Spačva d.d., Vinkovci

FINANCIAL STATEMENTS AND ANNUAL REPORT 31 DECEMBER 2016

Managemet Board's responsibilities for the preparation and approval of financial statements

Pursuant to the Croatian Accounting Act (Official Gazette 78/15 and 134/15), the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in order to give an objective and realistic view of the financial position and operating results of Spačva d.d. (the "Company") for the reporting period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue as a going concern for the foreseeable future. Therefore it adopts the going concern basis in preparing these financial statements.

In preparing these financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. Moreover, the Management Board is responsible for ensuring that the financial statements are in accordance with the Croatian Accounting Act, as well as for safeguarding the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other illegal procedures or irregularities.

These financial statements were approved by the Management Board on 26 April 2017.

Drvna industrija
SPAČVA d.d.
Vinkovci, Duga ul. 181
1

Josip Faletar
President of the Management Board

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Vinkovci, Duga ul. 181
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Ante Radoš
Member of the Management Board

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Ivan Perković
Member of the Management Board

Independent Auditor's Report

To the Shareholders and Management Board of Spačva d.d.:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Spačva d.d. (the "Company") standing alone as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in European Union ("IFRS").

What we have audited

The Company's standing alone financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Our audit approach

Overview

Materiality	• Overall materiality for the financial statements as a whole: HRK 5,300 thousand, which represents 3% of total revenue.
Key audit matters	• Fair value of loan liabilities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality for financial statements as a whole	5,300 thousand Croatian kuna ("HRK")
How we determined it	3% of total revenues
Rationale for the materiality benchmark applied	We consider total revenues to be appropriate metric because it is the benchmark against which the performance of the Company is measured by users, in terms of market share and customers.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Fair value of loan liabilities *See note 24 to the financial statements Trade and other payables, note 18 Inventories and note 3 Critical accounting estimates* The Company has bank loan liabilities which will be settled through transfer of the Company's real estate in accordance with the pre-bankruptcy settlement over the Company. Since the ownership of this real estate has not transferred and the Company is still in possession of this real estate, the Company continues to recognize both the assets and liabilities in the statement of financial position. Considering these liabilities will be settled exclusively through transfer of the aforementioned real estates, and consequently the carrying amount of the real estates will be recovered exclusively by settling these liabilities, the Company has valued these liabilities at fair value, being the appraised fair value of the real estates. We have focused on this area due to significance of this real estate and loan liabilities and the complexity of accounting rules relating to their recognition and measurement.	We obtained an understanding of, and evaluated management's accounting policies in relation to valuation of liabilities which will be settled by the transfer of real estate of the Company, in accordance with the pre-bankruptcy settlement. We have reviewed terms of the pre-bankruptcy settlement, including the rights of creditors which have not dismissed the right of separate settlement. We have reviewed appraisals of this real estate prepared by independent appraiser, including methods and key assumptions used (comparable prices) in preparation of appraisals. Furthermore, we have checked that real estate in the appraisals are the same ones as noted in the pre-bankruptcy settlement and land registry. We have particularly reviewed accounting criteria for recognition of assets and liabilities, their measurement and need for their derecognition. We have concluded that the described approach for recognition, measurement and disclosures of this real estates and liabilities which will be settled through transfer of this real estate is appropriate and that assumptions and estimates used in accounting for them are appropriate.

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company, which includes the Management Report and Corporate Governance Statement, but does not include the financial statements and our independent auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

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

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company 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 and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent 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.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Ivan Čović.

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27 April 2017

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**2016**	**2015**
Sales	5	178,832	163,092
Other operating income	6	5,151	885
Change in inventories of work in progress and finished goods		259	(8,056)
Cost of materials and services	8	(102,063)	(87,853)
Staff costs	9	(51,265)	(46,695)
Depreciation and amortisation		(11,733)	(10,247)
Impairment	10	(4,977)	(287)
Other operating expenses	11	(5,039)	(4,359)
Other operating profit	7	145	1,881
Operating profit		**9,310**	**8,361**
Finance income	12	1,200	1,076
Finance costs	12	(3,737)	(2,897)
Net finance costs	12	**(2,537)**	**(1,821)**
Profit before tax		**6,773**	**6,540**
Income tax	13	841	366
Profit for the year		**5,932**	**6,906**
Basic and diluted earnings per share (in HRK)	14	**1.57**	**1.83**
Other comprehensive income		**-**	**-**
Total comprehensive income/(loss) for the year		**5,932**	**6,906**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2016**	**31 December 2015**
ASSETS			
Non-current assets			
Intangible assets	15	67	51
Property, plant and equipment	15	176,570	173,027
Available-for-sale financial assets and loans	16	48	581
Receivables	16, 17, 20	35	51
Total non-current assets		**176,720**	**173,711**
Current assets			
Inventories	18	62,454	64,502
Receivables	17.20	22,755	26,322
Loans and deposits	16	746	1,089
Cash	19	1,081	4,018
Total current assets		**87,036**	**95,931**
Total assets		**263,756**	**269,642**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2016**	**31 December 2015**
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	21	75,531	75,531
Treasury shares	21	(208)	(208)
Revaluation reserves	21	48,363	48,637
Legal reserves	21	1,228	883
Retained earnings		46,114	39,074
Total capital and reserves		**171,028**	**163,916**
Non-current liabilities			
Borrowings	22	28,877	32,865
Trade and other payables	24	3,078	3,734
Deferred tax liability	25	10,616	12,159
Provisions	23	3,180	3,010
Total non-current liabilities		**45,751**	**51,768**
Current liabilities			
Borrowings	22	5,292	16,641
Trade payables	24	23,087	21,826
Other liabilities	24	16,568	14,433
Provisions	23	1,410	1,057
Deferred income		620	-
Total current liabilities		**46,977**	**53,957**
Total liabilities		**92,728**	**105,725**
Total equity and liabilities		**263,756**	**269,642**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	**Note**	**2016**	**2015**
Profit before tax		**6,773**	**6,540**
Depreciation, amortisation and impairment of non-current tangible assets	15	11,733	10,247
Fair valuation of liabilities	7	-	892
Foreign exchange differences (net)	12	54	(147)
Additional provisions	23	523	(86)
Interest income	12	(11)	(56)
Interest expense	12	2,602	2,025
Disposal of property, plant and equipment	10	3,198	-
Collected receivables written off	10	(807)	(94)
Provision for bad and doubtful debts	10	151	381
Gains on sale of non-current assets	7	(47)	(2,571)
Increase/(decrease) in trade and other receivables		4,234	(3,062)
Decrease in inventories		2,048	5,639
Decrease in trade and other payables		(446)	(141)
Cash (used in)/generated from operations		**30,005**	**19,567**
Purchase of tangible and intangible assets	15	(18,443)	(18,307)
Other proceeds from investing activities		892	12,398
Cash flows used in investing activities		**(17,551)**	**(5,909)**
Proceeds from borrowings		8,067	2,439
Repayments of borrowings		(23,458)	(16,620)
Net cash used in financing activities		**(15,391)**	**(14,181)**
Net (decrease) in cash and cash equivalents		(2,937)	(523)
Cash and cash equivalents at beginning of year		4,018	4,541
Cash and cash equivalents at end of year	19	**1,081**	**4,018**

(all amounts are expressed in thousands of HRK)	**Note**	**Registered capital**	**Treasury shares**	**Revaluation reserves**	**Legal reserves**	**(Accumulated loss)/retained earnings**	**Total**
Balance at 1 January 2015		75,531	(208)	50,103	325	31,259	157,010
Transfer of profit to legal reserves		-	-	-	558	(558)	-
Reversal of provisions for sold assets and difference in depreciation, net of tax		-	-	(1,466)	-	1,466	-
Total transactions with owners		***-***	***-***	***(1,466)***	***558***	***908***	***-***
Profit for the year		-	-	-	-	6,906	6,906
Total comprehensive income		***-***	***-***	***-***	***-***	***6,906***	***6,906***
Balance at 31 December 2015		**75,531**	**(208)**	**48,637**	**883**	**39,074**	**163,916**
Balance at 1 January 2016		75,531	(208)	48,637	883	39,074	163,916
Transfer of profit to legal reserves		-	-	-	345	(345)	-
Reversal of provisions for sold assets and difference in depreciation, net of tax		-	-	(1,453)	-	1,453	-
Effect of change in deferred tax rate on revaluation reserves		-	-	1,179	-	-	1,179
Total transactions with owners		***-***	***-***	***(274)***	***345***	***1,108***	***1,179***
Profit for the year		-	-	-	-	5,932	5,932
Total comprehensive income		***-***	***-***	***-***	***-***	***5,932***	***5,932***
Balance at 31 December 2016		**75,531**	**(208)**	**48,363**	**1,228**	**46,114**	**171,028**

NOTE 1 – GENERAL INFORMATION

Drvna industrija Spačva (the Company) was established in 1956 under the name DI Slavonski Hrast. The Company underwent several status changes up to 2003.

On 3 May 2004, status changes were enacted by the decision of the Commercial Court in Osijek thereby completing the constitution of the private limited company.

The Company's main activities constitute wood processing, the manufacture of wood and briquettes, retail of sawn timber, wood elements and wood waste, and the wholesale of wood products.

The Supervisory Board comprises the following persons:

- Borislav Škegro - President of the Supervisory Board
- Vjenceslav Terzić - Vice-president of the Supervisory Board
- Mario Popić - Member of the Supervisory Board
- Jakov Krešić - Member of the Supervisory Board
- Illija Budimir - Member of the Supervisory Board

The Management Board comprises the following persons:

- Josip Faletar - President of the Management Board
- Ante Radoš - Member of the Management Board
- Ivan Perković - Member of the Management Board

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land, property and securities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Company has issued these separate financial statements in accordance with IFRS.

This supplement includes details on (a) new and amended standards, which are effective for the first time for periods beginning on 1 January 2016 and (b) forthcoming requirements - that is, new and amended standards that have been issued and are not effective for periods beginning on 1 January 2016, but will be in effect in subsequent periods.

(a) New and amended standards adopted by the Company

The new standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2016 are not applicable to the Company's financial statements.

