M SAN GRUPA

2021

ANNUAL

Report

CONTENT

OVERVIEW OF KEY INDICATORS IN 2021

GROUP GROUP IN 2021

BUSINESS REVENUE* (IN HRK)	GROWTH (COMPARED WITH 2020)
2,710.1 million	+2.1%

NORMALISED EBITDA* (IN HRK)	GROWTH (COMPARED WITH 2020)
86.4 million	+34.1%

NORMALISED EBIT* (IN HRK)	GROWTH (COMPARED WITH 2020)
73.8 million	+39.4%

NORMALISED NET PROFIT* (IN HRK)	GROWTH (COMPARED WITH 2020)
47.1 million	+24.3%

*The financial measures used are not defined by International Financial Reporting Standards. For more details on the Alternative Performance Indicators used, see Table 3. Alternative Performance Measures

OVERVIEW OF KEY INDICATORS IN 2021

COMPANY GROUP IN 2021

BUSINESS REVENUE* (IN HRK)	GROWTH (COMPARED WITH 2020)
2,139.5 million	+4.7%

NORMALISED EBITDA* (IN HRK)	GROWTH (COMPARED WITH 2020)
36.2 million	+19.9%

NORMALISED EBIT* (IN HRK)	GROWTH (COMPARED WITH 2020)
28.2 million	+14.0%

NORMALISED NET PROFIT* (IN HRK)	GROWTH (COMPARED WITH 2020)
11.2 million	(54.1%)

*The financial measures used are not defined by International Financial Reporting Standards. For more details on the Alternative Performance Indicators used, see Table 3. Alternative Performance Measures

COMMENT FROM MIROSLAV HUZJAK,

Chairman of the Board

The COVID-19 pandemic has been a marking event for the business of the Group, significantly affecting the business for multiple reasons. The increased volume of work from home gave rise to the need for products and additional equipment that make it possible. At the same time, supply issues continued for all key principals, caused by production difficulties, the lack of essential components, and insufficient transport capacities.

Despite these challenges, the Group has generated 2,710 M HRK of revenue, the most revenue it has ever generated, along with the growth of the values of all annual profitability indicators, thus the normalised EBITDA has risen by 34.1% when compared with 2020.

Owing to quality contracts with leading global principals, the Group has managed to secure a sufficient quantity of products for the needs of its partners and has for the most part of the year, with occasional shortages, ensured the timely and continued delivery of most necessary products. The Group has also enabled all of its employees to work from home, where business conditions allow for such work.

During the periods with a larger number of infected people, the Group retained the minimum number of employees at the workplace, while everyone else worked from home and alternated every few weeks.
We continued developing our own brand during 2021 and have strengthened the export to markets outside the region.

In July 2021, the Group successfully entered the capital market by issuing a corporate bond in the amount of 200 million HRK that was met with enthusiasm by the investors and demand significantly exceeded the targeted issue amount.

MIROSLAV HUZJAK,
Chairman of the Board

ABOUT US

M SAN Grupa is a limited liability company for the manufacture of computers, trade, import, and export with a registered seat at Zagreb, Buzinski prilaz 10, represented by the Chairman of the Board, Mr. Miroslav Huzjak, Company Registration No. (MBS): 080157581, registered at the Commercial Court in Zagreb in 1995 under the company name M SAN d.o.o., while it is given today's company name in 1997.

M SAN Grupa is the largest privately-owned IT company in the Republic of Croatia. The M SAN Grupa, whose primary activity is the distribution of computer hardware, software, and consumer electronics includes, among others, the companies doing business in the region, such as Kim Tec Bosnia and Herzegovina, Kim Tec Serbia, Kim Tec Montenegro, and Pakom Kompani Macedonia. In addition, the Group manufactures IT equipment and consumer electronics with its own brand, including TVs, air conditioners, mobile phones, appliances, desktop computers, and electric mobility products (electric scooters, electric bicycles) that the company then distributes through its distribution network.

In its portfolio, the Group also includes the activity of logistics that primarily includes storage, handling, and transport of goods (M SAN LOGISTIKA), service activity for the provision of servicing and repair of goods within or outside the warranty deadline (MR Servis d.o.o., KIM TEC-SERVIS d.o.o. Vitez, KIM-TEC SERVIS doo Beograd), and the activity of electronic waste collection and disposal (M SAN EKO d.o.o., KIM TEC EKO d.o.o. Vitez). In addition to primary activities, EKO Bosanska Posavina d.o.o. does business in the agriculture sector. The Group has no branch offices.

Since its founding, the Group has implemented a strategy of strengthening its portfolio with all major world-renowned IT equipment and consumer electronics brands. Particular emphasis has been placed on the manufacture and development of own brands, whereby the production takes place in the People's Republic of China, Republic of Turkey, Republic of Croatia, and Republic of Serbia. A larger part of manufacture takes place in facilities of third persons, while the facilities of the Group, namely, the company in the Republic of Croatia and the company KIM-TEC doo Beograd in the Republic of Serbia, perform the assembly of the personal computers and TVs of own brands. In parallel, the Group is expanding its business in the Adria region by establishing companies and logistics centres while developing its own logistics, service, and servicing support. The own logistics network makes up for one of the key comparative advantages of the Group.

From the entry on the market until today, we have obtained the trust of our customers, partners, and suppliers, the number of whom continues to increase. We are proud that we have become one of the best distributors on the regional IT and CE markets since the beginnings of the company. Our market leading position we attribute to the dedication of our employees, suppliers, customers, and stakeholders because we passionately believe that by achieving common goals, we achieve success and enable the further expansion and improvement of our business.

The Company does not conduct research and development activities.

The Company will publish a non-financial report with all relevant parameters on the website (https://www.msan.hr/) within the legally prescribed deadline.

BUSINESS MODEL

The business model of M SAN Grupa is based on building and maintaining the trust and reliability of the cooperation with suppliers and customers, the development of the product group portfolio diversity and the financial stability, while particular care is dedicated to products of own brands. Extreme attention is dedicated to the optimisation of supplies and rapid capital turnover that has shown to be effective and affordable in conditions of hindered supply during the COVID-19 pandemic.

M SAN's portfolio includes products of own brands. We have acquired a large number of satisfied partners and customers by investing in the manufacture, distribution, marketing, and development. Own brands that we are proud of are VIVAX in the range of consumer electronics, MS Energy in the range of e-mobility, MSGW computers, MS in the range of peripherals, cables, drones, computer cases and power supplies, mobile phone accessories, laptop, and desktop computers, as well as SOLMACHT that covers the area of solar systems.

The brand **VIVAX**, as a national product, is present on the Croatian market since 2004 and has been placed onto a total of 39 markets, i.e., 4 continents. The VIVAX range nowadays offers more than 250 different products that can be divided into 6 product groups: Imago (TV sets), Cool (air conditioners), Home (small household appliances and appliances), Vox (audio, Hi-Fi), Smart (smartphones) and Tablets. The entire range and design of VIVAX products has been entirely designed in Croatia, while high quality standards were ensured by implementing strict procedures in production processes with a particular emphasis on quality control processes. VIVAX is a part of a group of rare European brands of consumer electronics that manufactures its products in Europe. Additionally, M SAN also has a production line of LED TV devices ranging from 22" to 65" that takes place in own facilities in Rugvica. This manufacture is intended for the Croatian and European Union markets.

VIVAX

BUSINESS MODEL

MS Energy is a brand of electric scooters, bicycles, and all other modern personal electronic transport systems. It has been present on the Croatian market since 2019 and today's range of MS Energy is divided into two categories: electric scooters and electric bicycles. In today's world, where mobility and ecology define the new lifestyle, MS Energy offers answers to the customer's demands for sustainable, simple, and smart transport solutions, i.e., full e-mobility. One of the foundations of the MS Energy brand is the trust in the quality of the e-mobility products. The strategy of creating the product and the entire production process are based on the use of proven technological solutions, while the idea itself to create the product is based on the desire to provide the user with a complete, dependable, environmentally friendly and affordable solution for city mobility issues.

MS ENERGY

BUSINESS MODEL

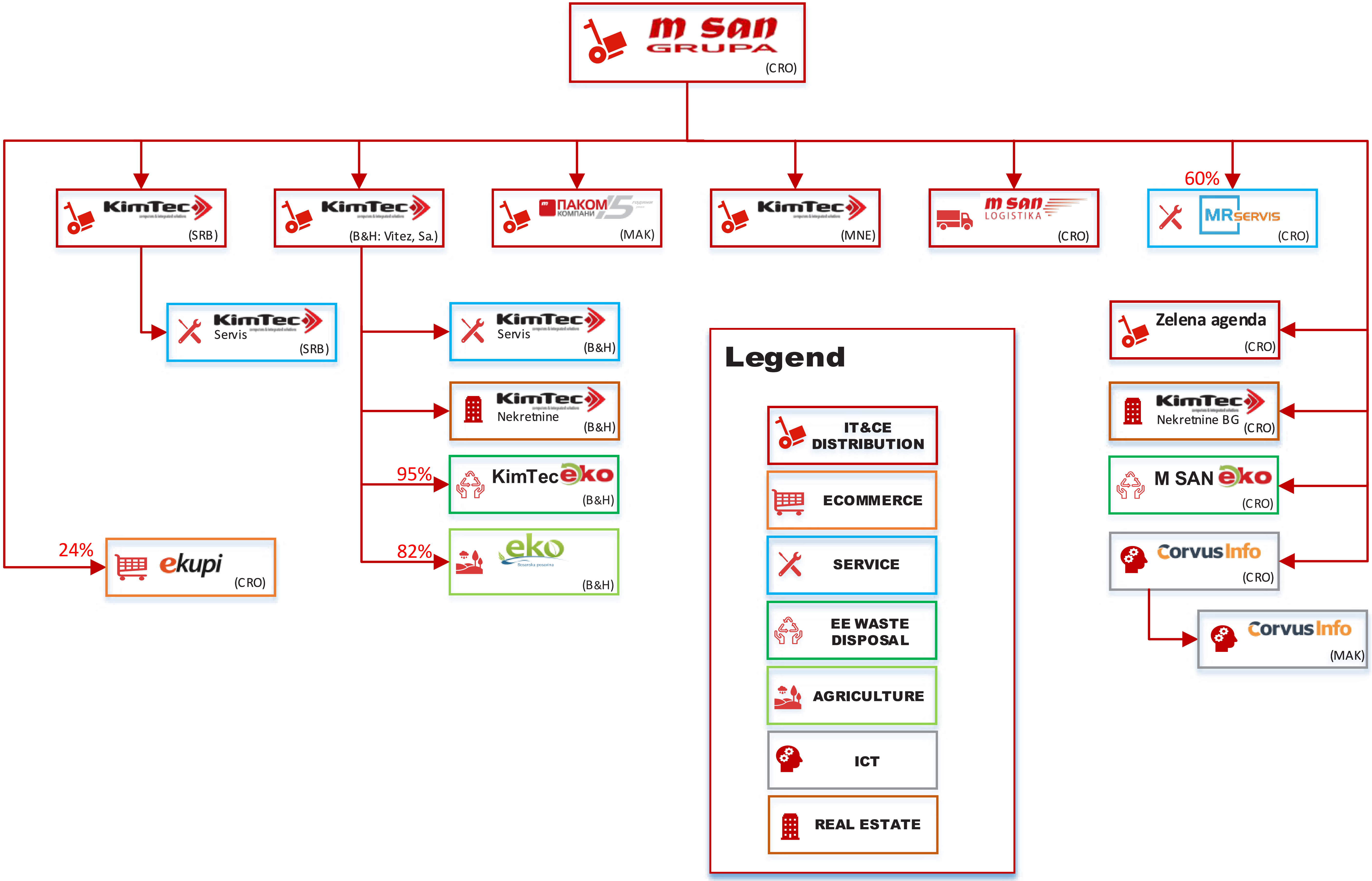
MSGW computers, as M SAN’s own brand, has been on the Croatian market since 2005. All computers have been manufactured in M SAN’s automated facility for the manufacture of IT equipment and have been subjected to numerous functional tests. MSGW computers meet all of the necessary demands required by Microsoft for full compatibility of built-in components with the Windows operating system.

BUSINESS MODEL

MS is a private brand of the M SAN Group, which combines the production and sale of computers peripherals discount headphones, speakers, keyboards and mice, and enclosures, power supplies and cables.
With a tradition of 18 years, it successfully operates in the Croatian market and the markets of the region (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro) and expands its business to other EU markets. Every the production cycle phase is subject to strict quality control thus ensuring reliability and functionality of each device, and ultimately a quality product at an affordable price, synonymous with quality and reliability.

SOLMACHT, the youngest own brand in the M SAN Group’s portfolio, was created in response to market needs for complete solutions in the field of solar power plant construction. Through Solmacht’s framework, business and private customers are provided with a complete solar power plant construction service: from the conceptual design and detailed design of the solar power plant in accordance with customer needs, through professional assistance in obtaining permits and approvals, supply of all solar power plant components and performance supervision, all the way to commissioning.

OVERVIEW OF RELATED COMPANIES OF M SAN GROUP



PORTFOLIO, SALES CHANNELS, PARTNERS

M SAN Grupa d.o.o. is a leading distributor of IT products and consumer electronics with more than 60 most prominent world manufacturers and more than 15,000 products.

Among them stand out: Microsoft, Hewlett Packard, Samsung, Acer, Asus, IBM, LG Electronics Inc, Panasonic, Lenovo, Toshiba, Transcend, Western Digital...

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

The logistics of the M SAN Grupa are among the most developed in the region, thus ensuring a fast and accurate delivery.

M SAN Grupa has more than 6,300 partners in and outside Croatia. The sales channels consist of department stores, IT and CE retail stores and system integrators. Internal M SAN Grupa sales teams were established in accordance with the sales channels and product groups. Through the "Enterprise" sales segment, the M SAN Grupa offers high added value through the knowledge and complex partner solutions, such as system integrators and similar solutions.

The substantial number of partners has enabled the Group to significantly diversify its business, thus the largest unaffiliated customer makes up for 2.7% of the total annual turnover. The Group has made significant investments into export sales channels towards third countries (countries where it does not have affiliated companies) so the total export share toward third countries has risen from 15.3% in 2020 to 16.5% in 2021.

HISTORICAL DEVELOPMENT of the Group

1995
Company M SAN d,o.o. founded

1997
Company M SAN Group d.o.o. founded to which the business of M SAN d.o.o. was transferred

1999
Company KIM TEC d.o.o. Vitez, BiH Founded

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

2004
Registration of Vivax brand company M SAN Service Founded

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

2006
Acquisition of business shares in Pakom Company, Macedonia

2008
Acquisition of business shares in companies, Elektromagic (HR and BiH), Recos (BiH)

2009
Companies KIM-TEC Service BG and KIM-TEC Service Vitez founded

2013
KIM TEC Eko founded
MS brand registrated

2019
Registration of MS ENERGY brand

2021
Issuing corporate bonds Solmacht brand

ORGANISATIONAL STRUCTURE

By looking into its legal form, M SAN Grupa was registered as a joint-stock company until 28th April 2021.
By virtue of the decision of the extraordinary General Assembly of 28th April 2021, the joint-stock company was transformed into a limited liability company. The sole owner of the company is Mr. Stipo Matić who is also the Chairman of the General Assembly. The company does not own its own shares and does not implement a programme of purchasing them.

The Supervisory Board is comprised of three members, and they are:
Stipo Matić, the Chairman of the Supervisory Board,
Marko Rašić, the Deputy Chairman of the Supervisory Board,
Snježana Matić, a Member of the Supervisory Board.

Members of the Management Board:
Miroslav Huzjak, Chairman of the Management Board,
Irena Langer-Breznik, Member of the Management Board,
Goran Kotlarević, Member of the Management Board,
Žarko Kruljac, Member of the Management Board,
Slaven Stipančić, Member of the Management Board.

The operative business of the Group is organised in four divisions:

- **ITCE - distribution of IT equipment and consumer electronics**;
- **Enterprise –** value-added distribution (Value-add distribution) for adjusted hardware and software solutions;
- **Vivax –** the manufacture and distribution of own brand, numbering over 250 items in all categories (TVs, air conditioners, mobile phones, appliances, small household appliances).
- **Green divison –** electric mobility products, LED lighting, solar panels.

The Company division leaders are also responsible for the divisions in regional members that together make up for four sales channels with the sole motto being: *"One company on multiple diverse markets".*

ORGANISATIONAL STRUCTURE

In the reporting period concluded on 31st December 2021, 451 employees contributed to the core business of the parent company M SAN Grupa and affiliated companies in the Republic of Croatia (M SAN Logistika, MR Servis, and M SAN EKO), while 374 employees contributed in the region (Serbia, Bosnia and Herzegovina, Montenegro, and Macedonia). The work of a total of 825 employees at 31st December has contributed to the growth and development of our companies in 2021.

Our main goals and ambitions are:

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

Key operational indicators of the Group

- 6,300+ partners
- 200,000 products delivered monthly
- 700+ employees
- 5 own brands

M SAN GRUPA ANNUAL REPORT 2021

OUR RESPONSE TO

THE COVID-19 PANDEMIC

HOW THE PANDEMIC AFFECTED THE GROUP

Like many other companies, our business was inevitably affected by the global COVID-19 pandemic in 2021. The manner in which we, as a Group, have reacted to newly arisen circumstances was a true test of readiness for a situation of crisis. Everyday work routine of the employees changed within 48 hours from the appearance of first information regarding the pandemic, while the Group was left in a situation where it had to react preventively to protect the safety of its employees and partners. Aware of potential risks in which we found ourselves and which persist to this day, as well as the responsible role that we play, our mandatory instructions and recommendations were aimed at establishing measures to preserve the health of our employees and their loved ones, as well as partners, customers, and users and the reduction of the possibility to spread the contagion but also the continuity of our own business. It was especially important to us that our employees were informed in a targeted and timely manner so they could do the right thing while there was an increased risk of contagion. The employees were informed of the level of risk and protection measures via e-mails, and they were also displayed in visible locations inside the company. The mandatory instructions and displayed recommendations concerned all of the employees or employees hired in any way who live, work, or visit the business premises of the Group in Croatia, Serbia, Bosnia and Herzegovina, Montenegro and Northern Macedonia.

CORPORATE
Governance

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

M SAN Grupa is not obliged to apply the Corporate Governance Code of the Croatian Financial Services Supervisory 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 governance practice, and the standards and practices themselves are included in the Statement of incorporation of the Company, which is 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 provide HANFA with data on corporate governance practices through the Questionnaire on Management Practices for Bond Issuers (GIKU-UOP-OBV).

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

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

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

CORPORATE Governance

COMPANY'S BOARDS

The corporate governance structure of M SAN Grupa is based on a dualistic system, consisting of the Supervisory Board and the Management Board, they, together with the General Assembly, in accordance with the Articles of Association and the Companies Act, represent the three basic bodies of the Company.
The Supervisory Board has set up an Audit Committee, which in the course of its tasks assesses the quality of the internal control and risk management system in order to adequately identify the main risks to which the company is exposed (including compliance risks).

DESCRIPTION OF DIVERSITY POLICY

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 features of our organizational culture, present since the founding of the Company, and is reflected in the belief that differences in gender, skin color, political or other beliefs, national or social origin are a wealth, which within M SAN for more than 20 years transformed into mutual success.

The Group strictly prohibits and condemns all forms of discrimination in order to provide and ensure a sustainable work environment free of discrimination and abuse based on sex, race, religion, ethnicity, sexual orientation or any other characteristic / status as grounds for discrimination. The Group is committed to ensuring a non-discriminatory workplace and we are proud of the absence of reported incidents.

