M SAN GRUPA

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

2022 ANNUAL Report

Content

OVERVIEW OF KEY INDICATORS IN 2022

GROUP IN 2022

BUSINESS REVENUE* (IN HRK) **3,256.9 million**	**DIFFERENCE** (COMPARED TO 2021) **+20.2%**
EBITDA* (IN HRK) **79.2 million**	**DIFFERENCE** (COMPARED TO 2021) **(7.9%)**
EBIT* (IN HRK) **51.5 million**	**DIFFERENCE** (COMPARED TO 2021) **(29.9%)**
NET PROFIT* (IN HRK) **12.7 million**	**DIFFERENCE** (COMPARED TO 2021) **(72.9%)**

*The financial measures used are not defined by International Financial Reporting Standards. For more details on the Alternative Performance Indicators used, see Table 5. Alternative Performance Measures

OVERVIEW OF KEY INDICATORS IN 2022

COMPANY IN 2022

BUSINESS REVENUE* (IN HRK)	DIFFERENCE (COMPARED TO 2021)
2,446.0 million	+14.6%

EBITDA* (IN HRK)	DIFFERENCE (COMPARED TO 2021)
40.9 million	+13.6%

EBIT* (IN HRK)	DIFFERENCE (COMPARED TO 2021)
29.2 million	+4.2%

NET PROFIT* (IN HRK)	DIFFERENCE (COMPARED TO 2021)
2.6 million	(76.1%)

*The financial measures used are not defined by International Financial Reporting Standards. For more details on the Alternative Performance Indicators used, see Table 5. Alternative Performance Measures

A COMMENT FROM IRENA LANGER-BREZNIK,

President of the Management Board

During 2022, the M SAN Grupa showed a high level of stability and agility, despite the economic disturbances that directly affected the global supply chain this year, but also the war in Ukraine and other external factors that indirectly affected the investment readiness and market demand.

Despite the challenges, 2022 was full of important achievements. We continued with significant marketing and capital investments in the repositioning of our own brands and with a strong step towards green energy through the operations of the Green Division, established at the end of 2021.

The basis of strong and continuous growth is the development and upgrading of our key brands, innovations in the assortment with which we follow the trends and needs of our consumers, planning and successful implementation of sales and marketing activities on all markets, as well as efficient cost management.

Business-wise, the Group achieved respectable results in all key business indicators, with increase in sales in all major business divisions. On a consolidated level, the Group achieved HRK 3,257 million in revenue, which represents revenue growth of 20.2% on an annual level, and a drop in EBITDA of (7.9%) in the same period.

At the end of 2022, we completed the acquisition of ALTERNA, one of the leading Slovenian distribution companies, thereby strengthening our position as a regional leader in the distribution of new technologies.

IRENA LANGER – BREZNIK
President of the Management Board

ABOUT US

The M SAN Grupa is a limited liability Company for computer production, trade and import-export with its headquarters in Rugvica, Dugoselska ulica 5, represented by the chairperson of the Management Board, Mrs. Irena Langer-Breznik, Company registration number: 080157581, was registered at the Commercial Court in Zagreb in 1995 under the name M SAN d.o.o., and in 1997 it got its current name.

The M SAN Grupa is the largest private IT Company in the Republic of Croatia. Within the M SAN Grupa, whose primary activity is the distribution of computer hardware, software and consumer electronics, companies in the region such as Kim Tec Bosnia and Herzegovina, Kim Tec Serbia, Kim Tec Montenegro and Pakom Kompani North Macedonia operate, among others, and from the end of 2022 and Alterna distribucija d.o.o. in Slovenia. In addition to the above, the Group produces IT equipment and consumer electronics of our own brands, which includes TV sets, air conditioners, lighting fixtures (LED lamps), white goods, desktop computers and electric mobility products (electric scooters, electric bicycles), which it also distributes through its distribution network.

In the portfolio, the Group also has a logistics activity that primarily includes storage, manipulation and transport of goods (M SAN Logistika), a service activity for the provision of servicing and repair of goods during the warranty and non-warranty periods (MR Servis d.o.o., KIM TEC-SERVIS d.o.o. Vitez, KIM TEC SERVIS d.o.o. Belgrade) and the collection and disposal of electrical and electronic waste (M SAN EKO d.o.o., KIM TEC EKO d.o.o. Vitez). The Group has one subsidiary. M SAN Grupa d.o.o. - Podružnica Buzin, Buzinski prilaz 10, Buzin Since its establishment, the Group has implemented a strategy of strengthening its portfolio with all major world-renowned brands of IT equipment and consumer electronics. Special emphasis is placed on the production and development of our own brands, with production taking place in the People's Republic of China, the Republic of Turkey, the Republic of Croatia and the Republic of Serbia. Most of the production takes place in the plants of third parties, while in the plants of the Group's companies, in the Republic of Croatia and the Republic of Serbia, the assembly of personal computers, TV sets and electric bicycles takes place, as well as the production of led lighting of our own brands. In parallel, the expansion of the Group's operations in the Adriatic region is being carried out by establishing companies and logistics centers with the development of its own logistics, as well as service and service support. Its own regional logistics network is one of the Group's key competitive advantages. Since entering the market until today, we have gained the trust of our customers, partners and suppliers, the number of which is constantly increasing. We are proud that we have become one of the best distributors on the regional IT and CE market from our beginning until today. We attribute our position as a market leader to the commitment of our employees, suppliers, customers and stakeholders, because we firmly believe that achieving common goals leads to success and enables additional expansion and improvement of our own business. The Company does not carry out research and development activities. The Company will publish a non-financial report with all relevant parameters on the website (https://www.msan.hr/en/) within the legally stipulated period.

27 years

Your reliable partner

BUSINESS MODEL

The business model of the M SAN Grupa is based on building and maintaining trust and reliability of cooperation with suppliers and customers, developing a diverse product portfolio and financial stability, and special care that is devoted to products of our own brands.
We have acquired a large number of satisfied partners and customers by investing in production, distribution, marketing and development. Our own brands that we are proud of are VIVAX in the consumer electronics range, MS Energy in the e-mobility range, MSGW computers, MS in the range of peripherals, cables, drones, housings, power supplies and accessories for mobile phones, laptops and desktops, Solmacht which covers the field of solar systems and MS Lux which offers a range of LED lighting products.

VIVAX

The VIVAX brand as a domestic product has been present on the Croatian market since 2004, and has been placed on a total of 39 markets, meaning 4 continents. Today, the VIVAX range offers more than 250 different products that can be divided into 5 product groups: Imago (TV receivers), Cool (air conditioners), Home (small household appliances and white goods), Vox (audio, Hi-Fi) and Tablets. The entire range and design of VIVAX products is completely designed in Croatia, and high quality standards are ensured by the implementation of strict procedures in production processes with a special emphasis on quality control processes. VIVAX is part of a Group of rare European consumer electronics brands that manufacture their products on European soil. Also, M SAN has a production line of LED TV devices with diagonal sizes from 22" to 65", which takes place in its own premises in Rugvica. This production is intended for the Croatian market, as well as the European Union market.

BUSINESS MODEL

MS ENERGY is our own brand of electric scooters, bicycles and all other modern personal electric transportation systems. It has been present on the Croatian market since 2019, and today's range of MS Energy is divided into four categories: electric bicycles, electric scooters, electric motorcycles and accessories. In today's world, where mobility and ecology define a new lifestyle, MS Energy provides answers to customer demands for sustainable, simple and smart transport solutions, the for complete e-mobility.

The reliability and quality of e-mobility products is one of the foundations of the MS Energy brand. The strategy of product creation and the entire production process is based on the use of proven technological solutions, with the aim of creating highly reliable, environmentally friendly solutions for e-mobility that positively affect people's lives.

BUSINESS MODEL

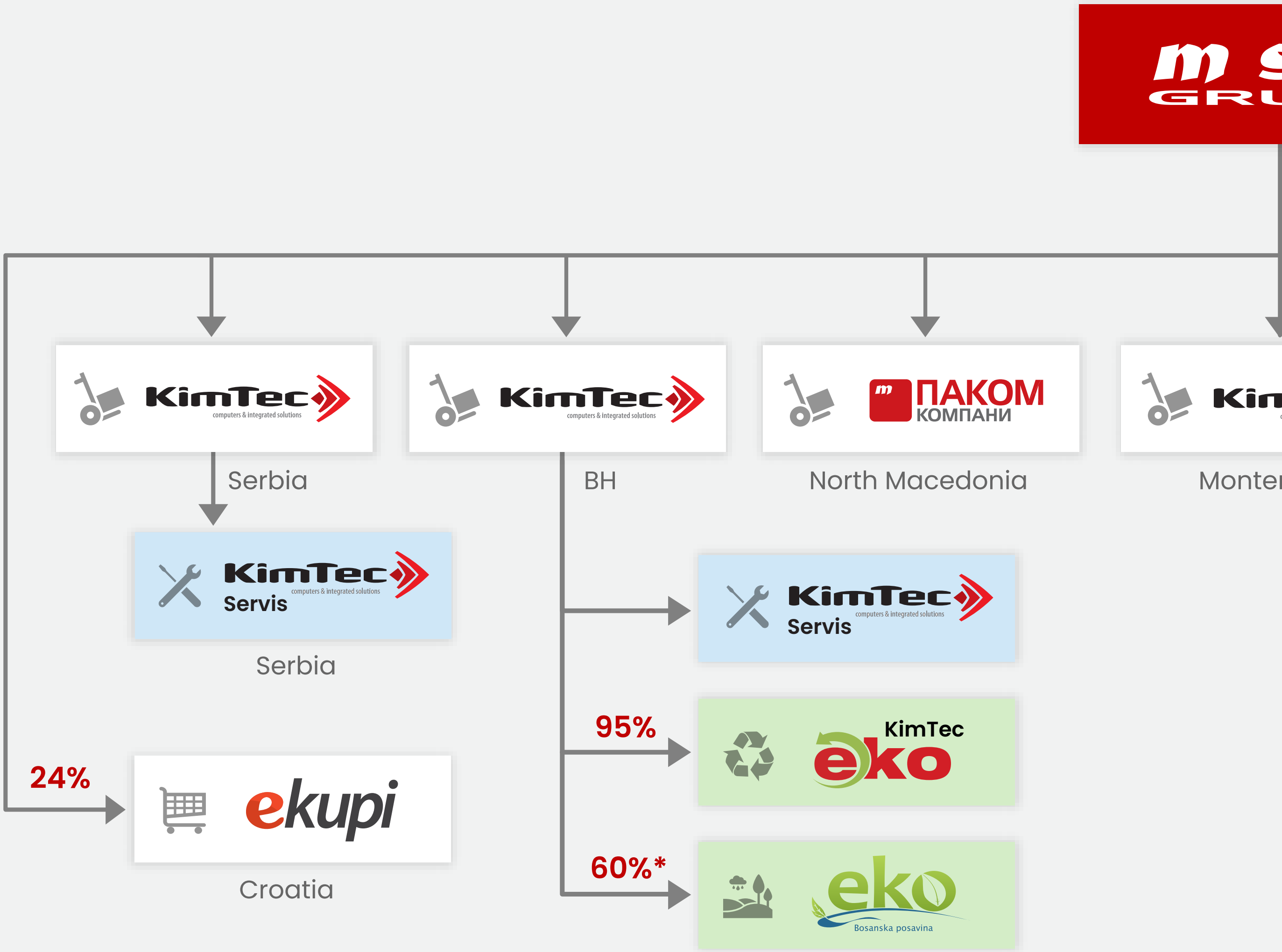
MSGW computers has been on the Croatian market since 2005 as M SAN's own brand. All computers are manufactured in the Group's automated IT equipment production facility and have undergone numerous correctness tests. MSGW computers meets all the necessary requirements set by Microsoft for full compatibility of built-in components with the Windows operating system.

BUSINESS MODEL

MS is an own brand of the M SAN Grupa, which combines the production and sale of computer peripherals including headphones, speakers, keyboards and mice, as well as housings, power supplies and cables. With an 18-year tradition, it successfully operates on the Croatian market and regional markets (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro) and is expanding its operations to other EU markets as well. Each stage of the production cycle is subject to strict quality control, which ensures the reliability and functionality of each device, and ultimately a quality product at an affordable price.

SOLMACHT is a label for excellence in the distribution of top-quality components and equipment required for the construction of solar power plants and related systems. The youngest own brand in the M SAN Grupa portfolio was created in response to market needs for complete solutions in the field of manufacturing solar electric power plants. Through the framework of Solmacht, business partners and end users are provided with the continuous availability of all components from the world's top manufacturers needed for the design and manufacture of solar power plants: from solar panels to electric inverters, load-bearing substructures, battery tanks and additional equipment to chargers for electric vehicles.

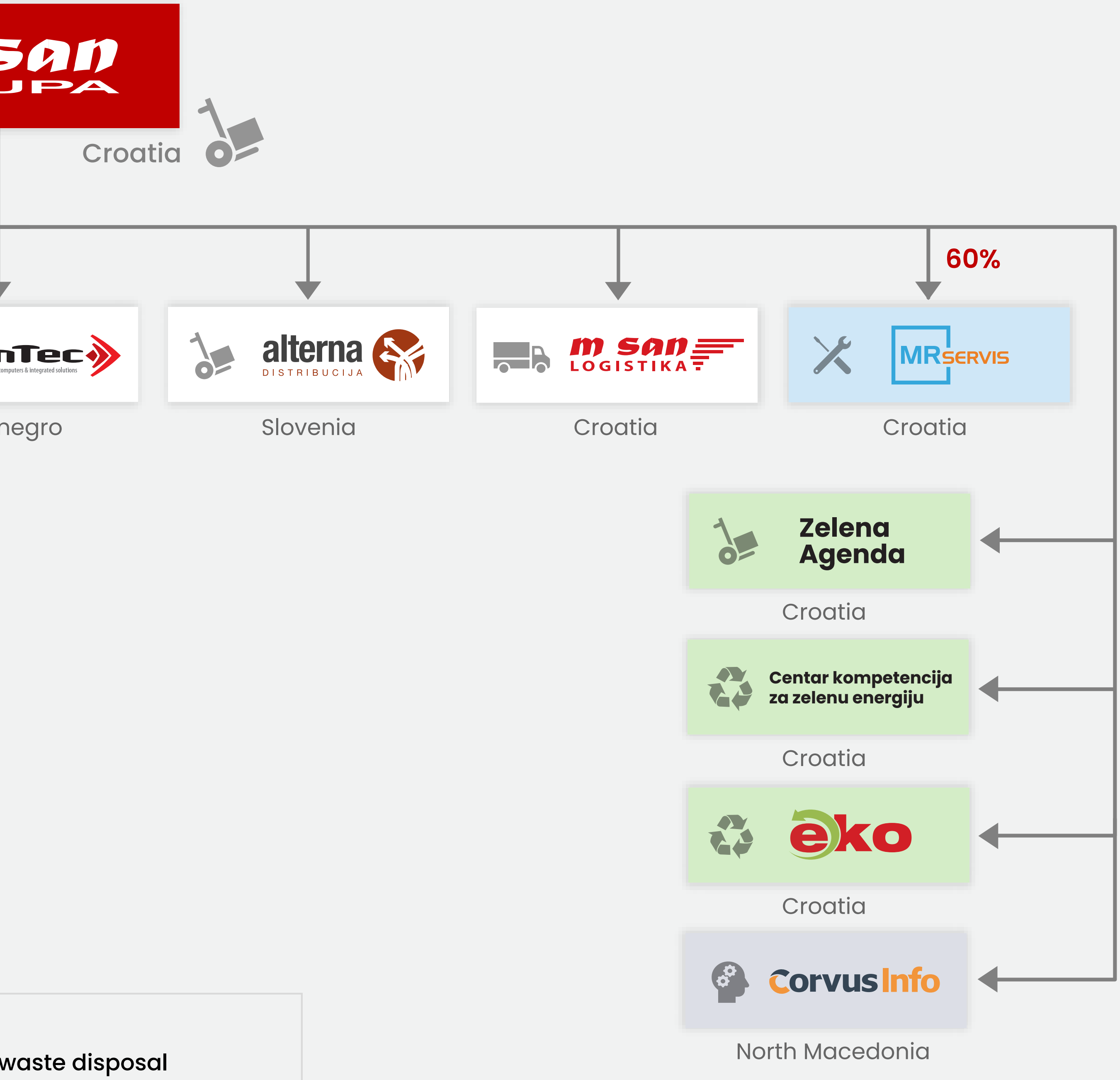
OVERVIEW OF RELATED COMPANIES OF M SAN GROUP



Legend

- IT & CE distribution
- Ecommerce
- Service
- Agriculture
- ICT
- Real estate
- Logistics

*on December 31, 2022, the company did not participate in the consolidation.



waste disposal

PORTFOLIO, SALES CHANNELS, PARTNERS

The M SAN Grupa d.o.o. is the leading distributor of IT products and consumer electronics of more than 60 of the world's most reputable manufacturers and more than 15,000 products. The following stand out among them: Acer, Asus, Hewlett Packard, IBM, Lenovo, LG Electronics Inc, Microsoft, Panasonic, Samsung, Toshiba, Transcend, Western Digital and many others.

The M SAN Grupa has expanded its range with a full range of quality products from which every business or private user can choose a product according to their wishes and capabilities.

The M SAN Grupa's logistics is among the most developed in the region, which ensures fast and accurate delivery.

The M SAN Grupa has over 7,000 partners inside and outside Croatia. Sales channels consist of commodity chains, IT and CE retailers and system integrators. Internal sales teams of the M SAN Grupa were also developed according to the sales channels according to product groups. Through the 'Enterprise" sales segment, the M SAN Grupa offers high added value through knowledge and complex solutions for partners such as system integrators and similar.
With a large number of partners, the Group has significantly diversified its operations, where the largest unrelated customer accounts for 1.8% of the total annual turnover. The Group invests significantly in the sales channels of exports to third countries (countries where there are no subsidiaries), so the total share of exports to third countries increased from 16.5% in 2021 to 17.0% in 2022.

HISTORICAL Development

1995
The Company M SAN d.o.o. was founded.

1997
The Company M SAN Grupa d.o.o. was founded, to which the operations of the Company M SAN d.o.o. were transferred.

1999
The Company KIM TEC d.o.o. was founded. Vitez, Bosnia and Herzegovina

2004
The Company KIM-TEC d.o.o. Belgrade was founded, Republic of Serbia

2004
Registered Vivax brand
Established company M SAN Servis

2005
The Company KIM TEC CG d.o.o. was founded. Podgorica, Montenegro

2006
Business shares in Pakom Kompani (North Macedonia) acquired

2008
Business shares in the companies Elektromagic (Croatia and Bosnia and Herzegovina), Recos (Bosnia and Herzegovina) acquired

2009
The companies, KIM-TEC Servis BG and KIM-TEC Servis Vitez were founded

2013
Kim TEC Eko was founded, MS brand registered

2019
MS ENERGY brand registered

2021
Issuance of a corporate bond, SOLMACHT brand registered

2022
Business shares in the Company Alterna distribucija (Slovenia) acquired

ORGANIZATIONAL STRUCTURE

The M SAN Grupa is a limited liability company. The sole owner of the Company is Mr. Stipo Matić. The Company does not own its own shares and does not implement a program to buy them back.

Supervisory Board:

Željko Menalo, President of the Supervisory Board
Miroslav Huzjak, Deputy President of the Supervisory Board
Stipo Matić, member of the Supervisory Board
Marko Rašić, member of the Supervisory Board
Snježana Matić, member of the Supervisory Board

Management Board:

Irena Langer-Breznik, President of the Management Board since 1 January 2023
Žarko Kruljac, Vice- President of the Management Board since 1 October 2022
Slaven Stipančić, member of the Management Board
Goran Kotlarević, member of the Management Board
Miroslav Gabrić, member of the Management Board from 6 May 2022 to 8 March 2023
Alen Panić, member of the Management Board since 1 October 2022
Vladimir Brkljača, member of the Management Board since 1 October 2022

The operating business of the Group is organized through four divisions:

- **ITCE** – distribution of IT equipment and consumer electronics;
- **Enterprise** – value-added distribution for customized hardware-software solutions;
- **Vivax** – production and distribution of our own brand, over 250 items in all categories (televisions, air conditioners, white goods, small household appliances).
- **Green division** – production and distribution of own brands of electric mobility and professional LED lighting, distribution of solar power plant components.

The heads of the Company’s divisions are also responsible for the divisions in the regional members, which at the same time comprise four sales channels whose motto is “One Company on many different markets”.

ORGANIZATIONAL STRUCTURE

In the reporting period ending on 31 December 2022, a total of 930 employees contributed to the growth and development of our companies, out of which a total of 537 employees were employed at the parent Company M SAN Grupa and related companies in Croatia, and 393 employees employed in the region (Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Slovenia).

Our main goals and ambitions are:

- to become the most successful ITCE distributor in the Adria region
- to develop our own brand with a relevant presence on the EU market
- to achieve market leadership in the field of e-Mobility
- to build a logistics infrastructure in order to reach end consumers
- lean operations

Key operating indicators of the Group

7,000+	200,000	900+	6
PARTNERS	PRODUCTS DELIVERED PER MONTH	EMPLOYEES	OWN BRANDS

CORPORATE GOVERNANCE

The M SAN Grupa, as an entity of public interest whose corporate bonds are listed on the Official Market of the Zagreb Stock Exchange, in accordance with the Accounting Act, Article 22, is obliged to include a statement on the application of the Corporate Governance Code in the annual report.

The M SAN Grupa is not obliged to apply the Corporate Governance Code of the Croatian Financial Services Supervision Agency and the Zagreb Stock Exchange d.d. (https://www.hanfa.hr/media/4098/zse_kodeks_hr.pdf), but the Group is guided in its operations by the highest standards of governance and responsibility in accordance with good corporate management practices, and the standards and practices themselves are included in the Articles of Association, which are available on the Company's website (https://www.msan.hr/wp-content/uploads/2021/05/2021-04-21_M-SAN-Grupa_Izjava-o-osnivanju.pdf).

The Company is also obliged to submit data on corporate governance practices to Croatian Financial Services Supervision Agency through the Questionnaire on governance practices for bond issuers (GIKU-UOP-OBV).

The M SAN Grupa is a signatory to the Code of Ethics in Business, initiated by the Croatian Chamber of Commerce. The mentioned Code establishes the guidelines for the ethical behaviour of business entities, and the signatories undertake, among other things, to respect human rights, apply the provisions on preventing corruption, and so on.

INTERNAL CONTROLS AND RISK MANAGEMENT IN RELATION TO THE FINANCIAL REPORTING PROCEDURE

Internal accounting controls, meaning the procedures of competent employees, ensure the accuracy, validity, and comprehensiveness of financial records and reports, which are the basis for the preparation of annual financial reports. This system of controls also ensures their compliance with International Financial Reporting Standards. The Company's accounting policies represent the rules that the Company applies when compiling financial statements. A summary of the most significant accounting policies is published in the Company's financial statements.

CORPORATE GOVERNANCE

BODIES OF THE COMPANY

The corporate governance structure of the M SAN Grupa is based on a dualistic system, which consists of the Supervisory Board and the Company's Management Board, which, together with the General Assembly, in accordance with the Statute and the Companies Act, represent the three fundamental bodies of the Company. The Supervisory Board has established an Audit Committee, which, when performing its tasks, assesses the quality of the internal control and risk management system with the aim that the main risks to which the Company is exposed (including risks related to compliance with regulations) are appropriately identified.

DESCRIPTION OF DIVERSITY POLICY

The employment policy within the Group respects the personal integrity of each individual by respecting the principles of diversity and equal opportunities. Diversity is one of the characteristics of our organizational culture, which has been present since the founding of the Company, and is manifested in the belief that differences in gender, skin color, political or other beliefs, national or social origin represent wealth, which has existed within M SAN and has been transformed into success for more than 20 years.

The Group strictly prohibits and condemns any form of discrimination with the aim of providing and ensuring a sustainable work environment without discrimination and abuse based on gender, race, religion, ethnicity, sexual orientation or any other characteristic/status as a basis for discrimination. The Group is committed to providing a non-discriminatory workplace, and we are proud of the absence of reported incidents.

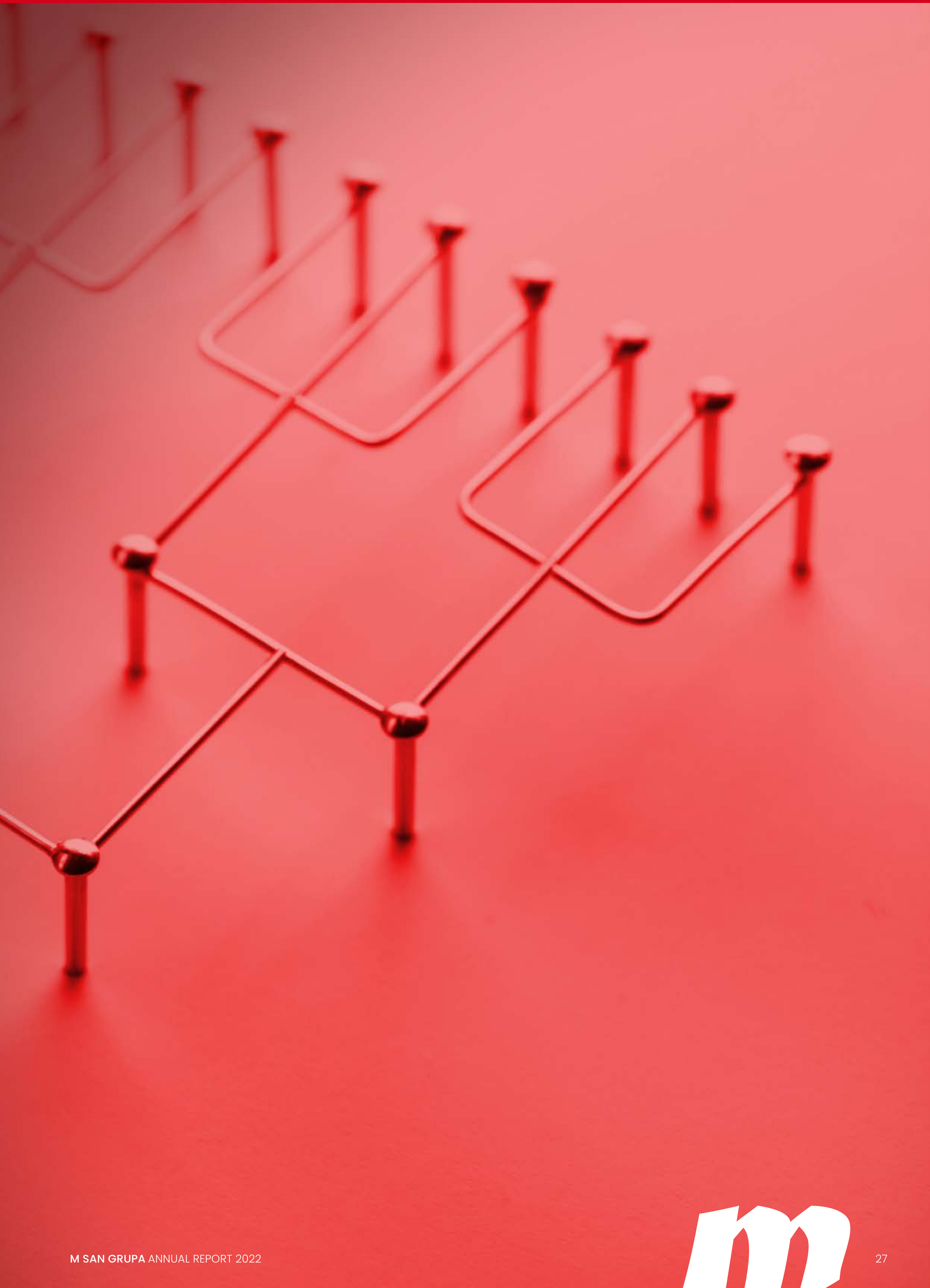
GOVERNANCE STRUCTURE

Governance within M SAN is based on the transparency and efficiency of corporate governance based on the best international practices, ensuring the success and sustainability of the entire Group's activities. M SAN operates within a two-level board structure, consisting of the Supervisory Board and the Management Board. During 2022, the Supervisory Board consisted of three members, while the number of Management Board members increased from six members at the beginning of the year to 8 members in the last quarter.

The Supervisory Board and the Management Board ensure that the established strategy, resources, risk management system, internal control system and relations with stakeholders support the long-term success and sustainable development of the entire Group. Moreover, the above elements ensure that the strategy takes into account the potential impact on the environment and the community, and that the policies, culture and values of M SAN promote ethical behaviour, respect for human rights and lead to a stimulating and pleasant work environment.

The role of the Management Board in managing the business is governed by the Companies Act, the Statute, and internal rules. The Management Board exercises its function with the due diligence of a circumspect trader, primarily taking into account the best interests of the Group. In decision making, personal interests must not lead the Management Board, i.e., use business opportunities for personal purposes and shall immediately notify the Supervisory Board of any possible conflict of interests.

The Assembly of the Company is the highest body, and it consists of the member of the Company as the sole founder. The member of the Company makes the decisions he is authorized to make by law and the Articles of Association. The Assembly decides on issues that are within the exclusive competence of the Assembly based on the current Companies Act. If it deems that there is a need for it, the Assembly is authorized to issue mandatory instructions to the Management Board regarding the management of the Company's affairs, and the Management Board is obliged to manage the Company's affairs in accordance with the mandatory written instructions of the Assembly. The Assembly is convened by the Company's Management Board in cases prescribed by the Companies Act and whenever the Company's interests require it, but it can also be convened by the Supervisory Board and the member of the Company. The Assembly is eligible for decision-making if the sole member of the Company is present.



The M SAN Grupa's MANAGEMENT BOARD

IRENA LANGER BREZNIK
PRESIDENT OF THE MANAGEMENT BOARD

Irena Langer Breznik has held a number of management positions in the M SAN Grupa for 17 years. In her roles, which include a leadership position in the M SAN Grupa's procurement, in addition to responsibility for the complete procurement process in the Republic of Croatia and regionally, she is responsible for obtaining new distributions, nurturing quality relationships with principals, organizing and implementing marketing activities at the level of M SAN and companies in the region; moreover, she was responsible for the establishment of new business processes as well as the improvement of existing ones and worked continuously on structural improvements of business processes with special emphasis on regional procurement, development and improvement of operations in the foreign markets of Group members, management of numerous projects with the aim of developing and improving business applications, electronic trade development between business entities, inventory management and digital transformation. Since 2011, Mrs. Langer Breznik leads the e-commerce development and operations of eKupi, both in the Republic of Croatia and regionally, and serves as a member of the M SAN Grupa Management Board. On 1 January 2023, she assumed the position of Chairperson of the Company's Management Board.