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Company. None of these is expected to have a significant effect on the Company's financial statements, except for the following standards:

- *IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

  The Management Board of the Company assessed the impact of the new standard IFRS 9 on its financial statements as follows:

  - Following the changes approved by IASB in July 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company’s financial assets and financial liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations not yet adopted (continued)

- Although the Company is yet to carry out a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it is expected that they could meet the requirements so as to be classified at fair value through other comprehensive income (FVOCI), taking into account the current business model used for these assets. Therefore, there will be no changes in reporting these assets.
- There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.
- The new hedging rules largely align hedge accounting with the Company's risk management process. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.
- The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.
- The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.

The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.)
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations not yet adopted (continued)

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The Management Board is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:

- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue;
- Consignment sales where recognition of revenue will depend on the passing of control rather than the passing of risks and rewards;
- The balance sheet presentation of rights of return, which will have to be grossed up in the future (separate recognition of the right to recover the goods from the customer and the refund obligation).

At this moment, the Company cannot assess the impact of the new rules on its financial statements. The Management Board plans to adopt the standard on its effective date and when endorsed by the European Union.

- *IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the amendments on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional currency and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses relating to borrowings are recorded in the income statement within finance income or costs. All other foreign exchange gains and losses are recorded in the statement of comprehensive income within 'Other operating expenses'.

2.3 Intangible assets

Intangible assets are carried at cost and their useful life is 5 years.

2.4 Property, plant and equipment

Land and buildings are carried at revalued amounts. Other non-current tangible assets are measured initially at cost and subsequently they are measured at cost less accumulated depreciation and impairment.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The increase in the carrying amount of assets as a result of revaluation was recorded as an increase in revaluation reserves in total equity. The difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from revaluation reserves to retained earnings.

Land and buildings are carried at fair value, based on valuations by independent valuers. Valuations are performed with sufficient regularity to ensure that the fair value of an asset does not differ materially from its carrying amount. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount and the net amount is restated to the revalued amount of the asset.

The increase in the carrying amount arising on revaluation of land and buildings is shown in the revaluation reserve in equity. The difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost is transferred from revaluation reserves to retained earnings.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other (losses)/gains - net. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

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

The estimated useful lives are as follows:

	2016	2015
Buildings	15 – 55 years	15 – 55 years
Equipment and machinery	10 – 33 years	10 – 33 years
Tools, plant inventory and vehicles	2 – 10 years	2 – 10 years

2.5 Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose of the financial assets. The Company classifies its assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables are non-derivative financial assets that are not quoted in an active market. These are included in current assets, unless their maturity is longer than one year in which case they are classified in non-current financial assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Financial assets available for sale comprise all other financial assets that do not fall under the previous two categories or that the Company initially categorised as such. If the Company intends to sell them within a period of more than one year, these are classified as non-current assets.

All investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised upon the expiry of the rights to receive cash flows from the investment.

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other losses/gains' in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income until they are sold at which point they are charged directly to the income statement.

2.6 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are carried at cost, less impairment losses, if any.

2.7 Inventories

Inventories of raw materials and supplies, work in progress and finished goods are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated sales price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) excluding borrowing costs. Small inventory and tools are expensed when put into use. Inventories of trade goods are carried at cost.

In the course of its business operations, in exchange for uncollected receivables the Company acquires properties which it sells in the market. Assets held for sale are carried at the lower of cost or sales price less selling expenses.

2.8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired.

The amount of the provision is the difference between the receivable's carrying amount and recoverable amount, being the present value of estimated future cash inflows discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within other operating expenses.
Subsequent recoveries of receivables are credited against 'other operating expenses' in the statement of comprehensive income and shown as a decrease in impairment for the current year.

Receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Current and deferred income tax

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

Current tax is calculated using tax rates enacted at the reporting date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

2.11 Value added tax (VAT)

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where receivables have been impaired, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Short-term employee benefits

The Company recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

(c) Long-term employee benefits

The Company recognises a provision for jubilee awards and retirement benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

2.13 Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value added tax, estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company's activities as described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Revenue recognition (continued)

(a) Wholesale

Wholesale sales are recognised when the Company has delivered the products to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the customer and the customer has accepted the products in accordance with the contract terms.

Products are sold with volume discounts and customers have a right to return faulty products. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns. Accumulated experience is used to estimate the discounts and returns. Volume discounts are assessed based on anticipated semi-annual purchases.

(b) Retail

Retail sales are recognised when the goods are sold to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs.

(c) Rental income

Revenues from rental services are recognised when rental services are provided.

2.15 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company's chief operating decision-maker is the Management Board.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful life of tangible assets

By using a certain asset, the Company realises the economic benefits contained in this asset, which diminish more intensely with economic and technological ageing.

The useful lives will periodically be revised to reflect any changes in circumstances since the previous assessment. Changes in estimate, if any, will be reflected prospectively in a revised depreciation charge over the remaining, revised useful life.

(b) Estimated fair value of liabilities

If the Company's balance sheet contains liabilities with an interest rate lower than the real market interest rate, the fair value of these liabilities is adjusted by means of the real market interest rate for borrowing that would have been available to the Company had it not contracted more favourable borrowing conditions.

Other non-financial liabilities relating to borrowings from commercial banks that will be settled from properties in accordance with the right to separate satisfaction arising from the legally valid pre-bankruptcy settlement are valued at the fair value of the properties with which they will be settled.

NOTE 4 – SEGMENTS

(in thousands of HRK)	**Furnir**	**Finala**	**Bioenergetika**	**Other**	**Total**
2016					
Total income	56,632	69,293	35,851	24,363	186,139
Total expenses	48,282	66,162	27,047	37,875	179,366
Profit before tax	8,350	3,131	8,804	(13,512)	6,773
Income tax					(841)
Profit after tax					5,932

(in thousands of HRK)	**Furnir**	**Finala**	**Logistika**	**Other**	**Total**
2015					
Total income	51,941	84,981	26,005	5,047	167,974
Total expenses	(45,009)	(64,419)	(14,075)	(37,564)	(161,067)
Profit after tax	6,932	20,562	11,930	(32,517)	6,907

NOTE 5 – SALES

(in thousands of HRK)	**2016**	**2015**
Domestic sale of goods	56,623	50,194
Export revenue - direct export	116,118	107,526
Export revenue - export companies	34	325
Sale of goods	3,352	4,661
Sale of materials	63	156
Sale of services	195	223
Other sales	2,447	7
	178,832	**163,092**

NOTE 6 – OTHER OPERATING INCOME

(in thousands of HRK)	**2016**	**2015**
Subsidies	780	-
Insurance claims recovered	3,899	159
Other operating income	472	726
	5,151	**885**

NOTE 7 – OTHER GAINS FROM OPERATIONS

(in thousands of HRK)	**2016**	**2015**
Write-off of trade payables	98	201
(Losses)/gains on sale of assets	47	2,571
(Losses)/gains on discounting liabilities	-	(892)
	145	**1,881**

NOTE 8 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2016**	**2015**
Raw materials and supplies	67,293	56,800
Energy cost	11,758	10,127
Packaging and other	4,603	3,722
Cost of goods sold	4,066	4,606
Transportation costs	8,175	6,210
Maintenance costs	1,635	1,217
Other external costs	4,533	5,169
	102,063	**87,853**

NOTE 9 – STAFF COSTS

(in thousands of HRK)	**2016**	**2015**
Net salaries	30,271	27,627
Taxes and contributions from and on salaries /i/	15,501	14,062
Other employee benefits /ii/	5,183	4,920
Changes in provisions for jubilee awards and termination benefits	310	86
	51,265	**46,695**

As at 31 December 2016, the Company had 747 employees (2015: 705).

/i/ In 2016, salary expenses include defined pension contributions paid to mandatory pension funds in Croatia in the amount of HRK 9,383 thousand (2015: HRK 8,221 thousand). Contributions are calculated as a percentage of gross salaries and employee bonuses.

/ii/ Other employee benefits comprise Christmas bonuses, termination benefits, transportation costs, etc.

NOTE 10 – IMPAIRMENT

(in thousands of HRK)	2016	2015
Trade receivables – ordinary course of business (Note 20)	151	381
Collected trade receivables previously written off (Note 20)	-	(94)
Collected lease receivables previously written off	(807)	-
Damage caused by disasters	2,435	-
Net book value of non-current tangible assets (Note 15)	3,198	
	4,977	**287**

NOTE 11 – OTHER OPERATING EXPENSES

(in thousands of HRK)	2016	2015
Pre-bankruptcy settlement	17	5
Insurance premiums	702	747
Donations	227	225
Business travel expenses	244	335
Entertainment	269	186
Membership and other fees	146	83
Bank guarantees and services	624	534
Other expenses	2,810	2,244
	5,039	**4,359**

NOTE 12 – NET FINANCE COSTS

(in thousands of HRK)	2016	2015
Finance income		
Interest income	11	56
Foreign exchange gains	1,189	1,019
Total finance income	**1,200**	**1,075**
Finance costs		
Interest expense	(2,602)	(2,025)
Foreign exchange losses	(1,135)	(872)
Total finance costs	**3,737**	**2,897**
Net finance costs	**(2,537)**	**(1,821)**

NOTE 13 – INCOME TAX

	2016	**2015**
Income tax	1,204	-
Deferred income tax (Note 25)	(363)	(366)
	841	**(366)**

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

(in thousands of HRK)	**2016**	**2015**
Profit before tax	**6,773**	**6,540**
Tax calculated at a rate of 20%	1,355	1,308
Effect of non-deductible expenses	452	537
Effect of non-taxable income	(161)	(19)
Utilisation of previously unrecognised tax losses /i/	(442)	(1,826)
Effect of deferred tax	(363)	(366)
Income tax	**841**	**(366)**

/i/ In 2016, the Company used the tax losses incurred in the amount of HRK 2,210 thousand for which deferred tax assets were not recognised. At 31 December 2016, the Company had no tax losses available for carry forward into future periods.

