ANNUAL REPORT

2016

AD Plastik

Who are we ?

a multinational company with more than 30 years of experience in the automotive industry

7 production sites in 4 countries

more than 2.100 employees (without JV)

What do we do ?

one of the leading companies for the development and production of automotive components in Eastern Europe

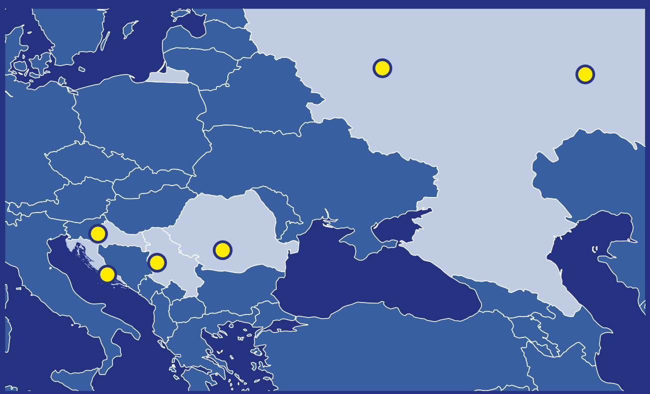
49,704
Net profit (in thsd. of HRK)

935,750
Operating income (in thsd. of HRK)

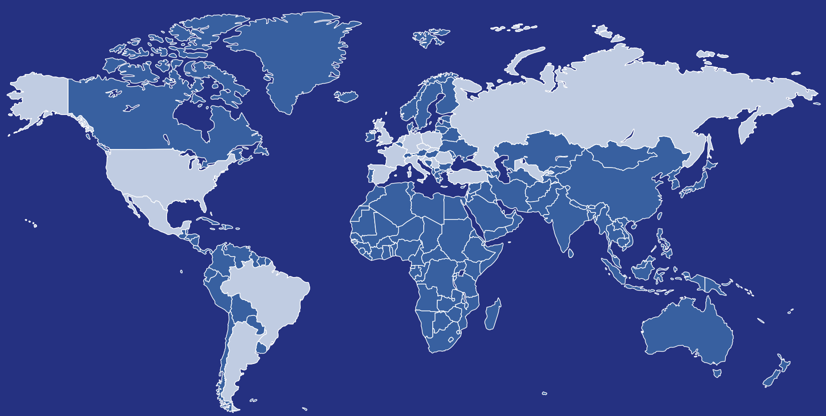
14.5%
EBITDA margin

Where are we ?

- our registered office is in Solin, Republic of Croatia
- Croatia, Serbia, Russia, Romania



Market overview



Argentina
Brazil
Czech Republic
France
Germany
India
Italy
Mexico
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Spain
Turkey
UK
USA
Uzbekistan

135,855
EBITDA (in thsd. of HRK)

372,452
Net financial debt

5.3%
Net profit margin

A About us

Letter from the President of the Management Board

AD Plastik Group is constantly and inexorably evolving and adapting, just like the industry in which we operate. All car manufacturers have to monitor changes within the automotive industry together with their suppliers. Our Company has successfully endured and is becoming a significantly more serious factor in the global automotive market.

We've entered into some very important contracts in 2016, which expanded our portfolio of customers and products and strengthened the Group's offer for the upcoming period. New business arrangements have been signed for Maserati, Fiat, Volkswagen, Renault Clio and Ford, with a total value of over EUR 20 million annually in full production years. We've shifted our focus on developing products with better strategic potential and plan on pursuing this direction going further.

The investing public recognized and acknowledged our company due to successfully realized negotiations and new contracts, overall improvement of business operations, as well as regular and revised business reporting practices and frequent and transparent communication with investors. These developments consequently contributed to the growth rate of our shares – reaching 40.2 percent in 2016. Record dividend with a yield of 12 percent on the average share price in 2015 was also paid out in the last year. This confirms the positive cash flow and good liquidity of the Group.
We have achieved very good operating results for the second year in a row. Our goal was to strengthen the financial stability of the Company and improve profitability – which we undoubtedly achieved. Group's net profit increased by 7.5 percent in 2016 and amounted to HRK 49.7 million, despite the 9 percent decline in operating income. We've considerably reduced our operating expenses in comparison to our operating income, and EBITDA accordingly amounted to HRK 135.9 million with an EBITDA margin of 14.5 percent – an increase of 18.3 percent over the previous year.

Sales in the European market have been slightly lower due to diminished number of orders placed by our Hella client and lower revenues generated through project activities, while the drop in revenue observed in Russia can be attributed to exchange rate fluctuations, rather than a decline in sales.

AD Plastik exited FADP – a joint company established in Russia together with Faurecia – in 2016. This was one of our strategic goals for the past year, which we've successfully achieved. We'll continue with business activities in Russia through companies of which we are the majority owners. The Russian market is finally stabilizing and all forecasts for the current year predict an increase in car sales and an overall economic recovery. This represents an opportunity which we certainly know how to recognize and seize.
We are dedicated and focused on developing and expanding business operations in new markets with new customers, pursuant to which we've already started researching Eastern and Central European markets in 2016, as well as conducting significant analysis of markets outside the European Union.

We are ambitiously creating a dynamic business environment that aims at continually developing and growing our Company. We will continue our activities regarding a further reduction in the Group's loan liabilities and optimization of cash flows. Our key objectives for 2017 include persistent growth in existing and new markets, further increase of business efficiency, risk management and, ultimately, ensuring a further boost in the market value of the Company, i.e. the value of our shares.

Marinko Došen
President of the Management Board

Company history

1952

Founding of **Jugoplastika** – original predecessor of AD Plastik.

1992

Successful separation from Jugoplastika and continued operations under the name **Autodijelovi**.

1994

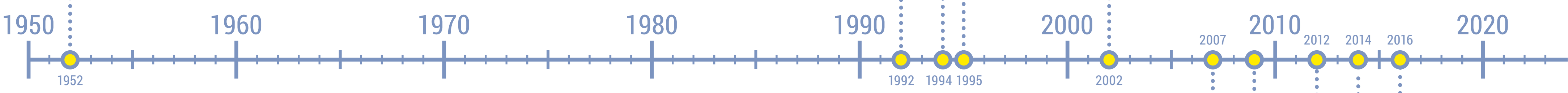
Company officially changed its name to **AD Plastik**.

1995

Opened a plant in **Zagreb**, founded a company in Russia and purchased the first plant in **Vintai**.

2002

Established a *Joint Venture* company EuroAPS with the Portuguese Simoldes Plasticos, and opened a production site in **Romania**.



2007

Faurecia buys Simoldes Plasticos's share in **Euro APS**.

2009

Founded a second Joint Venture company with Faurecia; the new company is named **FADP** and located in Russia.

2012

Founded **ADP d.o.o. Mladenovac** in Serbia and opened a facility in Mladenovac and **Kaluga**, Russia.

2014

Opened the newest and most modernly equipped, automated and robotised painting line in **Zagreb**.

2016

Exited the Faurecia Joint Venture company in Russian **Luga**.

AD Plastik Group

AD Plastik Group is the leading company in the development and manufacture of interior and exterior car components in Croatia and one of the leading companies in Eastern Europe. It is a multinational company with more than thirty years of experience in the automotive industry, and eight production sites in four countries.

AD Plastik Group owns three facilities in Croatia, one in Solin and two in Zagreb, and employs 1,200 workers. In addition, approx. 200 workers are employed in the plant in Serbia, and over 700 in two plants in Russia. AD Plastik also owns a joint venture company Euro APS in Romania in cooperation with Faurecia. The Company exports a hundred percent of its products from Croatia, while EU and Serbia markets make up 75 percent of total Group revenue, and Russian plants manufacture products mainly for the Russian market.
Thirty years of history provided us with experience and specific maturity that AD Plastik Group is known for today. Continuous business operations of the Company are based on tradition, knowledge, exceptional expertise and commitment of each and every employee. Cooperation with customers is built on trust, reliability and quality. AD Plastik Group cooperates with customers from the early development stages to the finished product, using modern tools and techniques and applying specific professional know-how, skills and experience. Focusing on customer needs, while maintaining high quality and competitiveness of products and services, is a prerequisite for the survival and development of any company. Long-term survival in the demanding automotive community serves as confirmation of business operations' quality, primarily due to skilled professional employees and incessant investments in the development and improvement of various technologies.

>30
years of experience in the automotive industry

>2,100
employees

7
production sites

4
countries

AD Plastik Group places its strategic focus on expanding and improving the automotive industry's program with the goal of becoming a major developmental supplier of key technologies and products. Creating and managing commercial relations with suppliers and subcontractors for the purpose of ensuring competitive prices of materials, tools, equipment and services are our important strategic objectives. Diversification of customers and markets and improving developmental recognition should also be highlighted as very important guidelines for the development of the Company. We plan to achieve strategic objectives by continuously increasing production sites efficiency and strengthening our financial stability and optimising the balance sheet structure, while ensuring the maximum return on investment for our investors.

Long-term strategy of AD Plastik Group is to ensure quality and stable business operations to the satisfaction of all its stakeholders.

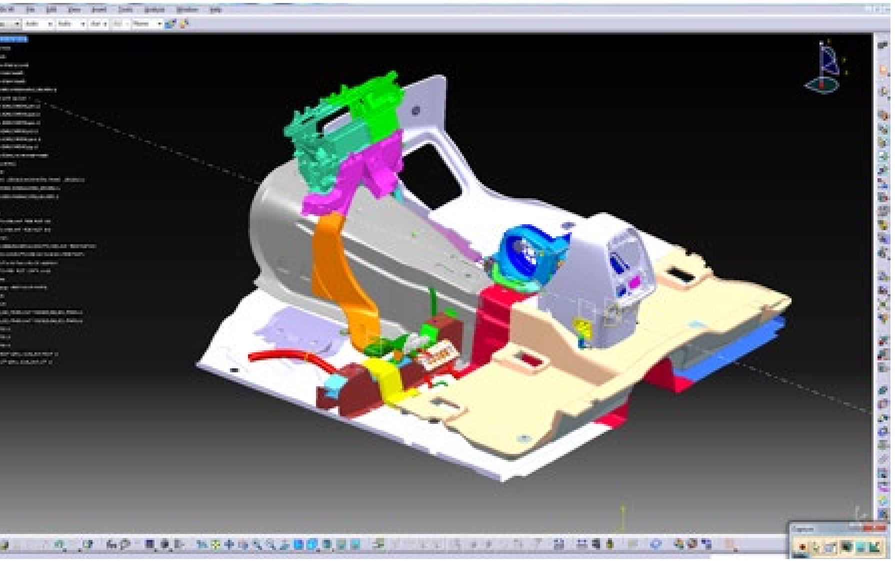
Mission and Vision

ADP Vision

To be the market leader in the development and production of automotive components in Eastern Europe and to expand our business into new markets.

ADP Mission

By creating innovative and creative solutions and constantly improving research and product development, we want to contribute to the quality of the final product and the success of our customers. We meet our objectives by applying the principles of corporate social responsibility and business ethics to the satisfaction and benefit of all our stakeholders - employees, business partners, customers, and our shareholders.



Key values

Reliability	Relationships with all stakeholders are based on trust, open and honest communication. Continuous long-term partnerships with all our stakeholders are based on mutual respect.
Excellence	We strive to meet the highest quality standards across all business segments, including products, work methods or competences of employees performing it.
Innovation	We apply our own ideas and creativity on a daily basis to improve and develop the company and each internal segment, keeping up with developments and trends in the global market.
Responsibility	Responsibility is an important prerequisite for company's development, growth and performance. It is expressed every day through relations with each individual, work, partners, stakeholders and our actions aimed at society, nature and the community in which we operate.
Commitment	Loyalty, productivity and satisfaction highlight the commitment we are trying to encourage together with a conscious business approach. Employees should identify with the company and its values.
Togetherness	We encourage mutual cooperation on all levels and teamwork that is essential for the development and growth of the company, but also of every individual. Sharing ideas and knowledge, multiculturalism, mutual respect and solidarity are key ideas of developing company togetherness.

Significant events in 2016

Nominations (new deals)

Renault Clio

AD Plastik won the nomination for the manufacture of painted front and rear bumpers and side covers for the rear bumper of the Renault Clio which will be manufactured at the Revoz site in Slovenia. Start of mass production is planned for August 2017, with AD Plastik doing injection moulding, painting and assembly of components under this project.

Expected revenue is valued at EUR 16.5 million in the two-year period.

Volkswagen

AD Plastik won the nomination for the manufacture of grabhandles for four Volkswagen vehicles, namely Golf Variant, Golf Sportsvan, Touran and Tiguan. Grabhandles will be manufactured in Solin, and mass production is planned for 2017. Grabhandles will be shipped from Solin to facilities in Germany (Wolfsburg and Sachsen) and Mexico (Puebla). The cooperation with Volkswagen was signed for a minimum period of four years, and in addition to income it will facilitate improvements in terms of organization due to the fact that Volkswagen is a customer who insists not only on the quality of products, but also the efficiency of all manufacturing processes. Considering the volumes produced by the Volkswagen Group, expanding our cooperation is extremely important for company's overall business operations.

Expected annual revenue is valued at EUR 2.5 million.

"We possess the necessary knowledge and experience for manufacturing grabhandles, and are certain that this project will have a very positive impact on the operations of AD Plastik in the long term", said Kristijan Žaper, sales manager for VW and BMW.

Maserati Levante

Following the successful grab handles development project with Fiat - Chrysler (FCA), AD Plastik found itself in the role of a development partner in the air ducts project for the luxury Maserati Levante. Eleven positions have been designed in total under this project, namely the central air ducts frame, central air ducts, grill, connecting air duct and front air ducts.
AD Plastik won the nomination for the manufacture of air ducts intended for a new product in Maserati's product line which carries air for cooling/heating of passenger space from the instrument panel to the rear part of the vehicle. The project includes seven components produced using blow moulding technology that will be manufactured at ADP Mladenovac plant, and five injection moulded components manufactured in Solin.

Expected project revenue is valued at EUR 3 million.

"This is our first joint development project with the FCA Group, and Levante is categorised as a luxury vehicle on which we have not often collaborated. This stands as proof that we have the knowledge, capacity and quality necessary to meet the challenges of most demanding customers and models in the automotive market," said Uroš Pavlović, Deputy Director of Development for Injection Moulded, Painted and Blow Moulded products.

Nominations (cont.)

Ford EcoSport

AD Plastik won the nomination for EcoSport, Ford's class B vehicle to be manufactured in Craiova, Romania. Start of manufacture is scheduled for October 2017 with the planned production period of three and a half years. AD Plastik will manufacture front wheel arch housing and rear wheel deflectors for the new EcoSport model at its Solin plant.

Expected project revenue is valued at EUR 4.8 million.

"AD Plastik become a supplier for another Ford production site in Europe, thereby proving their quality and beating tough competition from manufacturers located in the vicinity of their plant in Romania. EcoSport is the sixth Ford model in the portfolio of AD Plastik, following the Fiesta, Mondeo, Galaxy, S-Max and Vignale," said Tonći Jakaša, Ford Program Manager.

We have also won the nomination for manufacturing injection moulded interior lining for Ford EcoSport in Russia, with respective parts manufactured at AD Plastik Group's site in Vintai. According to current customer information, mass production is planned for mid-2017 at the Ford Sollers plant, Naberezhny Chelny, Russia.

Expected annual revenue for a full production year is valued at EUR 1.5 million.

"Given the current decline in sales on the Russian market, majority of Tier I suppliers have excess available capacity meaning that the competition for winning this nomination was extremely strong. This nomination positions us back on the panel of strategic Ford suppliers in Russia, which is of great significance and provides us with more opportunities to compete for other vehicle models of this customer," said Mislav Čelar, Sales Manager for Russia.

Fiat

AD Plastik won the nomination for the manufacture of painted instrument panel parts, bumpers, air duct connectors and steering wheel padding for Fiat 500. Parts included in this project will be manufactured in three AD Plastik Group's sites: Solin, Zagreb and Mladenovac. According to current customer information, mass production is planned for 2017 at the FCA Kragujevac plant in Serbia. This is AD Plastik's first painting operation for Fiat, which ensures a much better starting position for potential future nominations for painting multiple components, as well as other vehicle models of this renowned manufacturer. In addition to painting, bumper components will be injection moulded at the Zagreb site, blow moulded parts in Mladenovac, while some injection moulded parts will be manufactured in Solin.

Expected annual revenue for a full production year is valued at EUR 6 million.

"Winning this nomination has substantially increased our cooperation with Fiat, and the realization of said project would place Fiat in the second place in our customers portfolio with regard to overall value, just behind Renault. This job provides us with new opportunities, and the results we managed to achieve with Fiat are due to hard work invested on building our partnership," said Toni Štambuk, Sales Manager for the European market.

Edison

AD Plastik won the nomination for an additional job under the Edison project, namely the manufacture of the central console for Smartforfour (S4S) and Smartfortwo (S2S) vehicles. It involves a transfer of manufacture from the Reydel plant in Rougegoutte, France. These consoles will be manufactured at our sites in Zagreb and Solin, with first shipments starting in early 2017.

Expected revenue from this project is estimated at EUR 3 million annually..

"I am very pleased that we are increasing the production share for vehicles under the Edison project. This project is not complex from a technological aspect, but the schedule is challenging and requires the preparation of the manufacture process for mass production and validation of products in short periods," said Nino Kaćanski, Project Manager.

Awards

Top Price Gainer

AD Plastik stock was recognized as the Top Price Gainer for the first time at the Zagreb Stock Exchange Awards. Ceremony of the 5th Zagreb Stock Exchange Awards was held in Zagreb - Awards were founded in 2012 with the aim of strengthening the recognition of the capital market and its active participants among the financial and general public. Maintaining that excellence deserves recognition, rewarding aimed at garnering recognition and support for leading companies has become a tradition.

Awards Committee of the Zagreb Stock Exchange decided on the awards across seven categories, taking into consideration the objective, statistical criteria, and the overall contribution toward educating and developing the domestic capital market.

"In these challenging times for our business operation, the confidence of our shareholders is among the top priorities of the Company. We will press on with our designated business plans, increasing operating efficiency and profitability and developing business reporting quality, and will continue to enhance high transparency and reporting standards. This award is both an encouragement and a responsibility in our further business development towards creating added value for the Company, based on a relationship of harmony with all our stakeholders," said Marinko Došen upon receiving the award on behalf of AD Plastik.

Best progress award

AD Plastik received the Best progress award according to the Corporate Social Responsibility Index for 2016. Based on the results from questionnaires sent to numerous companies, Croatian Chamber of Economy (HGK) and the Croatian Business Council for Sustainable Development (HR BCSD) annually give out the CSR Index Award for the successful implementation of corporate social responsibility in the category of small, medium, large and public companies.

CSR Index uses a specific methodology for assessing responsible practices in business operations of Croatian companies, modelled after similar global methodologies, primarily the Business in the Community CR Index. The above method of assessing corporate social responsibility in Croatia is based on a ranking system that enables an objective assessment and comparison of socially responsible practices used by companies.

Golden Key Award

AD Plastik received two Golden Key Awards in the past year - for the most innovative exporter and the best exporter to France in 2015. In addition to these awards, the Company also competed in the category of "emerging markets" for the best exporter to Russia and the best exporter to Slovenia in 2015. The awards were presented at the 11th Convention of Croatian exporters held in Zagreb.

"I am particularly pleased to receive the award the most innovative exporter because it shows that our exceptional work and invested efforts have been duly recognized. Our Company's mission is to create innovative and creative solutions and constantly improve research and development process to ultimately contribute to the quality of the final product and the success of our customers. It is extremely important to follow the trends and innovations of the automotive industry in order to keep up or get ahead of competition. We've been awarded the Golden Key for several consecutive years, which is a great honour and validates the continuity of our successful business," said Marinko Došen upon receiving the award.

Awards (cont.)