ŽARKO KRULJAC
VICE-PRESIDENT OF THE MANAGEMENT BOARD

Žarko Kruljac devoted 16 years in the M SAN Grupa to the development of the Grupa's sales force and distribution reach. Initially, he stood out due to the successes in business and the realization of strategic goals that he achieved in management positions in companies in the Republic of Serbia and Bosnia and Herzegovina, and after that, managing commercial operations in Croatia and the region, and focused his activities on three key aspects: continuous building and strengthening of partnership customer networks, raising the competences of sales operations and adapting sales processes to market changes. He received his doctorate in the field of economic sciences in 2020. Since 2009, Mr. Kruljac has been a member of the Company's Management Board.

SLAVEN STIPANČIĆ
MEMBER OF THE MANAGEMENT BOARD

During his 19 years in the M SAN Grupa, Slaven Stipančić focused on improving the procurement process and expanding the distribution portfolio. Mr. Stipančić, leading a team of successful professionals, is responsible for and made a great contribution to the development of M SAN's own VIVAX brand, thanks to which VIVAX became a recognized brand that is sold on almost the entire European market, as well as on other continents. As director of the consumer electronics segment, he works on contracting and developing distribution cooperation with the world's strongest CE brands, in Croatia and the region. At the same time, he is working on optimizing the connection between the sales processes of international CE brands and the Company's procurement processes. Since 2009, Mr. Stipančić has been a member of the Company's Management Board.

The M SAN Grupa's MANAGEMENT BOARD

GORAN KOTLAREVIĆ
MEMBER OF THE MANAGEMENT BOARD

Strengthening sales operations and expanding the distribution reach, in all countries of the region, are the main subjects of Mr. Kotlarević's activities. In his 16 years of work in the M SAN Grupa in the positions of sales manager, sales director and business development director, Mr. Kotlarević directly influenced the building of the Company's strong market presence and its current recognition. Since March 2021, Mr. Kotlarević has been a member of the Company's Management Board.

MIROSLAV GABRIĆ
MEMBER OF THE MANAGEMENT BOARD

Mr. Miroslav Gabrić joined the management of the M SAN Grupa in 2022, after more than 2 decades of experience in key management positions of the largest distribution Groups in Croatia and neighbouring countries, where he worked on the organization of logistics, including the implementation of technological solutions for the optimization of all processes in in the field of logistics. His arrival at the M SAN Grupa is connected precisely with his primary responsibility of consolidating, optimizing and developing all processes in the field of logistics. Since 8 March 2023, Mr. Gabrić no longer acts as a member of the Company's Management Board.

ALEN PANIĆ
MEMBER OF THE MANAGEMENT BOARD

During almost 19 years within the M SAN Grupa, Mr. Alen Panić held a number of functions related to the construction and development of the division of high technologies and project business, including the role of executive director of the so-called value-added distribution. Today, the mentioned division consists of a number of departments that are responsible for the business of infrastructure, software, cloud and project solutions, distributed in all the countries of the region, distributing the world's largest technology principals, and represents the regional leader in that segment of business behind which hundreds of successfully delivered the most complex ICT projects, continuous growth and business expansion. Since October 2022, he has been a member of the Company's Management Board.

VLADIMIR BRKLJAČA
MEMBER OF THE MANAGEMENT BOARD

Vladimir Brkljača built his business career in the M SAN Grupa, where he devoted himself to the development of the VIVAX brand for the past 18 years. Along the way, he held various positions; from product manager, head of development and procurement VIVAX, head of the VIVAX profit centre, and for the last 5 years he held the position of executive director of the VIVAX division, with key responsibilities for development, procurement, sales and building the VIVAX brand. He led the project of moving and building a plant for the production of VIVAX LED televisions in Croatia and in the initial phase the development of the MS Energy brand. He made the main contribution to the overall development and strengthening of the VIVAX division's operations in all countries of the region, a significant step forward to the EU market, and the implementation of the VIVAX brand strategy. Since October 2022, he has been a member of the Company's Management Board.

The M SAN Grupa's SUPERVISORY BOARD

ŽELJKO MENALO
PRESIDENT OF THE SUPERVISORY BOARD

Željko Menalo spent most of his career in the financial industry within the Erste&Steiermarkische Group in Croatia, where he performed various managerial tasks. He joined the SM Group* in 2019 with employment at the Company M SAN Ulaganja d.o.o., and since 2022 he has been employed at the Company Ured za podršku d.o.o. in the position of adviser. By the decision of the Company's Assembly of September 2022, Željko Menalo was appointed to the position of Chairman of the Supervisory Board with the beginning of his term of office on 1 January 2023.

MIROSLAV HUZJAK
DEPUTY PRESIDENT OF THE SUPERVISORY BOARD

For the past 23 years, Miroslav Huzjak has been working in leading positions in the M SAN Grupa, leading teams of professionals who have positioned the Company as the most important ICT and CE distributor in the Adria region. He worked in various jobs in the Company, and held a managerial position in the commercial department, which in addition to the responsibility for the organization of the commercial department, and its successful operation and the positioning of M SAN as a market leader, included numerous other responsibilities. Mr. Huzjak was responsible for conducting key negotiations for concluding a distribution contract with the largest globally significant principals, thanks to which M SAN became an authorized distributor of numerous world-famous brands, both in the territory of the Republic of Croatia and regionally. As of 1 January 2023, Mr. Huzjak holds the position of Deputy Chairman of the Supervisory Board of the M SAN Grupa.

MARKO RAŠIĆ
MEMBER OF THE SUPERVISORY BOARD

Marko Rašić started his career at M SAN in 2003 as an intern in the Finance Department and by 2011 he had progressed to the position of head of finance. During the acquisition period of the Group in the agricultural segment, he actively participates in takeover processes and the subsequent financial restructuring of acquired agricultural companies. In parallel with his duties as head of finance, since 2016 he has held the position of Chairman of the Supervisory Board of PP ORAHOVICA d.o.o. and President of the Supervisory Board of PPK Valpovo d.o.o. and since 2014 he has been a member of the Supervisory Board of the Company KING ICT d.o.o. In the Supervisory Board of M SAN, he has held the position of Deputy Chairman of the Supervisory Board since 2016. In 2017, he was appointed director of the Company Ured za podršku d.o.o. As of 1 January 2023 Mr. Rašić acts as a member of the Supervisory Board.

STIPO MATIĆ

MEMBER OF THE SUPERVISORY BOARD

Stipo Matić founded M SAN in 1995 and is its sole founder and member. In the period until 2009, Stipo Matić held the position of director of M SAN, and then took over the position of Chairman of the Supervisory Board of M SAN. Moreover, Stipo Matić is the director of M SAN Logistika d.o.o. and M SAN EKO d.o.o., member of the Management Board of eKupi d.o.o., as well as the Chairman of the Supervisory Board of KING ICT d.o.o. Today, the portfolio of companies owned by him includes KING ICT d.o.o., eKupi d.o.o., Ured za podršku d.o.o., CORVUS PAY d.o.o., Agro Invest Grupa d.o.o., and others. As of 1 January 2023 Mr. Matić acts as a member of the Supervisory Board.

SNJEŽANA MATIĆ

MEMBER OF THE SUPERVISORY BOARD

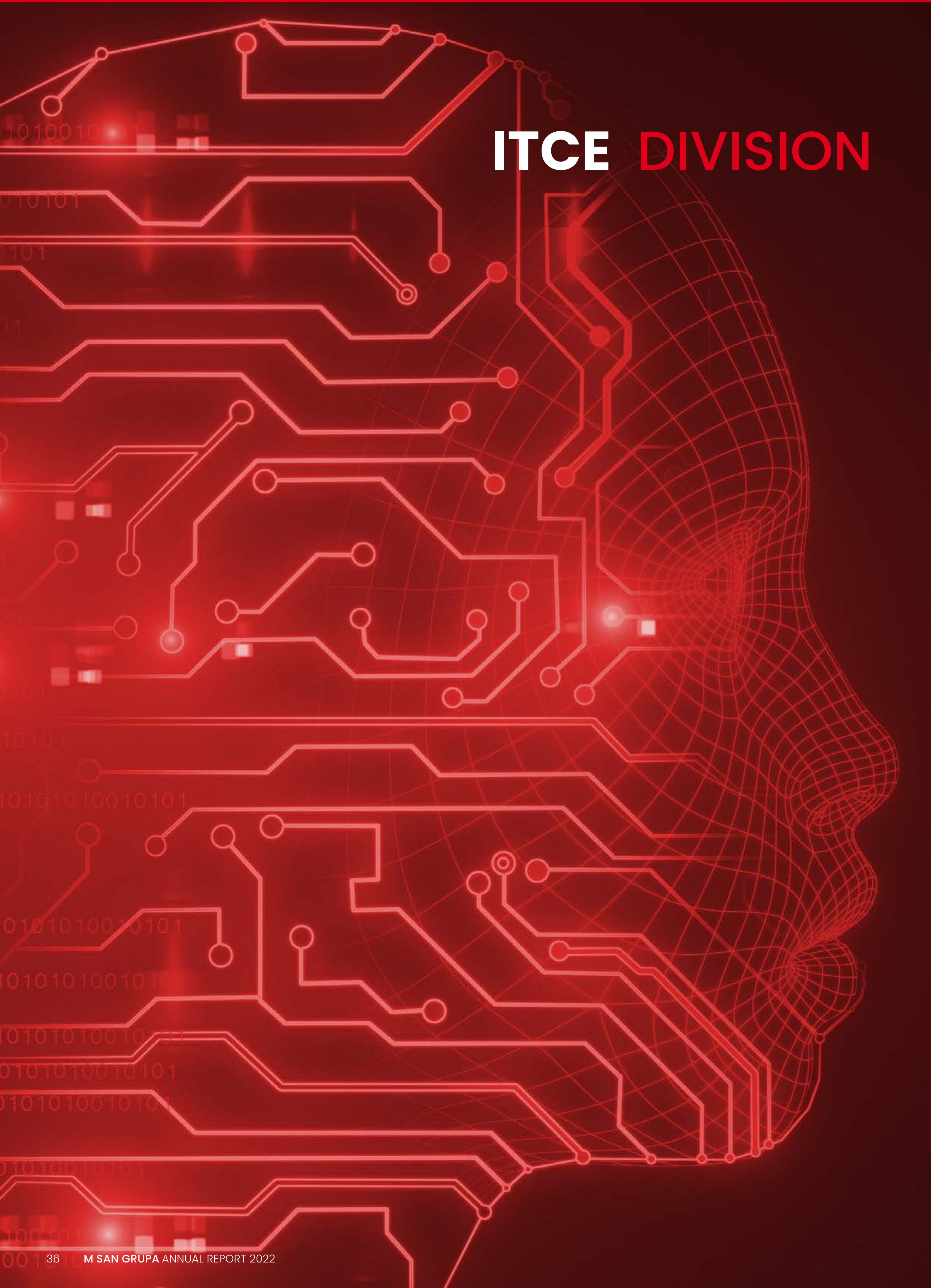
Snježana Matić has been involved in the business of M SAN since the very foundation of the Company. In the beginning, she worked on sales tasks, and then on procurement tasks with a special focus on building long-term sustainable business relationships with suppliers. In response to the growth of SAN's business activities, she took over the coordination of activities in accounting and finance, and in 2004 devoted herself to the development of system integration business, where she still operates in the field of controlling. She has been a member of the Supervisory Board of M SAN since 2004.

In addition to the Supervisory Board and the Management Board, the Audit Committee, consisting of three members Branislav Vrtačnik, Kristina Alebić and Branka Gerić, has the role of providing support to the Supervisory Board in its performance his tasks and the implementation of other activities, in accordance with applicable laws and others provisions. The audit committee is an advisory committee of the Supervisory Board without executive powers, that is, it acts as a specialized subcommittee of the Supervisory Board, and its powers derive from powers of the Supervisory Board.

***SM group:** A group consisting of companies in which the sole member of the M SAN Grupa directly or indirectly exercises control

OPERATIVE Business

ITCE DIVISION



The ITCE division operates in the territories of the Republic of Croatia, Serbia, Bosnia and Herzegovina, North Macedonia and Montenegro.

The division includes the categories of 19 strategic product groups that refer to the 'A' brands of world manufacturers in the total product portfolio of the M SAN Grupa. The IT part of the division includes strategic groups of products that are found in desktop and laptop computers, and are integral parts of computers and accessories that are closely related to the computer itself. The most important strategic groups in the IT part are portable and desktop computers, components that make up the computer, peripherals, data storage, consumables, printers, network equipment, monitors and gaming assortment. The CE part of the division includes strategic groups of white goods, TV sets, air conditioners, drones, new technologies, small household appliances, mobile phones and brown goods.

The primary goal of the business area of the ITCE division is the distribution of all strategic supplier groups that are in the division's portfolio to all areas of activity. In 2022, the ITCE business segment recorded total revenue of HRK 1,481.2 million, which represents an increase in the achieved result of 4.3% compared to the previous year. Geographically, the markets of Serbia (22.7%), Bosnia and Herzegovina (17.2%) and Montenegro (19.0%) achieved growth compared to the previous year, while the income structure is still without significant changes. The market of Croatia participates with 47.3% of total revenue, followed by the market of Serbia with a 31.4% share, Bosnia and Herzegovina with a 12.9% share, Macedonia 4.4% and Montenegro 4.0%. In all markets and in all distribution channels, the total number of customers grew by 1.1%. The biggest growth, compared to the previous year, was achieved by the strategic groups of computers and printers. Combined, they achieved a 45.9% increase in revenue, which indicates increased investments by private and public entities in the renewal of IT equipment.

The key factors that affected sales results in 2022 are the continued duration of the COVID-19 pandemic, the conflict in Ukraine, and continued challenges in the supply chain. Compared to the previous year, there were no challenges in the quantity of goods, but due to the conflict, an increased quantity of goods appeared, which caused a great pressure on prices. At the same time, inflation and price growth caused fear among end users and reduced spending on IT products. At the end of the year, a contract was signed on the distribution of MSI laptops, which are recognizable on the world gaming market, and a contract on the distribution of OPPO mobile phones for the Croatian market. This marked the beginning of cooperation with operators as well as leading retail chains. A new marketing team was also formed, with the aim of strengthening the recognition of own brands through increasing the presence on social networks and gaming events. Also, cooperation with higher education institutions was achieved, through which support was provided for various student activities.

The markets of Serbia and Montenegro were consolidated and reinforcements were added to the CEA team, which increased the efficiency of the teams. In North Macedonia, a contract was signed on the distribution of Samsung TV and WG products, which will provide an opportunity for further sales development and increase the Group's presence on the market.

VIVAX

Manufacture and distribution of own brand

Simply good.

VIVAX

The Vivax brand is a domestic product that has been on the Croatian market since 2004, and today it offers more than 250 different products in its range. The VIVAX division includes the operations of our own VIVAX brand in the consumer electronics segment. The assortment consists of products classified into four primary strategic groups: air conditioners, TV devices, small household appliances and white goods, and secondary: brown goods, tablets and gadgets.

In 2022, the division achieved total revenue of HRK 623.3 million, which represents a growth of 27.7% compared to 2021 and constitutes an additional step forward in the division's operations. Out of the total revenue, as much as 22.8% is exports to countries where the Group does not have branches. At the same time, a growth of 37.5% was achieved in these markets, this confirms the focus on strategic designation of the Division. Export is seen as key contribution in business development with an emphasis to the central EU markets where all strategic groups of the VIVAX Division are already marketed. A significant influence on the result and consolidation of the position on the market was made by the strategic groups air conditioners with a growth of 58.8%, white goods by 26.56%, small household appliances by 20.8%, while the TV sets group recorded a decrease in revenue of (6.2%) under the influence of the contraction of the TV market at the European level.

Geographically speaking, all markets where the Group operates achieved revenue growth. The Croatian market grew by 25.3%, Serbia by 11.1%, Bosnia and Herzegovina by 66.8%, North Macedonia by 16.3%, and Montenegro by 75.8%. The structure of income has not changed too much with 49.3% of income coming from the Republic of Croatia, followed by the market of Serbia with 18.9%, Bosnia and Herzegovina with 11.8%, North Macedonia with 12.1% and Montenegro with 7.9%. The export business of the VIVAX division is one of the main and key in terms of business development, and in 2022 a growth of 37.5% was recorded.

During 2022, in accordance with the set brand strategy, significant investments were made in VIVAX brand marketing, which is extremely important for the future development of the VIVAX brand. In the 3rd quarter of 2022, new VIVAX Android Smart TVs were introduced to the market, which come with the latest version of Android 11 software. In addition to televisions, the platform was used in VIVAX Q LED models and Series A and B. Also, in the 3rd quarter of 2022, the range of VIVAX air conditioners was expanded with heat pumps, which represent added value in the offer.

GREEN DIVISION

GREEN DIVISION

Recognizing the trends that green technologies bring to everyday life and business, such as the use of solar technology in the production of electricity, the use of highly efficient LED lighting in urban areas, production and sports facilities, and new ways of commuting and using free time brought by e-Mobility, at the end of 2021, the Green Division was formed.

The division operates through three key verticals: distribution of solar equipment, design of solar power plants, and production and distribution of car chargers and batteries; production and distribution of professional LED lighting (street, industrial, sports...) and e-mobility – production and sale of e-mobiles, e-bikes and e-motorcycles.

In 2022, the Division generated revenue at the level of HRK 169.2 million, out which 48.3% was generated by the e-Mobility strategic group. Geographically, the largest part of the revenue comes from sales in Croatia and is currently at the level of 70.1%. The division operates through subsidiaries on all markets as does the M SAN Grupa, and an export department has been established that primarily covers the EU market. The division currently employs 71 employees.

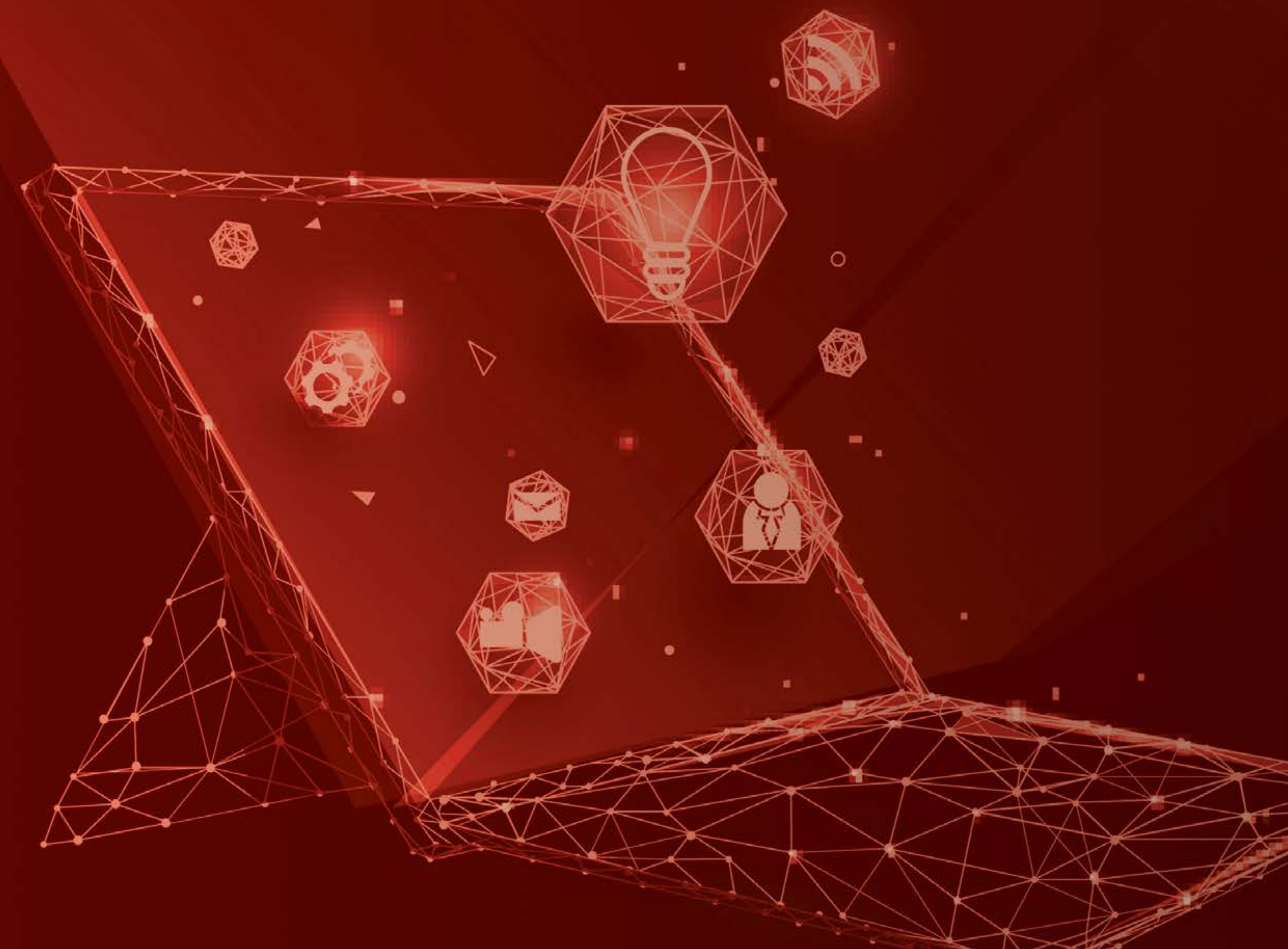
In the part of solar equipment distribution, direct cooperation has been established with solar panel manufacturers Longi, Yingli and Risen, and in the range of inverters, Sungrow and Huawei. The division distributes substructures for solar panels from the German manufacturer Mounting-systems, and a regional agreement was signed on the distribution of Wallbox chargers for electric vehicles.

In addition to cooperation with other manufacturers, the Green Division operates two own brands: MS Lux under the LED lighting vertical and MS Energy under the e-Mobility vertical. The production facilities for both brands are located in the logistics centre of the M SAN Grupa in the municipality of Rugvica, near Zagreb. In 2022, the MS Energy range was expanded to include eBicycles and an electric bicycle assembly line was launched, which contributed to the expansion of the sales capacity of electric bicycles and scooters.

Thanks to partners and a network of distributors, the products of the Green Division are available on all major markets of the European Union.

ENTERPRISE
(VALUE ADDED DISTRIBUTION)

Value added IT distribution



ENTERPRISE

This business segment deals with the distribution of products and services with a higher share of added value. The Enterprise division is organized into several units – the Infrastructure department, the Software and Cloud department, the Special Projects, technical support and marketing department, and the Enterprise Sales department, in order to provide competitive goods and services to business ICT partners. It operates as part of the M SAN Grupa, in Croatia, Serbia, Bosnia and Herzegovina, Slovenia, North Macedonia and Montenegro. This segment is characterized by:

• working with a more demanding product portfolio – servers, data storage, networks, software, solutions, video surveillance, industrial specialized products, cloud computing, high-tech services.

• working with more demanding customers - system integrators (SI), software manufacturers (ISV), service providers (MSP) - which requires a higher level of knowledge and complex skills, as well as professional specialization and certification for employees.

• working with more demanding suppliers – complex and dynamic technological, technical and operational processes, and enormous breadth and depth of technologies, Groups, subgroups and specialization of products.

• Partners, and indirectly end users, are not only offered a product, the optimal solution is also designed, suggested, upgraded and maintained, which gives a high value to the offer, especially for smaller and medium-sized customers who cannot afford to hire expensive professionals and monitor the dynamics of technology evolution, certification and other regulations.

• The M SAN Grupa recognized the value of such an approach about 15 years ago, invested in an independent, specialized division on a regional level, and, in the sales channel today, is the leading so-called Value Added distributor in Croatia and the region.

ENTERPRISE

In addition to direct sales, the Enterprise division also ensures the coordination of other sectors and departments in the Company when their products (e.g. laptops, specialized products...) are offered as part of tenders and more complex projects.

It combines all the necessary parts of the offer in one place and offers the best solution to the partner, thus increasing his competitiveness and profitability. As part of its offer, it has several dozen global brands, including;

During 2022, challenges caused by global market disturbances continued - Covid, the war in Ukraine, volatile production and logistics chains, and inflationary pressures. Despite the complex conditions, the Enterprise division achieved consolidated revenue of HRK 597.3 million, which is a growth of 33.2%, and a growth of the gross margin of 23.2%, which is historically by far the best result in the division.

The Infrastructure segment achieved consolidated revenue growth of 41.8%, the Software and Cloud segment a growth of 7.7%, and the Enterprise segment increase in sales of 15.4% in that part of the specialized channel. Croatia achieved revenue growth of 24.2%, Serbia growth of 60.2%, Bosnia and Herzegovina growth of 36.8%, North Macedonia growth of 83.7%, Montenegro growth of 50.9%.

ENTERPRISE

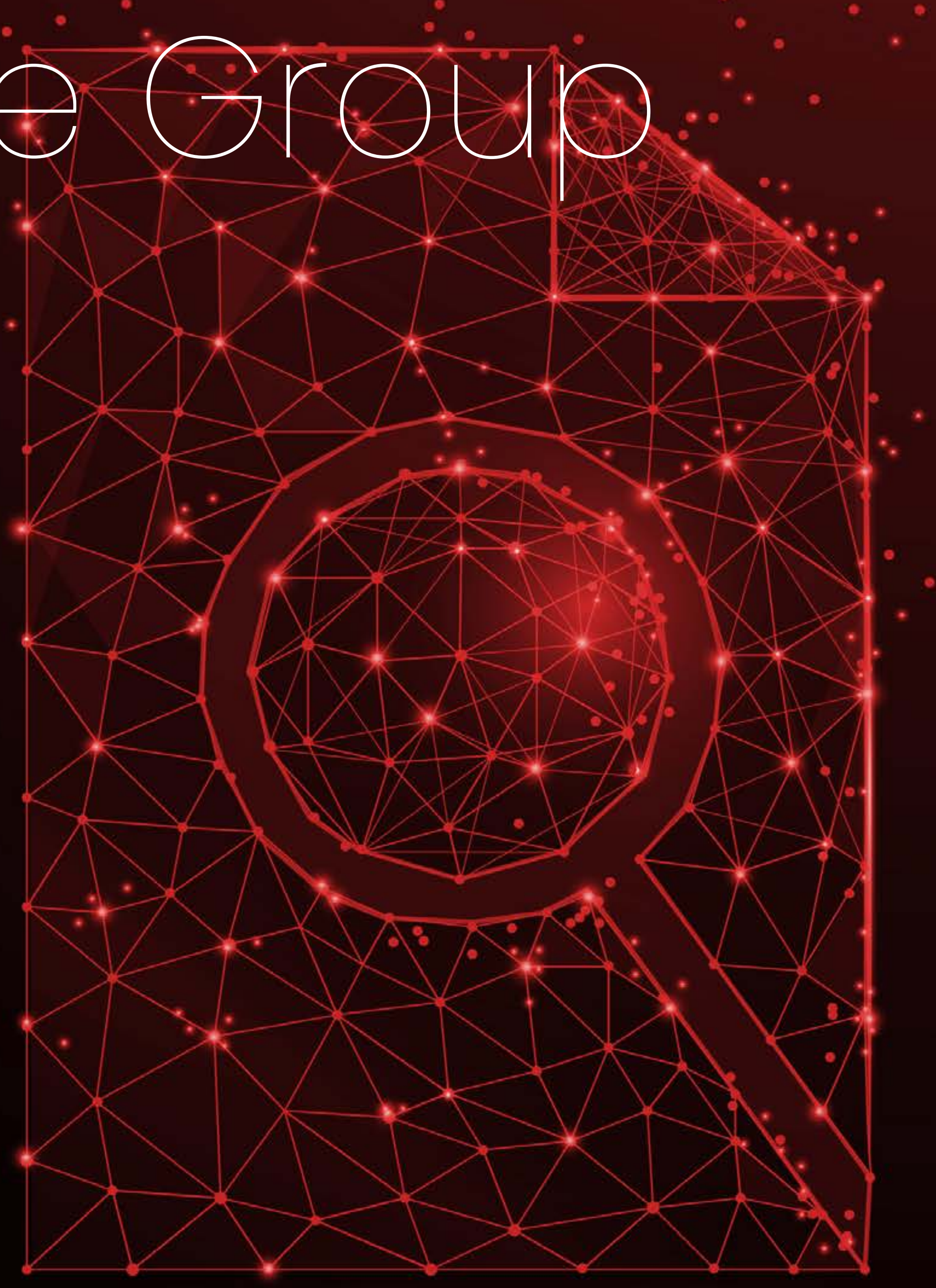
High-quality growth was accelerated by the realization of larger projects in Croatia, Bosnia and Herzegovina, North Macedonia, and Montenegro, which were suspended, postponed in 2021 or, due to slow production and logistics, had a time lag and were realized in 2022. Strong growth in Serbia was further enhanced by the high-quality preparation and implementation of the State fiscal project, the implementation of which was effective during the last 3 quarters in 2022.

The investment plan continued in new portfolios, modern technological products from the growing segment of cyber security such as Sophos, Acronis, and Immuniweb, but also in the expansion of the offer of established suppliers in the channel, as well as in personnel solutions and reinforcements in all countries.

As part of the investment cycle, during 2021, the M SAN Grupa submitted a binding offer for the takeover of the largest Value Added distributor in Slovenia, Alterna distribucija d.o.o., and at the end of 2022, the takeover process was fully completed. With this acquisition, the Enterprise division expanded its presence in one more country, strengthened its position for about 15 new specialists and about 300 new partners. In 2022, Alterna distribucija achieved about HRK 230 million in revenue.

alterna DISTRIBUCIJA

FINANCIAL operations of the Group



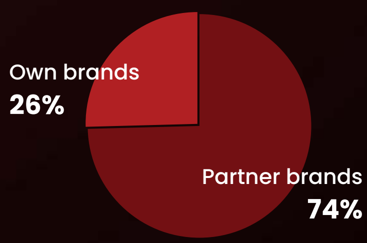
During 2022, the M SAN Grupa achieved total revenue of HRK 3,257 million, which is an increase of 20.2% compared to the previous year. The Group achieved increase in sales in all sales divisions. Perceived absolutely, but also relatively, the biggest growth was achieved by the Enterprise division, which, during 2022, had an increase in sales in the amount of HRK 148.8 million (33.2%). Thanks to increased investments in brand marketing and recognized quality, the Vivax division achieved increase in sales of HRK 135.1 million (27.7%). The largest share in the revenue growth of the Vivax division came from the increase in sales of products from the strategic group air conditioning.

