

**CIAK Grupa d.d. (formerly named Direkt d.o.o.)
and its subsidiaries**

Annual Report
for the years ended
31 December 2017, 2018 and 2019

This version of our report is a translation from the original, which was prepared in 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 our report takes precedence over this translation.

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MANAGEMENT REPORT

In accordance with Art. 21. of the Accounting Act (NN R.H. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20) and Art. 250.a of the Companies Act (NN R.H. 111/93 to 40/19) the Management Board of the parent company of CIAK Group, Zagreb presents

MANAGEMENT REPORT FOR 2017, 2018 AND 2019

GENERAL INFORMATION ABOUT THE GROUP

As at 31 December 2019, the Group consists of CIAK Grupa d.d., Zagreb (the "Company") and subsidiaries:

Subsidiary	Country	Parent ownership	Ownership of the subsidiary	Group ownership
C.I.A.K. AUTO d.o.o. Gornji Stupnik	HR	100%		100%
C.I.A.K. AUTO d.o.o. Novi Sad	BiH		100% C.I.A.K. AUTO Gornji Stupnik	100%
C.I.A.K. AUTO d.o.o. Sarajevo	BiH		100% C.I.A.K. AUTO Gornji Stupnik	100%
AD ADRIA d.o.o. Gornji Stupnik	HR		100% C.I.A.K. AUTO Gornji Stupnik	100%
C.I.A.K. d.o.o. Zagreb	HR	100%		100%
C.I.A.K. d.o.o. Ljubljana	SLO		100% C.I.A.K.d.o.o. Zagreb	100%
C.I.A.K. d.o.o. Novi Sad	RS		100% C.I.A.K.d.o.o. Zagreb	100%
ADRIATIK ULJA d.o.o. Zagreb	HR		100% C.I.A.K.d.o.o. Zagreb	100%
TOP START d.o.o. Zagreb	HR		100% C.I.A.K.d.o.o. Zagreb	100%
C.I.A.K. d.o.o. Grude	BiH		100% C.I.A.K.d.o.o. Zagreb	100%
BENDJ TRADE d.o.o. Jajce	BiH		62% C.I.A.K. d.o.o. Grude	62%
GROSS RS d.o.o. Ljubinje	BiH		100% C.I.A.K. d.o.o. Grude	100%
AUTO DIJELOVI d.o.o. Mlini	HR		50% C.I.A.K.d.o.o. Zagreb	50%
CIAK TRUCK d.o.o. Donji Stupnik	HR	100%		100%
CIAK TRUCK d.o.o. Sarajevo	BiH		100% CIAK TRUCK d.o.o. Zagreb	100%
KAMIOLAND d.o.o. Ljubljana	SLO		50% CIAK TRUCK d.o.o. Zagreb	50%
CIAK TRUCK d.o.o. Novi Sad	BiH		100% CIAK TRUCK d.o.o. Zagreb	100%
CT servis d.o.o. Zagreb	HR		100% CIAK TRUCK d.o.o. Zagreb	100%
C.I.A.K. TRADE d.o.o. Sesvete	HR	100%		100%
C.I.A.K.-USLUGA d.o.o. Zagreb	HR	100%		100%

The structure of the Group for other presented periods is presented in more detail in the financial statements.

MANAGEMENT REPORT

1. BUSINESS RESULTS AND CIAK GROUP DEVELOPMENT

1.1. Business results of the Group

The table below presents the results of the Group's operations in 2017, 2018 and 2019, presenting the main positions of the Statement of comprehensive income:

Description	2017	2018	2019	Index
<i>(in thousands of HRK)</i>	1	2	3	3/2
Operating revenues and other income	822,446	958,285	1,001,062	104
Operating expenses	771,154	907,020	950,516	105
Finance income	9,994	8,801	2,966	34
Finance expenses	21,851	16,005	14,521	91
TOTAL INCOME	832,440	967,086	1,004,028	104
TOTAL EXPENSES	793,005	923,025	965,037	105
Profit before tax	39,435	44,061	38,991	88
Income tax	7,954	7,753	9,454	122
Profit after tax	31,481	36,308	29,537	115

Total consolidated revenues at the Group level in 2019 increased by HRK 37 million or 4% compared to the previous year.

1.2. Summary of the Group's assets

An overview of the Group's assets is shown in the following table:

Description	2017	2018	2019	Index
<i>(in thousands of HRK)</i>	1	2	3	3/2
Intangible assets	5,815	5,390	5,183	96
Property, plant and equipment	127,720	128,995	131,359	102
Right of use assets	56,745	62,444	70,489	113
Equity-accounted investees	2,669	3,022	-	-
Financial assets	3,065	5,213	539	10
Trade and other receivables	2,493	3,498	-	-
Deferred tax assets	5,820	5,820	5,820	100
Total non-current assets	204,327	214,382	213,390	100
Inventories	256,640	265,040	286,497	108
Financial assets	2,550	4,099	4,746	116
Trade and other receivables	161,254	190,593	180,971	95
Income tax receivable	296	788	911	116
Cash and cash equivalents	14,900	22,333	34,945	156
Non-current assets held for sale	2,949	189	404	214
Total current assets	438,589	483,042	508,474	105
Total assets	642,916	697,424	721,864	104

MANAGEMENT REPORT

1. REZULTATI POSLOVANJA I RAZVITAK CIAK GRUPE (nastavak)

1.3. Sources of the Group's assets

The sources of the Group's assets are as follows:

Description	2017	2018	2019	Index
<i>(in thousands of HRK)</i>	1	2	3	3/2
Share capital	14,920	14,920	134,064	899
Reserves	70,000	70,000	32,282	46
Retained earnings	48,133	82,402	11,219	14
Non-controlling interests	3,360	3,639	3,663	101
Total shareholders' equity	136,413	170,961	181,228	106
Borrowings	213,870	188,785	192,418	102
Provisions	1,273	193	22	11
Deferred tax liability	30	25	7	28
Total long-term liabilities	215,173	189,003	192,447	102
Trade and other payables	228,801	261,755	256,660	98
Income tax payable	3,966	2,155	3,350	155
Borrowings	58,563	73,550	88,179	120
Total short-term liabilities	291,330	337,460	348,189	103
Total equity and liabilities	642,916	697,424	721,864	104

1.4. Information about employees

The Group's human resources (workers) are the most valuable resource in addition to assets. As at 31 December 2019 the Group had 1,246 employees, on 31 December 2018 1,129 workers, and on 31 December 2017 1,043 workers.

Employee expenses relate to net salaries, costs of taxes and contributions from salaries and contributions on salaries. Other employee expenses relate to reimbursement of transportation costs and employee benefits.

Description	2017	2018	2019	Index
<i>(in thousands of HRK)</i>	1	2	3	3/2
Net salaries	65,293	80,338	89,863	112
Taxes and contributions	35,776	43,283	46,562	108
Other employee' costs	3,272	4,510	7,399	164
Total:	104,341	128,131	143,824	112

2. MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

2.1. Currency risk management

The Group is mainly exposed to the currency risk of changes in the exchange rate of HRK against EUR, BAM and RSD, due to the fact that it operates in foreign markets (Slovenia, B-H and Serbia) and most transactions with foreign customers and suppliers are denominated in these currencies. Loans and borrowings are partly denominated in EUR and partly in HRK, so the Group is also exposed to currency risk in relation to EUR.

In general, natural hedging is applied to manage the currency risk to which the Group is exposed, based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of the company's free cash flow (natural hedge). Furthermore, the Group applies the portfolio approach when selecting the combination of currencies in the debt portfolio, therefore in addition to loans and borrowings denominated in EUR, the Group contracts loans and borrowings denominated in HRK.

2.2. The Group's exposure to interest rate risk

The Group is exposed to interest rate risk as it borrows at both fixed and variable interest rates.

The Group does not speculate with interest rate movements, so it primarily chooses a variable interest rate.

However, there is a possibility to choose a fixed interest rate, or to choose longer interest periods. The Group actively manages interest rate risk exposures by continuously monitoring market interest rate movements and negotiating with commercial banks. In 2019, the Group refinanced the existing syndicated loan with long-term loans, which significantly reduced the costs and financing terms in 2019 and in the remaining years of loan repayment.

2.3. The Group's exposure to credit risk

Credit risk is the risk of non-payment or non-performance of contractual obligations by the Group's customers, which affects the possible financial loss of the Group. The Group's exposure to credit risk is mainly affected by the individual characteristics of each customer. Customer demographics, including the risk of the industry and the country in which the customer operates, have less of an impact on credit risk. The Group has a credit policy according to which the creditworthiness of each customer is analysed on an individual basis before determining the terms of payment and terms of delivery for the customer. The Group determines the allowance for trade receivables as an estimate of expected losses on trade receivables and other receivables and investments.

In relationship with customers, activities are carried out in order to protect against the risk of collection of receivables. Customers are assessed according to creditworthiness, financial indicators and creditworthiness, and in accordance with the obtained data and previous experience with customers, credit conditions are defined.

For categorization of customers and determination of credit conditions, data from official financial reports of customers and ratings of independent credit rating agencies are used. The exposure analysis is performed continuously and the credit exposure is monitored and controlled through credit limits that are changed and re-evaluated at least once a year. The Group collects payment security instruments from customers, wherever possible, in order to minimize possible credit risks due to non-payment of contractual obligations. Part of the customers, especially large customers of certain business segments (e.g. ecology, recycling) are also suppliers of the Group where regular compensations are carried out.

MANAGEMENT REPORT

2. MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED (continued)

2.4. The Group's exposure to liquidity risk and cash flow

The Management Board has the responsibility for liquidity risk management, and sets the appropriate framework for liquidity risk management with the aim of managing short-term, medium-term and long-term financing and liquidity requirements.

The Group manages liquidity risk by continuously maintaining adequate reserves and credit lines. Also, the Group continuously monitors and manages the maturities of trade receivables and trade payables. In addition, through working capital management and inventory level optimization, the Group aims to maximally use liquidity potential.

3. FINANCIAL POSITION AND PROFITABILITY INDICATORS OF THE GROUP

LIQUIDITY INDICATORS

Description	2017	2018	2019
Current assets	438,589	483,042	508,474
Short-term liabilities	291,330	337,460	348,189
Current ratio	1.51	1.43	1.46

Description	2017	2018	2019
Dugotrajna imovina	204,327	214,382	213,390
Equity and reserves + long-term liabilities	351,586	359,964	373,675
Financial stability ratio	0.58	0.60	0.57

DEBT INDICATORS

Description	2017	2018	2019
Total liabilities	506,503	526,463	540,636
Total assets	642,916	697,424	721,864
Indebtedness ratio	0.79	0.75	0.75

Description	2017	2018	2019
Capital and reserves	136,413	170,961	181,228
Total assets	642,916	697,424	721,864
Self-financing ratio	0.21	0.25	0.25

MANAGEMENT REPORT

3. POKAZATELJI FINANCIJSKOG POLOŽAJA, SIGURNOSTI I AKTIVNOSTI GRUPE (nastavak)

ASSET TURNOVER INDICATORS

Description	2017	2018	2019
Total income	832,440	967,086	1,004,028
Total assets	642,916	697,424	721,864
Total assets turnover ratio	1.29	1.39	1.39

Description	2017	2018	2019
Total income	832,440	967,086	1,004,028
Current assets	438,589	483,042	508,474
Current assets turnover ratio	1.90	2.00	1.97

Description	2017	2018	2019
Operating revenues	820,007	951,760	995,664
Trade receivables	139,117	163,795	150,589
Receivables turnover ratio	5.89	5.81	6.61

Description	2017	2018	2019
Number of days in year	365	365	366
Receivables turnover ratio	5.89	5.81	6.61
Receivables collection period in days	62	63	55

ECONOMIC AND PROFITABILITY INDICATORS (%)

Description	2017	2018	2019
Total income	832,440	967,086	1,004,028
Total expenses	793,005	923,025	965,037
Economic ratio	104.97%	104.77%	104.04%

Description	2017	2018	2019
Profit before tax	39,435	44,061	38,991
Total assets	642,916	697,424	721,864
Profitability ratio	6.13%	6.32%	5.40%

PRODUCTIVITY INDICATORS

Description	2017	2018	2019
Total income	832,440	967,086	1,004,028
Number of employees	1,043	1,129	1,246
Income-based labor productivity	798	857	806

Description	2017	2018	2019
Profit before tax	39,435	44,061	38,991
Number of employees	1,043	1,129	1,246
Profit-based labor productivity	38	39	31

4. OVERVIEW OF OTHER INFORMATION, EVENTS AND JUDGMENTS

4.1. Environmental protection

During 2019, there was no environmental incidents in the Group. The Group is continuously working on improving environmental protection and sustainable development. In that sense, the Group collects waste oils, used car tires, batteries and other hazardous and non-hazardous waste in appropriate containers and halls prepared for that purpose. Some of the subsidiaries, among other activities, are registered to perform waste management activities and have the necessary permits issued by the relevant ministries of the countries in which the subsidiaries are based.

4.2. Significant business events after the end of the business year 2019

Pandemic of COVID 19

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID – 19 presents to public health, the government of the Republic of Croatia has taken measures to contain the outbreak, which, in addition to a series of recommendations and guidelines from the Croatian Institute of Public Health (CIPH), include the formal restriction of movement of people within Croatian borders, restrictions on entry into Croatia, as well as the closure of certain industries and institutions, and the suspension or significant restriction of public and other transport.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Croatia, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Croatia and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In the context of the above, on 19 March 2020 and 3 April 2020, the Croatian government adopted a State aid program to counteract the negative effects of COVID 19 on the economy, which include, inter alia, deferral of payment and / or instalment payment of taxes, compulsory contributions and certain non-tax benefits, incentives for job retention and the granting of new liquidity loans for companies to finance wages, overheads and other operating expenses.