Award for excellence in corporate governance

AD Plastik d.d. has been recognized as one of the most successful companies in the field of corporate governance in Croatia and won the award for excellence in corporate governance. At the second "Corporate governance in Croatia" business conference companies were awarded for the first time for the excellence in corporate governance according to the methodology developed as part of an international research project initiated and performed by members of the South East Europe Corporate Governance Academic Network (SEECGAN).

Best medium manufacturing investment

AD Plastik won the award in the category of medium manufacturing investments - given out as part of the new Lider Invest project aimed at finding best manufacturing investments in Croatia - for an investment of 141 million kunas made under the Edison project.

Lider Invest is a new project with the aim of giving well-deserved social recognition to entrepreneurs who dared to invest in manufacture. Its intention is to encourage entrepreneurs who are considering making investments, but also highlight the importance of manufacture in the Croatian economy. All investments exceeding 150 million kunas were considered for the "100 percent Lider Invest" award for best large manufacturing investment, all investments between 10 million and 150 million kunas were competing for the best medium manufacturing investment, and investments with a value less than 10 million kunas qualified for the small manufacturing investment award.

National Champion in the import/export category

AD Plastik was awarded the National Champion for Croatia certificate in the import/export category at the European Business Awards 2016/2017. European Business Awards is one of the largest European competitions that promotes and rewards excellence and best business practices in the European business community. AD Plastik was chosen during the first stage of selection by an independent jury which evaluated key EBA values - innovation, ethics and business success.

Changes of Management and SB

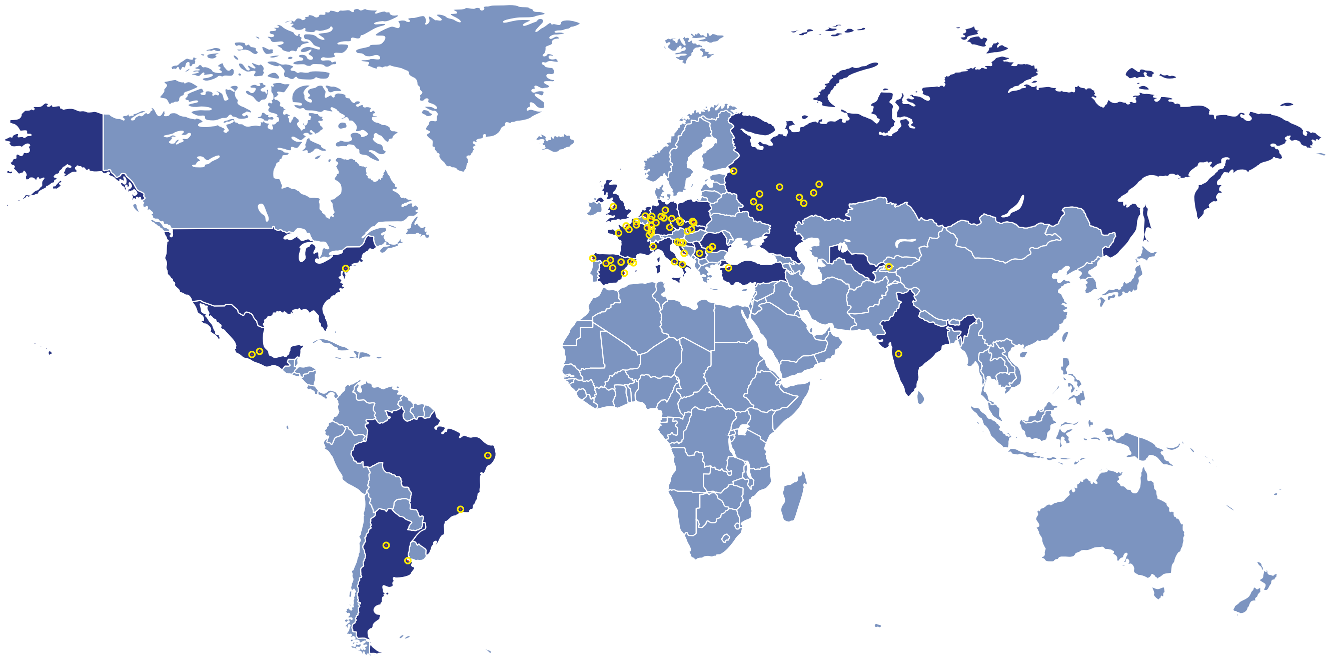
At its session held in July 2016, General Assembly of shareholders elected two new members to the AD Plastik's Supervisory Board, Ivica Tolić and Hrvoje Jurišić, replacing former members Josip Boban and Nikola Zovko whose mandate has expired.

New Management Board of AD Plastik was appointed at the Supervisory Board session held in July, comprising of the Board's President Marinko Došen, and members Katija Klepo, Sanja Biočić and Mladen Peroš. Mandates of former members Ivica Tolić and Hrvoje Jurišić have expired, while Denis Fušek resigned in April for personal reasons.

Exit from the Faurecia ADP Luga JV

AD Plastik and Faurecia Automotive Holdings, France, signed a Share Purchase Agreement according to which AD Plastik sells, and Faurecia buys 278,136 shares (40 percent) of the Faurecia ADP Holding s.a.s., France, which is the sole owner of the OOO Faurecia ADP company from Luga. Transfer of shares pursuant to the Agreement was executed on 16 December 2016. Faurecia consequently become the sole owner of Faurecia ADP Holding s.a.s, i.e. FADP plant in Luga, Russia. The aforementioned sale of shares has no impact on the operating results of AD Plastik Group and its scheduled activities in the Russian market. Cooperation between AD Plastik and Faurecia continues under the Euro Auto Plastic Systems s.r.l. JV company in Romania, without any changes.

Overview of markets and customers



Argentina
- Córdoba
- Buenos Aires

Brazil
- Pernambuco
- Porto Real

Czech Republic
- Kolín
- Mladá Boleslav

France
- Batilly
- Douai
- Hambach
- Mulhouse
- Poissy
- Rennes
- Sandouville
- Sevelnord
- Sochaux

India
- Ranjangaon

Italy
- Cassino
- Melfi
- Mirafiori

Mexico
- Cuautitlán
- Toluca

Germany
- Bochum
- Cologne
- Eisenach
- Kassel
- Mosel
- Regensburg
- Ruesselsheim
- Saarlouis
- Wolfsburg

Poland
- Gliwice
- Tychy

Romania
- Craiova
- Mioveni

Russia
- Izhevsk
- Kaluga
- Moscow
- Naberezhnye Chelny
- Nizhny Novgorod
- Saint Petersburg
- Togliatti
- Ulyanovsk

Serbia
- Kragujevac

Slovakia
- Bratislava
- Trnava

Slovenia
- Ljubljana
- Novo Mesto

Spain
- Barcelona
- Madrid
- Palencia
- Valencia
- Valladolid
- Vigo
- Zaragoza

Turkey
- Bursa

UK
- Ellesmere Port

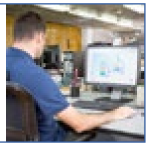
USA
- Detroit

Uzbekistan
- Asaka

ALFA ROMEO
AVTOVAZ
BMW
CHRYSLER
CITROËN
DACIA
DAEWOO
DAIMLER
FIAT
FORD
GM
JEEP
KAMAZ
MASERATI
MITSUBISHI
NISSAN
OPEL
PEUGEOT
RENAULT
SMART
ŠKODA
TOYOTA
UAZ
VOLKSWAGEN

Production sites

1 AD Plastik .... Solin, Croatia
- Headquarters, R&D
- Employees 632
- Facility area .... 26 618 m²



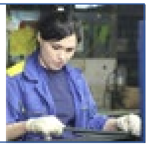
2 AD Plastik .... Zagreb I, Croatia
- Employees 411
- Facility area .... 24 136 m²

3 AD Plastik .... Zagreb II, Croatia
- Employees 156
- Facility area .... 7 336 m²

4 ADP .... Mladenovac, Serbia
- Employees 172
- Facility area .... 13 952 m²

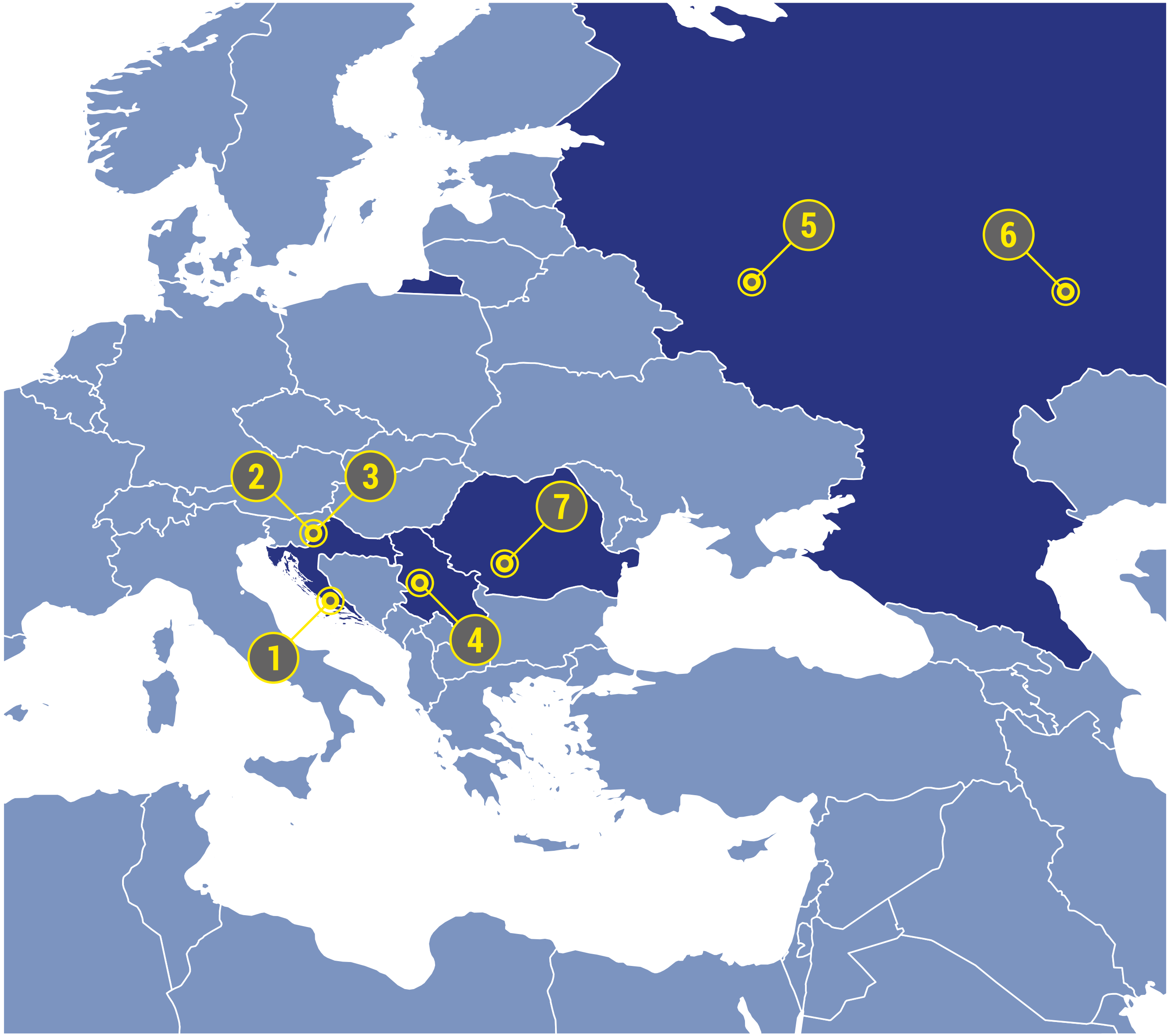
5 ADP Kaluga .... Kaluga, Russia
- Employees 229
- Facility area .... 8 524 m²

6 AD Plastik .... Vintai, Russia
- Employees 521
- Facility area .... 24 500 m²



7 EAPS .... Mioveni, Romania
- Joint Venture
- AD Plastik .... 50 percent

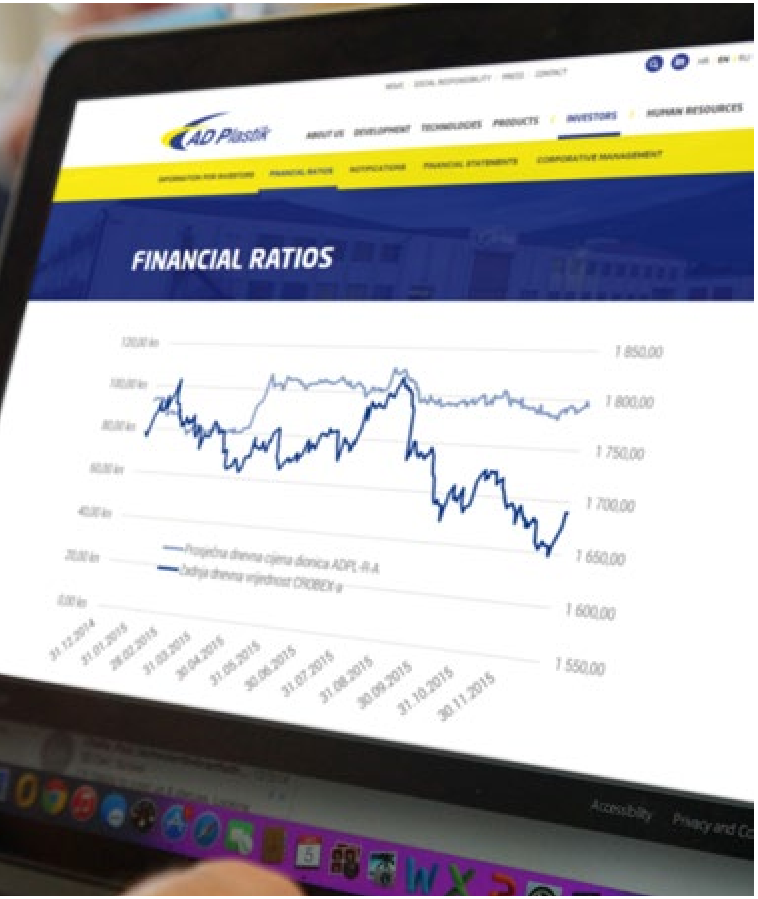
JV



B Capital market

Ownership structure

The equity capital of AD Plastik d.d. amounts to HRK 419,958,400, and it is divided in 4,199,584 shares of the nominal value of HRK 100.00. The shareholders are legal and natural persons from the Republic of Croatia that realise their interests through the General Assembly and the Supervisory Board in accordance with the legislation of the Republic of Croatia.

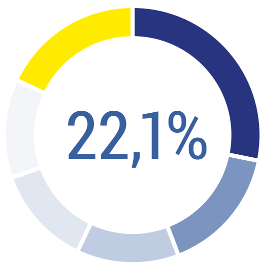


30,0%

OAO Holding, Russia

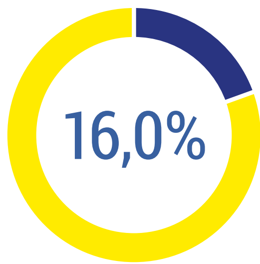
OAO Holding, Russia	30.00%
Pension funds	22.14%
Small shareholders	17.90%
Management and employees	15.96%
Other institutional investors	13.33%
Treasury shares	0.67%

Pension funds



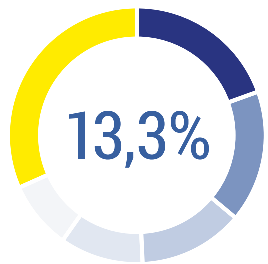
Raiffeisen OMF category B	6.42%
Raiffeisen DMF	3.54%
PBZ CO OMF category B	2.85%
Capital fund	2.78%
Erste Plavi category B	2.75%
Others	3.82%

Management and employees



ADP ESOP	3.11%
Others	12.85%

Other institutional investors



Erste bank / Zbirni skrbnički račun	2,51%
PBZ d.d. / State street client	2,21%
Zaba / State street bank	1,76%
PBZ d.d. / Skrbnički zbirni račun	1,40%
ZABA / ZB Aktiv	1,14%
Others	4,31%

Overview of the 10 largest shareholders on 31 December 2016

Nº	Shareholder	No. of shares 31 December 2016	Share (%)	No. of shares 31 December 2015	Share (%)	Trend
1	OAO HOLDING AUTOKOMPONENTI	1,259,875	30.00	1,259,875	30.00	■
2	RAIFFEISEN MANDATORY PENSION FUND - category B	269,462	6.42	269,462	6.42	■
3	RAIFFEISEN VOLUNTARY PENSION FUND	148,645	3.54	-	-	▲
4	ADP-ESOP D.O.O.	130,532	3.11	212,776	5.07	▼
5	PBZ CO MANDATORY PENSION FUND - category B	119,640	2.85	119,640	2.85	■
6	KAPITALNI FOND D.D.	116,541	2.78	116,541	2.78	■
7	ERSTE PLAVI - category B	115,353	2.75	115.353	2.75	■
8	ERSTE & STEIERMARKISCHE BANK D.D. - Joint custodial account	105,349	2.51	105,349	2.51	■
9	AZ MANDATORY PENSION FUND - category B	93,900	2.24	93,900	2.24	■
10	PBZ D.D. - STATE STREET CLIENT ACCOUNT	92,948	2.21	111,366	2.65	▼
	TOTAL	2,452,245	58.39	2,491,039	59.32	▼

The Company has no majority shareholder, the largest shareholder is the Open Joint Stock Company "Holding Autokomponenti" from St. Petersburg, Russia, which owns 1,259,875 shares representing a 30 percent share of Company equity capital.

- RBA Voluntary Pension Fund became one of the ten largest shareholders in 2016 (3.54 percent).
- Shares of other top ten shareholders were mostly unchanged compared to 2015, which indicates that large volumes of shares are not traded at the stock exchange despite the free float of 69.33 percent.