GOVERNANCE structure

The governance within M SAN is founded on transparency and effectiveness of corporate governance based on the best international practices, thus ensuring the success and sustainability of the entire Group. M SAN does business as a two-level board structure, consisting of the Supervisory Board and the Management Board. Over the course of 2021, the Supervisory Board consisted of three members, while the Management Board consisted of six members, i.e., the Chairman and five members of the Board.

The Supervisory Board and the Management Board ensure that the established strategy, resources, risk management system, internal control system, and stakeholder relations support the long-term and sustainable development of the entire Group. Furthermore, stated elements ensure that the strategy takes into consideration the possible impact on the environment and community, and that the politics, culture, and values of M SAN promote ethical behaviour, respect for human rights, and lead to an enticing and comfortable 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 governance body and consists of the member of the Company as the sole founder. A member of the Association makes decisions for which he is authorized by law and the Statement of incorporation of the Association. The Assembly decides on matters that are within the exclusive competence of the Assembly under the current Companies Act. If it deems that there is a need for that, the Assembly is authorized to send a mandatory instruction 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 instructions of the Assembly. The Assembly is convened by the Management Board of the Company in cases prescribed by the Companies Act and whenever required by the interests of the Company, but may also be convened by the Supervisory Board and a member of the Company. The assembly is suitable for decision-making if the only member of the Company is present.

The Group is managed by the Management Board, consisting of:

MIROSLAV HUZJAK
CHAIRMAN OF THE BOARD

MIROSLAV HUZJAK Over the past 23 years, Miroslav Huzjak has worked on leading functions within the M SAN Grupa and has led teams of experts who have positioned the company as the most significant ICT and CE distributor in the Adria region. He has worked various jobs in the company and had a leading role in the commercial department which, in addition to the responsibility for organising the commercial department, its successful business, and positioning M SAN as the market leader, also included numerous other responsibilities. Mr. Huzjak was responsible for leading key negotiations to conclude a distribution contract with the largest globally renowned principals, which made it possible for M SAN to become an authorised distributor of many a world-renowned brand for the territory of the Republic of Croatia, as well as the region. Establishing, organising, and improving the business of logistics and servicing, as well as establishing companies in the region and the development, expansion, and improvement of regional business all represent the responsibility of Mr. Huzjak, who has held the office of the Chairman of the Board of the company since 2009.

IRENA LANGER BREZNIK
VICE-CHAIRMAN OF THE BOARD

IRENA LANGER BREZNIK has held a series of leading offices over the past 15 years in M SAN Grupa. In her roles, that include a leading role in the procurement department of M SAN Grupa, besides the responsibility for the entire procurement process in the Republic of Croatia and in the region, obtaining new distributions, nurturing quality relations with principals, organising and conducting marketing activities at the level of M SAN and the companies in the region, she was responsible for establishing new business processes, as well as improving existing ones and has continuously worked on structural enhancements to business processes with a particular emphasis on regional procurement, development, and improvement of business on foreign markets of the members of the Group, leading numerous projects aimed at development and improvement of business application, the development of electronic trade between business subjects, and managing the stocks and digital transformation. Since 2011, Ms Langer Breznik has been at the head of the e-commerce development and business of the company eKupi in Croatia and in the region and is also a member of the Management Board of M SAN Grupa.

SLAVEN STIPANČIĆ
MEMBER OF THE BOARD

During his 16 years at M SAN Grupa, **SLAVEN STIPANČIĆ** has focused himself on improving the procurement process and expanding the distribution portfolio. Mr. Stipančić has, while leading a team of successful experts, provided a large contribution and is responsible for the development of own brand VIVAX, which has enabled VIVAX to become a recognisable brand that is sold on almost all of the European markets, but also on other continents. As the Director of the consumer electronics sector, he works on contracting and developing distribution collaboration with the strongest global CE-A brands in Croatia and in the region. In parallel, he is working on the optimisation of connecting sales processes of international CE-A brands with the company's procurement processes. Since 2009, Mr. Stipančić has held the office of the member of the company's Management Board.

ŽARKO KRULJAC
MEMBER OF THE BOARD

ŽARKO KRULJAC dedicated his first 14 years at M SAN Grupa to the development of the sales force and the distribution range of the Group. At first, he stood out thanks to his successes in business and the realisation of strategic goals that he accomplished in leading roles in the companies in the Republic of Serbia and Bosnia and Herzegovina, after which, by managing the commercial business in Croatia and the region, he focused his work on three key aspects: continued construction and strengthening of the partner customer network, raising the competences of sales operations, and adjusting the sales processes to market changes. He obtained a PhD in the field of economic sciences in 2020. Since 2009, Mr. Kruljac has held the office of the member of the company's Management Board.

GORAN KOTLAREVIĆ
MEMBER OF THE BOARD

GORAN KOTLAREVIĆ Strengthening sales operations and expanding the distribution range in all countries of the region represent the main field of Mr. Kotlarević's work. During his 16 years of work in M SAN Grupa in roles of the Head of Sales, the Director of Sales, and the Director of Business Development, Mr. Kotlarević has directly influenced the construction of a strong market presence of the company and its today's visibility. Since March 2021, Mr. Kotlarević has held the office of the member of the company's Management Board.

PAVO LEKO
MEMBER OF THE BOARD

PAVO LEKO As the member of the Management Board and the Director of Logistics Operations, Mr. Leko is using his knowledge and expertise to work on the expansion of logistics operations, the optimisation of processes, and raising the competencies of logistics employees in all countries where M SAN Grupa has affiliates. Over the past five years, thanks to Mr. Leko, the company has expanded the logistics capacities in Serbia and Bosnia and Herzegovina, introduced new logistics lines and a system of delivery within 24 hours, while also expanding its vehicle fleet. Mr. Leko has held the office of the member of the company's Management Board since 2017. On 31st January 2022 Mr. Leko resigned as a member of the Management Board and continued his career outside the Group.

The M SAN Supervisory Board consists of three members:

STIPO MATIĆ
THE CHAIRMAN 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 was the CEO of M SAN, after which he assumed the office of the Chairman of the M SAN Supervisory Board. Furthermore, Stipo Matić is the CEO of the companies M SAN Logistika d.o.o., M SAN Ulaganja d.o.o., and M SAN EKO d.o.o., a member of the Management Board in eKupi d.o.o., as well as the Chairman of the Supervisory Board of the company KING ICT d.o.o. Nowadays, the portfolio of companies owned by him includes the companies 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., as well as other companies.

MARKO RAŠIĆ
THE DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD

MARKO RAŠIĆ began his career at M SAN in 2003 as an apprentice in the Department of Finances and has advanced to the function of Head of Finance in 2011. During the acquisition period of the Group in the agricultural sector, he actively participates in takeover processes and subsequent financial restructuring of acquired agricultural companies. In M SAN's Supervisory Board, he has held the office of the Deputy Chairman of the Supervisory Board since 2016. He has been appointed as the CEO of the company Ured za podršku d.o.o. in 2017.

SNJEŽANA MATIĆ
A MEMBER OF THE SUPERVISORY BOARD

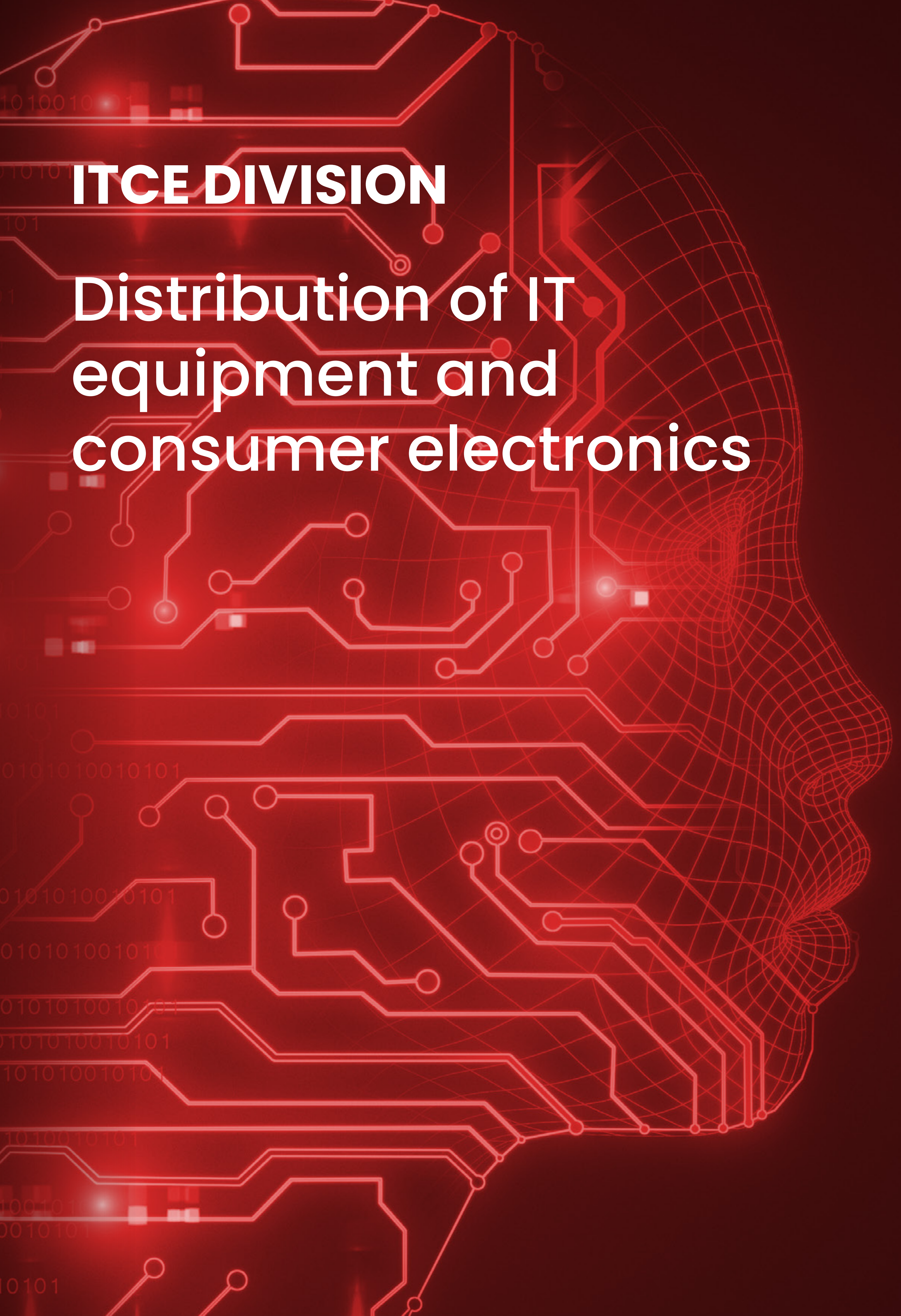
SNJEŽANA MATIĆ has participated in M SAN's business since the company was founded. In the beginnings, she worked in sales and afterwards, on procurement tasks with a particular focus on building long-term sustainable business relationships with suppliers. As a response to the growth of M SAN's business activities, she took over the coordination of accounting and finance activities, after which she dedicated her time to the development of system integration business since 2004, where she works today in the field of controlling. She has been a member of the M SAN Supervisory Board since 2004.

Along with the Supervisory Board and the Management Board, the role of the Audit committee, consisting of three members, Branislav Vrtačnik, Kristina Alebić, and Branka Gerić, is to provide support to the Supervisory Board in performing its tasks and conducting other activities in accordance with applicable laws and other provisions. The Audit committee represents an advisory board to the Supervisory Board, without executive powers, i.e., acts as a specialised sub-board of the Supervisory Board and its powers are derived from the Supervisory Board's powers.

OPERATIVE
Business

ITCE DIVISION

Distribution of IT equipment and consumer electronics



ITCE DIVISION

With its 111 employees, the Division does business on the territories of the Republic of Croatia, Serbia, Bosnia and Herzegovina, Macedonia, and Montenegro.

It encompasses the categories of 19 strategic product groups that are related to A brands of global manufacturers within the M SAN Grupa's product portfolio. The IT part covers strategic product groups that cover desktop and laptop computers and include computer components and accessories that are closely related to the computer itself. The most important strategic groups in the IT part are laptop and desktop computers, components that are part of the computer, peripherals, information storage, consumables, printers, network equipment, monitors, and gaming range, while the CE range covers strategic groups of appliances, TVs, air conditioners, drones, new technologies, small household appliances, mobile phones, and consumer electronics.

The primary goal of the business sector of the ITCE Division is the distribution of all of the suppliers' strategic groups that are part of the division portfolio to all territories that it does business on. The total number of customers has risen on all markets by 4% in the ITCE business sector in all distribution channels, when compared to the previous year.

The ITCE business sector has noted a total revenue of 1,420 million HRK in 2021, which represents a small reduction of the result achieved in the previous year (-0.5%). When compared to the previous year, a growth was noted on the markets of Serbia (15.4%), Macedonia (28.2%), and Montenegro (13.8%).

The geographical structure of revenue still shows no significant changes, with the Croatian market continuing to dominate with its value share of 53.2% in total revenue, followed by the markets of Serbia with 26.6

%, Bosnia and Herzegovina with 11.4%, Macedonia with 5.1%, and Montenegro with 3.5%.

At the same time, the strategic group of gaming has achieved the largest growth when compared to the previous year, in the amount of 31.5%, which is an indicator that the global gaming market is developing strongly and taking an ever more significant influence in the revenue of strategic groups. Through the growth of revenue, the share of gaming in the total portfolio of the ITCE Division has also increased from 7.9% to 10.4%.

The key factors that have impacted sales results in 2021 are the continuation of the COVID-19 pandemic and continued challenges in the supply chain. The lack of certain components in manufacturing processes of our suppliers and restrictions related to the pandemic have affected the discontinuous supply chain of goods. The supply chain itself and the lack of certain components has caused goods shortages for certain strategic groups, particularly in the part of working from home, where there was an increased demand for laptop and desktop computers, monitors, and printers.

VIVAX

Manufacture and distribution of own brand

VIVAX

The VIVAX Division covers the business of our own brand VIVAX in the consumer electronics sector. The range is made up from products sorted in four primary strategic groups: TVs, appliances, small household appliances, and air conditioners, as well as secondary: consumer electronics, tablet devices, telephones, and gadgets.
In the first half of 2021, we invested funds into researching the markets of Croatia and Serbia that resulted in the current perception of the VIVAX brand by end users. The research was conducted in collaboration with an external agency and a new brand strategy was based on them.
In accordance with the brand strategy, VIVAX has an extremely strong "initial position" and in order to raise the business to the next level, focused, continuous, and consistent investments in marketing and building the brand are necessary. Therefore, in the fourth quarter of 2021, we initiated brand campaigns with the aim of building the trust of end users.

In 2021, the VIVAX Division has generated a revenue of 488 million HRK, which represents a growth of 15.1% when compared to 2020. The share of primary strategic groups in total revenue of VIVAX in 2021 amounted to 92.4%.

The market share has changed in such a manner that the dependence on the domicile Croatian market has reduced from 31.8% to 27.6%, while the regional market share has increased from 48.7% to 49.8% and the export from 19.6% to 22.6%, which is in line with the business development and export strengthening strategy in the region.

The revenue growth was achieved in primary strategic groups: air conditioners 36.7%, small household appliances 36.8%, and appliances 69.2%, while the strategic group of TVs noted a drop in revenue in the amount of 6.1%. The main reason of the drop in revenue of the TV strategic group was a result of the significant price increase of LED screens (the purchase price increased by more than 60%), which has had the most impact on the revenue from the Croatian and Serbian markets.

GREEN DIVISION

GREEN DIVISION

The focus on sustainable business and the Group's desire to incorporate green technologies into the business model have been set in previous business periods. Noticing the business and environmental advantages of modern lighting technologies in the past five years, we have, through significant investments, transferred to LED lighting complete storage and production facilities in Rugvica near Zagreb and administrative facilities in Buzin, and we have launched similar investments in all our companies in the region.

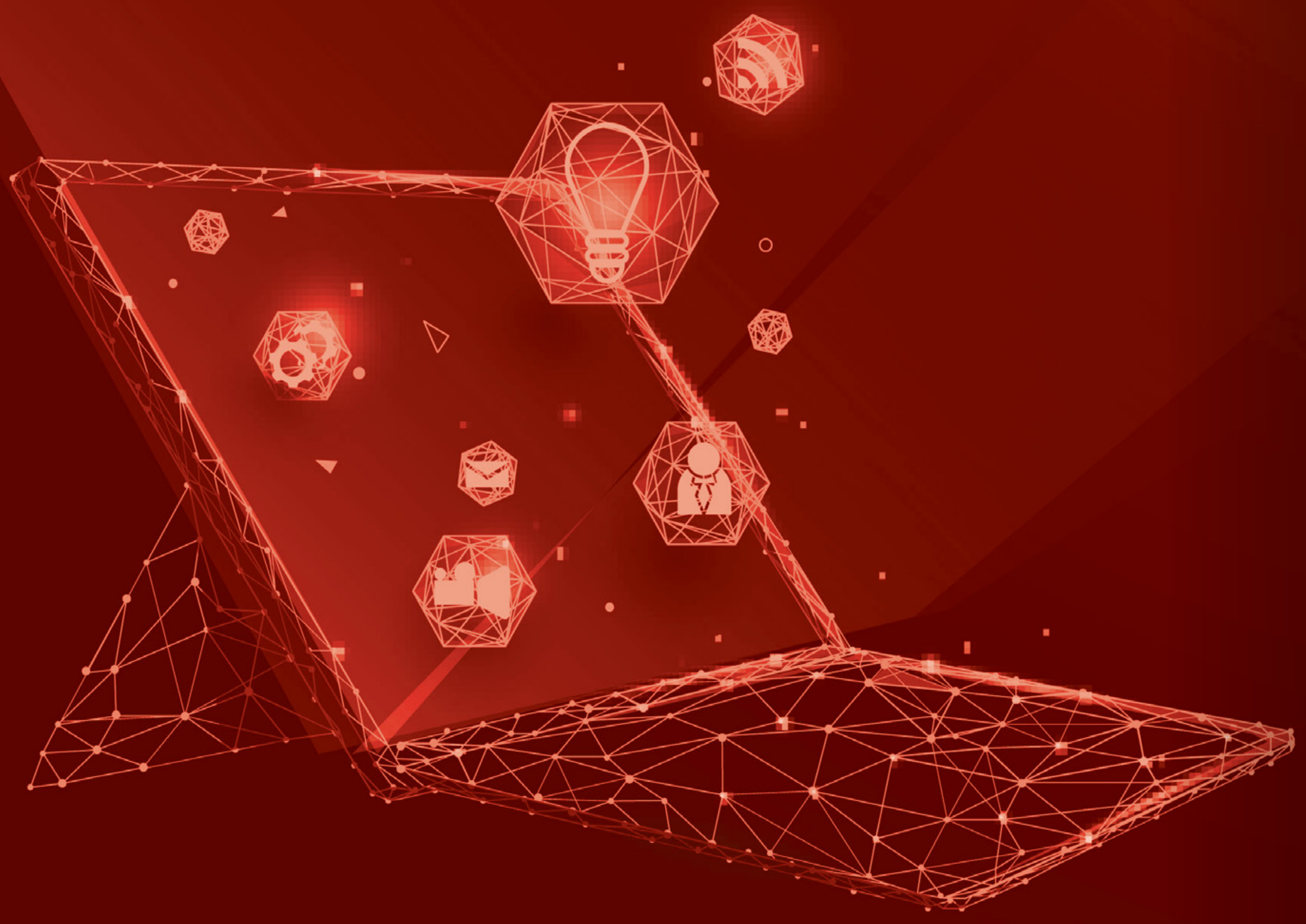
Recognizing the trends that green technologies bring to everyday life and business, such as the use of solar technology in electricity generation, efficiency of LED lighting and new ways of daily switching and use of free time brought by e-Mobility, we decided at the end of the business year. divisions to single out our own brand of e-Mobility MS Energy, and complete the business of the new division through the distribution of equipment for the construction and design of solar power plants and the production and distribution of LED lighting. Accordingly, the Green Division covers the business of three key verticals:

- e-Mobility through the framework of further development of its own brand MS Energy - production and sale of eRomobiles, eBicycles and eMotorcycles
- Solar power plants and green energy - distribution of solar equipment, design and construction of solar power plants and production and distribution of car chargers and batteries
- Professional LED lighting - production and distribution of professional LED lighting for the needs of local communities, infrastructure facilities and commercial facilities such as street lighting, industrial plants, farms, sports facilities and the like.