TABLE 1 Revenue by division

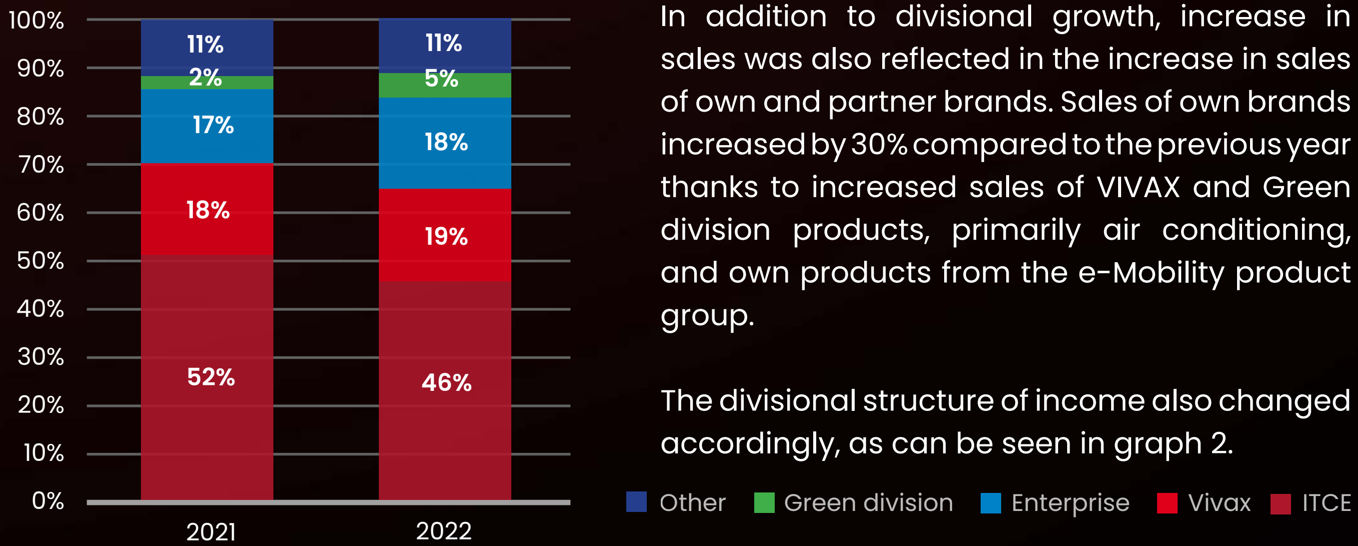
In HRK thousand

Division (Name)	2022	2021	Difference	2022/2021
ITCE	1,481,182 kn	1,419,992 kn	61,190	4.3%
Vivax	623,277 kn	488,182 kn	135,095	27.7%
Enterprise	597,287 kn	448,472 kn	148,816	33.2%
Green division	168,984 kn	44,216 kn	124,768	282.2%
Other	367,681 kn	297,707 kn	69,974	23.5%
Total Result	**3,238,411 kn**	**2,698,568 kn**	**539,843**	**20.0%**

The ITCE division achieved increase in sales of HRK 61.2 million (4.3%), thanks to increased sales of products from the strategic group of computers and printers and monitors. Despite starting operations at the end of 2021, the Green division achieved a relative growth of 282.8% in revenue thanks to high demand for products from the e-Mobility strategic group and the group of products related to solar energy.



Graph 1 Share of sales of own and partner brands



GRAPH 2 - Revenue share by division

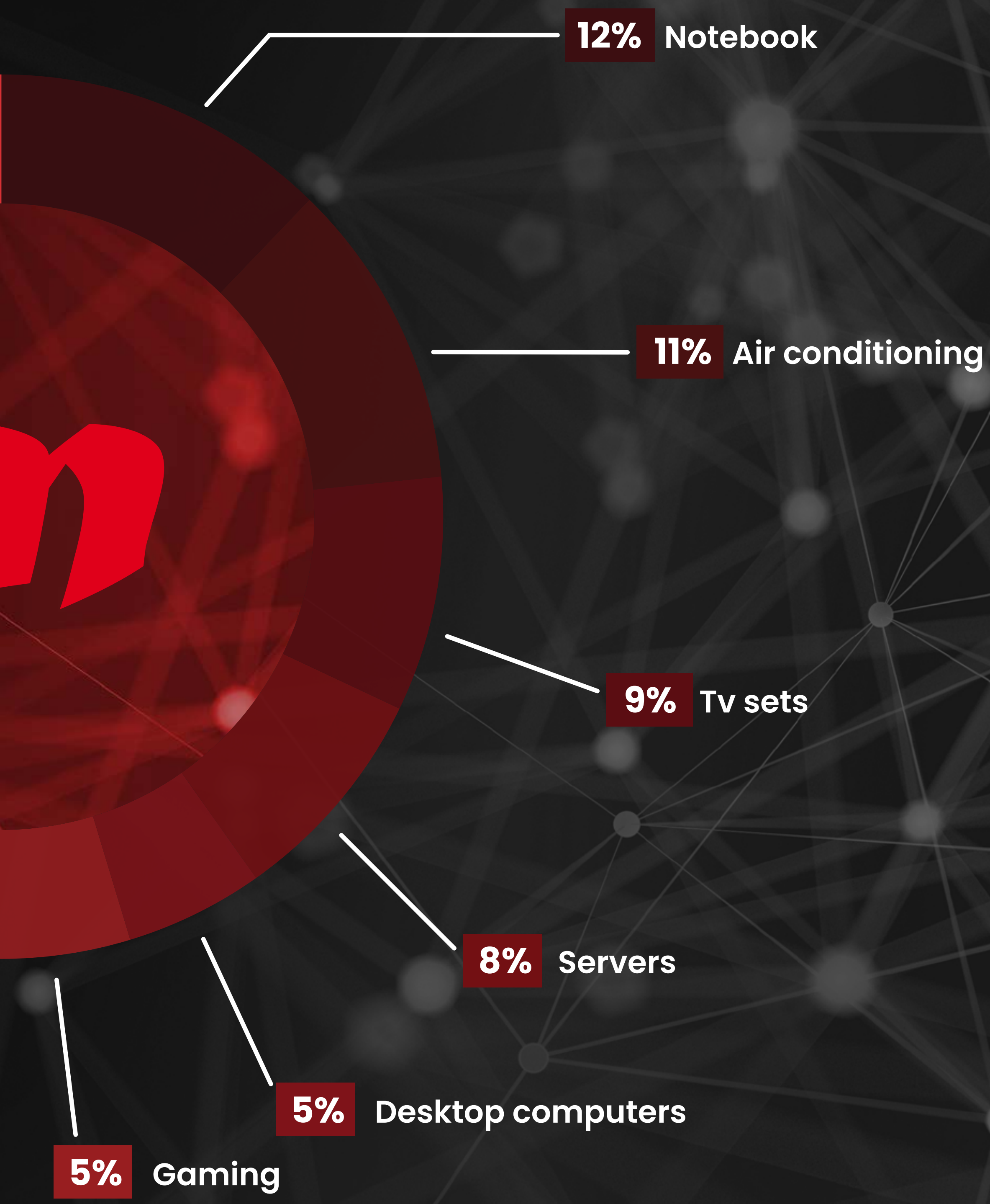
In addition to divisional growth, increase in sales was also reflected in the increase in sales of own and partner brands. Sales of own brands increased by 30% compared to the previous year thanks to increased sales of VIVAX and Green division products, primarily air conditioning, and own products from the e-Mobility product group.

The divisional structure of income also changed accordingly, as can be seen in graph 2.

REVENUE SALES BY STRATEGIC GROUPS IN 2022

Compared to the previous year, the structure of income by strategic groups differs in several items. With increased investments in brand marketing and brand strategy of our own brand Vivax, the Group achieved increase in sales in the Air Conditioners strategic group and, accordingly, the weight of the strategic group within total revenue increased to 11%.
Due to the increase in sales, in 2022, the strategic group monitors also entered the top 10 strategic groups by revenue.

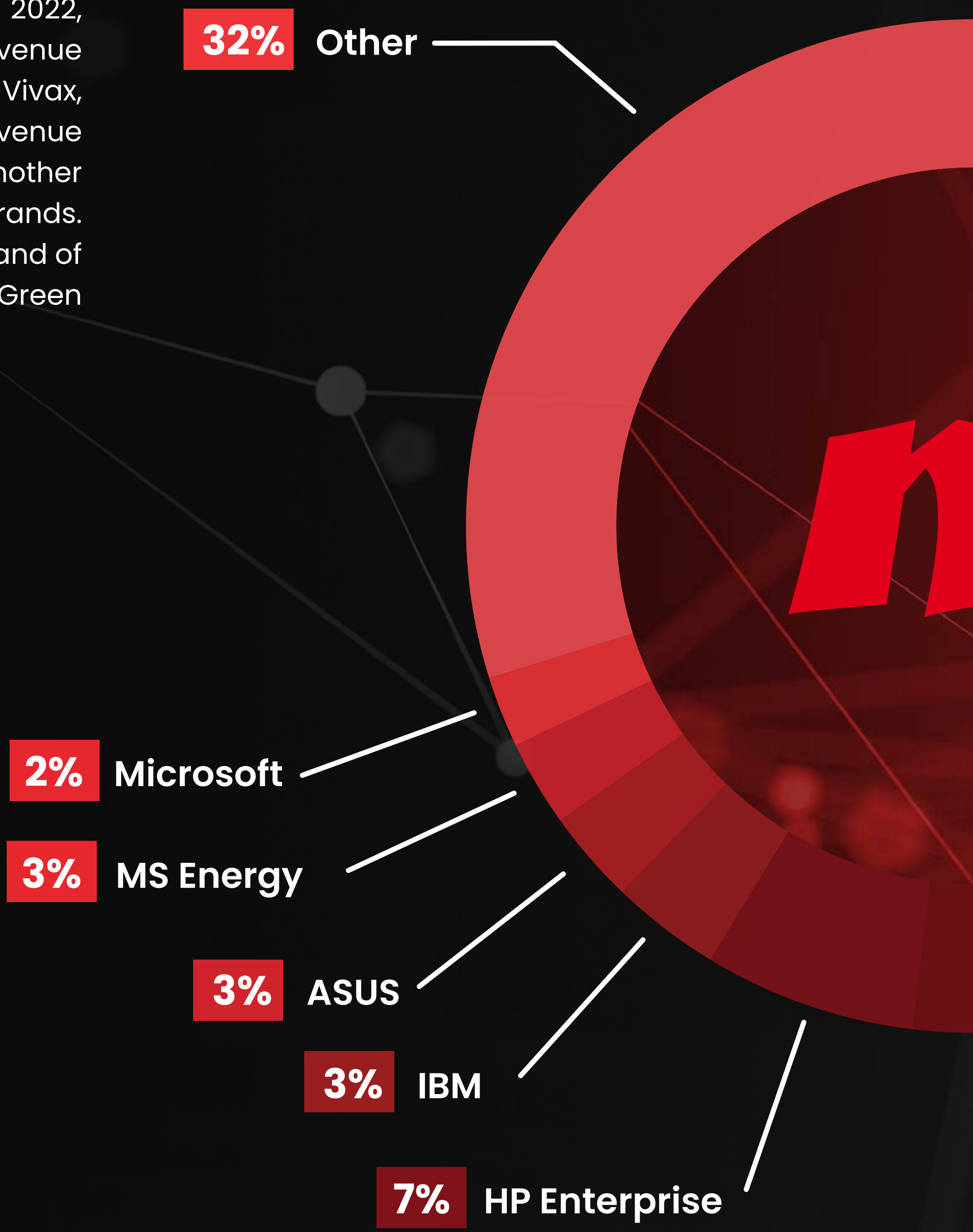
GRAPH 3 - Revenue sa



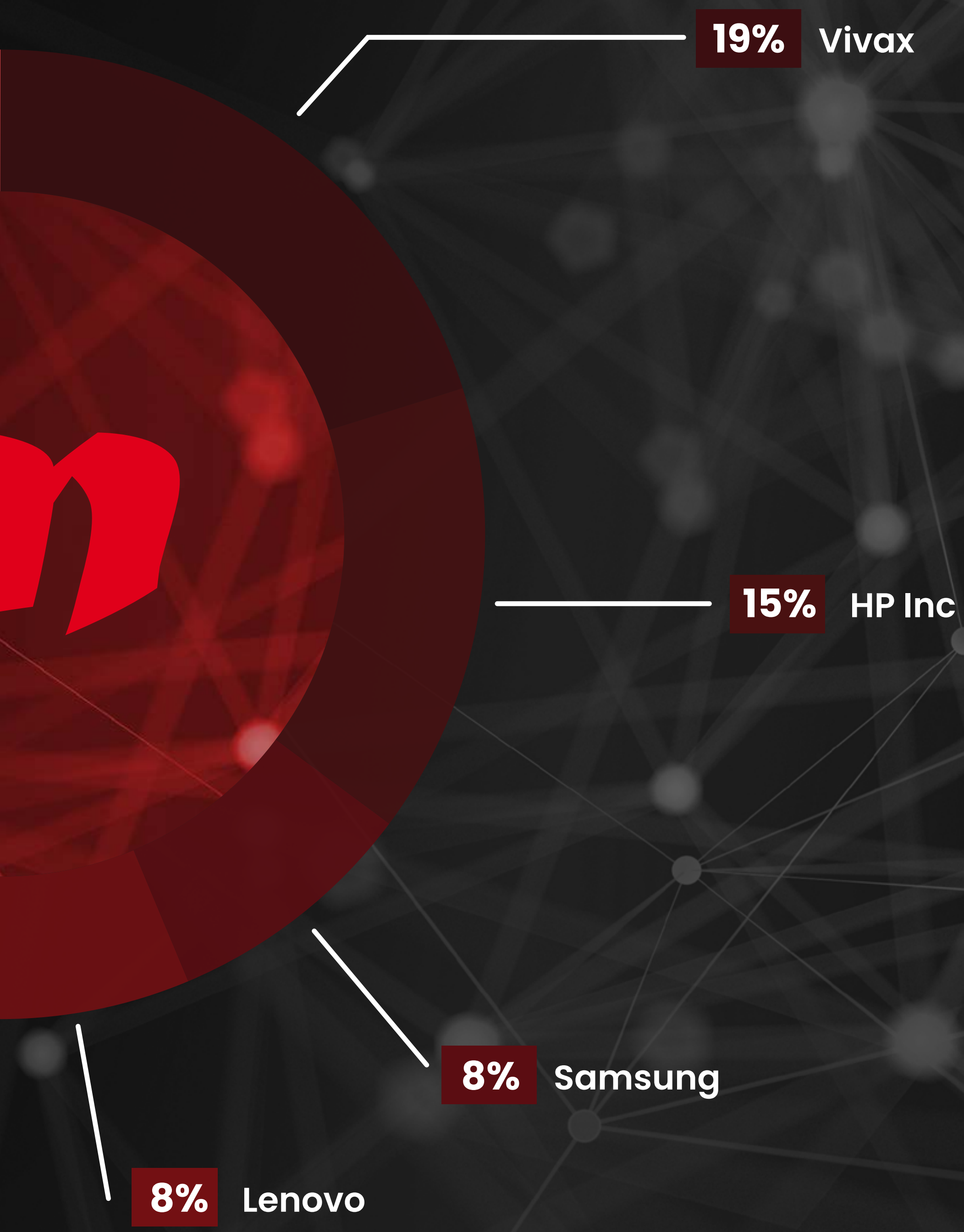
les by strategic groups

SHARES IN REVENUES FROM BRAND SALES IN 2022

Highly-segmented sales by brands reduces the business risk of relying on one or several suppliers. In 2022, the biggest share in sales revenue is owned by our own brand Vivax, which accounted for 19% of revenue last year. Along with Vivax, another own brand entered the top 10 brands. MS Energy is a recognizable brand of e-Mobility products from the Green division.



GRAPH 4 - SHARES in re

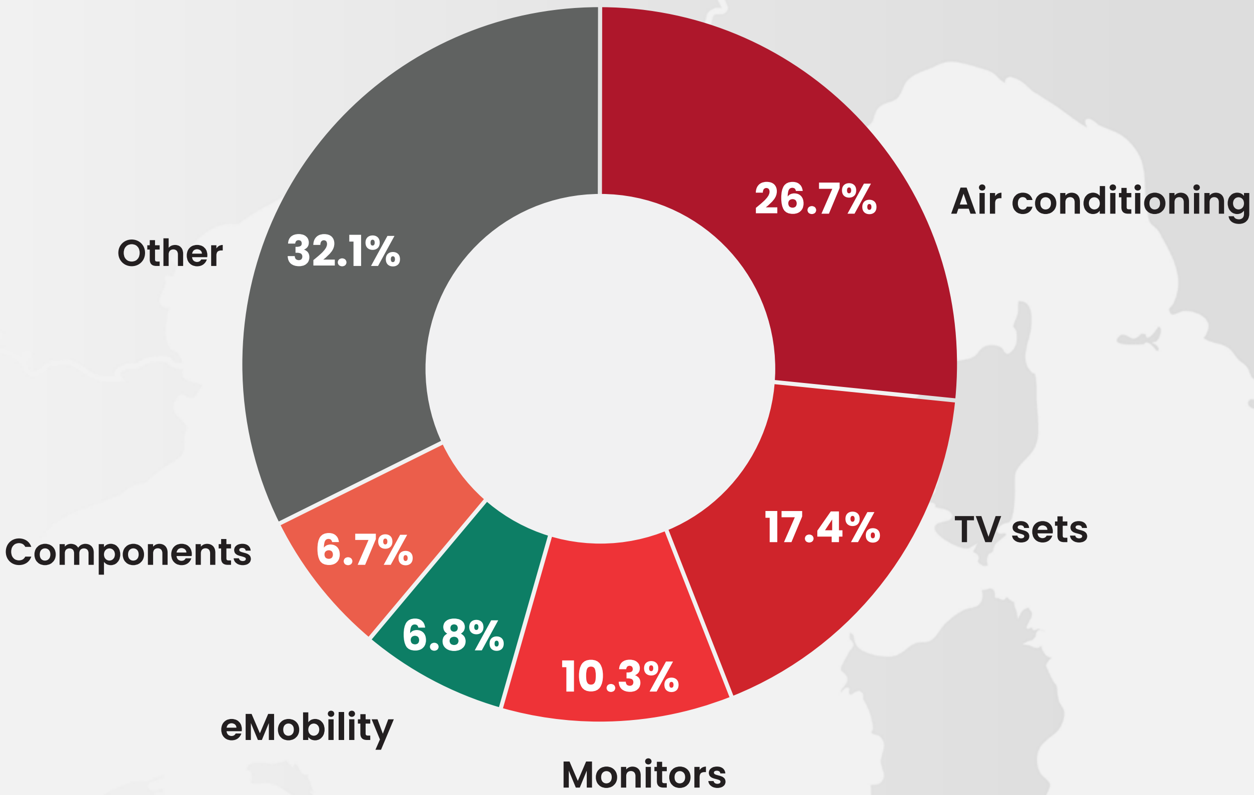


venues from brand sales

SHARES OF SALES BY MARKET IN 2022

Geographically, 38% of the Group's revenue comes from sales in Croatia, 23% from Serbia, 11% from Bosnia and Herzegovina, 8% from North Macedonia and 4% from Montenegro, which together represents 83% of total revenue. The remaining 17% of revenue comes from exports, meaning from countries where the Group had no affiliated companies during 2022*.

**Since November 2022, the Group owns the company Alterna Distribucija. For this reason, Slovenia is not included among the countries of the domestic market.*



GRAPH 5 Share of sales by segments in countries without branches


1% Poland
2% Germany
3% Slovenia
38% Croatia
23% Serbia
11% Bosnia & Herzegovina
4% Montenegro
2% Kosovo
North Macedonia 8%
8% Other

FINANCIAL INDICATORS

TABLE 2
Profit and loss account for 2022

(In thousands of HRK)	2022	2021	2022/2021
Business revenue*	3,256,928	2,710,063	20.2%
EBITDA*	79,151	85,948	(7.9%)
EBIT*	51,466	73,398	(29.9%)
Net profit*	12,672	44,835	(72.9%)

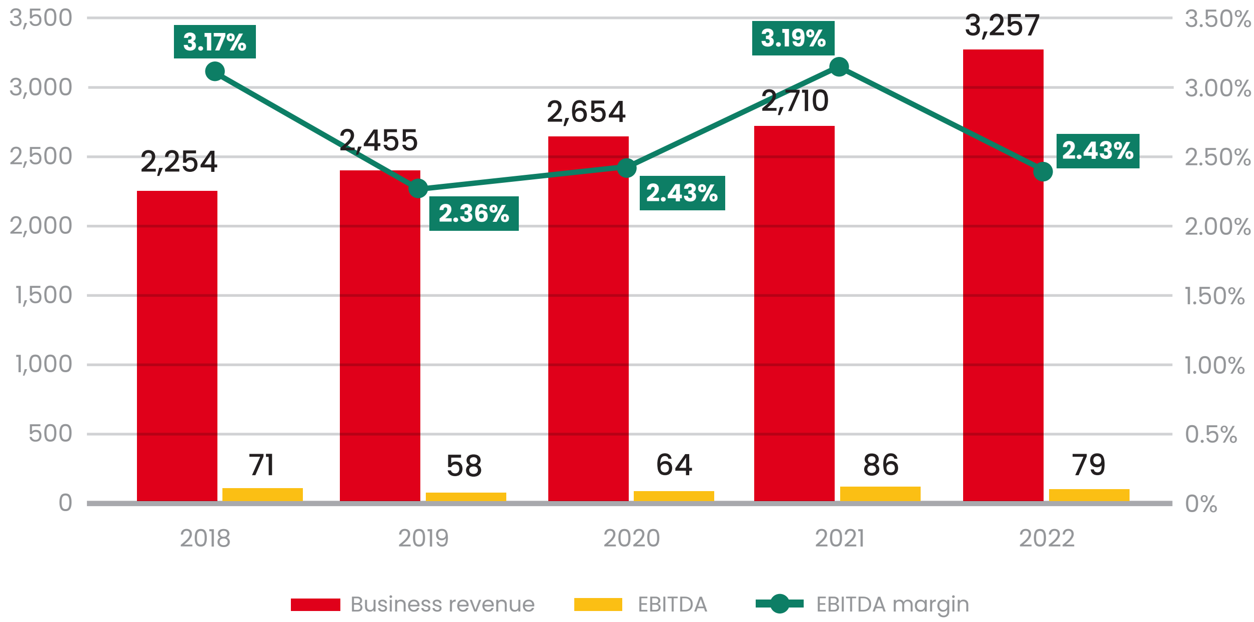
TABLE 3
Financial indicators in 2022

(In thousands of HRK)	December 31 2022	December 31 2021
Net debt*	247,432	170,620
Total assets	1,251,750	1,109,771
Total capital and reserves	306,064	379,444
Current ratio*	1.4	1.5
Net working capital (given)*	44.2	30.1
Capital share in total equity and liabilities*	24.5%	34.2%
Net debt/EBITDA*	3.1	2.0

*In its Annual Report, the Group used financial measures of historic financial performance, financial position, or cash flows that were not defined or determined within the relevant financial reporting framework.

The above-mentioned indicators are derived from (or based on) financial reports prepared in accordance with the relevant framework for financial reporting and have been obtained by adding or subtracting amounts from numerical values presented in financial reports, i.e., by placing numerical values in ratios.

Business income, EBITDA and EBITDA margin trend over 5 year period



GRAPH 4 - Business income, EBITDA and EBITDA margin trend over 5 year period

The operating revenue of the Group increased by 20%, compared to the previous year, and amounted to HRK 3,257 million. The growth in operating revenue was achieved thanks to positive market trends, i.e. a 20% increase in sales.

The operating expenditure also increased and in 2022 they amount to HRK 3,185 million, which is a growth of 21%. The largest share in operating expenditure is the cost of goods sold, which increased by 18.4% in 2022. In addition to the cost of goods sold, due to inflationary pressures, the costs of raw materials, as well as the costs of personnel have increased significantly.

TABLE 4

Operating expenses for 2022

Operating expenses	2022	2021	2022/2021
Cost of goods sold	2,772,597	2,342,423	18.4%
Costs of raw materials and materials	72,586	38,659	87.8%
Personnel expenses	132,049	97,183	35.9%
Other external expenses	162,257	117,605	38.0%
Other expenses	45,657	27,846	64.0%

In 2022, the Group's EBITDA amounts to HRK 79,151 thousand (2021 HRK 85,948 thousand), which is a decrease of (7.9%) compared to the previous year. The decrease in the net margin along with the increase in operating costs due to inflationary pressures and the challenges in the supply chain that were felt at the beginning of the year affected the decline in the Group's operating result. Operating profit was HRK 51,466 thousand, which represents a drop of (29.9%) compared to 2021.

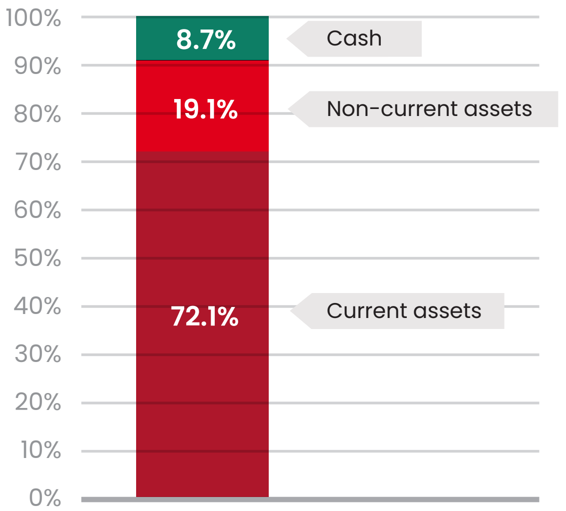
The result of financial activities in the reporting period ended with a negative net result of HRK (32,107) thousand, which is a consequence of the growth of exchange losses of 105.9% and the slower growth of exchange gains due to the strengthening of the US dollar exchange rate. The Group ended the year with a profit for the current year at the level of HRK 12,672 thousand, which is (72.9%) less than the previous year.

ASSETS AND LIABILITIES

On 31 December 2022, the total assets of the Group increased by 12.8% and amounted to HRK 1,252 million, mainly due to the growth of current assets of 30.6% and the growth of the position of cash and cash equivalents.

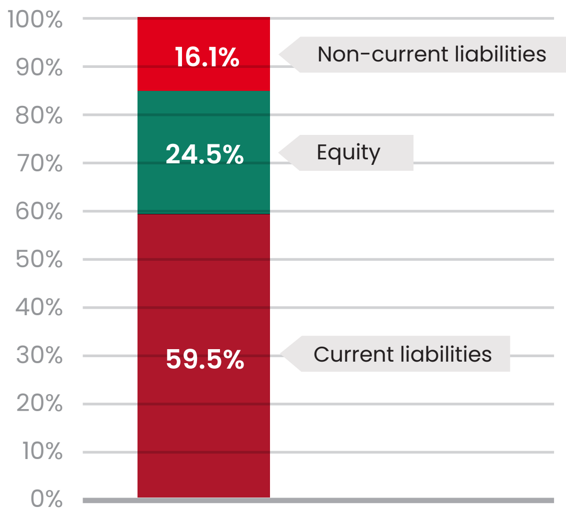
As a result of acquisitions and de-acquisitions carried out during 2022, there was a decrease in the value of capital compared to the previous year. The Group's total non-current liabilities have decreased compared to the end of the previous year due to the regular repayment of obligations under issued bonds. Total current liabilities increased by 59.5% due to the growth of payables and the growth of liabilities to banks.

Assets structure as at December 31 2022



Graph 5 - Asset structure as at December 31 2022

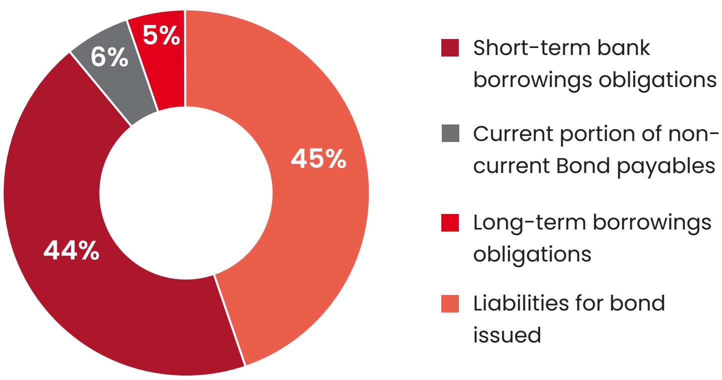
Equity and Liabilities as at December 31 2022



Graph 6 - Liabilities structure as at December 31 2022

Liability structure

The financial debt of the Group increased due to financing needs acquisitions, and organic growth of the Group's operations primarily in own brand Vivax, and expansion of Green division assortment. The structure of total liabilities is given in graph 7.



GRAPH 7 - Liabilities structure as at December 31 2022

TABLE 5
Alternative performance measure

Alternative performance measure	Calculation
Business revenue	Sales revenues plus other income
Business expenditures	Subtotal for items cost of goods sold, (decrease) / increase of the value of work in progress stocks and finished products, raw material and material costs, cost of services, personnel costs, depreciation and amortisation, other costs, value adjustments, risk provisions, and other business costs
EBITDA	Total business revenue minus total business expenditures plus depreciation and amortisation costs
EBITDA margin	EBITDA divided by total business revenue
EBIT	Operating profit, i.e., total business revenue minus total business expenditures
EBIT margin	EBIT divided by total business revenue
Profit for the year	Profit for the year is the sum of profit before tax decreased by income tax
Net debt	It means long-term and current liabilities towards banks and other financial institutions increased for bond liabilities minus cash and cash equivalents.
Net debt / EBITDA	Net debt divided by EBITDA
Net profit margin	Net profit margin is defined as the profit for the year divided by the business revenues
Current ratio	Value of Current assets divided by current liabilities

The above-mentioned measures are not financial performance measures in accordance with the International Financial Reporting Standards and should not be considered as alternatives to other operational impact indicators, cash flows, or any other performance measures derived in accordance with the above-mentioned standards.

The above-mentioned measures have been presented in order to provide useful information on the financial state and business results of the Group, namely, for the following reasons:

- they are measures that the Group uses to assess operational performance.
- they are measures that the managing bodies of the Group use to make everyday business decisions.

BUSINESS Risks

In its operations, the M SAN Grupa is exposed to numerous internal and external influences that can cause the emergence of risks that affect the realization of the Company's plans and, indirectly, the financial condition, meaning, the operating result.

OPERATING ENVIRONMENT RISK

This Group of risks includes political, macroeconomic, risks of natural disasters and infectious diseases in all countries where the Group operates. Although the consequences of exposure to these risks can have a significant impact on the Group's operations, the Group does not have the ability to influence exogenous factors that manifest themselves through the mentioned risks.