Information on the share ADPL-R-A

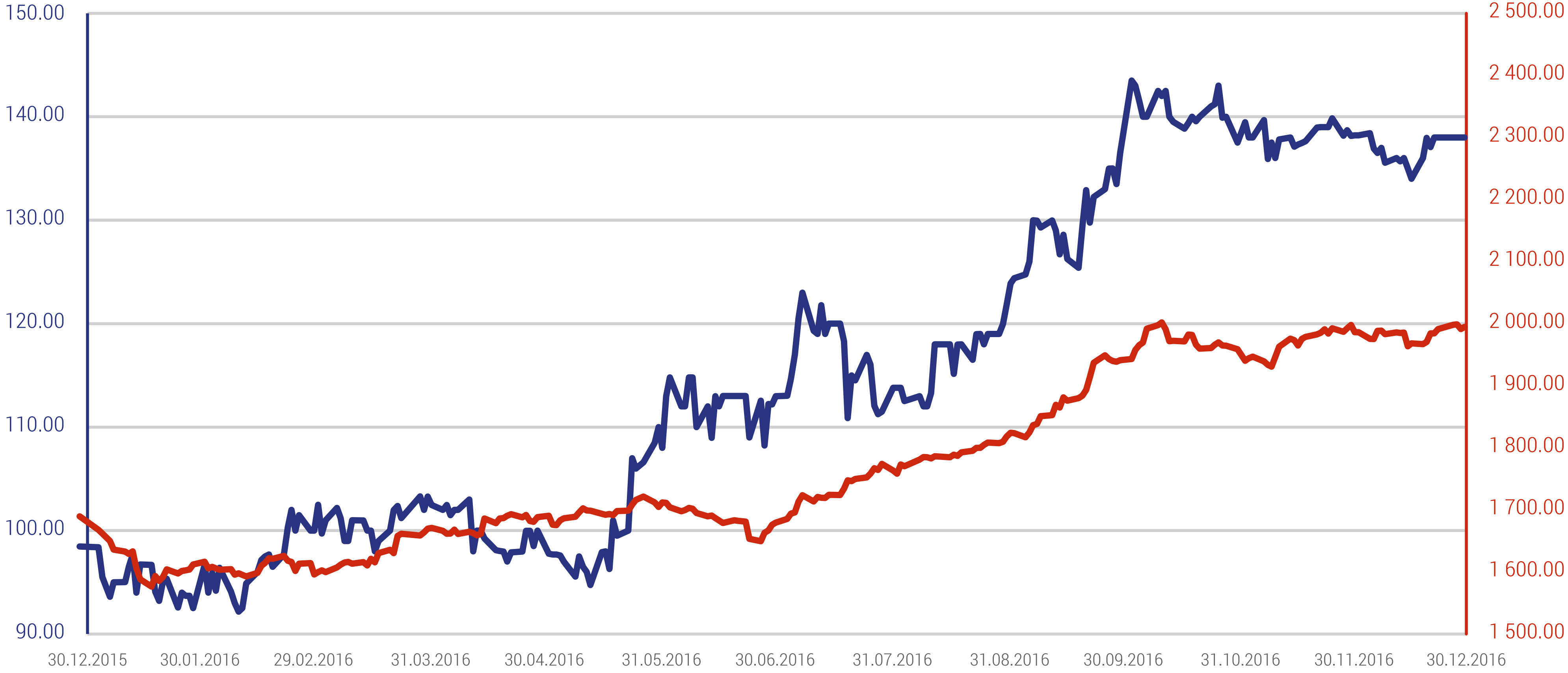
Movement of the closing daily stock price of ADPL-R-A and Crobex between 30 December 2015 to 31 December 2016:

+40.2%

ADPL-R-A (40.2 percent growth in 2016)

+18.1%

CROBEX (18.1 percent growth in 2016)



ADPL-R-A in 2016 and 2015

ADPL-R-A (HRK)	2016	2015	Change
Highest price	144.2	112.5	28.18%
Lowest price	92.06	77.01	19.54%
Final price	138.00	98.46	40.16%
Volume	293,021	331,418	-11.59%
Turnover	36,179,476	31,042,628	16.55%
Market capitalization	579,542,592	413,491,041	40.16%

- Despite the 11.59 percent smaller volume in 2016, as compared to the previous year, turnover growth of 16.55 percent was achieved.
- 77.01 percent of turnover was achieved in the second half of the year (in accordance with the general stock exchange trading trends in 2016)
- Price increase of 40.16 percent was achieved compared to 2015, which resulted in AD Plastik being awarded the Zagreb Stock Exchange award in December 2016 in the Top Price Gainer category
- A dividend of HRK 12 was paid in 2016
- EPS in 2016 amounts to HRK 11.92, which represents a slight increase compared to 2015 when it amounted to HRK 11.1.
- P/E calculated according to the final price of 2016 amounted to HRK 11.58, which represents a significant increase compared to the previous year when it amounted to HRK 8.9, and is mostly a result of the growth in share price.

16.6%

increase in turnover compared to 2015

40.2%

increase in price compared to 2015

HRK 11.9

EPS in 2016

11.6

P/E according to the final price in the observed year

Stock exchange trading calendar

Month	Date	Financial statements	Supervisory Board and General Assembly
2	17 February 2017	Unaudited Annual Report of AD Plastik Group for 2016	
3	16 March 2017		Session of the Supervisory Board
4	No later than 28 April 2017	Management Interim Report of AD Plastik Group for the first quarter of 2017	
	No later than 28 April 2017	Audited Annual Report of AD Plastik Group for 2016	
5	25 May 2017		Session of the Supervisory Board
7	20 July 2017		Session of the Supervisory Board
	20 July 2017		General Assembly 2017
	No later than 31 July 2017	Management Interim Report of AD Plastik Group for the second quarter of 2017	
9	14 September 2017		Session of the Supervisory Board
10	No later than 31 October 2017	Management Interim Report of AD Plastik Group for the third quarter of 2017	
12	14 December 2017		Session of the Supervisory Board

All financial statements are published on www.zse.hr and www.adplastik.hr websites.

C Corporate governance

Corporate matrix

AD Plastik d.d.
Matoševa 8, 21 210 Solin, Republic of Croatia
Parent company

Daughter companies / subsidiary companies

Percent of ownership	Company	Address
100% AD Plastik d.d.	AD Plastik d.o.o. Slovenia	Belokranjska cesta 4, 8000 Novo Mesto, Republic of Slovenia
99,99% AD Plastik d.d.	AO AD Plastik	Samara oblast, Vintai, Samara, Russia
100% AD Plastik d.d.	ZAO AD Plastik Kaluga	248016 Skladskaya ulica 6, Kaluga oblast, Kaluga, Russia
100% AD Plastik d.d.	ADP d.o.o. Mladenovac	Kralja Petra I, 334 Mladenovac, Republic of Serbia

Joint Venture

Percent of ownership	Company	Address
50% AD Plastik d.d. 50% Faurecia Automotive Holdings S.A.S.	Euro Auto Plastic Systems S.R.L.	Strada Unizei 1, Mioveni, Romania

Governance in the AD Plastik Group

The structure of AD Plastik corporate governance is based on a dual system which consists of the Management Board and the Supervisory Board. Management and Supervisory Board together with the General Assembly form the three fundamental Company bodies in accordance with Company Statute and Companies Act.

General Assembly

Shareholders that partake in the business of joint stock companies can exercise their rights at the General Assembly. The General Assembly is authorized to decide on the following issues:

- Selection and dismissal of members of the Supervisory Board, unless appointed to this Board
- Use of profit
- Granting the relieve from duty to Management and members of the Management Board
- Appointment of the Auditor
- Amendments to the Company Statute
- Increasing and decreasing share capital
- Status changes and termination
- Listing shares on the regulated market for trading purposes, and withdrawing shares from such listing
- Other matters put forth pursuant to competent legislation.

Extraordinary session of the General Assembly was held on 6 April 2016 at which a decision was adopted on advance payment of dividend from retained (undistributed) earnings and other reserves from 2014, in accordance with Company Statute and Companies Act.

Regular session of the General Assembly was held on 14 July 2016 at which decisions were adopted on the acceptance of the Annual Report on the state of AD Plastik Group for 2015, reports of the Supervisory Board on the supervision of Group's business operations for 2015, appropriation of profit, decision on dividend payment, on granting the relieve from duty to Management and Supervisory Board members, appointment of the auditor, and decision on the election of two members of the Supervisory Board, all in accordance with Company Statute and Companies Act.

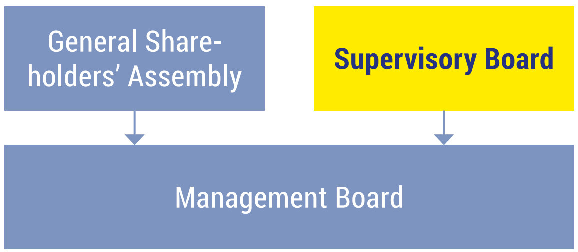
Supervisory Board

AD Plastik Supervisory Board consists of seven members.

- **Four members** of the Supervisory Board are appointed by the General Assembly for a four-year term
- **One member** of the Supervisory Board is appointed by the Works Council for a four-year term
- **Two members** of the Supervisory Board are appointed by a shareholder – Open joint stock company Holding Autokomponenti, Saint Petersburg, Russia – for a four-year term

In accordance with the previously published calendar, the Supervisory Board held five regular meetings in 2016. The Supervisory Board adopted five decisions outside regular sessions in accordance with the Rules of Procedure of the Supervisory Board.

Mandates of the Chairman of the Supervisory Board, Josip Boban, and member of the Supervisory Board, Nikola Zovko, expired on 19 July 2016, and new members, Ivica Tolić and Hrvoje Jurišić, were appointed with a mandate starting on 20 July 2016, and lasting for four years, in accordance with the decision of the General Assembly.



Members of the Supervisory Board

Dmitrij Leonidovič Drandin
Chairman

- Current mandate from 15 October 2015 to 14 October 2019
- Appointed by the Open joint stock company Holding Autokomponenti

Ivica Tolić
Deputy Chairman

- Current mandate from 20 July 2016 to 19 July 2020
- Appointed by the General Assembly

Hrvoje Jurišić
Member

- Current mandate from 20 July 2016 to 19 July 2020
- Appointed by the General Assembly

Marijo Grgurinović
Member

- Current mandate from 23 July 2015 to 22 July 2019
- Appointed by the General Assembly

Igor Antoljevič Solomatin
Member

- Current mandate from 23 July 2015 to 22 July 2019
- Appointed by the General Assembly

Nadezhda Anatolyevna Nikitina
Member

- Current mandate from 15 October 2015 to 14 October 2019
- Appointed by the Open joint stock company Holding Autokomponenti

Dolores Čerina
Member

- Current mandate from 2 June 2015 to 1 June 2019
- Appointed by the Works Council

Statement on the remuneration policy for Supervisory Board members

According to the Company Statute, Supervisory Board members may be remunerated for their work in the amount specified by the General Assembly in due decision for the business year in which such remuneration shall be paid, depending on business results and the position of the Company.

According to the Decision of regular AD Plastik General Assembly of 18 July 2008, remuneration for Supervisory Board members was set as follows:

- Chairman of the Supervisory Board shall receive a remuneration in the amount of 1.5 gross average monthly salaries per each meeting of the Supervisory Board
- Other members of the Supervisory Board shall receive a remuneration in the amount of one gross average monthly salary per each meeting of the Supervisory Board

The amount of remuneration is determined on the basis of gross average monthly salaries in AD Plastik achieved in the three months prior to the payment of such remuneration. Remuneration is paid after each meeting of the Supervisory Board. The aforementioned decision entered into force upon its adoption and shall be applied starting from 1 July 2007.

In the year 2016, the decision on the payment of remuneration to members of the Supervisory Board was not made.

Supervisory Board Committees

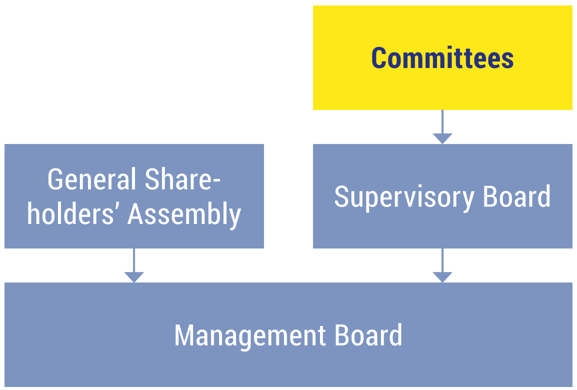
In accordance with the Companies Act and the Rules of Procedure of the Supervisory Board, AD Plastik has established three committees whose activities assist the work of the Supervisory Board by preparing decisions that shall later be taken by the Supervisory Board, and supervising their implementation.

These committees are as follows:

- **Audit Committee**
- **Remuneration Committee**
- **Appointment Committee**

The Audit Committee has four members, while the Remuneration Committee and the Appointment Committee each have three members.

At least one member of such committee or board must be a member of the Supervisory Board.



Audit Committee

Chairman:
Nikola Zovko

Members:
Nenad Škomrlj
Dmitrij Leonidovič Drandin
Anatolij Janovskis

Audit Committee performs a detailed analysis of financial reports, provides support to the accounting department, and supports the establishment of effective internal control in the Company.

To this end, it performs the following activities:

- Monitors the effectiveness of internal control, internal audit and risk management system
- Oversees the audit performance of annual financial and consolidated reports
- Discusses plans and annual internal audit reports, as well as significant issues related to this field.

Remuneration Committee

Chairman:
Ana Luketin

Members:
Dmitrij Leonidovič Drandin
Nikola Zovko

Proposes the following to the Supervisory Board:

- Remuneration policy for the Management Board
- Remuneration of Supervisory Board members, as determined by the General Assembly
- Appropriate form and content of contracts with Supervisory Board members.

Appointment Committee

Chairman:
Nikola Zovko

Members:
Nenad Škomrlj
Dmitrij Leonidovič Drandin

It performs the following activities, and in particular:

- Proposes candidates for members of the Management Board and the Supervisory Board
- Discusses the Management Board policy on the appointment of senior management positions
- Assesses the quality of Supervisory Board and Management Board activities.

Management Board

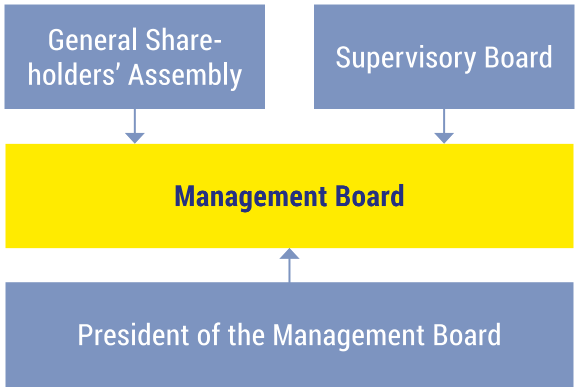
At the session of the Supervisory Board held on 19 July 2016 a new Management Board was appointed, as follows:

- **Marinko Došen - President of the Management Board**
- **Katija Klepo - Member**
- **Sanja Biočić - Member**
- **Mladen Peroš - Member**

Mandates of members **Ivica Tolić** and **Hrvoje Jurišić** expired on 19 July 2016.

Denis Fusek turned in his resignation as a member of the Management Board on 30 April 2016 due to personal reasons.

Management Board held 24 sessions in 2016.



President of the Management Board

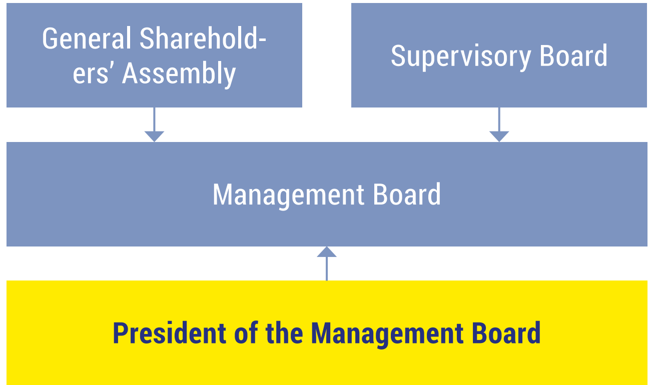
Marinko Došen
President of the Management Board

- Born on 25 March 1963.
- Management Board member since 6 February 2015
- Current mandate from 20 July 2016 to 19 July 2020

Graduated from the Faculty of Engineering - University of Rijeka and gained the Master of Science degree in Mechanical Engineering. He completed an MBA programme at the Zagreb School of Business, orientation Petroleum, and attended several additional seminars and professional training courses in Croatia and abroad.

He started his career as an intern in the Croatian petrochemical industry and held several managerial and executive functions from 1997 to 2004, including the position of the President of the Management Board of DINA d.d. Afterwards, as the director of the investment company CocaCola Bottling Energy Ltd., he managed the construction of several energy projects in the Republic of Hungary. He was the executive director and member of the Management Board of Trast d.d., one of the leading logistics companies in the Republic of Croatia, after which he managed the project for the operative restructuring of Mirna d.d. Rovinj.

Before coming to AD Plastik in 2012, Marinko Došen was general director of ZAO PHR (today AO AD Plastik) in Russia, and was appointed as the President of the Management Board of AD Plastik Group in 2015.



Members of the Management Board:

Katija Klepo

Member of the Management Board - Sales and Strategic Procurement

- Born on 9 August 1969
- Member of the Management Board since 20 February 2008
- Current mandate from 20 July 2016 to 19 July 2020

Katija Klepo graduated from the Faculty of Economics in Split and started her career in AD Plastik's Department of Price Calculations in 1994.

Afterwards, she worked as the Manager of Economic Affairs and Assistant Executive Director of development of other programmes, procurement and finances. She became the Head of the Controlling and Internal Audit Service following its formation, and was charged with financial supervision of all companies within the Group.

In February 2008, after performing duties as the Director of Controlling and Internal Audit, she became a member of the Management Board of AD Plastik, which is a position she still holds today.

Mladen Peroš

Member of the Management Board – Research & Development, Procurement of tools

- Born on 3 July 1968
- Management Board member since 9 November 2011
- Current mandate from 20 July 2016 to 19 July 2020

After graduating from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, orientation Engines and Motor Vehicles, Mladen Peroš began his business career as a construction engineer at the Department of Research & Development at Končar EVA in Zagreb. He joined the AD Plastik team as a construction engineer at the Department of Construction in June 1999. His career within the Company advanced quickly. He became a project manager, director of construction, director of development, assistant to the member of the Management Board for commerce and development, and member of the Management Board for commerce and development. During that period he spent a significant amount of time in Russia, dealing with market development and establishment of new companies. Mladen was President of the Management Board of AD Plastik Group from July 2012 until February 2015, after which he continued to perform his function as a member of the Management Board.

Sanja Biočić

Member of the Management Board - Finance, Accounting, IT and Controlling

- Born on 28 September 1959
- Member of the Management Board since 20 July 2016
- Current mandate from 20 July 2016 to 19 July 2020

Sanja Biočić graduated from the Faculty of Economics and Business in Zagreb, and began her career as an intern at Chromos, holding multiple managerial functions, including the position of a member of the Management Board. She then transferred to the position of a member of the Management Board at Magma d.d., in charge of finances, accounting and controlling. Following her employment in Magma, she worked for seven years as the financial director for various projects and companies. In 2015, she came to AD Plastik as the Executive Director for finances and accounting. In July 2016, Sanja became a member of the Management Board. Throughout her career she attended numerous seminars, consulting sessions and different forms of additional training in the field of accounting, tax policies, foreign exchange transactions, business analytics and planning, as well as finances. She is a member of the Croatian Accountants' Association and Croatian Association of Corporate Treasurers.

Statement on the remuneration policy for members of the Management Board

Members of the Management Board concluded managerial contracts with AD Plastik, which define the rights and obligations of Management Board members as follows:

- Monthly salary is specified as the gross amount that depends on adhering to the timetable defined by the Collective Agreement
- Annual bonus (remuneration) based on successfully achieving set objectives entitles them to a bonus in the amount of at least one and up to five average monthly salaries, depending on the degree and extent of achievement of set objectives
- Life insurance policy with an annual premium in the amount of EUR 3,000
- Right to use an official Company vehicle.

In addition, managerial contracts shall include provisions on the following:

- Trade secrets
- Prohibition of competition
- Duration and termination of the contract
- severance payment in the event of the termination of the mandate, unless due member was removed prior to the expiry of mandate or he himself resigns.

The total amount of remuneration paid to Supervisory Board and Management Board members, and Executive Directors, amounted to 10,422 thsd. kunas in 2016.

At its session held on 24 May 2016, Supervisory Board granted the following remunerations to members of the Management Board for successful business operations in 2015:

- President of the Management Board, Marinko Došen, was granted remuneration in the amount of three average monthly salaries paid in the previous three months
- Members of the Management Board Mladen Peroš, Ivica Tolić, Denis Fusek, Katija Klepo and Hrvoje Jurišić were each granted remuneration in the amount of one of their average monthly salaries paid in the previous three months

These remunerations were fully paid in Company shares.

Application of corporate governance principles

AD Plastik Group bases its business activities on good corporate governance practices; and by implementing everyday business practices, strategies, Company policies and internal regulations aims to contribute to transparent and efficient business operation and establish better relations in the environment where it operates.

Corporate Governance Code of the Zagreb Stock Exchange

Given that AD Plastik shares are listed on the Official Market of the Zagreb Stock Exchange, AD Plastik d.d. applies the Corporate Governance Code issued by the Zagreb Stock Exchange. By regularly submitting annual surveys published on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company's website (www.adplastik.hr), AD Plastik conclusively demonstrates its commitment to adhere to the principles of corporate governance and social responsibility.

In 2016, AD Plastik fully complied with provisions of the aforementioned Code.