At the beginning of 2022, in the part of e-Mobility, in our area in Rugvica, we established our own plant for assembling electric bicycles with the aim of expanding the capacity for the production of electric scooters and in the foreseeable future to other light electric vehicles. At the end of the investment cycle, the planned annual capacity of the new plant will be 50,000 eBicycles or eRomobiles. In the distribution of solar equipment, we have established direct cooperation with renowned manufacturers of solar panels Longi, Jinko, Yingli, in the range of inverters with brands such as Sungrow, SMA, Huawei, Fronius, Fimer and in the charger segment with manufacturers: Wallbox, Fimer, SMA and Circontrol. In the part of production and distribution of LED lighting, towards the end of 2021, the process of establishing production within the M SAN Group was started.

ENTERPRISE
(VALUE ADDED DISTRIBUTION)

Value added IT distribution



ENTERPRISE

The Enterprise Division is value-added IT distribution (VAD distribution) organised in several departments: InfGROWTHructure Department, Software and Cloud Department, Special Projects Department, and Sales Department, in order to provide competitive goods and services to ICT business partners.

This business segment deals in distribution of products and services with a larger share of added value.

- doing business with more demanding product portfolio - servers, information storages, networks, software, solutions, video surveillance, industrial specialised products, cloud computing (cloud)
- doing business with more demanding customers - system integrators (SI), software developers (ISV), service providers (MSP) - demanding a higher level of knowledge and complex skills, as well as expert specialisation of employees
- doing business with more demanding suppliers - complex and dynamic, technological, technical, and operative processes, as well as extreme range and depth of technologies and product specialisations.

ENTERPRISE

Despite complex market circumstances caused by unprecedented unforeseen circumstances - COVID-19, in 2021, the Enterprise Division has generated a consolidated revenue of 448.7 million HRK, which is a growth of 5.9% on an annual basis and the growth of gross margin by 13%, representing the best result of the division ever.

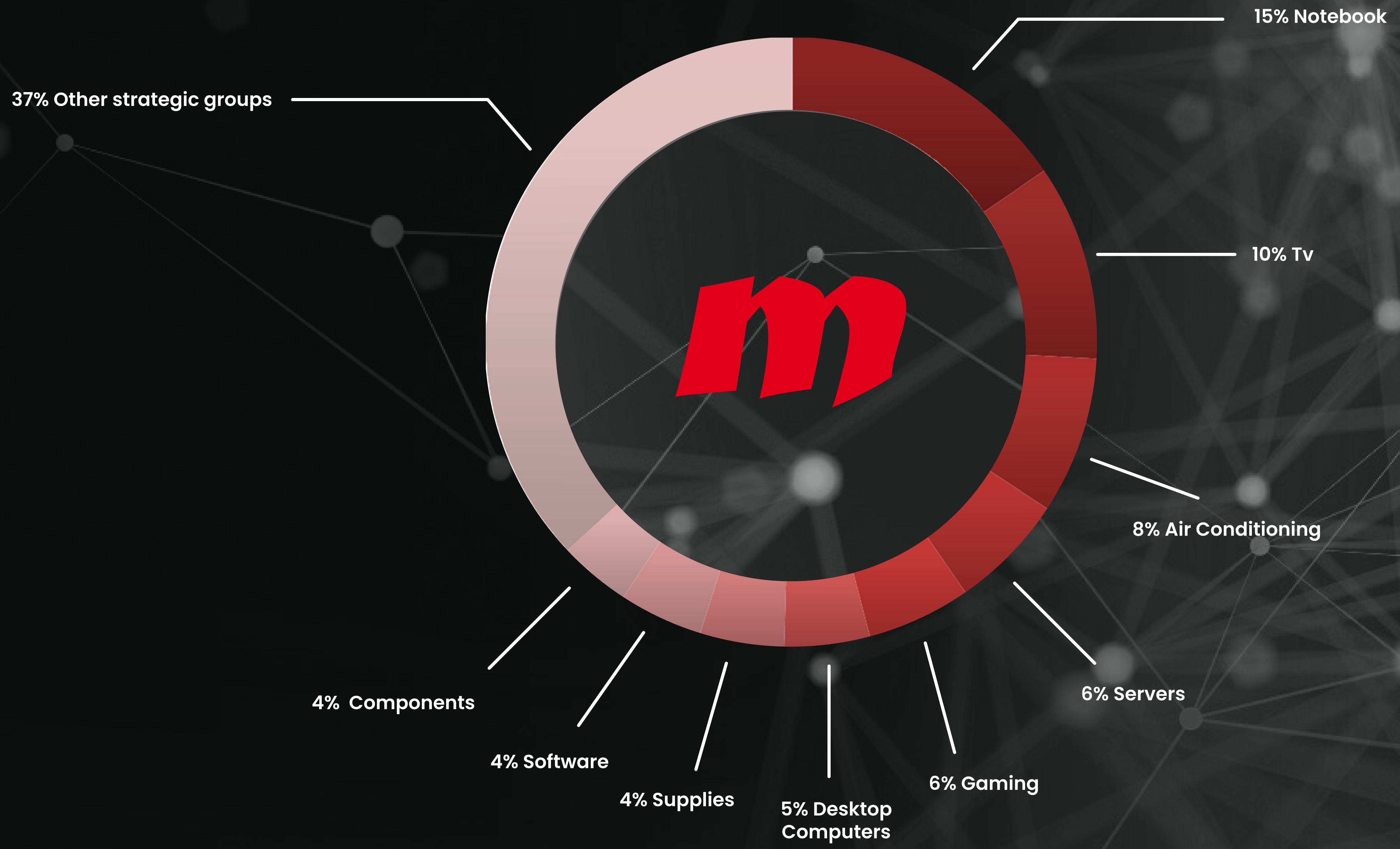
The software segment has generated a consolidated revenue growth of 2.2%, the infrastructure segment (hardware) a growth of 5%, while the cloud segment generated a growth of 50%. Individually, all of the markets also generated a revenue growth, with the exception being Bosnia and Herzegovina that had a significant drop in the infrastructure segment due to external, but also complex internal factors in the country, such as the technical budget and suspended and limited projects of large users in the public sector.

ENTERPRISE

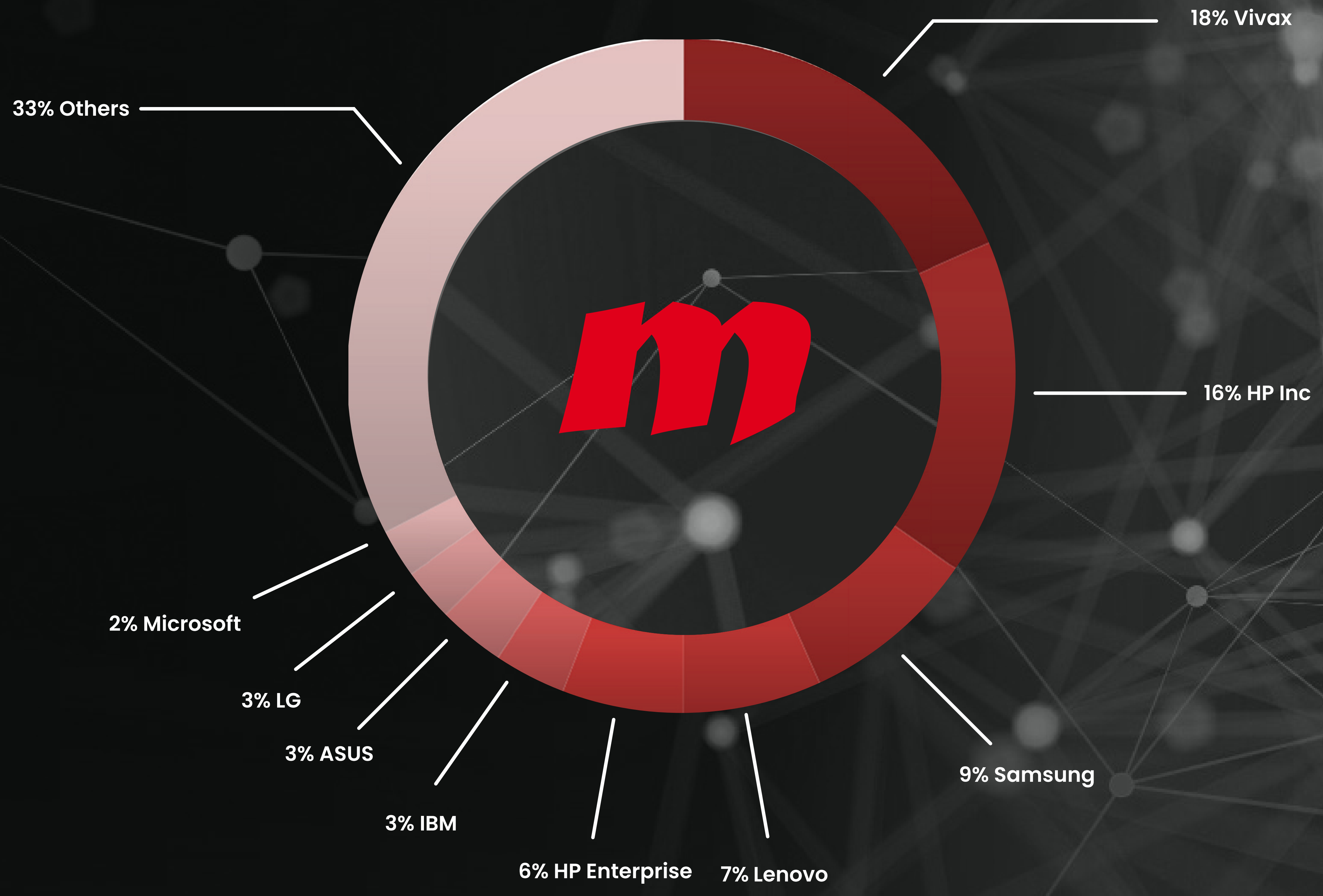
Furthermore, the Enterprise Division has continued its investment cycle and increased the number of its specialists. Investments in the technological eCommerce and modern marketing platforms have also continued, such as the Cloud (as shown by the growth of the segment), while trainings, conferences, workshops, certifications, and all other necessary activities that were suspended due to COVID-19 were successfully substituted by modern online tools and platforms.

As part of the continuous research and analysis of market trends, Enterprise has won international competitions in 2021 and expanded its offer with new world-renowned ICT manufacturers in the rapid-growing domain of cybersecurity solutions and now distributes Sophos, Acronis, and Immuniweb products to its partner channel in the entire region.

SALES REVENUES BY STRATEGIC GROUPS IN 2021



SHARES IN REVENUES FROM THE SALE OF BRANDS IN 2021



SALES REVENUES BY MARKETS IN 2021

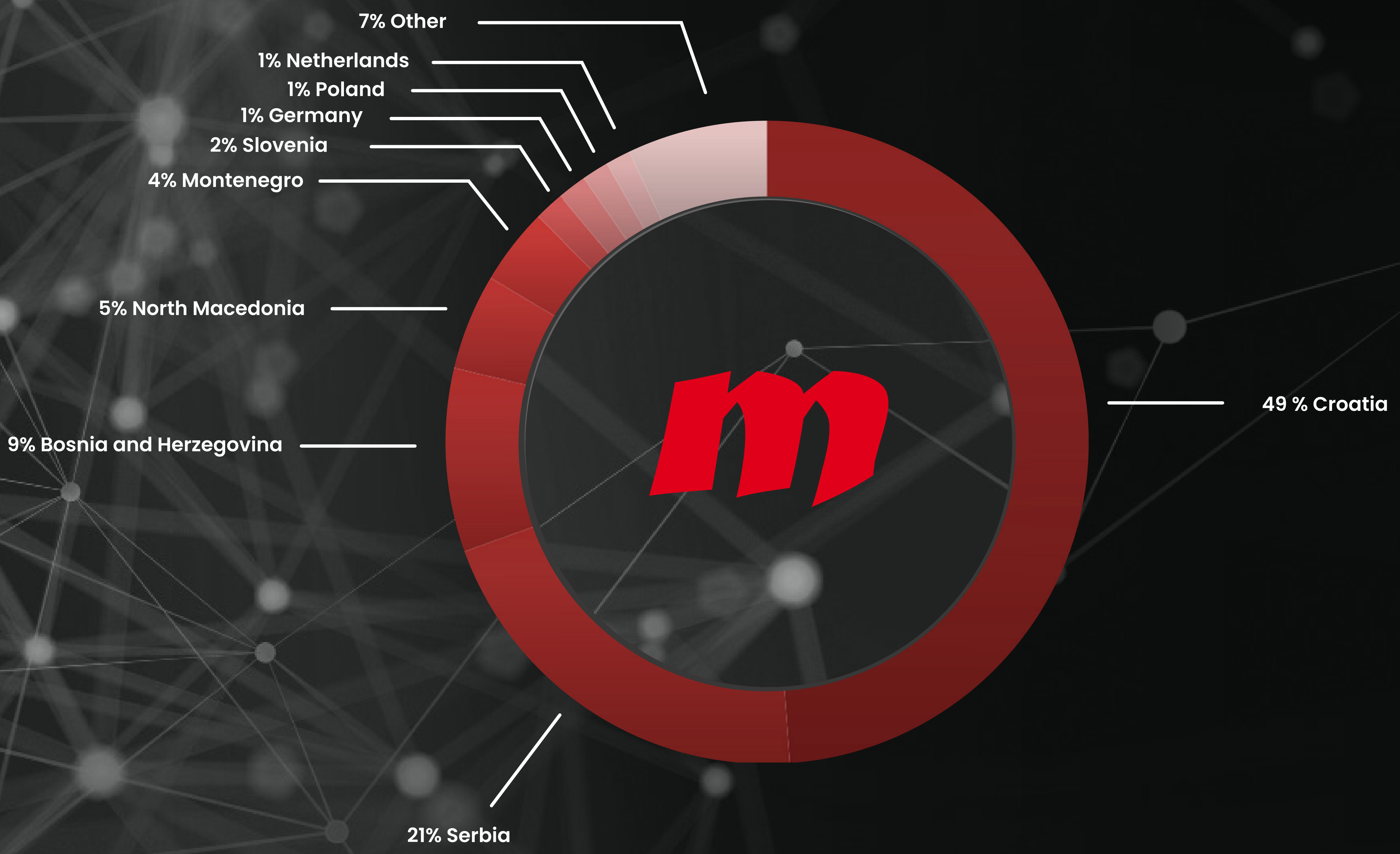


TABLE 1.

Profit and loss account for 2021

(In thousands of HRK)	2020.	2021.	2021./2020.
Business revenue*	2,653,590	2,710,063	2.1%
EBITDA*	47,633	85,948	80.4%
EBITDA Normalised*	64,413	86,392	34.1%
EBIT*	36,205	73,398	102.7%
EBIT Normalised*	52,985	73,842	39.4%
Profit for the year*	21,135	46,691	120.9%
Profit for the year Normalised*	37,915	47,135	24.3%

TABLE 2.

Financial indicators in 2021

(In thousands of HRK)	31.12.2020.	31.12.2021.
Net debt*	73,696	178,826
Total assets	914,861	1,109,771
Total capital and reserves	331,460	379,444
Current assets and short-term liabilities relation*	1.4	1.5
Net working capital (given)*	14.9	30.1
Capital share in total equity and liabilities*	36.2%	34.2%
Net debt / Normalised EBITDA*	1.1	2.1

*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.

TABLE 3.

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 / Normalised EBITDA	Net debt divided by normalised EBITDA
Net working capital (days)	Sum of inventory turnover days increased by receivables collection days less supplier payment days
Net profit margin	Net profit margin is defined as the profit for the year divided by the business revenues
Normalisation or normalised	Normalization refers to the adjustment of alternative performance measures (APM), and includes their adjustment for one-off transactions of the Group, in order to clearly present the results that come from usual operations. During the normalization of the APM, the amounts were increased by the recognized impairments, and decreased by the realized gains from the sale of fixed assets.
Current assets and short-term liabilities relation	Value of Current assets divided by current liabilities

The above-mentioned measures are not financial performance measures in accordance with the International Financial Reporting Standnards 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

CAPITAL RISK.

The Group manages its capital in order to ensure that the entities within the Group have an unlimited amount of time to continue the business, while, at the same time, realising the maximum possible return for stakeholders through the optimisation of the status between equity and debt.

CURRENCY RISK.

The Group and the company execute certain transaction in foreign currencies and are, therefore, exposed to risks arising out of changes in the currency exchange rates.

CREDIT RISK.

The credit risk means the risk from non-payments, i.e., defaults on contractual obligations by the Group and company's customers that impacts the possible financial loss of the Group and company. The Group and company have adopted procedures that they apply in doing business with the customers and collect payment collaterals wherever possible for the purpose of protecting from possible financial risks and losses resulting from defaults of payments and contractual obligations.

INTEREST RATE RISK.

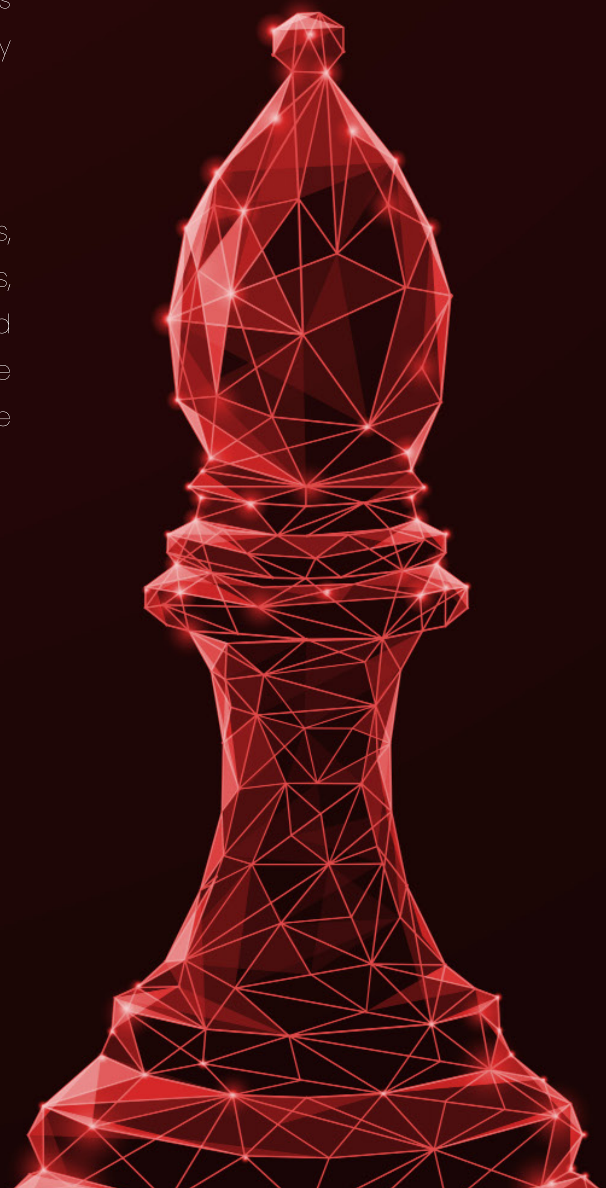
In July 2021, the Group issued a corporate bond with a fixed interest rate that is related to the majority of the Group's financial debt. Due to the fact that the company and the Group use loans with fixed and floating interest rates, they are exposed to the risk posed by the change in interest rates. Most of the company and Group's loans have been agreed on with a fixed interest rate.