POLITICAL RISK

The Group operates in the territory of the countries of the Adria region, and exposure to political risk can be manifested in the deterioration of political and economic relations and cooperation between the countries of the Adria region, which can affect the Group's business processes and operations. At the global level, there are also certain risks that may ultimately result in a shortage of goods on the market. A worsening of relations between the United States of America and the People's Republic of China is also possible, as well as a cooling of relations between the EU and the People's Republic of China. Given that the majority of goods from the Group's portfolio are produced in the People's Republic of China, the imposition of certain additional customs barriers may affect the availability of goods, and thus the Group's business results. Also, compliance with different rules and regulations in different jurisdictions can cause significant costs.

MACROECONOMIC RISK

Through its international operations, the Group is under the influence of macroeconomic risks that appear both in individual countries and at the global level. Most of the M SAN Grupa products from the IT and CE portfolio belong to the group of cyclical consumer goods, which moderately depend on the movement of GDP components, the most significant of which is the influence of personal consumption as a function of unemployment, disposable personal income and inflation. In addition to personal consumption, it is also necessary to highlight investments, which are a strong driver of demand for the Group's products through the processes of digitization of economic entities.

RISK OF NATURAL DISASTERS

The risk of natural disasters in the form of floods, extreme droughts, earthquakes and others arises from events that can unexpectedly, in a short time, cause significant material damage to property, or cause negative impacts on the Group's overall operations. Remediation of the consequences of such disasters can result in significant material allocations, as well as a longer period of business interruption or limited scope of business under the given conditions. The M SAN Grupa reduces exposure to the consequences of this risk by using asset insurance instruments.

RISK OF INFECTIOUS DISEASES

The Group is exposed to the risk of an infectious disease pandemic, which can affect a larger geographic area or the entire world. In addition to the threat to the health and safety of employees, the risk arising from the pandemic can lead to a shortage of goods, the temporary closure of one part of the business or a partial interruption of the supply chain and the closure of business in all markets for an indefinite period. During the COVID-19 pandemic, the Group proactively implemented health protection and infection prevention measures for employees, but also paid special attention to the procurement of supplies in the circumstances of interrupted supply chains in order to provide continuity of deliveries to its customers.

INDUSTRY AND COMPETITION RISK

INDUSTRY RISK

The specificity of distribution in the IT equipment industry and in the distribution of consumer electronics is the absence of long-term and exclusive contracts with principals. Mentioned industry is relatively young and these characteristics are the result of the need to be able to respond quickly to the growing needs of the market for IT equipment in conditions where no distribution network ready to respond to all logistical and financial requirements existed.

Thus, not only in the Republic of Croatia but also in the EU and the world, multi-distribution appeared, where each large principal has two or more distributors in the same market. This increases competitiveness, reduces margins and forces distributors to be more efficient. Likewise, distribution agreements are most often signed for the duration of one year and are usually automatically renewed at the end of each period, but still provide the opportunity to the principal to not extend the agreement without major financial or other obstacles, for example in case that the distributor has business problems and significantly loses market share. There is also a risk in market consolidation where the principal may decide to reduce the number of distributors with whom it operates in a certain market. The group is diversifying its principals, in order to be able to replace possible lost income due to non-renewal of the contract by an individual principal, with income from business with other principals.

COMPETITION RISK

In all markets where the Group operates, there is competition in the distribution of products with considering the policy of the principal and the lack of exclusivity in the field of IT equipment distribution and consumer electronics. In most product categories that the Group distributes, the right to sell the same or similar products has at least two other distributors and in some cases three or four distributors. With the entry into the EU, the market of the Republic of Croatia opened up to the free market import of goods from EU member countries, which enables other distributors to market goods on Croatian market. The described opening of the market led to the entry of a certain number of pan-European companies' distributors to the market of the Republic of Croatia, either by acquiring a local distributor or by opening local offices.

The market in which the Group operates is fragmented by a large number of partners engaged in sales of IT equipment and consumer electronics or system integration. By concentration in the retail market, the share of larger partners increases at the expense of smaller ones, and the probability increases direct cooperation of the principal with large partners, which potentially reduces the market of the Group and can lead to a drop-in income. Although in the previous examples the presence of a new distributor on the market did not have a significant impact on the Group's operations, in the event that the Group in the long term will not be able to adequately compete with competitors, this may result in weakening competitive position of the Group and negatively affect its operations.

BUSINESS RISK

RISK ASSOCIATED WITH THE EMERGENCE OF NEW DISRUPTIVE TECHNOLOGIES

There is a risk of the emergence of new technologies that will change existing business models and market needs in a very short time, but it is not possible to predict them precisely. For example, virtualization has significantly reduced the need for the number of servers that were previously significant distribution segment. Due to such technological changes, IT equipment distributors and consumer electronics may be faced with the need to change business dynamics. Group therefore invests resources in knowledge and monitoring of new technologies in order to be able to react promptly and offer solutions in accordance with new user requirements. At the same time, trends in the market, specifically digitization, significantly increases the need for IT equipment and services and thus, despite solutions like virtualization, it increases the total need and capacity of the market.

RISK ASSOCIATED WITH INTELLECTUAL PROPERTY

The Group has own brands Vivax, MS, MSGW, MS Energy, MS Lux in its portfolio, which represent its intellectual property. The Group continuously invests considerable financial resources in their development, promotion and protection of intellectual property rights, and today they make up a significant part of the overall business with a further growth trend. Own brand products are sold on the market of the Republic of Croatia and the region (Republic of Serbia, Bosnia and Herzegovina, Republic of North Macedonia, Republic of Montenegro) as well as on the EU and world markets, meaning on the market of 39 different countries in total. The Group continuously and up-to-date protects the names and signs of its brands and internet domains based on the national protection system (through the State Institute for Intellectual Property), as well as at the international level (through the World Intellectual Property Organization) and monitors the protection status of these rights, but there is always a risk that someone on some market will try to abuse or violate the Publisher's protected intellectual property. This would cause ambiguities among consumers, and there is a possibility that by compromising the brand in this way, demand would fall, and thus the Publisher's operating results related to the sale of its own brand products.

RISK ASSOCIATED WITH IT SYSTEMS

The Group relies on efficient IT systems in its operations. A large amount of data about, for example, customers, products, processes or employees would not be possible to process in real time without complex IT systems and solutions that enable daily analyses. The greater the amount of data that is processed, the more complex and vulnerable the system is.
Since distribution is an intensive activity with a large number of daily transactions, any downtime or inability to use IT systems would cause damage to the business. The Group continuously invests in the development of IT systems and their security. Tools and solutions are used to protect data from unauthorized access and backup copies are made in different locations. However, the possibility of a system crash for various reasons (major hacker attack, long-term power outage, and so on) cannot be ruled out, where just restoring all systems to full functionality would take a certain amount of time and lead to harmful consequences.

FINANCIAL RISK

This Group of risks includes market, credit and liquidity risk. Market risk implies exposure to changes in the fair value of products or financial instruments depending on the movement of prices, interest rates and exchange rates. Credit risk arises from the existing and future potential inability of business partners to meet their obligations towards individual companies of the Group. Liquidity implies maintaining a sufficient amount of cash and working capital and securing adequate financial resources in the form of credit lines.

FOREIGN EXCHANGE RISK

Considering the activity of the Group's companies on the international and regional market, the Group's companies are exposed to foreign exchange risk arising from changes in foreign currency exchange rates mainly related to the US dollar (USD), Serbian dinar (RSD), convertible mark (BAM) and Macedonian denar (MKD). As the companies of the Group have currency exposure to suppliers for importing goods and to customers for sold goods in export, the impact of this risk is mitigated by the Group in a natural way, meaning in the way that all goods imported in a foreign currency, if sold abroad, are calculated in the same currency in which it is paid upon import, thus ensuring natural currency protection. In addition, the Group monitors exchange rate movements and occasionally uses FX forward contracts. The bulk of the Group's credit liability exposure consists of liabilities in local currency and a smaller part in BAM and MKD.

INTEREST RATE RISK

Interest rate risk arises from the obligations of Group companies to pay interest on short-term and long-term loans that the Group has and may have in the future, as well as issued bonds. Loans granted at variable rates expose the Group's financial result to cash flow risk. Significant changes in interest rates could potentially have a negative impact on the Group's financial results. The most significant part of the Group's credit obligations is contracted with a fixed interest rate. The Group continuously monitors changes in interest rates by simulating situations that point to a significant increase in variable interest rates and takes into account refinancing options as well as alternative financing. Based on these situations, the Group calculates the impact of interest rate changes on the profit and loss account.

CREDIT RISK

The risk of debt collection arises from the existing and future potential insolvency of business partners and their inability to meet their obligations towards individual companies of the Group. The Group's assets that bear the risk of collection of receivables consist mainly of receivables from customers and other receivables. The Group implements an active sales policy, as part of which it monitors business relations with all customers and within the framework of predetermined credit limits and defined policies, whereby the level of approved credit limits of insurance companies that insure claims plays an important role. Also, the Group defines a maximum credit limit and payment terms for customers with a suitable credit history. Accordingly, strict measures are implemented to control the collection and delivery of goods, as well as the acquisition of debtor's security instruments (bank guarantees, bills of exchange and promissory notes, registration of liens and occasional rights of return of goods).

LIQUIDITY RISK

Liquidity implies maintaining a sufficient amount of cash and working capital and securing adequate financial resources in the form of credit lines. Liquidity risk refers to the fact that the Group will not be able to fulfil its due financial obligations in a timely manner due to a lack of own funds, a lack of available funds on the cash market or the inability to lend from financial institutions.

Liquidity risk occurs as a result of other risk factors such as credit risk or refinancing risk and many others. The occurrence of the Group's liquidity risk could lead to a financial loss for the Group if the Group were to sell certain assets below their market price in order to compensate for the lack of liquid assets.

REGULATORY RISK

The Group operates in the field of distribution of consumer electronics and IT equipment of the world's leading brands, as well as production and distribution of its own brands in the domain of consumer electronics and IT equipment. The Group's operations in relation to products of its own brands are subject to applicable national and EU regulations in the field of electrical and electronic safety, energy efficiency, and so on, in such a way that the products in question must have appropriate certificates and comply with applicable EU standards. The Group continuously monitors and adapts to changes in regulations, and any failure to do so could result in various sanctions.

Furthermore, the Group may be exposed to higher costs that may arise as a result of eliminating potential violations or adapting to changes in existing regulations, meaning introducing additional regulations regarding the field of consumer electronics, which could affect business, financial position and business results.

Expectations of the management for the year 2023

Based on relatively conservative forecasts of economic growth in 2023, the Group expects a moderate growth in business for the distribution of the world's leading brands in the portfolio, while it expects a greater step forward in the positioning of our own brands through stronger positioning on the domestic and regional markets and a greater step forward in exports.

Every crisis is both a challenge and an opportunity, we expect stabilization of energy prices, greater resistance to the situation in Ukraine, stabilization of supply chains, and slow market growth with inflationary pressure easing.

Although there are risks built into the plans; the Group will focus on the optimization of all processes, focusing on partners and service, but also on the day-to-day optimization of all operating costs and day-to-day improvement through digitization, own logistics and the web shop. In addition, the Group will continue with capital and marketing investments in our own brands.

In addition to focusing on organic growth, the Group will, in accordance with recognized opportunities, participate in acquisitions of new distribution principals, but also closely monitor potential acquisitions that are estimated to contribute to business development.

In 2023, management expectations regarding ESG issues will be even higher than today. ESG (environmental, social and governance) issues are becoming increasingly important to investors and consumers, and this will affect the business models and strategies of organizations.

In terms of environmental issues, the Group's management has clearer plans and goals for reducing the negative impact on the environment, such as greenhouse gas emissions and the use of fossil fuels. In addition, a greater focus on business sustainability is expected, including waste management, water and energy efficiency.

Management issues will also be in focus in 2023, with an emphasis on transparency and accountability in management.

Responsibility for consolidated and separate financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management is responsible for ensuring that consolidated and separate financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS EU'), as adopted by the European Union, which provide a true and fair view of the financial position and results of operations of M San Grupa d.d., Zagreb ("the Company") and its subsidiaries ("the Group") for that period. After making appropriate enquiries, the Management has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to prepare the separate and consolidated financial statements on a going concern basis. In preparing consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:

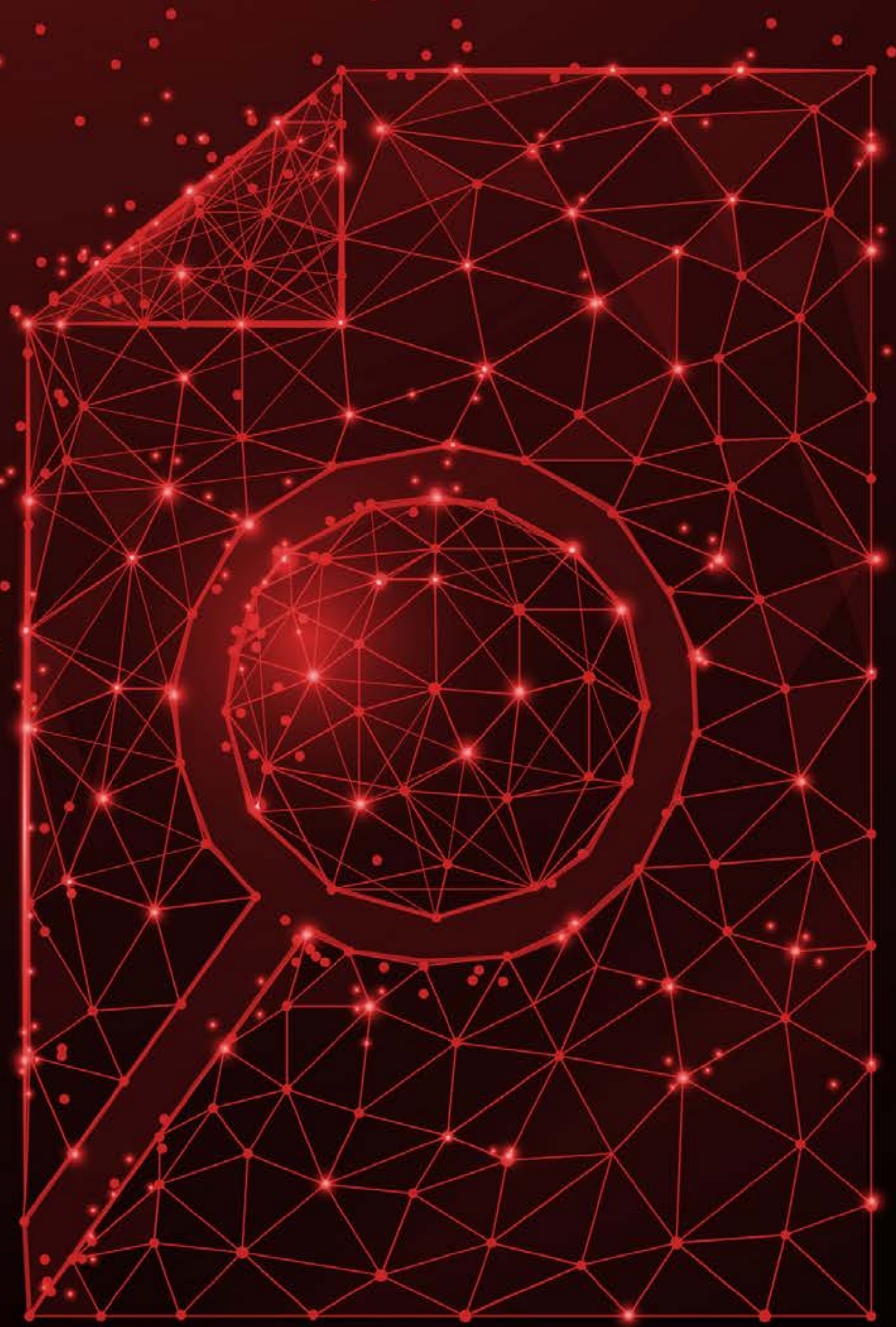
- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and:
- financial statements are prepared under the going-concern assumption.

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

Irena Langer-Breznik	**Žarko Kruljac**	**Slaven Stipančić**
President of the Management Board	Member of the Management Board	Member of the Management Board
Goran Kotlarević	**Alen Panić**	**Vladimir Brkljača**
Member of the Management Board	Member of the Management Board	Member of the Management Board

M San Grupa d.o.o., Dugoselska ulica 5, 10372 Rugvica, Republic of Croatia
April 28 2023

Auditor's Report and Financial Stat



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SWIFT: ESBCHR22

Independent auditor's report

To the owner of M SAN GRUPA d.o.o.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of M SAN GRUPA d.o.o. (the Company), and consolidated financial statements of M SAN GRUPA d.o.o. and its subsidiaries (together- the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2022, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group as at 31 December 2022 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS)

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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Key audit matter	How we addressed key audit matter
Recognition of revenue: occurrence and presentation of customers discounts and rebates *See Note 5 Sales Income* The Company and Group recognizes sales net of volume rebates, trade discounts, returns, and various promotional and marketing activities that are integral part of contracts with customers. Revenue occurrence and presentation therefore involves estimates related to such agreements or actions. At the reporting date, amounts of discounts, incentives and rebates that have been incurred and not yet paid by the customers are estimated and accrued. Due to the variety of contractual terms across the markets and existence of various side agreements, management is required to monitor a large number of individual customer arrangements in order to estimate the discounts, incentives and rebates amounts at the reporting date. This is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date. Due to the above mentioned, occurrence and presentation of these costs is considered a key audit matter.	Our audit procedures included understanding of the revenue recognition process including discounts and rebates recognition and assessing compliance with the policies in terms of applicable accounting standards. We walked through and tested the operation effectiveness of the controls over revenue recognition process. Based on a sample, we assessed revenue transactions, taking place at either side of the balance sheet date as well as credit notes issued after the reporting date to evaluate whether that revenue was recognized in the correct period. We also developed an expectation of the current year sales revenue balance considering historical revenue and discounts and rebates information, compared it to the actual sales revenues and examined unexpected differences. On a sample of key customers, we inspected respective contractual terms and recalculated the amounts of discounts and rebates. Where our recalculation based on contractual terms differed from management records, we obtained support for the differences to vouch their validity. We obtained customer confirmations of amounts outstanding at the reporting date for a sample of customers and gained understanding of any significant differences between customer confirmations received and the Company's accounting records. We also assessed on the adequacy of the relevant disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by the EU.

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Key audit matter	How we addressed key audit matter
Assessment of impairment of investments in subsidiaries and associates *See Note 21 Financial assets* The Company has investments in subsidiaries and associates with carrying amount totaling HRK 181,290 thousand as of 31 December 2022. The carrying amount of the investments in subsidiaries and associates represents 20% of total assets in separate financial statements and the assessment of the impairment indicators represents significant area of management's judgment, regarding but not limited to, market values, future plans, changes in the economic environment and interest rate changes. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the investments, this is an area considered to be a key audit matter.	Audit procedures included understanding of the investment's impairment assessment process. We performed inquiry of management and examined the methodology used by management to assess the carrying value of respective investments to evaluate its compliance with IFRS as adopted by the EU and consistency of application. We evaluated management assessment of indicators of potential impairments and where indicators exist, we performed the procedures listed below. We evaluated the entity's future cash flow forecasts and the process by which they were prepared. We also compared the budget inputs in the models to the approved budgets and forecast inputs in the models to the management plans. We compared the current year actual results with the figures included in the prior year forecasts to evaluate assumptions used. We also compared management's key assumptions for long-term growth rate by comparing it to historical growth results and market data. We performed audit procedures on the mathematical integrity of the impairment models, sensitivity analysis and tested the appropriateness of discount rates used in the calculation with the assistance of the valuation specialists. We also assessed adequacy of the disclosures in the separate financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Key audit matter	How we addressed key audit matter
Assessment of impairment of goodwill *See Note 19 Goodwill* The Group has goodwill with carrying amount totaling HRK 57,924 thousand as of 31 December 2022. The carrying amount of the goodwill represents 5.6% of total consolidated assets and the assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the goodwill, this is an area considered to be a key audit matter.	Audit procedures included understanding of the goodwill impairment assessment process. We performed inquiry of management and examined the methodology used by management to assess the carrying value of respective goodwill, to evaluate their compliance with IFRS as adopted by the EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared the current year actual results with the figures included in the prior year forecast to evaluate assumptions used. We also evaluated management's key assumptions for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates used in the calculation with the assistance of the valuation specialists. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by the EU.

Other information

Management is responsible for the other information. Other information comprises the Management Report and Corporate Governance Statement included in the Company's and Group's Annual Report, but does not include separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the other information.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

Other information (continued)

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management Report and Corporate Governance Statement is consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act;

3. the enclosed Corporate Governance Statement includes the information specified in Article 22 and 24 of the Accounting Act.

In the light of the knowledge and understanding of the Company and Group and its environment obtained in the course of the audit of separate and consolidated financial statements, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

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

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and 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 Company and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's responsibilities for the audit of the separate and consolidated financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Company on 16 September 2020. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 23 September 2022, representing a total period of uninterrupted engagement appointment of 3 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 April 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

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Report on Other Legal and Regulatory Requirements (continued)

Report based on Delegated Regulation (EU) 2018/815 on supplementing Directive 2004/109/EZ of European parliament and Council related to regulatory technical standard for specification of single electronic reporting format of reporting

Independent report on the compliance of separate and consolidated financial statements prepared pursuant to Article 462 (5) of the Capital Market Act (Official Gazette 65/18, 17/20, 83/21 and 151/22) applying the requirements of the Delegated Regulation (EU) 2018 / 815 on establishing of single electronic reporting format for issuers (the ESEF Regulation).

We have conducted a reasonable assurance engagement on whether the separate and consolidated financial statements, as contained in the attached electronic file M SAN Grupa FS 2022 - EN, are prepared, for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, in all material respects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the management and Audit Committee

Management is responsible for the preparation of the separate and consolidated financial statements in accordance with ESEF Regulation.
Furthermore, management is responsible for maintaining an internal control system that reasonably ensures the preparation of separate and consolidated financial statements without material non-compliances with ESEF Regulation requirements, whether due to fraud or error.
Management is also responsible for:

- the public disclosure of separate and consolidated financial statements included in the annual report, in XHTML format and
- selecting and using XBLR codes in accordance with ESEF regulation

Audit Committee is responsible for overseeing the preparation of the separate and consolidated financial statements in ESEF format as part of the financial reporting process.

Auditor's responsibilities

Our responsibility is to express a conclusion, based on the audit evidence gathered, as to whether the separate and consolidated financial statements are free from material non-compliances with the requirements of the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with International Standard for Assurance Engagements ISAE 3000 (revised)- Assurance engagements other than audits or reviews of historical financial information.

Work performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance however it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with ESEF regulation.

In respect of the subject matter, we have performed the following procedures:

- we read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, devise and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

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Report on Other Legal and Regulatory Requirements (continued)

The aim of our procedures was to assess whether:

- the separate and consolidated financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the separate and consolidated financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
    - o the XBRL markup language was used,
    - o the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance have been used, unless an additional taxonomy element has been created in accordance with Annex IV. ESEF Regulation,
    - o the labeled elements comply with the common labeling rules under the ESEF Regulation.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on the procedures performed and evidence gathered, the separate and consolidated financial statements presented in ESEF format for the year ended on 31 December 2022, contained in the aforementioned attached electronic file and prepared pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, are prepared in all material respects in line with the requirements of Articles 3, 4 and 6 of the ESEF Regulation.

Further to this conclusion as well as the opinion contained this independent auditor's report related to accompanying separate and consolidated financial statements and annual report for the year ended 31 December 2022, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

The partner in charge of the audit resulting in this independent auditor's report is Ivana Krajinović.

Ivana Krajinović

Ivana Krajinović
Member of the Management Board and Certified auditor
28 April 2023

Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
Republic of Croatia

Consolidated statement of comprehensive income
for the year ended 31 December 2022
(all amounts are expressed in thousands of kuna)

	Notes	2022	2021
OPERATING INCOME			
Sales	5	3,238,411	2,698,568
Cost of goods sold	8	(2,772,597)	(2,342,423)
Gross profit		**465,814**	**356,145**
Other operating income	6	18,517	11,495
(Increase/ (decrease) in the value of inventories of work-in-progress and finished goods		7,369	(399)
OPERATING EXPENSES			
Cost of raw material and supplies	7	(72,586)	(38,659)
Cost of services	9	(162,257)	(117,605)
Staff costs	10	(132,049)	(97,183)
Depreciation and amortization	11	(27,686)	(12,550)
Other expenses	12	(36,261)	(20,480)
Impairment allowance	13	(1,032)	(1,360)
Provisions for risks	34	(6,911)	(2,168)
Other operating expenses	14	(1,452)	(3,838)
Total operating expenses		**(440,234)**	**(293,843)**
Operating profit		**51,466**	**73,398**
FINANCIAL INCOME AND EXPENSES			
Financial income	15.1.	20,700	11,029
Financial expenses	15.2.	(52,807)	(34,948)
Net financial expense		**(32,107)**	**(23,919)**
Share of net result of associates	16	(2,354)	2,593
Profit before tax		**17,005**	**52,072**
Income tax	17	(4,333)	(5,381)
Profit for the year		**12,672**	**46,691**
OTHER COMPREHENSIVE INCOME			
Translation exchange differences and other		1,046	(202)
Total comprehensive income for the year		**13,718**	**46,489**
Profit attributable to:			
Equity holders of the Company		11,044	46,250
Non-controlling interests		1,628	441
		12,672	**46,691**
Total comprehensive income attributable to:			
Equity holders of the Company		12,040	46,041
Non-controlling interests		1,678	448
		13,718	**46,489**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of financial position
at 31 December 2022
(all amounts sre expressed in thousands of kuna)

ASSETS	Notes	31 December 2022	31 December 2021
NON-CURRENT ASSETS			
Intangible assets	18	28,473	33,217
Goodwill	19	57,924	44,441
Property, plant and equipment	20	20,220	193,851
Investment in associates	21	114,241	44,355
Deposits and loans given	26	18,463	18,473
Long-term receivables		127	127
Deferred tax assets	17	184	188
TOTAL NON-CURRENT ASSETS		**239,632**	**334,652**
CURRENT ASSETS			
Inventories	22	463,398	279,414
Trade receivables	24	396,361	327,326
Prepayments	23	12,144	34,691
Receivables from employees		172	137
Investments in securities		-	144
Receivables from the State and other institutions	25	8,525	11,766
Given loans and deposits	26	4,936	7,066
Prepaid expenses and accrued income	27	11,520	7,658
Other receivables	28	5,613	9,237
Cash and cash equivalents	29	109,449	97,680
TOTAL CURRENT ASSETS		**1,012,118**	**775,119**
TOTAL ASSETS		**1,251,750**	**1,109,771**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of financial position (continued)
at 31 December 2022
(all amounts are expressed in thousands of kuna)

EQUITY AND LIABILITIES	Notes	31 December 2022	31 December 2021
EQUITY			
Share capital	30	109,198	109,198
Legal reserves	32	16,726	16,725
Reserves from exchange of foreign currencies		(4,867)	(5,571)
Retained earnings	31	184,534	238,207
EQUITY HOLDERS OF THE PARENT		**305,591**	**358,559**
Non-controlling interest		473	20,885
TOTAL EQUITY		**306,064**	**379,444**
NON-CURRENT LIABILITIES			
Provisions	34	7,640	4,456
Long-term borrowings	35	18,896	31,394
Long-term bond liabilities	37	160,000	180,000
Other long-term liabilities	38	8,017	-
Long-term liabilities for right-of-use assets	35.1.	6,967	6,391
Deffered tax liability	17	-	139
TOTAL NON-CURRENT LIABILITIES		**201,520**	**222,380**
CURRENT LIABILITIES			
Short-term bank borrowings	36	157,985	36,906
Current portion of long-term bond liabilities	37	20,000	20,000
Liabilities for advances received	39	9,394	10,497
Trade payables	40	465,309	365,821
Current portion of long-term liabilities for right-of-use asset	35.1.	3,827	3,577
Payables towards employees		8,473	6,169
Taxes, contributions and similar payables	41	30,345	30,120
Income tax liability		731	2,172
Dvidend liabilities		-	7
Factoring liabilities	42	23,786	21,141
Other current liabilities	43	11,883	3,673
Accrued expenses and deferred income	44	12,433	7,864
TOTAL CURRENT LIABILITIES		**744,166**	**507,947**
TOTAL EQUITY AND LIABILITIES		**1,251,750**	**1,109,771**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of changes in shareholder's equity
for the year ended 31 December 2022
(all amounts are expressed in thousands of kuna)

	Share capital	Legal reserves	Foreign currency translation reserves	Retained earnings	Equity holders of the parent	Non-controlling interest	Total
Balance at 1 January 2021	**97,000**	**6,779**	**(5,360)**	**233,415**	**331,834**	**(374)**	**331,460**
Merger of a company (note 48)	12,198	9,944	-	(24,828)	(2,686)	-	**(2,686)**
Separation of subsidiary (note 48)	-	-	-	(33,540)	(33,540)	-	**(33,540)**
Acquisition of subsidiary (note 48)	-	-	-	(1,305)	(1,305)	44,483	**43,178**
Change in non-controlling interest (note 48)	-	-	-	18,215	18,215	(23,672)	**(5,457)**
Profit for the year	-	-	-	46,250	46,250	441	**46,691**
Other comprehensive income	-	2	(211)	-	(209)	7	**(202)**
Total comprehensive income for the year	-	*2*	(211)	*46,250*	*46,041*	*448*	**46,489**
Balance at 31 December 2021	**109,198**	**16,725**	**(5,571)**	**238,207**	**358,559**	**20,885**	**379,444**
Capital increase (note 48)	-	-	-	-	-	5,410	**5,410**
Carve-out of real-state segment (note 48)	-	-	-	(44,809)	(44,809)	-	**(44,809)**
Increase in non-controlling interest (note 48)	-	-	-	(4,561)	(4,561)	33,611	**29,050**
Transfer of control in an affiliated company (note 48)	-	-	-	(15,638)	(15,638)	(61,111)	**(76,749)**
Profit for the year	-	-	-	11,044	11,044	1,628	**12,672**
Other comprehensive income	-	1	704	291	996	50	**1,046**
Total comprehensive income for the year	-	*1*	704	*11,335*	12,040	*1,678*	***13,718***
Balance at 31 December 2022	**109,198**	**16,726**	**(4,867)**	**184,534**	**305,591**	**473**	**306,064**

