites					
M SAN GRUPA D,D,					
Related parties					
Litus projekt d,o,o,	HRK	600	31.12.2020	562	562
M SAN Nekretnine d,o,o,	EUR	3,000	31.12.2020	10,349	5,141
M SAN Ulaganja d,o,o,	HRK	5,000	31.12.2020	7,809	5,133
Baks grupa d,o,o,	HRK	18,309	31.12.2020	18,300	18,300
Third parties					
Castalia projekt d,o,o,	HRK	3,600	31.12.2020	1,429	2,032
MIG Dubrovnik d,o,o,	HRK	2,600	19.05.2020	-	2,600
Total				**38,449**	**33,768**
Total				**41,190**	**35,442**
Group					
KIM TEC BIH d,o,o,					
EKO-Bosanska Posavina d,o,o, Derventa	KM	3,243	31.12.2020	9,024	8,993
Poljoprivrednik Odžak	KM	1,000	31.12.2020	266	-
Total				**9,290**	**8,993**

(all amounts are expressed in thousands of kunas)

27. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Loans Amount	Maturity	31.12.2019	31.12.2018
Total				**9,290**	**8,993**
Loans to other corporate entitites				**47.739**	**42,761**
Loans to individuals					
Company					
M SAN GRUPA D.D.					
Other individuals with smaller loans	HRK	1,678	30.06.2020.	87	100
Total				**87**	**100**
Group					
KIM TEC BG					
Other individuals with smaller loans	KM			8	5
Total				**8**	**5**
Group					
VIVAX					
Other individuals with smaller loans	CSD			-	2
Total				**-**	**2**
Loans to other corporate entitites				**95**	**107**
TOTAL GIVEN LOANSI				**47,834**	**42,868**

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 rot doubtful of collection.

(all amounts are expressed in thousands of kunas)

28. PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		COMPANY	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Accrued income - subsequently approved discounts	6,824	6,578	202	1,949
Accrued income - amounts not yet billed	34	201	-	-
Prepaid expenses	1,050	1,711	10	354
Total	**7,908**	**8,490**	**212**	**2,303**

29. OTHER RECEIVABLES

	GRUPA		DRUŠTVO	
	31.12. 2019	**31.12. 2018**	**31.12. 2019**	**31.12. 2018**
Interest receivable	7,726	6,864	7,522	6,746
Other receivable	1,527	1,842	1,180	1,447
Receivables acquired by debt collection	4,503	-	-	-
Receivables based on capital reduction	-	-	57,054	-
Ukupno	**13,756**	**8,706**	**65,756**	**8,193**

Receivables based on the reduction of capital in the amount of HRK 57,054 thousand relate to acquired receivables based on the decision on capital reduction of the related company KIM TEC d.o.o. Knight. The decision on the capital reduction was implemented on December 25, 2019.

Interests receivable are presented as follows:

	GROUP		COMPANY	
	31.12. 2019	**31.12. 2018**	**31.12. 2019**	**31.12. 2018**
Receivables per interests per loans	7,726	6,864	7,522	6,746
Value adjustment of receivables per interest	-	-	-	-
Total	**7,726**	**6,864**	**7,522**	**6,746**

(all amounts are expressed in thousands of kunas)

30. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Cash with banks	93,826	89,181	68,003	68,696
Cash in hand	2	8	-	-
Total	**93,828**	**89,189**	**68,003**	**68,696**

31. TEMELJNI KAPITAL

Temeljni kapital:

	31.12.2019	31.12.2018
970,000 ordinary shares with nominal value 100 HRK per share	97,000	97,000
Total	**97,000**	**97,000**

32. RETAINED EARNINGS

	GROUP		COMPANY	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Retained earnings	220,963	201,052	90,068	75,279
Total	**220,963**	**201,052**	**90,068**	**75,279**

Changes of retained earnings are shown below:

	2019	2018	2019	2018
Balance at 1 January	201,052	162,005	75,279	53,589
Reduction of non-controlling interests for additionally purchased shares	1,896	-	-	-
Payment of retained earnings	(5,000)	-	(5,000)	-
Sale of an affiliated company	(301)	-	-	-
Profit for the year	23,498	39,067	19,789	21,690
Transfer to legal reserves	(182)	(20)	-	-
Balance at 31 December	**220,963**	**201,052**	**90,068**	**75,279**

(all amounts are expressed in thousands of kunas)

33. NON-CONTROLLING INTERESTS

	GROUP	
	31.12.2019	**31.12.2018**
Net asset value at acquisition date	1,968	876
Acquisition of the new Company	-	2,212
Reduction of non-controlling interests for additionally purchased shares	(1,896)	-
Other comprehensive loss	(55)	(2)
Share in gain / (loss) for the current year	(437)	(1,118)
Balance at end of year	**(420)**	**1,968**

34. PROVISIONS FOR RISKS WITHIN THE WARRANTY PERIOD

	GROUP		COMPANY	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Long-term provisions for risks within the warranty period	3,064	2,793	1,167	1,505
Total	**3,064**	**2,793**	**1,167**	**1,505**

Movements in the provisions can be presented as follows:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
At 1 January	2,793	2,212	1,505	1,519
New provisions	2,114	2,526	1,167	1,505
Decreases	(1,876)	(2,052)	(1,505)	(1,519)
Exchange rate differences	33	107	-	-
At 31 December	**3,064**	**2,793**	**1,167**	**1,505**

The balance of the provisions account for 0.13% percent of the Company's and Group's cost of goods sold (31 December 2018: 0.12%). The calculation methodology is described in Note 3 - Provision for repair costs of goods sold within the warranty period.

(all amounts are expressed in thousands of kunas)

35. LONG-TERM FINANCE LEASE AND LOANS OBLIGATIONS

Long-term liabilities from finance lease

	GROUP		COMPANY	
	2019.	**2018.**	**2019.**	**2018.**
Total obligations under finance leases	2,028	1,213	293	400
Less: current portion of finance lease obligations	(647)	(629)	(169)	(175)
Long-term finance lease obligations	**1,381**	**584**	**124**	**225**
Total long term liabilities from financial leasing	**1,381**	**584**	**124**	**225**

Long-term loan liabilities

	GROUP		COMPANY	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Total loans from financial institutions	167,488	168,560	115,088	126,809
Less: current portion of loans from financial institutions	(29,717)	(52,163)	(18,414)	(44,567)
Total long-term loans from financial institutions	**137,771**	**116,397**	**96,674**	**82,242**
Total long-term portion of long-term loans and leases	**139,152**	**116,981**	**96,798**	**82,467**

Financial institution	Original currency	Loans Amount	Maturity	31.12.2019	31.12.2018
POLJOPRIVREDNIK AD					
IRB RS	KM	1,000	1.7.2019	-	482
NLB Razvojna banka	KM	750	1.2.2020	-	632
NLB Razvojna banka	KM	500	1.6.2020	-	625
NLB Razvojna banka	KM	500	16.06.2022	-	1,501
NLB Razvojna banka	KM	2,600	03.06.2024	8,968	-
Total				**8,968**	**3,240**
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD.	EUR	4,000	23.12.2023	-	24,824
ProCredit Bank AD.	EUR	4,000	12.10.2024	22,118	-
NLB Razvojna banka	EUR	1,500	19.06.2022	10,239	-
Total				**32,357**	**24,824**
KIM TEC BIH d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	2,500	28.2.2024	11,075	13,687
Total				**11,075**	**13,687**

(all amounts are expressed in thousands of kunas)

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

Financial institution	Original currency	Loans amount	Maturity	31/12/ 2019	31/12/ 2018
MSAN GRUPA D.D.					
Splitska banka d.d.HBOR	HRK	12,500	31.12.2019	-	7,500
Sindicirani kredit	HRK	176,020	15.3.2026	115,088	75,959
Raiffeisen bank d.d.	EUR	4,435	15.1.2020	-	14,011
Splitska banka d.d.	EUR	4,900	30.11.2019	-	21,713
Splitska banka d.d.	EUR	1,659	31.12.2019	-	7,626
Total				**115,088**	**126,809**
Total long-term loans from financial institutions				**167,488**	**168,560**
Less: Current portion				**(29,717)**	**(52,163)**
Total				**137,771**	**116,397**