Code of Business Conduct of AD Plastik Group

AD Plastik Group has implemented its Code of Business Conduct and policies to define rules of business conduct that aim to ensure the avoidance of conflicts of interest and any form of corruption, as well as to assume obligations under international human rights law.

Controlling and Internal Audit Department

The Controlling and Internal Audit Department is responsible for performing internal control functions within AD Plastik. Controlling subsequently notifies the Management Board, whereas the Internal Audit department informs the Management Board and the Audit Committee on monitoring results.

Report on conducted monitoring

Such notifications are provided through the report on conducted monitoring.

Scope of internal audit activities

The scope of internal audit activities includes as follows:

- Assessing and making recommendations on corporate governance processes
- Evaluation of adequacy and effectiveness of controls encompassing organization's governance, operations, and information system
- Monitoring the realization of set goals and compliance with prescribed policies, operating procedures and working instructions
- Reporting and providing opinions on different applications in various areas of business operations, anticipating and managing risk, and protecting Company's assets

Code of Business Ethics of Croatian Chamber of Commerce

By signing the Code of Business Ethics issued by the Croatian Chamber of Commerce, AD Plastik committed to exhibit responsible and ethical behaviour as a necessary precondition for effective functioning of the market. Defining clear ethical criteria contributes and facilitates transparent and efficient business operations.

Statement on the application of the corporate governance

1. AD Plastik d.d. is compliant with the Code of Corporate Governance (hereinafter: the Code) published on the official website of the Zagreb Stock Exchange, www.zse.hr.
2. The Company has not adopted and implemented its own code of corporate governance in regular business operations, instead the Company has implemented recommendations and guidelines prescribed by the Code.
3. The Company published all information as prescribed by regulations and in the interest of shareholders. By regularly submitting annual surveys published on the official website of the Zagreb Stock Exchange (www.zse.hr) and on the Company's website (www.adplastik.hr), AD Plastik conclusively demonstrates its commitment to adhere to the principles of corporate governance and social responsibility.
4. The Company has not deviated from the prescribed mandatory Code of Corporate Governance, except to the extent that most of the members of the Supervisory Board are not independent members, nor do committees of the Supervisory Board mostly consist of independent members of the Supervisory Board.
5. The internal control system in place at AD Plastik d.d. is organized in such a way that the internal organization and operating procedures define checkpoints and ensure accuracy flow and integrity of specific data relating to financial, business and legal obligations that may pose significant risks for the Company.

   The Controlling and Internal Audit Department is responsible for performing internal control functions within AD Plastik. Controlling subsequently notifies the Management Board, whereas the Internal Audit department informs the Management Board and the Audit Committee on monitoring results. Such informing is provided through the report on conducted monitoring. Supervision and coordination of business reporting by the Controlling include encouraging communication between different functions of the Company, and coordination with the preparation of report and analysis of business results; evaluating the overall business efficiency, and proposing guidelines for improvement; giving orders and determination of preventive and corrective activities; and forecasting the impact of external and internal changes in the overall business of the Company.

   The scope of internal audit activities includes as follows:

   - Assessing and making recommendations on corporate governance processes
   - Evaluation of adequacy and effectiveness of controls encompassing organization's governance, operations, and information system
   - Monitoring the realization of set goals and compliance with prescribed policies, operating procedures and working instructions
   - Reporting and providing opinions on different applications in various areas of business, anticipating and managing risks, and protecting Company's assets.
6. Significant direct and indirect holders of shares, ten in total, are stated on the list which is an integral part of this Statement. The Company has no holders of securities with special control rights, nor limitations on voting rights of holders of a given percentage or number of votes. The Company has no specific rules on appointment and recalling of Management Board members, nor specific rules on authority of Management Board members. Company Statute prescribes that the shareholder Open Joint Stock Company "Holding Autokomponenti" from St. Petersburg, Russia, shall appoint two members of the Supervisory Board.

   The provisions of the Companies Act and the provisions of the Company Statute are applied on the aforementioned relations.

   The Company acquired no own shares in 2016, and as of 31 December 2016 owns 27,957 of own shares.

   Overview of the 10 largest shareholders on 31 December 2016 is given on page 17.
7. Company bodies consist of the Management Board, Supervisory Board and General Assembly

   The shareholders exercise their rights with regard to the operation of the joint stock Company at the General Assembly, and the same is competent to decide on the following issues:

   - Selection and dismissal of members of the Supervisory Board, unless appointed to this Board
   - Use of profit
   - Granting the relieve from duty to Management and members of the Management Board
   - Appointment of the Auditor
   - Amendments to the Company Statute
   - Increasing and decreasing share capital
   - Status changes and termination
   - Listing shares on the regulated market for trading purposes, and withdrawing shares from such listing
   - Other matters put forth pursuant to competent legislation.

   Activities of the General Assembly are regulated by the Companies Act and the Rules of Procedure of the General Assembly published on the Company's website (www.adplastik.hr).

   Members of the Management Board and Supervisory Board are listed on pages 24, 27 and 28.

   AD Plastik has three committees whose activities are focused on assisting the functions of the Supervisory Board by preparing decisions that shall later be adopted by the Supervisory Board, and supervising their implementation. Committees are as follows: Audit Committee, Remuneration Committee and the Appointment Committee
8. AD Plastik acknowledges the benefits of diversity with regard to members of its executive and supervisory bodies and recognizes that such diversity enhances the quality of work of said Company bodies. Our diversity policy aims to establish standards that are needed to ensure diversity of gender, age, education, skills and other differences that can help the Company make better management decisions.

   Members of Management and Supervisory Boards will be appointed on the basis of their competence and knowledge, taking into consideration various diversity criteria such as gender, age, length of work service, nationality and individual differences in professional and personal experiences.

   First criteria for appointment are skills and experience of candidates, knowledge of the industry in which the Company operates, as well as personal qualities and integrity.

   Company has established an Appointment Committee tasked with electing members of the Management Board and the Supervisory Board, and implementing Diversity policy objectives by suggesting candidates for members of the Management Board and the Supervisory Board according to these criteria.

   New Management Board was appointed in 2016, balancing the criteria regarding gender, skills, experience and competencies of new members of the Board depending on their education, as can be seen from their CVs.

   Seven members were appointed to the Supervisory Board. Chairman and two members of the Supervisory Board are Russian citizens, thus respecting the significance of our largest market.

   With respect to the gender criteria, the Supervisory Board consists of two women and five men, and the age criteria was fulfilled by having a good age balance ranging from 31 to 65 years of age.

Marinko Došen
President of the Management Board

Katija Klepo
Member of the Management Board

Sanja Biočić
Member of the Management Board

Mladen Peroš
Member of the Management Board

D Research and Development in 2016

Research and development importance and activities

Car manufacturers are no longer able to target their research and development activities on individual car parts, but rather focus on core activities and leave research and development of specific components to suppliers.

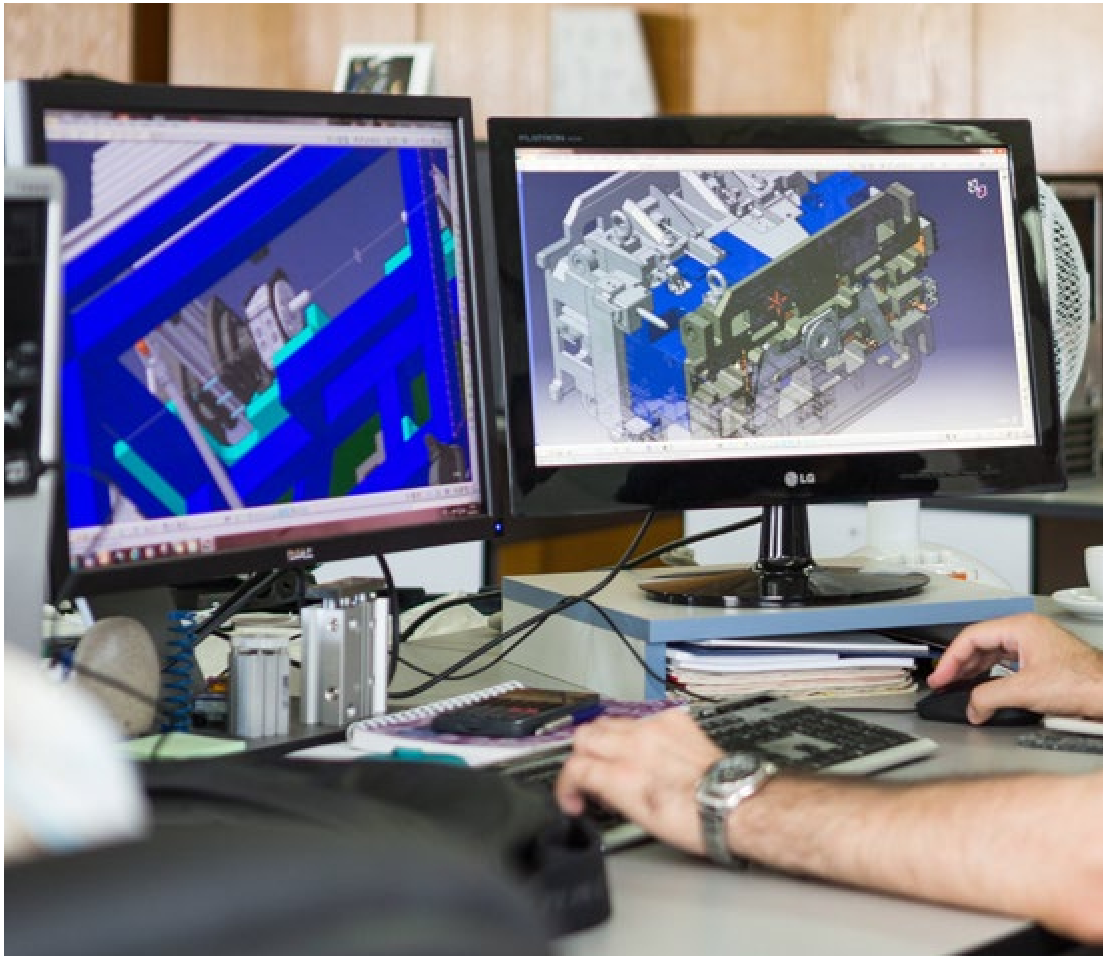
In accordance with stated market requirements, our Company has invested significant resources in research and development. One of the main objectives of AD Plastik Group's Research and Development Department is the growth and increase of development Tier 1 jobs regarding strategic products and technologies. At the same time, we are already thinking up new processes, technologies and materials which would represent a big step forward in developmental and production-technological sense in the near future. The aim is to focus on the development of complete modules which combine multiple technologies due to customer need to obtain a complete solution from a single supplier. Responding to these challenges requires maximum competence in development terms and flexible solutions in order to meet cost and quality requirements.

The result of our continuous investment in research and development is the current standing of AD Plastik Group as a reliable and stable partner to nearly all global automobile manufacturers.

The Company invested approx. 4 percent of its total revenue in research and development in 2016, which highlights the importance this area has within the organization. Research and development department of AD Plastik Group employs more than 100 engineers with modern systems and tools at their disposal.

AD Plastik Group's Research and Development is organized across five departments:

- Injection moulding, painting, blow moulding
- Thermoforming and non-woven textile
- Extrusion
- Machinery and equipment, spatial planning and workshop
- Developmental quality as part of the overall quality organization



4% of total revenue invested in Research and development

>100 engineers

Injection moulding, painting, blow moulding

Research and Development Department for Injection Moulded, Painted and Blow Moulded products is focused on products such as bumpers, air ducts, instrument panels, door panels, wheel arch liners, grab handles, sunvisors, belts, etc.

Injection moulding is a technology in which the molten thermoplastic material is injected under pressure into a mould, i.e., pre-made injection moulding tools. Its advantages include high productivity, mass production and automation possibilities, minimal additional operations and material loss, precision manufacturing, possibility of injecting on other materials and using various fillers to change material properties. Quality design of tools and products, proper selection of materials and corresponding parameters of the injection process are basic prerequisites for creating a quality product.

Painting plastic components can be technologically divided into several sections:

- Preparing products for painting which includes cleaning and flame cleaning
- Painting products with primer, base paint and transparent varnish
- Drying, control, additional processing and storage, and later on assembly and packaging for delivery to the customer.

Blow moulding technology is used for products that distribute air into the passenger space of the vehicle (air ducts).

Employees of the Research and Development Department for Injection Moulded, Painted and Blow Moulded products are divided into products, processes and tools development.

Major projects in 2016:

- Instrument panel and bumper parts for the Fiat 500L
- Grab handles (RSA, PSA, VW, Fiat)
- Ford EcoSport interior - Russia
- Ford EcoSport EU exterior - Romania
- Renault exterior
- Exterior (Dacia Logan / Sandero / Sandero Cross)
- Sunvisor with cover (Dacia Duster)
- Bumpers (Renault Clio IV)
- Exterior (Renault Twingo phase 2)
- Wheel arch liners for the VW Tiguan

Department was also handling direct development activities for the Ford exterior as a Tier I supplier:

- Rocker cladding (6 positions) Focus Sp EU
- Mud flaps (2 positions) Focus EU
- Underbody and motor lining (6 positions)

AD Plastik won the nomination for Edison exterior project at the end of 2016 - Phase 2 (22 positions). Winning this nomination means that AD Plastik Group started using a new technology of “hot foil stamping” - transferring a metal layer from the foil to a solid surface through the mould.

Winning the Fiat 500L instrument panel nomination means that AD Plastik Group started using a new technology for connecting parts with adhesive technology (application of adhesive using a robotic arm).

Thermoforming and non-woven textile

Research and Development Department for Thermoforming and Non-woven Textile is focused on products such as headliners, carpets, shelves, side trims and developing proprietary materials (non-woven textile). The primary objective is to make optimal decisions when choosing materials and design specific products and processes to ensure and deliver a product that will use recycled materials, be lighter, and provide satisfactory acoustic, physical and air-quality properties. This method ultimately ensures simple use for workers in manufacturing, but also the end customer. We take into consideration the safety characteristics of our products and the manufacturing process, as well as complying with and meeting regulatory requirements. One of our objectives is to replace existing products made using other technologies with thermoformed products in order to increase the number and share of thermoformed products in the vehicle, differentiate manufacture and line capacity, all in accordance with the trend to reduce the weight of the car.

Thermoforming technology is based on permanent forming of materials at specific temperatures and under specific pressure. There are two types of the thermoforming process - moulding in a hot or cold tool:

- Cool tool is used to form products such as passenger compartment carpet, trunk carpet, parcel shelf, trunk side trim, fifth door trim etc.
- Hot tool is used to form products such as headliners.

Non-woven textile is a flexible flat product which is fixed mechanically, by needle-punching or with bonding agents. Most commonly used fibres have a fineness of 6 to 17 dtex, and these products are later thermoformed into the final product.

Employees of the Research and Development Department for Thermoforming and Non-woven Textile are divided into products, processes and tools development.

Major projects in 2016:

- Passenger compartment carpet (Renault Kaptur - Russia) – Development of products, processes and proprietary materials
- Trunk carpet and parcel shelf (Renault Kaptur - Russia) – Development of products, processes and proprietary materials
- Sunvisor (Dacia Logan/Sandero) – Development of the sunvisor with cover mounting processes
- Headliner (Dacia Duster) – Development of products, processes and tools
- Passenger compartment carpet (Dacia Duster) – Development of non-woven textile materials
- Headliner (Daimler Smart) – Development of products and processes

In addition to project activities for the customers, research and development sector for thermoforming and non-woven textile is focused on the development of materials and prototype samples for vehicle underbody and development of materials for thermoformed wheel arch liners. By manufacturing these products, AD Plastik Group expands its developmental and manufacturing potential and enters the market of vehicle exteriors with thermoformed products, guided by the principle of increasing the share of lighter products and better sound-absorption properties of the vehicle. The Company is also focused on introducing the digital print technology for applying the air bag label on the sunvisor.

Extrusion

Research and Development Department for Extrusion is focused on products such as static seals (inner and outer hidden frames and scrapers, outer belts, roof moulding...). Extrusion encompasses the processing of plastic mass to produce items with fixed cross-sections. Extrusion can be continuous or semi-continuous. This procedure softens and plasticises input materials which are then homogenised and finally formed into the desired shape or profile. Products are stamped after extrusion and often sprayed onto vertical injectors. Most commonly used materials in the extrusion process are polypropylene and thermoplastic elastomers.

Employees of the Research and Development Department for Extrusion are divided into products, processes and tools development.

Major projects in 2016:

- Inner belt for the VW Touareg
- Inner belt for the Audi Q3
- Static seals for the Lada Vesta caravan

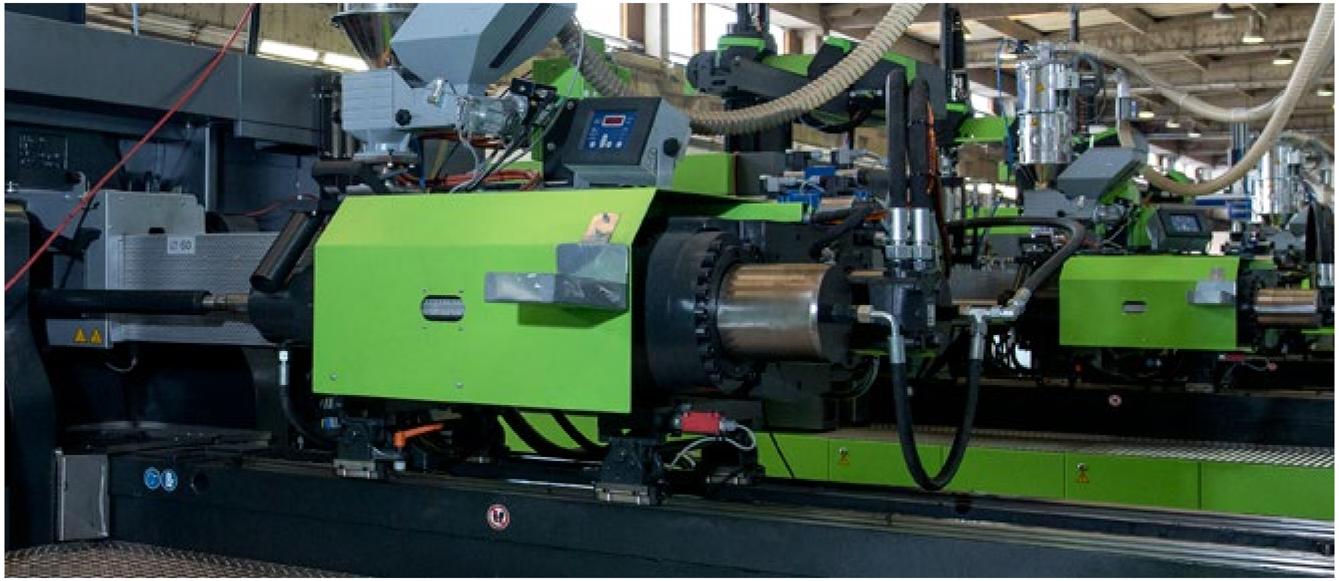
Nominations for the VW Touareg and the Audi Q3 are the result of well implemented development on VW Touran and Golf 7 projects. AD Plastik Group is in charge of design, product and process development and manufacture as a developmental supplier under the Touareg and Audi Q3 VW projects.

Static seals for the Lada Vesta caravan are a continuation of the Lada Vesta project. Lada Vesta is made on an entirely new B/C platform developed by engineers of AvtoVAZ in cooperation with specialists from the Renault-Nissan Group. AD Plastik Group won the nomination for this vehicle regarding the development of products and processes, and the vehicle will be produced in AvtoVAZ, Togliatti, Russia.

Machinery and equipment, spatial planning and workshop

Machinery and Equipment Department is focused on standardizing and procuring new machinery and equipment within the AD Plastik Group. The workshop is equipped for manufacturing gauges and other devices and providing support in maintaining technical functions of production sites.

Employees of the Machinery and Equipment Department are divided into development of manufacturing equipment and manufacture of devices, gauges and templates.