Accounting policies and notes are integral part of these financial statement

Consolidated statement of cash flows
for the year ended 31 December 2022
(all amounts are expressed in thousands of kuna)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		12,672	46,691
Adjusted by:			
Income tax	17	4,333	5,381
Depreciation of property, plant and equipment and amortization of intangible assets	11	27,686	12,550
Impairment of intangible assets	13	-	274
Value adjustment of trade receivables	13	103	756
Net movement in long-term provisions	33, 34	6,575	1,686
The expected cash disbursement for the acquisition of the subsidiary Alterna distribucija d.o.o.	48.2	(12,044)	-
Net interest expense	15.1., 15.2.	12,277	7,897
Loss from sale of associated company	15.2.	-	4,124
Non-monetary transactions-compensations carried out on given and received loans		(47,548)	(323)
Net other non-cash adjustments		497	-
		4,551	**79,036**
CHANGES IN WORKING CAPITAL			
Increase in inventory		(183,983)	(109,472)
Increase in trade receivables		(69,139)	(38,438)
(Increase) / decrease in given advances		22,547	(14,841)
Increase in other receivables		(183)	(4,215)
Increase / (decrease) in received advances		(1,103)	4,598
Increase in trade payables		99,479	36,342
Increase in other current liabilities		12,571	8,572
CASH GENERATED FROM OPERATIONS		**(115,260)**	**(38,418)**
Interests paid		(7,585)	(1,498)
Income taxes paid		(3,661)	(7,328)
Net cash generated from operating activities		**(126,506)**	**(47,244)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18, 20	(12,901)	(35,422)
Interests collected		4,022	369
Cash disbursement for the acquisition of the subsidiary Alterna distribucija d.o.o.	48.2	(16,400)	-
Cash disbursement for financial expenses for the establishment of a subsidiary - Centar kompetencije za zelenu energiju d.o.o.	48.2	(750)	-
Cash receipts for sale of shares in associated companies		-	560
Cash receipts from the acquisition of the subsidiary Alterna distribucija d.o.o.	48.2	2,104	-
Cash disbursements from loss of control over the subsidiary company EBP	48.2	(3,896)	-
Cash receipts from the sale of fixed assets		183	-
Increase / (decrease) in other financial assets		145	-
Disbursements from loans given		(1,360)	(9,678)
Net cash used in investing activities		**(28,853)**	**(44,171)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		594,235	122,502
Payments made to financial institutions		(411,997)	(257,273)
Cash inflows for right-of-use assets	35.1	6,747	9,322
Liability repayments for right-of-use-assets	35.1	(1,857)	(1,836)
Cash receipts from bond issuance		-	200,000
Cash disburstments for loans	37	(20,000)	-
Net cash used in financing activities		**167,128**	**72,715**
Net (decrease)/increase in cash and cash equivalents		**11,769**	**(18,700)**
Cash and cash equivalents at the beginning of the year	29	**97,680**	**116,380**
Cash and cash equivalents at the end of year	29	**109,449**	**97,680**

Accounting policies and notes are integral part of these financial statement

Separate statement of comprehensive income
for the year ended 31 December 2022
(all amounts are expressed in thousands of kuna)

	Notes	2022	2021
OPERATING INCOME			
Sales	5	2,446,044	2,133,956
Cost of goods sold	8	(2,202,372)	(1,948,839)
Gross profit		**243,672**	**185,117**
Other operating income	6	8,725	5,547
Increase in the value of inventories of work-in-progress and finished goods		42	-
OPERATING EXPENSES			
Cost of raw material and supplies	7	(14,611)	(5,804)
Cost of services	9	(122,080)	(98,341)
Staff costs	10	(51,825)	(37,238)
Depreciation and amortization	11	(11,705)	(7,979)
Other expenses	12	(16,399)	(8,694)
Impairment allowance	13	(518)	(586)
Provisions for risks	34	(5,209)	(1,035)
Other operating expenses	14	(895)	(2,955)
Total operating expenses		**(223,242)**	**(162,632)**
OPERATING PROFIT		**29,197**	**28,032**
FINANCIAL INCOME AND EXPENSES			
Financial income	15.1.	26,327	13,050
Financial expenses	15.2.	(51,979)	(30,029)
Net financial expense		**(25,652)**	**(16,979)**
Profit before tax		**3,545**	**11,053**
Income tax	17	(900)	-
PROFIT FOR THE YEAR		**2,645**	**11,053**
OTHER COMPREHENSIVE INCOME		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,645**	**11,053**

Accounting policies and notes are integral part of these financial statement

Separate statement of financial position
at 31 December 2022
(all amounts are expressed in thousands of kuna)

ASSETS	Notes	31 December 2022	31 December 2021
NON-CURRENT ASSETS			
Intangible assets	18	27,370	30,739
Property, plant and equipment	20	4,319	22,242
Investments in subsidiaries and associates	21	181,290	170,676
Deposits and loans given	26	18,300	18,300
Long-term receivables		127	127
Deferred tax assets	17	135	135
TOTAL NON-CURRENT ASSETS		**231,541**	**242,219**
CURRENT ASSETS			
Inventories	22	299,098	161,316
Trade receivables	24	250,344	228,896
Prepayments	23	9,934	22,715
Receivables from employees		93	89
Investments in securities		-	145
Receivables from the State and other institutions	25	992	5,499
Loans and deposits given	26	4,978	8,157
Prepaid expenses and accrued income	27	3,134	1,687
Receivables based on capital reduction and other receivables	28	3,176	6,694
Cash and cash equivalents	29	74,543	65,047
TOTAL CURRENT ASSETS		**646,292**	**500,245**
TOTAL ASSETS		**877,833**	**742,464**

Accounting policies and notes are integral part of these financial statement

Separate statement of financial position (continued)
at 31 December 2022
(all amounts are expressed in thousands of kuna)

EQUITY AND LIABILITIES	Notes	31 December 2022	31 December 2021
EQUITY			
Share capital	30	109,198	109,198
Legal reserves	32	16,147	16,147
Retained earnings	31	10,654	49,384
TOTAL EQUITY		**135,999**	**174,729**
NON-CURRENT LIABILITIES			
Provisions	34	5,880	2,651
Long-term bond liabilities	37	160,000	180,000
Long-term loan liabilities	35	12,837	-
Other long-term liabilities		7,968	-
Long-term liabilities for right-of-use assets	35.1.	186	657
TOTAL NON-CURRENT LIABILITIES		**186,871**	**183,308**
CURRENT LIABILITIES			
Short-term bank borrowings	36	123,906	-
Current portion of non-current bond liabilities	37	20,000	20,000
Advances received	39	12,899	5,858
Trade payables	40	353,506	317,166
Current portion of long-term liabilities for right-of-use assets	35.1.	371	263
Payables to employees		3,283	2,290
Taxes, contributions and similar payable	41	21,930	23,420
Factoring liabilities	42	4,791	8,436
Other current liabilities	43	9,458	2,968
Accrued expenses and deferred income	44	4,819	4,026
TOTAL CURRENT LIABILITIES		**554,963**	**384,427**
TOTAL EQUITY AND LIABILITIES		**877,833**	**742,464**

Accounting policies and notes are integral part of these financial statement

Separate statement of changes in shareholder's equity for the year ended 31 December 2022

(all amounts are expressed in thousands of kuna)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2021	**97,000**	**6,203**	**93,092**	**196,295**
Merger of a company (note 48)	12,198	9,944	(24,828)	(2,686)
Separation of an affiliated company (note 48)	-	-	(29,933)	(29,933)
Profit for the year	-	-	11,053	11,053
Total comprehensive income	-	-	*11,053*	*11,053*
Balance at 31 December 2021	**109,198**	**16,147**	**49,384**	**174,729**
Merger of a company (note 48)	-	-	(1,698)	(1,698)
Separation of an affiliated company (note 48)	-	-	(39,677)	(39,677)
Profit for the year	-	-	2,645	2,645
Total comprehensive income	-	-	*2,645*	*2,645*
Balance at 31 December 2022	**109,198**	**16,147**	**10,654**	**135,999**

Accounting policies and notes are integral part of these financial statemen

Separate statement of cash flows
for the year ended 31 December 2022
(all amounts are expressed in thousands of kuna)

CASH FLOWS FROM OPERATING ACTIVITIES	**Notes**	**2022**	**2021**
Profit for the year		2,645	11,053
Adjusted by:			
Income tax	17	900	-
Depreciation of property, plant and equipment and amortization of intangible assets	11	11,705	7,979
Impairment of intangible assets	13	-	274
Value adjustment of trade receivables	13	-	312
Loss on sale of associated company	15.2.	-	2,046
The expected cash disbursement for the acquisition of the subsidiary Alterna distribucija d.o.o.	48.2	(12,044)	-
Net movement in long-term provisions	33, 34	5,209	1,035
Non-monetary transactions-compensations carried out on given and received loans		(52,848)	-
Net interest expense	15.1., 15.2.	9,723	6,436
Other non-monetary transactions		142	247
		(34,568)	**29,382**
CHANGES IN WORKING CAPITAL			
Increase in inventory		(137,780)	(66,702)
Increse in trade receivables		(21,448)	(55,081)
Decrease / (increase) in given advances		12,781	(3,598)
Decrease / (increase) in other receivables		(749)	1,625
Decrease / (increase) in received advances		7,042	(257)
Increase in trade payables		36,340	25,197
Increase in other current liabilities		421	1,203
CASH USED IN OPERATIONS		**(137,961)**	**(68,231)**
Interests paid		(6,015)	(1,112)
Income taxes paid		-	(2,538)
Net cash used in operating activities		**(143,976)**	**(71,881)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18, 20	(4,139)	(21,498)
Interests received		4,157	550
Cash disbursement for the acquisition of the subsidiary Alterna distribucija d.o.o.		(16,400)	-
Cash disbursement financial expenses for the establishment of a subsidiary - Centar kompetencije za zelenu energiju d.o.o.		(750)	-
Cash receipts for sale of shares in associated companies		-	560
Increase/ (decrease) in other financial assets		145	-
Cash disbursements for loans given		(2,281)	(5,138)
Cash receipts from the sale of fixed assets		183	-
Cash disbursements for purchase of shares in subsidiaries and asociates		-	(1,000)
Net cash used in investing activities		**(19,085)**	**(26,526)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		437,892	38,676
Repayments of loans to financial institutions		(244,947)	(168,051)
Cash inflows for right-of-use assets	35.1	59	503
Liability repayments for right-of-use-assets	35.1	(447)	(346)
Cash receipts from bond issuance	37	-	200,000
Cash disbursements for bonds	37	(20,000)	-
Net cash generated from financing activities		**172,557**	**70,782**
Net increase / (decrease) in cash and cash equivalents		**9,496**	**(27,625)**
Cash and cash equivalents at the beginning of the year	29	**65,047**	**92,672**
Cash and cash equivalents at the end of year	29	**74,543**	**65,047**

Accounting policies and notes are integral part of these financial statement

1. GENERAL INFORMATION

M SAN GRUPA d.o.o., Zagreb, is a limited liability company incorporated in Croatia on 17 July 1997. The sole owner and founder of the Company is Mr. Stipo Matić.

The Company is registered for the manufacture of office machines and computers, software consulting and supply, office machine and computer maintenance, sale and purchase of goods, trade mediation on domestic and international markets, and computer training.

The Company's registered seat is in Rugvica (Rugvica Municipality), Dugoselska ulica 5, Croatia.

The following organisational functions of the Company and Group were transferred to the company Ured za podršku d.o.o., fully owned by Stipo Matić: Finances, Accounting, Controlling, Project management, IT Development and Support and Business Process Support (HR, General Affairs, Legal Affairs), which the company performs for all entities owned by both the Company and Mr. Stipo Matić, for which it charges a fee (see Note 9).

Management Board in 2022 and 2021:

Miroslav Huzjak, President of Management Board until December 31, 2022
Irena Langer-Breznik, Member of Management Board until December 31, 2022 and President of Management Bord since January 1, 2023
Žarko Kruljac, Member of Management Board
Slaven Stipančić, Member of Management Board
Goran Kotlarević, Member of Management Board, since March 23, 2021
Pavo Leko, Member of Management Board until January 28, 2022
Miroslav Gabrić, Member of Management Board, since May 6, 2022, unitl March 8, 2023
Alen Panić, Member of Management Board, since October 1, 2022
Vladimir Brkljača, Member of Management Board, since October 1, 2022

Supervisory Board in 2022 and 2021:

Željko Menalo, President of Supervisory Board since January 1, 2023
Miroslav Huzjak, Deputy President of Supervisory Board since January 1, 2023
Stipo Matić, President of Supervisory Board until December 31, 2022 and Member of Management Board since January 1, 2023
Marko Rašić, Deputy President of Supervisory Board until December 31, 2022 and Member of Management Board since January 1, 2023
Snježana Matić, Member of Supervisory Board

Audit committee in 2022 and 2021:

Branislav Vrtačnik
Kristina Alebić
Branka Gerić

(all amounts are expressed in thousands of kuna)

1. GENERAL INFORMATION (CONTINUED)

Subsidiaries

The Group consist of the company and the following subsidiaries in witch the company has an ownership stake of more then 50% and control:

Name of related party	*Country*	*Ownership in %*		*Main Activity*
		2022	*2021*	
KIM TEC D.O.O. VITEZ	BIH	100%	100%	*Distribution of IT equipment*
- KIM TEC SERVIS D.O.O. VITEZ	BIH	100%	100%	*Maintenance of IT equipment*
- KIM TEC EKO D.O.O.	BIH	95%	95%	*Collection of EE waste*
- KIM TEC NEKRETNINE D.O.O. VITEZ	BIH	-	100%	*Real Estate*
- EKO BOSANSKA POSAVINA D.O.O.*	BIH	60%	82%	*Agriculture*
CENTAR KOMPETENCIJE ZA ZELENU ENERGIJU	Croatia	100%	-	*Consulting*
KIM TEC D.O.O. PODGORICA	Montenegro	100%	100%	*Distribution of IT equipment*
PAKOM KOMPANI D.O.O.E.L.	North Macedonia	100%	100%	*Distribution of IT equipment*
KIM TEC D.O.O. BEOGRAD	Serbia	100%	100%	*Distribution of IT equipment*
- KIM TEC SERVIS D.O.O. BEOGRAD	Serbia	100%	100%	*Maintenance of IT equipment*
- KIM TEC NEKRETNINE D.O.O. BEOGRAD	Serbia	-	100%	*Real Estate*
M SAN LOGISTIKA D.O.O.	Croatia	100%	100%	*Transport and logistics*
M SAN EKO D.O.O.	Croatia	100%	100%	*Collection of EE waste*
MR SERVIS D.O.O.	Croatia	60%	60%	*Maintenance of IT equipment*
ZELENA AGENDA 1.0. D.O.O.	Croatia	100%	100%	*Consulting*
CORVUS INFO D.O.O.	Croatia	-	100%	*ICT*
- KORVUS MK D.O.O.E.L	North Macedonia	100%	100%	*ICT*
ALTERNA DISTRIBUCIJA D.O.O.	Slovenia	100%	-	*Distribution of IT equipment*

*During 2022, EKO Bosanska Posavina d.o.o. was recapitalized by PPK Valpovo d.o.o., thereby acquiring an ownership share of 22.77%. At the end of the year, PPK Valpovo additionally purchased a 3.33% share from the company KIM TEC Vitez (a company with a common ultimate owner), which increased PPK Valpovo's share to 26.10%.

The amendments to the Article of Association of EKO Bosanska Posavina, which were made after the recapitalization of PPK Valpovo and signing of the Agreement on managing the affairs of EKO Bosanska Posavina, between the share owners, defined that PPK Valpovo will direct the relevant affairs of EKO Bosanska Posavina, thereby gaining control over this company. With the date of December 1, 2022 this company is consolidated within the Agro Invest Group, and in the Group from December 1, 2022 the share is kept as a share in associated companies (note 21.2.)

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

- Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020*, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company and the Group.

b) Standards and Interpretations issued by IASB and endorsed by the EU but not yet effective

- Amendments to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: Disclosure of Accounting policies, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).

c) Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date, issued on 23 January 2020 and 15 July 2020 respectively.

- Amendments to IFRS 16 *Leases*: Lease Liability in a Sale and Leaseback, issued on 22 September 2022.

The Company and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

Consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

Basis of consolidation

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

- The Company has power over the investee;
- The Company is exposed, or has rights, to variable returns from its involvement with the investee; and
- The Company has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Gain or loss and each component of other comprehensive income are attributed to the owners of the parent (Company) and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

<u>Changes in the Group's ownership interests in existing subsidiaries</u>

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary, i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. Business combinations under common control are realized per carrying values of net asset.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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

3. OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described at note below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. Where appropriate, the entire carrying amount of an interest, including goodwill, is tested for impairment in accordance with IAS 36 “Impairment of Assets” as a single asset by comparing its recoverable amount, which is the higher of its fair value and fair value less costs to sell, with its book value. Any recognized impairment loss is included in the carrying amount of the interest. An impairment loss is reversed in accordance with IAS 36 to the extent of a subsequent increase in the recoverable amount of the interest.

Upon loss of control, the Group derecognises the assets of an associate or joint venture, shares in non-controlling interests and other elements of equity and reserves relating to the associates or joint ventures. Any surplus or deficit arising from the cessation of control is recognized in the income statement. If the Group retains an interest in an associate or joint venture, that interest is stated at fair value at the date that control ceases. Thereafter, it is accounted for as an investment that is measured using the equity method or in accordance with the Group's accounting policy for financial instruments, depending on the level of retained influence. In addition, the Group recognizes all amounts previously recognized in other comprehensive income relating to the associate or joint venture that are no longer accounted for using the equity method on the basis that would have been true if the associate or joint venture had sold the related assets or related liabilities directly. Therefore, upon termination of the equity method, the Group transfers the profit or loss that the associate or joint venture previously reported in other comprehensive income and then transfers to profit or loss after disposal of the related assets or liabilities from equity (as a reclassification adjustment) to profit and loss.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests. When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. Gains and losses from transactions between an entity that is a member of the Group and an associate or joint venture of the Group in the consolidated financial statements is recognized only up to the amount of the interest in that associate or joint venture that do not relate to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An associate is an entity in which the Company has significant influence, but which is neither a subsidiary nor a joint venture. Significant influence is the power to make decisions about financial and operational policies of an investy, but not the control over those policies. In separate financial statements, investments in associates are presented at cost. The cost is tested for impairment at each reporting date.

Investments in subsidiaries

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or do not have, the current ability to direct the relevant activities at the time when is necessary to adopt such a decision.

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

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

Revenue recognition

Revenue is generated from the sale of goods and provision of services.

Revenue is measured at the fair value of the consideration received or receivable less estimated returns from customers, volume and similar discounts.

i) Sales of services

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

ii) Sales of goods

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

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

Dividend and interest income

Dividend income, i.e. income from share in profits is recognised when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

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

(all amounts are expressed in thousands of kuna)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
The exchange rates applied as of 31 December 2022 and 2021 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2022	Average exchange rate for 2022	31/12/2021	Average exchange rate for 2021
RSD	15.56931	15.59269	15.64535	15.62818
KM	0.25958	0.25959	0.26018	0.25994
MKD	8.19133	8.17772	8.19732	8.18513
EUR	7.534500	7.534128	7.517174	7.523970

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the entire or a part of the net investment.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into HRK using exchange rates prevailing at the end of each reporting period. Income and expense items are translated using the average exchange rates based on the closing monthly exchange rates throughout the year, except in the case where there is a significant fluctuation of exchange rates, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

i) Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group’s and the Group’s and the Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

ii) Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group and the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

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

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

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

(all amounts are expressed in thousands of kuna)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

	Depreciation rates
Buildings	2.50-3.00%
Electronic equipment and software	25-50%
Equipment	10-40%
Personal cars	20-40%
Vehicles (other than personal cars)	25-50%
Furniture and office equipment	20-50%

Owned land is not depreciated.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

<u>Intangible assets acquired in a business combination</u>

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

<u>Derecognition of intangible assets</u>

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Amortization rates for intangible assets amounted from 20-25%.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group and the Company review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Tangible assets at historical cost are depreciated according to the linear method, during the useful life of the assets, starting in the first month after the asset is put into use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Inventories

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

Trade receivables and given advances

Trade receivables are initialy recognised at fair value and subseqently at amortized cost less any impairment. The Company writes off a trade receivable when there are data indicating that the borrower is in serious financial difficulties and does not have realistic returns, eg when the debtor has been liquidated or has entered bankruptcy proceedings or when the receivables from the buyer have exceeded a year, depending on what happens earlier. None of the written offs is subject to execution activities. Since the Company's historical credit loss experience does not show significantly different loss patterns for different segments of the customer, maturity-based impairment provisions do not differ from the different customer groups of the Company. The Company uses non-recourse factoring in its operations when it is opportune to increase operational efficiency, liquidity and/or profitability.

The Company occasionally uses the possibility of selling receivables to factoring company's which accelerates liquidity or improves credit limits agreed with customers by selling non-recourse receivables.

Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

A lease is a contract or part of a contract that transfers the right to use property (specified property) for an agreed period in exchange for consideration. The group rents certain business premises and vehicles.

The Group has chosen to use the exemption from recognition for lease agreements that, on the date of inception, have a lease period of 12 months or less, and do not contain a purchase option (short-term leases) and lease agreements for which the property in question is of low value (assets of low value). In the assessment of assets of low value, the starting point is the assessment of new assets, regardless of the age of these assets at the time of assessment. If the tenant sublets the property, the main rent is not considered a low value property. For short-term leases and low-value leases, lease payments related to those leases are recognized as an expense on a straight-line basis over the lease term. On the lease commencement date, the Group recognizes right-of-use assets under the cost method. The cost of the right-of-use asset consists of the amount of the initial measurement of the lease liability, all lease payments increased by all direct costs and reduced by discounts received. Assets are activated when put into use. On the lease commencement date, the Group also recognizes lease obligations in the amount of the present value of the minimum future lease payments (discounted value). For discounting, the interest rate stated in the lease agreement is used, or if it is not known, the incremental rate on the debt on the lease start date is used.

In the subsequent measurement, the lessee measures the value of the leased assets at cost less accumulated depreciation and accumulated impairment losses and adjusts for the newly determined value of the lease liability.

Assets are depreciated from the date of commencement of the lease until the end of the asset's useful life. Lease liabilities are measured using the effective interest rate method, and revaluation occurs to include changes due to revaluation (changes in fixed payments, lease periods, discount rates and other similar changes). The lease period includes an irrevocable period during which the lessee has the right to use the property that is the subject of the lease, and begins on the date on which the lessor makes the specified property available to the lessee. The lease period also includes periods covered by the option to extend the lease if it is certain that the lessee will use that option, and periods covered by the option to terminate the lease if it is certain that the lessee will not use that option.

In the statement of financial position, assets with the right of use are reported under the item Real estate, plant and equipment, and lease liabilities are reported as a separate item under long-term and short-term liabilities. The statement of comprehensive income shows the cost of depreciation of assets with the right of use and interest costs on lease obligations (see note 35.1). Leases in which the Group does not bear a significant share of the risks and rewards of ownership are classified as operating leases. Payments based on operating leases are reported in the statement of comprehensive income according to the straight-line method over the period of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Sale and leaseback

A sale and leaseback transaction involves the sale of an asset and the return/leaseback of the same. If the transfer of assets represents a sale, the Group as the seller-lessee is obliged to measure the assets with the right of use resulting from the leaseback in proportion to the previous book value of the assets corresponding to the right of use retained by the seller-lessee. In this case, the Group as a seller-lessee recognizes only the amount of possible profit or loss related to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of the asset is not equal to the fair value of the asset or if the lease payments are not at market rates, the Group is required to make adjustments to measure the proceeds from the sale at fair value. At the same time, all conditions that do not reach the market value are calculated as early rent payments and all conditions that exceed the market value are calculated as additional financing that the buyer-lessor provides to the seller-lessee. Any potential adjustments are measured based on the value of the difference between the fair value of the sale consideration and the fair value of the asset or the difference between the present value of contractual lease payments and the present value of lease payments at market rates. If the transfer of assets does not constitute a sale, the Group as a lessee is obliged to continue to recognize the transferred assets and to recognize a financial obligation equal to the income from the transfer.

Financial instruments

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

Financial assets

Classification of financial assets

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL) depending on the business model and the characteristics of the contracted cash flows from financial assets.

Financial assets at amortized cost

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets

The Company and the Group recognise allowances for expected credit losses (ECLs) for trade receivables. The amount of expected credit losses is calculated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and the Group expects to receive.

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are recognized for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company and the Group applies a simplified approach in calculating ECLs. Accordingly, the Company and the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's and Group's historical credit loss experience, adjusted for factors specific to the debtors.

For loans given, the Company and the Group measure expected credit losses as a function of the probability of occurrence of default status (PD), loss in case of occurrence of default status (LGD), ie the amount of loss if default occurrs and exposure at the time of default (EAD). To assess PD parameters, the Company and the Group rely on the publications of external investment rating agencies. The LGD parameter is estimated internally and depends on the collateralisation of the loan, and for unsecured loans it is 100%. As for the exposure at the time of default, for financial assets it represents the gross carrying amount of the asset at the reporting date.

(i) Significant increase in credit risk

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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

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

(ii) Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company and the Group, in full

(iii) Credit-impaired financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

(iv) Write-off policy

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

(v) Derecognition of financial assets

The Company and the Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

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

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

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

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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

Classification in liabilities or equity

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

Equity instruments

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

Financial liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

Provisions

Provisions are recognised when the Group or the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group or the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date date and adjusted to reflect the current best estimate.

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

Provisions for termination benefits are recognised when the Group and the Company have committed to terminate employment contracts with its employees i.e. when it has a detailed formal plan to terminate employment agreements that is reasonably unlikely to be abandoned.

Warranty provision for own brands

Warranty provisions for own brands, representing provisions for repairs and replacements within a warranty period, are determined based on the volume and cost of goods complained of as faulty (goods received for servicing) by groups of products. Warranty provision for external brands are not recognized since the complete risk is carried by the suppliers.

The amount of provision is determined by applying an annual percentage of individual groups of faulty products covered by warranty (i.e. received for servicing) as a share in the total annual quantity of the individual products sold during the year, with the aggregate cost of the product group concerned taken as the basis.

Provisions are determined by groups of products and duration of the warranty period.

Warranty provisions are reversed upon the expiry of the underlying warranty period and credited to income for the year in which the warranty expires. They are netted off with correspondin expenses in the relevant period.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes, unless the possibility of an outflow of resources embodying economic benefits is remote.

No contingent assets is recognised in the financial statements. They are disclosed in the notes when the inflow of economic benefits becomes probable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Events after the reporting date

Post-year-end events that provide additional information about the Group’s and the Company’s position at the financial statements date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Accounting judgements and estimates

The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are continually reviewed. Changes in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting judgements and estimates(continued)

(b) Impairment allowance on trade receivables

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

(c) Provision for warranty risk

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

(d) Assessment of Goodwill impairment

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

(e) Recoverability of investments in subsidiaries and associates

The Company annually assesses the recoverability of investments through the test of value of net assets of subsidiaries, ie the value of the share of associated companies increased by the share in the result of associated companies calculated according to the equity method.

(f) Determination of achieving of control over subsidiaries

The Company evaluates the achievment of control over a subsidiary based on the following elements of control: power of disposal, variable returns and the relationship between power of disposal and variable returns.

- Power of disposal derives from voting rights based on ownership instruments, the right to appoint or revoke the entity's key managers who are capable of conducting relevant affairs, the right to direct the entity to conclude transactions in favor of investors or veto changes to such transactions, and the ability to conduct relevant affairs.
- Achieving variable returns in a affiliated company depends on the right to receive returns (dividends, share value changes, other payments of economic benefit) depending on the success of its business.
- The connection between the power of disposal and yield – control in relation to the dependent company results from the ability to apply the power of disposal in such a way that the Company affects its yield (note 48).

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION

As of 31 December 2022, the reporting segments of the Group consisted of several business segments by geographic area: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia and other countries. Business segments are reported in accordance with internal reporting to the executive decision maker - the Company's Management Board, which is responsible for resource allocation and performance evaluation of business segments.

The following is an analysis of the Group's income and results by geographic segment. The displayed sales revenues refer to revenues generated by sales to external customers, revenues generated by sales within segments and other business revenues.

The revenues and expenses shown at the operating segment level represent total revenues/expenses generated from relations with third parties, but also with subsidiaries from other operating segments. Such presentation of income and expenses is eliminated in the "Eliminations and corrections" line.