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	2016	**2015**
Net profit (in thousands of HRK)	5,932	6,907
Weighted average number of shares	3,773,787	3,773,787
Basic and diluted earnings per share (in HRK)	**1.57**	**1.83**

Diluted earnings/(loss) per share

Diluted earnings/loss per share for 2016 and 2015 are equal to basic earnings/loss per share, since the Company did not have any convertible instruments or share options during either years.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(in thousands of HRK)	**Land**	**Buildings**	**Equipment and machinery**	**Tools**	**Tangible assets under construction**	**Other**	**Total**	**Intangible assets**
Year ended 31 December 2015								
Opening net book amount	28,505	78,640	57,803	1,389	369	12	166,718	51
Deprecation/amortisation charge	-	(3,443)	(6,475)	(317)	-	-	(10,235)	(11)
Disposals	-	-	(421)	(4)	-	-	(425)	-
Additions	-	-	-	-	16,841	129	16,970	11
Transfers	77	1,307	4,355	1,303	(7,052)	10	-	-
31 December 2015	**28,582**	**76,504**	**55,262**	**2,371**	**10,158**	**151**	**173,027**	**51**
At 31 December 2015								
Cost or revaluation	28,582	172,845	166,141	5,722	10,158	152	383,600	595
Impairment	-	(96,342)	(110,880)	(3,352)	-	-	(210,573)	(554)
Net book amount	**28,582**	**76,504**	**55,262**	**2,371**	**10,158**	**152**	**173,027**	**51**
Year ended 31 December 2016								
Opening net book amount	28,582	76,504	55,262	2,371	10,158	152	173,027	51
Deprecation/amortisation charge	-	(3,436)	(7,958)	(354)	-	-	(11,748)	(22)
Write offs due to damages	-	(2,816)	(381)	(1)	-	-	(3,198)	-
Additions	-	-	138	-	18,350	-	18,488	38
Transfers	5	624	18,159	736	(19,524)	-	-	-
31 December 2016	**28,587**	**70,875**	**65,220**	**2,752**	**8,983**	**152**	**176,570**	**67**
At 31 December 2016								
Cost or revaluation	28,587	167,468	183,466	6,459	8,983	152	39,116	643
Impairment	-	(96,593)	(118,246)	(3,707)	-	-	(218,546)	(576)
Net book amount	**28,587**	**70,875**	**65,220**	**2,752**	**8,983**	**152**	**176,570**	**67**

/i/ As at 31 December 2016, the net carrying amount of assets of HRK 103,029 thousand (2015: HRK 105,086 thousand) relates to assets pledged for securing loans (Note 22).

/ii/ Had there been no revaluation of non-current tangible assets, the net book value would have been HRK 117,591 thousand (2015: HRK 112,231 thousand).

NOTE 16 – LOANS, RECEIVABLES AND DEPOSITS

(in thousands of HRK)	**2016**	**2015**
Non-current portion		
Trade receivables	35	51
Available-for-sale financial assets	48	581
Current portion		
Loans given	743	1,089
	746	**1,721**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the following items:

(in thousands of HRK)	**2016**	**2015**
Current receivables		
Trade receivables	14,054	15,435
Loans and deposits		
Short-term loans, deposits given, etc. (Note 16)	743	1,089
Cash (Note 19)	1,081	4,018
Non-current receivables		
Trade receivables (Note 20)	35	51
Available-for-sale financial assets		
Available-for-sale financial assets	48	581
	15,961	**21,174**

(in thousands of HRK)	**2016**	**2015**
Financial liabilities		
Current financial liabilities		
Trade payables	23,087	21,826
Borrowings	5,292	16,641
Non-current financial liabilities		
Trade payables	3,077	3,734
Borrowings	28,877	32,865
	60,333	**75,066**

NOTE 18 – INVENTORIES

(in thousands of HRK)	**2016**	**2015**
Raw materials	11,379	10,791
Work in progress	16,602	19,615
Finished goods in warehouse	20,658	17,407
Trade goods	542	848
Advances for inventories	-	1,747
Property held for sale /i/	13,273	14,095
	62,454	**64,502**

/i/ Of the total value of property held for sale, HRK 9,404 thousand (2015: HRK 9,404 thousand) is held for sale in order to settle loans with secured rights which certain banks have not waived in the pre-bankruptcy settlement proceedings (Note 24).

NOTE 19 – CASH

(in thousands of HRK)	**2016**	**2015**
HRK account	519	1,599
Foreign currency account	545	2,391
Cash on hand	17	28
	1,081	**4,018**

NOTE 20 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**2016**	**2015**
Non-current trade receivables		
Trade receivables	35	51
Current trade receivables		
Trade receivables	66,029	65,040
Foreign trade receivables	7,217	9,455
	73,246	74,495
Impairment	(59,192)	(59,060)
Net trade receivables	14,054	15,435
Due from employees	566	564
Due from state and other institutions	3,067	2,783
Other receivables	5,068	7,539
	22,755	**26,321**

The fair value of trade and other receivables approximates their carrying value.

At 31 December 2016, trade receivables and receivables from related parties in the amount of HRK 7,153 thousand (2015: HRK 5,613 thousand) were past due but not impaired.

The ageing structure of past due trade receivables and receivables from related parties is as follows:

(in thousands of HRK)	**2016**	**2015**
Up to two months	4,927	2,839
Two to six months	825	605
Over six months	1,401	2,168
	7,153	**5,613**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

(in thousands of HRK)	**2016**	**2015**
HRK	17,867	19,040
EUR	4,888	7,281
	22,755	**26,321**

NOTE 20 – TRADE AND OTHER RECEIVABLES (continued)

Movements in the provision for impairment of trade receivables are as follows:

(in thousands of HRK)	**2016**	**2015**
At 1 January	**59,060**	**58,769**
Impairment for the year (Note 10)	151	387
Collected receivables previously written off (Note 10)	-	(94)
Write-off	(19)	-
At 31 December	**59,192**	**59,060**

NOTE 21 – CAPITAL AND RESERVES

Share capital

As at 1 January 2013, the Company's share capital was HRK 82,956 thousand and distributed among 266,876 series A shares with a nominal value of HRK 300 per share and 9,646 series B shares with a nominal value of HRK 300 per share. Both series carry the same entitlements for investors.

In a decision of its General Assembly of 11 June 2013, the Company reduced its share capital from HRK 82,856,600 by the amount of HRK 77,425 thousand to HRK 5,530 thousand, reducing the nominal value of the share to HRK 20. The share capital was reduced to cover the Company's losses. At the same time, a decision of the Company's General Assembly, increased its share capital from HRK 5,530,400 by the amount of HRK 70,000,000 to HRK 75,530,440.

A cash payment in the amount of HRK 50,000,000 and an investment of rights, i.e. the conversion of the debt into an investment in the Company in the amount of HRK 20,000,000, was made to increase the share capital. For the above reason, the Company issued 3,500,000 new registered ordinary shares, each with a nominal value of HRK 20.

The shareholder structure as at 31 December 2016 and 2015 was the same, as follows:

Shareholder	**Total number of shares**	**Nominal value**	**Holding in share capital %**
Quaestus Private Equity Kapital II	2,500,000	50,000	66.20
Hrvatska poštanska banka d.d.	1,000,000	20,000	26.48
Čvor d.o.o., Vinkovci	206,791	4,139	5.48
Hrvatske šume d.o.o.	40,563	809	1.07
Other shareholders	26,433	528	0.7
Treasury shares	2,735	54	0.07
	3,776,522	**75,530**	**100.00**

NOTE 21 – CAPITAL AND RESERVES (continued)

Revaluation reserves

Revaluation reserves arisen in 2012 amounted to the increase in the value of land and buildings, net of the effects of deferred tax liabilities in the amount of HRK 115,816 thousand (Note 16). Revaluation reserves are not distributable.

NOTE 22 – BORROWINGS

(in thousands of HRK)	**2016**	**2015**
Long-term borrowings		
Bank borrowings	28,877	32,865
Short-term borrowings		
Current portion of long-term borrowings	5,292	16,224
Bank borrowings	-	417
		16,641
Total borrowings	**34,169**	**49,506**

Borrowings relate to borrowings from commercial banks.

The annual effective interest rates were as follows:

	2016	**2015**
Long-term bank borrowings	2%-4%	4%
Short-term bank borrowings	4.5% - 5.5%	4%

NOTE 22 – BORROWINGS (continued)

The exposure of the Company's bank borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

(in thousands of HRK)	**2016**	**2015**
1 month or less	3,089	13,246
3 months	31,080	36,260
	34,169	**49,506**

The maturity of long-term borrowings is as follows:

(in thousands of HRK)	**2016**	**2015**
Between 1 and 2 years	5,764	9,526
Between 2 and 5 years	15,560	18,965
More than 5	7,553	4,374
	28,877	**32,865**

The carrying amounts of borrowings equal their fair value.

The repayment of the stated borrowings is secured by property owned by the client in the amount of HRK 103,029 thousand (Note 15).

Borrowings are denominated in the following currencies:

(in thousands of HRK)	**2016**	**2015**
HRK	17,105	29,188
EUR	17,064	20,318
	34,169	**49,506**

NOTE 23 – PROVISIONS

(in thousands of HRK)	Provisions for jubilee awards	Provisions for termination benefits	Legal disputes	Total
At 1 January 2015	**966**	**257**	**2,349**	**3,572**
Change in provisions	(200)	31	-	(169)
Discounting of non-current provisions	-	-	664	664
At 31 December 2015	**766**	**288**	**3,013**	**4,067**
Analysis of total provisions				
Non-current portion	766	288	1,956	3,010
Current portion	-	-	1,057	1,057
	766	**288**	**3,013**	**4,067**
At 1 January 2016	**766**	**288**	**3,013**	**4,067**
Change in provisions	222	561	(359)	424
Discounting of non-current provisions	-	-	99	99
At 31 December 2016	**988**	**849**	**2,753**	**4,590**
Analysis of total provisions				
Non-current portion	**988**	**849**	**1,343**	**3,180**
Current portion	**-**	**-**	**1,410**	**1,410**

Provisions for jubilee awards and termination benefits

The collective bargaining agreement obliges the Company to pay jubilee awards and termination benefits to its employees. In previous years, the Company did not make these provisions so this year it restated prior year statements.

Provisions for legal disputes

As at 31 December 2016, the Company was a defendant in 10 legal disputes. (2015: 8). Based on the assessment made by Management and legal counsel, provisions were made in the total amount of HRK 2,753 thousand (2015: HRK 3,013 thousand) for legal disputes whose outcome is assessed as unfavourable for the Company. The Management Board believes that the Company will not have any material losses arising from these and other disputes above the amount of provisions made as at 31 December 2016.