With the above conditions and incentives, the Group's management has taken steps to optimize operations and operating expenses, primarily in the area of other operating expenses, collection of trade receivables and credit risk management policy, regular payment of trade payables and supply of current operations and supply routes, all with the aim of neutralizing the potential consequences of the COVID 19 effect on the Group's operations. At the same time, according to the prescribed criteria, the Group used possible measures that were made available in the area of tax regulations and the Tax Administration, in the area of the Croatian Employment Service, as well as in the area of commercial banks.

4. OVERVIEW OF OTHER INFORMATION, EVENTS AND JUDGMENTS

4.2. Significant business events after the end of the business year 2019

With the combination of measures taken, the Group has successfully responded to the potential effect of COVID 19 on the Group's operations, and with the complete suspension of restrictive measures at the national level from mid-May 2020, the Group expects the positive trend to continue.

However, it is not possible to reliably predict the impact on the financial statements in future periods, i.e. in the second half of 2020, if external circumstances change or the epidemiological situation at the global level worsens.

4.3. Branches within the Group

Of all the members of the Group, subsidiaries C.I.A.K. d.o.o. Grude and C.I.A.K. AUTO d.o.o. Sarajevo have branches.

4.4. Purchase of own shares

Neither the Company nor the subsidiaries have purchased treasury shares.

5. EXPECTED GROUP DEVELOPMENT IN THE FUTURE

5.1. Adoption of annual business plans

The Group adopts its business plans for each business year, separately for sale of goods and ecology.

In 2020, the Group is engaged in expanding its business and taking a larger and better position in the market, both domestic and foreign in sale of goods and in ecology.

The Group expands its operations regionally in B-H, Serbia and Slovenia.

The Group's strategy is to expand the assortment range in the wholesale and business scope within ecology, and to ensure stable and sustainable business growth in the coming years.

5.2. Group activities in research and development

The Group pays special attention to the development and introduction of new technologies, as well as further training and development of quality and promising staff, to which by engaging funds for additional education enables the acquisition of further knowledge necessary in the fight against increasing competition.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare the consolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries ("the Group") and of the results of its operations and its cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

The Management Board is also responsible for the preparation of the Annual report and the Statement on implementation of the corporate governance code in accordance with the Croatian Accounting Act. The Annual report and the Statement on implementation of corporate governance code are authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its Annual report together with the annual consolidated and separate financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The separate financial statements of the Company are published separately and issued simultaneously with the annual consolidated financial statements.

The consolidated financial statements were authorised by the Management Board on 26 June 2020 for issue to the Supervisory Board and are signed below to signify this:

Ivan Leko
President of the Management Board

Dominik Leko
Member of the Management Board

Dalibor Bagarić
Member of the Management Board

Ivica Greguraš
Member of the Management Board

Ivan Miloš
Member of the Management Board

CIAK Grupa d.d.
Savska Opatovina 36
10 000 Zagreb
Croatia

Zagreb, 26 June 2020



Independent Auditors' Report to the shareholders of CIAK Grupa d.d.

Opinion

We have audited the consolidated financial statements of CIAK Grupa d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2019, 31 December 2018 and 31 December 2017, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 31 December 2018 and 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – comparative information

We draw attention to Note 2(i), Note 3.1.(i) and Note 4(ii) to the financial statements, which describe that the comparative information presented as at and for the years ended 31 December 2018 and 31 December 2017 has been restated from the financial information included in the respective financial statements of the Company for those respective years. In addition, the statement of financial position as at 1 January 2017, which has been derived from the financial statements as at and for the year ended 31 December 2016 (not presented herein), has also been restated for the same reasons, as presented in the above Notes. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The financial statements of the Group as at and for the year ended 31 December 2016, excluding the adjustments described in Appendix 1 sections (iii) and (iv) to the financial statements, were audited by another auditor who expressed an unmodified audit opinion on those financial statements on 6 July 2017.

As part of our audit of the financial statements as at and for the years ended 31 December 2019, 31 December 2018 and 31 December 2017 we audited the adjustments described in Appendix 1 that were applied to restate the statement of financial position as at 1 January 2017. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended 31 December 2016 or to the consolidated statement of financial position as at 1 January 2017, other than with respect to the adjustments described in Appendix 1 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Appendix 1 are appropriate and have been properly applied.



Independent Auditors' Report to the shareholders of CIAK Grupa d.d. (continued)

Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 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 Group or to cease operations, or has no realistic alternative but to do so.

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



Independent Auditors' Report to the shareholders of CIAK Grupa d.d. (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 International Standards on Auditing, 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG Croatia d.o.o. za reviziju

26 June 2020

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019**

<i>(in thousands of HRK)</i>	<i>Note</i>	2019	<i>*restated</i> 2018	<i>*restated</i> 2017
Operating revenues	7	995,664	951,760	820,007
Other income	8	5,398	6,525	2,439
Material expenses	9	(682,517)	(672,102)	(567,170)
Employee expenses	11	(143,824)	(128,131)	(104,341)
Depreciation and amortisation		(34,342)	(31,156)	(25,175)
Other operating expenses	10	(89,833)	(75,631)	(74,468)
Operating profit		50,546	51,265	51,292
Finance income	12	2,966	8,801	9,994
Finance costs	13	(14,521)	(16,005)	(21,851)
Net finance expense		(11,555)	(7,204)	(11,857)
Profit before tax		38,991	44,061	39,435
Income tax	14	(9,454)	(7,753)	(7,954)
Net profit for the year		29,537	36,308	31,481
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Foreign operations - foreign translation differences		367	(687)	206
Total comprehensive income		29,904	35,621	31,687
Profit attributable to:				
Equity holders of the parent		29,474	36,006	31,077
Non-controlling interests		63	302	404
Total comprehensive income attributable to:				
Equity holders of the parent		29,880	35,342	31,283
Non-controlling interests		24	279	404
Earnings per share (in HRK):				
Basic		2.20	2.69	2.32
Diluted		2.20	2.69	2.32

**for restatements see Appendix 1.*

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017, 2018 AND 2019

<i>(in thousands of HRK)</i>			<i>*restated</i>	<i>*restated</i>	<i>*restated</i>
	<i>Note</i>	31 December 2019	31 December 2018	31 December 2017	1 January 2017
ASSETS					
Non-current assets					
Intangible assets	15	5,183	5,390	5,815	5,914
Property, plant and equipment	16	131,359	128,995	127,720	125,158
Right of use assets	17	70,489	62,444	56,745	43,326
Equity-accounted investees	19	-	3,022	2,669	2,415
Financial assets	20	539	5,213	3,065	-
Trade and other receivables	22	-	3,498	2,493	2,493
Deferred tax assets	14	5,820	5,820	5,820	5,820
Total non-current assets		213,390	214,382	204,327	185,126
Current assets					
Inventories	21	286,497	265,040	256,640	202,179
Financial assets	20	4,746	4,099	2,550	936
Trade and other receivables	22	180,971	190,593	161,254	138,449
Income tax receivable		911	788	296	1,855
Cash and cash equivalents	23	34,945	22,333	14,900	14,519
Non-current assets held for sale	24	404	189	2,949	273
Total current assets		508,474	483,042	438,589	358,211
Total assets		721,864	697,424	642,916	543,337
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	25	134,064	14,920	14,920	14,920
Reserves	26	32,282	70,000	70,000	-
Retained earnings	27	11,219	82,402	48,133	17,627
Attributable to equity holders of the parent		177,565	167,322	133,053	32,547
Non-controlling interests	28	3,663	3,639	3,360	2,956
Total shareholders' equity		181,228	170,961	136,413	35,503
Long-term liabilities					
Borrowings	29	192,418	188,785	213,870	124,051
Provisions	30	22	193	1,273	757
Deferred tax liability	14	7	25	30	30
Total long-term liabilities		192,447	189,003	215,173	124,838
Short-term liabilities					
Trade and other payables	31	256,660	261,755	228,801	126,811
Income tax payable		3,350	2,155	3,966	3,620
Borrowings	29	88,179	73,550	58,563	252,565
Total short-term liabilities		348,189	337,460	291,330	382,996
Total liabilities		540,636	526,463	506,503	507,834
Total equity and liabilities		721,864	697,424	642,916	543,337

**for restatements see Appendix 1.*

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019**

<i>(in HRK thousands)</i>	Share capital	Capital reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2017 (restated)	14,920	-	17,627	32,547	2,956	35,503
<i>Comprehensive income</i>						
Profit for the year	-	-	31,077	31,077	404	31,481
Foreign exchange differences	-	-	206	206	-	206
Other comprehensive income	-	-	206	206	-	206
Total comprehensive income	-	-	31,283	31,283	404	31,687
<i>Transactions with owners recognised directly in equity</i>						
Increase of capital reserves	-	70,000	-	70,000	-	70,000
Declared dividend	-	-	(777)	(777)	-	(777)
Total transactions with owners recognised directly in equity	-	70,000	(777)	69,223	-	69,223
As at 31 December 2017 (restated)	14,920	70,000	48,133	133,053	3,360	136,413
<i>Comprehensive income</i>						
Profit for the year	-	-	36,006	36,006	302	36,308
Foreign exchange differences	-	-	(687)	(687)	(23)	(710)
Other comprehensive income	-	-	(687)	(687)	(23)	(710)
Total comprehensive income	-	-	35,319	35,319	279	35,598
<i>Transactions with owners and transfers recognised directly in equity</i>						
Declared dividend	-	-	(1,050)	(1,050)	-	(1,050)
Total transactions with owners recognised directly in equity	-	-	(1,050)	(1,050)	-	(1,050)
As at 31 December 2018 (restated)	14,920	70,000	82,402	167,322	3,639	170,961
<i>Comprehensive income</i>						
Profit for the year	-	-	29,474	29,474	63	29,537
Foreign exchange differences	-	-	367	367	(39)	328
Other comprehensive income	-	-	367	367	(39)	328
Total comprehensive income	-	-	29,841	29,841	24	29,865
<i>Transactions with owners and transfers recognised directly in equity</i>						
Allocation from retained earnings and capital reserves	119,144	(61,844)	(57,300)	-	-	-
Transfer	-	24,126	(24,126)	-	-	-
Distribution to the owner	-	-	(16,398)	(16,398)	-	(16,398)
Declared dividend	-	-	(3,200)	(3,200)	-	(3,200)
Total transactions with owners recognised directly in equity	119,144	(37,718)	(101,024)	(19,598)	-	(19,598)
As at 31 December 2019	134,064	32,282	11,219	177,565	3,663	181,228

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019**

<i>(in thousands of HRK)</i>	<i>Note</i>	2019	<i>*restated</i> 2018	<i>*restated</i> 2017
Profit after tax		29.537	36.308	31.481
Income tax	14	9.454	7.753	7.954
Depreciation and amortization	15, 16, 17	34.342	31.156	25.175
Write off of property, plant and equipment		1.749	865	296
Write off of intangible assets		-	31	45
(Gain)/loss on disposal of property, plant, equipment and intangibles		(368)	222	(544)
Income from share in profit		-	(664)	(588)
Impairment of trade and other receivables	10	4.014	685	889
Net change in provisions		(171)	(1.080)	516
(Gain)/loss on disposal of joint ventures		313	-	-
Unrealised exchange rate differences		1.334	566	1.765
Interest income	12	1.174	1.791	2.654
Interest expense	13	11.142	14.445	16.057
		92.520	92.078	85.700
Changes in working capital:				
Trade and other receivables		5.822	(33.002)	(28.840)
Inventories		(20.308)	(9.592)	(55.760)
Trade and other payables		(24.438)	27.161	46.598
Cash generated from operations		53.596	76.645	47.698
Interest paid		(9.678)	(12.163)	(15.285)
Income taxes paid		(8.400)	(10.061)	(6.049)
Net cash from operating activities		35.518	54.421	26.364
Cash flows from investing activities				
Purchase of intangibles		(1.353)	(1.124)	(1.368)
Purchase of property, plant, equipment		(17.145)	(10.359)	(18.473)
Proceeds from sale of property, plant, equipment		368	2.538	544
Acquisition of subsidiary net of cash		(632)	(732)	-
Net change in deposits		4.704	(1.556)	(3.380)
Loans given		(186)	(1.487)	(32)
Proceeds from loans given		3.406	1.183	190
Proceeds from sale of joint ventures		1.420	-	-
Dividends received		254	311	334
Interest received		173	702	2.334
Net cash used in investing activities		(8.991)	(10.524)	(19.851)
Cash flows from financing activities				
Loans received	29	68.883	22.119	32.654
Loans repaid	29	(60.072)	(38.773)	(26.127)
Lease liabilities paid	29	(19.526)	(18.760)	(11.882)
Dividends paid	27	(3.200)	(1.050)	(777)
Net cash used in financing activities		(13.915)	(36.464)	(6.132)
Net increase of cash and cash equivalents		12.612	7.433	381
Cash and cash equivalents at beginning of year		22.333	14.900	14.519
Cash and cash equivalents at the end of year	23	34.945	22.333	14.900

**for restatements see Appendix 1.*

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019**

NOTE 1 – GENERAL INFORMATION

History and incorporation

CIAK Grupa d.d., Zagreb (formerly named Direkt d.o.o., “the Company”) is incorporated in the Republic of Croatia on 14 January 1999. The principal activities of the Company and its subsidiaries (together referred to as “the Group”) comprise wholesale and retail of automotive parts as well as waste management.

The Group is headquartered in Zagreb, Croatia, Savska opatovina 36.

By the decision on legal transformation of 27 December 2019, the Company was transformed from a limited liability company into a joint stock company which was registered at the Commercial Court in Zagreb on 2 January 2020 and the Company changed its name to CIAK Grupa d.d.

The shareholder structure is shown in note 25.