Revenues and operating results by segment

2022	**Croatia**	**Bosnia and Herzegovina**	**Serbia**	**Montenegro**	**Macedonia**	**Slovenia**	**Total**	**Eliminations / Corrections**	**Total**
Sales less customer discounts and allowances	2,582,118	362,025	710,544	119,236	183,700	38,279	3,995,902	(757,491)	3,238,411
Cost of goods sold less supplier discounts and allowances	(2,239,363)	(292,633)	(646,129)	(105,070)	(158,651)	(31,171)	(3,473,017)	700,420	(2,772,597)
Changes in inventory	42	7,222	-	-	-	-	7,264	105	7,369
Other operating income	10,014	5,267	3,784	160	1,221	124	20,570	(2,053)	18,517
Other operating expenses	(327,868)	(71,631)	(59,303)	(9,253)	(19,992)	(3,797)	(491,844)	51,610	(440,234)
Profit from operations	**24,943**	**10,248**	**8,896**	**5,073**	**6,278**	**3,435**	**58,873**	**(7,409)**	**51,464**
Net finance expenses	(25,533)	(2,612)	(3,537)	(1,132)	(1,281)	(145)	(34,240)	(219)	(34,459)
Profit before taxes	**(590)**	**7,636**	**5,359**	**3,941**	**4,997**	**3,290**	**24,633**	**(7,628)**	**17,005**

(all amounts are expressed in thousands of kunas)

4. SEGMENT INFORMATION (CONTINUED)

Revenues and operating results by segment (continued)

2021	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	2,249,270	261,967	556,613	84,653	151,456	3,303,959	(605,391)	2,698,568
Cost of goods sold less supplier discounts and allowances	(1,983,335)	(220,657)	(494,871)	(73,102)	(129,525)	(2,901,490)	559,067	(2,342,423)
Changes in inventory	-	(399)	-	-	-	(399)	-	(399)
Other operating income	6,455	3,369	2,644	320	431	13,219	(1,724)	11,495
Other operating expenses	(243,640)	(35,266)	(45,137)	(6,618)	(10,904)	(341,565)	47,722	(293,843)
Profit from operations	**28,750**	**9,014**	**19,249**	**5,253**	**11,458**	**73,724**	**(326)**	**73,398**
Net finance expenses	(17,084)	(1,915)	(1,832)	(431)	(37)	(21,299)	(27)	(21,326)
Profit before taxes	**11,666**	**7,099**	**17,417**	**4,822**	**11,421**	**52,425**	**(353)**	**52,072**

(all amounts are expressed in thousands of kuna)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

2022	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Slovenia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	37,941	2,203	980	2,485	699	4,541	48,849	57,768	106,617
Other non-current assets	199,853	76,184	391	3	198	-	276,629	(143,614)	133,015
Current assets	664,311	99,571	169,876	31,832	59,259	58,018	1,082,867	(70,749)	1,012,118
Total assets	**902,105**	**177,958**	**171,247**	**34,320**	**60,156**	**62,559**	**1,408,345**	**(156,595)**	**1,251,750**
Long-term liabilities	190,824	1,174	6,202	521	-	2,799	201,520	-	201,520
Short-term liabilities	583,481	72,195	85,233	7,410	16,020	50,513	814,852	(70,687)	744,165
Total liabilities	**774,305**	**73,369**	**91,435**	**7,931**	**16,020**	**53,312**	**1,016,372**	**(70,687)**	**945,685**

2021	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	58,520	145,788	24,459	2,474	385	231,626	39,883	271,509
Other non-current assets	189,319	91,631	389	7	130	281,476	(218,333)	63,143
Current assets	518,014	87,421	166,631	32,514	45,177	849,757	(74,638)	775,119
Total assets	**765,853**	**324,840**	**191,479**	**34,995**	**45,692**	**1,362,859**	**(253,088)**	**1,109,771**
Long-term liabilities	184,877	21,815	14,542	1,146	-	222,380	-	222,380
Short-term liabilities	408,095	67,280	84,366	10,806	4,999	575,546	(67,599)	507,947
Total liabilities	**592,972**	**89,095**	**98,908**	**11,952**	**4,999**	**797,926**	**(67,599)**	**730,327**

(all amounts are expressed in thousands of kunas)

5. SALES INCOME

	GROUP		COMPANY	
	2022	2021	2022	2021
Domestic sales of goods	2,621,341	2,250,450	1,395,877	1,281,225
Foreign sales of goods	472,496	363,160	834,218	676,448
Income from sale of service	106,030	77,718	32,443	35,941
Income from sales of spare parts	51,429	46,212	3,742	-
Income from sale of licences	25,355	6,109	16,047	-
Re-export sales	21,955	21,274	252,256	210,443
Other	28,333	8,205	-	-
Allowances and discounts provided to customers	(88,528)	(74,560)	(88,539)	(70,101)
Total	**3,238,411**	**2,698,568**	**2,446,044**	**2,133,956**

The foreign market for the Company includes all markets except the Republic of Croatia, while for the Group the foreign market includes all markets except the Republic of Croatia, the Republic of Serbia, Bosnia and Herzegovina, the Republic of Montenegro and the Republic of Northern Macedonia.

Reexport implies direct export of goods to foreign markets in such a way that the goods were not physically in the warehouse of the Company or the Group.

(all amounts are expressed in thousands of kuna)

5. SALES INCOME (CONTINUED)

Overview of gross sales by countries in which it was realized:

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Croatia	1,250,819	1,284,174	1,403,767	1,266,936
Serbia	780,551	573,207	362,087	301,090
Bosnia and Herzegovina	350,114	241,362	160,930	123,480
Macedonia	255,205	129,317	110,126	86,285
Montenegro	124,372	86,043	67,413	47,749
Slovenia	100,862	49,168	57,681	48,913
Kosovo	59,309	45,297	52,726	34,893
Germany	55,592	40,044	50,478	39,994
Poland	47,290	38,027	46,876	36,949
Cezch Republic	43,626	35,218	41,749	33,225
Singapur	37,949	25,317	4,671	2,792
Slovakia	36,616	16,768	36,597	16,763
Romania	32,522	27,778	32,518	27,755
Austria	24,449	30,889	4,489	5,275
Finland	22,637	31,733	22,637	31,733
Hungary	21,885	19,119	21,301	19,108
Albania	20,237	14,866	1,319	657
The Netherlands	8,581	35,956	5,955	34,590
USA	8,224	10,981	7,905	10,592
Italy	6,898	10,489	6,746	10,249
Ukraine	5,521	-	5,521	-
Ireland	5,342	3,178	4,194	2,223
United Arab Emirates	3,581	-	3,581	-
Sweden	2,992	3,402	2,992	3,369
Bulgaria	2,811	3,773	2,811	3,773
Lithuania	1,526	1,711	1,526	1,711
France	1,312	2,437	945	2,158
Great Britain	1,081	2,905	597	2,187
Denmark	603	931	574	931
Switzerland	468	300	-	-
Armenia	333	595	333	595
Other	13,631	8,143	13,538	8,081
Total	**3,326,939**	**2,773,128**	**2,534,583**	**2,204,056**

(all amounts are expressed in thousands of kuna)

6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Income from free receipts	6,486	1,431	5,733	1,637
Income from the own use of products	2,531	1,033	-	-
Income from elimination of credit risk impairment	2,112	-	305	-
Income from sale of fixed assets	1,920	916	183	422
Income from reinvoicing	1,837	3,718	1,357	906
Income from incentives and subsidies	911	1,510	-	419
Income from receipts in-kind	393	320	349	277
Income from long-term provision (note 34)	336	482	-	-
Inventory surpluses	226	170	131	92
Income from collected bad and doubtful trade receivables	109	418	95	187
Income from sale of tangible and intangible assets	45	-	-	-
Income from collected writen-off trade receivables	27	48	-	-
Income from write-off of trade payables	10	12	-	-
Income from own investments	-	1,032	-	-
Income from goverment grants	-	82	-	-
Other	1,574	323	572	1,607
Total	**18,517**	**11,495**	**8,725**	**5,547**

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Basic and auxiliary materials, and office supplies	22,313	2,603	8,349	434
Cost of spare parts	19,549	17,329	-	-
Energy and fuels for freight and personal vehicles	13,951	5,853	1,331	569
Servicing, replacement and repair costs under warranty	8,808	7,660	3,872	3,498
Small inventory, packaging and tires	4,173	3,699	1,059	1,303
Cost of materials and spare parts for equipment maintenance	3,640	1,466	-	-
Costs of goods shortages (due to evaporate), damages, breakage and goods writeoff	123	-	-	-
Inventory shortage	29	49	-	-
Total	**72,586**	**38,659**	**14,611**	**5,804**

(all amounts are expressed in thousands of kuna)

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2022	2021	2022	2021
Cost of goods sold	2,927,627	2,446,881	2,340,348	2,031,628
Intellectual property use fee (license)	40,688	23,397	16,742	11,477
Cost of equipment for resale	7,856	-	7,091	-
Warranty extansion costs	5,752	5,198	4,830	4,355
Ullage, spillage, breakage	1,884	938	1,904	1,192
Excessive inventories shortage	64	195	-	-
Other cost of goods sold	2,082	1,611	-	-
Allowances and discounts provided by suppliers	(213,356)	(135,797)	(168,543)	(99,813)
Total	**2,772,597**	**2,342,423**	**2,202,372**	**1,948,839**

In addition to selling computers and laptops, the Group and the Company also sell licenses – ready-made office applications or platforms for development, management and processing and more advanced analytics.

9. COST OF SERVICES

	GROUP		COMPANY	
	2022	2021	2022	2021
Business premise and equipment rental costs	31,158	20,370	8,786	5,684
Costs of the Back office and bookkeeping services	28,131	23,303	21,123	17,931
Telephone, shipping and transportation costs	24,916	18,794	34,417	28,754
Marketing, sponsorships and fairs	22,956	17,553	13,881	12,982
Utilities	11,970	8,547	9,061	6,426
Maintenance and repairs	10,409	6,119	4,024	2,460
Representation	5,728	3,602	1,520	1,323
Costs from quality control and attestation of goods	5,065	3,139	5,046	3,126
Intellectual services	4,758	4,015	2,222	2,148
Outsourced repair of faulty goods under warranty period	2,735	2,519	6,139	4,543
Students and youth employees service costs	2,036	1,694	597	252
Costs of storage and palletizing of goods	-	-	8,232	7,601
Other	12,395	7,950	7,032	5,111
Total	**162,257**	**117,605**	**122,080**	**98,341**

The Group has a well-developed logistics network in the Republic of Croatia and the Adria region, with the aim of ensuring fast and quality delivery of goods to partners. Securing its own regional logistics network performed by the subsidiary M SAN Logistika d.o.o. Zagreb provides the Company and the Group with one of the key comparative advantages in the distribution of consumer electronics, computers and computer programs.

(all amounts are expressed in thousands of kuna)

10. STAFF COSTS

	GROUP		COMPANY	
	2022	2021	2022	2021
Net salaries	83,378	61,002	31,758	22,339
Taxes, surtaxes and contributions from salaries	31,862	23,969	13,608	10,285
Contributions on salaries	16,809	12,212	6,459	4,614
Total	**132,049**	**97,183**	**51,825**	**37,238**

The Group had an average of 930 employees in 2022 (2021: 769 employees). The Company had an average of 258 employees in 2022 (2020: 170 employees).

11. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	GROUP		COMPANY	
	2022	2021	2022	2021
Depreciation	8,740	5,480	4,029	2,199
Goodwill impairment	8,202	-	-	-
Amortization	7,801	5,477	7,420	5,474
Depreciation of right of use asset	2,943	1,593	256	306
Total	**27,686**	**12,550**	**11,705**	**7,979**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2022	2021	2022	2021
Bonuses for achieved results	8,464	-	4,591	-
Insurance premiums for equipment, vehicles and inventories	7,578	4,704	3,499	2,430
Travel expenses	3,563	2,500	1,127	718
Bank and payment operation charges	2,715	2,224	1,218	1,116
Christmas allowance, children's gifts, awards	2,582	2,913	1,421	987
Per diems and other business travel costs	2,558	1,369	973	312
Professional training and literature	1,907	858	1,762	622
Forest levies, other contributions and membership fees	1,383	1,286	821	738
License costs	996	1,007	-	-
Scolarships	441	235	380	216
Taxes independent of the operating result	422	904	36	397
Administrative fees and court costs	231	190	19	5
Other	3,421	2,290	552	1,153
Total	**36,261**	**20,480**	**16,399**	**8,694**

During 2022, The Assembly of the Company, adopted a decision on rewarding the members of the Management Board and key management of the Company and subsidiaries based on the achieved business results in 2021.

(all amounts are expressed in thousands of kuna)

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2022	2021	2022	2021
Impairment allowance of trade receivables	968	756	518	312
Impairment allowance of inventories	31	274	-	-
Impairment allowance of intangible assets	-	274	-	274
Other	33	56	-	-
Total	**1,032**	**1,360**	**518**	**586**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2022	2021	2022	2021
Donations	671	1,142	651	1,140
Written-off trade receivables	188	404	10	295
Loss on disposal of tangible asset	40	109	-	-
Fines	24	5	8	-
Receivables write off	-	1,069	-	1,069
Subsequent charges	-	704	-	260
Other	529	405	226	191
Total	**1,452**	**3,838**	**895**	**2,955**

15.1 FINANCIAL INCOME

	GROUP		COMPANY	
	2022	2021	2022	2021
Foreign exchange gains	19,372	9,195	25,276	11,676
Interest income	1,247	1,721	1,032	1,261
Income from sale of ownerships in related parties	38	-	-	-
Other financial income	43	113	19	113
Total	**20,700**	**11,029**	**26,327**	**13,050**

(all amounts are expressed in thousands of kuna)

15.2 FINANCIAL EXPENSES

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Foreign exchange losses	34,961	16,976	36,175	16,759
Interest expense	13,524	9,618	10,755	7,697
Bank guarantees fees	2,484	1,909	2,170	1,615
Factoring fees	1,550	1,053	802	804
Loan origination costs	288	368	77	208
Loss on sale of associates	-	4,124	-	2,046
Imapirment of financial assets	-	-	2,000	-
Bond issuance fees	-	900	-	900
Total	**52,807**	**34,948**	**51,979**	**30,029**

During 2021, the Company transferred the business share with a nominal value of HRK 2,016 thousand to the acquirer, Mr. Danko Venturini, based on the contract on the transfer and acquisition of business shares in the associated company Ventex d.o.o. The agreed compensation amounted to HRK 560 thousand, which resulted in a loss in the Company in the amount of HRK 2,046 thousand, and in the Group a loss in the amount of HRK 4,124 thousand.

16. SHARES IN THE RESULT OF THE ASSOCIATES

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Income from profit attribution from associates	-	2,593	-	-
Expenses from loss attributions from associates	(2,354)	-	-	-
Total	**(2,354)**	**2,593**	**-**	**-**

The following is a summary of the attribution of results by individual associates:

	GROUP	
	2022	**2021**
E Kupi	(2,165)	1,089
Ventex	-	293
EKO Bosanska Posavina	(189)	1,211
Total	**(2,354)**	**2,593**

(all amounts are expressed in thousands of kuna)

17. INCOME TAX

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

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Current tax	4,468	5,163	900	-
Deferred tax	(135)	218	-	-
Income tax expense	**4,333**	**5,381**	**900**	**-**

Current tax

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Accounting profit before tax	17,005	52,072	3,545	11,053
Income tax 18%	3,061	9,373	638	1,990
Tax effect of lower tax rates in other countries	(293)	(2,199)	-	-
Tax effect of permanent deductiable expenses	3,000	1,287	1,292	728
Tax effect of premanent deductiable income	(285)	(3,258)	(278)	(3,148)
Income tax expense	**5,483**	**5,203**	**1,652**	**(431)**
Withholding tax paid that could not be used	**900**	**-**	**900**	**-**
Utilisation of tax loss	(1,915)	(40)	(1,652)	-
Net tax expensive	**4,468**	**5,163**	**900**	**-**

Effective tax rate in 2022 was 25.5% (2021: 13.3%).

Gross tax losses in the amount of HRK 52,479 thousand for the Group are available to reduce future taxable profits at the end of 2022. Tax losses cannot be transferred and used within group members. The Group did not recognize deferred tax assets based on tax losses carried forward, given that it is uncertain when individual companies within the Group will achieve sufficient future taxable profit on the basis of which such tax assets could be used. On the next reporting date, the Group and the Company will reassess the assumptions for the recognition of deferred tax assets.

(all amounts are expressed in thousands of kuna)

17. INCOME TAX (CONTINUED)

Table of transferred tax losses

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Up to 1 year	10,810	13,683	10,558	13,559
Up to 2 year	15,097	8,024	11,631	5,763
Up to 3 year	14,837	8,669	11,158	6,305
Up to 4 year	6,207	7,993	5,536	7,352
Up to 5 year	5,528	6,490	1,555	5,536
Total tax loss available for transfer	**52,479**	**44,859**	**40,438**	**38,515**

The Company and the Group acquired the largest part of the transferred losses through the merger of the company M SAN Ulaganja with the Company. The Company and the Group have not determined deferred tax assets because there is no estimate of how many losses will be able to be used in the future period.

In accordance with local tax regulations, the tax authorities may at any time inspect the Company's and the Group's books and records within the period defined by local tax regulation, and may impose additional tax assessments and penalties.

(all amounts are expressed in thousands of kuna)

18. INTANGIBLE ASSETS

GROUP	Software	Concessions	Development expenses	Trade-mark	Intangible assets under construction	Total
COST						
At 1 January 2021	**30,997**	**61**	**2,045**	**321**	**8,632**	**42,056**
Additions	-	-	-	-	12,546	12,546
Transfer from assets under construction	9,120	-	-	76	(9,196)	-
Impairment of assets under construction	-	-	-	-	(273)	(273)
Acquisition of subsidiary (note 48)	6,864	-	-	-	2,348	9,212
Merger of a company (note 48)	2,301	-	-	-	403	2,704
Disposals	-	(61)	-	-	-	(61)
Exchange differences	2	-	-	-	-	2
At 31 December 2021	**49,284**	**-**	**2,045**	**397**	**14,460**	**66,186**
Additions	-	-	-	-	2,372	2,372
Transfer from assets under construction	4,852	-	-	196	(5,202)	(154)
Acquisition of subsidiary (note 48)	116	-	-	-	757	873
At 31 December 2022	**54,252**	**-**	**2,045**	**593**	**12,387**	**69,277**
ACCUMULATED DEPRECIATION						
At 1 January 2021	**16,976**	**-**	**2,045**	**277**	**-**	**19,298**
Charge for the year	5,457	-	-	20	-	5,477
Acquisition of subsidiary (note 48)	6,858	-	-	-	-	6,858
Merger of a company (note 48)	1,328	-	-	-	-	1,328
Exchange differences	8	-	-	-	-	8
At 31 December 2021	**30,627**	**-**	**2,045**	**297**	**-**	**32,969**
Charge for the year	7,751	-	-	50	-	7,801
Acquisition of subsidiary (note 48)	33	-	-	-	-	33
At 31 December 2022	**38,411**	**-**	**2,045**	**347**	**-**	**40,803**
NET BOOK VALUE						
At 31 December 2022	**15,841**	**-**	**-**	**246**	**12,386**	**28,473**
At 31 December 2021	**18,657**	**-**	**-**	**100**	**14,460**	**33,217**

(all amounts are expressed in thousands of kuna)

18. INTANGIBLE ASSETS (CONTINUED)

COMPANY	Software	Development expenses	Trade-mark	Intangible assets under construction	Total
COST					
At 1 January 2021	**30,048**	**1,991**	**322**	**8,514**	**40,875**
Additions	-	-	-	12,536	12,536
Transfer from assets under construction	9,110	-	76	(9,186)	-
Impairment of assets under construction	-	-	-	(273)	(273)
Merger of a company (note 48)	2,301	-	-	403	2,704
At 31 December 2021	**41,459**	**1,991**	**398**	**11,994**	**55,842**
Additions	-	-	-	2,192	2,192
Transfer from assets under construction	1,909	-	196	(2,105)	-
Merger of a company (note 48)	9,089	-	-	-	9,089
At 31 December 2022	**52,457**	**1,991**	**594**	**12,081**	**67,123**
ACCUMULATED DEPRECIATION DEPRECIATION					
At 1 January 2021	**16,033**	**1,991**	**277**	**-**	**18,301**
Charge for the year	5,453	-	21	-	5,474
Merger of a company (note 48)	1,328	-	-	-	1,328
At 31 December 2021	**22,814**	**1,991**	**298**	**-**	**25,103**
Charge for the year	7,370	-	50	-	7,420
Merger of company (note 48)	7,230	-	-	-	7,230
At 31 December 2022	**37,414**	**1,991**	**348**	**-**	**39,753**
NET BOOK VALUE					
At 31 December 2022	**15,043**	**-**	**246**	**12,081**	**27,370**
At 31 December 2021	**18,645**	**-**	**100**	**11,994**	**30,739**

(all amounts are expressed in thousands of kuna)

19. GOODWILL

	December 31 2022	December 31 2021
Cost	57,924	44,441
	57,924	**44,441**

	2022	2021
Cost		
Oppening balance	44,441	-
Acquisition of subsidiary	21,684	-
Impairment	(8,201)	-
Closing balance	**57,924**	**44,441**

The recoverable amount of cash-generating units is determined based on a value in use calculation. These calculations use cash flow projections based on financial plans approved by the Group's Management Board and cover a period of five years.
For the purposes of impairment test, goodwill has been allocated to the following cash-generating units:

	December 31 2022	December 31 2021
KIM TEC BG	29,251	29,251
KIM TEC BIH	-	8,201
Pakom Kompani	6,714	6,714
MR Servis	275	275
Alterna	21,684	-
Total	**57,924**	**44,441**

Due to the geopolitical situation and inflationary pressures, in 2022 there was a significant increase in interest rates and equity risk premium, which affected the growth of discount rates compared to last year, as shown in the table below. In addition to the significant growth of the discount rate, the expected cash flows of the company KIM TEC BiH were reduced due to the payment of costs for renting office and storage space, which was not the case in previous periods, due to the separation of the real estate segment (note 48). As a result of the aforementioned influences, it was necessary to adjust the value of the recognized goodwill in KIM TEC BiH in its entirety.
During November 2022, M SAN Group acquired the subsidiary Alterna distribucija (note 48). On December 31, 2022 the Group has not yet made the Purchase Price Allocation (PPA), and the amount of goodwill is recognized as the difference between the expected purchase price and the acquired net value of the asset on the date of acquisition. The sale price allocation will be made during 2023.

(all amounts are expressed in thousands of kuna)

19. GOODWILL (CONTINUED)

The calculations of the value in use of goodwill are based on the following assumptions of the discount rates after tax:

Cash generating units	2022	2021
KIM TEC BG	13.3%	11.9%
KIM TEC BIH	17.9%	13.3%
MR Servis	11.1%	8.4%
Pakom Kompani	14.6%	13.0%
Alterna	-	-

The Group performs an impairment test annually to assess whether the recoverable amount of goodwill shows a potential impairment of the carrying amount. The calculation of the recoverable amount of goodwill is based on a five-year plan of revenues that the Companies generate in local and foreign markets developed by the Group, taking into account corporate and marketing strategies, and relevant market trends.
The calculation of the recoverable amount implies terminal growth rates after a projection period of five years in range of 2.0% - 3.0% (2021 2.0% - 3.0%), depending on the industry in which the Company operates. The cash flows arising from these plans are discounted using a discount rate that reflects the return on the underlying assets, which is defined for the purposes of the goodwill impairment test as the weighted average cost of capital for the local market.

Value in use calculations for cash-generating units are most sensitive under the following assumptions:

Revenues and Gross Margins - Revenues and gross margins are based on average values achieved in the last few years before the start of the business plan period. The same are increased during the business plan period for the expected customer retention rate, business expansion, synergies, and efficiency improvements.
Average revenue growth rates in the business plan period range from 3.1% to 7.0% (2021: 3.5% to 7.6%). Discount rates represent the current assessment of market risks specific to cash-generating units. It is a benchmark used by the Group to assess business performance and to evaluate future investment proposals. The sensitivity analysis of the key assumptions used in the goodwill impairment test shows that an increase in the discount rate by 1 percentage point, with other assumptions unchanged, would not lead to an impairment of goodwill. Also, the value of goodwill would remain unchanged with a decrease in the terminal growth rate by 1 percentage point, with other assumptions unchanged, as well as with a decrease in expected free cash flow by 5 percentage points, with other assumptions unchanged.

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT

As of December 31 2022, the current value of the real estate on which the bank's mortgage was registered as loan insurance is HRK 0 thusand (2021: HRK 20,047 thousand). The mortgage on the said property amounts to HRK 0 (2021: HRK 42,474 thousand), while the amount owed on the said mortgages amounts to HRK 0 (HRK 23,729 thousand).

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Other assets	Right of use assets	Assets under construction	Total
COST								
At 1 January 2021	**214,073**	**54,177**	**1,325**	**12,607**	**1,650**	**13,112**	**383**	**297,327**
Additions	-	-	-	-	27	-	22,849	22,876
Transfer from assets under construction	10,253	8,239	434	1,150	10	2,745	(22,831)	-
Initial recognition of IFRS 16	-	-	-	-	-	2,253	-	2,253
Acquisition of an subsidiary (note 48)	43,678	31,207	-	212	1,912	9,280	7,005	93,294
Merger of a company (note 48)	-	1,673	-	25	25	-	-	1,723
Separation of subsidiary (note 48)	(104,588)	(10,445)	-	(256)	-	-	-	(115,289)
Disposals	(56)	(1,345)	(144)	(46)	-	(811)	-	(2,402)
Exchange differences	(523)	(33)	(5)	(8)	(1)	-	(8)	(578)
At 31 December 2021	**162,837**	**83,473**	**1,610**	**13,684**	**3,623**	**26,579**	**7,398**	**299,204**
Reclassification	-	-	10,889	-	-	(10,889)	-	-
Additions	-	-	-	-	-	17	26,077	26,094
Transfer from assets under construction	18	6,486	1,307	1,226	525	5,974	(15,382)	154
Loss of control of the subsidiary (note 48)	(96,749)	(26,892)	-	-	(2,414)	(11,170)	(16,504)	(153,729)
Acquisition of an subsidiary (note 48)	-	1,159	131	70	-	6,730	2	8,092
Separation of real estate segment (note 48)	(66,535)	(27)	-	(38)	-	-	(1,224)	(67,824)
Disposals	-	(14,448)	(1,479)	(15)	-	(105)	-	(16,047)
Exchange differences	429	88	8	14	5	22	14	580
At 31 December 2022	**-**	**49,839**	**12,466**	**14,941**	**1,739**	**17,158**	**381**	**96,524**

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Other assets	Right of use assets	Assets under construction	Total
ACCUMULATED DEPRECIATION								
At 1 January 2021	**90,264**	**47,035**	**96**	**11,748**	**1,047**	**11,204**	**-**	**161,394**
Charge for the year	1,353	3,411	186	357	173	1,593	-	7,073
Disposals	-	(1,241)	(41)	(43)	-	(728)	-	(2,053)
Acquisition of subsidiary (note 48)	63	20,041	-	212	132	2,018	-	22,466
Merger of a company (note 48)	-	1,489	-	20	18	129	-	1,656
Separation of subsidiary (note 48)	(76,687)	(7,855)	-	(364)	-	-	-	(84,906)
Exchange differences	(237)	(30)	(3)	(7)	-	-	-	(277)
At 31 December 2021	**14,756**	**62,850**	**238**	**11,923**	**1,370**	**14,216**	**-**	**105,353**
Reclassification	-	-	10,691	-	-	(10,691)	-	-
Depreciation for the year	607	6,749	639	519	226	2,943	-	11,683
Disposals	-	(10,129)	(1,120)	(39)	-	(13)	-	(11,301)
Acquisition of subsidiary (note 48)	-	720	98	42	-	3,458	-	4,318
Loss of control of the affiliated company (note 48)	(79)	(15,450)	-	-	(105)	(2,907)	-	(18,541)
Separation of real estate segment (note 48)	(15,339)	(3)	-	(2)	-	-	-	(15,344)
Exchange differences	55	60	2	13	-	6	-	136
At 31 December 2022	**-**	**44,797**	**10,548**	**12,456**	**1,491**	**7,012**	**-**	**76,304**
NET BOOK VALUE								
At 31 December 2022	**-**	**5,042**	**1,918**	**2,485**	**248**	**10,146**	**381**	**20,220**
At 31 December 2021	**148,081**	**20,623**	**1,372**	**1,761**	**2,253**	**12,363**	**7,398**	**193,851**

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

COMPANY	Land and buildings	Plant and equipment	Vehicles	Right of use assets	Office and other equipment	Leasehold improvements	Assets under construction	Total
COST								
At 1 January 2021	**11,535**	**35,645**	**-**	**5,732**	**6,412**	**438**	**-**	**59,762**
Additions	-	-	-	-	-	-	8,962	8,962
Transfer from assets under construction	-	6,875	-	402	975	10	(8,262)	-
Merger of a company (note 48)	-	1,673	-	367	25	25	-	2,090
Disposals	-	(1,185)	-	(471)	(36)	-	-	(1,692)
At 31 December 2021	**11,535**	**43,008**	**-**	**6,030**	**7,376**	**473**	**700**	**69,122**
Reclassification	-	-	4,938	(4,938)	-	-	-	-
Additions	-	-	-	-	-	-	1,947	1,947
Transfer from assets under construction	19	2,161	54	51	326	36	(2,647)	-
Merger of the company (note 48)	-	297	-	-	5	-	-	302
Separation of real estate segment (note 48)	(11,554)	-	-	-	-	-	-	(11,554)
Disposals	-	(7,063)	(590)	-	-	-	-	(7,653)
At 31 December 2022	**-**	**38,403**	**4,402**	**1,143**	**7,707**	**509**	**-**	**52,164**

As of December 31, 2022, the Company has no tangible assets on which a bank mortgage was registered as loan security (December 31, 2021, HRK 0 thousand).

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

COMPANY	Land and buildings	Plant and equipment	Vehicles	Right of use assets	Office and other equipment	Leasehold improvements	Assets under construction	Total
ACCUMULATED DEPRECIATION								
At 1 January 2021	**-**	**33,075**	**-**	**5,084**	**5,963**	**264**	**-**	**44,386**
Charge for the year	-	1,923	-	306	187	89	-	2,505
Disposals	-	(1,160)	-	(471)	(36)	-	-	(1,667)
Merger of a a subsidiary (note 48)	-	1,489	-	129	20	18	-	1,656
At 31 December 2021	**-**	**35,327**	**-**	**5,048**	**6,134**	**371**	**-**	**46,880**
Reclassification	-	-	4,780	(4,780)	-	-	-	-
Depreciation for the year	-	3,587	66	256	281	94	-	4,284
Disposals	-	(3,081)	(503)	-	-	-	-	(3,584)
Merger of a subsidiary (note 48)	-	260	-	-	5	-	-	265
At 31 December 2022	**-**	**36,093**	**4,343**	**524**	**6,420**	**465**	**-**	**47,845**
NET BOOK VALUE								
At 31 December 2022	**-**	**2,310**	**59**	**619**	**1,287**	**44**	**-**	**4,319**
At 31 December 2021	**11,535**	**7,681**	**-**	**982**	**1,242**	**102**	**700**	**22,242**

(all amounts are expressed in thousands of kuna)

21. FINANCIAL ASSETS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Investments in subsidiaries	-	-	139,790	129,176
Investments in associates	114,241	44,355	41,500	41,500
	114,241	**44,355**	**181,290**	**170,676**

21.1. INVESTMENTS IN SUBSIDIARIES

Set out in the table below are the Company's subsidiaries, together with the Company's ownership interests:

Name of subsidiary	Principal activity	Country of incorporation and business	Ownership share and share in the voting power		Amount	
			31.12. 2022	31.12. 2021	31.12.2022	31.12.2021
			%	%		
Kim Tec Vitez d.o.o.	DISTRIBUTION	Bosnia and Herzegovina	100	100	6,590	6,590
Kim Tec BG d.o.o.	DISTRIBUTION	Serbia	100	100	61,556	61,556
Kim Tec CG d.o.o.	DISTRIBUTION	Montenegro	100	100	11,698	11,698
Pakom Kompani d.o.o.	DISTRIBUTION	Macedonia	100	100	17,784	17,784
M San Eko d.o.o.	COLLECTION AND DISTRIBUTION OF WASTE	Croatia	100	100	500	500
MR SERVIS d.o.o.	MAINTENANCE	Croatia	60	60	11,510	11,510
M San Logistika d.o.o.	LOGISTICS	Croatia	100	100	20	20
Centar kompetencija za zelenu energiju d.o.o.	CONSULTING	Croatia	100	-	750	-
Zelena Agenda 1.0 d.o.o.	CONSULTING	Croatia	100	100	1,000	1,000
Corvus Info d.o.o.	IT	Croatia	-	100	-	2,129
Kim Tec Nekretnine BG d.o.o.	REAL ESTATE	Serbia	-	100	-	16,389
Corvus MK	IT	North Macedonia	100	-	38	-
Alterna distribucija d.o.o.	DISTRIBUTION	Slovenia	100	-	28,344	-
					139,790	**129,176**

During 2021, the Company and the Group decided to disinvest the real estate segment from its portfolio. Subsidiary company Kim Tec BG d.o.o. separated the economic activity of real estate in such a way that part of the assets, capital and liabilities are transferred to the new company, based on the agreement on division and takeover. The distribution report indicates the part of the property that is transferred to the company Kim Tec Nekretnine BG d.o.o. where the real estate business segment was separated. The total value of assets amounted to HRK 23,885 thousand, share capital HRK 160 thousand, retained earnings HRK 16,211 thousand, and liabilities to credit institutions HRK 7,514 thousand.