Major projects in 2016:

- Fiat, PSA, VW and Renault grab handles – Development and production of new assembly lines
- PSA belts – Development and production of new assembly lines
- Dacia sunvisors – Development and production of new assembly lines, applying the air bag label using digital print technology
- Protective door trims for the Twingo RS - Development and production of the ultrasonic welding machine
- Sunvisor and gear shift cover for the Fiat 500L - Development and production of the ultrasonic welding machine
- Foaming of polyurethane blocks for headliners - Selection and installation of new equipment at the AD Plastik site in Vintai, and transfer of equipment and technology to ADP Mladenovac
- Hot foil stamping – Researching and selecting suppliers of this new technology
- Transferring equipment between various production sites of AD Plastik Group.

Systems and software solutions

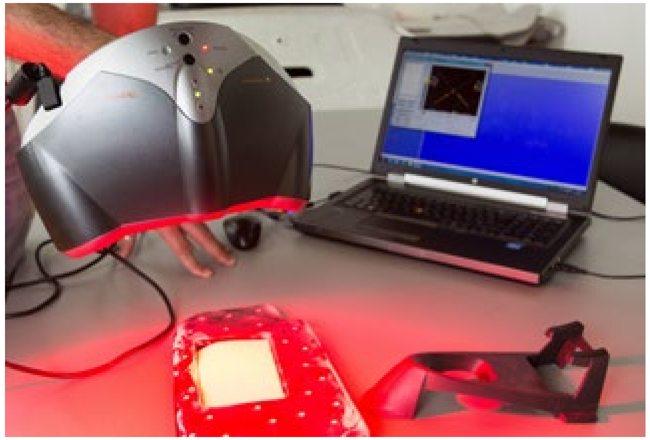
Computer software is one of the main research and development tools used for product analysis and creating new solutions. Online databases are an important source of information on innovations and market trends, and our engineers can access global services that provide detailed and reliable information on all products that are installed in cars throughout the world.

Constructors use several different CAD design software solutions, most important of which is CATIA.

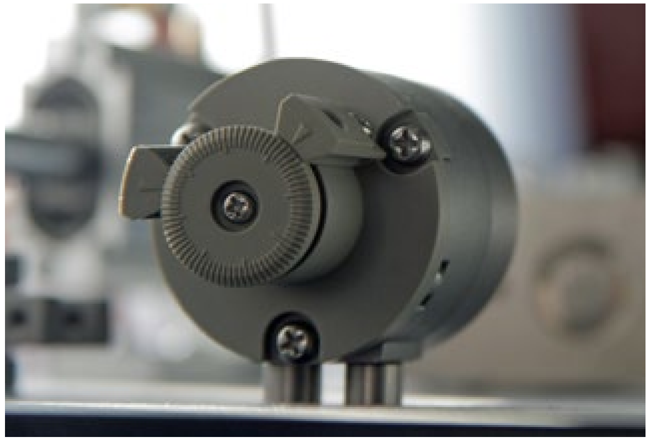
In addition, special CAE software for the numerical simulation of product behaviour is also used in close relation with CAD software.

Monitoring projects and making progress on individual product development stages is an extremely complex process which is why Enovia software suit is used to manage this function.

Developing new products in this day and age is unthinkable without a 3D printer for creating prototypes which will be presented to the customer so they can view and experience new products during the vehicle's development stage.



Digitalization of existing products is also considered a standard research and development practice in the automotive industry which is why our engineers use a 3D scanner to scan different models of existing or new products, transfer the images to a digital format and process them further using a computer.

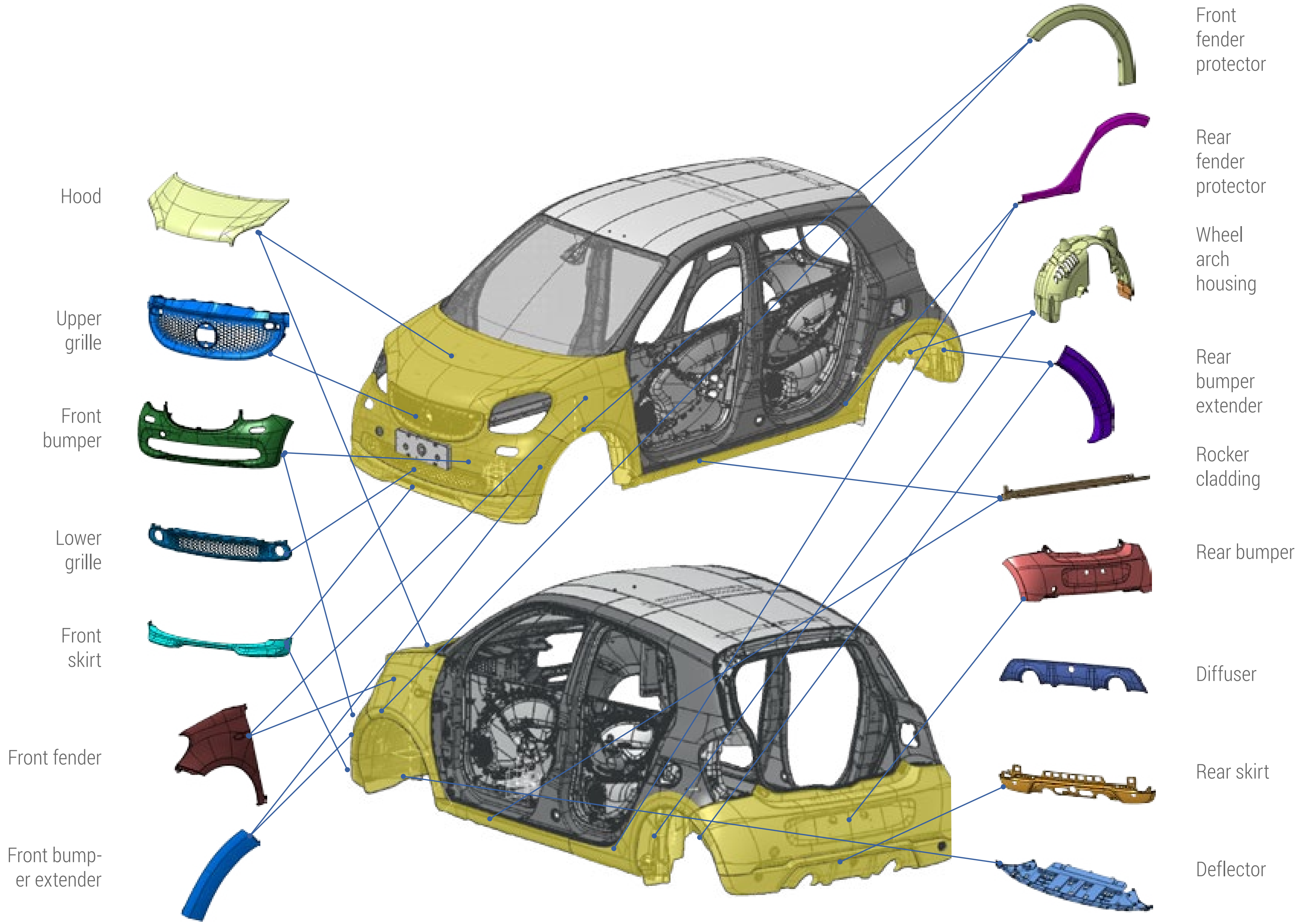


Ecology and recycling materials

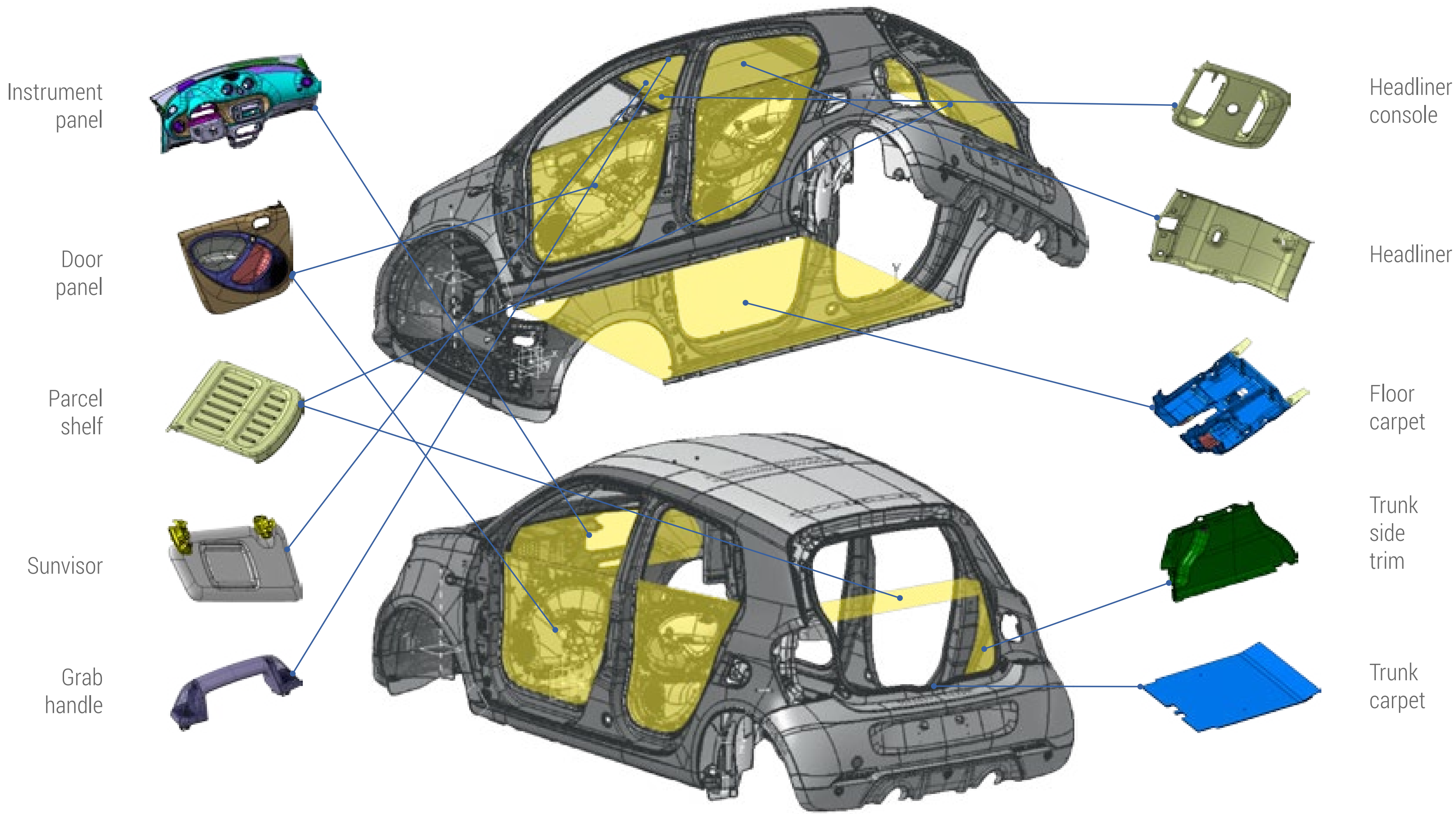
In the near future, every car part that ended its life span should be usable as raw material for future production. This will greatly impact environmental protection efforts. Therefore, substituting existing materials with new recyclable materials is of great importance. AD Plastik has recognised the processing of recyclable "green" materials as an important business element. Many car parts are currently manufactured using a certain percentage of recyclable materials, which reduces the environmental impact due to the possibility of re-using such materials.

E Products and technologies

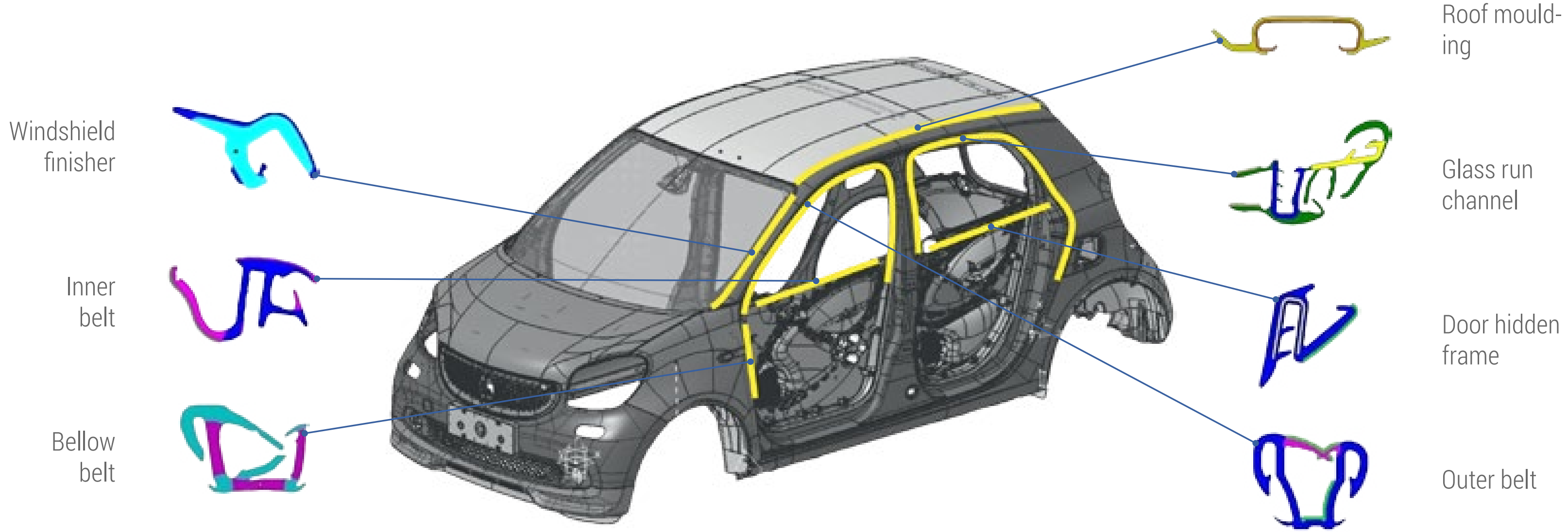
Product examples - Exterior



Product examples - Interior

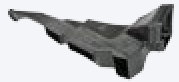


Product examples - Sealing systems



Key products by manufacturing sites

Technologies by manufacturing sites

	 Injection moulding	 Painting	 Non-woven textile	 Thermoforming	 Extrusion	 Blow moulding
Solin Croatia	44 IMMs 50 - 2,300 t				4 TPE lines 4 IMMs	
Zagreb I Croatia	11 IMMs 400 - 3,200 t	1 automated painting line				
Zagreb II Croatia	9 IMMs 80 - 2,000 t					
Vintai Russia	7 IMMs 400 - 1,600 t		1 non-woven textile line	2 headliner production lines 2 carpet production lines 2 parcel shelves production lines 4 water jets	5 TPE lines 10 IMMs	
Kaluga Russia	8 IMMs 100 - 2,700 t			1 headliner production line 1 carpet production line 1 sun visor production line 1 water jet		
Mladenovac Serbia	2 IMMs 420 t		3 non-woven textile lines	1 headliner production line 1 water jet		3 blow moulding machines

Manufacture and logistics

Main activities of AD Plastik Group during 2016 with regard to manufacture and logistics were focused on:

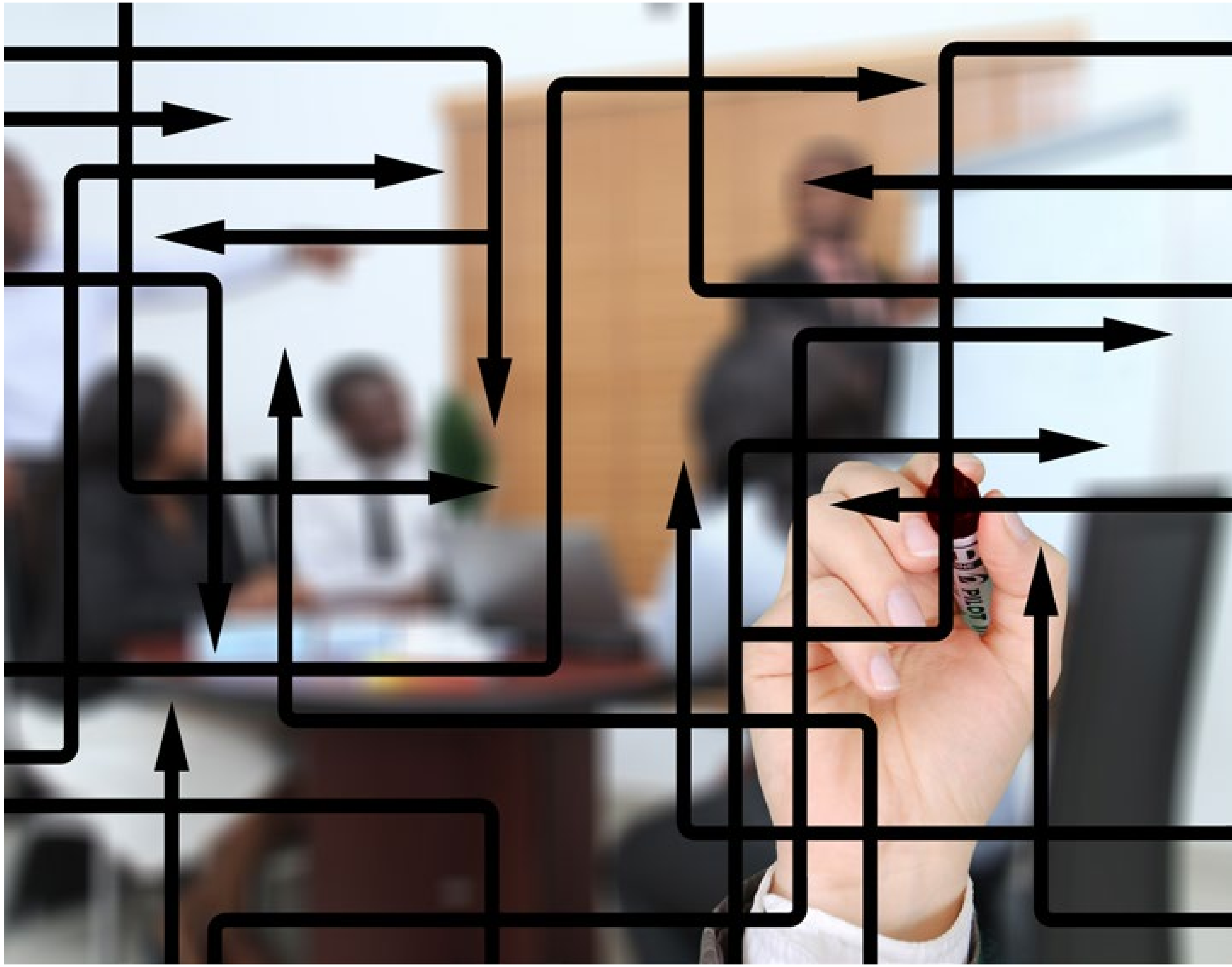
- Performance and improving results of plant operations (financial effects)
- Industrialization of projects
- Staff training and development
- Improving processes

Despite the unfavourable mix of products, especially in production sites in Croatia and Serbia, implementation of corrective measures in 2016 helped mitigate negative market impacts on plant operations and improve results when compared to 2015.

In the past year we have achieved the desired quality of products and deliveries to customers in accordance with their customers' requirements or even exceeded said requirements.

By investing in the renovation of warehouses we've increased capacity of storage spaces in Solin and Kaluga, which will be compensated from savings achieved on renting external storage. We have also realized the industrialization of all new projects successfully and without unforeseen costs.

AD Plastik increased the accuracy of operational plans from 84 percent to 95 percent in 2016 thanks to the cooperation between commerce and supply chain, as well as joint activities aimed at customers.