Corporate governance and management

General Assembly

The General Assembly of the Company consists of the shareholders of CIAK Grupa d.d.

Supervisory Board

During 2017 and 2018 the Company did not have a Supervisory Board function. The Supervisory Board was formed on 27 December 2019. The members of the Supervisory Board since the date it was formed and until the date of these financial statements were as follows:

President	Stjepan Ljatifi (appointed 27 December 2019)
Deputy President	Vjekoslav Mesaroš (appointed 6 May 2020)
Member	Slavica Zrinski (appointed 27 December 2019)
Member	Đurđica Meglajec (appointed 27 December 2019)
Member	Damir Kos (appointed 6 May 2020)

Management Board

During 2017, 2018 and 2019 the Company was managed by a sole Director but formed a Management Board consisting of multiple members on 27 April 2020. The Directors and Management Board members of the Company during 2017, 2018 and 2019 and up to the date of these financial statements were as follows:

President of the Management Board	Ivan Leko (appointed 27 April 2020)
Member of the Management Board	Dominik Leko (sole Director of the Company until 27 April 2020)
Member of the Management Board	Dalibor Bagarić (appointed 27 April 2020)
Member of the Management Board	Ivica Greguraš (appointed 27 April 2020)
Member of the Management Board	Ivan Miloš (appointed 27 April 2020)

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”). The separate financial statements the Company is required to prepare in accordance with EU IFRS are published separately and issued simultaneously with these consolidated financial statements.

These are the first financial statements of the Group showing the consolidation of all companies under common control of the Group and / or its majority owner. IFRS 15: *Revenue from Contracts with Customers* and IFRS 9: *Financial Instruments* have been applied from 1 January 2018 while IFRS 16: *Leases* has been applied retrospectively from the beginning of the first reporting period (1 January 2017).

In these financial statements, the Company made restatements based on changes in significant accounting policies, corrections of errors in previous periods and adjustments arising from the merger of entities under common control and the reorganization of the Group. The effects of the restatements are presented in more detail in Appendix 1 to these financial statements.

(ii) Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis, except where stated otherwise (see note 6).

(iii) Functional and presentation currency

These financial statements are prepared in the Croatian kuna (“HRK”), which is also the functional currency, rounded to the nearest thousand.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied to all the years presented in these consolidated financial statements. Changes in the Group’s accounting policies applied for the first time in the 2019 financial statements are discussed in note 4.

3.1 Basis of consolidation

These consolidated financial statements are presented for the Group using a retrospective consolidation approach on the basis of common control of the Company and its majority owner as described in more detail as follows.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

(i) Group structure and scope of consolidation

As at the reporting dates, the Company held the following ownership interests in controlled entities:

Entity	Country	2019		2018		2017	
		*DOI %	*EOI %	*DOI %	*EOI %	*DOI %	*EOI %
C.I.A.K. auto d.o.o.	HR	100%	100%		100%		100%
Gas d.o.o.	***		100%		100%		100%
C.I.A.K. Auto d.o.o. (C.I.A.K. d.o.o.)	BiH		100%		100%		100%
AD Adria d.o.o.	**		100%		100%		100%
C.I.A.K. Auto Srbija d.o.o.	RS		100%		-		-
Promotehna d.o.o.	**/**		100%		100%		-
Auto shop d.o.o.	***		100%		-		-
C.I.A.K. d.o.o.	HR	100%	100%	100%	100%	100%	100%
C.I.A.K. d.o.o.	RS		100%	100%	100%	100%	100%
C.I.A.K. d.o.o.	SLO		100%	100%	100%	100%	100%
C.I.A.K. d.o.o. (Grioss d.o.o.)	BiH		100%		100%		100%
Grioss RS d.o.o.	BiH		100%		100%		100%
Bendj trade d.o.o.	BiH		62%		62%		62%
Top start d.o.o.	**		100%		100%		100%
Maxima culpa d.o.o.	***		100%		100%		100%
Reciklon d.o.o.	***		100%		100%		100%
Autodijelovi d.o.o.	HR		50%		50%		50%
Autoset d.o.o.	**/**		100%		100%		100%
Adriatik ulja d.o.o.	HR		100%		100%		100%
Gumiplast-tehno d.o.o.	***		100%		100%		100%
SIN Trade d.o.o.	***		100%		100%		100%
Auto Spas d.o.o.	***		100%		100%		-
Automar d.o.o.	***		100%		100%		-
CIAK Truck d.o.o.	**	100%	100%		100%		100%
C.I.A.K. Truck (Kamioland)	**		50%		50%		50%
C.I.A.K. Truck Srbija d.o.o.	**		100%		100%		100%
C.I.A.K. Truck Servis	**		100%		100%		100%
C.I.A.K. Truck	**		100%		100%		100%
Ignotus d.o.o.	**/**		100%		100%		100%
C.I.A.K. trade d.o.o.	HR	100%	100%		100%		100%
C.I.A.K.-USLUGE D.O.O.	**	100%	100%		-		-

*DOI = direct ownership interest of parent company / EOI = effective ownership interest of parent company.

** Ownership interests in these entities were held by the majority owner of the Company directly until 2019 when they were transferred to the Company. Accordingly, these entities had not been included in the consolidated financial statements of the Company in prior periods.

***The companies were during 2019 merged with other companies within the Group.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

(i) Group structure and scope of consolidation

In previous periods, the Company prepared consolidated financial statements under EU IFRS which included only entities controlled by the Company. Entities that were under the control of the majority owner of the Company were not included in the consolidated financial statements of the Company in previous years.

As at the end of 2019, corporate restructuring of the Group was completed whereby ownership over all entities directly owned by the majority owner of the Company was transferred to either the Company or its subsidiaries. Following the corporate restructuring in 2019, management determined that it was appropriate for the Group to restate its comparatives to account for the transferred entities under common control as if the transfers had occurred before the start of the earliest period presented (subject to the entities being under common control for the entire comparative period)..

In preparing the consolidated financial statements for the year ended 31 December 2019, comparative information for prior periods has been restated to reflect the consolidation of all Group entities that were previously not legally owned the Group but that were under common control the majority owner of the Company during those comparative periods. The net assets of the transferred entities are recognised using the book values as reported in the separate financial statements of the transferred entities, net of consolidation entries need to eliminate intergroup transactions and balances within the expanded reporting Group. The Issued capital of the transferred entities are presented within retained earnings in periods prior to the reorganisation of the Group under the current parent company. The method of consolidation for all entities controlled by the Company is described above in comments to the Group structure.

The restatements arising from the retrospective consolidation under the common control assumption on the previously reported consolidated financial statements are disclosed in paragraph (iii) of Appendix 1 to these financial statements.

(ii) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases.

(iii) Business combinations

The Group uses the acquisition method of accounting to account for business combinations (other than business combinations under common control). The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in the statement of comprehensive income as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Non-controlling interests

Non-controlling interests are initially measured by their proportionate share of recognised net assets of the acquiree at the acquisition date. Changes in the Group's share in the subsidiary that do not result in loss of control are accounted for as transactions to owners.

(v) Loss of control over subsidiaries

When the Group loses control of a subsidiary, the subsidiary's assets and liabilities and all related non-controlling interests and other equity items are derecognised. Gains or losses are recognized in the income statement. Retained share in the former subsidiary is measured at fair value when control is lost.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 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 loss, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.3 Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets and liabilities directly associated with those assets) are classified in the statement of financial position as 'held for sale' if it is highly probable that their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date rather than through continuing use. Non-current assets classified as held for sale in the current period's consolidated statement of financial position are not reclassified in the comparative consolidated statement of financial position.

Held-for-sale property, plant and equipment or disposal groups as a whole are generally measured at the lower of their carrying amounts and fair values less costs to sell or distribute. Held-for-sale property, plant and equipment are not depreciated.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised net of value-added tax, volume rebates, trade discounts and returns.

The Group has initially applied IFRS 15 from 1 January 2018 and the effect of initially applying IFRS 15 is described in Note 4. The adoption of IFRS 15 had no significant impact on the financial statements of the Group.

(i) Revenue from wholesale and retail of merchandise

The Group sells trade goods of third parties (for which the Group is a distributor) as part of its wholesale and retail activities. Revenue is recognised when the Group has delivered the products to the customer, there is no continuing management involvement over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the control has been transferred to the customer and either of the following has occurred: the customer has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied. The most common parity is the CIP, where the control is transferred to the customer at the moment the goods are delivered and the delivery note is confirmed upon the transfer of goods.

Products are sold with volume discounts and customers have a right to return products in case of defects. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised. The right to recover returned goods asset is measured at the former carrying amount of the inventory. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Sales are recorded based on the price specified in the sales contracts, net of estimated volume rebates and trade discounts and returns. The volume discounts are assessed based on contracts with customers. No element of financing is deemed present in the sales.

Retail sales are usually in cash or by credit card.

(ii) Revenue from services

The Group generates revenue from services primarily through sales of services such as waste management and vehicle related services (repairs and similar). Revenue from waste management services is recognised at a point in time when the services is completed (generally when the waste has been collected for processing or delivered for processing to third parties as is the case with special and hazardous waste). Revenues from vehicle related services are recognised over time, by reference to stage of completion calculated on the basis of the actual services provided as a proportion of the total services to be provided and are mostly rendered within a very short timeframe of one to several days.

(iii) Finance income

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases - Group as a lessee

The Group has applied IFRS 16 Leases using the full retrospective approach and therefore the comparative information has been restated to reflect the requirements of IFRS 16.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in separate line items in the statement of financial position.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases - Group as a lessee (continued)

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.6 Foreign currency transactions

(i) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the date of transaction.

(ii) Group companies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Croatian kuna ("HRK"), which is also the Company's functional currency.

Income and expense items and cash flows of foreign operations are translated into the Company's and Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions and their assets and liabilities are translated at the exchange rates ruling at the year end. All resulting exchange differences are recognised in a separate component of equity. The applicable foreign exchange rates for relevant currencies are included within currency risk disclosures.

When a foreign operation is sold, such exchange differences are released in profit or loss as part of the gain or loss on sale of foreign operations.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or loss already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.8 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

3.9 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in sales of related products or services (business segment) or in sales of products and services within a particular economic environment (geographical segment) and is subject to risks and rewards that are different from those of other segments.

At the consolidated level, the Group internally monitors and reports the following segments:

- Auto program – vehicles
- Truck program
- Batteries, oils and similar
- Wholesale
- Ecology

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Director or the Management Board of the Company) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in note 7 to the consolidated financial statements. Comparative information is presented using the comparability principle.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the statement of other comprehensive income or in equity.

Income tax for the current year is calculated on the basis of the tax laws enacted at the balance sheet date in countries where the Company and its subsidiaries operate and earn taxable profit.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries, and interests in joint arrangements, are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilised, while liabilities are recognised only to the extent that the entity is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax asset recognised on the basis of tax losses carried forward is recognised in accordance with tax legislation of the country where the company operates for the period envisaged by the law and is discharged at the expiry of this period if it is not used until then.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) Value added tax (VAT)

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the consolidated statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount receivable, including VAT.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property, plant and equipment

Property, plant and equipment are included in the consolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 to 40 years
Plant and equipment	2 to 10 years
Transport assets	4 to 10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date and when necessary.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.14).

Gains and losses on disposals are determined as the difference between the income from the disposal and the asset's carrying amount, and are recognised in profit or loss within other income/expenses.

3.12 Intangible assets

Intangible assets are included in the consolidated statement of financial position at cost less accumulated amortisation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives estimated at 5 years.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (apart from inventories and deferred taxes) 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the “cash-generating unit” (“CGU”) 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is expensed immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so 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 CGU) in prior years. A reversal of an impairment loss is recognized as income immediately.

3.14 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average cost method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Merchandise is carried at the lower of purchase cost and selling price (less applicable taxes and rebates).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the consolidated statement of financial position.

3.16 Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of those transactions. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

In case the Group purchases its own share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3.17 Employee benefits

(i) Short-term employee benefits

The Group recognises a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(ii) Pension obligations and post-employment benefits

In the normal course of business, the Group makes payments to mandatory pension funds operated by third parties on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group is not obliged to provide any other post-employment benefits with respect to these pension schemes and they are therefore treated as defined contribution plans.

3.18 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments

A. Financial assets

Policy applicable from 1 January 2018

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial assets is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

A. Financial assets (continued)

Policy applicable from 1 January 2018 (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Trade receivables are held in the business model of holding for the purpose of collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, relevant for the purpose of classifying financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the main criterion, i.e. whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The structure of the Group's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks at fixed interest rates, while forward contracts are of insignificant amount. This significantly reduces the complexity of the assessment whether the financial assets meet the criterion of 'solely payments of principal and interest'.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

A. Financial assets (continued)

Policy applicable from 1 January 2018 (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

The table below provides an overview of key provisions of the accounting policy used by the Group for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Policy applicable up to 1 January 2018

The Group has mainly classified its financial assets as loans and receivables.

An overview of the key provisions of the accounting policy that the Group applied until 1 January 2018 regarding subsequent measurement and recognition of gains and losses on the financial assets is shown in the following table:

Loans and receivables	It was measured at amortised cost using the effective interest method.
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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

Debt securities are initially recognised when they are originated. All other financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Application of IFRS 9

The application of IFRS 9 did not have a significant impact on the Group's accounting policies in relation to the financial liabilities as outlined above.

C. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

D. Impairment of non-derivative financial assets

Policy applicable from 1 January 2018 (continued)

Recognition of impairment losses

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if early warning indicators have been activated in accordance with the Group's policy or contractual terms of the instrument.