21. FINANCIAL ASSETS (CONTINUED)

21.1. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

As the Company is the only member of the subsidiary Kim Tec BG d.o.o. there was no change in the ownership structure of Kim Tec Nekretnine BG d.o.o. as a result of the separation of the subsidiary company.

In November 2021, the Company founded the company Zelena Agenda 1.0 d.o.o. thereby acquiring a share in ownership and voting rights in the amount of 100%.

In the same month, based on the Agreement on division and takeover, the Company carried out the separation of the agriculture segment in PD Modriča by transferring its assets to the company Agro Invest Grupa d.o.o. The Company carried out the division with the takeover according to book values and had no effects from the sale.

In December 2021, the Company merged the related company M San Ulaganja d.o.o. based on the Merger Agreement dated December 28, 2021 and the Decision of the Assembly of the merged company and the acquiring Company and thereby acquired a 100% share in ownership and voting rights in the subsidiary Corvus Info d.o.o.

In December 2022, based on the Merger Agreement dated December 28, 2022 and the Decision of the Assembly of the merged company and the acquiring company, the company merged the related company Corvus info d.o.o. and thereby acquired a 100% share in ownership and voting rights in the subsidiary company Korvus MK d.o.o.

All business combinations are described in more detail in note 48.

(all amounts are expressed in thousands of kuna)

21. FINANCIAL ASSETS (CONTINUED)

21.2. INVESTMENTS IN ASSOCIATES

The table below contains an overview of investments in associated companies as of December 31, 2022 and December 31, 2021:

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Shares in the company EKO Bosanska Posavina	72,016	-	-	-
Shares in the company E Kupi d.o.o.	42,190	44,355	41,500	41,500
	114,206	**44,355**	**41,500**	**41,500**

In April 2021, the Company sold its share in the affiliated company Ventex d.o.o. Compensation for the sale of the company was received in the amount of HRK 560 thousand and a loss from sales was realized in the amount of HRK 4,124 thousand (note no. 15.2). The group attributed the result of the associated company until April 30, 2021 in the amount of HRK 293 thousand (note 16).

Information about the Group's affiliated companies is given below:

Name of associate	Principal activity	Place of incorporation and business	Ownership and share in the voting rights	
			2022	2021
E Kupi d.o.o.	E-commerce	Zagreb	24%	24%
EKO Bosanska Posavina	Agriculture	Derventa	60%	-

In November 2021, the Group recapitalized the associated company EKO Bosanska Posavina in the amount of HRK 56,873 thousand, thereby acquiring an ownership share and voting rights in the amount of 82%. During 2022, the share in ownership and voting rights of the Group in the mentioned company was reduced, which is described in more detail in note 48.
Company E kupi d.o.o. was founded in 2010. In 2016, the company acquired a 24% stake in this associated company.

The Group concluded that all companies represented or represent associated companies since the Group does not have control over those companies in which the investment was made. Shares and shares of the mentioned companies are not listed on active markets.

(all amounts are expressed in thousands of kuna)

21. FINANCIAL ASSETS (CONTINUED)

21.2. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following is a summary of the financial information relating to the associate E kupi d.o.o. and Eko Bosanska Posavina d.o.o. for 2022:

	E Kupi	Eko Bosanska Posavina	Total
Property, plant and equipment	1,863	137,824	139,687
Intangible assets	8,495	-	8,495
Other non-current assets	6,581	-	6,581
Inventories	47,599	15,919	63,518
Trade receivables	18,564	16,092	34,656
Cash and cash equivalents	5,640	5,641	11,281
Other current assets	6,196	3,455	9,651
Non-current liabilities	1,200	15,380	16,580
Current liabilities	90,796	11,091	101,887
Net assets of associates	2,942	152,460	155,402
Group's share in the net assets of the associates	**706**	**91,476**	**92,182**
Total income	378,149	2,238	380,387
Total loss for the current year	(9,020)	(315)	(9,335)
Group's share in the profit of the associates (note 16)	**(2,165)**	**(189)**	**(2,354)**

(all amounts are expressed in thousands of kuna)

22. INVENTORIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Merchandise	311,871	178,670	156,796	74,782
Goods in the customs warehouse	91,327	55,856	89,519	53,920
Goods in transit	44,591	33,121	41,780	32,232
Other	15,609	11,767	11,003	382
Total	**463,398**	**279,414**	**299,098**	**161,316**

23. PREPAYMENTS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Prepayments for services	10,633	20,942	9,805	18,656
Prepayments for goods	1,511	13,638	129	4,059
Other	-	111	-	-
Total	**12,144**	**34,691**	**9,934**	**22,715**

24. TRADE RECEIVABLES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Domestic trade receivables	352,593	301,381	166,214	134,490
Foreign trade receivables	52,489	36,085	85,970	96,126
Impairment allowance on trade receivables	(8,721)	(10,140)	(1,840)	(1,720)
Total	**396,361**	**327,326**	**250,344**	**228,896**

(all amounts are expressed in thousands of kuna)

24. TRADE RECEIVABLES (CONTINUED)

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2022	2021	2022	2021
At 1 January	10,140	25,656	1,720	17,360
Impairment allowance (note 13)	874	756	520	312
Reversed on collection (note 6)	(109)	(16,298)	(95)	(16,016)
Write-off receivables	(2,112)	-	(305)	-
Exchange differences	(72)	26	-	64
At 31 December	**8,721**	**10,140**	**1,840**	**1,720**

During 2021, the Company recapitalized the related party Kim Tec inženjering Slovenija in the amount of HRK 16,106 thousand and thus took control over it. As the stated subsidiary at that time had a debt to the Company in the amount of HRK 15,960 thousand, it was settled in full. Given that the subsidiary was without operating operations at that time, the same had an impact on the Group's operations in 2021 (during the period when the Company had a control). The mentioned company was sold in 2021 and a loss in the amount of HRK 15,858 thousand was recognized. In the income statement of the Group and the Company, this amount of loss is netted off with the income from the collection of value adjusted receivables in the amount of HRK 15,960 thousand and a net effect was recognized for the Company and the Group in the amount of HRK 102 thousand.

Aging structure of trade receivables (net)

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Undue	319,644	248,296	180,052	160,902
Up to 60 days	52,811	61,508	55,047	60,537
61-90 days	3,533	6,897	2,602	3,177
91-120 days	6,435	2,925	5,366	1,495
121-365 days	13,699	7,262	7,112	2,515
More than 366 days	239	438	165	270
Total	**396,361**	**327,326**	**250,344**	**228,896**

The average receivables collection period in the Group in 2022 was 44 days (2021: 43 days), while in the Company it was 36 days (2021: 37 days).

(all amounts are expressed in thousands of kuna)

25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
VAT prepayments	4,223	5,944	125	386
Income tax advances	2,963	5,134	795	4,993
Receivables for other taxes, contributions and membership fees	708	48	8	-
Customs duty prepayments	54	53	-	-
VAT recivables in Slovenia	-	83	-	83
Other	577	504	64	37
Total	**8,525**	**11,766**	**992**	**5,499**

26. GIVEN LOANS AND DEPOSITS

Long-term loans and deposits:

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Loans to corporate entities	18,300	18,300	18,300	18,300
Given deposits to unrelated parties	163	173	-	-
Total	**18,463**	**18,473**	**18,300**	**18,300**

	Original currency	Amount	Due date	December 31 2022	December 31 2021
Company					
Loans to corporate entities					
Related parties					
Baks grupa d.o.o.	HRK	18,309	31.12.2024	18,300	18,300
Total				**18,300**	**18,300**

Loan given to Baks grupa d.o.o. is presented within the non-current assets considering the expected maturity date (above 1 year).

(all amounts are expressed in thousands of kuna)

26. GIVEN LOANS AND DEPOSITS (CONTINUED)

Short-term loans and deposits:

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Loans to corporate entities	2,465	3,195	4,588	4,365
Given deposits to unrelated parties	2,338	2,333	2,260	2,255
Loans to individuals	133	1,537	130	1,537
Impairment of domicile loans given	-	-	(2,000)	-
Total	**4,936**	**7,066**	**4,978**	**8,157**

	Original currency	Amount	Due date	December 31 2022	December 31 2021
Loans to entities within group					
Company					
M SAN EKO d.o.o.	HRK	2,000	31.12.2023	3,954	3,226
MR SERVIS d.o.o.	HRK	230	31.12.2023	-	250
Total				**3,954**	**3.476**
Loans to other entitites					
Third parties					
Castalia projekt d.o.o.	HRK	3,600	31.12.2023	634	889
Total				**634**	**889**
Total short term loans to corporate entities - Company				**4,588**	**4,365**
Group					
M SAN GRUPA d.o.o.					
Third parties					
Castalia projekt d.o.o.	HRK	3,600	31.12.2023	634	889
Total				**634**	**889**
ALTERNA					
Individuals	EUR	900	31.12.2023	7	-
Total				**7**	**-**
KIM TEC BG d.o.o.					
Kim Tec BiH Nekretnine	RSD	20,000	30.11.2023	1,285	-
Total				**1,285**	**-**
KIM TEC BIH d.o.o.					
Kim Tec BiH Nekretnine	KM	240	31.12.2023	539	-
Ekupi BIH d.o.o.	KM	600	31.12.2022	-	2,306
Total				**539**	**2,306**
Total short term loans to corporate entities - Group				**2,465**	**3,195**

(all amounts are expressed in thousands of kuna)

26. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Amount	Due date	December 31 2022	December 31 2021
Loans to individuals					
Company					
Individuals				130	1,537
Total				**130**	**1,537**
Group					
M SAN GRUPA d.o.o.					
Individuals				130	1,537
Total				**130**	**1,537**
PAKOM					
Individuals				3	-
Total				**3**	**-**
Total amount of loans to individuals				**133**	**1,537**
Total amount of loans to individuals - Company				**130**	**2,255**
Total amount of loans to individuals - Group				**2,338**	**2,333**
TOTAL AMOUNT OF LOANS - COMPANY				**4,718**	**8,157**
TOTAL AMOUNT OF LOANS - GROUP				**4,936**	**7,065**

(all amounts are expressed in thousands of kuna)

27. PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Accrued income for subsequently approved discounts	9,354	4,374	3,087	1,350
Prepaid expenses	2,128	3,181	47	337
Accured overdue revenues	38	72	-	-
Accrued uninvoiced income	-	31	-	-
Total	**11,520**	**7,658**	**3,134**	**1,687**

	GROUP		COMPANY	
	2022	2021	2022	2021
At 1 January	7,658	6,604	1,687	1,783
Cumulated during the year	53,460	28,579	16,090	4,429
Used during the year	(50,297)	(27,965)	(14,643)	(4,525)
Unused amounts reversed	699	440	-	-
At 31 December	**11,520**	**7,658**	**3,134**	**1,687**

28. OTHER RECEIVABLES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Interest receivable	2,429	5,600	2,437	5,607
Receivables for spare parts within the warranty period	1,672	-	-	-
Receivables for supplier complaints	579	617	579	-
Receivables acquired by debt acquisition	273	-	-	-
Receivables on acquired cession agreements	267	2,228	-	-
Receivables for return of goods	-	471	-	378
Other receivables	392	321	160	709
Total	**5,613**	**9,237**	**3,176**	**6,694**

Interest receivables are presented as follows:

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Receivables for interests on loans	2,162	5,600	2,170	5,607
Receivables for contracted interests	267	-	267	-
Total	**2,429**	**5,600**	**2,437**	**5,607**

(all amounts are expressed in thousands of kuna)

29. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Cash in banks	109,410	97,668	74,534	65,047
Petty cash	39	12	9	-
Total	**109,449**	**97,680**	**74,543**	**65,047**

30. SHARE CAPITAL

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Nominal value	109,198	109,198	109,198	109,198
Total	**109,198**	**109,198**	**109,198**	**109,198**

The share capital consists of 485,000 business shares, each business share in the nominal amount of HRK 200.00, which are paid in full in cash.

In December 2021, based on the Merger Agreement, the Company merged the related party M San Ulaganja d.o.o., and thus additionally acquired 1 business share in the nominal amount of HRK 12,198 thousand which is paid in full in rights (Note 48).

31. RETAINED EARNINGS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Retained earnings	184,534	238,207	10,654	49,384
Total	**184,534**	**238,207**	**10,654**	**49,384**

	GROUP	COMPANY
Balance as of December 31 2021	**238,207**	**49,384**
Separation of real estate part of business (note 48)	(44,809)	(39,677)
Non-controlling interests increase (note 48)	(4,561)	-
Merger of a company (note 48)	-	(1,698)
Transfer of control in an affiliated company (note 48)	(15,638)	-
Profit for the year	11,044	2,645
Other comprehensive income	291	-
Balance as of December 31 2022	**184,534**	**10,654**

(all amounts are expressed in thousands of kuna)

32. LEGAL RESERVES

The legal reserves of the Group and the Company are shown in the amount of HRK 16,726 thousand.

33. MINORITY INTEREST

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Minority interest	473	20,885	-	-
Total	**473**	**20,885**	**-**	**-**

	EKO BOSANSKA POSAVINA	MR SERVIS	KIM TEC BIH EKO	TOTAL
At 31 December 2021	**20,901**	**(303)**	**287**	**20,885**
Capital increase (note 48)	5,410	-	-	**5,410**
Non-controlling interests increase (note 48)	33,611	-	-	**33,611**
Transfer of control in an affiliated company (note 48)	(61,111)	-	-	**(61,111)**
Total profit for the current year	1,139	515	(26)	**1,628**
Other comprehensive income	50	-	-	**50**
At 31 December 2022	**-**	**212**	**261**	**473**

34. PROVISIONS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Long-term provisions for risks within the warranty period	6,087	3,369	4,764	1,672
Provisions for returns	1,251	1,087	1,116	979
Lont-term provisions for bonuses and severance pay	302	-	-	-
Total	**7,640**	**4,456**	**5,880**	**2,651**

Changes in provisions can be shown as:

	GROUP		COMPANY	
	2022	2021	2022	2021
At 1 January	**4,456**	**3,742**	**2,651**	**2,006**
Increases	7,020	1,199	5,879	645
Decreases	(4,009)	(482)	(2,650)	-
Exchange rate differences	173	(3)	-	-
At 31 December	**7,640**	**4,456**	**5,880**	**2,651**

(all amounts are expressed in thousands of kuna)

34. PROVISIONS (CONTINUED)

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Short-term reservations for bonuses	3,351	-	1,871	-
Short-term reservations for unused vacations	1,129	968	499	389
Total	**4,480**	**968**	**2,370**	**389**

Changes in provisions in 2022 and 2021 can be shown as follows:

	GROUP		COMPANY	
	2022	2021	2022	2021
At 1 January	**968**	**-**	**389**	**-**
Increases	3,564	969	1,981	389
Exchange rate differences	(52)	(1)	-	-
At 31 December	**4,480**	**968**	**2,370**	**389**

35. LONG-TERM LOANS AND FINANCE LEASE LIABILITIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Total loans from financial institutions	26,733	44,086	16,113	-
Less: current portion of loans from financial institutions	(7,837)	(12,692)	(3,276)	-
Total long-term loans from financial institutions	**18,896**	**31,394**	**12,837**	**-**

(all amounts are expressed in thousands of kuna)

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

Financial institution	Original currency	Amount	Due date	December 31 2022	December 31 2021
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD	EUR	4,000	12.10.2026	7,480	9,294
NLB Razvojna banka	EUR	1,500	19.06.2023	-	3,843
Total				**7,480**	**13,137**
KIM TEC BIH d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	2,500	28.02.2024	3,140	5,816
Total				**3,140**	**5,816**
EKO BOSANSKA POSAVINA d.o.o.					
ProCredit Bank d.d.	KM	535	18.06.2026	-	1,902
ProCredit Bank d.d.	KM	220	18.06.2027	-	820
ProCredit Bank d.d.	KM	2,900	13.07.2028	-	7,732
ProCredit Bank d.d.	KM	250	19.06.2025	-	688
ProCredit Bank d.d.	KM	400	05.04.2027	-	1,067
Total				**-**	**12,209**
KIM TEC BIH NEKRETNINE d.o.o.					
Intesa Sanpaolo Banka d.d.	KM	1,431	11.11.2026	-	5,409
Total				**-**	**5,409**
KIM TEC BG NEKRETNINE d.o.o.					
ProCredit Bank AD.	EUR	1,000	01.11.2026	-	7,515
Total				**-**	**7,515**

Financial institution	Original currency	Amount	Due date	December 31 2022	December 31 2021
M SAN GRUPA d.o.o.					
ERSTE & STEIERMARKISCHE BANK d.d.	EUR	2,175	20.12.2027	16,113	-
Total				**16,113**	**-**
Total long-term loans from financial institutions				**26,733**	**44,086**
Less: Current portion				**(7,837)**	**(12,692)**
Total				**18,896**	**31,394**

(all amounts are expressed in thousands of kuna)

35.1. LONG-TERM LIABILITIES FOR RIGHT-OF-USE ASSETS

Liabilities movement for right-of-use assets

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
At 1 January	**9,968**	**2,325**	**920**	**742**
Interest expense	398	133	25	21
Additions	6,747	9,322	59	503
Payment of rental obligations	(1,857)	(1,836)	(447)	(346)
Postings (termination of consolidation EKO BP, note 48)	(4,462)	-	-	-
Exchange rate differences	-	24	-	-
At 31 December	**10,794**	**9,968**	**557**	**920**
Current portion of lease liabilities	3,827	3,577	371	263
Non-current portion of lease liabilities	6,967	6,391	186	657

Amounts recognized in the statement of comprehensive income

	GROUP		COMPANY	
	2022	**2021**	**2022**	**2021**
Amortization	2,943	1,593	256	306
Interest expense	398	133	25	21
The cost of short-term lease etc.	31,158	20,370	8,786	5,684
Exchange rate differences	6	-	-	-
Total amount recognized in (profit)/loss	**34,505**	**22,096**	**9,067**	**6,011**

The Group uses part of the leases of business and warehouse spaces and vehicles that do not meet the recognition requirements in accordance with IFRS 16, and the stated cost is shown above as a short-term lease cost.

Defining the lease period

The definition of the lease period is determined by the irrevocable lease period, taking into account the option of extension and termination of the lease agreement, to which the lessee has the right only. In accordance with the company's business policies and concluded contracts, the total rental period cannot be shorter than 1 year or longer than 10 years. The company regularly, and at least once a year, assesses whether the economic circumstances related to the extension or termination of the lease contract have changed, whereby it adjusts the original estimate of the lease period.

Contracts with variable installments

During the year ending December 31, 2022 and December 31, 2021, the Group did not pay rents with variable installments.

(all amounts are expressed in thousands of kuna)

36. SHORT-TERM LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Short-term bank loans	150,148	24,214	119,880	-
Obligations for loans	-	-	750	-
Total	**150,148**	**24,214**	**120,630**	**-**
Current part of long-term loan obligations	7,837	12,692	3,276	-
Total	**157,985**	**36,906**	**123,906**	**-**

Short term loans liabilities

GROUP:

Financial institutions	Original currency	Amount	Due date	December 31 2022	December 31 2021
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	BAM	2,000	14.06.2023	7,697	7,687
Intesa Sanpaolo Banka d.d.	BAM	2,000	13.12.2023	7,705	7,687
NLB Tuzlanska banka d.d.	BAM	500	30.06.2023	1,926	1,921
Bosna Bank International d.d.	BAM	1,800	20.06.2023	6,934	6,919
Total				**24,262**	**24,214**
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	MKD	36,000	20.01.2023	732	-
Total				**732**	**-**
KIM TEC BG d.o.o.					
NLB Komercijalna banka	EUR	2,000	28.06.2023	5,274	-
Total				**5,274**	**-**
Total short-term borrowings				**30,268**	**24,214**
Plus: Current portion of loans from financial institutions				7,837	12,692
Total current portion of long-term borrowings and short-term loans				**38,105**	**36,906**

(all amounts are expressed in thousands of kuna)

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

COMPANY

Financial institutions	**Original currency**	**Amount**	**Due date**	**December 31 2022**	**December 31 2022**
Zagrebačka banka d.d.	EUR	6,000	24.05.2023	45,207	-
Nova hrvatska banka d.d.	EUR	5,000	31.03.2023	37,000	-
Erste banka d.d.	EUR	5,000	23.06.2023	37,673	-
Total				**119,880**	**-**
Plus: Current portion of loans from financial institutions				3,276	-
Total current portion of long-term borrowings and short-term loans				**3.276**	**-**

Liabilities for borrowings

COMPANY	**Original currency**	**Amount**	**Due date**	**December 31 2022**	**December 31 2022**
M SAN GRUPA d.o.o.					
Liabilities for loans from the company - Zelena Agenda	HRK	750	31.12.2023	750	-
Total				**750**	**-**
Total liabilities - Company				**750**	**-**
Total liabilities - Group				**-**	**-**
Total short-term credits and loans Company:				**123,906**	**-**
Total short-term credits and loans Group:				**157,985**	**36,906**

(all amounts are expressed in thousands of kuna)

37. LONG-TERM BOND LIABILITIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Long-term bond liabilities	180,000	200,000	180,000	200,000
Current portion of non-current Bond payables	(20,000)	(20,000)	(20,000)	(20,000)
Total	**160,000**	**180,000**	**160,000**	**180,000**

In July 2021, the Company issued corporate bonds in the amount of HRK 200 million at the issue price of 99.742%, with a coupon of 2.000% per annum with semi-annual interest payments and semiannual amortization of maturity in the amount of 5% of the nominal value of the issue and 55% of the nominal value on final maturity, July 20, 2026. The purpose of these bonds is to refinance the financial debt of the parent company and to finance the development of its own brand and expand logistics capacities.

38. OTHER LONG-TERM LIABILITIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Long-term liabilities to insurance companies	84	-	84	-
Long-term liabilities for the purchase of a business share (note 48.2)	7,884	-	7,884	-
Other long-term liabilities	49	-	-	-
Total	**8,017**	**-**	**7,968**	**-**

39. ADVANCES RECEIVED

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Advances received - domestic customers	7,126	9,734	3,498	5,096
Advances received - foreign customers	2,268	763	9,401	762
Total	**9,394**	**10,497**	**12,899**	**5,858**

(all amounts are expressed in thousands of kuna)

40. TRADE PAYABLES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Foreign trade payables	313,132	294,353	237,870	266,368
Domestic trade payables	152,177	71,468	115,636	50,798
Total	**465,309**	**365,821**	**353,506**	**317,166**

41. TAXES, CONTRIBUTIONS AND OTHER SIMILAR DUTIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
VAT liabilities	23,146	22,489	18,909	21,482
Liabilities for taxes and contributions from and on salaries	4,624	4,595	2,047	1,454
Customs payable	1,559	2,606	250	384
Liabilities for memberships, contributions and other taxes	530	430	238	100
VAT liabilities (Slovenia)	486	-	486	-
Total	**30,345**	**30,120**	**21,930**	**23,420**

42. FACTORING LIABILITIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Factoring liabilities	23,786	21,141	4,791	8,436
Total	**23,786**	**21,141**	**4,791**	**8,436**

Some of the suppliers offer modular payment due dates, where the company has the option of payment in contractual due date period and the option of payment in shorter terms, whereby receiving certain discounts for early payment. In such options, the company occasionally uses factoring payments, whereby the costs of factoring for a previously made payment represent a lower cost than the amount of the casa sconto and thus achieves additional savings.

(all amounts are expressed in thousands of kuna)

43. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Short-term provisions for bonuses	3,352	-	1,871	-
Bond interest liabilities	1,604	1,783	1,604	1,783
Interest loan payables	1,398	797	1,315	752
Reserves for accruals unused vacation days	1,129	968	499	389
Liabilities for the purchase of business share – Alterna Distribucija	4,161	-	4,161	-
Other	239	125	8	44
Total	**11,883**	**3,673**	**9,458**	**2,968**

44. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Unbilled invoices	11,682	6,276	4,647	3,649
Accrued income	564	515	172	377
Late payment interest income	3	4	-	-
Deferred state subsidy income	-	937	-	-
Other	184	132	-	-
Total	**12,433**	**7,864**	**4,819**	**4,026**

Changes in accrued expenses and deferred income can be shown as:

	GROUP		COMPANY	
	2022	2021	2022	2021
At 1 January	**7,864**	**4,748**	**4,026**	**2,083**
Cumulated during year	214,164	114,739	178,504	92,895
Utilised over year	(210,132)	(111,661)	(177,711)	(91,017)
Separation of real estate part of business (note 48)	(1,076)	-	-	-
Acquisition of a subsidiary (note 48)	1,587	-	-	-
Discontinued during the year	27	38	-	65
At 31 December	**12,434**	**7,864**	**4,819**	**4,026**

(all amounts are expressed in thousands of kuna)

45. RELATED-PARTY TRANSACTIONS

The table below shows Company's receivables and payables from transactions with its subsidiaries in purchase transactions at December 31 2022 and December 31 2021:

	Receivables		Liabilities	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Kim Tec d.o.o., Vitez	21,237	19,513	-	-
Kim Tec d.o.o., Beograd	16,836	39,767	-	(839)
Pakom Kompani d.o.o.e.l., Skopje	3,201	1,554	(37)	-
Alterna distribucija d.o.o., Ljubljana	2,570	-	-	-
M San Eko d.o.o.	43	6	-	-
Kim Tec BG Servis d.o.o	2	-	-	-
Kim Tec BiH Servis d.o.o.	2	1	-	-
M San Logistika d.o.o.	-	393	(4,321)	-
MR Servis d.o.o.	-	143	(1,925)	(1,024)
Kim Tec CG, Podgorica	-	2,460	(7,329)	-
	43,891	**63,837**	**(13,612)**	**(1,863)**

The table below shows the receivables and payables that the Company had with associates and companies with a common ultimate owner in sales transactions on December 31 2022 and 2021:

	Receivables		Liabilities	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Ekupi d.o.o.,	65,089	56,560	-	(2,726)
Ask Tec d.o.o., Priština	22,880	15,568	-	(767)
King ICT d.o.o.	7,228	41	(752)	(1,267)
Centar kompetencije za zelenu energiju d.o.o.	522	-	-	-
PP Orahovica d.o.o.	42	299	-	(246)
Corvus pay d.o.o.	41	-	(506)	(1)
Pametna energija d.o.o.	1	-	-	-
Kim Tec Nekretnine d.o.o., Beograd	1	1	-	-
MS Industrial Kina	-	4,114	111	(363)
Corvus Info d.o.o.	-	1,160	-	-
Planet IX.d.o.o.	-	913	-	-
PPK Valpovo d.o.o.	-	163	-	-
Ventex d.o.o.	-	117	-	-
M San Nekrenine d.o.o.	-	45	(987)	(76)
Omega Software d.o.o.	-	-	(819)	27
Korvus MK d.o.o.e.l. ,Skopje	-	-	(97)	-
Baks grupa d.o.o.	-	5	-	-
King ICT d.o.o.e.l., Skopje	-	3	-	-
Aktivis d.o.o.,	-	-	(119)	(25)
Eko Bosanska Posavina d.o.o., Derventa	-	86	-	-
Ured za podršku d.o.o.	-	-	(5,325)	(1,895)
	95,804	**79,075**	**(8,494)**	**(7,339)**

(all amounts are expressed in thousands of kuna)

45. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below shows the income and expenses that the Company had in sales transactions with subsidiaries in 2022 and 2021:

	Income /sale		Expenses		Purchase value of goods	
	2022	2021	2022	2021	2022	2021
Kim Tec d.o.o., Beograd	321,152	296,867	4	14,973	2,955	3,185
Kim Tec d.o.o., Vitez	152,254	120,393	111	5,394	1,092	1,297
Pakom Kompani d.o.o.e.l., Skopje	107,913	85,276	-	2,251	4,382	232
Kim Tec CG, Podgorica	71,825	47,275	58	1,400	7	172
MR Servis d.o.o.	6,541	4,368	9,851	7,063	245	1,567
Alterna distribucija d.o.o., Ljubljana	2,584	-	-	-	-	-
M San Logistika d.o.o.	469	1,797	45,632	33,423	-	-
M San Eko d.o.o.	93	6	-	1	-	-
Kim Tec BG Servis d.o.o	29	-	6	-	-	-
Kim Tec BiH Servis d.o.o.	10	1	-	-	-	-
Kim Tec BiH Eko d.o.o.	1	-	-	-	-	-
Zelena Agenda d.o.o.	-	-	15	1	-	-
	662,871	**555,983**	**55,677**	**64,506**	**8,681**	**6,453**

(all amounts are expressed in thousands of kuna)

45. RELATED-PARTY TRANSACTIONS (CONTINUED)

The income and expenses of the Company from purchase/sales transactions with its associates and entities with the same ultimate owner during 2022 and 2021 were as follows:

	Income /sale		Expenses		Purchase value of goods	
	2022	2021	2022	2021	2022	2021
Ekupi d.o.o.	259,646	303,683	19,667	22,083	368	946
King ICT d.o.o.	97,429	81,379	675	321	208	143
Ask Tec d.o.o., Priština	50,139	33,996	-	2,905	-	1,489
Pametna energija d.o.o.	15,950	1,810	-	-	-	-
PPK Valpovo d.o.o.	15,409	192	-	471	-	-
PP Orahovica d.o.o.	12,817	1,860	351	476	-	-
Omega Software d.o.o.	4,567	33	1,409	-	9,219	-
Ured za podršku d.o.o.	664	293	23,103	19,488	-	-
M San Nekrenine d.o.o.	592	174	5,262	4,169	-	-
Centar kompetencije za zelenu energiju d.o.o.	448	-	-	-	-	-
Planet IX .d.o.o.	272	843	-	-	-	-
Aktivis d.o.o.	136	117	196	20	-	-
Corvus pay d.o.o.	64	12	4	5	-	-
Kim Tec Nekretnine d.o.o., Beograd	6	1	-	-	-	-
King ICT d.o.e.l., Skopje	4	3	-	-	-	-
KING ICT d.o.o., Boograd	2	-	-	-	-	-
King ICT d.o.o., Sarajevo	2	-	-	3	-	-
Baks grupa d.o.o.	1	4	-	-	-	-
Poljoprivrednik d.o.o. Derventa	1	-	-	-	-	-
Ekupi d.o.o., Beograd	1	-	-	-	-	-
MS Industrial Kina	-	-	4,715	3,162	60,901	65,206
Ventex d.o.o.	-	6,967	-	2,180	-	-
M San Ulaganja d.o.o.	-	1,205	-	-	-	-
Corvus Info d.o.o.	-	967	-	368	-	-
Korvus MK d.o.o.e.l., Skopje	-	-	156	-	-	-
Eko Bosanska Posavina d.o.o., Derventa	-	86	-	-	-	-
	458,150	**433,625**	**55,538**	**55,651**	**70,696**	**67,784**

The table below presents receivables and revenue of the Company from loan transactions with its subsidiaries at 31 December 2022 and 2021:

	Receivables		Income	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
M San Eko d.o.o.	3,963	3,234	98	89
MR Servis d.o.o.	-	251	4	73
M San Logistika d.o.o.	-	-	27	101
	3,963	**3,485**	**129**	**263**

(all amounts are expressed in thousands of kuna)

45. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from loan transactions with its associates and entities with the same ultimate owner at 31 December 2022 and 2021:

	Receivables		Income	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Baks Grupa d.o.o.	19,339	22,728	490	549
M San Ulaganja d.o.o.	-	-	-	176
Litus Projekt d.o.o.	-	-	-	16
Ured za podršku d.o.o., Zagreb	-	-	-	9
	19,339	**22,728**	**490**	**750**

The table below presents liabilities and expenses of the Company from loan transactions with its subsidiaries at 31 December 2022 and 2021:

	Liabilities		Expenses	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Zelena Agenda 1.0 d.o.o.	779	-	-	-
M San Logistika d.o.o.	-	-	1	-
	779	**-**	**1**	**-**

The table below presents the liabilities and expenses that the Company had with its associates and entities with the same ultimate owner from loan transactions as at 31 December 2022 and 2021:

	Liabilities		Expenses	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
PP Orahovica d.o.o.	762	12	860	9
PPK Valpovo d.o.o.	468	474	693	471
King ICT d.o.o.	71	-	351	58
M San Nekrenine d.o.o.	-	266	-	-
MS Industrial Kina	-	-	-	5
Pametna energija d.o.o.	-	-	131	-
	1,301	**752**	**2,035**	**543**

Management remuneration through the year were as it follows:

	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Short-term income - gross	7,720	7,926	4,936	4,147
Total	**7,720**	**7,926**	**4,936**	**4,147**

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS

46.1. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's capital consists of debt, which includes loans and borrowings disclosed in Notes 34 and 35 and issued corporate bonds disclosed in Note 37, less cash and cash equivalents (the so-called net debt) and equity, which comprises share capital, reserves and retained earnings as reported in the statement of changes in equity.