LIQUIDITY RISK.

The ultimate responsibility for managing credit risk lies with the Management Board that has set a quality framework for the management of liquidity risk of short, medium, and long positions of the group and defined the requests related to liquidity management.

MARKET RISK.

The market risk means the risk that the changes to market prices, currency exchange rates, and interest rates impact the revenues, investment value, or financial instruments of the company and the Group. The goal of market risk management is to control the exposure to the market risk within acceptable values, while, at the same time, optimising the results.



Plans and Expectations of the Management for 2022

The company is expected to further grow the business on the domestic and foreign markets in 2022. Investments into digitalisation that are partially financed by the EU shall contribute to investments into IT equipment and infGROWTHructure. A large part of these products is placed on the market through distribution channels in which M SAN Grupa has a significant market share.

At the end of 2021, a new Green division was founded for the development and sale of solutions for the use of solar energy, the production, and solutions for the use of LED lighting, and the further development of e-mobility. Special attention shall be given to further development of environment protection policies through the use of renewable energy sources and waste disposal.

The Group shall continue to invest in the business development, particularly its own brand, logistics, and solutions for quality business monitoring and planning. Apart from the orientation towards organic growth, the Group shall continue to monitor market developments and, in accordance with identified opportunities, participate in acquisitions that it estimates could contribute to the business development.

In addition, it is extremely important to foresee possible business risks and quickly adapt the business to market changes. Issues with production and supply of goods, as well as the supply chains affected by the pandemic are still expected. The contracts with multiple leading manufacturers for essential groups of products and ensuring sufficient quantities of components for own brands in a timely manner guarantee the continued delivery to our partners.

Therefore, despite all challenges, we are optimistic about the business development in 2022 and have reasons to expect that we shall achieve set goals and ensure further growth and development of M SAN Grupa.

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 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.

The Management Board of the Company approved the consolidated and separate financial statements at the meeting held on April 25 2022.

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

M San Grupa d.o.o.
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10000 Zagreb
Republic of Croatia

29 April 2022

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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 2021, 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 a summary of 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 2021 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 EU (IFRS as adopted by the EU).

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), 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 matter 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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Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;
Members of the Board: Berislav Horvat, Ivana Krajinović, Zvonimir Madunić

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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 170,676 thousand as of 31 December 2021. The carrying amount of the investments in subsidiaries and associates represents 23% 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 (2021) actual results with the figures included in the prior year (2020) 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.

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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 44,441 thousand as of 31 December 2021. The carrying amount of the goodwill represents 4% 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 (2021) actual results with the figures included in the prior year (2020) 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 included in the Company's and the Group's Annual Report for year 2021

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the 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 including the Management report and Corporate Governance Statement.

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 includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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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 for the 2021 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2021 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's and the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's and the Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the light of the knowledge and understanding of the entity and Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual report. 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 as adopted by the EU, 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

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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.

- 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 25 August 2021, representing a total period of uninterrupted engagement appointment of 2 years.

A member firm of Ernst & Young Global Limited
Mjerodavan sud: Trgovački sud u Zagrebu; Temeljni kapital: 20.000,00 kuna, uplaćen u cijelosti;
Članovi Uprave: Berislav Horvat, Ivana Krajinović, Zvonimir Madunić
Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;
Members of the Board: Berislav Horvat, Ivana Krajinović, Zvonimir Madunić

Building a better working world

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 25 April 2022 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.

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

We have conducted a reasonable assurance engagement on whether the financial statements, as contained in the attached electronic file 2f50158c20205221bc715f1cef2cc6ed81921e7ad01c7ed1941c886660f50b39, 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 those charged with governance

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

- the public disclosure of financial statements in ESEF format
- selecting and using XBLR codes in accordance with ESEF regulation

Those charged with governance are responsible for overseeing the preparation of the 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 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.

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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.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the annual report, are prepared in the relevant XHTML format,
- the information contained in the financial statements required by the ESEF Regulation is marked and all markings meet the following requirements:
  - the XBRL markup language was used,
  - 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,
  - 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 financial statements presented in ESEF format for the year ended on 31 December 2021, 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 opinion contained in part of this report related to accompanying financial statements and annual report for the year ended 31 December 2021, we do not express any opinion on the information contained in these presentations or on any other information contained in the aforementioned file.

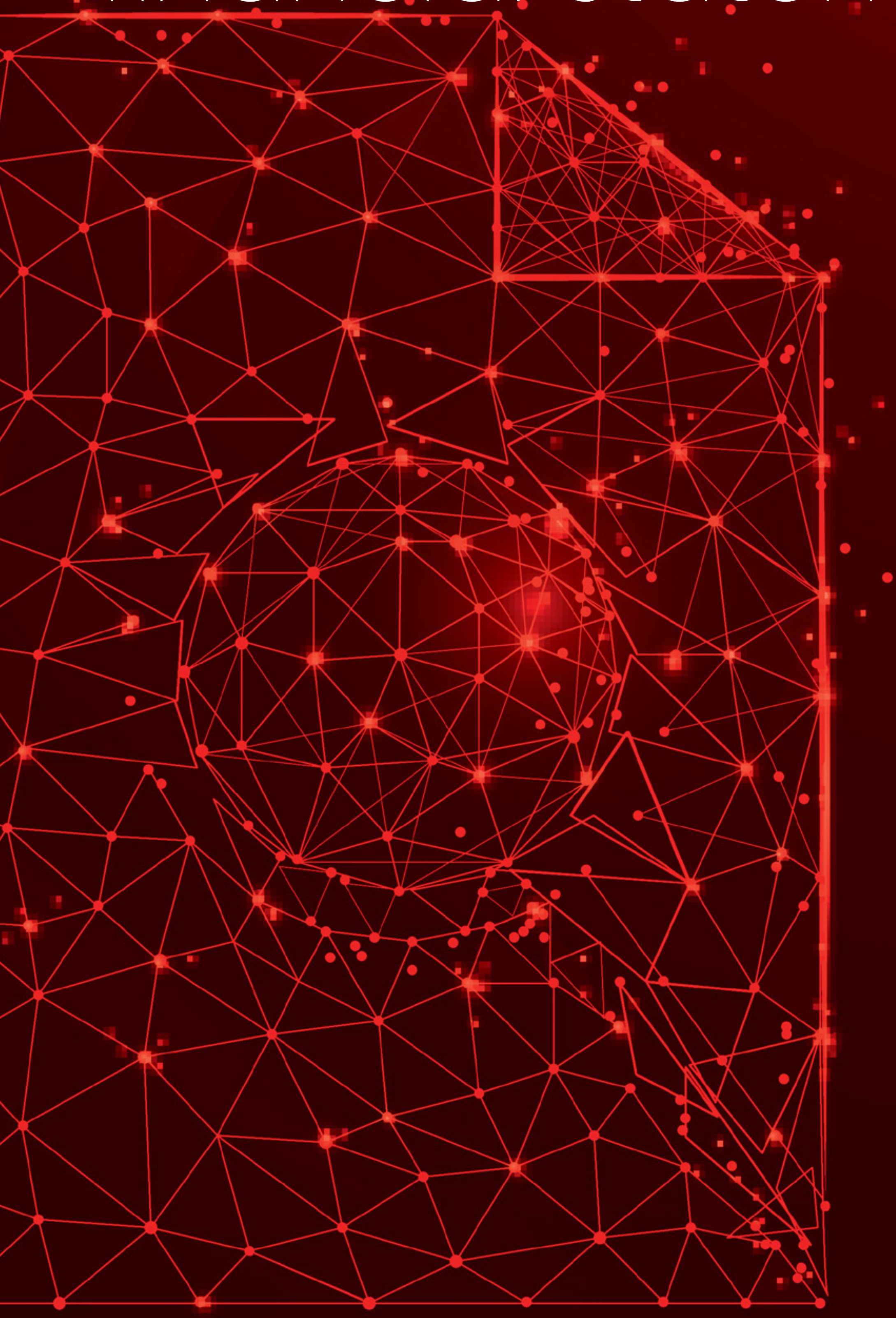
The partner in charge of the audit resulting in this independent auditor's report is Ivana Krajinović.

Ivana Krajinović

Ivana Krajinović
Member of the Board and Certified auditor
29.04.2022

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

Consolidated financial statements



Consolidated statement of comprehensive income, for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

	Notes	2021	2020
OPERATING INCOME			
Sales	5	2,698,568	2,640,558
Cost of goods sold	8	(2,342,423)	(2,332,169)
Gross profit		**356,145**	**308,389**
Other operating income	6	11,495	13,032
(Decrease) / Increase in inventories of finished goods and work in progress		(399)	(3,304)
OPERATING EXPENSES			
Cost of raw material and supplies	7	(38,659)	(42,694)
Cost of services	9	(117,605)	(101,214)
Staff costs	10	(97,183)	(89,597)
Depreciation and amortization	11	(12,550)	(11,428)
Other expenses	12	(20,480)	(16,184)
Impairment allowance	13	(1,360)	(17,974)
Provisions for risks	33	(2,168)	(79)
Other operating expenses	14	(3,838)	(2,742)
Total operating expenses		**(293,843)**	**(281,912)**
Operating profit		**73,398**	**36,205**
FINANCIAL INCOME AND EXPENSES			
Financial income	15 a	11,029	17,777
Financial expenses	15 b	(34,948)	(29,080)
Net financial expense		**(23,919)**	**(11,303)**
Share of net result of associates	16	2,593	2,898
Profit before tax		**52,072**	**27,800**
Income tax	17	(5,381)	(6,665)
Profit for the year		**46,691**	**21,135**
OTHER COMPREHENSIVE INCOME			
Translation exchange differences and other		(202)	1,610
Total comprehensive income for the year		**46,489**	**22,745**
Profit attributable to:			
Owner of the Company		46,250	21,049
Non-controlling interests		441	86
		46,691	**21,135**
Total comprehensive income attributable to:			
Owner of the Company		46,041	22,656
Non-controlling interests		448	89
		46,489	**22,745**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of financial position, at 31 December 2021
(all amounts are expressed in thousands of kuna)

ASSETS	Notes	31 December 2021	31 December 2020
NON-CURRENT ASSETS			
Intangible assets	18	33,217	22,758
Goodwill	19	44,441	44,441
Property, plant and equipment	20	193,851	135,933
Investment in associates	21	44,355	67,790
Deposits and loans given	26	18,473	18,992
Long-term receivables		127	127
Deferred tax assets	17	188	268
TOTAL NON-CURRENT ASSETS		**334,652**	**290,309**
CURRENT ASSETS			
Inventories	22	279,414	169,942
Trade receivables	24	327,326	289,644
Prepayments	23	34,691	19,850
Receivables from employees		137	106
Investments in securities		144	-
Receivables from the State and other institutions	25	11,766	4,168
Given loans and deposits	26	7,066	7,843
Prepaid expenses and accrued income	27	7,658	6,604
Other receivables	28	9,237	10,015
Cash and cash equivalents	29	97,680	116,380
TOTAL CURRENT ASSETS		**775,119**	**624,552**
TOTAL ASSETS		**1,109,771**	**914,861**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of financial position (continued), at 31 December 2021
(all amounts are expressed in thousands of kuna)

EQUITY AND LIABILITIES	Notes	31 December 2021	31 December 2020
EQUITY			
Share capital	30	109,198	97,000
Legal reserves	32	16,725	6,779
Reserves from exchange of foreign currencies		(5,571)	(5,360)
Retained earnings	31	238,207	233,415
EQUITY HOLDERS OF THE PARENT		**358,559**	**331,834**
Non-controlling interest		20,885	(374)
TOTAL EQUITY		**379,444**	**331,460**
NON-CURRENT LIABILITIES			
Provisions for risks	33	4,456	3,742
Long-term borrowings and finance lease obligations	34	36,639	116,449
Liabilities for bond issued	36	180,000	-
Other long-term liabilities		-	1,039
Liabilities for right of use assets		1,146	-
Deffered tax liability	17	139	1
TOTAL NON-CURRENT LIABILITIES		**222,380**	**121,231**
CURRENT LIABILITIES			
Short-term bank borrowings and finance lease obligations	35	39,867	73,627
Current portion of non-current Bond payables	36	20,000	-
Advances received	37	10,497	5,898
Trade payables	38	365,821	329,488
Liabilities for right of use assets		616	-
Payables towards employees		6,169	5,261
Taxes, contributions and similar payable	39	30,120	35,241
Income tax liability		2,172	1,851
Dovidend liabilities		7	-
Factoring liabilities	40	21,141	5,655
Other current liabilities	41	3,673	401
Accrued expenses and deferred income	42	7,864	4,748
TOTAL CURRENT LIABILITIES		**507,947**	**462,170**
TOTAL EQUITY AND LIABILITIES		**1,109,771**	**914,861**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of changes in equity
For the year ended 31 December 2021
(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 2020	**97,000**	**6,634**	**(6,962)**	**213,262**	**309,934**	**(450)**	**309,484**
Transfer of profit	-	143	-	(143)	-	-	-
Decrease of non-controlling interest for additionally purchased shares	-	-	-	13	13	(13)	**-**
Sale of related Company	-	-	(3)	(766)	(769)	-	**(769)**
Profit for the year	-	-	-	21,049	21,049	86	**21,135**
Other comprehensive income	-	2	1,605	-	1,607	3	**1,610**
Total comprehensive income for the year	-	*2*	1,605	*21,049*	*22,656*	*89*	***22,745***
Balance at 31 December 2020	**97,000**	**6,779**	**(5,360)**	**233,415**	**331,834**	**(374)**	**331,460**
Merger of a company (note 46)	12,198	9,944	-	(24,828)	(2,686)	-	**(2,686)**
Separation of an affiliated company (note 46)	-	-	-	(33,540)	(33,540)	-	**(33,540)**
Acquisition of an affiliated company (note 46)	-	-	-	(1,305)	(1,305)	44,483	**43,178**
Decrease of non-controlling interest for additionally purchased shares (note 46)	-	-	-	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**

Accounting policies and notes are integral part of these financial statements

Consolidated statement of cash flows, for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		46,691	21,135
Adjusted by:			
Income tax	17	5,381	6,665
Depreciation of property, plant and eqipment and amortization of intangible assets	11	12,550	11,428
Impairment of intangible assets	13	274	233
Impairment allowance of trade receivables	13	756	17,720
Net movement in long-term provisions	33	1,686	(316)
Net interest expense	15a, 15b	7,897	7,207
Loss from sale of associated company	15b	4,124	-
Other non-monetary transactions		(323)	885
		79,036	**64,957**
CHANGES IN WORKING CAPITAL			
(Increase) / decrease in inventory		(109,472)	17,418
(Increase)/ decrease in trade receivables		(38,438)	10,391
(Increase) / decrease in given advances		(14,841)	3,289
(Increase)/ decrease in other receivables		(4,215)	10,169
Increase / (decrease) in received advances		4,598	(2,206)
Increase in trade payables		36,342	10,578
Increase/ (decrease) in other current liabilities		8,572	(13,410)
CASH GENERATED FROM OPERATIONS		**(38,418)**	**101,186**
Interests paid		(1,498)	(4,332)
Income taxes paid		(7,328)	(6,401)
Net cash generated from operating activities		**(47,244)**	**90,453**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18, 20	(35,422)	(16,761)
Interests collected		369	2,803
Cash disbursements for shares in associated companies		-	(19,268)
Cash receipts for sale of shares in associated companies		560	14,545
Cash receipts/ (disbursemens) from loans given		(9,678)	24,937
Net cash used in from investing activities		**(44,171)**	**6,256**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financial institutions		131,824	398,721
Payments made to financial institutions		(259,109)	(471,878)
Cash receipts from bond issuance		200,000	-
Dividend payment		-	(1,000)
Net cash used in financing activities		**72,715**	**(74,157)**
Net decrease in cash and cash equivalents		**(18,700)**	**22,552**
Cash and cash equivalents at the beginning of the year	**29**	**116,380**	**93,828**
Cash and cash equivalents at the end of year	**29**	**97,680**	**116,380**

Accounting policies and notes are integral part of these financial statements

Separate Financial Statements

Separate statement of comprehensive income, for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

	Notes	2021	2020
OPERATING INCOME			
Sales	5	2,133,956	2,038,618
Cost of goods sold	8	(1,948,839)	(1,886,814)
Gross profit		**185,117**	**151,804**
Other operating income	6	5,547	5,007
OPERATING EXPENSES			
Cost of raw material and supplies	7	(5,804)	(6,536)
Other external expenses	9	(98,341)	(78,332)
Staff costs	10	(37,238)	(34,348)
Depreciation and amortization	11	(7,979)	(5,426)
Other expenses	12	(8,694)	(5,755)
Impairment allowance	13	(586)	(16,545)
Provisions for risks	33	(1,035)	-
Other operating expenses	14	(2,955)	(1,607)
Total operating expenses		**(162,632)**	**(148,549)**
OPERATING PROFIT		**28,032**	**8,262**
FINANCIAL INCOME AND EXPENSES			
Financial income	15 a	13,050	26,894
Financial expenses	15 b	(30,029)	(24,556)
Net financial expense		**(16,979)**	**2,338**
Share of net result of associate	16	-	527
Profit before tax		**11,053**	**11,127**
Income tax	17	**-**	**(3,179)**
PROFIT FOR THE YEAR		**11,053**	**7,948**
OTHER COMPREHENSIVE INCOME		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11,053**	**7,948**

Accounting policies and notes are integral part of these financial statements

Separate statement of financial position, at 31 December 2021
(all amounts are expressed in thousands of kuna)

ASSETS	Notes	31 December 2021	31 December 2020
NON-CURRENT ASSETS			
Intangible assets	18	30,739	22,574
Property, plant and equipment	20	22,242	15,376
Investments in subsidiaries and associates	21	170,676	199,887
Deposits and loans given	26	18,300	18,863
Long-term receivables		127	127
Deferred tax assets	17	135	135
TOTAL NON-CURRENT ASSETS		**242,219**	**256,962**
CURRENT ASSETS			
Inventories	22	161,316	94,613
Trade receivables	24	228,896	174,127
Prepayments	23	22,715	19,118
Receivables from employees		89	66
Investments in securities		145	-
Receivables from the State and other institutions	25	5,499	2,762
Loans and deposits given	26	8,157	12,733
Prepaid expenses and accrued income	27	1,687	1,783
Receivables based on capital reduction and other receivables	28	6,694	7,879
Cash and cash equivalents	29	65,047	92,672
TOTAL CURRENT ASSETS		**500,245**	**405,753**
TOTAL ASSETS		**742,464**	**662,715**

Accounting policies and notes are integral part of these financial statements

Separate statement of financial position (continued), at 31 December 2021
(all amounts are expressed in thousands of kuna)