NOTE 24 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**2016**	**2015**
Non-current trade payables		
Domestic trade payables	3,077	3,734
Current trade payables		
Domestic trade payables	22,083	21,607
Foreign trade payables	1,004	220
	23,087	**21,827**
Other current liabilities		
Due to employees	3,461	3,027
Taxes, contributions and similar charges	2,683	1,233
Penalty interest payable	1	1
Other liabilities	1,019	768
Other non-financial liabilities /i/	9,404	9,404
	16,568	**14,433**
	39,655	**36,260**

/i/ Other non-financial liabilities relate to the fair value of borrowings from commercial banks which will be settled from the Company's properties in accordance with the bank's secured right. The carrying amount of these properties is HRK 9,404 thousand (Note 18).

Trade payables are denominated as follows:

(in thousands of HRK)	**2016**	**2015**
Trade payables		
HRK	22,083	21,607
EUR	1,004	220
	23,087	**21,827**

/i/ Non-current trade payables as at 31 December 2016 are liabilities that the Company committed to settle, following pre-bankruptcy settlement proceedings, within the remaining 2 years (2015: 3 years).

NOTE 25 – DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities during the year were as follows:

(in thousands of HRK)	Revaluation of buildings and land
At 1 January 2015	**12,525**
Impairment of assets (depreciation/amortisation)	(366)
At 31 December 2015	**12,159**
Impairment of assets (depreciation/amortisation)	(363)
Change of future tax rate from 20% to 18% /i/	(1,180)
At 31 December 2016	**10,616**

/i/ The reduction of the income tax rate from 20% to 18% will be effective from 1 January 2017. As a result of the change in tax rate, the amount of deferred taxes has been re-calculated.

NOTE 26 – RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Since July 2013, a capital contribution to the Company made the Quaestus Private Equity Kapital II fund, controlled by Quaestus Private Equity d.o.o. (66.20% share in the Company) and Hrvatska poštanska banka d.d. (26.48% share in the Company), its majority and ultimate owner.
Since Čvor d.o.o., Vinkovci is owned by the President of the Management Board of Spačva d.d., this Company remains a related company in terms of key management.

Receivables and payables, income and expenses realised in related party transactions are as follows:

(in thousands of HRK)	**2016**	**2015**
Owner with significant influence		
Borrowings	31,080	48,037
Interest expense on borrowings	1,249	2,214

NOTE 26 – RELATED PARTY TRANSACTIONS (continued)

Transactions realised with the Company owned by the member of the Management Board are as follows:

(in thousands of HRK)	**2016**	**2015**
Trade receivables	-	296
Current trade payables	89	149
Sale of goods	75	795

Key management compensation

In 2016, key management compensation (comprising salaries and bonuses) paid by the Company amounted to HRK 1,775 thousand (2015: HRK 1,243 thousand). As at 31 December 2016, key management comprises three persons (2015: 3 persons).

NOTE 27 – FINANCIAL RISK MANAGEMENT

27.1 Financial risk factors

The Company’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company does not have a written risk management programme, and did not use derivative financial instruments to actively hedge financial risks. However, overall risk management in respect of these risks is carried out by the finance department.

(a) Market risk

(i) Foreign exchange risk

As at 31 December 2016 and 31 December 2015, the Company's financial instruments were denominated as follows:

2016	**EUR**	**HRK**	**Total**
Financial assets			
Available-for-sale financial assets	-	48	48
Loans given and deposits	-	746	746
Trade and other receivables	2,246	20,509	22,755
Cash and cash equivalents	545	536	1,081
	2,791	**31,839**	**24,630**
Financial liabilities			
Borrowings	17,064	17,105	34,169
Trade payables	1,004	22,083	23,087
Other liabilities	746	6,418	7,164
	18,814	**45,606**	**64,420**

2015	**EUR**	**HRK**	**Total**
Financial assets			
Available-for-sale financial assets	-	581	581
Loans given and deposits	-	1,089	1,089
Trade and other receivables	6,282	20,091	26,373
Cash and cash equivalents	2,391	1,627	4,018
	8,673	**21,718**	**32,061**
Financial liabilities			
Borrowings	20,318	29,188	49,506
Trade payables	220	25,340	25,560
Other liabilities	-	5,029	5,029
	20,538	**59,557**	**80,095**

As at 31 December 2016, if the EUR had weakened/strengthened by 1% against the HRK (2015: 1%), with all other variables held constant, the net profit for the reporting period would have been HRK 160 thousand higher/lower (2015: HRK 119 thousand), mainly as a result of foreign exchange gains/losses on translation of EUR denominated trade payables, borrowings, foreign currency account and trade receivables.

NOTE 27 – FINANCIAL RISK MANAGEMENT (continued)

(ii) Fair value interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. As at 31 December 2016, if interest rates on borrowings had been 50 pp higher/lower (2015: 50 pp), with all other variables held constant, the net profit for the year would have been HRK 170 thousand lower/higher (2015: HRK 152 thousand), mainly as a result of higher/lower interest expense on variable rate borrowings.

The Company has no significant interest-bearing assets and the Company's income and cash flow from operating activities are substantially independent of changes in market interest rates. The Company does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

(b) Credit risk

The Company's assets that may potentially lead to concentrations of credit risk consist primarily of cash, trade and other receivables. The Company has no significant concentrations of credit risk.

The Company has policies in place to ensure that sales are made to customers with an appropriate credit history. A detailed analysis of credit risk exposure is presented in Note 17 and Note 20.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash in order to meet all obligations. The finance department regularly monitors available cash resources and liabilities on a monthly basis. The table below analyses contracted financial liabilities of the Company according to contracted maturities, excluding contracted interest rates. The amounts stated below represent undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 2 and 5 years**	**Over 5 years**	**Total**
31 December 2016				
Trade payables	23,087	3,077	-	26,164
Borrowings	5,292	21,334	7,553	34,169

(in thousands of HRK)	**Less than 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
31 December 2015				
Trade payables	21,827	3,734	-	25,561
Borrowings	16,641	32,865	-	49,506

NOTE 27 – FINANCIAL RISK MANAGEMENT (continued)

(c) Price risk

The Company's trading equity securities portfolio, which is presented in the balance sheet at fair value, exposes the Company to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, regardless of whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded on the market. The Company is not significantly exposed to price risk since its equity securities portfolio is very small.

27.2 Capital risk management

There are no legal or other requirements for a written programme of capital risk management. In addition, there are no internally monitored capital objectives.

27.3 Fair value estimation

The carrying amounts of trade and other receivables net of impairment equal their fair value. Quoted market prices for similar instruments are used for initial recognition of long-term debt. The fair value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

Spačva d.d., Vinkovci

ANNUAL REPORT
31 DECEMBER 2016

Letter of the President of the Management Board to the shareholders

Dear shareholders,

The end of the year is the right time to stop and reflect on the previous year. The year began with problems and delays regarding the activation of a new boiler room, problems with the delivery of raw materials, both qualitatively and quantitatively, and eventually ended in a big fire. However, when we draw the line and look at the financial statements which show that the elements of the business plan for 2016 have been essentially exceeded and that we achieved a better business result than planned, I believe we have to be content with our operations in the past year.

Below we briefly present business operations in the previous year by individual profit centers and other business segments.

Bioenergenti - the most significant growth in 2016 occurred in the production and sale of pellets and briquettes, thus continuing the trend of continuous growth that has been ongoing since 2014; in particular, in 2016 bioenergy sales increased by 54% compared to income in 2015 and by 30% compared to income foreseen in the business plan;

Furnir - production and sales of veneer is by 7% higher than in 2015 and 6% compared to the business plan; it should be emphasized here that the possibility of sales and production was significantly higher than realised, but the result is the consequence of limitations in the supply of raw materials from Hrvatske šume;

Pilana and Finala - in these production plants, we have achieved weaker results in production and sales compared to the results in 2015 and in relation to the business plan; the main reason for lower income is the smaller quantity of sawlogs shipped than the amount envisaged by the annual *contract with Hrvatske šume and less than the quantity delivered in 2015. The delivered logs were of lower quality resulting in a lower sales value of the products;*

Investments - in order to maintain and increase competitiveness, constant investments in equipment, plants and processes are necessary; in 2016, the most significant investments were realised in the new CNC machine in Finala, a 1000 m3 drying plant for drying elements and stubs, a filtration system for dedusting and a veneer drying plant.

Employment - last year, the company employed an average of 50 workers compared to 2015; also, the professional resources of the company have been continually reinforced with young highly educated people who certainly gave an immense contribution to our realised results.

Rationalisation is a continuous process whose contribution to achieved results and Company stability is immeasurable, and a process that has been and is being implemented throughout all activities and resources, production, energy, number of operative overhead staff. Significant and effective rationalisation has been implemented by using computerisation and constantly acquiring new knowledge.

Three unions are active in Spačva – the Work Council is active and its president is a member of the Supervisory Board. The existing internal collective agreement, signed by all three unions and the Management Board, is a rarity in the Croatian wood industry entitling our workers to significantly greater labour rights than guaranteed under the Labour Act. Therefore, we believe that we implement and develop a social dialogue that should serve as a model for many. Salaries in Spačva are above the Croatian wood industry average and above the county economy average. The payment of Christmas bonuses and holiday allowances should be highlighted, which is already a tradition at Spačva.

We want to incorporate the development of corporate social responsibility into each of our activities and we want to be as responsible as possible and treat our environment with respect in the future.

Each member of our company deserves respect and care. We encourage building good interpersonal relationships in all directions: workers-workers, workers-management.

The year 2016 was a very important anniversary, i.e. the 60th anniversary of the establishment of Spačva. We are very proud of this as well as the fact that we celebrate this anniversary as a stable firm with a bright future. In this context, we would like to mention the "Zlatna Kuna" business award which the Vukovar-Srijem County awarded to Spačva last year for an extraordinary contribution to the County's economic development in 2015.

Best regards,

PRESIDENT OF THE

MANAGEMENT BOARD:

dr.sc. Josip Faletar

Drvna industrija
SPAČVA d.d.
Vinkovci, Duga ul. 181

Introduction

The annual report comprises data for the business year 2016. There is a brief review of financial data, a description of operations and financial statements with the independent auditor's opinion for Spačva d.d.

Basic data on the Company, organisation and management can be found in the annual report.
Moreover, there are details on the latest achievements in development, research and investments.