The Group considers a financial asset to be fully or partially in default if:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due based on historical experience of average market participant.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate) separately for each of the Group's companies. The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

D. Impairment of non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no recovery of the amount written off.

Policy applicable before 1 January 2018

Financial assets not classified as assets at FVTPL are assessed at each reporting date to determine whether there are objective evidences of impairment. The objective evidences on impairment of financial assets included:

- outstanding liabilities or delay in payment by the borrower;
- restructuring of the amount of liabilities to the Group under conditions the Group would not have considered in normal circumstances;
- indications that the borrower or issuer could enter bankruptcy;
- adverse changes in the payment status of borrower or issuer;
- disappearance of an active market for a particular security due to financial difficulties; or
- existence of available data indicating a measurable decrease in expected cash flows from a specific group of financial assets.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial instruments (continued)

D. Impairment of non-derivative financial assets (continued)

Policy applicable before 1 January 2018 (continued)

An overview of the key provisions of the policy that was applicable before 1 January 2018 regarding impairment of non-derivative financial assets relevant to the Group is shown in the following table:

Financial assets at amortised cost	<p>The Group has considered evidence on impairment of these assets at the individual and at the collective level. All individually significant assets are individually assessed with regard to impairment. The assets that were not individually significant were collectively assessed for impairment. The collective assessment was carried out by grouping the assets with similar risk characteristics.</p> <p>In assessing the collective impairment, the Group used historical information on recovery period and the amount of incurred losses and executed adjustments if current economic and credit conditions were such that the actual losses would probably be higher or lower than historical trends.</p> <p>An impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the asset at initial recognition. Losses are recognized in profit or loss and are shown on the impairment account. When the Group considered that there is no real chance for the recovery of assets, the corresponding amounts were written off. If the amount of the impairment loss subsequently decreased and if the reduction was objectively associated with an event after the recognition of impairment, the previously recognised impairment loss was reversed through profit or loss.</p>
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NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(i) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated and separate financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

(ii) Changes in significant accounting policies

IFRS 16 Leases

The Group has initially adopted IFRS 16 Leases in its financial statements for year ended 31 December 2019 applying a full retrospective approach as if IFRS 16 had been applicable from the inception of all relevant lease arrangements. Accordingly, the comparative information presented for 2018 and 2017, as at 1 January 2018 and 1 January 2017, as previously reported under IAS 17 and related interpretations, is restated. Additionally, the disclosure requirements in IFRS 16 have generally been applied to comparative information. The details of the changes in accounting policies are disclosed below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group recognised new assets and liabilities for its operating leases of business premises, plant and equipment and transport assets. The nature of expenses related to those leases the Group is recognising as the depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Details of changes in accounting policies are set out below.

A. Definition of lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in the notes.

On transition to IFRS 16, the Group elected to apply the full retrospective approach without practical expedients, other than for low value leases such as IT and office equipment. Therefore, the definition of a lease under IFRS 16 was applied to all contracts which existed as at the earliest period reported in this financial statements, 1 January 2017 as well as to all contracts entered into after this date.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in significant accounting policies (continued)

IFRS 16 Leases (continued)

B. As a lessee

As a lessee, the Group has contracts for the lease of business premises, plant and equipment and transport assets. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i. Leases classified as operating leases under IAS 17

Previously, the Group classified leases of business premises, plant and equipment and transport assets as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2017. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets should be impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

Leases classified as finance leases under IAS 17 were reclassified to right of use asset and lease liabilities as at 1 January 2017.

C. Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is presented and explained paragraph (iv) of Appendix 1 to the financial statements.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2017. The weighted-average rate applied is 4.3%.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in significant accounting policies (continued)

The Group has initially applied IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* from 1 January 2018. Except as described below, the accounting policies applied in these financial statements are the same as those applied in the financial statements of the Group for the year ended 31 December 2017.

Due to the transition methods chosen by the Company in applying these standards, the comparative information in these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, when and how much revenue is recognised. It replaces the existing guidelines for the recognition of revenue, including IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations.

According to IFRS 15, revenue is recognised in a way that shows the pattern of goods and services transfer to the customers. The amount recognised should reflect the amount that the entity expects to be entitled to in return for those products and services. The previously stated in respect of the Group's business model, is consistent with the accounting policies that the Group previously applied concerning the revenue recognition. Consequently, the adoption of IFRS 15 has had no significant impact on the Group's financial statements for the current and previous period, nor had an significant impact on the Group's accounting policies for revenue recognition. Also, to a small extent, in accordance with the requirements of IFRS 15, the Group has expanded disclosures related to revenue derived from the customers in these financial statements.

The adoption of IFRS 15 was carried out using the cumulative effect method (without practical exceptions), with the beginning of application of this standard as at 1 January 2018. The application of the standard has not led to significant impact on the comprehensive income statement or cash flow statement for 2018.

IFRS 9 Financial instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial instruments*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial instruments: recognition and measurement*.

Details of the new significant accounting policies and the nature and effects of changes in the previous period relating to items relevant to the Group, are listed below.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: assets measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates certain categories of assets that existed under IAS 39, such as: held to maturity assets, loans and receivables, and available for sale assets.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in significant accounting policies (continued)

IFRS 9 Financial instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

In accordance with the new requirements of the standard related to the classification of financial assets, the financial assets of the Group that were classified as "loans and receivables" and "cash and cash equivalents" until 1 January 2018, are reclassified in the financial assets at amortised cost. The reclassification did not have any effect on the amounts in the financial statements.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities and there were no effects on the financial statements in this respect.

ii. Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments valued at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Additional information on how the Group measures the value correction is described in Note 3.19.

iii. Transitional provisions

The Group has applied a retrospective approach for the adoption of IFRS 9, however, as there is no significant impact on the Group as a result of the adoption, comparative information has not been restated. As a result, the information presented on 31 December 2017 reflects the requirements of IFRS 9 and is therefore comparable with the information presented for the period ended 31 December 2018.

Given the simplicity of the structure of financial assets and financial liabilities, the application of the standard has not required significant and more complex assessments by management.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgments made by management in the application of EU IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed more detail below.

(i) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgments and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

(ii) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

The Group regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Group reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part. In cases where the Group identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Group impairs undue regular external trade receivables and past due uncollected receivables up to 360 days from the maturity date.

In the process of regulating the collection of overdue debts, the Group actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets, etc.

NOTE 6 – DETERMINATION OF FAIR VALUES

The Group has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* - inputs other than quoted prices included in level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - input variables for assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 7 – SALES REVENUE

	2019	restated 2018	restated 2017
	<i>in HRK thousand</i>		
Revenue from products	918,448	880,137	756,326
Waste management services	54,356	54,064	48,317
Revenue from other services	20,450	14,750	14,858
Other	2,410	2,809	506
	995,664	951,760	820,007

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and the nature of the distribution and sales channel and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

- Auto program – vehicles
- Truck program
- Batteries, oils and similar
- Wholesale
- Ecology

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales and revenues between segments. Intra-segment revenues are eliminated on consolidation.

	Segment revenues			Segment profits		
	2019	restated 2018	restated 2017	2019	restated 2018	restated 2017
<i>(in thousands of HRK)</i>						
Auto program - vehicles	519,493	438,317	349,309	29,706	22,667	19,140
Truck program	169,138	146,754	121,981	1,992	4,532	7,309
Batteries, oils and similar	266,418	271,467	252,735	7,479	7,905	5,718
Wholesale	53,606	60,978	56,357	3,131	3,147	4,925
Ecology	166,587	185,969	166,302	21,421	20,241	23,545
	1,175,242	1,103,485	946,684	63,729	58,492	60,637
Inter-segment revenues	(179,578)	(151,725)	(126,677)	-	-	-
	995,664	951,760	820,007	63,729	58,492	60,637
Finance income				2,966	8,801	9,994
Finance expenses				(14,521)	(16,005)	(21,851)
Central administration and other costs				(13,183)	(7,227)	(9,345)
Profit before tax				38,991	44,061	39,435

The segment Ecology includes sales of products in 2019 in the amount of HRK 105,186 thousand (2018: HRK 121,237 thousand; 2017: HRK 110,546 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 7 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

The segment "Auto program – vehicles" operates as a retail channel for sales of auto parts in the "Independent Aftermarket" (IAM), i.e. market for repair and maintenance of vehicles. Typical products are brakes, filters, wipers, shock absorbers, lights, suspension parts, batteries, tires, oils, antifreeze, accessories, etc.

Truck program operates as wholesale of truck parts in the IAM. Typical products are brakes, filters, wipers, shock absorbers, lights, suspension parts, batteries, tires, oils, antifreeze, accessories, etc.

Generators, oils and similar includes the wholesale of batteries, industrial batteries, oils, lubricants and other automotive equipment such as brooms, additives, etc. through several sales channels: wholesale in the IAM, wholesale to products end users, wholesale to gas stations and retail.

Wholesale segment relates to wholesale to large retail chains which includes sales of car supplies (e.g. car cosmetics, windshield washer fluid, steering wheel covers, batteries, etc.), textiles (bedding, towels, blankets, etc.), garden program (mowers, trimmers, flaxers, saws) to retail chains.

Ecology comprises two sub-segments: recycling and waste management. The recycling operations relate to the recycling of accumulators and industrial batteries at the Recycling Center in Zabok, which is the only closed system for recycling accumulators and batteries in Croatia. Waste management includes the collection, treatment and disposal of hazardous and non-hazardous waste (e.g. motor oils, filters, grease, etc.), remediation of contaminated sites, maintenance of industrial plants, consulting services related to hazardous waste, etc.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, other income, other expenses, finance expenses, and income tax expense.

Geographical information

The Group operates in four principal geographical areas by which it reports third-party sales:

<i>(in thousands of HRK)</i>	2019	restated 2018	restated 2017
Croatia	825,528	778,241	665,593
Serbia	82,732	76,939	59,480
Bosnia and Herzegovina	59,548	71,255	73,002
Slovenia	27,856	25,325	21,932
	995,664	951,760	820,007

Top 20 customers participate in 17% (2018: 20%; 2017: 22%) of the external sales whereby the Group does not have a significant exposure to any single customer.

Non-current assets (intangible assets, property, plant and equipment and right of use assets) based on the geographical areas are presented as follows:

<i>(in thousands of HRK)</i>	2019	restated 2018	restated 2017
Croatia	179,414	173,472	166,134
Serbia	7,937	6,066	6,108
Bosnia and Herzegovina	18,703	15,994	16,701
Slovenia	977	1,297	1,337
	207,031	196,829	190,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 8 – OTHER INCOME

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Income from damage claims	2,184	2,237	1,105
Rent income	1,538	280	156
Subsidies	156	351	197
Gain from sale of non-current assets	368	2,538	544
Write-off of liabilities	329	787	218
Other income	823	332	219
	5,398	6,525	2,439

NOTE 9 – MATERIAL COSTS

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Cost of goods sold	571,313	564,611	473,627
Raw materials and consumables used	111,204	107,491	93,543
	682,517	672,102	567,170

NOTE 10 – OTHER OPERATING EXPENSES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Transport and logistics	18.847	19.966	18.560
Rent expense	4.043	4.936	5.729
Utilities and fees	2.314	2.023	1.652
Advertising and similar costs	7.981	6.608	6.730
Maintenance	6.256	5.993	5.243
Vehicle and similar repairs	5.739	3.355	4.209
Impairment	4.014	685	889
Intellectual services	4.114	3.326	3.166
Banking and similar charges	3.280	3.180	3.385
Entertainment	3.597	3.780	2.988
Vehicle costs	5.188	4.128	2.640
Taxes, fees and similar charges	2.790	2.734	2.734
Telecommunications and postal services	2.742	2.744	2.441
Insurance	2.616	2.434	2.095
Daily subsistence allowances and other travel expenses	2.332	2.016	1.771
Inventory surpluses / shortfalls	1.489	(537)	(115)
Membership fees, fees and similar charges	1.476	1.018	1.700
Office materials	1.311	1.260	1.564
Increase/(decrease) in provisions	(18)	(912)	688
Security services	862	682	667
Authors fee	539	295	60
Damage compensation	312	3	104
Donations	213	218	191
Legal expenses	134	120	287
Penalties and damages	59	118	26
Other costs	7.603	5.458	5.064
	89.833	75.631	74.468

Increase/(decrease) in provisions mainly relate to warranty provisions.

Other costs mainly relate to other services and administrative expenses whereby the most significant amounts relate to other vehicle services and office materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 11 – EMPLOYEE EXPENSES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Net salaries	89,863	80,338	65,293
Taxes and contributions	46,562	43,283	35,776
Other employee' costs	7,399	4,510	3,272
	143,824	128,131	104,341

As at 31 December 2019, the number of staff employed by the Group was 1,246 (2018: 1,129; 2017: 1,043), while the average number of employees during 2019 was 1,201 (2018: 1,124; 2017: 934). Other employee costs primarily relate to transport costs and bonuses.

NOTE 12 – FINANCE INCOME

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Interest income	1,174	1,791	2,654
Postive FX difference	1,538	5,682	6,286
Other finance income	254	1,328	1,054
	2,966	8,801	9,994

Other finance income mainly relates to share of profit of joint ventures.

NOTE 13 – FINANCE EXPENSES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Interest expenses and similar	9,581	12,586	14,690
Negative FX difference	3,742	3,112	7,096
Other finance costs	1,198	307	65
	14,521	16,005	21,851

The Group regularly refinances its debt to banks and adjusts interest rates on loans to market conditions. During 2019, the Group refinanced its debt to banks through a syndicated loan and interest rates were adjusted to current market rates, reducing the average interest rate from 3.5% to 1.9%, which resulted in a reduction in interest costs.