EQUITY AND LIABILITIES	Notes	31 December 2021	31 December 2020
EQUITY			
Share capital	30	109.198	97.000
Legal reserves		16.147	6.203
Retained earnings	31	49.384	93.092
TOTAL EQUITY		**174.729**	**196.295**
NON-CURRENT LIABILITIES			
Provisions for risks	33	2.651	2.005
Long-term bond liabilities	36	180.000	-
Long-term borrowings and finance lease liabilities	34	657	89.038
TOTAL NON-CURRENT LIABILITIES		**183.308**	**91.043**
CURRENT LIABILITIES			
Short-term bank borrowings	35	263	44.329
Current portion of non-current Bond payables	36	20.000	-
Advances received	37	5.858	6.115
Trade payables	38	317.166	291.969
Payables to employees		2.290	1.864
Taxes, contributions and similar payable	39	23.420	28.861
Factoring liabilities	40	8.436	143
Other current liabilities	41	2.968	13
Accrued expenses and deferred income	42	4.026	2.083
TOTAL CURRENT LIABILITIES		**384.427**	**375.377**
TOTAL EQUITY AND LIABILITIES		**742.464**	**662.715**

Accounting policies and notes are integral part of these financial statements

Separate statement of changes in equity, For the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

	Share capital	Legal reserves	Retained earnings	Total
Balance at 1 January 2020	**97,000**	**6,203**	**85,144**	**188,347**
Profit for the year	-	-	7,948	7,948
Total comprehensive income	-	-	7,948	7,948
Balance at 31 December 2020	**97,000**	**6,203**	**93,092**	**196,295**
Merger of a company (note 46)	12,198	9,944	(24,828)	(2,686)
Separation of an affiliated company (note 46)	-	-	(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**

Accounting policies and notes are integral part of these financial statements

Separate statement of cash flows, for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2021	2020
Profit for the year		11,053	7,948
Adjusted by:			
Income tax	17	-	3,179
Depreciation of property, plant and equipment and amortization of intangible assets	11	7,979	5,426
Impairment of intangible assets	13	274	233
Impairment allowance of trade receivables	13	312	16,312
Loss on sale of associated company	15b	2,046	-
Net movement in long-term provisions		1,035	(132)
Net interest expense	15a, 15b	6,436	5,008
Other non-monetary transactions		247	(601)
		29,382	**37,373**
CHANGES IN WORKING CAPITAL			
Decrease/ (increase) in inventory		(66,702)	5,708
(Increse)/ decrease in trade receivables		(55,081)	(5,291)
Decrease / (increase) in given advances		(3,598)	1,363
Decrease / (increase) in other receivables		1,625	52,342
(Decrease) in received advances		(257)	(26)
Increase/ (decrease) in trade payables		25,197	24,273
(Decrease) / increase in other current liabilities		1,203	(7,498)
CASH GENERATED FROM OPERATIONS		**(68,231)**	**108,244**
Interests paid		(1,112)	(3,659)
Income taxes paid		(2,538)	(4,979)
Net cash generated from operating activities		**(71,881)**	**99,606**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	18, 20	(21,498)	(13,933)
Interests collected		550	2,698
Cash receipts for sale of shares in associated companies		560	-
Cash receipts/ (disbursements) for loans given		(5,138)	13,414
Cash disbursements for purchase of shares in subsidiaries and asociates		(1,000)	(29,734)
Net cash used in investing activities		**(26,526)**	**(27,555)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from credit institution		39,179	138,024
Repayments of loans to financial institutions		(168,397)	(194,032)
Cash receipts from bond issuance		200,000	-
Dividends received		-	9,626
Dividend payment		-	(1,000)
Net cash used in financing activities		**70,782**	**(47,382)**
Net increase / (decrease) in cash and cash equivalents		**(27,625)**	**24,669**
Cash and cash equivalents at the beginning of the year	**29**	**92,672**	**68,003**
Cash and cash equivalents at the end of year	**29**	**65,047**	**92,672**

Notes to the consolidated and separate financial statements

Notes to the consolidated and separate financial statements

1. GENERAL INFORMATION

M SAN GRUPA d.o.o., Zagreb, is 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 Zagreb, Buzinski prilaz 10, 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 2021 and 2020:

Miroslav Huzjak, President of Management Board
Irena Langer-Breznik, Member of Management Board
Slaven Stipančić, Member of Management Board
Žarko Kruljac, Member of Management Board, since March 23, 2021
Pavo Leko, Member of Management Board until January 31, 2022

Supervisory Board in 2021 and 2020:

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

(all amounts are expressed in thousands of kuna)

1. GENERAL INFORMATION (CONTINUED)

Affiliated companies

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
		2021	2020	
KIM TEC D.O.O. VITEZ	Bosnia and Herzegovina	100%	100%	DISTRIBUTION
• KIM TEC SERVIS D.O.O. VITEZ	Bosnia and Herzegovina	100%	100%	MAINTAINANCE
• KIM TEC EKO D.O.O.	Bosnia and Herzegovina	95%	95%	COLLECTION AND DISTRIBUTION OF WASTE
• KIM TEC NEKRETNINE D.O.O. VITEZ	Bosnia and Herzegovina	100%	-	REAL ESTATE
• EKO BOSANSKA POSAVINA D.O.O.	Bosnia and Herzegovina	82%	-	AGRICULTURE
PD MODRIČA D.O.O.	Bosnia and Herzegovina	-	100%	AGRICULTURE
KIM TEC D.O.O. PODGORICA	Montenegro	100%	100%	DISTRIBUTION
PAKOM KOMPANI D.O.O.E.L.	Macedonia	100%	100%	DISTRIBUTION
KIM TEC D.O.O. BEOGRAD	Serbia	100%	100%	DISTRIBUTION
• KIM TEC SERVIS D.O.O. BEOGRAD	Serbia	100%	100%	MAINTAINANCE
• KIM TEC NEKRETNINE D.O.O. BEOGRAD	Serbia	100%	-	REAL ESTATE
M SAN LOGISTIKA D.O.O.	Croatia	100%	100%	LOGISTICS
M SAN EKO D.O.O.	Croatia	100%	100%	COLLECTION AND DISTRIBUTION OF WASTE
MR SERVIS D.O.O.	Croatia	60%	60%	MAINTAINANCE
ZELENA AGENDA 1.0. D.O.O.	Croatia	100%	-	CONSULTING
CORVUS INFO D.O.O.	Croatia	100%	-	IT
• KORVUS MK D.O.O.E.L	Macedonia	100%	-	IT

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDSA

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:

- **Amendment to IFRS 16** Leases Covid 19-Related Rent Concessions, issued on 31 March 2020 (effective date for annual periods beginning on or after 1 April 2021).
- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** Interest Rate Benchmark Reform – Phase 2, issued on 27 August 2020 (effective date for annual periods beginning on or after 1 January 2021).
- **Amendments to IFRS 4** Insurance Contracts – deferral of IFRS 9, issued on 25 June 2020 (effective date for annual periods beginning on or after 1 January 2021).

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 IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets**, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).
- **Amendments to Annual Improvements 2018-2020**, issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).
- **IFRS 17 Insurance contracts, issued on 18 May 2017**; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

The Company and the Group do not expect that the adoption of these standards and interpretations will have a material impact on the financial statements of the Company and the Group.

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. The endorsement might be expected in 2022. The Company and the Group do not expect the adoption of these standards and interpretations to have a material impact on the Group's consolidated financial statements.

- **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 (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).

- **Amendments to IAS 12** Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transactions, issued on 7 May 2021 (effective date for annual periods beginning on or after 1 January 2023).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

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

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.

Changes in the Group's ownership interests in existing subsidiaries

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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. SUMMARY 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 -

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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.

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.

(all amounts are expressed in thousands of kuna)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

i) 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.

ii) Sales of goods

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

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

Dividend and interest income

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

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

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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.

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 2021 and 2020 as well as the average rates applied in the translation of income and expense items are as follows:

Currency	31/12/2021	Average exchange rate for 2021	31/12/2020	Average exchange rate for 2020
RSD	15,64535	15,62818	15,60695	15,60822
KM	0,26018	0,25994	0,25950	0,25958
MKD	8,19732	8,18513	8,23422	8,18151
EUR	7,517174	7,523970	7,536898	7,534530

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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).

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. poslovnog spajanja) u transakciji koja ne utječe ni na oporezivu niti na računovodstvenu dobit. Such assets and liabilities are not recognised if the temporary

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

ii) Deferred tax (continued)

difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

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

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

On land owned no depreciation rate is applied.

Intangible assets
<u>**Intangible assets acquired separately**</u>

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.

Notes to the consolidated and separate financial statements (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

<u>**Internally generated intangible assets - research and development expenditure**</u>
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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets, excluding goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Tangible assets recognised at historical cost are depreciated using the straight-line method over the useful life of an asset. Depreciation commences in the first months following the month in which an asset is put in use.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade receivables and given advances

Trade receivables are initialy recognised at fair value and subseqently at amortized cost less any impairment.

The Company writes a trade receivable when there are data indicating that the borrower is in serious financial difficulties and does not have realistic returns, eg when the debtor has been liquidated or has entered bankruptcy proceedings or when the receivables from the buyer have exceeded a year, depending on what happens earlier. None of the written offs is subject to execution activities. Since the Company's historical credit loss experience does not show significantly different loss patterns for different segments of the customer, maturity-based impairment provisions do not differ from the different customer groups of the Company. 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. Factoring costs are recorded in financial expenses.

Cash and cash equivalents

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

Financial instruments

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

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

Financial assets

Classification of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at amortized cost (continued)

Impairment of financial assets (continued)

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)

(i) Significant increase in credit risk (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.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2021
(all amounts are expressed in thousands of kuna)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at amortized cost (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.
apravljen detaljan formalan plan za raskid ugovora o radu koji je bez realne mogućnosti povlačenja.

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 dama

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.

4. SEGMENT INFORMATION (CONTINUED)

As of 31 December 2021, reporting segments of the Group comprise several operating segments: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, 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 allocating resources and evaluating the performance of business segments.

Set out below is a breakdown of revenue and results of the Group by its reporting segments. The presented sales comprise sales to third parties, intra-segment sales and other sales.
Revenues and expenses presented at the level of operating segment represent total revenues / expenses generated from relations with third parties, but also subsidiaries from other operating segments. Such presentation of income and expenses is eliminated in the line "Eliminations and corrections".

Group segment revenue and results (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**

Notes to the consolidated and separate financial statements (continued)
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(all amounts are expressed in thousands of kuna)

4. SEGMENT INFORMATION (CONTINUED)

Group segment revenue and results (continued)

2020	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Sales less customer discounts and allowances	2,141,674	317,884	488,541	66,152	118,040	3,132,291	(491,733)	2,640,558
Cost of goods sold less supplier discounts and allowances	(1,918,812)	(268,295)	(438,342)	(57,722)	(101,769)	(2,784,940)	452,771	(2,332,169)
Changes in inventory	-	(3,304)	-	-	-	(3,304)	-	(3,304)
Other operating income	7,035	2,534	2,927	307	103	12,906	126	13,032
Other operating expenses	(223,354)	(41,581)	(40,993)	(6,772)	(9,748)	(322,448)	40,536	(281,912)
Profit from operations	**6,543**	**7,238**	**12,133**	**1,965**	**6,626**	**34,505**	**1,700**	**36,205**
Net finance expenses	2,392	(1,051)	(914)	(132)	100	395	(8,800)	(8,405)
Profit before taxes	**8,935**	**6,187**	**11,219**	**1,833**	**6,726**	**34,900**	**(7,100)**	**27,800**

(all amounts are expressed in thousands of kuna)

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

2021	Croatia	Bosna 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)	271,509
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**

2020	Croatia	Bosnia and Herzegovina	Serbia	Montenegro	Macedonia	Total	Eliminations / Corrections	Total
Tangible and intangible assets	39,780	92,848	24,741	858	466	158,693	44,439	203,132
Other non-current assets	219,012	23,304	426	2	129	242,873	(155,696)	87,177
Current assets	416,280	79,539	110,603	22,227	34,395	663,044	(38,492)	624,552
Total assets	**675,072**	**195,691**	**135,770**	**23,087**	**34,990**	**1,064,610**	**(149,749)**	**914,861**
Long-term liabilities	91,802	6,290	23,127	-	12	121,231	-	121,231
Short-term liabilities	394,866	59,784	34,539	4,330	4,620	498,139	(35,969)	462,170
Total liabilities	**486,668**	**66,074**	**57,666**	**4,330**	**4,632**	**619,370**	**(35,969)**	**583,401**

5 . SALES INCOME

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Domestic sales of goods	2,250,450	2,228,760	1,281,225	1,310,503
Foreign sales of goods	363,160	312,150	676,448	567,077
Service provision	77,718	75,914	35,941	37,277
Sales of spare parts	46,212	45,558	-	-
Re-export sales	21,274	27,275	210,443	180,085
Income from the sale of licences	6,109	3,520	-	-
Other	8,205	10,244	-	-
Allowances and discounts given to customers	(74,560)	(62,863)	(70,101)	(56,324)
Total	**2,698,568**	**2,640,558**	**2,133,956**	**2,038,618**

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.

Re-export 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.

5 . SALES INCOME (CONTINUED)

Overview of gross sales by countries in which it was realised

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Croatia	1,284,174	1,329,012	1,266,936	1,318,563
Serbia	573,207	478,151	301,090	247,004
Bosnia and Herzegovina	241,362	314,468	123,480	107,312
North Macedonia	129,317	101,914	86,285	62,829
Montenegro	86,043	66,648	47,749	33,399
Slovenia	49,168	35,017	48,913	29,055
Kosovo	45,297	33,688	34,893	26,668
Germany	40,044	22,365	39,994	22,292
Poland	38,027	49,114	36,949	48,058
Netherlands	35,956	52,698	34,590	48,359
Cezch Republic	35,218	32,368	33,225	30,445
Finland	31,733	5,811	31,733	5,811
Austria	30,889	25,576	5,275	4,537
Romania	27,778	7,255	27,755	7,255
Singapore	25,317	32,751	2,792	2,196
Hungary	19,119	6,822	19,108	6,821
Slovakia	16,768	14,356	16,763	14,356
Albania	14,866	10,580	657	288
USA	10,981	16,722	10,592	16,224
Italy	10,489	2,593	10,249	2,335
Bulgaria	3,773	3,157	3,773	2,775
Sweden	3,402	5,598	3,369	5,543
Ireland	3,178	2,102	2,223	1,711
Great Britain	2,905	26,548	2,187	25,652
France	2,437	4,097	2,158	3,982
Lithuania	1,711	3,437	1,711	3,437
Denmark	931	1,703	931	1,703
Armenia	595	2,423	595	2,423
Switzerland	300	4,243	-	3,277
United Arab Emirates	-	1,149	-	1,149
Other	8,143	11,055	8,081	9,483
Total	**2,773,128**	**2,703,421**	**2,204,056**	**2,094,942**

Notes to the consolidated and separate financial statements (continued)
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6. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Income from free receipts	3,718	1,415	906	1,083
Income from reinvoicing	1,431	2,716	1,637	1,742
Income from incentives and subsidies	1,510	3,406	419	1,042
Income from own investments	1,032	-	-	-
Income from sale of fixed assets	916	1,194	422	73
Income from long-term provision (note 33)	482	395	-	132
Income from collected bad and doubtful trade receivables	418	66	187	12
Inventory surpluses	170	169	92	99
Income from state subsidies	82	-	-	-
Income from collected writen-off trade receivables	48	158	-	150
Income from write-off of trade payables	12	940	-	-
Other	1,676	2,573	1,884	674
Total	**11,495**	**13,032**	**5,547**	**5,007**

(all amounts are expressed in thousands of kuna)

7. COST OF RAW MATERIAL AND SUPPLIES

	GROUP		COMPANY	
	2021	2020	2021	2020
Cost of spare parts	17,329	17,389	-	-
Servicing, replacement and repair costs under warranty	7,660	9,621	3,498	4,267
Energy and fuels for freight and personal vehicles	5,853	4,519	569	337
Small inventory, packaging and tires	3,699	3,289	1,303	1,330
Basic and auxiliary materials, and office supplies	2,603	6,328	434	602
Cost of materials and spare parts for equipment maintenance	1,466	1,513	-	-
Inventory shortage	49	22	-	-
Other	-	13	-	-
Total	**38,659**	**42,694**	**5,804**	**6,536**

8. COST OF GOODS SOLD

	GROUP		COMPANY	
	2021	2020	2021	2020
Cost of goods sold	2,446,881	2,438,790	2,031,628	1,968,653
Intellectual property use fee (license)	23,397	15,786	11,477	9,087
Ullage, spillage, breakage	5,198	2,003	4,355	1,215
Warranty extansion costs	938	817	1,192	816
Excessive inventories shortage	195	53	-	-
Other cost of goods sold	1,611	430	-	98
Allowances and discounts provided by suppliers	(135,797)	(125,710)	(99,813)	(93,055)
Total	**2,342,423**	**2,332,169**	**1,948,839**	**1,886,814**

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

9. OTHER EXTERNAL EXPENSES

	GROUP		COMPANY	
	2021	2020	2021	2020
Costs of the Back office and bookkeeping services	23,303	23,168	17,931	18,175
Business premise and equipment rental costs	20,370	19,869	5,684	5,255
Telephone, shipping and transportation costs	18,794	14,352	36,355	19,501
Marketing, sponsorships and fairs	17,553	10,158	12,982	6,647
Utilities	8,547	8,443	6,426	6,555
Maintenance and repairs	6,119	5,640	2,460	2,310
Intellectual services	4,015	1,654	2,148	476
Representation	3,602	4,365	1,323	2,555
Students and youth employees service costs	2,519	1,314	4,543	3,821
Other	1,694	2,519	252	479
Total	11,089	9,732	8,237	6,640
Ukupno	**117,605**	**101,214**	**98,341**	**78,332**

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 Msan 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.

10. STAFF COSTS

	GRUPA		DRUŠTVO	
	2021	2020	2021	2020
Net salaries	61,002	55,422	22,339	20,027
Taxes, surtaxes and contributions from salaries	23,969	22,473	10,285	10,113
Contributions on salaries	12,212	11,702	4,614	4,208
Total	**97,183**	**89,597**	**37,238**	**34,348**

The Group had an average of 769 employees in 2021 (2020: 653 employees). The Company had an average of 170 employees in 2021 (2020: 159 employees).

(all amounts are expressed in thousands of kuna)

11. DEPRECIATION AND AMORTIZATION

	GROUP		COMPANY	
	2021	2020	2021	2020
Depreciation	7,073	8,451	2,505	2,454
Amortization	5,477	2,977	5,474	2,972
Total	**12,550**	**11,428**	**7,979**	**5,426**

12. OTHER EXPENSES

	GROUP		COMPANY	
	2021	2020	2021	2020
Insurance premiums for equipment, vehicles and inventories	4,704	3,595	2,430	1,758
Christmas allowance, children's gifts, awards	2,913	2,294	987	823
Travel expenses	2,500	2,366	718	696
Bank and payment operation charges	2,224	1,818	1,116	733
Per diems and other business travel costs	1,369	957	312	109
Forest levies, other contributions and membership fees	1,286	1,318	738	725
License costs	1,007	649	-	-
Taxes not dependent on the operating result	904	639	397	5
Professional training and literature	858	382	622	284
Scholarship	235	343	216	324
Administrative fees and court costs	190	164	5	-
Other	2,290	1,659	1,153	298
Total	**20,480**	**16,184**	**8,694**	**5,755**

13. IMPAIRMENT ALLOWANCE

	GROUP		COMPANY	
	2021	2020	2021	2020
Impairment allowance of trade receivables	756	17,720	312	16,312
Impairment allowance of intangible assets	274	233	274	233
Impairment allowance of Inventories	274	21	-	-
Other	56	-	-	-
Total	**1,360**	**17,974**	**586**	**16,545**

14. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2021	2020	2021	2020
Donations	1,142	857	1,140	846
Receivables written off	1,069	29	1,069	29
subsequent charges	704	683	260	552
Written-off trade receivables	404	597	295	120
Loss on disposal of tangible asset	109	50	-	50
Fines	5	298	-	9
Other	405	228	191	1
Total	**3,838**	**2,742**	**2,955**	**1,607**

15.a FINANCIAL INCOME

	GROUP		COMPANY	
	2021	2020	2021	2020
Foreign exchange gains	9,195	14,180	11,676	15,412
Interest income	1,721	1,962	1,261	1,802
Income from sale of ownerships in affiliated companies	-	1,580	-	-
Dividend income	-	-	-	9,626
Other financial income	113	55	113	54
Total	11,029	17,777	13,050	26,894

Based on the Decision on the payment of the dividend of Kim Tec d.o.o Vitez from July 6, 2020, the Company recognized dividend income in the amount of HRK 9,626 thousand. The payment was made in September 2020 in the equivalent of BAM 2,500 thousand. In December 2020, the Group and the Company sold the ownership in the subsidiary Poljoprivrednik d.o.o. Derventa (Note 46).