This report offers an insight into the most valuable capital of the Company – human capital, and Spačva d.d.'s efforts to contribute to sustainable development through corporate social responsibility and environmental awareness.

Company data

Spačva d.d. was established in 1956 under the name DI Slavonski Hrast. Our 60-year tradition of wood processing has been preserved even during the Homeland War and post-war economic and social changes. Spačva d.d. continues to operate as one of the leading wood industries in Croatia up to this day.

Registration and activities of the Company

Spačva d.d. was registered at the Commercial Court in Osijek under registration number: 030014502. The Company's registered office is at the address Duga ulica 181, Vinkovci.

The Company's principal activity is wood processing and manufacturing wood products. Some additional activities include:

- *Manufacturing of furniture*
- *Trade mediation*
- *Wholesale of furniture, wickerwork, wood and cork products*
- *Retail of furniture, lighting equipment and household products.*

Company organisation

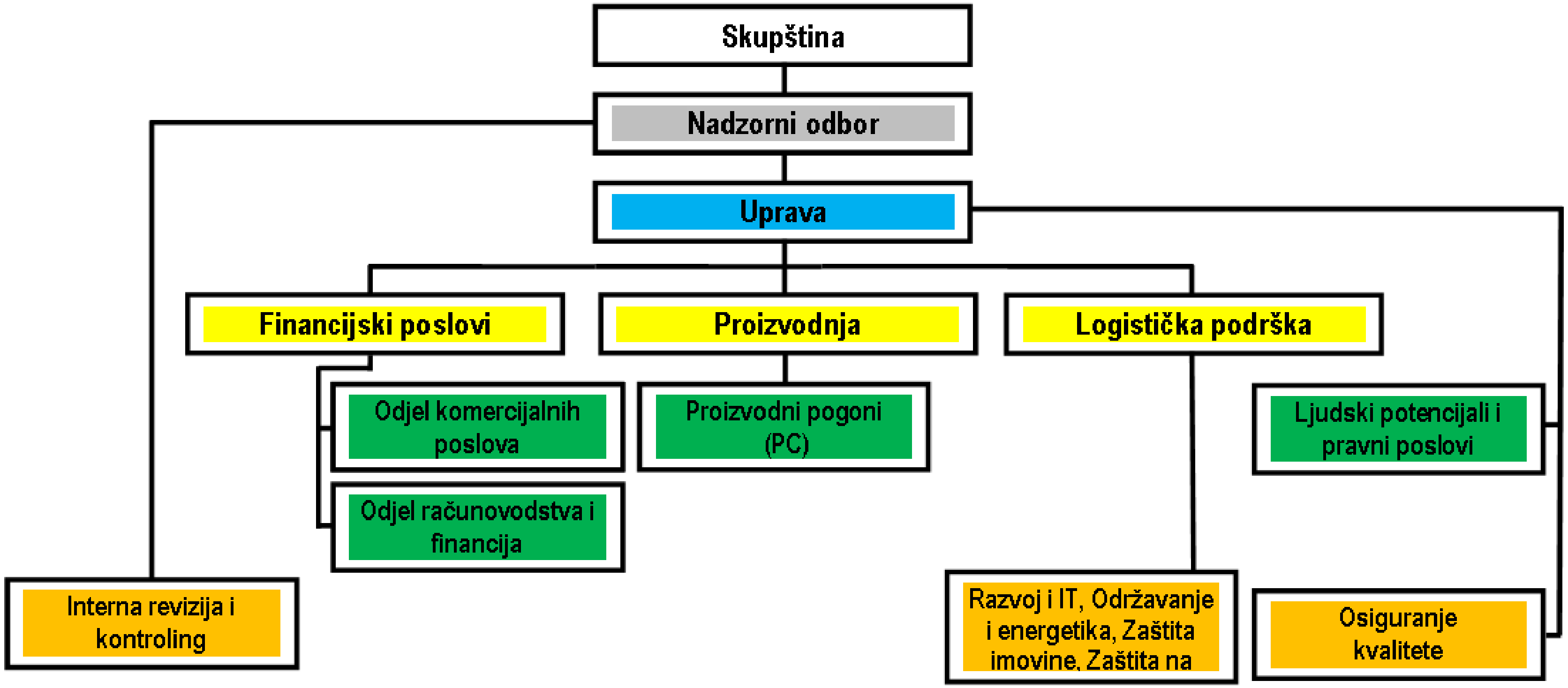
The Company's organisation is prescribed in its Articles of Association and decisions of the Supervisory Board and Management Board.
The Company is divided into 4 profit centres:

- *PILANA*
- *FURNIR*
- *FINALA*
- *BIOENERGENTI*

and 9 cost centres:

- *MAINTENANCE*
- *ENERGETICS*
- *DEVELOPMENT AND IT*
- *SAFETY AT WORK*
- *ASSETS PROTECTION*
- *COMMERCIAL OPERATIONS*
- *ACCOUNTING AND FINANCE*
- *HUMAN CAPITAL AND LEGAL AFFAIRS*
- *QUALITY ASSURANCE*

Organisational chart of Spačva d.d.



Management and management organisation

The Company's bodies are the Management Board, Supervisory Board and General Assembly.

Management Board

On 11 November 2016, there was a change in Management Board members. The former member of the Management Board, dr.sc. Josip Faletar, became the new President of the Management Board. New members of the Management Board are Ante Radoš and Ivan Perković, who took the post of the former member who moved to the position of the President of the Management Board.

The president and members of the Management Board represent the Company jointly or together with the procurator, and are authorised to legally represent the Company before courts and other government bodies.

The Management Board reaches decisions by a majority vote. In case of an equal division of votes, the casting vote is that of the president of the Management Board.

The members and president of the Management Board are appointed by the Company's Supervisory Board, which also prescribes the relevant operating procedures in the Rules of Procedure of the Management Board.

Supervisory Board

The Supervisory Board has 5 members. Four members of the Supervisory Board are chosen by the Company's General Assembly and one member is chosen by the Company's employees.

In 2016, the Supervisory Board comprised the following persons:

1. *Borislav Škegro, President*
2. *Vjenceslav Terzić, Vice-president*
3. *Jakov Krešić, Member*
4. *Mario Popić, Member*
5. *Ilija Budimir, Member*

The Supervisory Board monitors the management of the Company's operations and submits relevant reports to the General Assembly.

The Supervisory Board reaches decisions by a majority vote. In case of an equal division of votes, the casting vote is that of the president of the Supervisory Board.

General Assembly

The General Assembly comprises all shareholders with voting rights. Voting rights are awarded according to the nominal value of individual shares.

The General Assembly is chaired by the president of the General Assembly who is elected for a 4-year period by the Company's General Assembly. Since 28 June 2011, the president of the General Assembly has been Tomislav Škegro.

The General Assembly reaches decisions by a majority vote.

Share capital and shares

Spačva d.d.'s share capital is HRK 75,530,440.00. The total share capital is distributed among 3,776,522 common shares which are listed as registered non-materialised securities, with each share having a value of HRK 20.00, in the computer system of the Central Depository & Clearing Company.

Ownership structure as at 31 December 2016

▪ *Risk capital fund Quaestus Private Equity Kapital II*	*66.20%*
▪ *Hrvatska poštanska banka d.d.*	*26.48 %*
▪ *Čvor d.o.o.*	*5.48%*
▪ *Hrvatske šume d.o.o.*	*1.07 %*
▪ *Other shareholders*	*0.7%*
▪ *Treasury shares*	*0.07%*

Research and development

Croatia's accession to the European Union prompted us to put additional efforts in all segments in order to remain competitive with western companies, which is essential for surviving on the market. Current investments have in fact raised the value of total production while maintaining the same amount of used raw materials, i.e. they increased worker efficiency, which directly increases the competitiveness of the Company.

Wood processing is an activity which realises high growth rates. Accordingly, we have expanded and modified our product range. The primary market objectives of Spačva d.d. are to create trust and loyalty among buyers and strengthen its brand. By constantly monitoring and researching the market and detecting our clients' desires, we try to adapt to their needs.

Quality

The system of quality that Spačva d.d. is building in order to achieve the highest standards in the wood industry, a high level of responsibility as well as continuous checks and verification of procedures and processes represents the basis on which lies the trust of our client and business partners.

Spačva d.d.'s strategic decision to implement international ISO standards meant the acceptance of a procedural approach to management, i.e. its classification as a company that bases its quality control system on process identification, network connectivity of processes and monitoring.

The quality control system and its improvements include all employees, which means that every individual is responsible for the consistent application of prescribed quality elements both at his or her place of work as well as during his or her everyday tasks.

The internal benefits include increased production efficiency, continued improvement and growth of profit, and increased satisfaction of all employees, while external benefits include an internationally recognised quality control system which increases one's chances on international markets and achieves the ultimate goal - satisfied clients.

Investments

The basic criteria for investments in 2015 was the sustainability of operations and return on invested capital.

in HRK'000

	2014	2015	2016
Assets under construction	13,599	18,307	18,350
TOTAL	**13,599**	**18,307**	**18,350**

The main capital investments in 2016 comprised the procurement of the CNC machining center, veneer drying plant, dedusting system with filters, the purchase of work vehicles, etc. The largest individual capital investment related to the purchase of a dryer of elements with a total investment of HRK 6 million.

In 2017, further investments are planned in the total value of HRK 12.5 million.

