Spačva d.d., Vinkovci

FINANCIAL STATEMENTS AND ANNUAL REPORT 31 DECEMBER 2017

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

Pursuant to the Croatian Accounting Act (Official Gazette 78/15, 134/15 and 120/16), 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 true and fair 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 2018.

____

Josip Faletar
President of the Management Board

____

Ante Radoš
Member of the Management Board

____

Ivan Perković
Member of the Management Board

Independent Auditor's Report
To the Shareholders and Management Board of Spačva d.d.:
Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Spačva d.d. (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- 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 a summary of significant accounting policies.

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.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

PricewaterhouseCoopers d.o.o., Heinzelova 70, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Our audit approach

Overview

Materiality	• Overall materiality for the financial statements as a whole: HRK 6 million, which represents 3% of total revenue.
Key audit matters	• Fair value of loan liabilities

How we tailored our audit scope

We designed our audit by determining materiality and assessing 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. 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 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 the financial statements as a whole	HRK 6 million
How we determined it	3% of total revenue
Rationale for the materiality benchmark applied	We consider total revenue to be the key metric in the industry of the Company, and it is one of the benchmarks against which the performance of the Company is most commonly measured.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 matters	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 other non-financial liabilities relating to bank loan liabilities, which will be settled through the 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 been transferred and the Company is still in possession of this real estate, the Company continues to recognise both the assets and liabilities in the statement of financial position. Considering these liabilities will be settled exclusively through the 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 reviewed our understanding and evaluated the key estimates made by Management regarding the valuation of liabilities that will be settled by transferring the real estate of the Company, in accordance with the legally valid pre-bankruptcy settlement. We have reviewed the terms of the pre-bankruptcy settlement, including the rights of creditors who have not dismissed the right of separate settlement. We have reviewed real estate valuations performed by an independent valuer, including the reconciliation of valuations and land records. We have also evaluated the competence, qualifications, experience and objectivity of the independent valuer. We have focused on the accounting for these real estates and the loan liabilities that will be settled by the transfer of real estates, during which we have specifically considered the derecognition of assets and liabilities and their valuation. We have concluded that the described approach for recognition, measurement and disclosures of these 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

Reporting on other information including the Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Company's Annual Report, 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 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 the 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.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company in 2013. Our appointment has been renewed annually by resolution of the General Assembly representing a total period of uninterrupted engagement appointment of 5 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
26 April 2018

This version of our report is a translation of a portion of 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**	**2017**	**2016**
Revenue	5	199,556	178,832
Other operating income	6	1,863	5,151
Change in inventories of work in progress and finished goods		5,316	259
Cost of materials and services	8	(123,530)	(102,063)
Staff costs	9	(57,046)	(51,265)
Depreciation and amortisation		(11,447)	(11,733)
Impairment, net	10	16	(4,977)
Other operating expenses	11	(4,257)	(5,039)
Other net operating profit	7	138	145
Operating profit		**10,609**	**9,310**
Finance income	12	1,500	1,200
Finance costs	12	(2,848)	(3,737)
Net finance costs	12	**(1,348)**	**(2,537)**
Profit before tax		**9,261**	**6,773**
Income tax	13	(1,709)	(841)
Profit for the year		**7,552**	**5,932**
Basic and diluted earnings per share (in HRK)	14	**1.62**	**1.57**
Other comprehensive income		**-**	**-**
Total comprehensive income/(loss) for the year		**7,552**	**5,932**

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Intangible assets	15	53	67
Property, plant and equipment	15	195,531	176,570
Available-for-sale financial assets and loans	16	48	48
Receivables	16, 17, 20	-	35
Total non-current assets		**195,632**	**176,720**
Current assets			
Inventories	18	68,294	62,454
Receivables	17.20	19,339	22,755
Loans and deposits	16	718	746
Cash	19	17,472	1,081
Total current assets		**105,823**	**87,036**
Total assets		**301,455**	**263,756**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2017**	**31 December 2016**
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	21	105,531	75,531
Treasury shares	21	(208)	(208)
Revaluation reserves	21	46,852	48,363
Legal reserves	21	1,525	1,228
Retained earnings		54,881	46,114
Total capital and reserves		**208,581**	**171,028**
Non-current liabilities			
Borrowings	22	30,027	28,877
Trade and other payables	24	1,254	3,078
Deferred tax liability	25	10,285	10,616
Provisions	23	2,522	3,180
Total non-current liabilities		**44,088**	**45,751**
Current liabilities			
Borrowings	22	5,733	5,292
Trade payables	24	25,318	23,087
Other liabilities	24	17,042	16,568
Provisions	23	685	1,410
Deferred income		8	620
Total current liabilities		**48,786**	**46,977**
Total liabilities		**92,874**	**92,728**
Total equity and liabilities		**301,455**	**263,756**

Spačva d.d., Vinkovci

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**2017**	**2016**
Profit before tax		**9,261**	**6,773**
Depreciation, amortisation and impairment of non-current tangible assets	15	11,447	11,733
Foreign exchange differences (net)	12	(100)	54
Additional provisions	23	-	523
Interest income	12	(6)	(11)
Interest expense	12	1,454	2,602
Disposal of property, plant and equipment	10	78	3,198
Collected receivables written off	10	(416)	(807)
Provision for bad and doubtful debts	10	400	151
Gains on sale of non-current assets	7	(127)	(47)
Interest paid		(1,155)	(2,602)
Income tax paid		(1,917)	-
Increase/(decrease) in trade and other receivables		3,328	4,234
Increase/(decrease) in inventories		(5,840)	2,048
Increase/(decrease) in trade and other payables		(1,535)	2,156
Cash (used in)/generated from operations		**14,872**	**30,005**
Purchase of tangible and intangible assets	15	(30,397)	(18,443)
Other proceeds from investing activities		115	892
Cash flows used in investing activities		**(30,282)**	**(17,551)**
Increase in share capital		30,000	-
Proceeds from borrowings		13,365	8,067
Repayments of borrowings		(11,564)	(23,458)
Net cash used in financing activities		**31,801**	**(15,391)**
Net (decrease) in cash and cash equivalents		16,391	(2,937)
Cash and cash equivalents at beginning of year		1,081	4,018
Cash and cash equivalents at end of year	19	**17,472**	**1,081**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**Registered capital**	**Treasury shares**	**Revaluation reserves**	**Legal reserves**	**Retained earnings**	**Total**
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	**25**	-	-	1,180	-	-	1,180
Total transactions with owners		***-***	***-***	***(274)***	***345***	***1,108***	***1,180***
Profit for the year		-	-	-	-	5,932	5,932
Total comprehensive income		***-***	***-***	***-***	***-***	***5,932***	***5,932***
At 31 December 2016		**75,531**	**(208)**	**48,363**	**1,228**	**46,114**	**171,028**
At 1 January 2017		75,531	(208)	48,363	1,228	46,114	171,028
Transfer of profit to legal reserves		-	-	-	297	(297)	-
Reversal of provisions for sold assets and difference in depreciation, net of tax		-	-	(1,511)	-	1,511	-
Share capital increase	**21**	30,000	-	-	-	-	30,000
Total transactions with owners		***30,000***	***-***	***(1,511)***	***297***	***1,214***	***30,000***
Profit for the year		-	-	-	-	7,552	7,552
Total comprehensive income		***-***	***-***	***-***	***-***	***7,552***	***7,552***
At 31 December 2017		**105,531**	**(208)**	**46,852**	**1,525**	**54,881**	**208,581**

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

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
- Mario Popić - Deputy President of the Supervisory Board
- Ante Lučić - 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 2017 and (b) forthcoming requirements - that is, new and amended standards that have been issued and are not effective for periods beginning on 1 January 2017, 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 2017 are not applicable to the Company's financial statements.