Supplier relations

Business operations of AD Plastik Group largely depend on the supply chain and its performance. Financial effects are not the only factor directly affecting profits, but also effects on the overall status of the Group in the automotive industry market and society as a whole. Suppliers are expected to actively cooperate during product development with the aim of finding common solutions for providing our customers with new and improved products in terms of price and quality, while complying with high standards of corporate social responsibility in the automotive industry.

All suppliers that affect the quality of products manufactured by AD Plastik Group are subject to the prescribed rules of supplier selection and supervision in accordance with automotive industry standards. One of the main criteria when choosing new suppliers of materials and components is their compliance with ISO TS 16949 and ISO 14001 standards.

During 2016 we carried out regular evaluation of suppliers according to prescribed criteria. Evaluation of suppliers of materials is carried out once a month, and the evaluation of suppliers of equipment and tools and services is carried out annually. In addition to regular evaluation, a survey was conducted for suppliers of Solin and Zagreb sites regarding their compliance with the guidelines of corporate social responsibility.

F Quality Management System

Quality Management System

The quality of services and products of AD Plastik Group is of utmost importance for maintaining and improving our competitive position on the market, as well as expected added value provided to customers. Quality assurance is based on the proven ADP quality system and the highest industry standards.

The quality management system and corporate standards are improved using the best internal and external practices, while promoting a culture of constant improvement ensures that they are developed in accordance with high expectations of customers and specific requirements of the automotive industry.

Customer criteria and requirements also apply to suppliers, and together with them we define and implement activities which ensure satisfaction and fulfilment of expectations to end users.

Evaluation of suppliers is handled by the Strategic Procurement Department, and is carried out according to the criteria of quality management, environmental management and compliance with corporate social responsibility provisions.

The emphasis in 2016 was on activities aimed at strengthening the organizational structure of quality and standardization of manufacturing methods for all production sites of the Group, regardless of the technological or geographical specificity, by applying the experience gained from exchanging knowledge and best practices. The objectives and expectations of customers were expressed and communicated via internal objectives and processes at all sites, as shown by an increase in customer satisfaction and new deals.

Audits in 2016

External audits and certification is carried out by an independent certification company Bureau Veritas Certification (BVC), as follows:

- ISO TS 16949 Quality Management System
- ISO 14001 Environmental Management System
- OHSAS 18001 Environmental protection and occupational safety system
- ISO 50001 Energy Management System
- ISO 27001 Information Security Management System

The following external audits of implemented standards were carried out in 2016 across the AD Plastik Group:

- Croatia – ISO TS 16949, ISO 14001, OHSAS 18001, ISO 50001
- Serbia – ISO TS 16949, ISO 14001, OHSAS 18001, ISO 50001
- Kaluga, Russia – ISO TS 16949, ISO 14001
- Vintai, Russia – ISO TS 16949, ISO 14001

	ISO TS 16949:2009 Valid until	ISO 14001:2004 Valid until	OHSAS 18001:2007 Valid until	ISO 50001:2011 Valid until
Solin, Croatia	14 September 2018	15 September 2018	9 October 2017	27 November 2019
Zagreb, Croatia	14 September 2018	15 September 2018	9 October 2017	27 November 2019
Samara, Russia	1 April 2017	18 October 2017		
Kaluga, Russia	14 September 2018	15 September 2018		
Mladenovac, Serbia	14 September 2018	15 June 2018	20 December 2018	14 February 2020

G Sustainable business

Environmental protection and occupational safety

AD Plastik has a permanent responsibility and awareness of the impact its activities have on the environment and human health.

During 2016, the Company continued the implementation of best practices and development in the field of sustainable energy, health and safety management.

In accordance with applicable legislation, professional services for environmental protection, occupational safety and fire protection regularly monitor and improve protection levels.

Raw material, energy and water consumption

Basic raw materials used in our technological processes are polypropylene and polyethylene. 16.42 percent of all our used raw materials were recycled. Energy consumption refers to the consumption of non-renewable energy sources and includes the consumption of electricity, natural gas, fuel oil and liquefied petroleum gas. Electricity is our main energy source with a 75 percent share in total consumption.

Water supply is provided by local water supply systems, and to a lesser extent from our own well located at the AD Plastik's Zagreb site where 5,445 m^3 of water was pumped out.

Raw materials		Energy	Water
PP, PE (t)	Paints, varnishes and solvents (t)	(GJ)	(m^3)
12,762	480	163,969	71,390

Atmospheric emissions and waste water

Atmospheric emissions are the result of combustion of energy sources used in boiler rooms and include the combustion of fuel oil and natural gas, as well as VOC emissions from the painting line. Discharged waste water includes sanitary, storm water and industrial waste water. Type and amount of emissions into the atmosphere and water are managed in accordance with applicable regulations. All emission measurements were consistent with prescribed requirements and there were no cases of accidental discharge of hazardous substances into the environment.

Waste

Waste is classified and collected in separate containers at the place of origin and is submitted for further disposal to authorised waste collectors. There were 1,249t of non-hazardous and 320t of hazardous waste in 2016.

Waste disposal methods	Weight (t)
Recycling	565.33
Waste storage before applying any disposal method	271.73
Using waste as fuel or other method for generating energy	0.00
Physical and chemical waste processing	12.59
Waste incineration on land	130.25
Waste disposal at specially prepared landfills	589.30
TOTAL	1,569.20

Workplace injuries

In 2016, we had 23 workplace accidents of which three were serious, but fortunately without lasting consequences for the health of workers. Serious injuries were caused by falls in the same plane and the collision with moving objects used to perform work related activities. Of the total number of injuries, five occurred during the arrival and departure of workers to and from the workplace. There were no occupational illnesses and deaths related to workplace accidents.

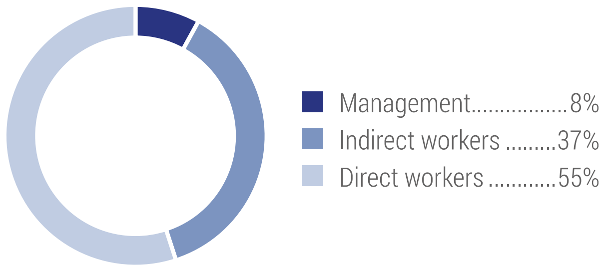
Human Resources

Vision and objectives

We provide conditions for the growth and development of the company through optimal management of human resources to the satisfaction of employees and all other stakeholders.

Employees of AD Plastik Group, share by country of employment in 2016

Employees of AD Plastik Group

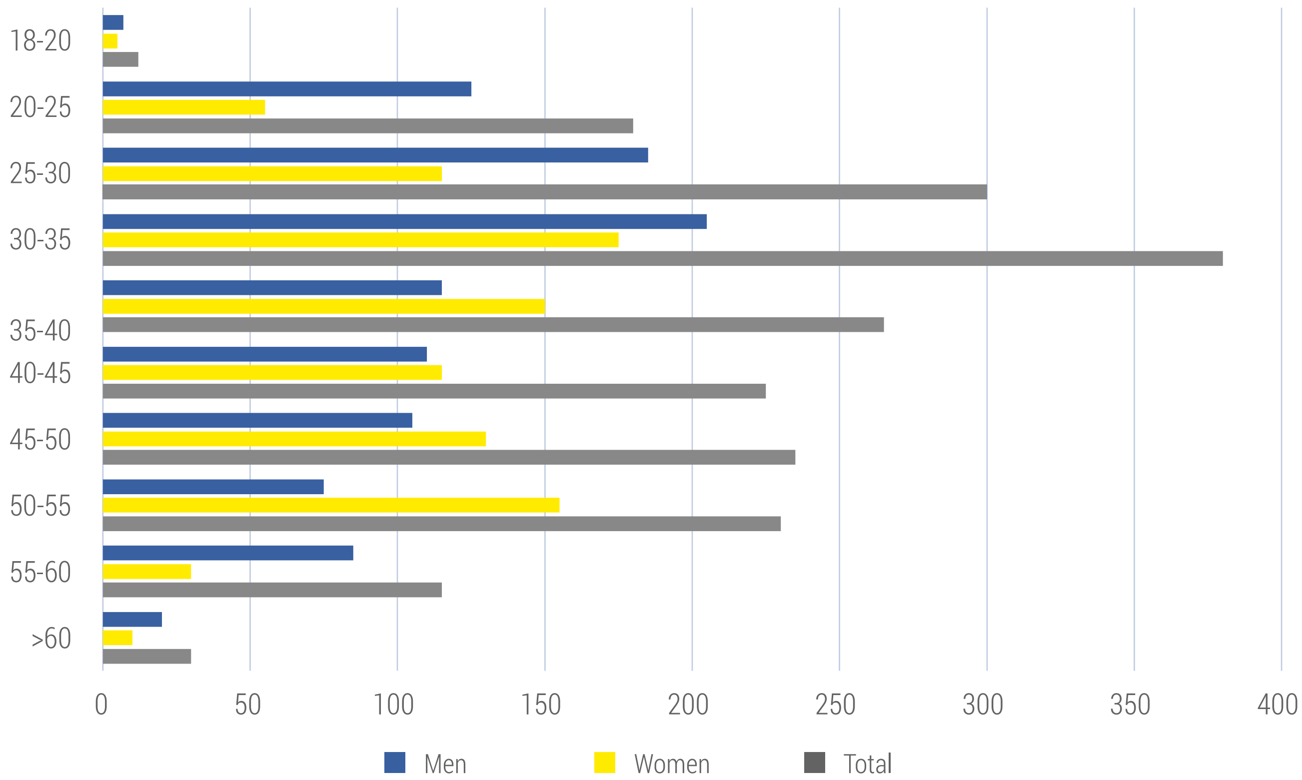


AD Plastik today

AD Plastik Group employs a total of 2,121 persons, of which 1,193 are employed in Croatia, 172 in Serbia and 750 in Russia. The largest share of AD Plastik Group employees are in Croatia, most of which are between the ages of 30 and 35.

Age structure

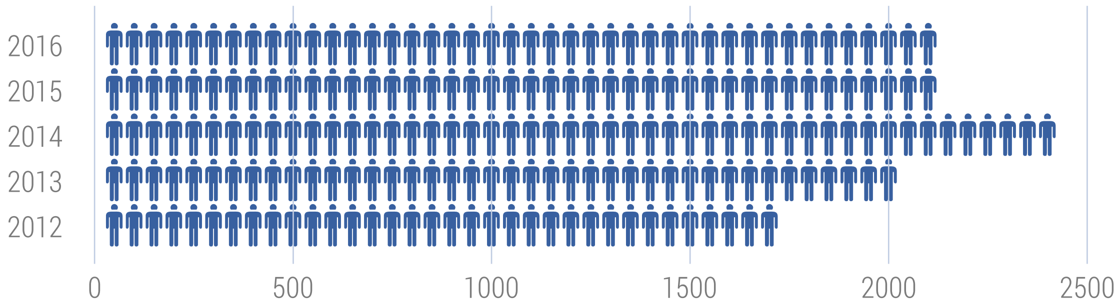
Age structure of AD Plastik Group in 2016



Employee trends

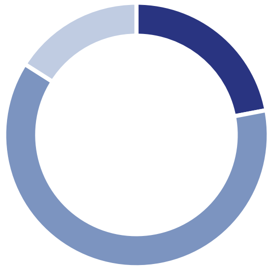
The employee trend of AD Plastik Group is an indicator of maintaining a stable number of employees for the last two years.

AD Plastik Group's employee trends between 2012 and 2016



Educational structure

Given the fact that we are manufacturers of car components, the largest proportion of our employees are direct workers, which affects the educational structure of employees. Direct workers are directly involved with the manufacturing process, while indirect workers are directly involved with providing support to the manufacturing process, and their number is proportional to the volume and organization of manufacture, as well as corporate function employees, including research and development, sales and other departments involved in the support process (logistics, information technology, organization, etc.).



Employees of AD Plastik Group, share by degree of education in 2016

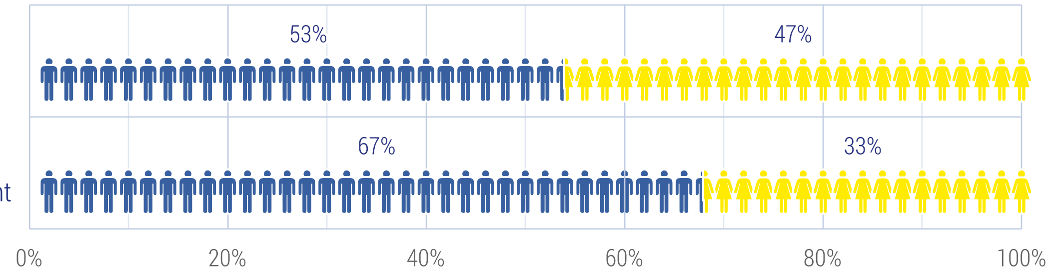
- Advanced Specialist Training (VŠS), University Degree (VSS), Master of Science (MR) .. 23%
- Secondary Education Degree (SSS), Skilled (KV), Highly Skilled (VKV) 57%
- Unskilled (NKV), Semi-skilled (PKV) 20%

Gender structure

The total number of employees of AD Plastik Group sorted by gender shows an almost equal representation of women (47 percent) and men (53 percent), while the share of women in the management structure is 33.04 percent.

Gender structure of AD Plastik Group in 2016

Gender structure of AD Plastik Group's Management in 2016



Development and education

Automotive industry trends set new, high requirements for product and process quality in developmental and mass production stages. To ensure the competence and expertise of employees, key areas of their education are divided into product and process development and technical and technological knowledge related to the installed equipment.

Notable education and training activities during 2016:

- APQP/PPAP - Advanced Product Quality Planning & Control Plan
- DOE - Design of experiments
- Ford Robustness Workshop - Statistical tool for development
- Moldflow expert level
- Engel robotics control
- Internal process auditors using the VDA 6.3. method
- FESTO base engine and electric drive maintenance

Conducted regular cooperation with consulting companies of customers and equipment suppliers or authorized companies, thus ensuring necessary upgrades of employee knowledge and skills.

Management Academy was organized for members of the management structure at AD Plastik Group, which included interactive workshops divided in eight modules. All employees have the opportunity to attend regular education and learning programmes for foreign languages in order to facilitate easier communication with business partners.

At the end of the year we conducted a survey on the effectiveness of educational programs implemented in 2016 and noted a very good effect of education on business results, organizational climate, motivation, employee engagement, quality of work and the application of new knowledge at the workplace.

SNECI

FORD AUS- UND WEITERBILDUNG e.V.

Business Management®

Internal activities

Integration

Introducing new employees to the workplace and training provided when changing jobs within the Company has been regularly monitored. During 2016 we have launched 148 programmes related to introducing new employees to the workplace, and successfully concluded 117 of these programmes.

148
Launched programmes

Rewarding excellence - AD 5 model

A total of 261 awards were given out in 2016 at Solin and Zagreb sites as part of the "AD 5" rewarding model implementing the process of recognizing and rewarding outstanding employees.

At our sites in Russia, rewarding of employees is carried out through a continuous management process which takes into account the achievement of set objectives which improves engagement, resulting in increased process efficiency.

Rewarding improvement ideas

AD Plastik launched a new project for encouraging the creativity of employees at Zagreb and Solin sites, that has been previously successfully implemented at or sites in Russia. Every idea or new development that raises the work quality, conditions and methods to a higher level is subject to rewarding.

External activities

AD Plastik supported the Private Sector Youth Initiative initiated by the Croatian Employers' Association Support and the European Bank for Reconstruction and Development, with the long-term good cooperation with FESB, Faculty of Chemical Technology and the Faculty of Economics, which enabled more students to gain experience by working at AD Plastik. We have formalized our cooperation with the Faculty of Textile Technology and the University College of Management and Design Aspira.

AD Plastik also continued its cooperation with higher education institutions in the implementation of projects of common interest in the research and development field and the field of study programs tailored to the needs of the AD Plastik Group, with one of the goals being the early selection of talent and further development of business and professional cooperation.

For the third consecutive year, AD Plastik has participated in the "Experience is worth gold" project aimed at sensitizing business and the wider community on the employment of particularly disadvantaged persons on the labour market.

Employer branding

During 2016 we continued with activities aimed at positioning the AD Plastik Group as a desirable employer through internal and external activities, defining employer profiles and key values, designing and activation of our LinkedIn page, researching the perception of the Company as an employer among students from targeted faculties. We have also realized a carried out other activities in order to improve the recognition of the Company in the labour market.

Annual Sustainable Business Report

In order to better understand the needs and expectations of AD Plastik Group's stakeholders, we have drafted and published the third Sustainability Report in accordance with G4 guidelines for sustainability reporting issued by the Global Reporting Initiative (GRI) for 2015. The report is available on the Company website.

The third Sustainability Report of the AD Plastik Group implemented a modern approach and design to completely fulfil the purpose of non-financial reporting, which is to understand the needs and expectations of stakeholders regarding information and provide a review of non-financial impacts according to their needs. The report shows the results achieved by companies within the Group in 2015, and the content is compliant with the G4 guidelines for sustainability reporting issued by the Global Reporting Initiative (GRI) - core option.

Sustainability Report of the Group for 2015 was written as clear and understandable as possible, with transparent presentation of data and detailed description of specific aspects. The report was made in accordance with reporting principles which sought to provide a balanced view of all the important features of business operations associated with sustainable development and social responsibility.

AD Plastik Group is a growing international company with an ambition to become the market leader in Eastern Europe regarding the development and manufacture of automotive components. This demanding market places sustainable business as one of the most important elements of competitiveness, and understanding the expectations and interests of stakeholders as a necessary prerequisite for establishing quality communications.

Therefore it should come as no surprise that the AD Plastik Group's report highlights as many as 34 material aspects that reflect significant economic, environmental and social impacts of the Group, i.e. significantly influence assessments and decisions made by stakeholders. The vast majority of said material aspects, as many as 21, relate to the social category, that is, employees and human rights.

Identifying material aspects is a very important determinant of this reporting method. These exact priorities make up the bulk of the report and focus on topics that are important for all stakeholders. However, too many material aspects can mean that the Company has not recognized the key impacts and hasn't focused its attention properly. Therefore, we commend the process of defining priorities and key aspects in accordance with changes in external and business impacts. We expect the development of communication with stakeholders on the subject of the sustainability report's content to continue in the coming years.

Last year was very successful for AD Plastik Group's financial results, and this positive trend reflected in increased investments in employee education, implementation of a new rewarding system and improved information exchange and communications. We would like to see a clearer strategy for managing human resources underpinning this successful practice of investing in employees in future reports.

The purpose of the report is not only to show understanding regarding the application of correct principles of social responsibility, but also to attract and engage readers on sustainability topics. The announcement that future reports will be published annually and contain clear objectives for certain aspects in order to better and more transparently monitor their implementation is therefore particularly valuable. AD Plastik Group also uses the reporting process for analysis and evaluation of impact, and to build its continuous improvement programme, which is the main objective of reporting. We will follow this progress with great interest using future reports, and commend the AD Plastik Group on successful implementation of the reporting process.

Commission of the Administrative Council - Croatian Business Council for Sustainable Development (HR BCSD)

H Business

Business in 2016

As in previous years, AD Plastik Group's plants in Croatia and Serbia sell their products mainly on the EU and Serbian markets, but also on new markets such as Mexico, Brazil and the United States. Russian companies from the AD Plastik Group sell their production assortment mostly on the market of the Russian Federation.

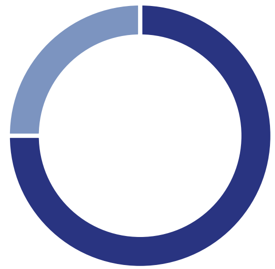
The Group is strongly positioned in the market of automotive components manufacturers in Europe, especially with regard to the manufacture of grab handles. AD Plastik grab handles are installed in a wide range of vehicles of well-known car manufacturers such as Fiat, Jeep, Renault, PSA Group, and we should point out new grab handle manufacturing project for the VW Group. This increase in grab handle manufacture is specially visible thanks to the exceptional growth of manufacture in Serbia.