46.1.1. Gearing ratio

Gearing ratio at the end of the reporting period:

	GROUP		COMPANY	
	December 31 2022	**December 31 2021**	**December 31 2022**	**December 31 2021**
Debt	356,881	268,300	316,743	200,000
Less: cash in banks and petty cash	(109,449)	(97,680)	(74,543)	(65,047)
	247,432	**170,620**	**242,200**	**134,953**
Equity	306,064	379,444	135,999	174,729
Gearing ratio	**80.84%**	**44.97%**	**178.09%**	**77.24%**

Debt consists of long-term loansand finance lease payables and short-term loans from financial institutions.

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.1. Capital risk management (continued)

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

46.1.2. Categories of financial instruments

	GROUP		COMPANY	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021
Financial assets				
Cash and cash equivalents	109,449	97,680	74,543	65,047
Loans and receivables	437,816	397,057	286,952	284,978
Total financial assets	**547,265**	**494,737**	**361,495**	**350,025**
Financial liabilities				
Bank loans	176,881	68,300	136,743	-
Corporate bonds	180,000	200,000	180,000	200,000
Other financial liabilities	10,794	9,968	557	920
Total financial liabilities	**367,675**	**278,268**	**317,300**	**200,920**

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.2. Foreign currency risk management

The Group and the Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign-currency denominated monetary assets and liabilities at the reporting date are provided in the table below:

GROUP	Assets		Liabilities		Difference	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021	December 31 2022	December 31 2021
EUR	34,875	48,488	(281,712)	(301,591)	(246,837)	(253,103)
USD	45,028	44,669	(92,122)	(71,335)	(47,094)	(26,666)

COMPANY	Assets		Liabilities		Difference	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021	December 31 2022	December 31 2021
EUR	59,381	75,719	(189,515)	(255,209)	(130,134)	(179,490)
USD	54,319	63,551	(89,112)	(67,005)	(34,793)	(3,454)

46.2.1. Analysis of sensitivity to currency risk

The following table shows analysis of the Group's sensitivity to a 10% increase and decrease of the Croatian kuna foreign exchange rate against the relevant foreign currencies. Sensitivity rate of 10% is the rate which is used in internal reports on foreign exchange risk which are presented to the Management and represents the Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding monetary foreign currency balances and it is used for translation of balances which are adjusted for a 10% change in the foreign exchange rates. The sensitivity analysis includes external borrowings, as well as loans to foreign entities of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity when the Croatian kuna strengthens 10% against the relevant currency. For a 10% weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Since the official currency of the Republic of Croatia has been the euro (EUR) since January 1, 2023, the Company and the Group are no longer exposed to the risk of exchange rate changes in EUR, and it is excluded from the sensitivity analysis below.

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.2. Foreign currency risk management (continued)

46.2.1. Analysis of sensitivity to currency risk (continued)

GROUP	EUR impact		USD impact	
	2022	2021	2022	2021
Profit / (loss)	-	(25,310)	(4,709)	(2,667)

COMPANY	EUR impact		USD impact	
	2022	2021	2022	2021
Profit / (loss)	-	(17,949)	(3,479)	(345)

46.3. Credit risk management

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

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

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.3. Credit risk management (continued)

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

Customer	Domicile country	GROUP December 31 2022	GROUP December 31 2021	COMPANY December 31 2022	COMPANY December 31 2021
Ekupi d.o.o.	CROATIA	267,711	310,438	259,649	303,683
KING ICT d.o.o.	CROATIA	104,802	84,204	97,425	81,430
S&T Hrvatska d.o.o.	CROATIA	54,875	71,007	54,875	71,007
Coral Computers d.o.o.	SERBIA	51,101	39,276	-	-
Ask Tec d.o.o.	KOSOVO	47,919	43,106	43,167	34,019
Comping d.o.o.	CROATIA	45,047	9,729	45,015	9,718
TEHNO MAX	MONTENEGRO	41,771	24,821	-	-
COMBIS d.o.o.	CROATIA	41,758	27,127	40,933	27,691
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERZEGOVINA	41,026	34,865	-	-
Links d.o.o.	CROATIA	37,442	48,159	37,440	48,159
Mikronis d.o.o.	CROATIA	-	31,040	25,728	31,037
GIGATRON d.o.o.	SERBIA	-	30,621	-	-
Nordecon Oy	FINLAND	-	29,100	-	29,100
Kim Tec d.o.o. Beograd	SERBIA	-	-	362,048	297,001
Kim Tec d.o.o. Vitez	BOSNIA AND HERZEGOVINA	-	-	160,398	120,427
Pakom Kompani Skopje	NORTH MACEDONIA	-	-	110,102	85,276

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.4. Interest risk management

Since the Company and the Group use both fixed and variable rate loans, they are exposed to the interest rate risk. Most of the Company's and Group's loans bear interest at a fixed rate.

Interest rate sensitivity analysis

The sensitivity analyses below has been determined based on the exposure to risk of the change of interest rates at the date of the statement of financial position. For variable rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the date of the statement of financial position was outstanding for the whole year. A 100 basis point increase or decrease is used in internal reporting on interest rate risk and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2022 would have changed by HRK 537 thousand (31 December 2021: HRK 0 thousand), and the Group as of 31 December 2022 would have changed by HRK 644 thousand (31 December 2021: HRK 84 thousand). Interest rates on issued corporate bonds and loans were not taken into account because they are instruments with fixed interest rates.

46.5. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

46.5.1. Liquidity and interest rate risk tables

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

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.5. Liquidity risk management (continued)

46.5.1. Liquidity and interest rate risk tables (continued)

GROUP December 31 2022	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**After 5 year**	**Total**
Assets						
Non-interest bearing	512,531	-	-	127	-	512,658
Interest bearing instruments	-	-	4,936	18,463	-	23,399
Total assets	**512,531**	**-**	**4,936**	**18,590**	**-**	**536,057**
Liabilities						
Non-interest bearing	482,359	-	-	-	-	482,359
Finance lease liabilities	319	638	2,870	6,967	-	10,794
Interest bearing instruments	23,165	26,331	128,489	178,896	-	356,881
Total liabilities	**505,843**	**26,969**	**131,359**	**185,863**	**-**	**850,034**
Net asset / (liabilities)	**6,688**	**(26,969)**	**(126,423)**	**(167,273)**	**-**	**(313,977)**

GROUP December 31 2021	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**After 5 year**	**Total**
Assets						
Non-interest bearing	466,224	-	-	127	-	466,351
Interest bearing instruments	-	-	25,366	173	-	25,539
Total assets	**466,224**	**-**	**25,366**	**300**	**-**	**491,890**
Liabilities						
Non-interest bearing	383,311	-	-	-	-	383,311
Finance lease liabilities	247	494	2,837	6,391	-	9,969
Interest bearing instruments	11,058	11,723	34,125	211,394	-	268,300
Total liabilities	394,616	12,217	36,962	217,785	-	661,580
Net asset / (liabilities)	**71,608**	**(12,217)**	**(11,596)**	**(217,485)**	**-**	**(169,690)**

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.5. Liquidity risk management (continued)

46.5.1. Liquidity and interest rate risk tables (continued)

COMPANY December 31 2022	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 year	Total
Assets						
Non-interest bearing	325,996	-	-	127	-	326,123
Interest bearing instruments	-	-	4,978	18,300	-	23,278
Total	**325,996**	**-**	**4,978**	**18,427**	**-**	**349,401**
Liabilities						
Non-interest bearing	358,673	-	-	-	-	358,673
Finance lease liabilities	31	62	278	186	-	557
Interest bearing instruments	20,326	20,651	102,930	172,837	-	316,743
Total	**379,029**	**20,713**	**103,208**	**173,023**	**-**	**675,973**
Net asset / (liabilities)	**(53,033)**	**(20,713)**	**(98,230)**	**(154,596)**	**-**	**(326,572)**

COMPANY December 31 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	After 5 year	Total
Assets						
Non-interest bearing	320,591	-	-	127	-	320,718
Interest bearing instruments	-	-	26,457	-	-	26,457
Total	**320,591**	**-**	**26,457**	**127**	**-**	**347,175**
Liabilities						-
Non-interest bearing	325,433	-	-	-	-	325,433
Finance lease liabilities	22	44	197	657	-	920
Interest bearing instruments	10,000	-	10,000	180,000	-	200,000
Total	**335,455**	**44**	**10,197**	**180,657**	**-**	**526,353**
Net asset / (liabilities)	**(14,864)**	**(44)**	**16,260**	**(180,530)**	**-**	**(179,178)**

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.5. Liquidity risk management (continued)

46.5.2. Changes in liabilities arising from financial activities

	Short-term loan liabiities	Long-term loan liabilities	Short term bond issuance fees	Long-term bond issuance fees	Short-term lease liabilities	Long-term lease liabilities	Total
1 January 2022	**36,906**	**31,394**	**20,000**	**180,000**	**3,577**	**6,391**	**278,268**
Cash flow	111,843	16,392	(20,000)	-	(1,459)	-	106,776
Increases due to acquisition (note 48)	5,274	-	-	-	857	2,455	8,587
Transfer of control in company EKO BP (note 48)	(4,323)	(20,811)	-	-	(1,491)	(2,971)	(29,596)
Increases, modifications and termination of leases	-	-	-	-	962	2,473	3,434
Curret portion	8,103	(8,103)	20,000	(20,000)	1,381	(1,381)	-
Exchange rate differences	182	23	-	-		-	205
31 December 2022	**157,985**	**18,896**	**20,000**	**160,000**	**3,827**	**6,967**	**367,675**

46.6. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities 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;

As at 31 December 2022, reported amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term loans and other financial instruments correspond to their market value, due to the short-term nature of these assets and liabilities.

The following table provides an analysis of financial instruments measured subsequently at fair value, grouped into three groups depending on the availability of fair value indicators:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

(all amounts are expressed in thousands of kuna)

46. FINANCIAL INSTRUMENTS (CONTINUED)

46.7. Market risk

Market risk is the risk that changes in market prices, exchange rates and interest rates will affect the income, investments or financial instruments of the Company. The objective of market risk management is to maintain the market risk exposure within acceptable limits, while optimising the result.

47. CONRACTUAL AND CONTINGENT LIABILITIES

The Group and the Company lease business premises, offices, warehouses and vehicles. The duration of the lease contracts is up to one year. The most significant lease obligations are operating leases of business premises and warehouses. The table below details the Group's and the Company's contracted liabilities per operating leases:

	GROUP		COMPANY	
	2022	2021	2022	2021
Within one year	21,538	18,619	4,585	3,776
1-5 years	180	648	-	-
After 5 years	-	-	-	-
Total	**21,718**	**19,267**	**4,585**	**3,776**

Future liabilities are presented at the cumulative level for the entire contract duration for contracts with a maturity of more than one year. In the current business year, the Group and the Company changed the policy of contracting the lease of warehouse and vehicle business premises from several years period to one year period.
As at 31 December of the current year the Company ordered merchandises in the amount of HRK 48,324 thousand (2021: HRK 59,004 thousand) whose recognition was not met as of year end date.

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS

48.1. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2021

A. SEPARATION OF THE REAL ESTATE SEGMENT FROM SUBSIDIARIES INTO SEPARATE ENTITIES WITHIN GROUP

During 2021, the Company and the Group decided to disinvest the real estate segment from their portfolio. The intention of the above is to separate the real estate business of the group into a separate group (the transfer will be realized in 2022). Kim Tec BG d.o.o., subisidiary of Company, on October 6, 2021, based on the division agreement, separated the business segment of real estate in such a way that the relevant part of the assets, liabilities and capital was transferred to the newly established company - Kim Tec Neketnine BG d.o.o. The same transaction was carried out on the subsidiary Kim Tec d.o.o., Vitez, where the newly established company Kim Tec Nekretnine d.o.o. became subisidiary of the same. The separation of the mentioned units was realized by carrying values and these transactions did not have an impact on the financial reporting of the Company and the Group.

Overview of separated segment:

Carrying value	**2021**
Property, plant and equipment	23,642
Trade receivables	83
Cash and cash equivalents	160
Total assets	***23,885***
Non-current liabilities	7,514
Net assets of division	**16,371**

As the Company is the sole owner of the subsidiary Kim Tec BG d.o.o., the 100% of owner of Kim Tec Nekretnine BG d.o.o. is M SAN GRUPA d.o.o.

B. ESTABLISHMENT OF AN ENTITY ZELENA AGENDA 1.0 D.O.O.

In November 2021, the company further founded the company Zelena Agenda 1.0 d.o.o. by payment in cash, and thus acquired a 100% share in ownership and voting rights. The main activity of the company is the design of solar systems and consulting in business and management.

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS (CONTINUED)

48.1. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2021 (CONTINUED)

C. SEPARATION OF AN SUBSIDIARY

On November 25, 2021, based on the Division Agreement, the Company separated the subsidiary PD Modriča by transferring it to Agro Invest Grupa d.o.o. (related party of the Group). The Company made the transfer per carrying values and it also had no effects on the result of operations in 2021.

Overview of the net assets of the separate entity PD Modriča

	2021
Property, plant and equipment	31,561
Intangible assets	864
Other long-term assets	49
Inventories	90
Trade receivables	537
Cash and cash equivalents	601
Other current asset	54
Total assets	***33,756***
Current liabilities	(216)
Total Liabilities	***(216)***
Carrying value of net assets	**33,540**

The value of investments in the subsidiary PD Modriča (HRK 29,733 thousand) increased by cash in the amount of HRK 200 thousand was separated from the balance sheet of the Company.

D. MERGER OF A COMPANY

Furthermore, in December 2021, the Company under the merger agreement of 28 December 2021 merged with the associated company M San Ulaganja d.o.o. The balance sheet of the merged company is on the mentioned date was as follows:

	28 December 2021
Intangible assets	1,376
Property, plant and equipment	433
Investing in a subsidiary	2,129
Cash and cash equivalents	10
Other current asset	404
Total assets	***4,352***
Non-current liabilities	(218)
Current liabilities	(6,820)
Total Liabilities	***(7,038)***
Carrying value of net assets	**(2,686)**

Besides tangible assets, the Company merged the ownership in the Corvus Info d.o.o. (subsidiary of merged company) and thus acquired ownership and voting rights in 100%.

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS (CONTINUED)

48.1. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2021 (CONTINUED)

E. ACQUISITION OF THE AFFILIETED COMPANY EKO BOSANSKA POSAVINA

In November 2021, the Group additionally recapitalized this associated company, by land input in the amount of HRK 49,575 thousand (November 2021; ownership of 60.08%), and by paying in cash in the amount of HRK 7,245 thousand (December 2021; ownership of 82%). The total investment amount is HRK 76,038 thousand. The control over the mentioned company was acquired on November 1 2021 and from that moment the same was consolidated into the group. As this is a transaction under common control, the company recognized the effects of the acquisition of control as per carrying values. The Group attributed the result of the associate until 31 October 2021 in the amount of HRK 1,211 thousand (Note 16).

The carrying amount of the acquired company at the date of acquisition is shown in the following presentation:

	1 November 2021
Property, plant and equipment	120,403
Inventories	6,110
Trade receivables	9,353
Cash and cash equivalents	854
Other current asset	317
Total assets	***137,037***
Non-current liabilities	(16,644)
Current liabilities	(8,062)
Total Liabilities	***(24,706)***
Carrying value of net assets	***112,331***
Effects of acquisition of control (Group)	
Non controling share of net assets (39.2%)	44,843
Investments M SAN Group d.o.o.	68,793*
Net assets of acquired company	(112,331)
Net effect on Group retained earnings	1,305

*Company had investment in associate in amount of HRK 19,218 thousand (until October 31, 2021). After investing land value into equity of associate into equity of Eko Bosanska Posavina as of November 1, 2021 (when company obtained control), the amount of investment in subsidiary amounted to HRK 68,793 thousand, which represents the total value of land and previous investment in associate.

In December 2021, The Company invested additionally HRK 7,245 thousand and by this increased its ownership from 60% to 82%. Mentioned portion was bought from private person (previous shareholder in entity).

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS (CONTINUED)

48.2. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2022

A. SEPARATION OF THE REAL ESTATE SEGMENT FROM SUBSIDIARIES INTO SEPARATE ENTITIES

In January 2022, the company M San acquired the company KIM TEC Nekretnine d.o.o. Vitez, BiH from the subsidiary KIM TEC d.o.o. Vitez, BIH.

In March 2022, the Company submitted an application to the Commercial Court in Zagreb for the implementation of the separation procedure in such a way that part of the investments and net assets of the Company and the Group related to subsidiaries (KIM TEC Nekretnine d.o.o. Vitez, BiH and Kim Tec Nekretnine d.o.o. Belgrade, Serbia) transfers to Ribnjak Jasinje d.o.o. and Ribnjak Narta d.o.o. owned by a common ultimate owner.

The Company recognized the need to implement the mentioned changes in order to optimize its operations and limit its business decisions and transactions to the part of the group that falls under its area of responsibility.

The Company carried out the mentioned transactions according to the book values, and the same had no effects on the results of operations in 2022. The total net value of the separated assets amounts to HRK 39,680 thousand.

	KIM TEC BIH NEKRETNINE	KIM TEC BG NEKRETNINE
Property, plant and equipment	21,062	23,205
Intangible assets	-	-
Other long-term assets	-	1,224
Inventories	-	-
Trade receivables	62	372
Cash and cash equivalents	48	146
Other current asset	10	-
Total assets	**21,182**	**24,947**
Long-term liabilities	4,319	6,196
Short-term liabilities	858	1,438
Total Liabilities	***5,177***	***7,634***
Carrying value of net assets	**16,005**	**17,313**

B. ACQUISITION OF THE SUBSIDIARY COMPANY ALTERNA DISTRIBUTION D.O.O.

The Company acquired 100% of the ownership stake in company Alterna distribucija d.o.o., Slovenia in November 2022, upon fulfillment of all conditions precedent defined in the sales and purchase agreement, signed in May 2022. This company was acquired as part of the investment cycle, which enabled the Enterprise division to expand its presence in another country, strengthen its position for about 15 new specialists, and gain reach to about 300 new partners. In 2022, Alterna distribucija achieved revenue of HRK 234 million. This acquisition will help the Group strengthen its position in the Value Added Distribution segment in the region. The estimated value of the acquisition of 100% share is HRK 29,154 thousand. Amount of HRK 16,388 thousand was paid at the closing of the transaction, and the remaining amount represents the expected payable depending on the achieved EBITDA of the company in the period 2022-2024. The Company gained control over the subsidiary as of November 1, 2022 and from that moment it was consolidated into the Group, which recognized goodwill in the amount of HRK 21,684,000 based on the aforementioned transaction (note 19).

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS (CONTINUED)

48.2. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2022 (CONTINUED)

B. ACQUISITION OF THE SUBSIDIARY COMPANY ALTERNA DISTRIBUTION D.O.O. (CONTINUED)

The balance sheet of the acquired company on the mentioned date was as follows:

	November 1, 2022
Property, plant and equipment	4,611
Inventories	18,755
Trade receivables	33,677
Cash and cash equivalents	2,104
Other current asset	6,970
Total assets	**66,117**
Long-term liabilities	3,578
Short-term liabilities	55,880
Total Liabilities	**59,458**
Carrying value of net assets	**6,659**

In the results of the Group for the year 2022, the company Alterna distribucija participated with HRK 38,279 thousand in operating income, i.e. with HRK 2,586 thousand in profit after tax.

C. MERGER OF THE COMPANY

Furthermore, in December 2022, based on the merger agreement dated December 28 2022, the company merged the related company Corvus info d.o.o.

The balance sheet of the merge company is on the mentioned date was as follows:

	December 28, 2022
Intangible assets	1,859
Property, plant and equipment	38
Investing in a subsidiary	38
Cash and cash equivalents	668
Other current asset	60
Total assets	**2,663**
Long-term liabilities	-
Short-term liabilities	2,231
Total Liabilities	**2,231**
Carrying value of net assets	**432**

In addition to long-term tangible assets, the Company acquired the ownership stake in the subsidiary Korvus MK d.o.o.e.l. Macedonia thus acquired ownership and voting rights in the 100% amount.

(all amounts are expressed in thousands of kuna)

48. BUSINESS COMBINATIONS AND DEACQUISITIONS (CONTINUED)

48.2. BUSINESS COMBINATIONS AND DEACQUISITIONS IN 2022 (CONTINUED)

D. TRANSFER OF CONTROL IN THE COMPANY EKO BOSANSKA POSAVINA

During 2022, the company with joint ultimate owner PPK Valpovo d.o.o. recapitalized the subsidiary company EKO Bosanska Posavina, thereby acquiring an ownership share of 22.77%. At the end of the year, PPK Valpovo additionally purchased a 3.33% share from the related company KIM TEC Vitez, which increased PPK Valpovo's share to 26.10%. The mentioned transaction was carried out at the book value and had no effect on the Group's operating result in 2022.

With the amendments to the Article of Association of EKO Bosanska Posavina, which were made after the recapitalization, PPK Valpovo acquired 75% of the voting rights at the company's Assembly. The responsibility of the Assembly of the company is to appoint the members of the Management Board and the Supervisory Board, which consists of 5 members, of which three members are appointed on the proposal of PPK Valpovo. Additionally, with the signing of the Agreement on managing the affairs of the company EKO Bosanska Posavina, between the shareholders, it was defined that PPK Valpovo will direct the relevant affairs of the company EKO Bosanska Posavina, thereby gaining control over this company. With November 30, 2022 this company is no longer consolidated within the M SAN Group.

The balance sheet of the company EKO BOSANSKA POSAVINA on the mentioned date was as follows:

	November 30, 2022
Property, plant and equipment	116,376
Intangible assets	-
Other long-term assets	18,813
Inventories	16,591
Trade receivables	15,572
Cash and cash equivalents	3,896
Other current asset	9,452
Total assets	**180,700**
Long-term liabilities	19,413
Short-term liabilities	8,511
Total Liabilities	**27,924**
Carrying value of net assets	**152,776**

E. ESTABLISHMENT OF A NEW COMPANY CENTAR KOMPETENCIJE ZA ZELENU ENERGIJU

In April 2022, the company established a new company, Centar kompenetcije za zelenu energiju, with a cash payment of HRK 750,000. The headquarters of the Company is in Buzin (City of Zagreb), Buzinski prilaz 10. The registered activity of the company is technical testing and analysis.

(all amounts are expressed in thousands of kuna)

49. SUBSEQUENT EVENTS

In March 2023, the Company sold the subsidiary Zelena Agenda 1.0 d.o.o. to the company Pametna energija d.o.o. (a company with a common ultimate owner). The aforementioned transaction was carried out according to book values and had no effects on the results of operations in 2023. The total net value of the separated assets amounts to HRK 998 thousand as of March 6, 2023.

In April 2023, the company submitted a binding offer to take over 100% of the ownership stake in the company Data Link d.o.o.

Pursuant to the Law on the introduction of the euro as the official currency in the Republic of Croatia from January 1, 2023. year, the Group and the Company made all the necessary adjustments to the information system and ensured compliance with the Law and enabled further uninterrupted development of all business processes.
There were no other significant events after the balance sheet date that would require reconciliation or disclosure in the financial statements.

50. AUDIT FEES

Fees for the statutory audit of the Group's financial statements amounted to HRK 1,292.2 thousand (2021: HRK 928.6 thousand), while fees for other services amounted to HRK 0 thousand (2021: 90 thousand). The other services refer to permitted tax services in accordance with local regulations.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 77 to 173, were approved by the Management Board and authorised for issue on April 26, 2023

Irena Langer-Breznik	Žarko Kruljac	Slaven Stipančić
President of Management Board	Member of Management Board	Member of Management Board
Goran Kotlarević	Alen Panić	Vladimir Brkljača
Member of Management Board	Member of Management Board	Member of Management Board

Zagreb, 26 April 2023

Pursuant to the provisions of Articles 300a and 300b of the Companies Act, the Management Board of the Company adopted next

D E C I S I O N

I. The Annual Report of the Company for 2022 is determined according to the text attached to this Decision.

II. The consolidated and separate Annual Financial Report for 2022 are determined, which consists of:
- statement of financial position (balance sheet),
- profit and loss account,
- report on other comprehensive income,
- cash flow statement,
- report on changes in equity,
- notes to the financial statements,

according to the text attached to this Decision and are an integral part of the report referred to in item I of this Decision.

III. The Audit Report for 2022 is an integral part of the report referred to in item I of this Decision.

IV. The Annual Report on the Situation of the Company and Associated Companies for 2022 is determined (management report), together with the Statement on the Application of the Code of Corporate Governance which forms an integral part of the report referred to in item I of this Decision.

V. Annual report of the Company for 2022, ie reports from item II. to IV. these decisions are submitted to the Supervisory Board for examination.

VI. This Decision shall enter into force on the day of its adoption.

Irena Langer-Breznik	Žarko Kruljac	Slaven Stipančić
President of Management Board	Member of Management Board	Member of Management Board
Goran Kotlarević	Alen Panić	Vladimir Brkljača
Member of Management Board	Member of Management Board	Member of Management Board

Zagreb, 28 April 2023

Pursuant to the provisions of Article 300.d, and in accordance with the provisions of Article 300.c of the Companies Act, after the examination of the submitted relevant reports of the Management Board, the Supervisory Bord, The Society at its meeting held on April 28, 2023 adopted the following

D E C I S I O N

I. Consent is given to the Annual Report of the Company for 2022 according to the text attached to this Decision.

II. Consent is given to:

- consolidated and separate Annual Financial Report for 2022, consisting of:

- statement of financial position (balance sheet), income statement, statement of other comprehensive income, cash flow statement, statement of changes capital, notes to the financial statements,

- Audit Report for 2022,

- Annual report on the state of the Company and its affiliates for 2022 (management report), together with a statement on the application of the corporate governance code, according to the text attached to this Decision, which reports are an integral part of the report referred to in point I. of this Decision.

III. Pursuant to the provisions of Article 300d of the Companies Act by giving consent from point II. Of this Decision, unconsolidated and consolidated Annual Financial Statements of the Company for 2022 was determined by the Management Board and the Supervisory Board of the Company.

IV. This Decision shall enter into force on the day of its adoption.

Željko Menalo
President of the Supervisory Board

Zagreb, 26 April 2023

Pursuant to the provisions of Articles 275 and 300.b of the Companies Act, the Management Board of the Company passed next

D E C I S I O N

I. The proposal of the Decision on use, which is sent to the General Assembly for adoption, is determined, which reads:

I. It is determined that the total realized profit after tax for 2022 amounts to HRK 2,645,933.91.

II. The total realized profit for 2022, after taxation, in the amount of HRK 2,645,933.91, is allocated to the retained earnings of the Company.

II. This Decision shall enter into force upon obtaining the consent of the Supervisory Board.

Irena Langer-Breznik
President of Management Board

Žarko Kruljac
Member of Management Board

Slaven Stipančić
Member of Management Board

Goran Kotlarević
Member of Management Board

Alen Panić
Member of Management Board

Vladimir Brkljača
Member of Management Board

Zagreb, 28 April 2023

Pursuant to the provisions of Article 300.c of the Companies Act, after an examination submitted the proposal of the Decision in the use of profit, the Supervisory Board of the Company at its meeting on April 28, 2023, adopted the following

D E C I S I O N

I. Consent is given to the proposal of the Decision on use which is sent to the General Assembly on adoption, which reads:

I. It is determined that the total realized profit after tax for 2022 amounts to HRK 2,645,933.91.

II. The total realized profit for 2022, after taxation, in the amount of HRK 2,645,933.91, distributes to the retained earnings of the Company.

II. This Decision shall enter into force on the day of its adoption.

Željko Menalo
President of the Supervisory Board

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