Other financial costs in 2019 mainly relate to the loss from the sale of joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 14 – INCOME TAX

Income tax expense consists of:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Current income tax	9,472	7,758	7,954
Deferred tax	(18)	(5)	-
	9,454	7,753	7,954

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Profit before taxation	38,991	44,061	39,435
Income tax at 18%	7,018	7,931	7,098
Non-taxable income	(185)	(167)	(44)
Non-deductible expenses	2,281	762	465
Temporary differences and tax losses not recognised as deferred tax assets	1,075	(45)	824
Utilisation of tax losses previously not recognised as deferred tax asset	(586)	(330)	(140)
Effect of different tax rates	(149)	(398)	(249)
Income tax	9,454	7,753	7,954
Effective tax rate	24%	18%	20%

Non-deductible expenses include HRK 994 thousand of permanent differences arising from group reorganization.

Unused tax losses

In accordance with tax regulations, as at 31 December 2019 the Group has unused tax losses in the amount of HRK 586 thousand expiring in 2021 which relate to companies in Croatia. No deferred tax assets with respect to these losses were recognized.

Deferred tax assets and liabilities

Deferred tax assets as at 31 December 2019, 2018 and 2017 amounted to HRK 5,820 thousand and related to the following:

Financial statement caption:	Basis:	in thousands of HRK
Property, plant and equipment	Non-deductible impairment losses	1.052
Trade and other receivables	Non-deductible impairment losses	2.345
Inventory	Non-deductible impairment losses and write-offs	1.493
Trade and other payables	Non-deductible accruals	930
Total		5.820

Deferred tax liabilities amount to HRK 7 thousand as at 31 December 2019 (31 December 2018: HRK 25 thousand; 31 December 2017: HRK 30 thousand) and movements in the temporary differences are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)

	Software	Leasehold improvement	Investments in progress	Total
Cost				
At 1 January 2017 (restated)	4,831	4,101	-	8,932
Additions	-	-	1,368	1,368
Disposals and write offs	-	(90)	-	(90)
Transfers	697	305	(1,002)	-
At 31 December 2017 (restated)	5,528	4,316	366	10,210
Accumulated amortisation				
At 1 January 2017 (restated)	2,058	960	-	3,018
Charge for the year	950	472	-	1,422
Disposals and write offs	-	(45)	-	(45)
At 31 December 2017 (restated)	3,008	1,387	-	4,395
Carrying amount				
As at 31 December 2017 (restated)	2,520	2,929	366	5,815
Cost				
At 1 January 2018 (restated)	5,528	4,316	366	10,210
Additions	681	-	443	1,124
Transfers	41	411	(452)	-
Disposals and write offs	-	(105)	-	(105)
At 31 December 2018 (restated)	6,250	4,622	357	11,229
Accumulated amortisation				
At 1 January 2018 (restated)	3,008	1,387	-	4,395
Charge for the year	413	1,105	-	1,518
Disposals and write offs	-	(74)	-	(74)
At 31 December 2018 (restated)	3,421	2,418	-	5,839
Carrying amount				
As at 31 December 2018 (restated)	2,829	2,204	357	5,390
Cost				
At 1 January 2019 (restated)	6,250	4,622	357	11,229
Additions	628	-	755	1,383
Transfers	380	518	(898)	-
Disposals and write offs	(94)	(35)	-	(129)
At 31 December 2019	7,164	5,105	214	12,483
Accumulated amortisation				
At 1 January 2019 (restated)	3,421	2,418	-	5,839
Charge for the year	105	1,485	-	1,590
Disposals and write offs	(94)	(35)	-	(129)
At 31 December 2019	3,432	3,868	-	7,300
Carrying amount				
As at 31 December 2019	3,732	1,237	214	5,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Transport assets	Assets under construction	Total
Cost					
At 1 January 2017 (restated)	94,187	60,742	27,566	4,526	187,021
Additions	206	799	737	14,260	16,002
Transfers	4,194	7,713	-	(11,907)	-
Disposals and write offs	-	(454)	(1,236)	-	(1,690)
At 31 December 2017 (restated)	98,587	68,800	27,067	6,879	201,333
Accumulated depreciation and impairments					
At 1 January 2017 (restated)	23,056	20,940	17,867	-	61,863
Charge for the year	3,862	7,891	1,423	-	13,176
Disposals and write offs	-	(321)	(1,105)	-	(1,426)
At 31 December 2017 (restated)	26,918	28,510	18,185	-	73,613
Carrying amount					
As at 31 December 2017 (restated)	71,669	40,290	8,882	6,879	127,720
Cost					
At 1 January 2018 (restated)	98,587	68,800	27,067	6,879	201,333
Additions	3	5,398	222	4,025	9,648
Acquisition of subsidiary	5,602	-	-	-	5,602
Transfers	-	3,174	381	(3,555)	-
Disposals and write offs	(238)	(870)	(1,156)	-	(2,264)
At 31 December 2018 (restated)	103,954	76,502	26,514	7,349	214,319
Accumulated depreciation and impairments					
At 1 January 2018 (restated)	26,918	28,510	18,185	-	73,613
Charge for the year	4,609	9,673	(885)	-	13,397
Disposals and write offs	(520)	(678)	(488)	-	(1,686)
At 31 December 2018 (restated)	31,007	37,505	16,812	-	85,324
Carrying amount					
As at 31 December 2018 (restated)	72,947	38,997	9,702	7,349	128,995
Cost					
At 1 January 2019 (restated)	103,954	76,502	26,514	7,349	214,319
Additions	-	3,843	92	13,636	17,571
Transfers	11,809	4,278	2,967	(19,054)	-
Disposals and write offs	(646)	(6,523)	(3,184)	-	(10,353)
At 31 December 2019	115,117	78,100	26,389	1,931	221,537
Accumulated depreciation and impairments					
At 1 January 2019 (restated)	31,007	37,505	16,812	-	85,324
Charge for the year	3,509	6,458	3,387	-	13,354
Disposals and write offs	-	(5,753)	(2,747)	-	(8,500)
At 31 December 2019	34,516	38,210	17,452	-	90,178
Carrying amount					
As at 31 December 2019	80,601	39,890	8,937	1,931	131,359

Assets under construction relate mainly to buildings and plant and equipment.

Mortgaged assets

The properties in the carrying amount of HRK 59,628 thousand (2018: HRK 49,760 thousand; 2017: 53,008 thousand) were pledged as a security instrument for bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 17 – RIGHT OF USE ASSETS

<i>(in thousands of HRK)</i>	Land and buildings	Plant and equipment	Transport assets	Total
Cost				
At 1 January 2017 (restated)	32,366	4,602	9,543	46,511
Additions	15,512	1,760	6,756	24,028
Disposals and write offs	-	-	(67)	(67)
At 31 December 2017 (restated)	47,878	6,362	16,232	70,472
Accumulated depreciation and impairments				
At 1 January 2017 (restated)	249	989	1,947	3,185
Charge for the year	7,941	761	1,875	10,577
Disposals and write offs	-	-	(35)	(35)
At 31 December 2017 (restated)	8,190	1,750	3,787	13,727
Carrying amount				
As at 31 December 2017 (restated)	39,688	4,612	12,445	56,745
Cost				
At 1 January 2018 (restated)	47,878	6,362	16,232	70,472
Additions	14,840	3,099	4,288	22,227
Disposals and write offs	-	-	(381)	(381)
At 31 December 2018 (restated)	62,718	9,461	20,139	92,318
Accumulated depreciation and impairments				
At 1 January 2018 (restated)	8,190	1,750	3,787	13,727
Charge for the year	11,993	1,535	2,713	16,241
Disposals and write offs	-	-	(94)	(94)
At 31 December 2018 (restated)	20,183	3,285	6,406	29,874
Carrying amount				
As at 31 December 2018 (restated)	42,535	6,176	13,733	62,444
Cost				
At 1 January 2019 (restated)	62,718	9,461	20,139	92,318
Additions	17,243	1,646	8,984	27,873
Disposals and write offs	(269)	-	(467)	(736)
At 31 December 2019	79,692	11,107	28,656	119,455
Accumulated depreciation and impairments				
At 1 January 2019 (restated)	20,183	3,285	6,406	29,874
Charge for the year	13,795	1,560	4,043	19,398
Disposals and write offs	-	-	(306)	(306)
At 31 December 2019	33,978	4,845	10,143	48,966
Carrying amount				
As at 31 December 2019	45,714	6,262	18,513	70,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 18 – ACQUISITION OF SUBSIDIARIES

During the reporting periods, the Group acquired controlling interests from third parties in entities Promotehna d.o.o. (share of X% acquired in January 2018) and Auto trgovina d.o.o. (share of x% acquired in January 2019). These entities did not significant net assets at the time of acquisition and the total acquisition cost of HRK 1,350 thousand (HRK 750 thousand for Promotehna d.o.o. and HRK 600 thousand for Auto trgovina d.o.o.) did not result in recognition of any goodwill of bargain purchase gain.

NOTE 19 – EQUITY – ACCOUNTED INVESTEEES

Equity-accounted investees as at 31 December 2018 and 2017 related to entities in which the Group had joint control and a 50% ownership interest: Gajeta d.o.o. and ITM d.o.o. The movement in equity-accounted investees was as follows:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
As at 1 January	3,022	2,669	2,415
Share of profit/(loss) of joint venture	-	664	588
Dividend payment	(254)	(311)	(334)
Sale of shares	(2,768)	-	-
As at 31 December	-	3,022	2,669

These ownership interests were sold in 2019 for the amount of HRK 2,455 thousand whereby the Group recognised a loss on disposal of HRK 313 thousand. The following tables show the basic financial information of equity-accounted investees as at 31 December 2018 and 2017:

Gajeta d.o.o.

	2019	2018	2017
	<i>(in thousands of HRK)</i>		
Long term assets	-	2,843	2,971
Short term assets	-	2,969	3,229
Long term liabilities	-	(1,822)	(1,830)
Short term liabilities	-	(3,414)	(3,638)
Net assets	-	576	732
Revenue	-	9,209	10,216
Net result	-	509	622

ITM d.o.o.

	2019	2018	2017
	<i>(in thousands of HRK)</i>		
Long term assets	-	55	81
Short term assets	-	2,718	2,250
Long term liabilities	-	-	-
Short term liabilities	-	(784)	(1,161)
Net assets	-	1,989	1,170
Revenue	-	5,423	4,466
Net result	-	819	553

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NOTE 20 – FINANCIAL ASSETS

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Deposits	5,283	8,780	5,413
Equity instruments	2	532	202
	5,285	9,312	5,615
Short term	4,746	4,099	2,550
Long term	539	5,213	3,065
	5,285	9,312	5,615

Deposits relate to deposits at commercial banks with maturity more than three months that carry a variable interest rate up to 0,01%. Equity instruments relate to shares in entities not quoted on an active market and are accounted for at FVOCI.

NOTE 21 – INVENTORIES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Raw materials and supplies	6,376	6,739	4,751
Trade goods and merchandise	276,976	255,862	248,436
Small inventory	1,507	1,062	2,127
Advances for inventories	1,638	1,377	1,326
	286,497	265,040	256,640

As at 31 December 2019, the Group recognised HRK 1,289 thousand of accumulated write-down of inventories on the basis of ageing structure and rate of turnover. Movement in write-down of inventory is recognized in other operating operations within profit or loss. There were no significant movements in the write-down of inventories compared to previous years.

Inventories in the carrying amount of HRK 30,270 thousand (2018: HRK 31,333 thousand; 2017: 30,294 thousand) were pledged as a security instrument for other loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 22 – TRADE AND OTHER RECEIVABLES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Trade receivables	168,806	181,555	156,461
Impairment of receivables	(18,217)	(17,760)	(17,344)
Net trade receivables	150,589	163,795	139,117
Dividend receivables	-	995	981
Interest receivables	1,558	557	(532)
Receivables for taxes and contributions	4,823	7,783	5,472
Advances given	1,731	1,088	556
Receivables from employees	835	753	788
Loans receivable	3,889	7,102	6,217
Accrued rebates	8,306	5,115	5,597
Prepayments	3,288	3,681	2,748
Receivables for divested shares	1,035	-	-
Other receivables	4,917	3,222	2,803
	180,971	194,091	163,747
Short term	180,971	190,593	161,254
Long term	-	3,498	2,493
	180,971	194,091	163,747

During 2019, within other operating expenses the Group recognised impairment allowances in the amount of HRK 4,014 thousand with respect to trade receivables and other receivables (2018: 685 thousand; 2017: 889 thousand).

Movement in the accumulated impairment allowance for trade and other receivables was as follows:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
At 1 January	17,760	17,344	17,057
Net Increase/decrease	4,395	1,069	1,240
Amounts collected	(381)	(384)	(351)
Written off as uncollectable	(3,557)	(269)	(602)
At 31 December	18,217	17,760	17,344

Ageing analysis of gross trade receivables:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Not due	86,987	89,292	79,261
0-90 days	48,890	51,487	42,207
91-180 days	10,391	12,234	10,316
181-360 days	6,338	11,120	13,054
More than 360 days	16,200	17,422	11,623
	168,806	181,555	156,461

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a “roll rate” method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased. Loss rates are based on actual credit loss experience over the three years.

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NOTE 23 – CASH AND CASH EQUIVALENTS

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Cash register	450	825	895
Cash with banks	34,495	21,508	14,005
	34,945	22,333	14,900

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate around 0,01%. The table below summarises cash and cash equivalents by currency:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
HRK	28,033	19,438	11,897
EUR	1,543	1,264	1,977
RSD	4,276	776	453
BAM	1,092	838	573
Other	1	17	-
	34,945	22,333	14,900

NOTE 24 – NON-CURRENT ASSETS HELD FOR SALE

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Land and buildings	404	189	2,949
	404	189	2,949

In 2018, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 2,760 thousand and realised gain on sale in the amount of HRK 2,091 thousand. The remaining balance of non-current assets held for sale relates to smaller items of real-estate.