Human resources

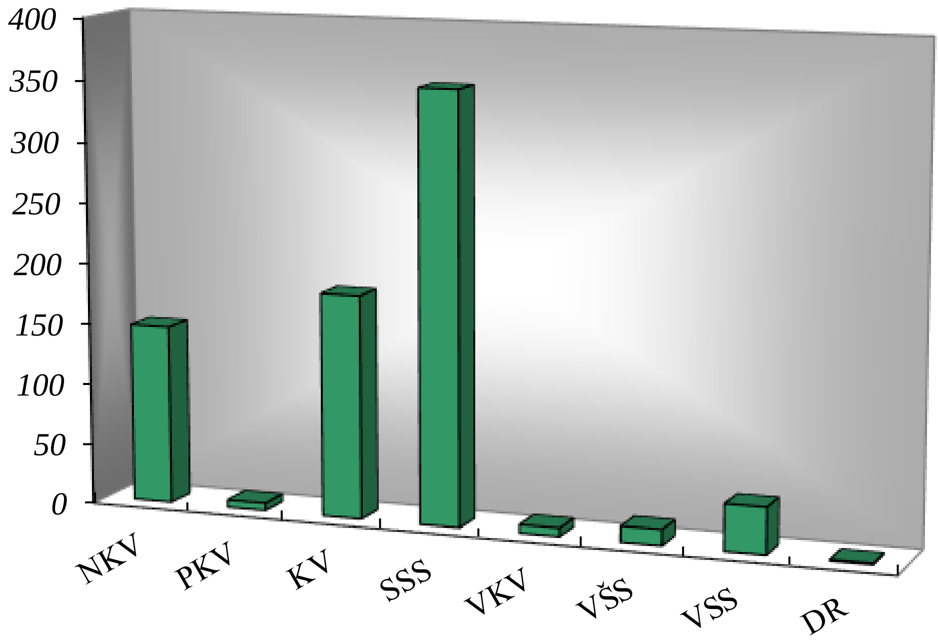
The greatest asset of Spačva d.d. are its employees. This is why we focused greatly on the development of human resources by encouraging in particular creativity, innovation and dynamism, and why special attention is directed at responsible performance of tasks.
Employees have to achieve high goals, while their knowledge is implemented into processes and high quality products which serve as a basis of Spačva d.d.'s placement among the leading companies in wood industry and its competitive position in the domestic and international markets.

Employee satisfaction is equally important to us as client satisfaction. We are aware of the importance of our staff and their knowledge and capabilities for any further development of the Company. Spačva d.d. continuously organises activities related to the education and further professional training of its employees.

As at 31 December 2016, the Company had 747 employees.

The employee structure according to qualifications as at 31 December 2016 is shown in the following table and graph:

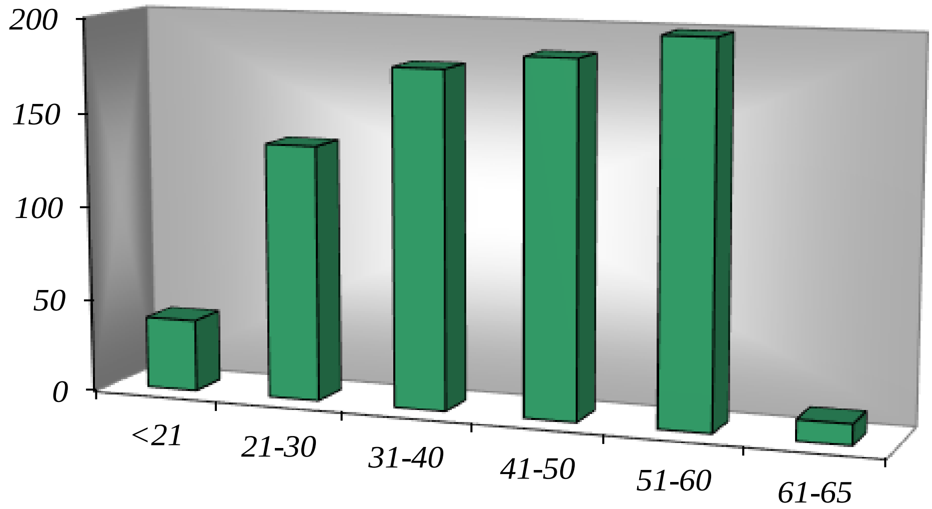
Qualifications	***Number of employees***
Unskilled workers (NKV)	*147*
Semi-skilled workers (PKV)	*6*
Skilled workers (KV)	*183*
Secondary school qualifications (SSS)	*352*
Highly skilled workers(VKV)	*7*
Two-year post secondary diploma (VŠS)	*13*
University degree (VSS)	*38*
PhD	*1*
Total	***747***



Of the total number of employees, 5.09 % have a university degree and another 1.74 % have a two-year post secondary diploma, which totals 6.83 % of highly qualified staff.

The employee structure according to age as at 31 December 2016 is shown in the following table and graph:

Age	**Number of employees**
<21	38
21-30	135
31-40	178
41-50	186
51-60	199
61-65	11
Total	**747**



Average monthly salary

Average monthly salary	2014	2015	2016	Index 16/15
Gross	4,609	4,540	4,659	103
Net	3,521	3,515	3,602	102

Corporate social responsibility

Given the fact that competitiveness and corporate social responsibility is positively correlated, we try to contribute to sustainable development and develop CSR activities, which is one of the Company's strategic objectives. Here we would like to emphasise that business success is measured not only through business results, but also through environment protection, safety of employees and production processes.

Spačva d.d. actively participates in a range of socially beneficial projects, and financially supports numerous associations and societies involved in culture, art, sport, humanitarian activities and environmental protection.

Ecology

Spačva d.d. is an environmentally friendly company whose operations are performed by completely and fully complying with ecological standards as well as sustainable development measures, which may be observed either in the Company's principal activity or in occasional or periodic activities aimed at environment preservation.

Special attention is given to the ecological awareness of our employees.

The Company's goals for environment protection are long-term and their realisation requires continuous activities, along with expert staff and significant investments.

The principle on which we are building our rapport with environment is based on our awareness of the impact of our activities on our surroundings, improvement of our everyday working practices, economical use of resources, cooperation with other entities on environment preservation and transparency of new activities and communication with the environment.

Risk exposure

Spačva d.d. is exposed to financial risks related to foreign currency, interest rate, credit and liquidity risks.

Development programmes, investments and marketing activities require the Company to be highly liquid and able to finance viable projects, resulting in indebtedness which carries additional risks.

The Company seeks to manage risks well by establishing a framework which will prevent significant blows to the Company's results due to disruptions in its environment.

The most significant risk is foreign currency risk related to the volatility of the exchange rate since more than 60% of the Company's income is realised from foreign euro markets. Borrowings are primarily EUR denominated. Foreign exchange risk also exists due to possible changes in foreign exchange rates.

The Company is also exposed to interest rate risk because of borrowings contracted at variable interest rates.

Liquidity risk management implies maintaining sufficient cash and trading securities and the availability of funding through an adequate amount of committed credit facilities.

The Management Board of Spačva d.d. is responsible for liquidity risk management and establishing an appropriate framework for managing short-term, middle-term and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves and credit facilities, continuously comparing forecast and actual cash flows, and monitoring the maturity of receivables and payables.

Statement on corporate governance rules

In order to establish high criteria and standards of corporate governance, the Company voluntarily applied in 2015 the recommendations of the Corporate Governance Code, adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange on 26 April 2007.

In order to establish high criteria and standards of corporate governance, the Company voluntarily applied in 2016 the recommendations of the Corporate Governance Code, adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange on 26 April 2007.

Since its shares are traded on a regulated securities market, the Company's Management Board decided to prepare and adopt a Corporate Governance Code of SPAČVA D.D. Vinkovci.

Some provisions and recommendations of the Code were not applied, so the financial statements are still not available in English. The shareholders have access to records of the Company's shares on the shareholders' accounts with the Central Depository and Clearing Company. There are no internal rules for the Supervisory Board because the rules set out in the Companies Act and Articles of Association are deemed sufficient. The Articles of Association prescribe the manner of voting at the General Assembly. The Supervisory Board is directly responsible for and performs certain tasks related to the work of the Audit Committee.

The Company's internal controls within its business functions consist of administrative controls comprise: a review of the received and delivered goods, and documents on received goods and performed services; checks of orders, invoices, suppliers' conditions; and internal service controls.

Internal accounting controls/supervision, i.e. acts of relevant employees, ensure accuracy, validity and completeness of financial records and statements, which form the basis for the preparation of annual financial statements.

The Code will be published on the Company's website and enclosed with this report and will entail a set of relationships between the managers/management, Management Board, Supervisory Board, shareholders and other stakeholders.

Management Board and Supervisory Board's responsibilities for the preparation and approval of annual financial statements

Pursuant to the Croatian Accounting Act (OG 78/15 and 134/15), the Management Board must ensure that the financial statements are prepared in accordance with legal requirements of the financial reporting framework applicable in the Republic of Croatia to large enterprises and enterprises whose shares or debt securities have been listed or are being prepared to be listed on the regulated securities market; these requirements are based on International Financial Reporting Standards, their amendments and related interpretations since Croatia's accession to the EU; moreover, they are adopted by the Croatian Financial Reporting Standards Board and published in the Official Gazette. All of this ensures that financial statements give a true and fair view of the financial position and results of operations of Spačva d.d. Vinkovci (the Company) for that period.

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

- *suitable accounting policies are selected and then applied consistently;*
- *judgements and estimates are reasonable and prudent;*
- *applicable accounting standards are followed, subject to any material departures disclosed in the financial statements; and*
- *the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.*

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act (Official Gazette 78/15 and 134/15).
The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The Management Board must submit to the Supervisory Board an annual report together with annual financial statements of the Company, following which the Supervisory Board is required to approve the annual financial statements for submission to the Company's General Assembly.