(b) New standards and interpretations issued but not yet effective

Certain new standards and interpretations to IFRS and IFRIC guidance have been published that are not mandatory for 31 December 2017 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.

  Management has assessed the possible effects of applying the new IFRS 9 standard on its financial statements and does not expect significant deviations in respect of the present classification and measurement of financial instruments. The most significant part of financial assets, including receivables, loans and deposits and cash will be classified under the held-to-collect business model. Accordingly, the stated assets will be measured at amortised cost. Based on a preliminary calculation, Management does not expect that the expected credit losses will materially differ from the currently recognised impairments of financial instruments, as the expected credit losses were estimated at approximately HRK 250 thousand.

  The Company does not expect the new standard to affect the financial liabilities.

  The Management Board plans to adopt the standard on its effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards and interpretations issued but not yet effective (continued)

- *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.

  The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  Management has assessed the effects of applying the new standard on the Company's financial statements and does not expect any significant effects on future periods.

  This standard is mandatory for financial years commencing on or after 1 January 2018. The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

- *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 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:

Buildings	15-55 years
Equipment and machinery	10 – 33 years
Tool, plant inventory and vehicles	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 cost 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 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. 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 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 the temporary differences can be utilised.

Deferred 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 tax assets and liabilities relate to income taxes levied by the same tax authority on either the same 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 recognised, 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 the 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.

2.16 Property held for sale

Non-current assets held for sale are intended to settle the secured debt to financial institutions that have not waived their right to a separate settlement in the process of the pre-bankruptcy settlement. The Company estimated the market value of the property based on the calculation of independent appraisers.

2.17 Share capital

Ordinary shares are classified as equity. Gains directly attributable to the issue of new shares or options are shown in equity as a deduction, net of income tax, from the proceeds. Any excess of the fair value of the consideration received over the nominal value of the shares issued is presented in the notes as a share premium. Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable transaction costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued or disposed of. Where Such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity.

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 relate 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. The Management Board has taken the estimated value of the property as the reference value of the liabilities.

NOTE 4 – SEGMENTS

(in thousands of HRK)	**Veneer**	**Final**	**Bioenergy**	**Other**	**Total**
2017					
Total income	61,901	92,589	44,853	4,135	203,478
Total expenses	(57,234)	(78,572)	(31,522)	(26,889)	(194,217)
Profit before tax	4,667	14,017	13,331	(22,754)	9,261
Income tax					(1,709)
Profit after tax					7,552

(in thousands of HRK)	**Veneer**	**Final**	**Bioenergy**	**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

NOTE 5 – SALES

(in thousands of HRK)	**2017**	**2016**
Domestic sale of goods	65,237	56,623
Export revenue - direct export	134,049	116,118
Export revenue - export companies	7	34
Income from sale of goods	59	3,352
Sale of materials	121	63
Sales of services	64	195
Other sales	19	2,447
	199,556	**178,832**

NOTE 6 – OTHER OPERATING INCOME

(in thousands of HRK)	**2017**	**2016**
Subsidies	620	780
Insurance claims recovered	178	3,899
Other operating income	1,065	472
	1,863	**5,151**

NOTE 7 - OTHER NET GAINS FROM OPERATIONS

(in thousands of HRK)	**2017**	**2016**
Write-off of trade payables	11	98
Gain on sale of assets	127	47
	138	**145**

NOTE 8 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2017**	**2016**
Raw materials and supplies	86,761	67,293
Energy cost	13,086	11,758
Packaging and other	8,228	4,603
Cost of goods sold	971	4,066
Transport costs	8,307	8,175
Maintenance costs	1,341	1,635
Other external costs	4,836	4,533
	123,530	**102,063**

NOTE 9 - STAFF COSTS

(in thousands of HRK)	**2017**	**2016**
Net salaries	34,640	30,271
Taxes and contributions from and on salaries /i/	16,205	15,501
Other employee benefits /ii/	6,060	5,183
Changes in provisions for jubilee awards and termination benefits	141	310
	57,046	**51,265**

As at 31 December 2017, the Company had 845 employees (2016: 747).

/i/ In 2017, salary expenses include defined pension contributions paid to mandatory pension funds in Croatia in the amount of HRK 9,820 thousand (2016: HRK 9,383 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)	2017	2016
Trade receivables – ordinary course of business (Note 20)	400	151
Collected trade receivables previously written off	(416)	(807)
Damage caused by disasters	-	2,435
Net book value of non-current tangible assets (Note 15)	-	3,198
	(16)	**4,977**

NOTE 11 – OTHER OPERATING EXPENSES

(in thousands of HRK)	2017	2016
Pre-bankruptcy settlement	-	17
Insurance premiums	1,069	702
Donations	215	227
Business travel expenses	226	244
Entertainment	129	269
Membership and other fees	109	146
Bank guarantees and services	770	624
Other expenses	1,739	2,810
	4,257	**5,039**

NOTE 12 – NET FINANCE COSTS

(in thousands of HRK)	2017	2016
Finance income		
Interest income	6	11
Foreign exchange gains	1,494	1,189
Total finance income	**1,500**	**1,200**
Finance costs		
Interest expense	(1,454)	(2,602)
Foreign exchange losses	(1,394)	(1,135)
Total finance costs	**(2,848)**	**(3,737)**
Net finance costs	**(1,348)**	**(2,537)**

NOTE 13 – INCOME TAX

	2017	2016
Current income tax	2,041	1,204
Deferred income tax (Note 25)	(332)	(363)
	1,709	**841**

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)	2017	2016
Profit before tax	**9,261**	**6,773**
Tax at a rate of 18% (2016: 20%)	1,667	1,355
Effect of non-deductible expenses	449	452
Effect of non-taxable income	(407)	(524)
Utilisation of previously unrecognised tax losses /i/	-	(442)
Income tax	**1,709**	**841**

/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 2017 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.

	2017	2016
Net profit (in thousands of HRK)	7,552	5,932
Weighted average number of shares	4,655,974	3,773,787
Basic and diluted earnings per share (in HRK)	**1.62**	**1.57**

Diluted earnings/loss per share

Diluted earnings/loss per share for 2017 and 2016 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**
For the year ended 31 December 2016								
Opening net carrying amount	28,582	76,504	55,262	2,371	10,158	152	173,027	51
Depreciation/amortisation charge	-	(3,436)	(7,958)	(354)	-	-	(11,711)	(22)
Expenses 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
Accumulated depreciation/amortsation	-	(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**
Year ended 31 December 2017								
Opening net book amount	28,587	70,875	65,220	2,752	8,983	152	176,570	67
Depreciation/amortisation charge	-	(3,457)	(7,401)	(566)	-	-	(11,424)	(24)
Expenses due to damages	-	-	-	-	-	-	-	-
Additions	-	-	1,723	-	28,663	-	30,386	10
Transfers	179	7,184	25,878	1,086	(34,327)	-	-	-
31 December 2017	**28,766**	**74,602**	**83,785**	**3,272**	**3,319**	**152**	**195,531**	**54**
At 31 December 2017								
Cost or revaluation	28,766	174,652	208,443	7,077	3,319	152	422,409	653
Accumulated depreciation/amortisation	-	(100,050)	(123,023)	(3,805)	-	-	(226,878)	(600)
Net book amount	**28,766**	**74,602**	**83,785**	**3,272**	**3,319**	**152**	**195,531**	**53**

/i/ As at 31 December 2017, the net carrying amount of assets of HRK 116,025 thousand (2016: HRK 103,029 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 138,395 thousand (2016: HRK 117,591 thousand).