NOTE 25– SHARE CAPITAL AND EARNINGS PER SHARE

Share capital

As at 31 December 2017 and 2018, the Company had issued capital of HRK 14,920 thousand and was wholly owned by Mr. Ivan Leko.

During 2019, the share capital of the Company was increased from HRK 14,920 thousand by HRK 119,144 thousand to the amount of HRK 134,064 thousand from capital reserves (by HRK 61,844 thousand) and retained earnings (by HRK 57,300 thousand).

At the end of December 2019, the Company was transformed into a joint stock company and its share capital as at 31 December 2019 amounts to HRK 134,064 thousand, divided into 13,406,390 shares with a nominal value of HRK 10 per share. After the transformation, a transaction between owners was performed, during which Ivan Leko retained majority ownership and control over the Company/Group.

The ownership structure at the reporting dates was as follows:

	2019	2018	2017
	Number of shares	% of ownership	% of ownership
Structure of ownership			
Ivan Leko	9,222,000	68.8%	100.0%
Ljilja Leko	3,180,140	23.7%	0.0%
Matea Leko	1,004,250	7.5%	0.0%
Total	13,406,390	100.0%	100.0%

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NOTE 25– SHARE CAPITAL AND EARNINGS PER SHARE (CONTINUED)

Earnings per share

	2019	restated 2018	restated 2017
Profit attributable to ordinary shareholders	29,474	36,006	31,077
Weighted-average number of ordinary shares at 31 December	13,406,390	13,406,390	13,406,390
Basic and diluted earnings per share (in HRK)	2.20	2.69	2.32

NOTE 26 – CAPITAL RESERVES

During 2017 capital reserves were increased by HRK 70,000 thousand in a debt to equity transaction with majority owner.

During 2019, capital reserves were increased by transfer from retained earnings in the amount of HRK 24,126 thousand while an amount of HRK 61,844 thousand was used to increase share capital..

NOTE 27 – RETAINED EARNINGS

During 2019, dividends were paid from subsidiaries directly owned by majority shareholder. the amount of HRK 3,200 thousand (2018: HRK 1,050 thousand; 2017: 777 thousand).

During 2019, a corporate reorganisation was performed whereby the entities under direct control of the majority owner of the Company were transferred to direct ownership of the Company. Accumulated retained earnings of these entities have been recognised as retained earnings of the Group retrospectively from 1 January 2017 under the common control assumption applied as described in note 3.1.

The transfer of ownership from the owner to the Company during 2019 resulted in a consideration payable to the owner in the amount of HRK 16,398 thousand which is recognised as a distribution to the owner and a reduction in retained earnings. The amount is still payable as at the date of this report.

NOTE 28 – NON-CONTROLLING INTERESTS

Group has non-controlling interests arising from ownership interest in subsidiaries Autodijelovi d.o.o. (Croatia), C.I.A.K. Truck - Kamioland (Slovenia) and Bendj trade d.o.o. (Bosnia and Herzegovina). Summary financial information for these companies are as follows:

31 December 2019 <i>(in thousands of HRK)</i>	C.I.A.K. Truck (Kamioland)	Autodijelovi d.o.o.	Bendj trade d.o.o.
Non-controlling interest	50.0%	50.0%	48.0%
Statement of financial position			
Non-current assets	651	3	1,996
Current assets	9,650	1,759	-
Current liabilities	(3,213)	(1,135)	(138)
Non-current liabilities	(2,695)	-	-
Net assets	4,393	627	1,858
Statement of comprehensive income for the period			
Sales revenue	21,808	3,860	-
Profit after tax	180	(17)	(38)
Total comprehensive income for the period	180	(17)	(38)
Statement of cash flows			
Net increase / (decrease) in cash and cash equivalents	304	(102)	-

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NOTE 28 – NON-CONTROLLING INTERESTS (CONTINUED)

	C.I.A.K. Truck (Kamioland)	Autodijelovi d.o.o.	Bendj trade d.o.o.
31 December 2018			
<i>(in thousands of HRK)</i>			
Non-controlling interest	50.0%	50.0%	48.0%
Statement of financial position			
Non-current assets	746	17	1,989
Current assets	8,226	2,036	1
Current liabilities	(2,988)	(1,408)	(99)
Non-current liabilities	(1,737)	-	-
Net assets	4,247	645	1,891
Statement of comprehensive income for the period			
Sales revenue	17,946	3,767	-
Profit after tax	558	48	-
Total comprehensive income for the period	558	48	-
Statement of cash flows			
Net increase / (decrease) in cash and cash equivalents	(331)	69	(1)

	C.I.A.K. Truck (Kamioland)	Autodijelovi d.o.o.	Bendj trade d.o.o.
31 December 2017			
<i>(in thousands of HRK)</i>			
Non-controlling interest	50.0%	50.0%	48.0%
Statement of financial position			
Non-current assets	709	27	2,015
Current assets	7,125	1,986	1
Current liabilities	(2,137)	(1,417)	(100)
Non-current liabilities	(1,952)	-	-
Net assets	3,745	596	1,916
Statement of comprehensive income for the period			
Sales revenue	14,012	3,927	-
Profit after tax	701	166	(59)
Total comprehensive income for the period	701	166	(59)
Statement of cash flows			
Net increase / (decrease) in cash and cash equivalents	190	74	1

The movement in non-controlling interest was as follows:

	2019	2018	2017
	<i>(in thousands of HRK)</i>		
Balance at 1 January	3,639	3,360	2,956
Foreign exchange differences	(39)	(23)	-
Share in current year profit	63	302	404
Balance at 31 December	3,663	3,639	3,360
Out of which:			
C.I.A.K. Truck (Kamioland)	2,197	2,145	1,874
Autodijelovi d.o.o.	313	322	298
Bendj trade d.o.o.	1,153	1,172	1,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 29 – LOANS AND BORROWINGS

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Non-current borrowings			
Bank borrowings	141,845	140,175	165,920
Other loans	6,814	10,299	9,722
Lease liabilities	43,759	38,311	38,228
	192,418	188,785	213,870
Current borrowings			
Bank borrowings	58,730	47,802	40,456
Other loans	6,943	6,341	3,941
Interest liabilities	674	771	348
Lease liabilities	21,832	18,636	13,818
	88,179	73,550	58,563
Total borrowings	280,597	262,335	272,433

The Group's borrowings contain covenants which obligate the Group to comply with a specified Debt service coverage ratio (DSCR) calculated as the ratio of consolidated net debt and consolidated EBITDA (Earnings before tax, interest, depreciation and amortisation). In case the specified ratio is breached, the loan would be considered matured in full and payable on the bank's request. At the reporting dates, the Group was in compliance with this covenant.

Bank borrowings in the amount of HRK 172,457 thousand (2018: HRK 168,316 thousand; 2017: 186,547 thousand) are secured by mortgages over the Group's land and buildings and movables with a net carrying value of 59,628 thousand (2018: HRK 49,760 thousand; 2017: 53,008 thousand) as stated in note 16.

Other borrowings in the amount of HRK 10,792 thousand (2018: HRK 11,853 thousand; 2017: 10,922 thousand) are secured by mortgages over the inventories of Group with a net carrying value of 30,270 thousand (2018: HRK 31,333 thousand; 2017: 30,294 thousand) as stated in note 21.

The maturity of non-current bank borrowings and other loans is as follows:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Between 1 and 2 years	34,447	31,232	27,422
Between 2 and 5 years	85,850	78,387	81,636
Over 5 years	28,362	40,855	66,584
	148,659	150,474	175,642

The maturity of non-current lease liabilities is as follows:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Between 1 and 2 years	22,382	17,135	14,766
Between 2 and 5 years	19,927	18,887	18,944
Over 5 years	1,450	2,289	4,518
	43,759	38,311	38,228

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2019		2017		2017	
	HRK	EUR	HRK	EUR	HRK	EUR
Bank borrowings and other borrowings	23,911	190,421	42,565	162,052	13,741	206,298
Lease liabilities	12,136	53,298	8,948	47,804	9,896	41,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 29 – LOANS AND BORROWINGS (CONTINUED)

An overview of borrowings by fixed and variable interest rates is as follows:

	2019		2018		2017	
	fixed	variable	fixed	variable	fixed	variable
	<i>(in thousands of HRK)</i>					
Non-current borrowings	41,859	147,301	8,209	175,503	18,854	184,555
Current borrowings	24,580	592	5,133	15,772	3,587	13,043
	66,439	147,893	13,342	191,275	22,441	197,598

The average weighted cost of debt on the Group's interest-bearing liabilities was as follows:

	2019		2018		2017	
	HRK	EUR	HRK	EUR	HRK	EUR
Weighted average cost of debt	2.88%	1.94%	2.97%	3.52%	4.10%	3.96%

The Group has undrawn borrowing facilities as at 31 December 2019 in the amount of HRK 10,407 thousand (2018: HRK 5,749 thousand; 2017: HRK 5,164 thousand) which mainly relate to short-term revolving facilities at several commercial banks, bearing a variable interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 29 – LOANS AND BORROWINGS (CONTINUED)

Reconciliation of movements in liabilities with cash flows from financing activities:

<i>(in thousands of HRK)</i>	Loans and borrowings	Leases	Total
At 1 January 2017	212.290	39.332	251.622
<i>Cash transactions:</i>			
Loans received	32.654	-	32.654
Loans repayments	(26.127)	-	(26.127)
Finance lease repayments	-	(11.882)	(11.882)
Total cash transactions	6.527	(11.882)	(5.355)
<i>Non - cash transactions:</i>			
Effect of change in exchange rates	1.913	(148)	1.765
Unwinding of discount	-	1.367	1.367
New lease contracts	-	24.027	24.027
Loans received	161.393	-	161.393
Loans repayments	(162.084)	(650)	(162.734)
Total non - cash transactions	1.222	24.596	25.818
At 31 December 2017	220.039	52.046	272.085
At 1 January 2018	220.039	52.046	272.085
<i>Cash transactions:</i>			
Loans received	22.119	-	22.119
Loans repayments	(38.773)	-	(38.773)
Finance lease repayments	-	(18.760)	(18.760)
Total cash transactions	(16.654)	(18.760)	(35.414)
<i>Non - cash transactions:</i>			
Effect of change in exchange rates	990	(424)	566
Unwinding of discount	-	1.859	1.859
New lease contracts	-	22.226	22.226
Acquisition of subsidiary	-	-	3.382
Loans received	15.589	-	15.589
Loans repayments	(18.729)	-	(18.729)
Total non - cash transactions	1.232	23.661	24.893
At 31 December 2018	204.617	56.947	261.564
At 1 January 2019	204.617	56.947	261.564
<i>Cash transactions:</i>			
Loans received	68.883	-	68.883
Loans repayments	(60.072)	-	(60.072)
Finance lease repayments	-	(19.526)	(19.526)
Total cash transactions	8.811	(19.526)	(10.715)
<i>Non - cash transactions:</i>			
Effect of change in exchange rates	1.150	184	1.334
Unwinding of discount	-	1.561	1.561
New lease contracts	-	27.875	27.875
Termination of lease contract	-	(319)	(319)
Loans received	148.283	-	148.283
Loans repayments	(148.529)	(1.131)	(149.660)
Total non - cash transactions	904	28.170	29.074
At 31 December 2019	214.332	65.591	279.923

Other non-cash transactions on borrowings mainly relate to loan refinancing settled directly within the borrowers.

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NOTE 30 – PROVISIONS

<i>(in thousands of HRK)</i>	Warranty	Termination benefits	Total
As at 1 January 2017 (restated)			
Non-current	520	47	567
Current	-	-	-
	520	47	567
Increase/(decrease) in provisions	878	-	878
Utilised during the year	(172)	-	(172)
At 31 December 2017 (restated)	1,226	47	1,273
As at 31 December 2017 (restated)			
Non-current	1,226	47	1,273
Current	-	-	-
	1,226	47	1,273
Increase/(decrease) in provisions	(1,033)	-	(1,033)
Utilised during the year	-	(47)	(47)
At 31 December 2018 (restated)	193	-	193
As at 31 December 2018 (restated)			
Non-current	193	-	193
Current	-	-	-
	193	-	193
Increase/(decrease) in provisions	(171)	-	(171)
Utilised during the year	-	-	-
At 31 December 2019	22	-	22
As at 31 December 2019:			
Non-current	22	-	22
Current	-	-	-
	22	-	22

NOTE 31 – TRADE AND OTHER PAYABLES

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Trade payables	196,098	211,172	181,161
Taxes, contributions and other duties payable	25,196	28,609	24,344
Salaries and other benefits to employees	8,048	7,164	6,107
Advances received	1,396	1,166	1,190
Accrued expenses	1,750	2,587	3,985
Dividends payable	-	334	329
Payable for purchase of shares	14,412	300	2
Liability for unused holiday	3,702	3,702	3,702
Other payables	6,058	6,721	7,981
	256,660	261,755	228,801

At reporting dates the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities. The structure of trade and other payables with respect to currency denomination as at the reporting dates was as follows:

	2019	2018	2017
	<i>(in thousands of HRK)</i>		
HRK	107,064	126,644	141,787
EUR	144,869	128,850	74,668
RSD	1,850	3,339	2,530
BAM	1,020	1,726	4,652
Other	1,857	1,196	5,164
	256,660	261,755	228,801

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NOTE 32 – RISK MANAGEMENT

Financial risk management

Categories of financial instruments are as follows:

	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Financial assets			
Long-term loans	3,889	7,102	6,217
Long-term deposits	5,283	8,780	5,413
Trade receivables	150,589	163,795	139,117
Other receivables	20,835	14,658	12,153
Cash and cash equivalents	34,945	22,333	14,900
	215,541	216,668	177,800
Financial assets at FVOCI			
Investments in equity instruments	2	532	202
	2	532	202
Total financial assets	215,543	217,200	178,002
Financial liabilities at amortised cost			
Lease liabilities	65,591	56,947	52,046
Loans and borrowings	215,006	205,388	220,387
Trade payables and other liabilities	219,714	221,946	194,319
	500,311	484,281	466,752
Total financial liabilities	500,311	484,281	466,752

Fair value of financial instruments

The fair value of financial assets and financial liabilities is 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 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.