15.B FINANCIAL EXPENSES

	GROUP		COMPANY	
	2021	2020	2021	2020
Foreign exchange losses	16,976	12,920	16,759	14,648
Interest expense	9,618	9,169	7,697	6,810
Loss on sale of associates	4,124	2,838	2,046	-
Bank guarantees fees	1,909	2,307	1,615	1,989
Factoring fees	1,053	993	804	761
Bond issuance fees	900	-	900	-
Loan origination costs	368	763	208	348
Other	-	90	-	-
Total	**34,948**	**29,080**	**30,029**	**24,556**

Based on the agreement on the transfer and takeover of business shares in the associated company Ventex d.o.o. Company transferred the business share of the nominal value of HRK 2,016 thousand to the acquirer Mr. Danko Venturini. The contracted fee amounted to HRK 560 thousand and thus a loss was recognized 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. In the business year 2020, the Group sold its shares in associated companies in the agricultural segment and thus recognized a loss from sales in the amount of HRK 2,838 thousand (note 46).

16. SHARES IN RESULT OF THE INVESTMENTS ACCOUNTED BY EQUITY METHOD

	GROUP		COMPANY	
	2021	2020	2021	2020
Income from profit attribution from associates	2,593	3,080	-	527
Expenses from loss attributions from associates	-	(182)	-	-
Total	**2,593**	**2,898**	**-**	**527**

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

	GROUP	
	2021	2020
E kupi	1,089	1,086
Ventex	293	593
EKO Bosanska Posavina	1,211	864
Agropromet Grahovo	-	77
MP Energija Grahovo	-	32
Poljoprivrednik Glamoč	-	-182
Poljoprivrednik Odžak	-	428
Total	**2,593**	**2,898**

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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 Macedonia: 10%) to taxable profit for the year.

	GROUP		COMPANY	
	2021	2020	2021	2020
Current tax	5,163	6,595	-	3,179
Deferred tax	218	70	-	-
Income tax expense	**5,381**	**6,665**	**-**	**3,179**

CURRENT TAX

	GROUP		COMPANY	
	2021	2020	2021	2020
Accounting profit before tax	52,072	27,800	11,053	11,127
Income tax 18%	9,373	5,004	1,990	2,003
Tax effect of lower tax rates	(2,199)	(755)	-	-
Tax effect of permanent deductiable expenses	1,287	5,046	728	3,205
Tax effect of premanent deductiable income	(3,258)	(2,249)	(3,148)	(2,028)
Income tax expense	**5,203**	**7,046**	**(431)**	**3,179**
Utilisation of tax loss	(40)	(451)	-	-
Net tax expense	**5,163**	**6,595**	**-**	**3,179**

Effective tax rate in 2021 was 13.3% (2020: 15.4%).

As at 31 December 2021, the Group recognized deferred tax assets related to temporary differences related to trade receivables, depreciation and provisions.

(all amounts are expressed in thousands of kuna)

17. INCOME TAX (CONTINUED)

DEFFERED TAX ASSETS

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Balance at 1 January	**268**	**316**	**135**	**135**
Recognized in profit or loss	(80)	(48)	-	-
Balance at 31 December	**188**	**268**	**135**	**135**

DEFFERED TAX LIABILITIES

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Balance at 1 January	**1**	**325**	-	**-**
Recognized in profit or loss	138	22	-	-
Other	-	(346)	-	-
Balance at 31 December	**139**	**1**	-	**-**

Gross tax losses in the amount of HRK 44,859 thousand are available to reduce the future taxable profits of the Group at the end of 2021. Tax losses cannot be transferred and used within group members. The Group has not recognized deferred tax assets on the basis of tax losses carried forward as it is uncertain when individual companies within the Group will generate sufficient future taxable profit on the basis of which such tax assets could be used. At the next reporting date, the Group will reassess the assumptions for recognizing deferred tax assets.

	GROUP	
	2021	**2020**
Up to 1 year	13,683	5,186
Up to 2 year	8,024	1,658
Up to 3 year	8,669	3,207
Up to 4 year	7,993	6,349
Up to 5 year	6,490	3,495
Total tax loss available for transfer	**44,859**	**19,895**

17. INCOME TAX (CONTINUED)

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

A tax audit was performed at the Company in 2013, 2014, 2015 and 2016, which was still pending at the date of issue of these financial statements.The Company utilised, a beneficiary, tax incentives provided under the Act on Scientific Activity and Higher Education and the Rules on Government Grants for Research and Development Projects.

In our opinion, the certificates verifying the eligibility of the project costs issued by the Ministry of Science, Education and Sports, prepared on request of the Tax Administration and serving to the Tax Administration as the basis for assessing the grounds for reducing the corporate income tax base are illegal and as such they are in the process of being challenged before the Administrative Court in Zagreb. So far, the Administrative Court in Zagreb has annulled seven such certificates from the Ministry of Science, Education and Sports and ordered the Ministry to issue new certificates. Two more proceedings are being conducted before the Administrative Court in Zagreb against other certificates on the justification of project costs of the Ministry of Science, Education and Sports.

Once all the court proceedings are final and new, legal verification certificates are issued by the Ministry of Science, Education and Sports as final administrative instruments, the Tax Administration will have legal grounds to bring the tax audit at the Company to the end.

In February 2022, the Company filed a Complaint with the Ministry of Finance, Independent Sector for Second Instance Administrative Procedure. The Complaint states, inter alia, that in accordance with the relevant legislation, the statute of limitations for determining the tax liabilities in question has expired.

(all amounts are expressed in thousands of kuna)

18. INTANGIBLE ASSETS

GROUP	Software	Concessions	Development	Trade mark	Intangible assets in progress	Total
COST						
At 1 January 2020	**22,226**	**111**	**2,045**	**286**	**6,227**	**30,895**
Additions	-	-	-	-	11,444	11,444
Transfer from assets under construction	8,771	-	-	35	(8,806)	-
Impairment of assets under construction	-	-	-	-	(233)	(233)
Sales effect	-	(51)	-	-	-	(51)
Exchange differences	-	1	-	-	-	1
At 31 December 2020	**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 an affiliated company (note 46)	6,864	-	-	-	2,348	9,212
Merger of a company (note 46)	2,301	-	-	-	403	2,704
Sales effect		(61)				(61)
Exchange differences	2	-	-	-	-	2
At 31 December 2021	**49,284**	**-**	**2,045**	**397**	**14,460**	**66,186**
ACCUMULATED DEPRECIATION DEPRECIATION						
At 1 January 2020	**14,011**	**24**	**2,045**	**268**	**-**	**16,348**
Charge for the year	2,965	3	-	9	-	2,977
Sales effect	-	(27)	-	-	-	(27)
At 31 December 2020	**16,976**	**-**	**2,045**	**277**	**-**	**19,298**
Charge for the year	5,457	-	-	20	-	5,477
Acquisition of an affiliated company (note 46)	6,858					6,858
Merger of a company (note 46)	1,328	-	-	-	-	1,328
Exchange differences	8	-	-	-	-	8
At 31 December 2021	**30,627**	**-**	**2,045**	**297**	**-**	**32,969**
NET BOOK VALUE						
At 31 December 2021	**18,657**	**-**	**-**	**100**	**14,460**	**33,217**
At 31 December 2020	**14,021**	**61**	**-**	**44**	**8,632**	**22,758**

18. INTANGIBLE ASSETS (CONTINUED)

COMPANY	Software	Development	Trademark	Intangible assets in progress	Total
COST					
At 1 January 2020	**21,276**	**1,991**	**287**	**6,110**	**29,664**
Additions	-	-	-	11,444	11,444
Transfer from assets under construction	8,772	-	35	(8,807)	-
Impairment of assets under construction	-	-	-	(233)	(233)
At 31 December 2020	**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 46)	2,301	-	-	403	2,704
At 31 December 2021	**41,459**	**1,991**	**398**	**11,994**	**55,842**
ACCUMULATED DEPRECIATION DEPRECIATION					
At 1 January 2020	**13,070**	**1,991**	**268**	**-**	**15,329**
Charge for the year	2,963	-	9	-	2,972
At 31 December 2020	**16,033**	**1,991**	**277**	**-**	**18,301**
Charge for the year	5,453	-	21	-	5,474
Merger of a company (note 46)	1,328	-	-	-	1,328
At 31 December 2021	**22,814**	**1,991**	**298**	**-**	**25,103**
NET BOOK VALUE					
At 31 December 2021	**18,645**	**-**	**100**	**11,994**	**30,739**
At 31 December 2020	**14,015**	**-**	**45**	**8,514**	**22,574**

19. GOODWILL

	31 December 2021	31 December 2020
Cost	44,441	44,441
	44,441	**44,441**

	2021	2020
Cost		
Opening balance	44,441	45,903
Sale of affiliated company (note 46)	-	(1,481)
Effect of exchange differences	-	19
Closing balance	**44,441**	**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:

	31 December 2021	31 December 2020
KIM TEC BG	29,251	29,251
KIM TEC BIH	8,201	8,201
Pakom Kompani d,o,o,	6,714	6,714
MR SERVIS	275	275
Total	**44,441**	**44,441**

Kalkulacije vrijednosti u upotrebi za goodwill baziraju se na sljedećim pretpostavkama diskontne stope nakon poreza:

Cash generating units	**2021**	**2020**
KIM TEC BG	11.9%	11.0%
KIM TEC BIH	13.3%	12.0%
MR SERVIS	8.4%	8.9%
Pakom Kompani d.o.o.	13.0%	10.7%

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19 GOODWILL (CONTINUED)

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% (2020. 3.0% - 3.5%), depending on the industry in which the Company operates. The cash flows arising from these plans are discounted using a discount rate that reflects the return on the underlying assets, which is defined for the purposes of the goodwill impairment test as the weighted average cost of capital for the local market.

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 3.5% to 7.6% (2020: 6.0% to 10.1%).

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 at 31 December 2021, the present value of real estate on which the bank's mortgage was registered as collateral for loans amounts to HRK 20,047 thousand (2020: HRK 17,208 thousand). The mortgage on these assets amounts to HRK 42,474 thousand (2020: HRK 42,585 thousand), while the amount of debt on these mortgages amounts to HRK 23,729 thousand (HRK 30,129 thousand).

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Other assets	Right of usage assets	Assets under construction	Total
COST								
At 1 January 2020	**234,961**	**68,233**	**1,137**	**12,540**	**3,823**	**12,348**	**1,890**	**334,932**
Additions	-	-	-	-	282	-	5,970	6,252
Transfer from assets under construction	617	3,511	269	357	182	1,307	(6,243)	-
Transfer from office and other equipment to plant and equipment	-	42	(7)	(35)	-	-	-	-
Sales of affiliated company (note 46)	(24,408)	(16,615)	-	-	(2,671)	-	(1,259)	(44,953)
Disposals		(1,404)	(101)	(313)	-	(543)		(2,361)
Exchange differences	2,903	410	27	58	34	-	25	3,457
At 31 December 2020	**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)	-
Leases	-	-	-	-	-	2,253	-	2,253
Acquisition of an affiliated company (note 46)	43,678	31,207	-	212	1,912	9,280	7,005	93,294
Merger of a company (note 46)	-	1,673	-	25	25	-	-	1,723
Separation of an affiliated company (note 46)	(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**

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (COUNTINUED)

GROUP	Land and buildings	Plant and equipment	Vehicles	Office and other equipment	Other assets	Right of usage assets	Assets under construction	Total
ACCUMULATED DEPRECIATION DEPRECIATION								
At 1 January 2020	**103,893**	**51,523**	**54**	**11,670**	**1,776**	**10,723**	**-**	**179,639**
Charge for the year	2,107	4,228	129	334	585	892	-	8,275
Sales of affiliated company (note 46)	(17,070)	(7,626)	-	-	(1,329)	-	-	(26,025)
Disposals	-	(1,327)	(102)	(308)	-	(411)	-	(2,148)
Exchange differences	1,334	237	15	52	15	-	-	1,653
At 31 December 2020	**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 an affiliated company (note 46)	63	20,041	-	212	132	2,018	-	22,466
Merger of a company (note 46)	-	1,489	-	20	18	129	-	1,656
Separation of an affiliated company (note 46)	(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**
NET BOOK VALUE								
At 31 December 2021	**148,081**	**20,623**	**1,372**	**1,761**	**2,253**	**12,363**	**7,398**	**193,851**
At 31 December 2020	**123,809**	**7,142**	**1,229**	**859**	**603**	**1,908**	**383**	**135,933**

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (COUNTINUED)

COMPANY	Land and buildings	Plant and equipment	Right of usage assets	Office and other equipment	Leasehold improvements	Assets under construction	Total
COST							
At 1 January 2020	**11,535**	**34,273**	**5,593**	**6,502**	**438**	**91**	**58,432**
Additions	-	-	-	-	-	2,488	2,488
Transfer from assets under construction	-	1,826	590	163	-	(2,579)	-
Transfer from plant and equipment to vehicles	-	7	(7)	-	-	-	-
Disposals	-	(461)	(444)	(253)	-	-	(1,158)
At 31 December 2020	**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 46)	-	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**

As of 31 December 2021 the Company has no assets pledged as collateral for bank loans.

(all amounts are expressed in thousands of kuna)

20. PROPERTY, PLANT AND EQUIPMENT (COUNTINUED)

COMPANY	Land and buildings	Plant and equipment	Right of usage assets	Office and other equipment	Leasehold improvements	Assets under construction	Total
ACCUMULATED DEPRECIATION DEPRECIATION							
At 1 January 2020	-	**31,680**	**5,128**	**6,047**	**176**	**-**	**43,031**
Charge for the year	-	1,856	345	165	88	-	2,454
Disposals	-	(461)	(389)	(249)	-	-	(1,099)
At 31 December 2020	-	**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 company (note 46)	-	1,489	129	20	18	-	1,656
At 31 December 2021	**-**	**35,327**	**5,048**	**6,134**	**371**	**-**	**46,880**
NET BOOK VALUE							
At 31 December 2021	**11,535**	**7,681**	**982**	**1,242**	**102**	**700**	**22,242**
At 31 December 2020	**11,535**	**2,570**	**648**	**449**	**174**	**-**	**15,376**

(all amounts are expressed in thousands of kuna)

21 FINANCIAL ASSETS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Investments in subsidiaries	-	-	129,176	155,781
Investments in associates	44,355	67,790	41,500	44,106
	44,355	**67,790**	**170,676**	**199,887**

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 December 2021	31 December 2020	31 December 2021	31 December 2020
			%	%		
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	77,946
Kim Tec CG d.o.o.	DISTRIBUTION	Montenegro	100	100	11,698	11,698
Pakom Kompani d.o.o.	DISTRIBUTION	North Macedonia	100	100	17,784	17,784
M San Eko d.o.o.	COLLECTION AND DISTRIBUTION OF WASTE	Croatia	100	100	500	500
MR SERVIS d.o.o.	MAINTAINANCE	Croatia	60	60	11,510	11,510
M San Logistika d.o.o.	LOGISTICS	Croatia	100	100	20	20
MPI Modriča	AGRICULTURE	Bosnia and Herzegovina	-	100	-	29,733
Zelena Agenda 1.0 d.o.o.	CONSULTING	Croatia	100	-	1,000	-
Corvus Info d.o.o.	IT	Croatia	100	-	2,129	-
Kim Tec Nekretnine Beograd	REAL ESTATE	Serbia	100	-	16,389	-
					129,176	**155,781**

During 2021, the Company and the Group decided to disinvest the real estate segment from their portfolio. Subsidiary Kim Tec BG d.o.o. on the basis of the division and takeover agreement, separated out the economic activity of real estate in such a way that part of the assets and capital and liabilities are transferred to the new company. The division report indicates a part of the assets transferred to the company Kim Tec Nekretnine BG d.o.o. where the real estate segment separated. The total value of assets amounted to HRK 23,885 thousand, share capital to HRK 160 thousand, retained earnings to HRK 16,211 thousand, and liabilities to credit institutions to 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. as a result of the respective Separation of an affiliated company, there was no change in the ownership structure of Kim Tec Nekretnine BG.d.o.o.

In November 2021, the company founded the company Green Agenda 1.0 d.o.o. payment in cash, and thus acquired a share in ownership and voting rights in the amount of 100%.

In the same month, based on the Division and Takeover Agreement, the Company separated the agricultural segment in MPI Modriča by transferring its assets to Agro Invest Grupa d.o.o. The company carried out the division with the takeover according to the carrying values and had no effects from the sale.

In December 2021, based on the Merger Agreement of 28 December 2021 and the Decision of the General Meeting of the merged company and the acquiring company, the company merged the related party M San Ulaganja d.o.o. and thus acquired an ownership stake in ownership and voting rights in the amount of 100% in the subsidiary Corvus Info d.o.o.

All business combinations are described in more detail in Note 46.

21.2 INVESTMENTS IN ASSOCIATED COMPANIES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Investment in Ventex	-	4,391	-	2,606
Investment in E Kupi	44,355	43,266	41,500	41,500
Investment in EKO Bosanska Posavina	-	20,133	-	-
	44,355	**67,790**	**41,500**	**44,106**

21.2. INVESTMENT IN ASSOCIATES (CONTINUED)

In April 2021, the company sold its stake in the associated company Ventex d.o.o. A consideration for the sale of the company in the amount of HRK 560 thousand was received. and a loss was realized in the amount of HRK 4,124 thousand (Note 15b). The Group attributed the result of the associate until 30 April 2021 in the amount of HRK 293 thousand (Note 16)

Below is information on the Group's associates:

Name of associate	Principal activity	Country of incorporation and business	Ownership and share in the voting rights	
			2021	2020
Ventex d.o.o., Rijeka	Mediation in miscellaneous trade	Rijeka	-	49%
E Kupi d.o.o.	E-commerce	Zagreb	24%	24%
EKO Bosanska Posavina	Agriculture	Bosia and Herzegovina	-	37%

In November 2021, the Group recapitalised the associated company EKO Bosanska Posavina in the amount of HRK 56,873 thousand and thus acquired an ownership share in ownership and voting rights in the amount of 82%, which is described in more detail in Note 46.

The Group concluded that all companies represented or represent associates as the Group has no control over those companies in which the investment is made. The shares and stakes of these companies are not listed on active markets.