NOTE 16 – LOANS, RECEIVABLES AND DEPOSITS

(in thousands of HRK)	**2017**	**2016**
Non-current portion		
Trade receivables	-	35
Available-for-sale financial assets	48	48
Current portion		
Loans granted	718	746
	766	**829**

NOTE 17 – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	**2017**	**2016**
Current receivables		
Trade receivables	14,245	14,054
Loans and deposits		
Short-term loans, deposits given, etc. (Note 16)	678	743
Cash (Note 19)	17,472	1,081
Non-current receivables		
Trade receivables (Note 20)	-	35
Available-for-sale financial assets		
Available-for-sale financial assets	48	48
	32,443	**15,961**

(in thousands of HRK)	**2017**	**2016**
Financial liabilities		
Current financial liabilities		
Trade payables	25,326	23,087
Borrowings	5,733	5,292
Non-current financial liabilities		
Trade payables	1,254	3,077
Borrowings	30,027	28,877
	62,340	**60,333**

NOTE 18 – INVENTORIES

(in thousands of HRK)	**2017**	**2016**
Raw materials	12,358	11,379
Work in progress	19,875	16,602
Finished goods in warehouse	22,700	20,658
Trade goods	562	542
Property held for sale /i/	12,799	13,273
	68,294	**62,454**

/i/ Of the total value of property held for sale, HRK 9,404 thousand (2016: 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)	**2017**	**2016**
HRK account	1,391	519
Foreign currency account	16,053	545
Cash on hand	28	17
	17,472	**1,081**

The Company deposits cash at bank with the following ratings:

(in thousands of HRK)	**2017**	**2016**
Without rating	16,508	1,007
BBB+	547	1
BBB	262	6
BBB-	99	-
BB+	-	50
A	28	-
	17,444	**1,064**

NOTE 20 – TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**2017**	**2016**
Non-current trade receivables		
Trade receivables	-	35
Current trade receivables		
Trade receivables	66,401	66,029
Foreign trade receivables	7,209	7,217
	73,610	73,246
Provision for impairment	(59,365)	(59,192)
Net trade receivables	14,245	14,054
Due from employees	271	566
Due from state and other institutions	3,048	3,067
Other receivables	1,775	5,068
	19,339	**22,755**

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

As at 31 December 2017, trade receivables and receivables from related parties in the amount of HRK 3,812 thousand (2016: HRK 7,153 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)	**2017**	**2016**
Up to two months	2,047	4,927
Two to six months	91	825
Over six months	1,675	1,401
	3,812	**7,153**

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

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

(in thousands of HRK)	**2017**	**2016**
HRK	14,430	17,867
EUR	4,909	4,888
	19,339	**22,755**

NOTE 20 – TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	**2017**	**2016**
At 1 January	**59,192**	**59,060**
Impairment for the year (Note 10)	400	151
Collected receivables previously written off (Note 10)	(416)	-
Write-offs and other movements	189	(19)
At 31 December	**59,365**	**59,192**

NOTE 21 – CAPITAL AND RESERVES

Share capital

As at January 1, 2016 and January 1, 2017, the Company's share capital was HRK 75,530 thousand and consisted of 3,776,522 shares with a nominal value of HRK 20 for one share.

In a decision of its General Assembly of 19 April 2017, the Company increased its share capital from HRK 75,530,440 by the amount of HRK 30,000,000 to HRK 105,530,440. For the above reason, the Company issued 1,500,000 new registered ordinary shares, each with a nominal value of HRK 20.

The shareholder structure as at 31 December 2017 and 2016 was as follows:

31 December 2017

Shareholder	Total number of shares	Nominal value	Holding in share capital %
Quaestus Private Equity Kapital II	4,000,000	80,000	75.81
Hrvatska poštanska banka d.d.	1,000,000	20,000	18.95
Čvor d.o.o., Vinkovci	206,791	4,139	3.92
Hrvatske šume d.o.o.	40,563	809	0.77
Other shareholders	26,433	528	0.50
Treasury shares	2,735	54	0.05
	5,276,522	**105,530**	**100.00**

31 December 2016

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	0.70
Treasury shares	2,735	54	0.07
	3,776,522	**75,530**	**100.00**

Revaluation reserves

Revaluation reserves were formed in the amount by which the value of land and buildings was increased. Revaluation reserves are not distributable.

NOTE 22 – BORROWINGS

(in thousands of HRK)	2017	2016
Long-term borrowings		
Bank borrowings	30,027	28,877
Short-term borrowings		
Current portion of long-term borrowings	5,733	5,292
Total borrowings	**35,760**	**34,169**

Borrowings do not relate to loans from commercial banks.

The annual effective interest rates were as follows:

	2017	2016
Long-term bank borrowings	2%-4%	2%-4%
Short-term bank borrowings	-	4.5% - 5.5%

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)	2017	2016
1 months or less	8,005	3,089
3 months	27,755	31,080
	35,760	**34,169**

The maturity of long-term borrowings is as follows:

(in thousands of HRK)	2017	2016
Between 1 and 2 years	6,756	5,764
Between 2 and 5 years	18,235	15,560
More than 5	5,036	7,553
	30,027	**28,877**

NOTE 22 – BORROWINGS (continued)

The carrying amounts of borrowings equal their fair value.

The repayment of the stated borrowings is secured by property owned by the Company in the amount of HRK 116,025 thousand (Note 15).

Borrowings are denominated in the following currencies:

(in thousands of HRK)	**2017**	**2016**
HRK	1,535	17,105
EUR	34,225	17,064
	35,760	**34,169**

NOTE 23 – PROVISIONS

(in thousands of HRK)	**Provisions for jubilee awards**	**Provisions for termination benefits**	**Legal disputes**	**Total**
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**
At 1 January 2017	**988**	**849**	**2,753**	**4,590**
Change in provisions	-	-	(1,591)	(1,591)
Discounting of non-current provisions	-	-	208	208
At 31 December 2017	**988**	**849**	**1,370**	**3,207**
Analysis of total provisions				
Non-current portion	**988**	**849**	**685**	**2,522**
Current portion	**-**	**-**	**685**	**685**

Provisions for jubilee awards and termination benefits

The collective bargaining agreement obliges the Company to pay jubilee awards and termination benefits to its employees.

Provisions for legal disputes

As at 31 December 2017, the Company was a defendant in 16 legal disputes (2016: 10). Based on the assessment made by the Management Board and a legal counsel, provisions were made in the total amount of HRK 1,370 thousand (2016: HRK 2,753 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 2017.