On 8 March 2019 the Company refinanced the long-term liabilities of Splitska banka, Raiffeisen banka and the Syndicated Loan with a new trade union of banks consisting of Zagrebačka banka d.d., OTP Banka d.d. , Privredna banka Zagreb d.d. and Raiffeisen bankk d.d. and a short-term loan from Hrvatska poštanska banka d.d. whose amount on the day of refinancing amounted to HRK 104,897,081.56. The loan is repaid in monthly installments, the last installment of which is due on March 15, 2026. On the date of issuing the report, due to the situation caused by COVID19, the company was granted a moratorium on the syndicated loan for a period of 6 months, so that the last installment matures on 15.09.2026.

(all amounts are expressed in thousands of kunas)

36. SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	31/12/ 2019	**31/12/ 2018**	**31/12/ 2019**	**31/12/ 2018**
Short-term bank borrowings	89,256	105,053	**65,321**	76,232
Liabilities for short - term loans	7,300	-	**7,300**	-
Revolving facilities with banks	17,309	16,182	-	-
Total borrowings	**113,865**	**121,235**	**72,621**	**76,232**
Current portion of long-term leases	647	629	169	175
Current portion of long-term loans	29,717	52,163	18,414	44,567
Total	**144,229**	**174,027**	**91,204**	**120,974**

An overview of bank borrowings of the M San Group:

Financial Institution	**Original currency**	**Loans Amount**	**Maturity**	**31/12/ 2019**	**31/12/ 2018**
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	KM	2,000	28.5.2020	7,607	7,562
Intesa Sanpaolo Banka d.d:	KM	1,500	17.05.2020	6,850	3,793
Intesa Sanpaolo Banka d.d.	KM	500	16.5.2019	-	1,517
NLB Tuzlanska banka1 400 000	KM	1,400	03.06.2020	1,903	1,517
Bosna Bank International d,d,	KM	2,000	06.06.2020	6,850	7,206
Total				**23,210**	**21,595**

(all amounts are expressed in thousands of kunas)

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

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

Financial institutions	Original currency	Amount	Maturity	2019	2018
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	MKD	55,000	04.02.2020	725	3.433
Total				**725**	**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	1,000	26.6.2020	1,764	
NLB Revolving kredit	KM	1,100	26.6.2020	4,186	-
NLB Revolving kredit	KM	1,000	14.3.2020	3,805	-
Intesa Sanpaolo Banka d.d.	KM	1,000	25.4.2020	3,805	-
Total				**13,560**	**19.974**
KIM TEC BIH					
Okvirni kredit Banka Intesa	KM	1,000	13.5.2020	**3,749**	-
Total				**3,749**	-

COMPANY

	2019	2018
Short-term loan (see note below)	**7,300**	-
Total short-term borrowings (see note below)	**65,321**	76,233
	72,621	**76.233**
Total	**113,865**	**121.235**
Plus: Current portion of long-term borrowings	647	629
Plus: Current portion of loans from financial institutions	**29,717**	52,163
Total current portion of long-term borrowings and short-term loans	**144,229**	**174,027**

Pregled obaveza po zajmovima Grupe M San

COMPANY					
Pametna energija d.o.o.	HRK	10,000	31.12.2019	**7,300**	-
Total				**7,300**	-

(all amounts are expressed in thousands of kunas)