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21. FINANCIAL ASSETS (CONTINUED)

21.2 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The following is a summary of the financial information relating to the associate E kupi d.o.o. for 2021

	E Kupi	Total
Property, plant and equipment	2,120	2,120
Intangible assets	8,593	8,593
Other assets	6,590	6,590
Inventories	61,473	61,473
Trade receivables	17,079	17,079
Cash and cash equivalents	3,279	3,279
Other current assets	3,233	3,233
Long-term liabilities	(3,000)	(3,000)
Short-term liabilities	(87,376)	(87,376)
Net assets of associates	11,991	11,991
Group's share in the net assets of the associates	2,878	2,878
Total income	393,051	393,051
Total profit for the current year	4,537	4,537
Group's share in the profit of the associates (notes 16)	**1,089**	**1,089**

Company E kupi d.o.o. was founded in 2010. The company acquired a 24% stake in this associate in 2016.

(all amounts are expressed in thousands of kuna)

22. INVENTORIES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Merchandise	178,670	123,017	74,782	53,590
Goods in the customs warehouse	55,856	24,115	53,920	23,371
Goods in transit	33,121	18,144	32,232	17,270
Other	11,767	4,666	382	382
Total	**279,414**	**169,942**	**161,316**	**94,613**

23. PREPAYMENTS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Prepayments for services	20,942	1,354	18,656	1,062
Prepayments for goods	13,638	18,496	4,059	18,056
Other	111	-	-	-
Total	**34,691**	**19,850**	**22,715**	**19,118**

24. TRADE RECEIVABLES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Domestic trade receivables	301,381	267,441	134,490	126,513
Foreign trade receivables	36,085	47,859	96,126	64,974
Impairment allowance on trade receivables	(10,140)	(25,656)	(1,720)	(17,360)
Total	**327,326**	**289,644**	**228,896**	**174,127**

Movement in impairment allowance for doubtful accounts:

	GROUP		COMPANY	
	2021	2020	2021	2020
At 1 January	25,656	8,729	17,360	1,443
Impairment allowance (Note 13)	756	17,445	312	16,287
Reversed on collection (Note 6)	(16,298)	(66)	(16,016)	(12)
Derecognition / Exchange rate difference	26	(452)	64	(358)
At 31 December	**10,140**	**25,656**	**1,720**	**17,360**

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.

(all amounts are expressed in thousands of kuna)

24. TRADE RECEIVABLES (CONTINUED)

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Undue	248,296	243,208	160,902	129,958
Up to 60 days	61,508	23,162	60,537	25,299
61-90 days	6,897	4,709	3,177	9,106
91-120 days	2,925	3,001	1,495	2,144
121-365 days	7,262	14,622	2,515	7,003
More than 365 days	438	942	270	617
Total	**327,326**	**289,644**	**228,896**	**174,127**

The average receivables collection period in the Group in 2021 was 43 days (2020: 40 days), while in the Company it was 37 days (2020: 30 days).

25. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
VAT prepayments	5,944	979	386	112
Income tax advances	5,134	2,649	4,993	2,456
VAT recivables in Slovenia	83	-	83	-
Customs duty prepayments	53	53	-	-
Receivables for other taxes, contributions and membership fees	48	176	-	175
Other	504	311	37	19
Total	**11,766**	**4,168**	**5,499**	**2,762**

26. GIVEN LOANS AND DEPOSITS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Loans to corporates	18,300	18,863	18,300	18,863
Given deposits to unrelated parties	173	129	-	-
Total	**18,473**	**18,992**	**18,300**	**18,863**

	Original currency	Amount	Due date	31 December 2021	31 December 2021
Loans to corporates					
M SAN GRUPA D.O.O.					
Related parties					
Litus projekti d.o.o.	HRK	600	31 December 2021	-	563
Baks grupa d.o.o.	HRK	18,309	31 December 2022	18,300	18,300
Total				**18,300**	**18,863**

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

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Loans to corporate entities	3,195	3,811	4,365	8,810
Loans to individuals	1,537	1,695	1,537	1,662
Given deposits to unrelated parties	2,333	2,337	2,255	2,261
Total	**7,065**	**7,843**	**8,157**	**12,733**

(all amounts are expressed in thousands of kuna)

26. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Amount	Due date	31 December 2021	31 December 2020
Loans to entities within group					
Company					
M SAN GRUPA D.D.					
M SAN EKO d.o.o.	HRK	2,000	31 December 2022	3,226	2,624
MR SERVIS d.o.o.	HRK	230	31 December 2022	250	650
M SAN LOGISTIKA d.o.o.	HRK	7,500	31 December 2022	-	1,725
Total				**3,476**	**4,999**
Other corporates					
Related parties					
M SAN Ulaganja d.o.o.	HRK	5,000	31 December 2021	-	2,477
Third parties					
Castalia projekt d.o.o.	HRK	3,600	31 December 2022	889	1,334
Total				**889**	**3,811**
Total short-term loans to corporate entities - Company				**4,365**	**8,810**
Group					
M SAN GRUPA D.O.O.					
Related parties					
M SAN Ulaganja d.o.o.	HRK	5,000	31 December 2021	-	2,477
Third parties					
Castalia projekt d.o.o.	HRK	3,600	31 December 2022	889	1,334
Total				**889**	**3,811**
KIM TEC BIH d.o.o.					
Ekupi BIH d.o.o.	KM	600	31 December 2022	2,306	-
Total				**2,306**	**-**
Total short term loans to corporate entities - Group				**3,195**	**3,811**

26. GIVEN LOANS AND DEPOSITS (CONTINUED)

	Original currency	Amount	Due date	31 December 2021	31 December 2020
Loans to individuals					
Company					
Other individuals	HRK	1,678	30 June 2022	1,537	1,662
Total short-term loans to individuals				**1,537**	**1,662**
Group					
M SAN GRUPA D.O.O.					
Other individuals	HRK	1,678	30 June 2022	1,537	1,662
Total				**1,537**	**1,662**
KIM TEC BG					
Other private loans	RSD			-	29
Total				**-**	**29**
PAKOM					
Other private loans	MKD			-	4
Total				-	4
Total amount of loans to individuals - Group				**1,537**	**1,695**
Total amount of loans to individuals - Company				**2,255**	**2,261**
Total amount of loans to individuals - Group				**2,333**	**2,337**
TOTAL AMOUNT OF LOANS - COMPANY				**8,157**	**12,733**
TOTAL AMOUNT OF LOANS - GROUP				**7,065**	**7,843**

Loans are granted to subsidiaries, the owner of the Company and companies related to the owner of the Company. Due to the fact that these are related parties, no security instruments have been requested for these placements, and the Company's Management Board believes that the collection of placements is not questionable.

(all amounts are expressed in thousands of kuna)

27. PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Accrued income for subsequently approved discounts	4,374	4,775	1,350	1,774
Accrued uninvoiced income	31	-	-	-
Accured overdue revenues	72	56	-	-
Prepaid expenses	3,181	1,773	337	9
Total	**7,658**	**6,604**	**1,687**	**1,783**

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
At 1 January	6,604	8,265	1,783	569
Cumulated during the year	28,579	21,126	4,429	2,684
Used during the year	(27,965)	(22,755)	(4,525)	(1,450)
Unused amounts reversed	440	(32)	-	(20)
At 31 December	**7,658**	**6,604**	**1,687**	**1,783**

28. OTHER RECEIVABLES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Interest receivable	5,600	6,488	5,607	6,527
Receivables acquired by debt acquisition	2,228	748	-	-
Receivables on acquired cession agreements	-	1,144	-	-
Receivables from suppliers regarding returns	471	146	378	36
Other	938	1,489	709	1,316
Total	**9,237**	**10,015**	**6,694**	**7,879**

28. OTHER RECEIVABLES (CONTINUED)

Interests receivable are disclosed as follows:

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Receivables for interests on loans	5,600	6,517	5,607	6,556
Value adjustment of receivables for interest	-	(29)	-	(29)
Total	**5,600**	**6,488**	**5,607**	**6,527**

29. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Cash in banks	97,668	116,378	65,047	92,672
Petty cash	12	2	-	-
Total	**97,680**	**116,380**	**65,047**	**92,672**

30. SHARE CAPITAL

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Nominal value	109,198	97,000	109,198	97,000
Total	**109,198**	**97,000**	**109,198**	**97,000**

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 46).

(all amounts are expressed in thousands of kuna)

31. RETAINED EARNINGS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Retained earnings	238,207	233,415	49,384	93,092
Total	**238,207**	**233,415**	**49,384**	**93,092**

	GROUP	COMPANY
At 31 December 2020	**233,415**	**93,092**
Merger of a company (note 46)	(24,828)	(24,828)
Separation of an affiliated company (note 46)	(33,540)	(29,933)
Acquisition of an affiliated company (note 46)	16,910	-
Profit for the year	46,250	11,053
At 31 December 2021	**238,207**	**49,384**

32. LEGAL RESERVES

Legal reserves in the amount of HRK 9,944 thousand arose due to the merger of M San Ulaganja d.o.o. (Note 46).

33. PROVISIONS FOR RISKS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Long-term provisions for risks within the warranty period	3,369	2,809	1,672	1,072
Provisions for returns	1,087	933	979	933
Total	**4,456**	**3,742**	**2,651**	**2,005**

	GROUP		COMPANY	
	2021	2020	2021	2020
At 1 January	3,742	4,034	2,006	2,137
Increases	1,199	79	645	-
Decreases	(482)	(396)	-	(132)
Exchange rate differences	(3)	25	-	-
At 31 December	**4,456**	**3,742**	**2,651**	**2,005**

34. LONG-TERM LOANS AND FINANCE LEASE LIABILITIES

	GROUP		COMPANY	
	2021	2020	2021	2020
Total finance leases liabilities	8,206	2,325	920	742
Less: current portion of finance lease liabilities	(2,961)	(963)	(263)	(279)
Long-term finance lease liabilities	**5,245**	**1,362**	**657**	**463**

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Total loans from financial institutions	44.086	143.415	-	107.222
Less: current portion of loans from financial institutions	(12.692)	(28.328)	-	(18.647)
Total long-term loans from financial institutions	**31.394**	**115.087**	**-**	**88.575**
Total long-term loans and leases	**36.639**	**116.449**	**657**	**89.038**

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

Financial institution	Original currency	Amount	Due date	31 December 2021	31 December 2020
KIM TEC BEOGRAD d.o.o.					
ProCredit Bank AD.	EUR	4,000	12 October 2026	9,294	20,059
NLB Razvojna banka	EUR	1,500	19 June 2022	3,843	7,609
Total				**13,137**	**27,668**
KIM TEC BIH d.o.o.					
Intesa Sanpaolo Banka d.d.	EUR	2,500	28 February 2024	5,816	8,525
Total				**5,816**	**8,525**
EKO BOSANSKA POSAVINA d.o.o.					
ProCredit Bank d.d.	KM	535	18 June 2026	1,902	-
ProCredit Bank d.d.	KM	220	18 June 2027	820	-
ProCredit Bank d.d.	KM	2,900	13 July 2028	7,732	-
ProCredit Bank d.d.	KM	250	19 June 2025	688	-
ProCredit Bank d.d.	KM	400	5 April 2027	1,067	-
				12,209	**-**
KIM TEC BIH NEKRETNINE d.o.o.					
Intesa Sanpaolo Banka d.d.	KM	1,431	11 November 2026	5,409	-
Total				**5,409**	**-**
KIM TEC BG NEKRETNINE d.o.o.					
ProCredit Bank AD.	EUR	1,000	1 November 2026	7,515	-
Total				**7,515**	**-**

Financial institution	Original currency	Amount	Due date	31 December 2021	31 December 2020
MSAN GRUPA d.o.o.					
Syndicated loan	EUR	17,206	15 September 2026	-	107,222
Total				**-**	**107,222**
Total long-term loans from financial institutions				**44,086**	**143,415**
Less: Current portion				**(12,692)**	**(28,328)**
Total				**31,394**	**115,087**

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35. SHORT-TERM LOANS AND BORROWINGS FROM FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	31 December 2021	31 December 2021	31 December 2021	31 December 2021
Short-term bank loans	24,214	44,336	-	25,403
Total loans and borrowings	**24,214**	**44,336**	**-**	**25,403**
Current portion of long-term leases	2,961	963	263	279
Current portion of long-term loans	12,692	28,328	-	18,647
Total	**39,867**	**73,627**	**263**	**44,329**

(all amounts are expressed in thousands of kuna)

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

Liabilities for short - term loans

GROUP

Financial institutions	Original currency	Amount	Due date	31 December 2021	31 December 2020
KIM TEC BIH d.o.o.					
UniCredit Bank Mostar d.d.	KM	500	15 June 2022	7,687	1,919
Intesa Sanpaolo Banka d.d.	KM	1,800	15 December 2022	7,687	6,937
NLB Tuzlanska banka1 400 000	KM	500	30 June 2022	1,921	1,927
Bosna Bank International d.d.	KM	1,800	24 June 2022	6,919	6,937
Total				**24,214**	**17,720**
PAKOM KOMPANI d.o.o.					
NLB Tutunska banka	MKD	52,000	5 February 2021	-	1,213
Total				**-**	**1,213**
Total short-term borrowings				**24,214**	**44,336**
Plus: Current portion of long-term leases				2,961	963
Plus: Current portion of loans from financial institutions				12,692	28,328
Total current portion of long-term borrowings and short-term loans				**39,867**	**73,627**

COMPANY

Financial institutions	Original currency	Amount	Due date	31 December 2021	31 December 2020
Addiko banka	EUR	707	2 September 2021	-	4,959
Addiko banka	EUR	2,700	15 April 2021	-	20,444
Total				**-**	**25,403**
Plus: Current portion of long-tearm leases				263	279
Plus: Current portion of loans from financial institutions				-	18,647
Total current portion of long-term borrowings and short-term loans				**263**	**44,329**

36. LONG-TERM BOND LIABILITIES

	GROUP		COMPANY	
	2021	**2020**	**2021**	**2020**
Long-term bond liabilities	200,000	-	200,000	-
Current portion of non-current Bond payables	(20,000)	-	(20,000)	-
Total Long-term bond liabilities	**180,000**	**-**	**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 semi-annual amortization of maturity in the amount of 5% of the nominal value of the issue and 55% of the nominal value on final maturit, 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.

37. ADVANCES RECEIVED

	GROUP		COMPANY	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Advances received from domestic customers	9,734	5,609	5,096	4,218
Advances received from foreign customers	763	289	762	1,897
Total	**10,497**	**5,898**	**5,858**	**6,115**

38. TRADE PAYABLES

	GROUP		COMPANY	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Foreign trade payables	294,353	259,945	266,368	242,988
Domestic trade payables	71,468	69,543	50,798	48,981
Total	**365,821**	**329,488**	**317,166**	**291,969**

(all amounts are expressed in thousands of kuna)

39. TAXES, CONTRIBUTIONS AND SIMILAR PAYABLE

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
VAT liabilities	22,489	29,455	21,482	27,353
Liabilities for taxes and contributions from and on salaries	4,595	3,877	1,454	1,231
Customs payable	2,606	1,722	384	209
Liabilities for memberships, contributions and other taxes	430	187	100	68
Total	**30,120**	**35,241**	**23,420**	**28,861**

40. FACTORING LIABILITIES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Factoring liabilities	21,141	5,655	8,436	143
Total	**21,141**	**5,655**	**8,436**	**143**

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.

41. OTHER CURRENT LIABILITIES

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bond interest liabilities	1,783	-	1,783	-
Reserves for accruals unused vacation days	968	-	389	-
Interest loan payables	797	22	752	9
Other	125	379	44	4
Total	**3,673**	**401**	**2,968**	**13**

42. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Unbilled invoices	6,276	3,622	3,649	2,083
Accrued income	515	362	377	-
Deferred state subsidy income	937	-	-	-
Late payment interest income	4	32	-	-
Other	132	732	-	-
Total	**7,864**	**4,748**	**4,026**	**2,083**

Change in accured expenses and defered income can be shown as:

	GROUP		COMPANY	
	2021	2020	2021	2020
At 1 January	4,748	5,450	2,083	2,904
Cumulated during year	114,739	62,138	92,895	44,035
Utilised over year	(111,661)	(62,287)	(91,017)	(43,213)
Unused over year	38	(553)	65	(1,643)
At 31 December	**7,864**	**4,748**	**4,026**	**2,083**

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(all amounts are expressed in thousands of kuna)

43. RELATED-PARTY TRANSACTIONS

The table below shows Company's receivables and payables from transactions with its subsidiaries in purchase/sales transactions at 31 December 2021 and 2020:

	Receivables		Payables	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Kim Tec d.o.o., Beograd	39,767	1,368	(839)	(353)
Kim Tec d.o.o., Vitez	19,513	20,316	-	(1,758)
Pakom Kompani d.o.e.l., Skopje	1,554	74	-	(157)
Kim Tec CG, Podgorica	2,460	147	-	-
M San Logistika d.o.o., Zagreb	393	-	-	-
MR Servis d.o.o., Zagreb	143	1,796	(1,024)	-
M San Eko d.o.o., Zagreb	6	8	-	-
Kim Tec Nekretnine d.o.o., Beograd	1	-	-	-
Eko Bosanska Posavina, Derventa	86	-	-	-
	63,923	**23,709**	**(1,863)**	**(2,268)**

The receivables and payables of the Company from transactions with its associates and entities with the same ultimate owner in purchase/sales transactions at 31 December 2021 and 2020 were as follows:

	Receivables		Payables	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Ekupi d.o.o., Zagreb	56,560	22,689	(2,726)	-
Ask Tec d.o.o., Priština	15,568	17,201	(767)	-
MS Industrial Kina	4,114	5,156	(363)	24
Corvus Info d.o.o., Zagreb	1,160	440	-	-
Planet IX.d.o.o. Zagreb	913	-	-	-
PP Orahovica d.d.	299	338	(246)	(600)
PPK Valpovo	163	-	-	(15)
Ventex d.o.o., Rijeka	117	3,023	-	-
King ICT d.o.o., Zagreb	41	17,424	(1,267)	-
M San Nekrenine d.o.o., Zagreb	45	391	(76)	-
Baks grupa d.o.o.	5	-	-	-
King ICT d.o.e.l., Skopje	3	4	-	-
Litus projekt d.o.o.	-	17	-	-
Pametna energija d.o.o.	-	4	-	-
Corvus pay d.o.o. Zagreb	-	1	(1)	-
M San Ulaganja d.o.o., Zagreb	-	-	-	-
Aktivis d.o.o., Zagreb	-	-	(25)	(25)
Ured za podršku d.o.o., Zagreb	-	(119)	(1,895)	(1,914)
	78,988	**66,569**	**(7,366)**	**(2,530)**

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(all amounts are expressed in thousands of kuna)

43. RELATED-PARTY TRANSACTIONS (CONTINUED)

The income and expenses of the Company from purchase/sales transactions with its subsidiaries during 2021 and 2020 were as follows:

	Income / sale		Expenses		Purchase value of goods	
	2021	2020	2021	2020	2021	2020
Kim Tec d.o.o., Beograd	296,867	246,839	14,973	13,777	3,185	2,724
Kim Tec d.o.o., Vitez	120,393	105,770	5,394	5,274	1,297	1,085
Pakom Kompani, Skopje	85,276	62,791	2,251	2,405	232	214
Kim Tec CG, Podgorica	47,275	33,399	1,400	1,592	172	359
MR Servis d.o.o.	4,368	6,982	7,063	9,433	1,567	681
M San Logistika d.o.o., Zagreb	1,797	637	33,423	23,658	-	-
M San Eko d.o.o., Zagreb	6	10	1	-	-	-
Kim Tec Nekretnine d.o.o., BG	1	-	-	-	-	-
Eko Bosanska Posavina, Derventa	86	-	-	-	-	-
	556,069	**456,428**	**64,505**	**56,139**	**6,453**	**5,063**

The income and expenses of the Company from purchase/sales transactions with its associates and entities with the same ultimate owner during 2021 and 2020 were as follows:

	Income / sale		Expenses		Purchase value of goods	
	2021	2020	2021	2020	2021	2020
Ekupi d.o.o., Zagreb	303,683	285,758	22,083	18,973	946	1,642
King ICT d.o.o., Zagreb	81,379	126,380	321	533	143	78
Ask Tec d.o.o., Priština	33,996	26,667	2,905	2,150	1,489	326
Ventex d.o.o., Rijeka	6,967	9,389	2,180	52	-	-
PP Orahovica d.d.	1,860	483	476	219	-	29
Pametna energija d.o.o.	1,810	6,390	-	24	-	-
M San Ulaganja d.o.o., Zagreb	1,205	157	-	-	-	-
Corvus Info d.o.o.	967	499	368	59	-	-
Planet IX .d.o.o. Zagreb	843	1,122	-	-	-	-
Ured za podršku d.o.o.	293	371	19,488	19,538	-	-
PPK Valpovo d.o.o.	192	27	471	34	-	-
M San Nekrenine d.o.o., Zagreb	174	268	4,169	4,179	-	9
Aktivis d.o.o., Zagreb	117	65	20	20	-	-
Corvus pay d.o.o. Zagreb	12	14	5	-	-	-
Baks grupa d.o.o.	4	-	-	-	-	-
King ICT d.o.e.l., Skopje	3	4	-	-	-	-
Kim Tec, Ljubljana	-	-	-	15,939	-	-
MS Industrial Kina	-	-	3,162	2,965	65,206	33,092
King ICT d.o.o., BiH	-	-	3	-	-	-
	433,505	**457,594**	**55,651**	**64,685**	**67,784**	**35,176**

(all amounts are expressed in thousands of kuna)

43. RELATED-PARTY TRANSACTIONS (CONTINUED)

The table below presents receivables and revenue of the Company from loan transactions with its subsidiaries at 31 December 2021 and 2020:

	Receivables		Income	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
M San Eko d.o.o., Zagreb	3,234	2,631	89	81
MR Servis d.o.o., Zagreb	251	670	73	201
M San Logistika d.o.o., Zagreb	-	1,736	101	12
	3,485	**5,037**	**263**	**294**

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 2021 and 2020:

	Receivables		Income	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Baks Grupa d.o.o.	22,728	23,112	549	626
M San Ulaganja d.o.o.	-	2,477	176	324
Litus Projekt d.o.o.	-	777	16	19
M San Nekrenine d.o.o.	-	327	-	302
Ured za podršku d.o.o., Zagreb	-	-	9	-
	22.728	**26.693**	**750**	**1.271**

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 2021 and 2020:

	Receivables		Income	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
PPK Valpovo d.d	474	3	471	3
M San Nekrenine d.o.o.	266	-	-	-
PP Orahovica d.o.o.	12	2	9	2
King ICT d.o.o., Zagreb	-	-	58	218
MS Industrial Kina	-	-	5	-
Pametna energija d.o.o., Zagreb	-	38	-	7
	752	**43**	**543**	**230**

43. RELATED-PARTY TRANSACTIONS (CONTINUED)

Management remuneration through the year were as it follows:

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Salaries	7,926	6,854	4,147	4,020
Total	**7,926**	**6,854**	**4,147**	**4,020**

44. FINANCIAL INSTRUMENTS

44.1. 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 36, 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.

44.1.1. GEARING RATIO

Gearing ratio at the end of the reporting period:

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Debt	276,506	190,076	200,920	133,367
Less: cash in banks and petty cash	(97,680)	(116,380)	(65,047)	(92,672)
	178,826	**73,696**	**135,873**	**40,695**
Equity	379,444	331,460	174,729	196,295
Gearing ratio	**47.13%**	**22.23%**	**77.76%**	**20.73%**

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

(all amounts are expressed in thousands of kuna)

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.1. CAPITAL RISK MANAGEMENT (CONTINUED)

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

44.1.2. CATEGORIES OF FINANCIAL INSTRUMENTS

	GROUP		COMPANY	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Financial assets				
Cash and cash equivalents	97,680	116,380	65,047	92,672
Loans and receivables	397,057	346,577	284,978	232,913
Total financial assets	**494,737**	**462,957**	**350,025**	**325,585**
Financial liabilities				
Bank loans	68,300	187,751	-	132,625
Korporativne obveznice	200,000	-	200,000	-
Other financial liabilities	8,206	2,325	920	742
Total financial liabilities	**276,506**	**190,076**	**200,920**	**133,367**

44.2. 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	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
EUR	48,488	37,189	(301,591)	(387,931)	(253,103)	(350,742)
USD	44,669	35,326	(71,335)	(88,841)	(26,666)	(53,515)

COMPANY	Assets		Liabilities		Difference	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
EUR	75,719	48,021	(255,209)	(342,887)	(179,490)	(294,866)
USD	63,551	36,407	(67,005)	(86,820)	(3,454)	(50,413)

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.2.1. CURRENCY RISK SENSITIVITY ANALYSIS

The following table analyzes the group's sensitivity to an increase and decrease in the kuna exchange rate of 10% against relevant foreign currencies. A sensitivity rate of 10% is the rate used in internal reports to key executives on currency risk and represents management's assessment of realistically possible changes in exchange rates. The sensitivity analysis includes only open monetary items in foreign currency and it recalculates items adjusted for a 10% change in exchange rates. The sensitivity analysis includes external loans as well as loans to foreign entities of the group that are denominated in a currency other than the currency of the borrower or lender. A positive number indicates an increase in profit and other principal if the value of the kuna increases by 10% against the currency in question. In the event of a 10% fall in the value of the kuna against the currency in question, the impact on profit and other principal would be the same, but opposite, ie the amounts in the table would be negative.

GROUP	EUR impact		USD impact	
	2021	2020	2021	2020
Profit/ (loss)	(25,310)	(35,074)	(2,667)	(5,352)

COMPANY	EUR impact		USD impact	
	2021	2020	2021	2020
Profit/ (loss)	(17,949)	(29,487)	(345)	(5,041)

44.3. 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)

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.3. 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.

		GROUP		COMPANY	
Customer	Domicile country	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Ekupi d.o.o.	CROATIA	310,438	291,771	303,683	285,760
KING ICT d.o.o.	CROATIA	84,204	130,181	81,430	126,476
S&T Hrvatska d.o.o.	CROATIA	71,007	39,496	71,007	39,492
Links d.o.o.	CROATIA	48,159	56,923	48,159	56,922
Ask Tec d.o.o.	KOSOVO	43,106	32,178	34,019	26,667
Coral Computers d.o.o.	SERBIA	39,276	32,490	-	-
JP Hrvatske telekomunikacije d.d. Mostar	BOSNIA AND HERZEGOVINA	34,865	32,988	-	-
Mikronis d.o.o.	CROATIA	31,040	30,624	31,037	30,826
GIGATRON d.o.o.	SERBIA	30,621	-	-	-
Nordecon Oy	FINLAND	29,100	5,233	29,100	5,233
Kim Tec d.o.o. Beograd	SERBIA	-	-	297,001	246,851
Kim Tec d.o.o. Vitez	BOSNIA AND HERZEGOVINA	-	-	120,427	105,714
Pakom Kompani Skopje	MACEDONIA	-	-	85,276	62,824

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.4. 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 50 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 50 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2021 would have changed by HRK 0 thousand (31 December 2020: HRK 536 thousand), and the Group as of 31 December 2021 would have changed by HRK 84 thousand (31 December 2020: HRK 636 thousand). Interest rates on issued corporate bonds and loans are not taken into account because they are instruments with fixed interest rates.

44.5. 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.

44.5.1. 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)

44 FINANCIAL INSTRUMENTS (CONTINUED)

44.5. LIQUIDITY RISK MANAGEMENT (CONTINUED)

44.5.1. LIQUIDITY AND INTEREST RATE RISK TABLES (CONTINUED)

GROUP 31 December 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	-	8,207
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)**

31 December 2020	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	435,995	-	-	127	-	436,122
Interest bearing instruments	-	-	7,843	18,992	-	26,835
Total assets	**435,995**	**-**	**7,843**	**19,119**	**-**	**462,957**
Liabilities						
Non-interest bearing	341,047	-	-	-	-	341,047
Finance lease liabilities	80	161	722	1,362	-	2,325
Interest bearing instruments	2,361	4,721	65,582	97,955	17,132	187,751
Total liabilities	343,488	4,882	66,304	99,317	17,132	531,123
Net asset / (liabilities)	**92,507**	**(4,882)**	**(58,641)**	**(80,198)**	**(17,132)**	**(68,166)**

44 FINANCIAL INSTRUMENTS (CONTINUED)

44.5. LIQUIDITY RISK MANAGEMENT (CONTINUED)

44.5.1. LIQUIDITY AND INTEREST RATE RISK TABLES (CONTINUED)

COMPANY 31 December 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)**

COMPANY 31 December 2020	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	293,862	-	-	127	-	293,989
Interest bearing instruments	-	-	12,733	18,863	-	31,596
Total	**293,862**	**-**	**12,733**	**18,990**	**-**	**325,585**
Liabilities						
Non-interest bearing	299,961	-	-	-	-	299,961
Finance lease liabilities	23	47	209	463	-	742
Interest bearing instruments	1,554	3,108	39,388	74,589	13,986	132,625
Total	**301,538**	**3,154**	**39,598**	**75,052**	**13,986**	**433,328**
Net asset / (liabilities)	**(7,676)**	**(3,154)**	**(26,865)**	**(56,062)**	**(13,986)**	**(107,743)**

44. FINANCIAL INSTRUMENTS (CONTINUED)

44.5. LIQUIDITY RISK MANAGEMENT (CONTINUED)

44.5.2. CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

	Short-term loan liabiities	Long-term loan liabilities	Short term-term bond issuance fees	Long-term bond issuance fees	Short-term lease liabilities	Long-term lease liabilities	Total
1 January 2021	**72,664**	**115,087**	**-**	**-**	**963**	**1,362**	**190,076**
Cash flow	(47,628)	(82,562)	-	200,000	(1,622)	(81)	68,107
Acquisition of an affiliated company (note 46)	1,093	10,335	-	-	1,491	2,971	15,890
Increases, modifications and termination of leases	-	-	-	-	277	2,821	3,098
Curret portion	10,905	(10,905)	20,000	(20,000)	1,854	(1,854)	-
Exchange rate differences	(128)	(561)	-	-	(2)	26	(665)
31 December 2021	**36,906**	**31,394**	**20,000**	**180,000**	**2,961**	**5,245**	**276,506**

44.6. 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 2021, 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.

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44. FINANCIAL INSTRUMENTS (CONTINUED)

44.7. 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.
With the onset of the COVID-19 pandemic, supply problems arose with suppliers, caused by production difficulties, a lack of key components, and insufficient transportation capacity. The Group has mitigated these market risks through contracts with several leading manufacturers for key product groups and the timely provision of sufficient quantities of key components required for the production of its own brands.

45. 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.

	GROUP		COMPANY	
	2021	2020	2021	2020
Within one year	18,619	15,391	3,776	3,808
1-5 years	648	590	-	-
After 5 years	-	-	-	-
Total	**19,267**	**15,981**	**3,776**	**3,808**

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 59,004 thousand (2020: HRK 56,158 thousand) whose recognition was not met as of year end date.

(all amounts are expressed in thousands of kuna)

46. BUSINESS COMBINATIONS AND DIVESTMENTS

46.1. BUSINESS COMBINATIONS AND DIVESTMENTS IN 2020

A. EKO BOSANSKA POSAVINA- ACQUISITION OF AN AFFILIATED COMPANY

During October 2020, the Group recapitalized the company EKO Bosanska Posavina in the amount of BAM 5,000 thousand, and acquired a ownership of 36.83%.

Cash consideration	19,268
Carrying values of acquired asset	(15,123)
Property, plant and equipment	64,650
Inventories	7,267
Trade receivables	12,218
Cash and cash equivalents	970
Other current assets	755
Total Assets	**85,860**
Non-current liabilities	(15,072)
Current liabilities	(29,726)
Total Liabilities	**(44,798)**
Net assets	**41,062**
Group share in net assets of the acquired company	*15,123*

B. MPI MODRIČA – ACQUISITION OF AN ADDITIONAL SHARE IN OWNERSHIP

At the end of September 2020, the company purchased the shares of MPI Modriča from the affiliated company Kim Tec Vitez d.o.o. on the basis of a share purchase agreement through block transactions. with a nominal value of HRK 29,734 thousand and thus acquired a 100% share in ownership and voting rights. The Group did not have any effects from the transaction as the acquired company was part of the group even before the transaction.

C. SALE OF INVESTMENT IN ASSOCIATES (AGRICULTURE SEGMENT)

During 2020, the Group and the Company implemented a strategic disinvestment program in agriculture. Consequently, in July 2020, the Group sold its shares in the associated companies Agropormet Grahovo, Poljoprivrednik Odžak, Poljoprivrednik Glamoč and MP Energija to the affiliated company King ICT d.o.o. from Zagreb.

46. BUSINESS COMBINATIONS AND DIVESTMENTS (CONTINUED)

46.1. BUSINESS COMBINATIONS AND DIVESTMENTS IN 2020 (CONTINUED)

	Total	Agropromet Grahovo	Poljoprivrednik Odžak	Poljoprivrednik Glamoč	MP Energija
Cash	**14,545**	3,239	2,905	3,983	4,418
Investing in associated company	**(17,383)**	(3,696)	(3,441)	(4,625)	(5,620)
Loss from sale	**(2,838)**	**(457)**	**(536)**	**(642)**	**(1,202)**

D. POLJOPRIVREDNIK D.O.O. DERVENTA- SALE OF SUBSIDIARY

At the end of December 2020, the company sold its subsidiary Poljoprivrednik d.o.o. Derventa based on the contract of sale to the affiliated company King ICT d.o.o. Zagreb. The agreed consideration for the transfer of business shares was determined in the amount of HRK 22,991 thousand.

Fee received for the sale of subsidiary:	
Cash	22,991
Carrying value of sold net assets of the group	(21,411)
Gain from sale of the associated company	**1,580**
Carrying value of net assets:	
Property, plant and equipment	19,013
Land	1,600
Goodwill	1,462
Intangible assets	26
Inventories	26,301
Trade receivables	8,124
Cash and cash equivalents	133
Other current assets	302
Total Assets	**56,961**
Non-current liabilities	(7,833)
Current liabilities	(27,717)
Total Liabilities	**(35,550)**
Carrying value of net assets	**21,411**

The Company did not have the effect of sale of subsidiaries and associated companies, given that the agreed consideration for the transfer of business shares is stated in exact amount as the Company bought shares from the subsidiary Kim tec Vitez d.o.o. The total value of the bought shares amounted to HRK 37,536 thousand and and this amount was selling price towards related company KING ICT d.o.o., Zagreb.

(all amounts are expressed in thousands of kuna)

46. BUSINESS COMBINATIONS AND DIVESTMENTS (CONTINUED)

46.2 BUSINESS COMBINATIONS AND DIVESTMENTS IN 2021 (CONTINUED)

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 the 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 ofKim 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.

C. SEPARATION OF AN SUBSIDIARY

On November 25, 2021, based on the Division Agreement, the Company separated the subsidiary MPI 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.

46. BUSINESS COMBINATIONS AND DIVESTMENTS (CONTINUED)

46.2 BUSINESS COMBINATIONS AND DIVESTMENTS IN 2021 (CONTINUED)

Overview of the net assets of the separate entity MPI 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 MPI 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 assets	404
Total assets	***4,352***
Non-current liabilities	(218)
Current liabilities	(6,820)
Total Liabilities	***(7,038)***
Carrying value of net assets	**(2,686)**

(all amounts are expressed in thousands of kuna)

46. BUSINESS COMBINATIONS AND DIVESTMENTS (CONTINUED)

46.2 BUSINESS COMBINATIONS AND DIVESTMENTS IN 2021 (CONTINUED)

D. MERGER OF A COMPANY(CONTINUED)

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%.

E. ACQUISITION OF THE AFFILIETED COMPANY EKO BOSANSAK 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 1.11.2021. 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)	
	44,843
Non controling share of net assets (39,92%)	68,793*
Investments M SAN Group d.o.o.	(112,331)
Net assets of acquired company	1,305

46. BUSINESS COMBINATIONS AND DIVESTMENTS (CONTINUED)

46.2 BUSINESS COMBINATIONS AND DIVESTMENTS IN 2021 (CONTINUED)

E. ACQUISITION OF THE AFFILIETED COMPANY EKO BOSANSAK POSAVINA (CONTINUED)

*Company had investment in associate in amount of HRK 19,218 thousand (until 31.10.2021). After investing land value into equity of associate into equity of Eko Bosanska Posavina as of 1.11.2021 (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.

The Company, in December 2021, 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).

47. SUBSEQUENT EVENTS

In January 2022, the company 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 so the part of 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 related companies Ribnjak Jasinje d.o.o. and Ribnjak Narta d.o.o. The Company has recognized the need to implement these 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 total amount of transferred net assets amounts to HRK 39,680 thousand.

The group assessed the potential impact of the conflict in Ukraine. The Company considers this event to be an event that does not adjust after the reporting period. Although the quantitative impact cannot be assessed with sufficient certainty at this time, the Group has analyzed the possible impact of changing micro and macroeconomic conditions on the Group's performance, financial position and operations and has not identified any question of business continuity or any significant financial impact. the position or operations of the Group in view of this situation at the date of the financial statements.

48. AUDIT FEES

Fees for the statutory audit of the Group's financial statements amounted to HRK 985.6 thousand (2020: HRK 928.5 thousand), while fees for other services amounted to HRK 90 thousand. The other services refer to permitted tax services in accordance with local regulations.

(all amounts are expressed in thousands of kuna)

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements, set out on pages 69 to 174, were approved by the Management Board and authorised for issue on 25 April 2022

Miroslav Huzjak
Chairman of the Management Board

Irena Langer-Breznik
Member of the Management Board

Goran Kotlarević
Member of the Management Board

Žarko Kruljac
Member of the Management Board

Slaven Stipančić
Member of the Management Board

Zagreb, 25 April 2022

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

DECISION

I. The Annual Report of the Company for 2021 is determined according to the text attached to this Decision.

II. The consolidated and separate Annual Financial Report for 2021 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 2021 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 2021 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 2021, 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.

Miroslav Huzjak	Irena Langer-Breznik	Goran Kotlarević	Žarko Kruljac	Slaven Stipančić
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Zagreb, 29 April 2022

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 29, 2022 adopted the following

DECISION

I. Consent is given to the Annual Report of the Company for 2021 according to the text attached to this Decision.

II. Consent is given to:
- consolidated and separate Annual Financial Report for 2021, 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 2021,
- Annual report on the state of the Company and its affiliates for 2021 (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 2021 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.

Stipo Matić
the Chairman of the Supervisory Board

Zagreb, 25 April 2022

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

DECISION

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 2021 amounts to HRK 11,053,309.92.
II. The total realized profit for 2021, after taxation, in the amount of HRK 11,053,309.92, is allocated to the retained earnings of the Company.
II. This Decision shall enter into force upon obtaining the consent of the Supervisory Board.

Miroslav Huzjak	Irena Langer-Breznik	Goran Kotlarević	Žarko Kruljac	Slaven Stipančić
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Zagreb, 29 April 2022

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 29, 2022, adopted the following

DECISION

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 2021 amounts to HRK 11,053,309.92.
II. The total realized profit for 2021, after taxation, in the amount of HRK 11,053,309.92, distributes to the retained earnings of the Company.
II. This Decision shall enter into force on the day of its adoption.

Stipo Matić
the Chairman of the Supervisory Board

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