Financial instruments held to maturity in the ordinary course of business are recorded at the lower of cost and net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

As at the reporting dates, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (*continued*)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework to manage the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits.

Liquidity risk analysis

The following tables detail the contractual maturity of the Group's financial liabilities and financial assets presented in the consolidated statement of financial position at each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal. Ultimate responsibility for liquidity risk management rests with the Management Board which has built an appropriate liquidity risk management framework to manage the short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and by addressing any working capital requirements.

	Contracted cash	Up to one	over 5		
<i>as at 31 December 2019</i>	Net book value	flow	year	1 - 5 years	years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Trade and interest payables	257,334	257,334	257,334	-	-
	257,334	257,334	257,334	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	214,332	220,673	67,991	124,127	28,555
Lease liabilities	65,591	69,246	23,115	44,002	2,129
	279,923	289,919	91,106	168,129	30,684
	537,257	547,253	348,440	168,129	30,684
<i>as at 31 December 2018</i>	Net book value	Contracted cash	Up to one	over 5	
		flow	year	1 - 5 years	years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Trade and interest payables	262,526	262,526	262,526	-	-
	262,526	262,526	262,526	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	204,617	214,087	56,735	114,924	42,428
Lease liabilities	56,947	62,215	20,222	38,356	3,637
	261,564	276,302	76,957	153,280	46,065
	524,090	538,828	339,483	153,280	46,065
<i>as at 31 December 2017</i>	Net book value	Contracted cash	Up to one	over 5	
		flow	year	1 - 5 years	years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Trade and interest payables	229,149	229,149	229,149	-	-
	229,149	229,149	229,149	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	220,039	227,783	44,375	113,837	69,571
Lease liabilities	52,046	56,586	15,314	36,402	4,870
	272,085	284,369	59,689	150,239	74,441
	501,234	513,518	288,838	150,239	74,441

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and variable interest rates. Changes and projections of interest rates are monitored continuously as the majority of the Group's borrowings are at variable interest rates.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate changes at the reporting date. For variable rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on variable rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 100 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the Management Board's assessment of the reasonably possible change in interest rates.

The estimated effect of the reasonably possible change in interest rates on the Group's result before tax for the reporting periods is as follows:

<i>as at 31 December 2019</i>	Contractual cash flows	up to 1 year	from 1 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>			

At currently applicable interest rates	289,919	91,106	168,129	30,684
At currently applicable interest rates + 50 basis points	294,187	91,553	171,036	31,598
Effect of increase of interest rate by 50 basis points	(4,268)	(447)	(2,907)	(914)

<i>as at 31 December 2018</i>	Contractual cash flows	up to 1 year	from 1 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>			

At currently applicable interest rates	276,302	76,957	153,280	46,065
At currently applicable interest rates + 50 basis points	280,676	77,329	155,891	47,456
Effect of increase of interest rate by 50 basis points	(4,374)	(372)	(2,611)	(1,391)

<i>as at 31 December 2017</i>	Contractual cash flows	up to 1 year	from 1 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>			

At currently applicable interest rates	284,369	59,689	150,239	74,441
At currently applicable interest rates + 50 basis points	289,558	59,976	152,787	76,795
Effect of increase of interest rate by 50 basis points	(5,189)	(287)	(2,548)	(2,354)

The Group does not hedge interest rate risk as the estimate of the possible effect of interest rate changes on the result of operations is not deemed significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Currency risk management

The Group performs certain transactions in foreign currencies and is therefore exposed to risks of changes in exchange rates. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Liabilities			Assets		
	2019	restated 2018	restated 2017	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>			<i>(in thousands of HRK)</i>		
European Union (EUR)	388,588	338,706	322,948	24,836	27,920	25,839
Bosnia and Herzegovina (BAM)	1,177	1,921	4,820	13,446	13,872	12,377
Serbia (RSD)	1,850	3,339	2,530	21,434	15,716	11,533

Foreign currency sensitivity analysis

The Group is primarily exposed to currency risk arising from changes in the exchange rate of the kuna against the Euro (EUR), convertible mark (BAM) and the Serbian dinar (RSD) as it is operating on foreign markets (Slovenia, B&H and Serbia) and records most transactions with foreign customers in these currencies. Loans and borrowings are partly denominated in EUR and partly denominated in Croatian kuna, also giving rise to currency risk exposure in relation to the Euro.

The currency risk analysis is based on the official exchange rates for the currencies analysed above as per the Croatian National Bank, which were as follows:

	31.12.2019.	31.12.2018	31.12.2017
EUR	7.4426	7.4176	7.5136
BAM	3.8053	3.7925	3.8417
RSD	0.0637	0.0626	0.0637

The following table details the Group's sensitivity to a 1% increase in Croatian kuna against the Euro, BAM and RSD as the estimated reasonably possible increase in the exchange rate of the respective currencies. The sensitivity analysis includes only outstanding monetary assets and monetary liabilities in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency for the percentage specified above. For an inversely proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

	EUR exposure			BAM exposure		
	2019	restated 2018	restated 2017	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>			<i>(in thousands of HRK)</i>		
Increase/(decrease) of net result	(3,638)	(3,108)	(2,971)	123	120	76

	RSD exposure		
	2019	restated 2018	restated 2017
	<i>(in thousands of HRK)</i>		
Increase/(decrease) of net result	196	124	90

The Group does not currently hedge against currency risk linked to the euro and BAM as the local currency and BAM are pegged to the euro, nor to currency risk linked to RSD, although in this regard it continuously monitors and assesses the need for hedging due to currency volatility and expected increase in business volume in the relevant market.

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Market risk management

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Total exposure to credit risk at the reporting date is as follows is set out in note 22 to the financial statements. The Group does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at the reporting dates.

Furthermore, the loans receivable are secured by collateral over shares and real estates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

NOTE 33 – RELATED PARTY TRANSACTIONS

The Group is in a related party relationship with its majority shareholder (Mr. Ivan Leko) and parties related to him or entities under his control or significant influence. The Group also has a related party relationship with key management personnel and Supervisory Board members, their close family members and entities controlled, jointly controlled by them and/or their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* ("IAS 24").

Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this note. The list of subsidiaries is disclosed in note 1 to the financial statements.

Transactions with the owner and his related parties and entities under his control or significant influence:

	2019	restated 2018	restated 2017
	(in thousands of HRK)		
Sales revenue			
Owner and parties related to owner	7,183	10,894	10,621
Equity-accounted investees	651	522	506
	7,834	11,416	11,127
	(in thousands of HRK)		
Cost of goods sold and other operating expenses			
Owner and parties related to owner	6,028	8,734	8,667
Equity-accounted investees	331	478	486
	6,359	9,212	9,153
	(in thousands of HRK)		
Trade and other receivables			
Owner and parties related to owner	5,658	10,423	10,182
Equity-accounted investees	1	195	265
	5,659	10,618	10,447
	(in thousands of HRK)		
Trade and other payables			
Owner and parties related to owner	28,355	11,874	12,183
Equity-accounted investees	528	593	815
	28,883	12,467	12,998

Transactions with key management and Supervisory Board members and their related parties:

	2019	restated 2018	restated 2017
	(in thousands of HRK)		
Key management remuneration			
Salaries and severance payments	8,689	8,615	6,747
	8,689	8,615	6,747

Key management of the Group comprises the Management Board and executive directors and consisted of 39 persons (2018: 37 persons; 2017: 36 persons).

NOTE 34 – SUBSEQUENT EVENTS

Pandemic of SARS-CoV-2 (COVID 19)

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID – 19 presents to public health, the government of the Republic of Croatia has taken measures to contain the outbreak, which, in addition to a series of recommendations and guidelines from the Croatian Institute of Public Health (CIPH), include the formal restriction of movement of people within Croatian borders, restrictions on entry into Croatia, as well as the closure of certain industries and institutions, and the suspension or significant restriction of public and other transport.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Croatia, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Croatia and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In the context of the above, on 19 March 2020 and 3 April 2020, the Croatian government adopted a State aid program to counteract the negative effects of COVID 19 on the economy, which include, inter alia, deferral of payment and / or instalment payment of taxes, compulsory contributions and certain non-tax benefits, incentives for job retention and the granting of new liquidity loans for companies to finance wages, overheads and other operating expenses.

The Group operates in an automotive aftermarket sector which has been affected by the outbreak of COVID 19 due to disruptions in supply chains. However, the Group has closely monitored its relations with key suppliers which enables it to realize relatively stable sales and its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Group and economic environment, in which the Group operates, including the measures already taken by the Croatian government and governments in other countries, where the Group's major business partners and customers are located.

In order to safeguard uninterrupted operating activities and the Group's liquidity position, management has implement a number of measures, which notably include:

- implementation of work from home program for a significant group of administrative employees as well as employees in sales and procurement departments;
- adjustment to the scale of the Group's operations to respond to the possible decrease in demand for the premium products offered by the Group;

NOTE 34 – SUBSEQUENT EVENTS (CONTINUED)

Pandemic of SARS-CoV-2 (COVID 19) (continued)

Based on currently publicly available information, the Group's current key performance indicators and in view of the actions initiated by management, management did not see a significant adverse impact of the COVID 19 outbreak on the Group, its operations, financial position and operating results. However, management cannot preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Group, and its financial position and operating results, in the medium and longer term. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

Furthermore, on 11 May 2020, the Croatian authorities revoked or relaxed a number of measures introduced as part of the fight against the pandemic, primarily related to restrictions on movement within the borders of the Republic of Croatia, the possibility of foreign nationals entering the Republic of Croatia, re-opening of most businesses whose operations were previously restricted and also relaxing or revoking self-isolation measures. This indicates a gradual normalization of the situation.

APPENDIX 1

RESTATEMENT OF COMPARATIVES

In these consolidated financial statements, the Group made a number of restatements of comparative information previously reported which result from the following:

- (i) Reclassification adjustments - reclassifications of financial statement captions in the statement of comprehensive income and statement of financial position made in order to achieve better consistency and comparability of financial information;
- (ii) Corrections - restatements due to correction of accounting errors stemming from prior periods;
- (iii) Consolidation adjustments - restatements made to reflect the change in scope of consolidation based on the use of the common control assumption as described in note 3.1;
- (iv) Accounting policy changes - restatements made to reflect the change in accounting policy for leases under retrospective application of IFRS 16 as described in note 4 (i).

Each type of restatement is explained in more detail below. The restatements explained in paragraphs (i) and (iii) represent correction of prior period errors.

(i) *Reclassifications adjustments*

In 2019, the Group changed the classifications of certain categories in the statement of comprehensive income and statement of financial position in order to achieve a simpler and more transparent presentation of the Group's operations. These reclassifications have no effect on the net result of the comparative period.

Statement of comprehensive income

Part of the reclassifications relates to a change in the presentation of the statement of comprehensive income where certain cost classes are merged into one class (classes "Other expenses", "Other operating expenses" and "Value adjustments" are merged into the class "Other operating expenses"). The reclassifications are presented in the following tables under (i) and explained in more detail below:

- Reclassifications were made for 2018 and 2017 of HRK 7,962 thousand and HRK 6,982 thousand, respectively from "Other income" to "Operating revenues", depending on their nature, in order to achieve comparability of information.
- Furthermore, rebates received from suppliers in 2018 of HRK 17,865 thousand (2017: HRK 13,492 thousand) were reclassified from other income to cost of goods sold, i.e. material expenses while rebates granted to customers in 2018 of HRK 10,709 thousand (2017: HRK 8,869 thousand) are reclassified from other operating expenses to operating revenue.
- Services expenses in the amount of HRK 64,347 thousand in 2018 (2017: HRK 56,797 thousand) were transferred from "Material expenses" to "Other operating expenses".
- Income from the reversal of warranty provisions in 2018 of 1,000 thousand (2017: HRK 500 thousand), collection of receivables previously impaired in 2018 of HRK 296 thousand (2017: 283 thousand) and inventory surpluses in 2018 of HRK 1,766 thousand (2017: HRK 1,142 thousand) were reclassified to other operating expenses.

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

(i) *Reclassifications adjustments (continued)*

Statement of financial position

In 2019, the Group changed the classifications of certain categories in the statement of financial position.

Part of the reclassifications relates to a change in the presentation of the statement of financial position in which certain asset classes were renamed (the class "Tangible assets" was renamed, in accordance with good IFRS reporting practice, to "Property, plant and equipment") and certain classes were merged into one class, as explained in more detail below.

The reclassifications presented are as follows:

- From the category "Inventories", assets held for sale as at 31 December 2018 of HRK 171 thousand (31 Dec 2017: HRK 273 thousand; 1 Jan 2017: HRK 273 thousand) were reclassified to a separate category in the statement of financial position.
- The category "Prepaid expenses and accrued income" as at 31 December 2018 of HRK 8,303 thousand (31 Dec 2017: HRK 7,977 thousand; 1 Jan 2017: HRK 3,909 thousand) was reclassified to "Trade and other receivables".
- The category "Accrued expenses and deferred income" as at 31 December 2018 of HRK 1,126 thousand (31 Dec 2017: 3,033 thousand; 1 Jan 2017: HRK 2,316 thousand) was reclassified to "Trade and other payables".
- Income tax receivables as at 31 December 2018 of HRK 788 thousand (31 Dec 2017: HRK 296 thousand; 1 Jan 2017: HRK 1,855 thousand) and payables as at 31 December 2018 of HRK 2,155 thousand (31 Dec 2017: HRK 3,966 thousand; 1 Jan 2017: HRK 3,620 thousand) are presented as separate categories in the statement of financial position.