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

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

COMPANY

Financial institution	Original currency	Loans Amount	Maturity	31/12/ 2019	31/12/ 2018
Zagrebačka banka d.d.	HRK	20,000	15.6.2020	20,000	20.000
Zagrebačka banka d.d	HRK	20,000	15.2.2020	20,000	20.000
Societe Generale-Splitska banka d.d.	HRK	20,000	15.04.2019	-	20.000
Addiko banka	EUR	800	29.02.2020	5,321	-
Addiko banka	HRK	20,000	15.04.2020	20,000	-
Privredna banka d.d.	EUR	1,640	31.5.2019	-	5.709
Hrvatska poštanska banka d.d.	HRK	15,000	1.10.2019	-	10.523
Total				**65,321**	**76.232**
Plus: Current portion of long-term borrowings				169	175
Plus: Current portion of loans from financial institutions				18,414	44,567
Total current portion of long-term borrowings and short-term loans				**91,204**	**120,974**

37. LONG-TERM LIABILITIES FOR THE RIGHT-OF-USE ASSETS AND SHORT-TERM MATURITY OF LONG-TERM LIABILITIES FOR THE RIGHT-OF-USE ASSETS

	GROUP		COMPANY	
	2019	2018	2019	2018
Total liabilities for property with the right of use	1,787	-	-	-
Minus: the current portion of the liability for the right to use	(148)	-	-	-
The long-term portion of the liability for the right to use	**1,639**	-	-	-
Total liabilities for property with the right of use	**1,639**	-	-	-

38. ADVANCES RECEIVED

	GROUP		COMPANY	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Advances received from domestic customers	3,854	1,474	1,806	682
Advances received from foreign customers	2,412	411	2,496	-
Total	**6,266**	**1,885**	**4,302**	**682**

(all amounts are expressed in thousands of kunas)

39. TRADE PAYABLES

	GROUP		COMPANY	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
Foreign trade payables	280,171	277,691	252,760	246,299
Domestic trade payables	75,822	67,237	52,018	53,152
Total	**355,993**	**344,928**	**304,778**	**299,451**

40. TAXES, CONTRIBUTIONS AND OTHER DUTIES PAYABLE

	GRUPA		DRUŠTVO	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
Liabilities for VAT	14,569	22,045	14,228	19,106
Liabilities to the customs office	6,415	7,141	5,114	4,400
Liabilities for income tax	301	865	-	-
Liabilities for taxes and contributions from and on salaries	2,751	2,427	1,153	865
Porezi i doprinosi po ugovoru o djelu i autorski honorari	1	-	-	-
Liabilities for memberships, contributions and other taxes	266	274	66	65
Total	**24,303**	**32,752**	**20,561**	**24,436**

41. FACTORING LIABILITIES

	GROUP		COMPANY	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
Factoring liabilities	24,607	5,945	12,232	-
Total	**24,607**	**5,945**	**12,232**	**-**

Some of the suppliers offer modular payment deadlines, where the company has the option of payment in contractual terms and the option of payment in shorter terms, whereby they receive certain discounts for early payment. In such options, the company occasionally uses factoring payments, whereby the costs of factoring for a previously made payment represent a lower cost than the amount of the caso discount and thus achieves additional savings..

(all amounts are expressed in thousands of kunas)

42. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	31/12/ 2019	31/12/ 2018	31/12/ 2019/	31/12/ 2018
Interest on borrowings	172	379	172	372
Other current liabilities	736	2,121	606	2,073
Total	**908**	**2,500**	**778**	**2,445**

43. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
Accrued expenses - not yet billed	4,512	8,873	2,904	6,523
Accrued income	323	1,859	-	-
Deferred income - late-payment interest	29	33	-	-
Other accrued expenses and deferred income	585	598	-	-
Total	**5,449**	**11,363**	**2,904**	**6,523**

44. RELATED-PARTY TRANSACTIONS

The transactions and resulting balances receivable and payable during 2019 and 2018 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
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

Društva sa zajedničkim krajnjim vlasnikom:

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)

44. 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 2019 and 2018 were as follows:

	Receivables		Liabilities	
	31/12/2019.	**31/12/2018.**	**31/12/2019.**	**31/12/2018.**
Kim Tec d.o.o., Vitez	5,982	322	(2,368)	(2)
Kim Tec d.o.o., Beograd	5,880	3,839	(33)	(37)
Pakom Kompany, Skopje	503	6,061	(28)	-
M San Eko d.o.o., Zagreb	9	5	-	-
Kim Tec CG, Podgorica	321	3,016	(174)	28
M San Logistika d.o.o., Zagreb	524	(1)	-	(1,173)
MR Servis d.o.o.	2,583	1,724	(1)	(504)
	15,802	**14,966**	**(2,604)**	**(1,688)**

(all amounts are expressed in thousands of kunas)

44. 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 2019 and 2018 were as follows:

	Receivables		Liabilities	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Kim Tec, Ljubljana	15,696	15,160	-	518
Ekupi d.o.o., Zagreb	16,896	11,618	-	(38)
Ask Tec d.o.o., Priština	14,274	8,890	(710)	-
PP Orahovica d.d.	-	108	-	-
MS Industrial Kina	8,173	479	47	568
M San Ulaganja d.o.o., Zagreb	-	190	(1,038)	(2,258)
Ventex d.o.o., Rijeka	322	465	-	-
King ICT d.o.o., Zagreb	3,963	17,669	(606)	(620)
Pametna energija d.o.o.	41	177	-	-
M San Nekrenine d.o.o., Zagreb	1,362	1,184	-	(29)
Corvus Info d.o.o., Zagreb	6	227	-	-
Ured za podršku d.o.o., Zagreb	421	70	(365)	(237)
King ICT d.o.o., Beograd	-	-	-	-
PPK Valpovo	2	-	(16)	-
Aktivis d.o.o., Zagreb	2	2	(25)	(25)
Baks grupa d.o.o.	4	-	-	-
Planet IX.d.o.o. Zagreb	136	-	-	-
Litus projekt d.o.o.	16	9	-	-
	61,314	**56,248**	**(2,713)**	**(2,121)**

(all amounts are expressed in thousands of kunas)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

The income and expenses of the Company from transactions with its subsidiaries during 2019 and 2018 were as follows:

	Income /sale		**Expenses**		**Purchase value of goods**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Kim Tec d.o.o., Beograd	198,027	212,224	11,713	12,493	2,515	1,825
Kim Tec d.o.o., Vitez	85,709	97,838	3,751	4,375	2,885	615
Pakom Kompany, Skopje	48,647	46,228	1,712	2,039	363	293
Kim Tec CG, Podgorica	37,476	41,748	1,211	1,085	199	400
M San Logistika d.o.o., Zagreb	598	452	20,368	25,860	-	-
M San Eko d.o.o., Zagreb	6	7	-	-	-	-
MR Servis d.o.o.	6,239	4,511	8,515	7,505	495	790
	376,702	**403,008**	**47,270**	**53,357**	**6,457**	**3,923**

The income and expenses of the Company from transactions with its associates and entities with joint owners during 2019 and 2018 were as follows:

	Income / Sale		**Expenses**		**Purchase value of goods**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Ekupi d.o.o., Zagreb	211,499	193,901	10,602	8,132	343	111
King ICT d.o.o., Zagreb	164,953	89,591	1,194	754	669	227
King ICT d.o.o., BiH	9	393	-	-		-
Ventex d.o.o., Rijeka	8,533	12,170	112	156	38	1
Kim Tec, Ljubljana	1,162	-	(11)	202		-
Ask Tec d.o.o., Priština	11,174	15,298	381	105	500	-
Pametna energija d.o.o.	10,936	3,764	-	-		-
PP Orahovica d.d.	238	188	320	188	20	16
M San Nekrenine d.o.o., Zagreb	429	994	4,152	4,031	-	404
Ured za podršku d.o.o.	369	352	16,499	15,556	-	-
Corvus Info d.o.o.	104	334	-	-	-	-
M San Ulaganja d.o.o., Zagreb	170	256	4,629	-	-	-
Aktivis d.o.o., Zagreb	151	38	20	55	-	-
PPK Valpovo d.d.	42	9	16	-	-	-
Baks grupa d.o.o.	9	-	-	-	-	-
Planet IX.d.o.o. Zagreb	138	-	-	-	-	-
MS Industrial Kina	80	-	3,164	2,492	41,174	51,338
	409,996	**317,288**	**41,078**	**31,671**	**42,744**	**52,097**