NOTE 24 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	**2017**	**2016**
Non-current trade payables		
Domestic trade payables	1,254	3,078
Current trade payables		
Domestic trade payables	25,223	22,083
Foreign trade payables	95	1,004
	25,318	**23,087**
Other current liabilities		
Due to employees	3,976	3,461
Taxes, contributions and similar charges	2,595	2,683
Penalty interest payable	1	1
Other liabilities	1,067	1,019
Other non-financial liabilities /i/	9,404	9,404
	17,042	**16,568**
	42,360	**39,655**

/i/ Other non-financial liabilities relate to the fair value of loans received 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).

Short-term trade payables are denominated as follows:

(in thousands of HRK)	**2017**	**2016**
Trade payables		
HRK	25,223	22,083
EUR	95	1,004
	25,318	**23,087**

/i/ Non-current trade payables as at 31 December 2017 are liabilities that the Company committed to settle, following pre-bankruptcy settlement proceedings, within the remaining 2 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 2016	**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**
Impairment of assets (depreciation/amortisation)	(332)
At 31 December 2017	**10,285**

/i/ The reduction of the income tax rate from 20% to 18% became effective on 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. (as at 31 December 2017 75.81% share in the Company) and Hrvatska poštanska banka d.d. (as at 31 December 2017 18.95% share in the Company).
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)	**2017**	**2016**
Owner with significant influence		
Borrowings	26,221	31,080
Interest expense on borrowings	884	1,249

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)	**2017**	**2016**
Current trade payables	-	89
Income from sale of goods	-	75

Key management compensation

In 2017, key management compensation (comprising salaries and bonuses) paid by the Company amounted to HRK 1,701 thousand (2016: HRK 1,775 thousand). As at 31 December 2017, key management comprises three persons (2016: 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 2017 and 31 December 2016, the Company's financial instruments were denominated as follows:

2017	**EUR**	**HRK**	**Total**
Financial assets			
Available-for-sale financial assets	-	48	48
Loans given and deposits	-	718	718
Trade and other receivables	4,909	14,430	19,339
Cash and cash equivalents	16,053	1,419	17,472
	20,962	**16,615**	**37,577**
Financial liabilities			
Borrowings	34,225	1,535	35,760
Trade payables	95	25,223	25,318
Other liabilities	1,002	6,637	7,639
	35,322	**33,395**	**68,717**

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**

As at 31 December 2017, if the EUR had weakened/strengthened by 1% against the HRK (2016: 1%), with all other variables held constant, the net profit for the reporting period would have been HRK 144 thousand higher/lower (2016: HRK 160 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 2017, if interest rates on borrowings had been 50 pp higher/lower (2016: 50 pp), with all other variables held constant, the net profit for the year would have been HRK 179 thousand lower/higher (2016: HRK 170 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 premises are leased 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 2017				
Trade payables	25,318	1,254	-	26,572
Borrowings	5,733	24,991	5,036	35,760

(in thousands of HRK)	**Less than 1 year**	**Between 1 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

NOTE 27 – FINANCIAL RISK MANAGEMENT (continued)

(c) Price risk

The Company's marketable 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, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in 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 the 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 2017

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. When we draw the line and look at the financial statements showing that our sales revenue exceeds the planned 8% and 15% in relation to 2016, and that all other elements of the business plan for 2017 have been realised in all material respects or have been exceeded if we take into account the increase in the price of electricity and raw materials that was not envisaged in the 2017 plan, I think we have to be satisfied with our business in the past year.

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

Sawmill - in this production plant that mainly operates internally and manufactures products which end up as raw material in the Final Production, a total production value was realised which is by 20% higher compared to 2016 and by 19% in relation to the business plan;

Veneer - production and sales of veneer is by 12% higher when compared to 2016 and 9% 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 a consequence of a poorer log quality and limitations in the supply of raw materials from Hrvatske šume;

Final - production and sales of final products is by 3% higher when compared to 2016 and at the level of business plan for 2017; it should be emphasized here that the possibility of sales and *production was significantly higher than realised, but the delivered logs were of a poorer quality resulting in lower sales value;*

Bioenergy – continue to record the most significant growth in 2017 in the production and sale of pellets and briquettes, thus continuing the trend of steady growth that has been ongoing since 2014; in particular, in 2017 bioenergy products sales increased by 31% compared to income in 2016 and by 7% compared to income foreseen in the business plan;

Investments - In order to maintain and increase competitiveness, constant investments in equipment, plants and processes are required; in the year 2017, total investments of over 27 million were realised, and the most significant investments relate to an acquisition of a new veneer slicer and a drying kiln with a veneer iron. During the year, Spačva also applied for EU funds and we expect to receive the information on the outcome of our application in 2018.

Risks - the key risk of our business relates to ensuring a sufficient quantity and quality of the raw materials, given the dependence on Hrvatske šume as the key supplier. Constant changes in raw material distribution and the uncertainty arising from such an unforeseeable business situation make it difficult to plan all the essential elements of a business plan, from income growth, investments and employment.

Employment - last year, the company employed 68 workers more on average compared to 2016; 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.

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 wish to incorporate the development of corporate social responsibility into each of our activities and 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.

Best regards,

CHAIRMAN OF THE BOARD:

dr.sc. Josip Faletar

Introduction

The annual report comprises data for the business year 2017. 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

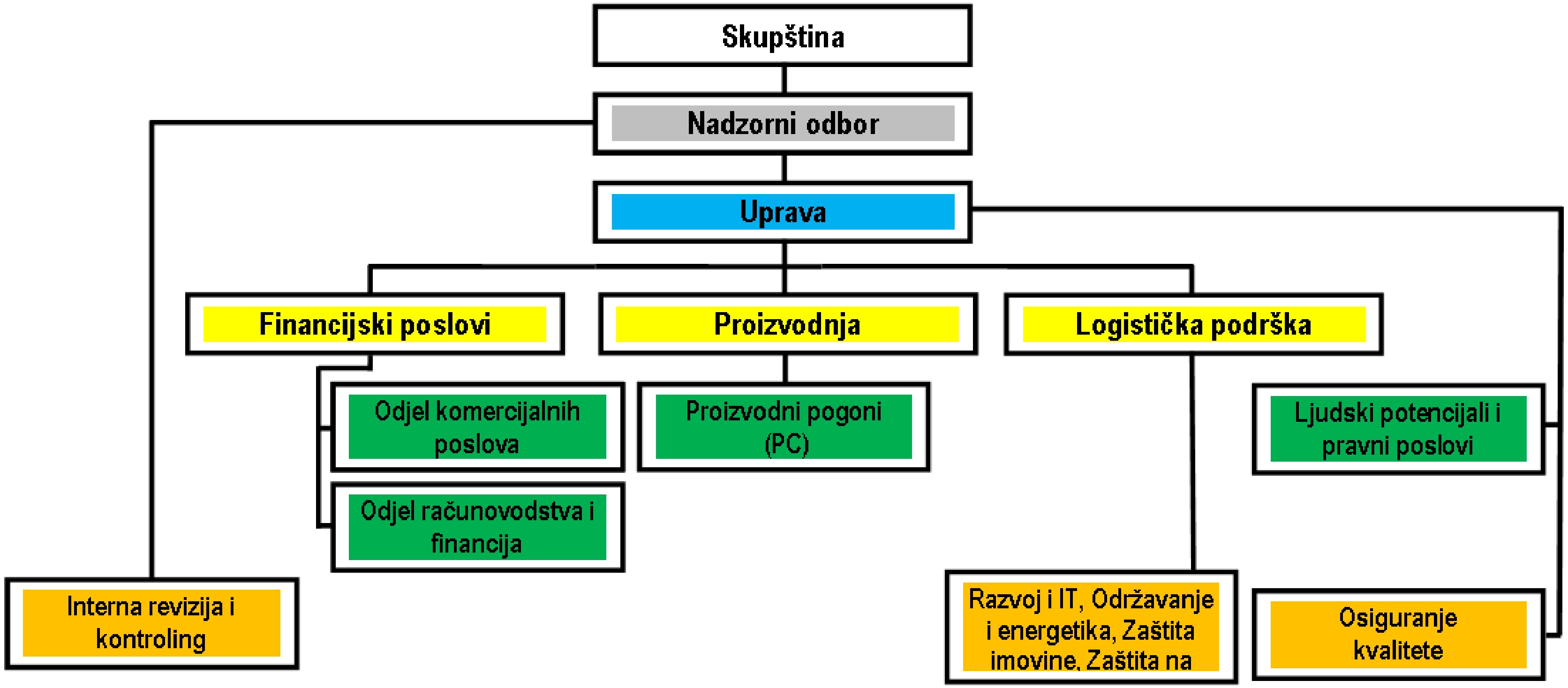
The Company's organisation is prescribed in its Articles of Association and decisions of the Supervisory Board and Management Board.
The Company is divided into 4 profit centres:

- *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

The president of the Management Board is Josip Faletar, while its members are Ante Radoš and Ivan Perković.

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 2017, the Supervisory Board comprised the following persons:

1. *Borislav Škegro, President*
2. *Mario Popić, Deputy president*
3. *Jakov Krešić, Member*
4. *Ante Lučić, 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 11 July 2017, the president of the General Assembly has been Hrvoje Bogutovac.

The General Assembly reaches decisions by a majority vote.

Share capital and shares

Spačva d.d.'s share capital is HRK 105,530,440.00. The total share capital is distributed among 5,276,522 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 2017

▪ *Risk capital fund Quaestus Private Equity Kapital II*	*75,81%*
▪ *Hrvatska poštanska banka d.d.*	*18.95 %*
▪ *Čvor d.o.o.*	*3.92 %*
▪ *Hrvatske šume d.o.o.*	*0.77 %*
▪ *Other shareholders*	*0.48 %*
▪ *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 2017 was the sustainability of operations and return on invested capital.

in HRK‘000

	2015	*2016*	*2017*
Patents, licences, concessions, trademarks	-	-	-
Buildings	-	-	-
Plant and equipment	-	-	-
Tools, plant inventory, furniture	-	-	-
Assets under construction	*18,307*	*18,350*	*27,400*
TOTAL	***18,307***	***18,350***	***27,400***

Among the capital investments in 2017, we can point out the replacement of two old horizontal veneer slicers with a new Stay Log slicer and two old drying kilns with a new drying kiln with an iron. The investment value is HRK 17 million and it will greatly affect market competitiveness.

In 2018, further investments are planned in the total value of HRK 52 million.

Human resources

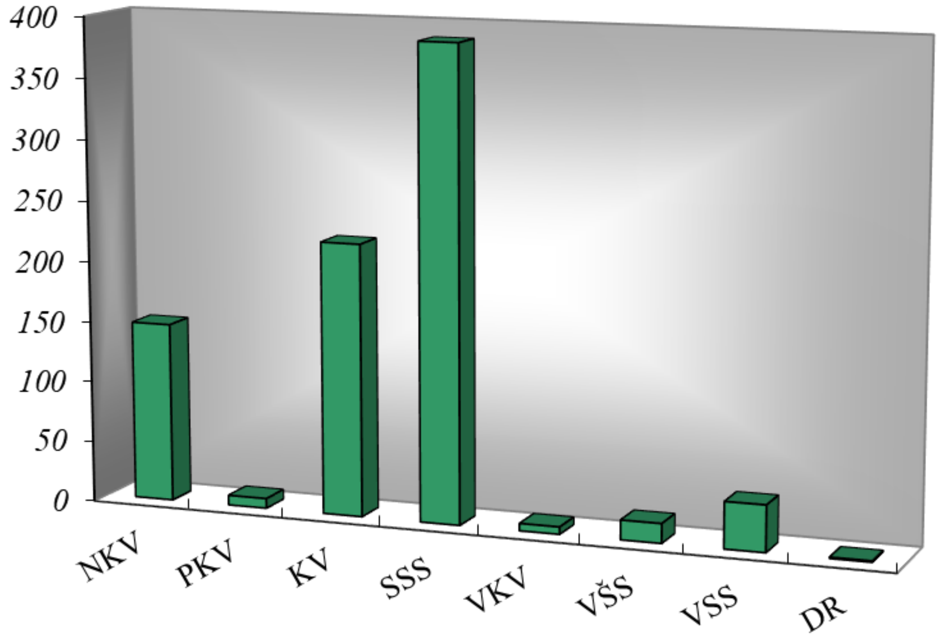
The greatest asset of Spačva d.d. are its employees. This is why we focused greatly on the development of human resources by encouraging in particular creativity, innovation and dynamism, and why special attention is directed at responsible performance of tasks.
Employees have to achieve high goals, 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 2017, the Company had 824 employees.

The employee structure according to qualifications as at 31 December 2017 is shown in the table and graph below:

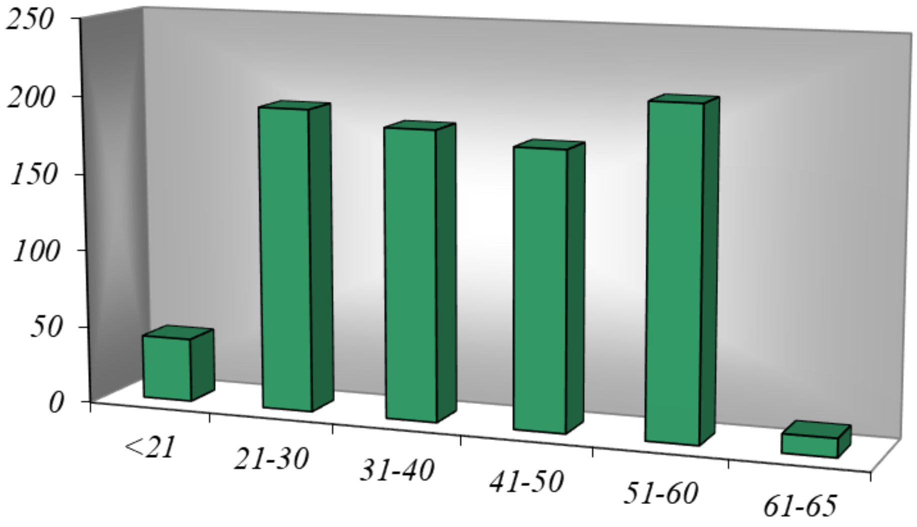
Qualifications	*Number of employees*
Unskilled workers	*147*
Semi-skilled workers (PKV)	*8*
Skilled workers	*223*
Secondary school qualifications	*389*
Highly skilled workers (VKV)	*6*
Two-year post secondary diploma	*16*
University degree	*34*
PhD	*1*
Total	***824***



Of the total number of employees, 4.6 % have a university degree and another 1.94 % have a two-year post secondary diploma, which totals 6.54 % of highly qualified staff.