(ii) *Corrections*

- In previous periods, the Group incorrectly recognised the effect of unrealized profits held in inventories in the consolidated financial statements. During 2019, the Group corrected this error by recognizing a decrease in inventories on 1 January 2017 of HRK 4,184 thousand, 31 December 2017 of HRK 6,639 thousand and 31 December 2018 of HRK 5,831 thousand with the corresponding entries recorded in profit or loss for each year.
- In previous periods, the Group's trade receivables, property, plant and equipment and inventories for which a corresponding impairment should have been recognised in profit or loss for periods prior to 1 January 2017, have not been impaired. Accordingly, during 2019 the Group recognised these impairments and restated the comparatives for trade receivables of HRK 9,395 thousand, prepayments for non-current assets of HRK 4,049 thousand and inventories of HRK 1,289 thousand with a corresponding entry in retained earnings as at 1 January 2017.
- In previous periods, the Group recognised volume rebates received from suppliers directly in profit or loss in full instead of allocating them to reduce the cost of inventories purchased. During 2019, the Group amended the accounting treatment for volume rebates from suppliers and recognized a decrease in inventories to account for the amount of rebates attributable to cost of inventories still held at the reporting date and a corresponding entry in retained earnings as at 1 January 2017 of HRK 7,003 thousand. As the corresponding effects on profit or loss were not significant, the effect was carried forward to 31 December 2017 and 2018.
- In previous periods, the Group did not account for customer returns in accordance with IAS 18 (for periods before 1 January 2018) and IFRS 15 (for periods after 1 January 2018). During 2019, the Group corrected this error and recognized a provision for returns within other liabilities of HRK 4,945 thousand and return assets of HRK 3,480 thousand within inventories on 1 January 2017, 31 December 2017 and 31 December 2018. As the corresponding subsequent effects on profit or loss were not significant, the effect was carried forward to 31 December 2017 and 2018.

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

(ii) Corrections (continued)

- In previous periods, the Group did not recognise liabilities for unused holiday outstanding at the reporting date as per IAS 19. During 2019, the Group corrected this error and recognized a liability for unused holiday within other liabilities and a decrease in retained earnings on 1 January 2017 of HRK 3,702 thousand with subsequent changes in the liability recognised in profit or loss. As the corresponding subsequent effects on profit or loss were not significant, the effect was carried forward to 31 December 2017 and 2018.
- As at 1 January 2017, the Group's intangible assets included goodwill which had errors in calculation and was not recoverable. The errors were subsequently partially corrected directly in retained earnings. During 2019, the Group corrected this error in full and recognized an impairment loss relating to goodwill as the reduction in intangible assets and retained earnings as at 1 January 2017 of HRK 68,743 thousand (31 December 2017: HRK 49,700 thousand; 31 December 2018: HRK 15,615 thousand).
- In previous periods, the Group did not account for temporary tax differences as deferred tax assets in the consolidated financial statements. During 2019, the Group corrected this error and recognized deferred tax assets and a corresponding entry in retained earnings as at 1 January 2017 of HRK 5,820 thousand. As the corresponding subsequent effects on profit or loss were not significant, the effect was carried forward to 31 December 2017 and 2018.

(iii) Consolidation adjustments

In preparing the consolidated financial statements, comparative information for prior periods has been restated to include all entities that were acquired by Group that were under common control of the majority owner of the Company during the prior reporting periods as described in note 3.1. The impact of including the net assets, operating results and cash flows from the entities in prior years is presented under column (iii) together with intercompany eliminations arising from including these entities as part of the consolidated group and reclassifications and corrections as described above.

(iv) Change in accounting policy

As described in note 4 (ii), the Group has applied IFRS 16 *Leases* using the full retrospective approach and therefore the comparative information has been restated to reflect the requirements of IFRS 16. The impact of the application of this standard on the statement of comprehensive income and statement of financial position is presented in the following tables under (iv).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

Restatements of comparative information in the statement of comprehensive income:

	2018		Restatements			2018		2017		Restatements			2017
	reported	(i)	(ii)	(iii)	(iv)	restated	reported	(i)	(ii)	(iii)	(iv)	restated	
Operating revenues	816,160	(2,747)	-	138,347	-	951,760	712,109	(1,887)	-	109,785	-	820,007	
Other income	34,667	(28,889)	-	747	-	6,525	27,200	(22,399)	-	(2,362)	-	2,439	
	850,827	(31,636)	-	139,094	-	958,285	739,309	(24,286)	-	107,423	-	822,446	
Material expenses	(665,703)	82,212	807	(89,418)	-	(672,102)	(572,437)	102,277	(2,455)	(94,555)	-	(567,170)	
Employee expenses	(97,008)	-	-	(31,123)	-	(128,131)	(79,412)	-	-	(24,929)	-	(104,341)	
Depreciation and amortisation	(15,341)	-	-	(3,400)	(12,415)	(31,156)	(15,460)	-	-	(2,068)	(7,647)	(25,175)	
Other expenses	(15,757)	15,757	-	-	-	-	(15,411)	15,411	-	-	-	-	
Impairments	(408)	408	-	-	-	-	(436)	436	-	-	-	-	
Provisions	(158)	158	-	-	-	-	(1,191)	1,191	-	-	-	-	
Other operating expenses	(15,132)	(66,899)	-	(7,408)	13,808	(75,631)	(12,828)	(63,041)	-	(7,282)	8,683	(74,468)	
	(809,507)	31,636	807	(131,349)	1,393	(907,020)	(697,175)	56,274	(2,455)	(128,834)	1,036	(771,154)	
Finance income	6,014	-	-	2,363	424	8,801	8,773	-	-	1,073	148	9,994	
Finance expenses	(11,122)	-	-	(3,023)	(1,860)	(16,005)	(16,189)	-	-	(4,295)	(1,367)	(21,851)	
	(5,108)	-	-	(660)	(1,436)	(7,204)	(7,416)	-	-	(3,222)	(1,219)	(11,857)	
Profit before tax	36,212	-	807	7,085	(43)	44,061	34,718	31,988	(2,455)	(24,633)	(183)	39,435	
Income tax	(7,044)	-	-	(709)	-	(7,753)	(6,741)	-	-	(1,213)	-	(7,954)	
Net profit for the year	29,168	-	807	6,376	(43)	36,308	27,977	31,988	(2,455)	(25,846)	(183)	31,481	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

Restatements of comparative information in the statement of financial position:

	31.12.2018		<i>Restatements</i>				31.12.2018	31.12.2017		<i>Restatements</i>				31.12.2017	1.1.2017		<i>Restatements</i>				1.1.2017
	reported	(i)	(ii)	(iii)	(iv)	restated	reported	(i)	(ii)	(iii)	(iv)	restated	reported	(i)	(ii)	(iii)	(iv)	restated			
Non-current assets																					
Intangible assets	20,283	-	(15,615)	722	-	5,390	54,617	-	(49,700)	898	-	5,815	73,593	-	(68,743)	1,064	-	5,914			
Property, plant and equipment	128,063	-	(4,049)	25,146	(20,165)	128,995	133,973	-	(4,049)	15,583	(17,787)	127,720	131,013	-	(4,049)	12,468	(14,274)	125,158			
Right of use assets	-	-	-	-	62,444	62,444	-	-	-	-	56,745	56,745	-	-	-	-	43,326	43,326			
Equity-accounted investees	1,258	-	-	1,764	-	3,022	1,174	-	-	1,495	-	2,669	1,109	-	-	1,306	-	2,415			
Financial assets	15,787	-	-	(10,574)	-	5,213	6,318	-	-	(3,253)	-	3,065	4,198	-	-	(4,198)	-	-			
Trade and other receivables	126	-	-	3,372	-	3,498	513	-	-	1,980	-	2,493	286	-	-	2,207	-	2,493			
Deferred tax assets	-	-	5,820	-	-	5,820	-	-	5,820	-	-	5,820	-	-	5,820	-	-	5,820			
Total non-current assets	165,517	-	(13,844)	20,430	42,279	214,382	196,595	-	(47,929)	16,703	38,958	204,327	210,199	-	(66,972)	12,847	29,052	185,126			
Current assets																					
Inventories	221,314	(171)	(9,501)	53,398	-	265,040	222,186	(273)	(10,308)	45,035	-	256,640	176,488	(273)	(7,853)	33,817	-	202,179			
Financial assets	5,036	-	-	(937)	-	4,099	4,521	-	-	(1,971)	-	2,550	2,779	-	-	(1,843)	-	936			
Trade and other receivables	168,430	7,515	(9,395)	24,043	-	190,593	141,224	7,681	(9,395)	21,744	-	161,254	138,454	2,054	(9,395)	7,336	-	138,449			
Income tax receivable	-	788	-	-	-	788	-	296	-	-	-	296	-	1,855	-	-	-	1,855			
Cash and cash equivalents	17,992	-	-	4,341	-	22,333	11,489	-	-	3,411	-	14,900	12,701	-	-	1,818	-	14,519			
Non-current assets held for sale	-	171	-	18	-	189	-	273	-	2,676	-	2,949	-	273	-	-	-	273			
Total current assets	412,772	8,303	(18,896)	80,863	-	483,042	379,420	7,977	(19,703)	70,895	-	438,589	330,422	3,909	(17,248)	41,128	-	358,211			
Prepaid expenses and accrued income	8,303	(8,303)	-	-	-	-	7,977	(7,977)	-	-	-	-	3,909	(3,909)	-	-	-	-			
Total assets	586,592	-	(32,740)	101,293	42,279	697,424	583,992	-	(67,632)	87,598	38,958	642,916	544,530	-	(84,220)	53,975	29,052	543,337			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

Restatements of comparative information in the statement of financial position:

	31.12.2018	Restatements				31.12.2018	31.12.2017	Restatements				31.12.2017	31.12.2016	Restatements				1.1.2017	
	reported	(i)	(ii)	(iii)	(iv)	restated	reported	(i)	(ii)	(iii)	(iv)	restated	reported	(i)	(ii)	(iii)	(iv)	restated	
Shareholders' equity																			
Share capital	14,920	-	-	-	-	14,920	14,920	-	-	-	-	14,920	14,920	-	-	-	-	-	14,920
Reserves	70,000	-	-	-	-	70,000	70,000	-	-	-	-	70,000	-	-	-	-	-	-	-
Fair value reserves	1	-	-	(1)	-	-	2	-	-	(2)	-	-	4	-	-	(4)	-	-	-
Retained earnings	85,411	-	(40,727)	38,655	(937)	82,402	87,196	-	(75,619)	37,450	(894)	48,133	77,612	-	(92,207)	32,934	(712)	-	17,627
	170,332	-	(40,727)	38,654	(937)	167,322	172,118	-	(75,619)	37,448	(894)	133,053	92,536	-	(92,207)	32,930	(712)	-	32,547
Non-controlling interests	-	-	-	3,639	-	3,639	-	-	-	3,360	-	3,360	-	-	-	2,956	-	-	2,956
Total shareholders' equity	170,332	-	(40,727)	42,293	(937)	170,961	172,118	-	(75,619)	40,808	(894)	136,413	92,536	-	(92,207)	35,886	(712)	-	35,503
Non-current liabilities																			
Borrowings	132,526	-	-	25,291	30,968	188,785	159,061	-	-	24,099	30,710	213,870	100,571	-	-	2,399	21,081	-	124,051
Provisions	192	-	-	1	-	193	1,268	-	-	5	-	1,273	751	-	-	6	-	-	757
Trade and other payables	5,243	-	-	(5,243)	-	-	9,023	-	-	(9,023)	-	-	32,710	-	-	(32,710)	-	-	-
Deferred tax liability	8	-	-	17	-	25	9	-	-	21	-	30	10	-	-	20	-	-	30
Total non-current liabilities	137,969	-	-	20,066	30,968	189,003	169,361	-	-	15,102	30,710	215,173	134,042	-	-	(30,285)	21,081	-	124,838
Current liabilities																			
Trade and other payables	236,530	(1,029)	7,987	18,267	-	261,755	203,976	(933)	7,987	17,771	-	228,801	208,744	(1,304)	7,987	(88,616)	-	-	126,811
Income tax payable	-	2,155	-	-	-	2,155	-	3,966	-	-	-	3,966	-	3,620	-	-	-	-	3,620
Borrowings	40,635	-	-	20,667	12,248	73,550	35,504	-	-	13,917	9,142	58,563	106,892	-	-	136,990	8,683	-	252,565
Total current liabilities	277,165	1,126	7,987	38,934	12,248	337,460	239,480	3,033	7,987	31,688	9,142	291,330	315,636	2,316	7,987	48,374	8,683	-	382,996
Accrued expenses and deferred income	1,126	(1,126)	-	-	-	-	3,033	(3,033)	-	-	-	-	2,316	(2,316)	-	-	-	-	-
Total equity and liabilities	586,592	-	(32,740)	101,293	42,279	697,424	583,992	-	(67,632)	87,598	38,958	642,916	544,530	-	(84,220)	53,975	29,052	-	543,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017, 2018 AND 2019

APPENDIX 1 (CONTINUED)

RESTATEMENT OF COMPARATIVES (CONTINUED)

Effects of restatements of comparative information on the statement of cash flows:

	2018	<i>Restatements</i>	2018	2017	<i>Restatements</i>	2017
	reported	<i>(iii)</i>	restated	reported	<i>(iii)</i>	restated
Net cash from operating activities	41,082	13,339	54,421	33,317	(6,953)	26,364
Net cash used in investing activities	(11,211)	687	(10,524)	(20,401)	550	(19,851)
Net cash used in financing activities	(23,367)	(13,097)	(36,464)	(14,128)	7,996	(6,132)
Net increase of cash and cash equivalents	6,504	929	7,433	(1,212)	1,593	381