(all amounts are expressed in thousands of kunas)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2019 and 2018:

	Receivables		Income	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
M San Eko d.o.o., Zagreb	2,036	1,556	69	61
MR Servis d.o.o., Zagreb	789	151	185	81
	2,825	**1,707**	**254**	**142**

The table below presents receivables and revenue of the Company from credit transactions with its subsidiaries at 31 December 2019 and 2018:

	Receivables		Income	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
PP Orahovica d.d., Orahovica	-	-	-	-
M San Nekrenine d.o.o., Zagreb	10,784	5,485	337	197
M San Ulaganja d.o.o., Zagreb	7,805	5,311	234	177
Baks Grupa d.o.o.	23,821	23,096	725	830
Litus Projekt	757	735	22	25
Kim Tec, Ljubljana	13	13	-	-
	43,180	**34,640**	**1,318**	**1,229**

The table below presents the liabilities and expenses that the Company had with associates and joint venture companies from credit transactions as at 31 December 2019 and 2018.

	Liabilities		Expenses	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Pametna energija d.o.o., Zagreb	7,334	-	168	-
	7,334	**-**	**168**	**-**

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

	GROUP		COMPANY	
	2019	2018	2019	2018
Short-term income - gross	5,343	4,615	2,718	2,472
Ukupno	**5,343**	**4,615**	**2,718**	**2,472**

(all amounts are expressed in thousands of kunas)

45. FINANCIAL INSTRUMENTS

45.1. 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.

45.1.1. Gearing ratio

Gearing ratio at the end of the reporting period:

	GROUP		COMPANY	
	31/12/ 2019	**31/12 2018**	**31/12/ 2019**	**31/12/ 2018**
Debt	283,382	291,008	188,002	203,441
Less: cash in hand and with banks	(93,828)	(89,189)	(68,003)	(68,696)
	189,554	**201,819**	**119,999**	**134,745**
Equity	317,220	297,711	193,272	178,482
Net debt-to-equity ratio	**59,75%**	**67,79%**	**62,09%**	**75,50%**

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)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.1. Capital risk management (continued)

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

45.1.2. Categories of financial instruments

	GROUP		COMPANY	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
Financial assets				
Cash and cash equivalents	93,828	89,189	68,003	68,696
Loans and receivables	402,255	403,521	307,743	256,750
Total financial assets	**496,083**	**492,710**	**375,746**	**325,446**
Financial liabilities				
Bank borrowings	274,054	289,794	180,409	203,041
Finance lease obligations	2,028	1,213	293	401
Zajmovi primljeni od drugih subjekata	7,300	-	7,300	-
Other financial liabilities	392,500	359,922	321,415	303,955
Total financial liabilities	**675,882**	**650,929**	**509,417**	**507,397**

(all amounts are expressed in thousands of kunas)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.2. 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/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
EUR	55,261	56,061	359,286	346,913	(304,025)	(290,852)
USD	41,247	22,028	90,962	85,983	(49,715)	(63,955)
CHF	32	10	(4)	32	36	(22)
GBP	85	94	(117)	936	202	(842)

COMPANY	Assets		Liabilities		Assets - Liabilities	
	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018	31/12/ 2019	31/12/ 2018
EUR	45,393	39,544	295,820	316,066	(250,427)	(276,522)
USD	45,577	31,028	90,180	82,240	(44,603)	(51,212)
CHF	32	10	(4)	31	36	(21)
GBP	85	94	(117)	936	202	(842)

45.2.1 Foreign currency sensitivity analysis

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

(all amounts are expressed in thousands of kunas)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.2. Foreign currency risk management (continued)