The Edison project continues to have the greatest impact on production volume and realization in 2016, and we must highlight the transfer of console production which began at the end of the year.

The Russian market was marked by stabilization if compared to the previous two years, and this has created a basis for further growth.

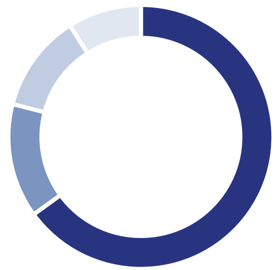
Last year was marked by a series of inquiries and technical presentations, which are a good foundation for implementing new business operations and plans.

Overview of revenue by sites



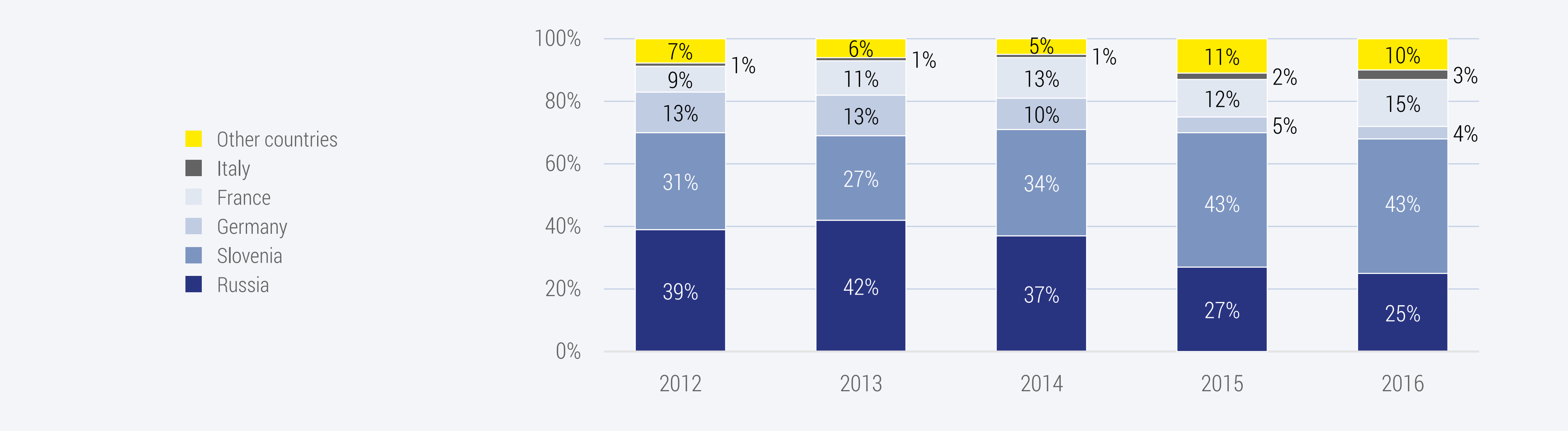
- EU + Serbia 75%
- Russia 25%

Overview of revenue by technology

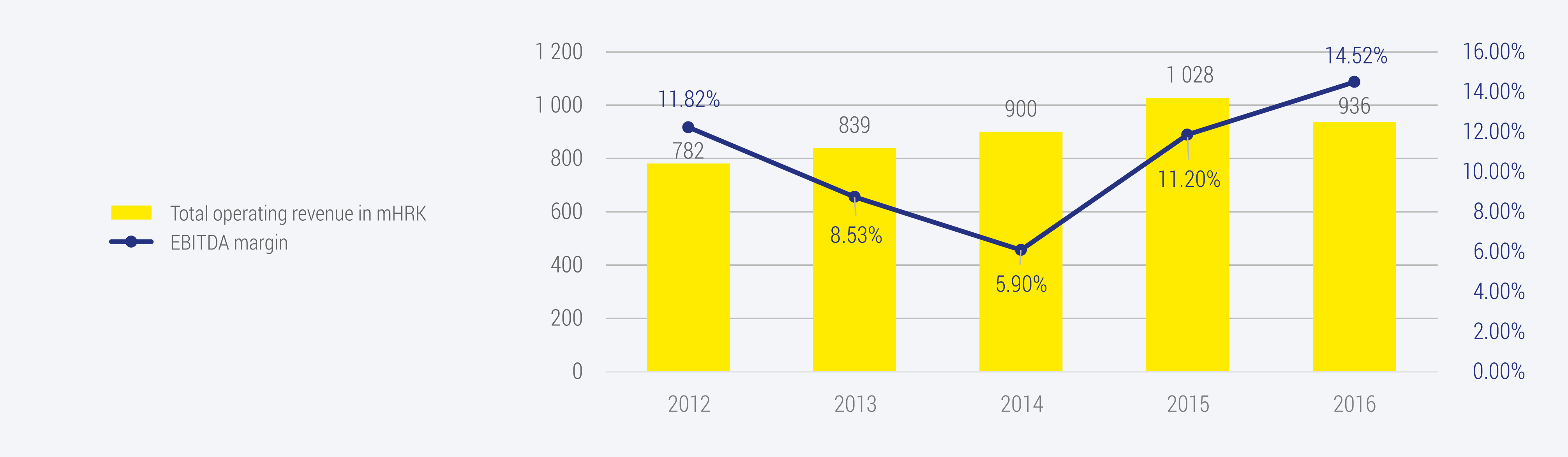


- Injection moulding + Blow moulding . 65%
- Painting 14%
- Thermoforming + Non-woven textile . 12%
- Extrusion 9%

Overview of revenue by markets



Revenues, EBITDA



European Union + Serbia

list of customers is a sorted alphabetically

FCA

Currently in production:	air ducts, grab handles, vehicle underbody protection
Technologies:	blow moulding and injection moulding
Sales market:	Serbia, Italy, Poland, Mexico, Brazil, USA
Won nominations in 2016:	cargo holder for the Alfa Romeo Giulia, Painted interior components for the Fiat 500L, Painted exterior components for the Fiat 500L, gear shift cover for the Fiat 500L, Grab handles for the Indian market

Ford

Currently in production:	wheel arch liners, protection under the engine, roof spoiler components
Technologies:	injection moulding
Sales market:	Germany, Spain, Romania, Russia
Won nominations in 2016:	wheel arch liners, rear wheel deflectors for the EcoSport model

Grupo Antolin

Currently in production:	door panels
Technologies:	injection moulding, UV welding
Sales market:	Slovenia

Hella

Currently in production:	headlamp housings
Technologies:	injection moulding, assembly
Sales market:	Slovenia

PSA

Products:	grab handles, glass run channel, speaker mounts and screens
Technologies:	injection moulding and extrusion
Sales market:	France, Spain, Czech Republic, Slovakia, Argentina, Brazil, China, Russia

Reydel

Currently in production:	instrument panel, steering wheel trim, gear shift and handbrake console
Technologies:	injection moulding, UV welding
Sales market:	Slovenia, France
Won nominations in 2016:	console

European Union + Serbia

RSA

Currently in production:	painted exteriors, injection moulded components, motor fans, headliners, painted and unpainted decorative strips, all exterior spare parts
Technologies:	injection moulding, painting, thermoforming of headliners (assembly)
Sales market:	Slovenia, France
Won nominations in 2016:	painted bumpers for the Clio transfer

VW Group

Currently in production:	scrapers
Technologies:	extrusion
Sales market:	Germany
Won nominations in 2016:	grab handles for the Golf Variant, Touran, Tiguan and Sportsvan, wind shield scrapers for the Audi Q3

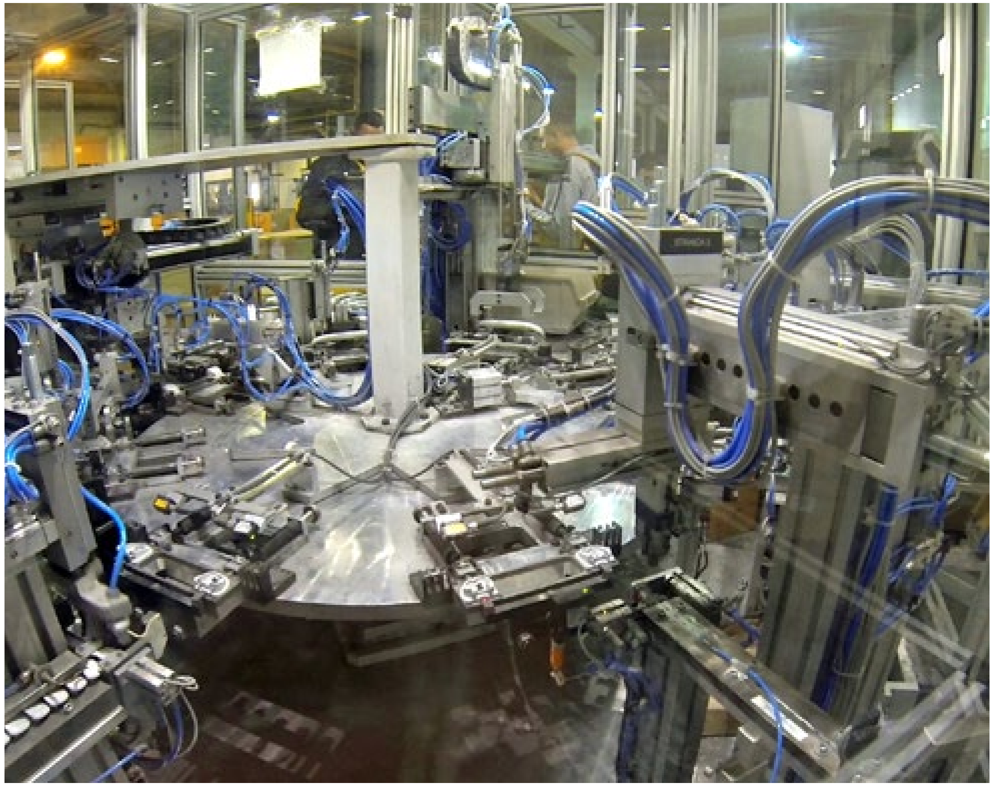
Webasto

Currently in production:	headliner trims, sunroof parts
Technologies:	injection moulding and painting
Sales market:	Germany, Slovakia

Euro APS, JV Romania

Dacia

Currently in production:	sunvisors and headliners
Technologies:	injection moulding, thermoforming
Sales market:	Romania
Won nominations in 2016:	sunvisors with covers
Vehicle production location:	Romania, Colombia



Russia

list of customers is a sorted alphabetically

AvtoVaz

Currently in production:	headliners, carpets, injection moulded interior and exterior positions, static seals, air ducts
Technologies:	thermoforming, injection moulding and extrusion
Sales market:	Russia
Won nominations in 2016:	injection moulded exterior positions for the new Logan and Sandero (VAZ production)

Ford

Currently in production:	headliners
Technologies:	thermoforming
Sales market:	Russia
Won nominations in 2016:	injection moulded interior positions for the EcoSport

GM-VAZ

Currently in production:	headliners, static seals
Technologies:	thermoforming and extrusion
Sales market:	Russia

Nissan

Currently in production:	injection moulded exterior positions
Technologies:	injection moulding
Sales market:	Russia

PCMA (Peugeot Citroen Mitsubishi Automotive)

Currently in production:	injection moulded exterior positions
Technologies:	injection moulding
Sales market:	Russia
Won nominations in 2016:	injection moulded exterior positions and parcel shelf for the new Peugeot K0 (LCV)

Renault

Currently in production:	headliners, carpets, injection moulded interior and exterior positions, parcel shelves
Technologies:	thermoforming, injection moulding
Sales market:	Russia
Won nominations in 2016:	injection moulded exterior positions for the new vehicles Renault Duster and Renault LJC

VW Rus

Won nominations in 2016:	injection moulded wheel arch liners for the VW Tiguan
Sales market:	Russia

Industry and competition

European market

For the third consecutive year new vehicle registrations in the European Union are on the raise with 14.6 million vehicles registered during the previous year, which is 6.8 percent more than in 2015. This is an indication that the market has stabilized and retained the trust of customers. Despite significant political events in Europe, such as Brexit or the Italian referendum, the automotive market has continued its successful growth. Increased car sales in comparison with last year's results were recorded in 2016 even on individual markets, with the fastest growth of sales occurring on small markets like Iceland, Hungary, Croatia and Cyprus. The largest major market growth was recorded in Italy with 15.8 percent and Spain with 10.9 percent, while sales in Germany increased by 4.5 percent, France 5.1 percent, and the United Kingdom by 2.3 percent. The decline in sales was recorded in only two countries: Norway and Switzerland.

Despite a difficult year, the Volkswagen Group still leads the car sales market with a share of 24.1 percent, followed by the Renault Group with 10.1 percent, PSA Group with 9.7 percent and FCA Group with 6.6 percent. The most significant increase in comparison to 2015 can be attributed to the FCA Group with 14.1 percent, followed by Daimler with 14.1 percent and Renault Group with 12.1 percent, while Volkswagen Group increased its sales by 3.3 percent, and Ford increased by 2.9 percent. Volkswagen was still the best-selling brand of 2016, and the Golf was the best-selling model in Europe.

14.6 million registered vehicles in 2016

European market (cont.)

14.6 million cars were sold in the European Union in 2016, which is the largest number of vehicles sold in the last nine years. The automotive industry of the European Union employs 12.2 million people, i.e. 5.6 percent of total employees. Automotive industry sector is a key carrier of knowledge and innovation. Of the total number of employees in manufacturing, 10.4 percent are manufacturing jobs in the automotive industry. The European car market has definitely stabilized with a tendency for further predicted growth of 5 percent by 2020.

AD Plastik strengthened its market position in 2016 by winning new nominations whose initial production is planned for the coming years. This is particularly true of VW Group and Fiat programmes with mass deliveries planned for mid-2017. New nominations are compliant with our strategy to increase sales of said programmes.

Russian market

Car sales in the Russian market dropped by 50 percent between 2013 and 2015, but the trend slowed down in 2016, when a decline of 11 percent in comparison with the previous year was recorded. Due to the stabilization of the Russian ruble during 2016 and the increase in oil prices in the last quarter, expectations indicate that during 2017 the market decline will stop and sales will increase by 5-10%.

Business plan for 2017

The business plan for 2017 sets key work guidelines of the AD Plastik Group that will ensure the realization of planned objectives for customers, shareholders and the Company as a whole. Revenue growth of AD Plastik Group is planned for 2017 at the rate of 6% with the EBITDA margin amounting to 14%.

The priority of the Management Board of AD Plastik Group is the realization of strategic growth and development goals through the necessary transformation and restructuring, with the aim of positioning the Company as the automotive supplier of high reliability, cost and technical competitiveness, as well as market and developmental flexibility. AD Plastik Group is a desirable and technical- technologically modern employer with a motivating remuneration system that ensures employee satisfaction and long-term business operations, which is the position that Management Board wants to keep and further develop.

Key elements of the investment plan are closely related to the preparation of plants for the start of new projects regarding Fiat, Renault Clio, VW, PSA and the transfer of the production of console for the Edison project, while a new project for the customer Renault is being initiated at the plant in Mladenovac.

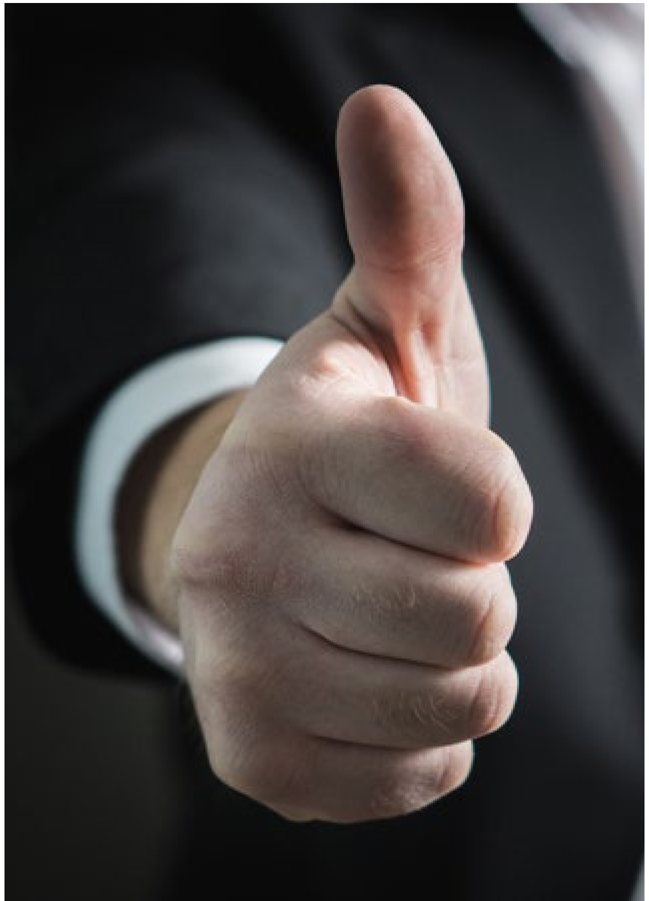
It is necessary to point out the increased investments in research and development, without which it is impossible to survive in the automotive industry, and which will certainly improve business operations of AD Plastik. Research of the global market, in which AD Plastik operates, indicates an increased interest for painted interior components. One of the drivers of sales growth in the medium term will be researching developmental activities and introducing new technologies that will increase the capacity of painting technology. The project has been registered with the Croatian Agency for Small Business, Innovation and Investments for the purpose of obtaining funds from the European Union after the Call for submission of applications - Increasing the development of new products and services resulting from research and development.

In accordance with the main strategy, Management Board of AD Plastik Group is focused on activities that enable the achievement of growth objectives through organic growth or acquisitions. Business expansion is directed towards existing and new customers in the markets of Central and Eastern Europe (CEE), which contain target customers (OEMs) with whom the Company does not have significant operations. We are continuously exploring opportunities in these markets because of the possible business expansion. Additional activities have been executed in order to investigate the possibilities of entering the extremely promising and vast market of Iran, which continue through this year.

The focus of sales activities remains on A, B and C class vehicle segment regarding strategic technologies and products of AD Plastik Group. The plan is to develop relationships with customers and external engineering centres integrated with research and development facilities of customers and higher education institutions, along with continued investment in knowledge and excellence of own engineering staff. These operational paths are aimed at strengthening the developmental recognition of strategic technologies and products, and increasing the proportion of Tier1 projects.

Medium-term forecasts of movements of the Russian economy show signs of growth, and also the ruble exchange rate continuously strengthens. After the last three years of decline in car sales in the Russian Federation, a market recovery is expected. According to the information from the last Automotive Forum held in March in Moscow, predicted growth in car sales amounts to 5 to 10%.

Our business plan for 2017 ensures stable cash flows and financial stability of the Group. Primarily, the realization of the plan, as well as transparent and regular reporting and continuation and improvement of current activities will be carried out in order to further increase the share price and raise the Company's value.



Business risks

Business risks

Business risks are related to the risks present in everyday business activities that directly affect the stability of the Company and maintaining competitive advantage. They are determined by the business environment in which the Company operates, level of specific industry's cyclicality and regular business policies and decisions.

Business environment risks

The business environment risk includes political, macroeconomic and social risks present in markets where the Company operates. Single company generally cannot influence these risks, but it can diversify them by operating in many different countries. The degree of diversification will largely depend on the risks in countries in which it operates.

Political risk refers to all risks associated with a possible political instability in a certain country. Business operations of individual companies are affected by macroeconomic risks, and the magnitude of the impact depends primarily on the cyclicality of the industry in which the Company operates.

Business activities of AD Plastik Group are, in addition to production located in Croatia, Serbia, the Russian Federation and Romania, based on the export of products to foreign customers, organised on a global level. Subject to the macroeconomic environment, economic conditions and the movement of economic activity. Political stability at both global and regional level, as well as the operational stability of countries in which we operate, therefore represent an important factor in our business stability and directly influence Company results.