The employee structure according to age as at 31 December 2017 is shown in the table and graph below:

Age	*Number of employees*
<21	*41*
21-30	*195*
31-40	*186*
41-50	*178*
51-60	*212*
61-65	*12*
Total	***824***



Average monthly salary

Average monthly salary	*2015*	*2016*	*2017*	*Index 17/16*
Gross	4,540	4,659	4,903	***105***
Net	3,515	3,602	3,841	***107***

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 currency 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 2017 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 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, 134/15 and 120/16), 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 (OG 78/15, 134/15 and 120/16).
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

	2015	2016	2017	Index
Income statement (in HRK'000)				**17/16**
Operating income	163,977	184,939	201,978	***109***
Operating expenses	157,497	176,830	190,972	***108***
Finance income	1,076	1,200	1,500	***125***
Finance costs	2,897	2,537	3,245	***128***
Other operating profit	1,881	0	0	***0***
Other losses from operations	0	0	0	***0***
Total income	***166,934***	***186,139***	***203,478***	***109***
Total expenses	***160,394***	***179,367***	***194,217***	***108***
Profit before tax	***6,540***	***6,772***	***9,261***	***137***

Balance sheet (in HRK'000)	**2015**	**2016**	**2017**	**17/16**
Total assets	***271,150***	***264,069***	***301,454***	***114***
Receivables for subscribed capital unpaid				***0***
Non-current assets	*173,711*	*176,714*	*195,632*	***111***
Current assets	*95,652*	*86,186*	*105,651*	***123***
Prepaid expenses	*1,787*	*1,169*	*171*	***15***
Total equity and liabilities	***271,150***	***264,069***	***301,454***	***114***
Capital	*163,916*	*171,028*	*208,580*	***122***
Non-current liabilities	*50,930*	*43,647*	*42,536*	***97***
Current liabilities	*52,900*	*44,947*	*48,093*	***107***
Accrued expenses	*3,404*	*4,447*	*2,245*	***50***

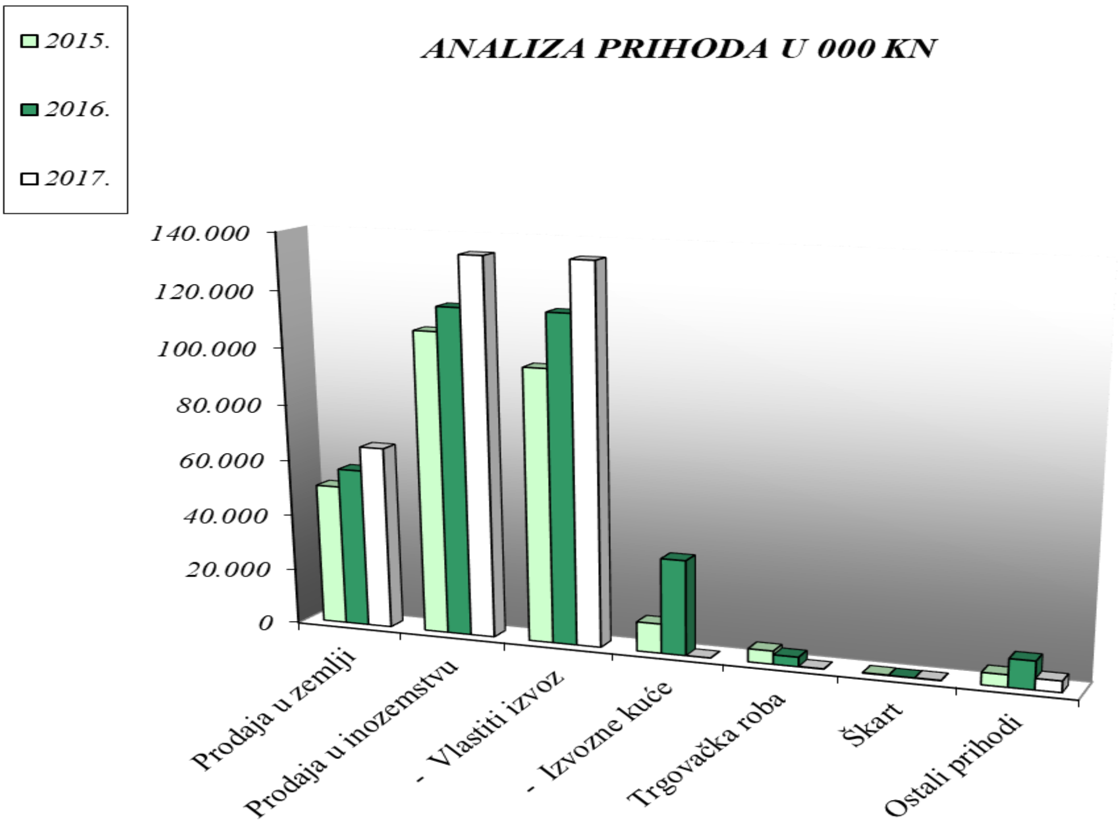
Other indicators	**2015**	**2016**	**2017**	**17/16**
Current liquidity ratio	*2.04*	*1.78*	*2.20*	***123***
Quick liquidity ratio	*0.51*	*0.45*	*0.43*	***95***
Leverage ratio	*0.44*	*0.39*	*0.30*	***77***
Duration of receivables collection	*30*	*30*	*30*	***100***
Financial stability ratio I	*0.75*	*0.81*	*0.78*	***96***
Financial stability ratio II	*0.94*	*0.90*	*0.96*	***107***
Business efficiency	*1.07*	*1.04*	*1.05*	***101***
Number of employees	*705*	*747*	*824*	***110***

Analysis of operating income and expenses

Analysis of income

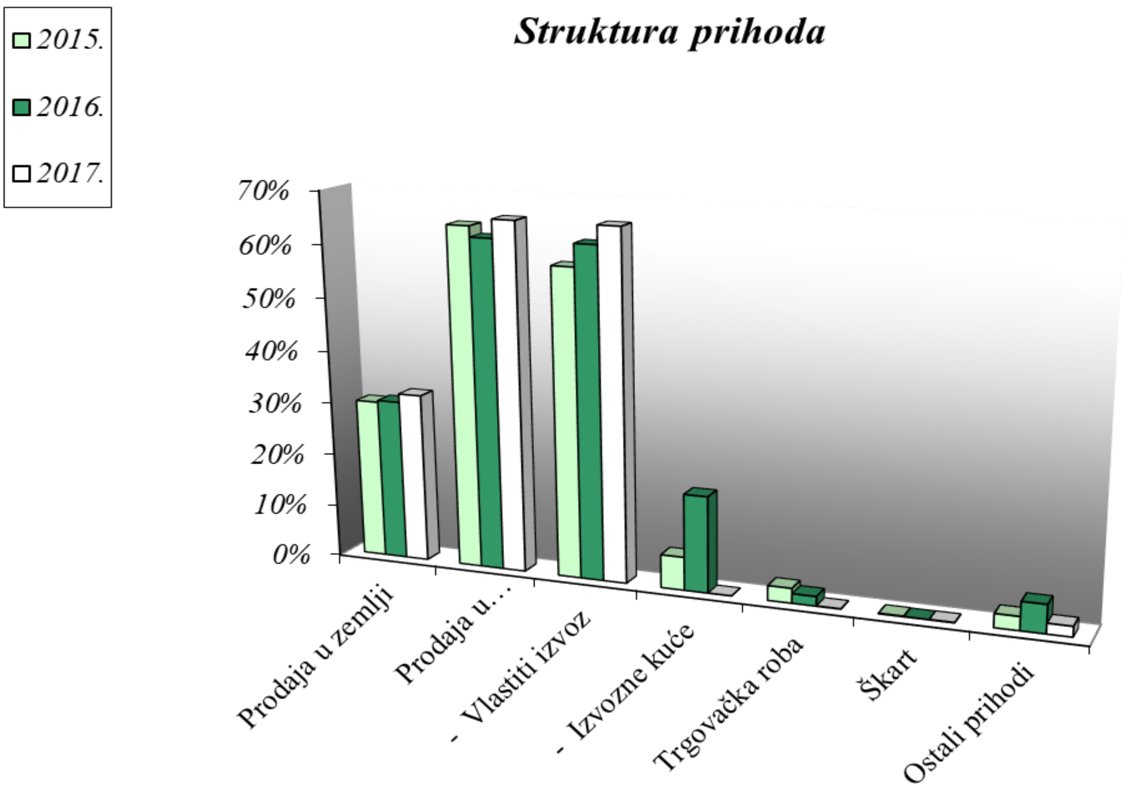
(in HRK' 000)