45.2.1. Foreign currency sensitivity analysis (continued)

GROUP	EUR impact		USD impact		GBP impact	
	2019	2018	2019	2018	2019	2018
Profit / (loss)	(30,403)	(29,085)	(4,972)	(6,396)	20	(84)

DRUŠTVO	EUR impact		USD impact		GBP impact	
	2019	2018	2019	2018	2019	2018
Profit / (loss)	(25,043)	(27,652)	(4,460)	(5,121)	20	(84)

45.3. 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)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.3. 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/ 2019	GROUP 31/12/ 2018	COMPANY 31/12/ 2019	COMPANY 31/12/ 2018
Ekupi d.o.o.	CROATIA	216,447	194,541	211,500	193,916
KING ICT D.O.O.	CROATIA	171,082	94,088	164,953	89,644
S&T Hrvatska d.o.o.	CROATIA	50,086	40,299	50,080	40,294
Links d.o.o.	CROATIA	47,122	44,768	47,114	44,761
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERCEGOVINA	35,758	38,276	-	-
Mikronis d.o.o.	CROATIA	35,662	32,316	35,660	32,315
SV GROUP d.o.o..	CROATIA	30,826	28,121	30,826	28,106
INSTAR INFORMATIKA d.o.o.	CROATIA	28,487	23,617	28,484	23,616
WIN WIN SHOP d.o.o.	SERBIA	28,346	16,977	-	-
AIGO BUSINESS SYSTEM d.o.o.	SERBIA	27,720	18,659	-	-
GIGATRON d.o.o.	SERBIA	23,732	13,021	-	-
KIM TEC d.o.o. Beograd	SERBIA	-	-	198,041	212,196
KIM TEC d.o.o. Vitez	BOSNIA AND HERCEGOVINA	-	-	85,717	97,838
PAKOM KOMPANI SKOPJE	MACEDONIA	-	-	48,653	46,218
KIM TEC CG d.o.o	MONTENEGRO	-	-	37,463	41,800

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.4. 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 2019 would have changed by HRK 575 thousand (31 December 2018: HRK 228 thousand), and the Group as of 31 December 2019 would have changed by HRK 686 thousand (31 December 2018: HRK 352 thousand).

The Group's and Company's total borrowings at the reporting date amounted to HRK 283,381 thousand (31 Decemebr 2018: HRK 291.009 thousand) and HRK 188,002 thousand (31 December 2018: 203,442 thousand) respectively.

45.5. 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.

45.5.1. 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)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.5. Liquidity risk management (continued)

45.5.1. Liquidity and interest rate risk tables (continued)

GROUP 31 December 2019	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	443,917	-	-	395	-	444,312
Fixed-rate instruments	-	-	51,642	128	-	51,770
Total assets	**443,917**	**-**	**51,642**	**523**	**-**	**496,082**
Liabilities						
Non-interest bearing	392,500	-	-	-	-	392,500
Liabilities based on financial lease	54	108	485	1,381	-	2,028
Variable-rate instruments	2,476	27,266	113,839	94,339	43,434	281,354
Total liabilities	395,030	27,374	114,324	95,720	43,434	675,882
Net asset / (liabilities)	**48,887**	**(27,374)**	**(62,682)**	**(95,197)**	**(43,434)**	**(179,800)**

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)**

(all amounts are expressed in thousands of kunas)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.5. Liquidity risk management (continued)

45.5.1. Liquidity and interest rate risk tables (continued)

COMPANY 31 December 2019.	**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	330,502	-	-	235	-	330,737
Fixed-rate instruments	-	-	45,010	-	-	45,010
Total	**330,502**	**-**	**45,010**	**235**	**-**	**375,747**
Liabilities						
Non-interest bearing	321,415	-	-	-	-	321,415
Liabilities based on financial lease	14	28	127	124	-	293
Variable-rate instruments	1,535	23,069	66,431	96,674	-	187,709
Total	**322,964**	**23,097**	**66,558**	**96,798**	**-**	**509,417**
Net asset / (liabilities)	**7,538**	**(23,097)**	**(21,548)**	**(96,563)**	**-**	**(133,670)**

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 Up to 1 month**
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	303,954					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)**

(all amounts are expressed in thousands of kunas)

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.6. 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;

The following table provides an analysis of financial instruments measured subsequently at fair value, grouped into:

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).