President of the Management Board:

dr.sc. Josip Faletar

Performance indicators

	2014	2015	2016	Index
Income statement (in HRK'000)				***16/15***
Operating income	*142,398*	*163,977*	*184,939*	*113*
Operating expenses	*143,256*	*157,497*	*176,830*	*112*
Finance income	*529*	*1,076*	*1,200*	*112*
Finance costs	*2,716*	*2,897*	*2,537*	*88*
Other operating profit	*13,802*	*1,881*	*0*	*0*
Other losses from operations	*0*	*0*	*0*	*0*
Total income	***156,729***	***166,934***	***186,139***	***112***
Total expenses	***145,972***	***160,394***	***179,367***	***112***
Profit before tax	***10,757***	***6,540***	***6,772***	***104***

Balance sheet (in HRK'000)	***2014***	***2015***	***2016***	***16/15***
Total assets	***278,777***	***271,150***	***264,069***	***97***
Receivables for subscribed unpaid capital				***0***
Non-current assets	*167,442*	*173,711*	*176,714*	*102*
Current assets	*111,335*	*95,652*	*86,186*	*90*
Prepaid expenses	*0*	*1,787*	*1,169*	*65*
Total equity and liabilities	***280,952***	***271,150***	***264,069***	***97***
Equity	*145,860*	*163,916*	*171,028*	*104*
Non-current liabilities	*82,915*	*50,930*	*43,647*	*86*
Current liabilities	*52,177*	*52,900*	*44,947*	*85*
Accrued expenses	*0*	*3,404*	*4,447*	*131*

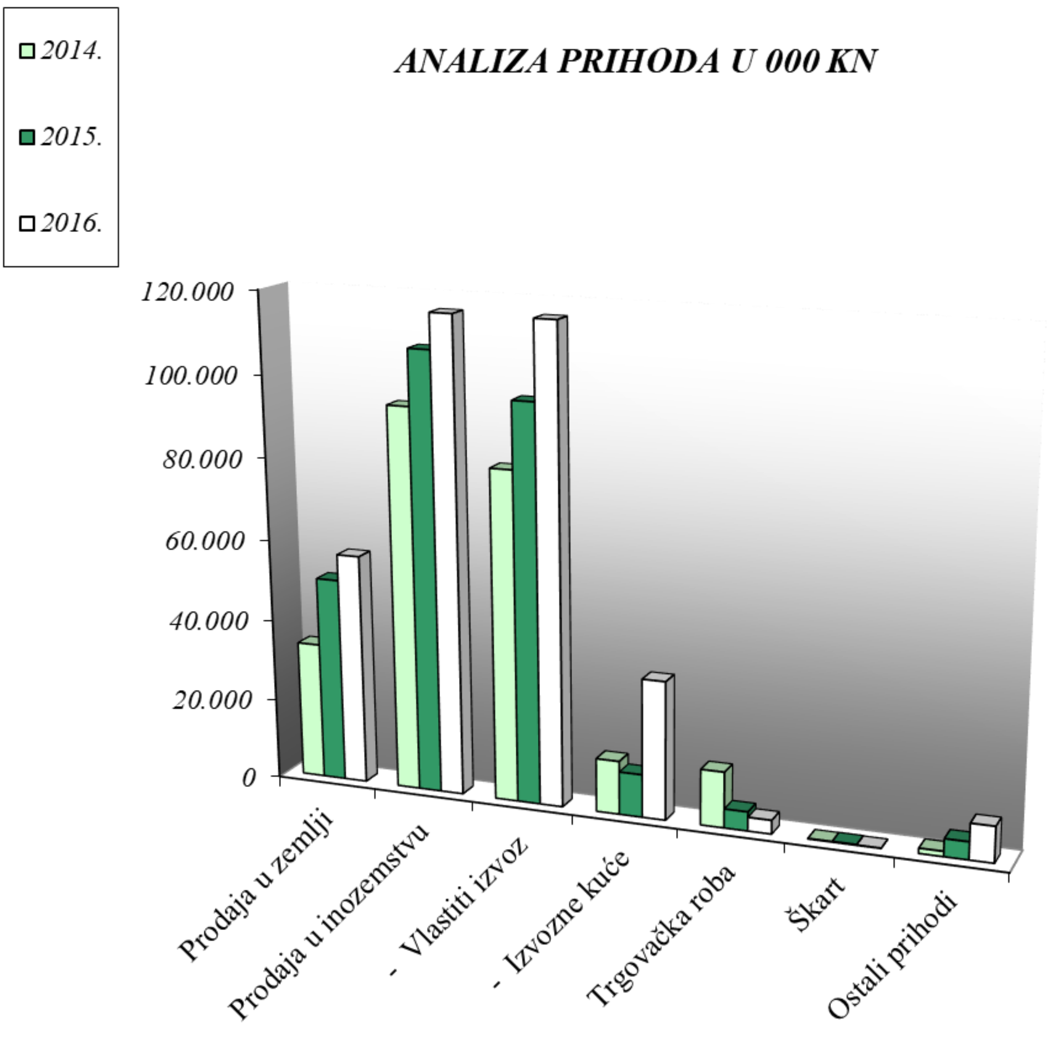
Other indicators	***2014***	***2015***	***2016***	***16/15***
Current liquidity ratio	*2.07*	*1.78*	*1.92*	***108***
Quick liquidity ratio	*0.37*	*0.45*	*0.46*	***102***
Leverage ratio	*0.48*	*0.39*	*0.34*	***86***
Duration of receivables collection	*46*	*30*	*30*	***100***
Financial stability ratio I	*0.76*	*0.81*	*0.82*	***102***
Financial stability ratio II	*0.96*	*0.90*	*0.89*	***99***
Business efficiency	*0.75*	*1.04*	*1.04*	***100***
Number of employees	*611*	*705*	*747*	***106***

Analysis of operating income and expenses

Analysis of income

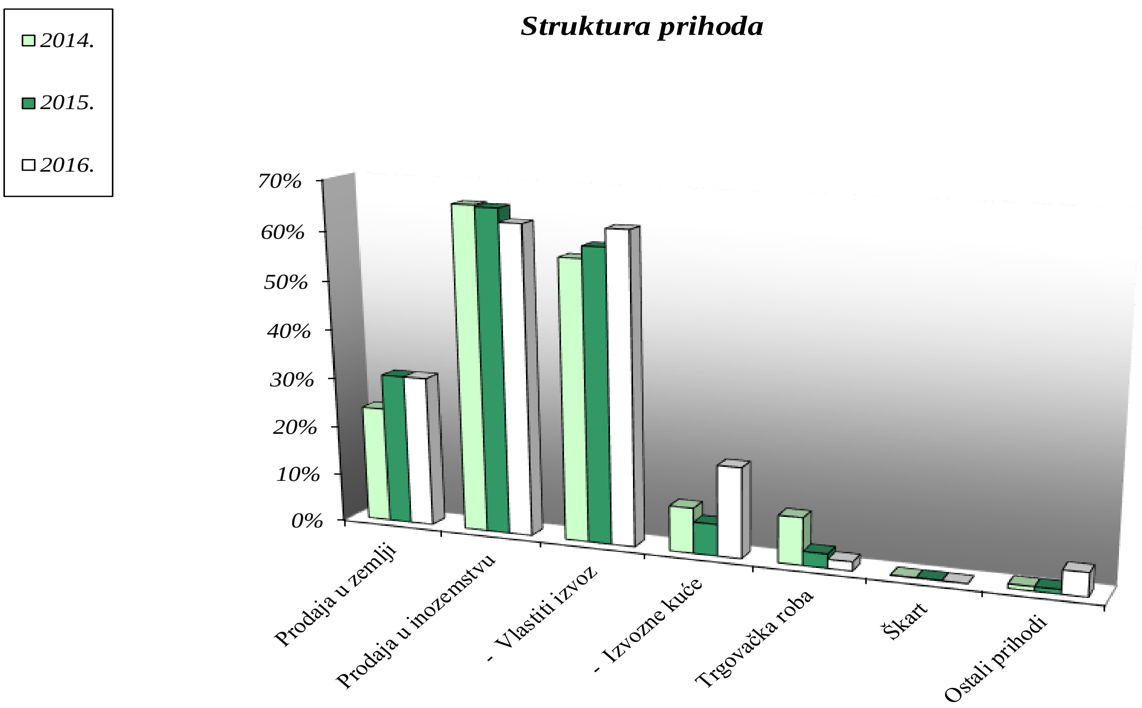
(in HRK'000)

Income	*2014*	*2015*	*2016*	*Index 16/15*
Domestic sales	*33,507*	*50,194*	*56,623*	*113*
Foreign sales	*93,879*	*107,526*	*116,152*	*108*
Own export	*80,787*	*97,030*	*116,118*	*120*
Export companies	*13,092*	*10,496*	*33,864*	*323*
Trade goods	*13,635*	*4,661*	*3,352*	*72*
Scrap	*113*	*156*	*61*	*39*
Other income	*1,264*	*4,310*	*8,751*	*203*
TOTAL	***142,398***	***166,847***	***184,939***	***111***



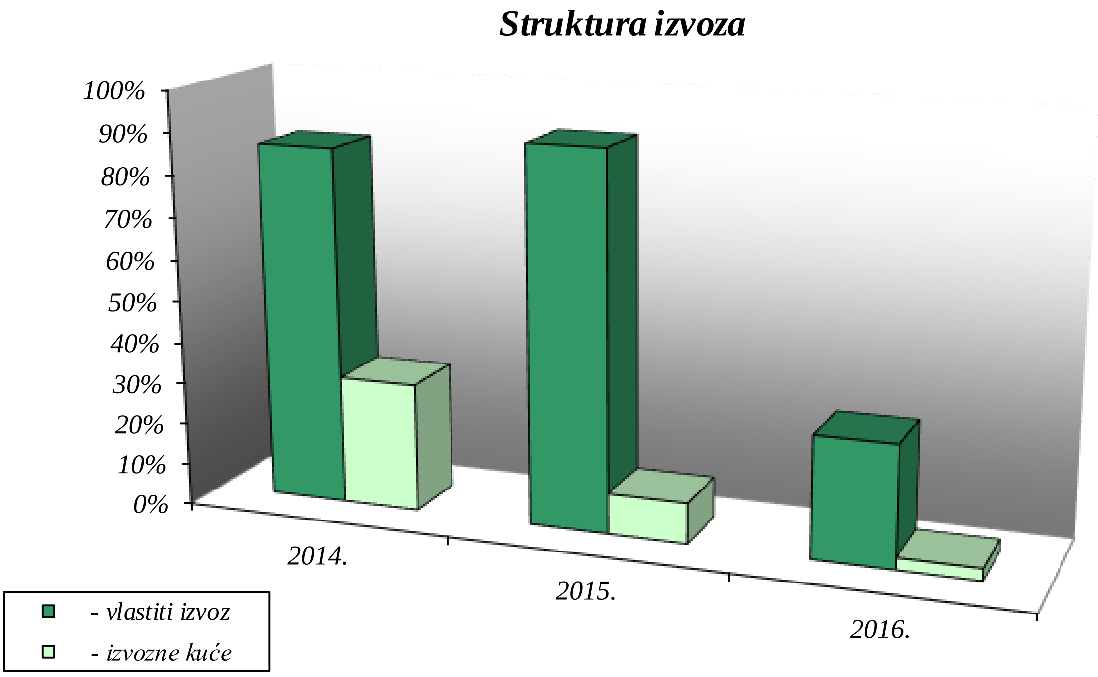
Income structure

	2014	2015	2016
Domestic sales	*24%*	*31%*	*31%*
Foreign sales	*66%*	*66%*	*63%*
Own export	*57%*	*59%*	*63%*
Export companies	*9%*	*6%*	*18%*
Trade goods	*10%*	*3%*	*2%*
Scrap	*0%*	*0%*	*0%*
Other income	*1%*	*1%*	*5%*
TOTAL	***100%***	***100%***	***100%***