Income	2015	2016	2017	Index 17/16
Domestic sales	*50,194*	*56,623*	*65,237*	***115***
Foreign sales	*107,526*	*116,152*	*134,057*	***115***
Own export	*97,030*	*116,118*	*134,057*	***115***
Export companies	*10,496*	*33,864*	*0*	***0***
Trade goods	*4,661*	*3,352*	*89*	***3***
Scrap	*156*	*61*	*120*	***197***
Other income	*4,310*	*9,951*	*3,975*	***40***
TOTAL	***166,847***	***186,139***	***203,478***	***109***



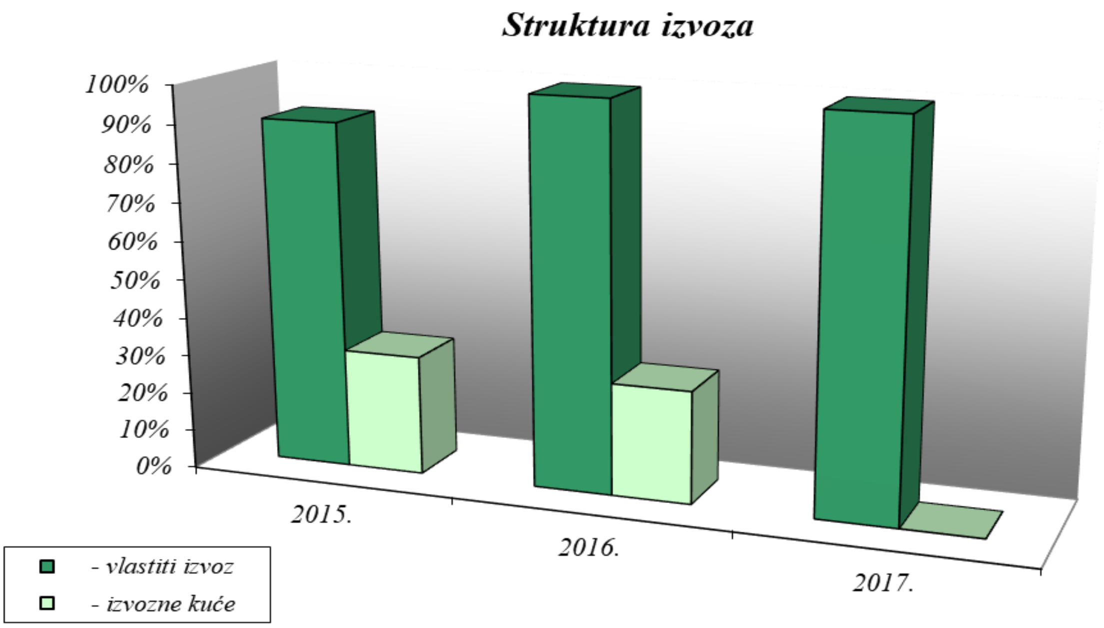
Income structure

	2015	2016	2017
Domestic sales	30%	30%	32%
Foreign sales	64%	62%	66%
Own export	58%	62%	66%
Export companies	6%	18%	0%
Trade goods	3%	2%	0%
Scrap	0%	0%	0%
Other income	3%	5%	2%
TOTAL	**100%**	**100%**	**100%**



Export structure

	2015	*2016*	*2017*	*Index 17/16*
Total export in sales	*66%*	*66%*	*67%*	***102***
own export	*90%*	*100%*	*100%*	***100***
export companies	*31%*	*29%*	*0%*	***0***



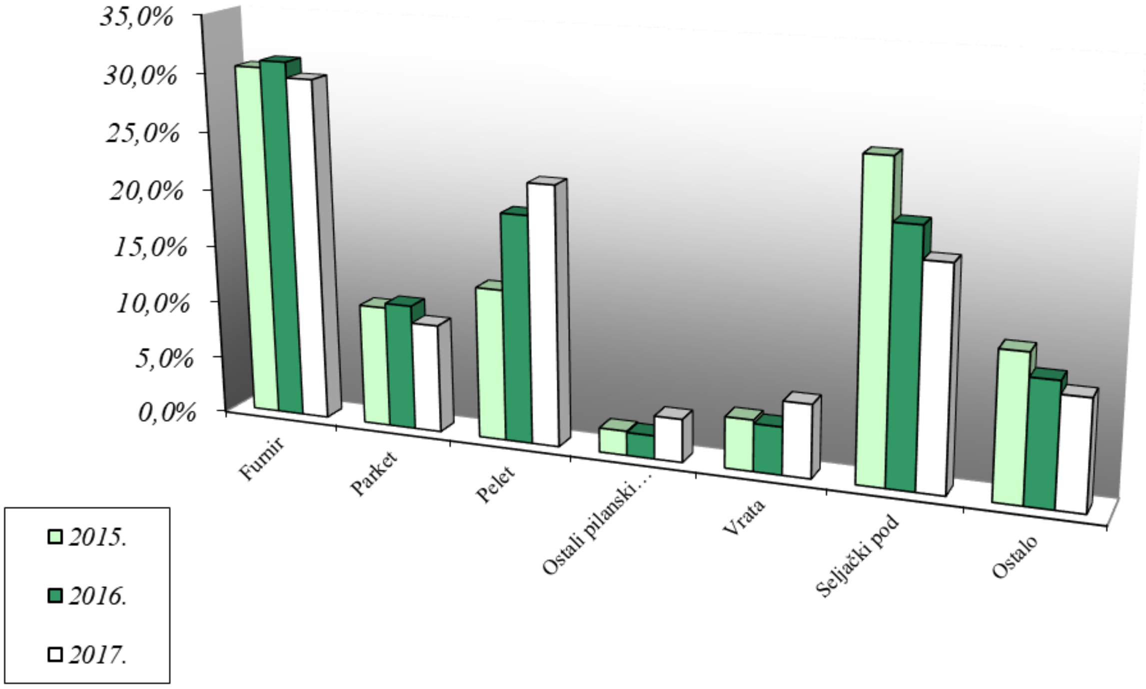
In addition to continued growth, the goal of our sales policy is to increase foreign income.