45.7. 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.

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

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Within one year	13,757	11,963	3,646	2,479
1-5 years	29,912	6,378	5,374	2,924
After 5 years	-	-	-	-
Total	**43,669**	**18,341**	**9,020**	**5,403**

(all amounts are expressed in thousands of kunas)

47. DISCONTINUED OPERATIONS

At the end of October 2019, the Group sold the associated company Vivax d.o.o. Belgrade on the basis of an agreement on the transfer of shares to Mr. Stipe Matić. The agreed fee for the transfer of business shares was determined in the equivalent of EUR 5 thousand.

The statement of comprehensive income for discontinued operations is as follows:

	2019	2018
Core activity income	1,468	1,760
Other profits	-	-
Expenses	(1,378)	(1,755)
Profit before tax	91	5
Associated tax expense	-	(5)
Gubitak od svođenja na fer vrijednost umanjenju za troškove prodaje	-	-
Profit / (loss) from segment sales	-	-
Profit for the current year from discontinued operations (for distribution to the owners of the Company)	91	-

The net assets of discontinued operations as of 31 October 2019 were as follows:

	2019
Tangible and intangible assets	32
Fixed financial assets	-
Inventories	-
Receivables	303
Cash	165
Long-term liabilities	(2)
Short-term liabilities	(194)
Minority interest	-
Total net assets of discontinued operations as of 30 November 2015	304
Total received for sale	34
Profit / loss from sales in relation to the net assets of the sold company	(270)

48. EVENTS AFTER THE BALANCE SHEET DAY

The appearance and spread of the Covid-19 virus in the Republic of Croatia will certainly have negative effects on the entire Croatian economy. In order to mitigate the effects of the virus, the Government of the Republic of Croatia and the Commercial Bank have provided a number of measures to support the economy.
As at the time of writing this report there is uncertainty in the duration of the secured measures and their further content, it is not possible to reliably assess their effects on business.
With the very first outbreaks of the virus in Europe, the company set up a crisis management team with the primary task of:

- implementation of hygienic measures in business premises in order to protect the health of employees
- introducing and informing employees about the facts related to COVID19 in accordance with the recommendations and information of the World Health Organization,
- establishing business continuity (defining, strengthening and testing the necessary resources for the home-office work model)
- Elaboration of business-market activities depending on the implemented measures of the Government of the Republic of Croatia and health threats
- Implementation of home-office work model, min. number of employees in offices
- Raising the efficiency of the home-office work model

At the beginning of March, the company formed a team for business and financial scenarios with the aim of:

- Monitoring the development of the situation, economic measures and trends
- Development of scenarios and simulation models, calculation of impact
- Defining group and company measures and activities to reduce the negative financial impact
- Establishing the liquidity crisis management
- Coordination and supervision over the implementation of measures to reduce negative financial impacts (use of government measures, internal measures to increase efficiency and preserve employee health, preserve liquidity, negotiations with the financial industry on initiating a moratorium)
- Defining and prioritizing the implementation of alternative activities by companies in the group

In the following period, team expanded its competence to the tasks of adjusting market performance and sales in the new situation, implementing measures of the Government of the Republic of Croatia, implementing internal adjustment measures on the side of working capital, capex and perex and continuous monitoring, assessment and liquidity monitoring.
Management and employees initiated direct talks with suppliers to ensure continuity of delivery of goods and possible deferrals of payments in order to preserve liquidity to buyers about their expected dynamics of payment of liabilities, optimization of their inventories and expected business volume in the coming days. All the above measures were taken by the company's Management Board in order to ensure business continuity in pandemic conditions.

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 9 to 105, were approved by the Management Board and authorised for issue on 14 July 2020

Signed on behalf of the Management Board 14 July 2020 by:

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

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