Export structure

	2014	2015	2016	Index 16/15
Total export in sales	*67%*	*66%*	*66%*	***100***
own export	*86%*	*90%*	*29%*	***32***
export companies	*31%*	*10%*	*3%*	***30***



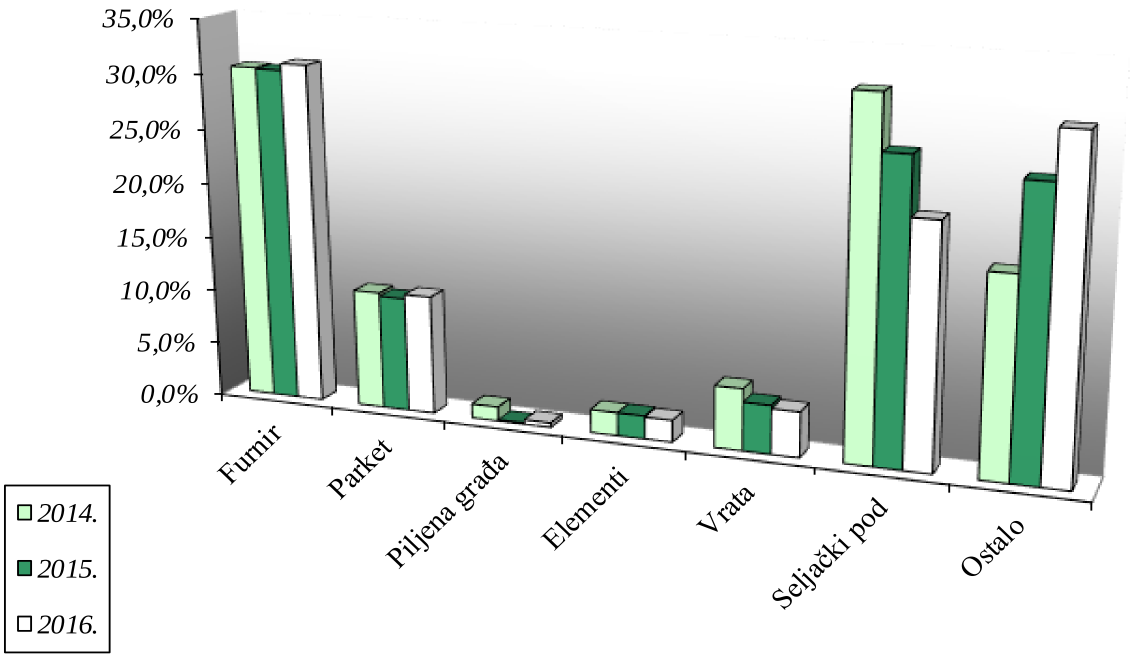
In addition to continued growth, the goal of our sales policy is to increase foreign income.

The main objective of our foreign sales of products exported by us is continued growth of own export, i.e. reduction of selling expenses. The disclosed information clearly show positive steps towards achieving the set goals.

Sale per type of product

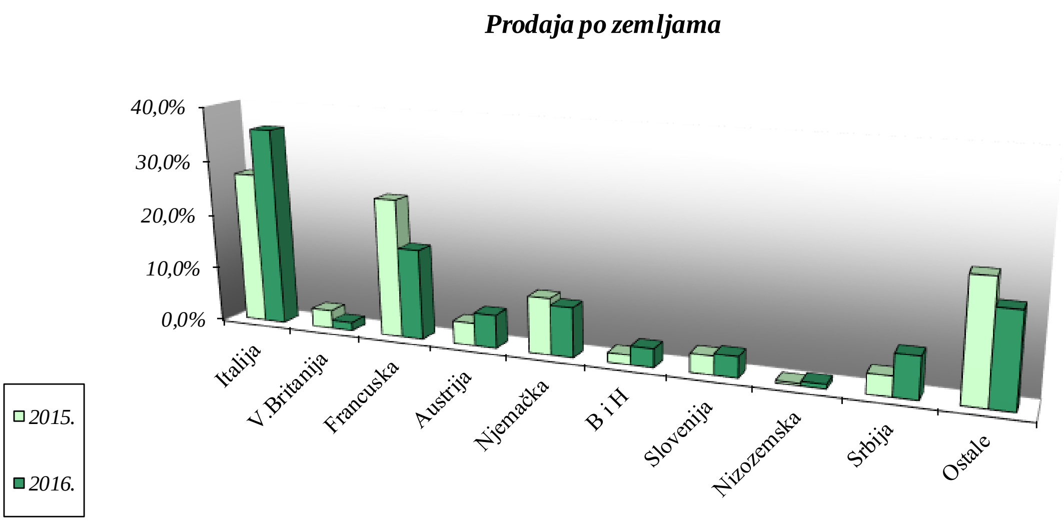
	2014	2015	2016	Index 16/15
Veneer	*30.6%*	*30.5%*	*31.1%*	***102***
Parquet	*10.8%*	*10.5%*	*10.9%*	***104***
Sawn timber	*1.3%*	*0.1%*	*0.4%*	***400***
Elements	*2.1%*	*2.1%*	*2.0%*	***95***
Doors	*5.6%*	*4.4%*	*4.1%*	***93***
Solid wood flooring	*31.8%*	*26.9%*	*21.7%*	***81***
Other	*17.8%*	*25.5%*	*29.8%*	***117***
TOTAL	***100.0%***	***100.0%***	***100.0%***	

Sale per type of product



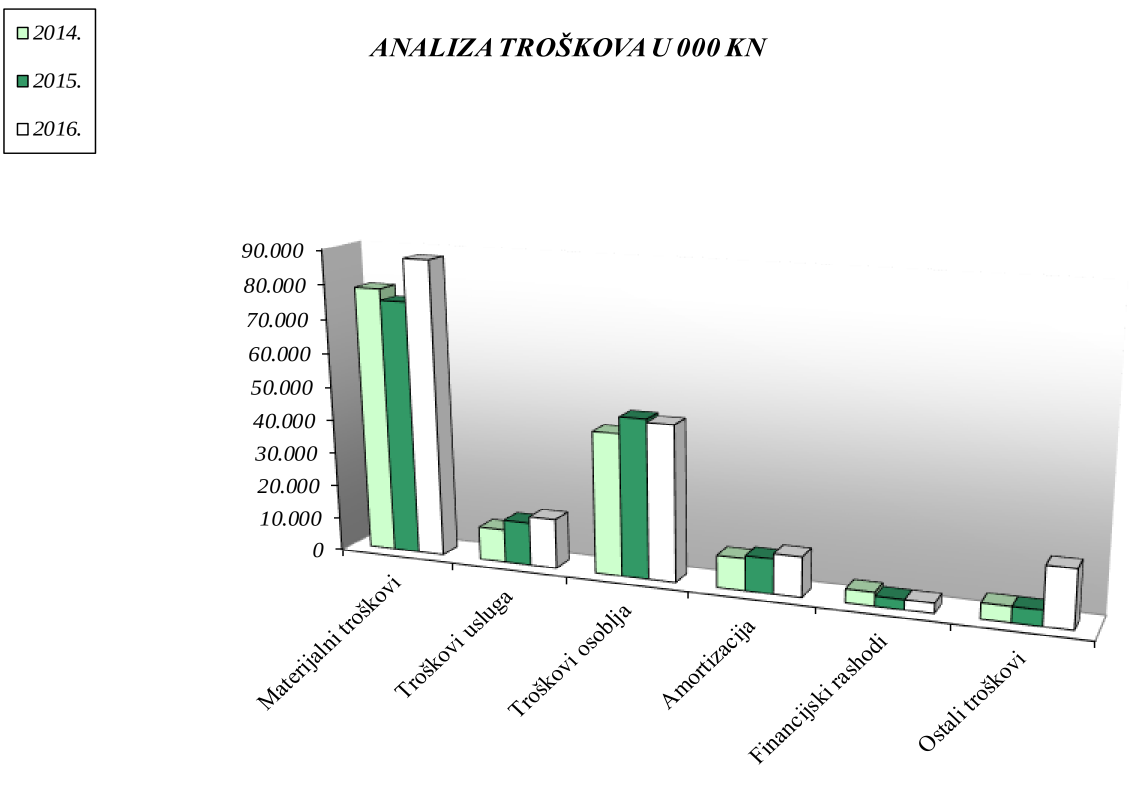
Sale per country

Country	*2015*	*2016*	*INDEX*
	%	*%*	
Italy	*27.5%*	*35.9%*	***131***
Great Britain	*3.3%*	*1.5%*	***45***
France	*25.0%*	*16.3%*	***65***
Austria	*4.1%*	*6.0%*	***146***
Germany	*10.1%*	*8.9%*	***88***
Bosnia and Herzegovina	*1.7%*	*3.3%*	***194***
Slovenia	*3.3%*	*3.7%*	***112***
Netherlands	*0.4%*	*0.8%*	***0***
Serbia	*3.5%*	*7.3%*	***209***
Other	*21.1%*	*16.3%*	***77***
TOTAL	***100***	***100***	



Cost analysis

Expenses	*2014*	*2015*	*2016*	*Index 16/15*
Material costs	*78,551*	*75,188*	*87,659*	***117***
Cost of services	*9,818*	*12,763*	*14,628*	***115***
Staff costs	*41,887*	*46,695*	*45,773*	***98***
Depreciation and amortisation	*9,427*	*10,247*	*11,733*	***115***
Finance costs	*4,004*	*2,897*	*2,898*	***100***
Other costs	*4,552*	*4,548*	*16,892*	***371***
Total expenses	*148,239*	*152,338*	*179,583*	***118***
Changes in inventories (additions, disposals)	*4,983*	*-8,056*	*217*	***-3***
TOTAL	***143,256***	***160,394***	***179,366***	***112***



Cost structure

	2014	2015	2016
Material costs	53%	49%	49%
Cost of services	7%	8%	8%
Staff costs	28%	31%	25%
Depreciation and amortisation	6%	7%	7%
Finance costs	3%	2%	2%
Other costs	3%	3%	9%
TOTAL	100%	100%	100%