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

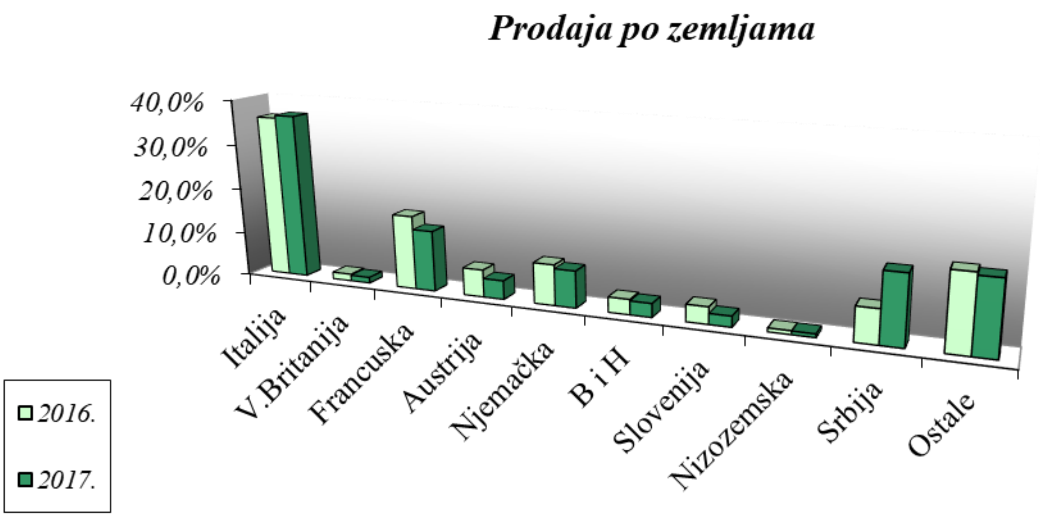
	2015	2016	2017	Index 17/16
Veneer	30.5%	31.1%	29.8%	**96**
Parquet	10.5%	10.9%	9.4%	**86**
Wooden pellet	13.1%	19.7%	22.4%	**114**
Other sawmill products I	2.1%	2.0%	3.7%	**186**
Doors	4.4%	4.1%	6.3%	**154**
Solid wood flooring	26.9%	21.7%	19.0%	**87**
Other	12.5%	10.5%	9.4%	**90**
TOTAL	**100.0%**	**100.0%**	**100.0%**	

Sale per type of product



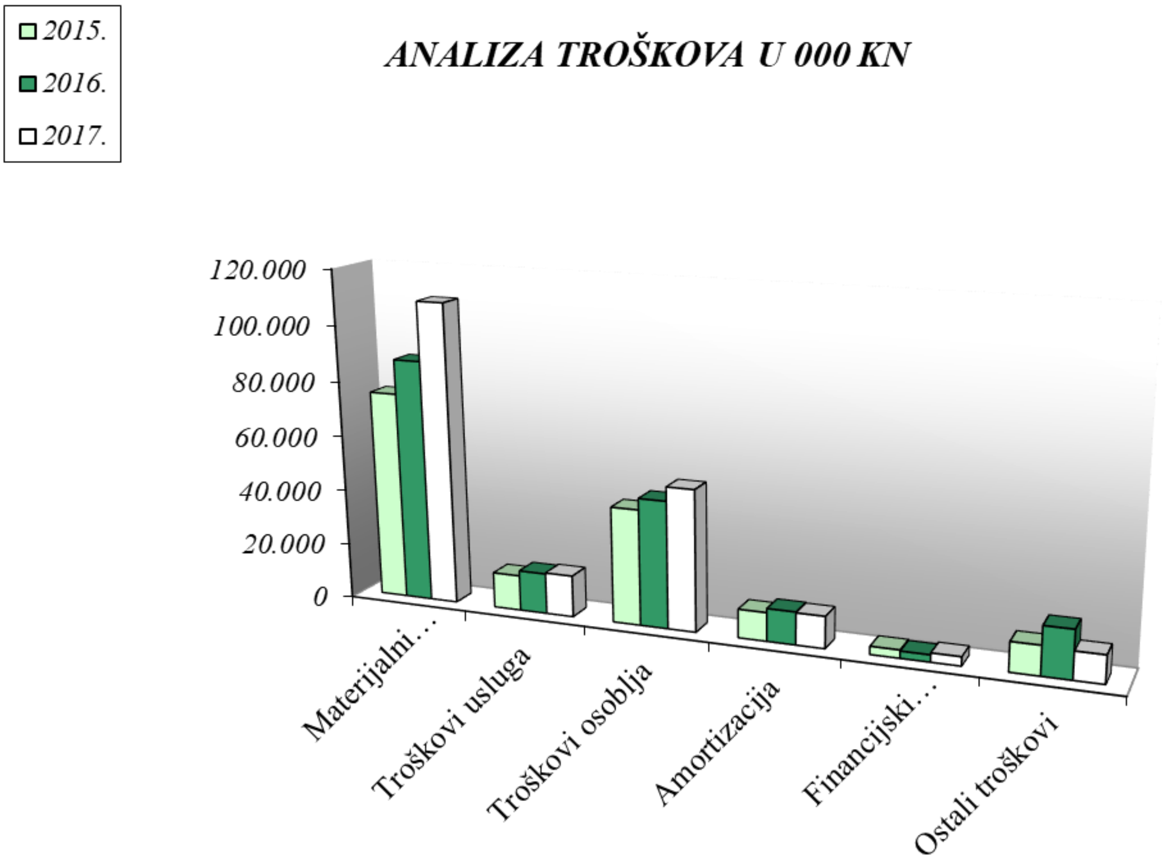
Sale per country

Country	2016	2017	INDEX
Italy	35.9%	36.5%	**102**
Great Britain	1.5%	1.3%	**84**
France	16.3%	13.4%	**82**
Austria	6.0%	4.1%	**69**
Germany	8.9%	8.1%	**91**
Bosnia and Herzegovina	3.3%	3.0%	**91**
Slovenia	3.7%	2.3%	**63**
Netherlands	0.8%	0.8%	**0**
Serbia	7.3%	14.9%	**203**
Others	16.3%	15.7%	**96**
TOTAL	**100**	**100**	



Cost analysis

Expenses	*2015*	*2016*	*2017*	*Index 17/16*
Material costs	*75,188*	*87,659*	*109,023*	***124***
Service costs	*12,763*	*14,628*	*15,004*	***103***
Staff costs	*41,689*	*45,773*	*50,844*	***111***
Amortisation and depreciation	*10,247*	*11,733*	*11,447*	***98***
Finance costs	*2,897*	*2,537*	*3,245*	***128***
Other expenses	*10,542*	*17,253*	*9,970*	***58***
Total expenses	*153,326*	*179,583*	*199,533*	***111***
Changes in inventories (additions, disposals)	*-8,056*	*217*	*5,316*	***2450***
TOTAL	***143,256***	***179,366***	***194,217***	***108***



Cost structure

	2015	2016	2017
Material costs	*49%*	*49%*	*55%*
Services	*8%*	*8%*	*8%*
Staff costs	*27%*	*25%*	*25%*
Amortisation and depreciation	*7%*	*7%*	*6%*
Finance costs	*2%*	*1%*	*2%*
Other expenses	*7%*	*10%*	*5%*
TOTAL	*100%*	*100%*	*100%*