Macroeconomic trends on affected markets, along with the exchange rate and the price of goods and services in particular, directly affect Company's competitiveness on the global market where we place our products and where we obtain raw materials and intermediate goods. Due to strong presence of Company's product placement on foreign markets, major changes in macroeconomics of countries where production takes place (increasing interest rates, the growth of the exchange rate of the kuna against EUR and RUR, increasing energy prices, the growth of tax burden and the like) could negatively reflect on business performance and the ability to regularly meet obligations.

AD Plastik Group operates in a relatively diverse business environment. Since the sale of Group's product range is affected by such macroeconomic variables as private consumption, levels of disposable personal income and trends in the sale of vehicles, the Company must continuously monitor the aforementioned macroeconomic factors.

Company can manage political risk by doing business in different countries, investing in opening new markets and continuous monitoring of macroeconomic and long-term market indicators. Special attention is given to macroeconomic trends in the Russian market which are somewhat more favourable in comparison to 2015.

Risk of non fulfillment of contractual obligations

Automotive industry demands strict adherence to the defined terms of delivery of products in addition to providing set high level of quality of ordered products. The Company is exposed to the risk of non fulfillment of contractual obligations on time by of individual suppliers and, consequently, would not be able to meet its obligations to the customer in time. Failure to fulfil contractual obligations can lead to loss of customers and a negative impact on operating results. Therefore, significant operational attention and responsibility is given to the accuracy of the fulfilment of contractual obligations toward customers.

Technological risk

In order to meet the growing and dynamic market requirements, the automotive industry is unavoidably focused on investing in the development of new products and new technologies in order to preserve and enhance the competitiveness of its products. Technology plays a major role in added value, price and quality of products. Falling behind on technological development can reduce competitiveness and weaken the acquired market position, as well as reduce the chances of acquiring future business opportunities and consequently adversely affect business results of the Company. There is serious market competition between car manufacturers and therefore AD Plastik Group continuously monitors technological changes and invests in new technologies in order to maintain and increase its existing competitiveness.

Financial risks

Business activities carried out by the AD Plastik Group expose it to a variety of financial risks, including:

- Market risk (including currency risk, interest rate risk and price risk)
- Credit risk
- Liquidity risk

The Group hasn't implement a formal risk management programme, however the Finance Department handles overall risk management. It provides services for various Group activities, coordinates access to domestic and international financial markets, carefully monitors financial risks related to business, and manages such risks through internal reports on risks that analyse the exposure by the degree and magnitude of certain risk, as well as implements various measures with the aim to efficiently manage and reduce risk.

Financial risk management

Currency risk

Currency risks include transaction risk, i.e. the risk of negative impacts of changes in exchange rates relative to the kuna on cash flows from commercial activities, and balance sheet risk, i.e. the risk of a lower value of net monetary assets in foreign currencies from the conversion to kuna as a result of changes in exchange rates.

The Group operates in an international environment and is mainly exposed to the fluctuations of the euro and the Russian ruble as revenues from the EU market are achieved mainly in euros, while revenues from sales on the Russian market are achieved in rubles. Exposure to currency risk arises from the purchase of raw materials which is mainly made in euros.

In addition, the Group is exposed to foreign currency risk related to the expression of operations of foreign subsidiaries that generate revenue in foreign currencies, and the same being listed in Croatian kuna in consolidated financial statements. Companies located in Russia manage currency risk by using natural hedging, i.e. selling price is adjusted together with the customers according to the fluctuation of the ruble against the euro.

Most long-term and short-term loans were stipulated by contracts that contain a currency clause, that is they are linked to the euro. The Group is also exposed to the fluctuation of the Serbian dinar and Romanian lei.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is related to changes in the restitution of assets and liabilities and the values resulting from movements in interest rates.

Interest rate risk of AD Plastik arises from credit commitments. The Group continuously monitors fluctuations and predictions of interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Group's exposure to interest rate risk is low, as it holds no financial instruments at variable rates.

Price risk

The Group is exposed to the price risk associated with changes in prices of key raw materials, transportation, other production costs and strong pressure from competitors and customers. In the automotive industry there is an open product price calculation present, and the price fluctuations of raw materials and other costs, higher and lower, are adjusted together with customers through the selling price on a monthly, quarterly or semi-annual basis (depending on the customer). The largest markets on which the Group provides its services and sells its products comprise of the EU market and the market of the Russian Federation. Group's management determines the prices of its services for each foreign market separately.

Credit risk

Credit risk refers to the default risk of one party to a financial instrument by which it creates a financial loss for the other party. Company assets bearing credit risk generally consist of loans and receivables. Since loans are granted to subsidiaries, due credit risk is under the control of the Company.

Trade receivables are made with minimal credit risk because the Company works with customers who are essentially financially stable companies with minimal charge risk, which is also the business policy of the Group. The correction of trade receivables to the amount of bad debts has been made.

Five largest customers of the Group include:

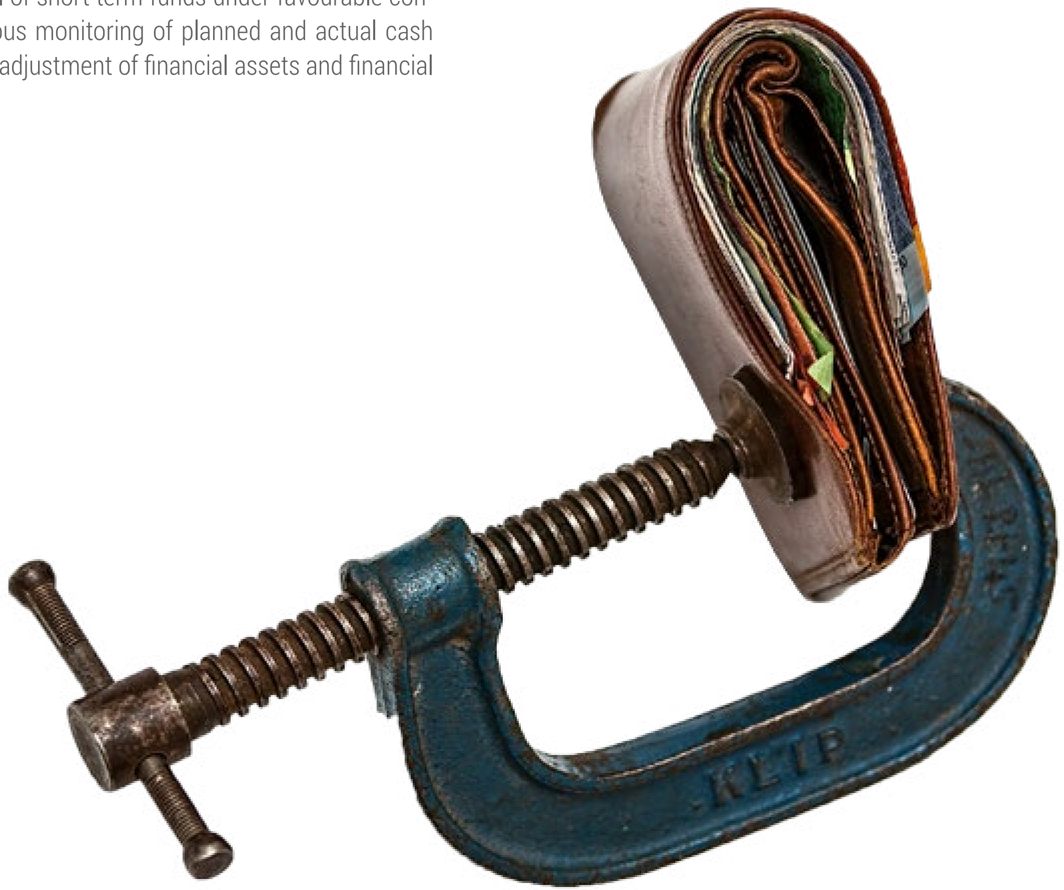
- Revoz d.d., Slovenia
- Reydel Automotive France s.a.s., France
- OAO AvtoVaz, Russia
- Hella Saturnus Slovenia d.o.o.
- OAO Renault Russia, Russia

Liquidity risk

The responsibility for liquidity risk management is born by the Management Board which sets an appropriate framework for liquidity risk management, with the objective of managing short, medium and long-term funding and liquidity requirements.

Liquidity risk is observed as a risk that the Company will not be able to fulfil its obligations to creditors. The Company manages liquidity risk by maintaining sufficient cash and working capital, arranging favourable credit frameworks in various banks that allow quick withdrawal of short-term funds under favourable conditions and continuous monitoring of planned and actual cash flows, as well as the adjustment of financial assets and financial liabilities.

Cash flow projections are created for each company within the Group and the same are then aggregated at the Group level. Parent company monitors the plan and the realization of cash flows of all companies within the Group and continuously monitors liquidity to ensure sufficient funds for carrying out business activities. In doing so, the Group takes into account the plans for the settlement of debts, compliance with contractual relations and internal balance sheet ratio targets.



J Financial statements of AD Plastik Group

The Supervisory Board have not yet considered and determined the financial statements, but shall give its decision at the meeting scheduled in May.

Financial results in 2016

AD Plastik Group is comprised of the following companies during the reporting period:

- AD Plastik d.d. Croatia,
- ADP d.o.o. Serbia,
- AD Plastik d.o.o. Slovenia,
- AO AD Plastik Vintai, Russia
- ZAO AD Plastik Kaluga, Russia

AD Plastik Group achieved outstanding business results in 2016, thus continuing last year's trend of successful Company operations. We are pleased to announce good operating results of AD Plastik d.d. and AD Plastik Group for the year 2016.

AD Plastik Group recorded a slightly lower operating revenue of HRK 935.8 million in the reporting period, which represents a 9% decrease compared to the previous year, while AD Plastik d.d. generated an operating revenue in the amount of HRK 717.9 million, i.e. 6.9% less than in the previous year.

A decrease in realization was primarily caused by the smaller number of orders placed by our client Hella and a slightly lower volume of revenue generated through our project activities. In addition, we must note the negative impact of foreign exchange movements on the amount of our operating revenue expressed in kuna, especially euro and Russian rouble. Due to the Croatian monetary policy of maintaining exchange rate stability of the kuna against the euro, throughout 2016 the euro was exposed to appreciation pressures of the kuna. Such weakening of the euro weakened the position of operating revenue and overall AD Plastik d.d. business results brought about by our strong focus on export. The total revenue of AD Plastik Group was, in addition to the euro exchange rate, significantly affected by the twofold Russian rouble exchange rate in 2016. An above average value of rouble had a negative effect on the amount of operating revenue, while the strengthening of the rouble at the end of the year had a positive impact on business results in the form of reduced foreign exchange losses.

Significantly lower operating expenses in the reporting period were the result of a series of activities undertaken in order to improve business efficiency and rationalize production processes at all AD Plastik Group sites.

The decline in operating expenses of AD Plastik Group in 2016, which was greater than the decline in operating revenue, resulted in the EBITDA in the amount of HRK 135.9 million, which is 18.3% more than in the previous year. By improving the cost efficiency of the AD Plastik Group, we've achieved high EBITDA margin of 14.5 percent compared with 11.2% in 2015.

Net profit of the AD Plastik Group in 2016 increased by 7.5 percent compared to the previous year, and amounted to HRK 49.7 million, while the realized net profit margin rose to 5.31 percent compared to 4.49% in 2015.

HRK **49.7** mil.

Net profit

14.5%

EBITDA margin

HRK **38.0** mil.

Reduction in loan liabilities

Key indicators of AD Plastik Group in 2016

Indicators Group	2015	2016	Index
Operating revenue (in thsd. of HRK)	1,028,491	935,750	90.98
Sales revenue (in thsd. of HRK)	1,002,364	913,383	91.12
NFD (in thsd. of HRK)	408,519	372,452	91.17
EBITDA (in thsd. of HRK)	114,880	135,855	118.26
NFD/EBITDA	3.56	2.74	
EBITDA margin	11.17%	14.52%	
Net profit margin	4.49%	5.31%	

Financial position of AD Plastik Group

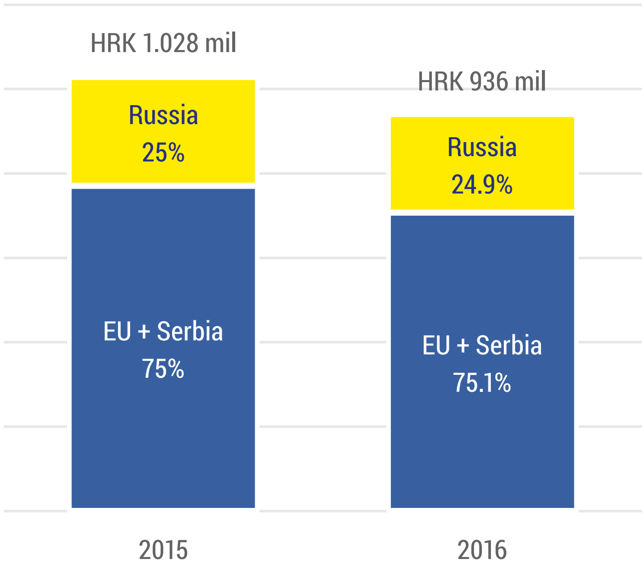
There has been a continuing trend of improving financial position of AD Plastik Group and AD Plastik d.d. which started in 2015. Credit debt was reduced by HRK 38 million on 31 December 2016, compared to the same date last year. During this period, accounts payable to the suppliers were reduced by HRK 42.4 million. Debt ratio was also decreased from 0.52 to 0.45, and all indicators point to a positive cash flow and good liquidity of the AD Plastik Group.

The results stabilized at higher levels throughout 2016 and despite a small decline in revenue, left our investors with the feeling of security while earning trust in the Management Board and values of AD Plastik, as previously reported. In 2016 we paid out a dividend of 12 kunas per share, and the price of share ADPL-R-A increased by 40.2%, for which AD Plastik d.d. won the Zagreb Stock Exchange Award in the Top Price Gainer category. The price of the share on 31 December 2016 amounted to HRK 138.00, while it amounted to HRK 98.46 on the same day the previous year.

We are pleased to announce that we have fulfilled one of the strategic objectives that we have set in the past year - exiting the JV agreement with Faurecia Automotive Holding s.a.s., France. AD Plastik d.d and Faurecia Automotive Holdings s.a.s.u. have signed the Agreement of Purchase and Sale of Shares according to which AD Plastik sells and Faurecia purchases 278,136 shares (40%) of the company Faurecia ADP Holding s.a.s., France, which is a hundred percent owner of the company OOO Faurecia ADP in Luga. Transfer of shares pursuant to the Agreement was executed in December 2016. Faurecia consequently become the sole owner of Faurecia ADP Holding s.a.s, i.e. FADP plant in Luga, Russia. Said sale of shares has no impact on the operating results of the AD Plastik Group and plans in the Russian Federation.

AD Plastik continues the successful cooperation with Faurecia through the joint company Euro Auto Plastic Systems s.r.l, Romania.

Operating revenue of AD Plastik Group by markets



The ratio of operating revenue generated by the Group on the EU and Serbian market and the Russian market remains unchanged in 2016 compared to 2015.

EU and Serbian market

Three-quarters of the total revenue of the AD Plastik Group are realized on the market of the EU and Serbia through the sites in Solin and Zagreb in Croatia and the site in Mladenovac in Serbia. In 2016 the operating revenue on the EU and Serbian market decreased by 9% compared to the previous year, primarily due to the reasons mentioned above - exchange rate effect when expressing revenue in kuna, lower revenue generated through project activities and smaller orders placed by our client Hella. It is important to emphasize that the revenue generated through the project Edison, which has the greatest impact on the revenue of AD Plastik d.d., in the reporting period, is higher than the revenue generated through this project in the previous period, despite the aforementioned euro exchange rate.

In the past year we have focused on development in the field of products with greater strategic potential in order to strengthen our offer and expand the portfolio of customers and products. The objectives were achieved through new deals for the following multi-year period with Maserati, Fiat, Volkswagen and Renault, with a total value of over EUR 20 million annually in the years of full production.

Russian market (subsidiaries)

AD Plastik Group companies operating on the Russian Federation market place the total of their production on the Russian market. Last year the sales of cars on the Russian market decreased by 11% compared to the previous year, whereby the decline in sales significantly slowed down in the last quarter. November was the first month after seven consecutive quarters in which we did not record a decline. Operating revenue of AD Plastik Group subsidiaries in Russia has in the observed period decreased by 9.6% compared to the previous year, which was for the most part a consequence of the kuna exchange rate, rather than the decline in sales themselves.

However, it should be noted that the lower utilization of production capacities and sales still has not stabilized at higher levels. With regular adjustments to selling prices prompted by exchange rate fluctuations and a strive to improve cost efficiency, Russian companies have in the observed period operated quite successfully. We are therefore satisfied with the profit they realized. Medium and long-term movements of the Russian economy are currently following a trend of growth dynamics. Moreover, the rouble exchange rate is moving towards its stabilization. Current 2017 projections indicate a growth of the Russian economy and the strengthening of the Russian rouble associated with the price of crude oil barrel and forecasts about an increase in crude oil prices. Expectations indicate that the decline in car sales will stop and sales will increase by 4%.

AD Plastik Group with consolidation of corresponding ownership parts in affiliated companies

With the aim of presenting a clearer picture of business of AD Plastik Group, we have created an abbreviated consolidated profit and loss account for 2015 and 2016 with consolidated profit and loss account of affiliated companies Euro Auto Plastic Systems s.r.l. Mioveni, Romania (50% of ownership of AD Plastik d.d.), and Centre for research and development of automotive industry Croatia (24% of ownership AD Plastik d.d.).

Taking into consideration that AD Plastik sold its shares in Faurecia ADP Holding s.a.s., France, in 2016, operative results of this company was not included in the abbreviated consolidated profit and loss account for 2016, and the impact of operations of this company in 2015 has been reclassified and shown under the "Share of loss of associated companies" position for comparison purposes.

AD Plastik Group's operating revenue with the corresponding ownership interest in associated companies decreased by 5.5 percent compared to last year, while EBITDA increased by 6.7 percent compared to the previous year and amount to HRK 196,4 million in total.

The results of associated companies are included in the result of the AD Plastik Group using the equity method, and these companies have no financial borrowings to external entities.

AD Plastik Group's consolidation of the corresponding part of the ownership interest in associates

Positions	2015 (in kkn)	2016 (in kkn)	Index
OPERATING REVENUE	1.403.196	1.326.137	94,51
OPERATING EXPENSES	1.299.961	1.212.112	93,24
Material costs	818.017	740.990	90,58
Staff costs	221.638	215.250	97,12
Amortization	80.811	82.369	101,93
Other costs	179.495	173.503	96,66
FINANCIAL REVENUE	120.559	45.512	37,75
FINANCIAL EXPENSES	155.447	98.666	63,47
Share of loss from associated companies	10.934	0	0,00
TOTAL REVENUE	1.523.755	1.371.649	90,02
TOTAL EXPENSES	1.466.342	1.310.778	89,39
Profit before taxation	57.413	60.871	106,02
Income tax	11.190	11.168	99,80
PROFIT FOR THE PERIOD	46.223	49.704	107,53
EBITDA	184.046	196.395	106,71

Interim Management’s Statement of Responsibility

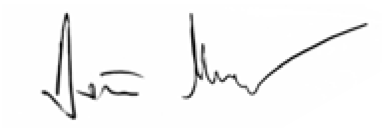
Solin, April 2017

The financial statements of the AD Plastik Group and AD Plastik d.d. Solin are prepared in accordance with International Financial Reporting Standards (IFRS) and Croatian Accounting Act.

The consolidated financial statements of AD Plastik Group and financial statements of the Company AD Plastik d.d. for the period starting from 1 January to 31 December 2016 provide a true and fair view of assets and liabilities, profit and loss, financial positions and business activities of the issuer, and companies included in the consolidation as a whole.

Management statement for the period ending on 31 December 2016 provides a true and fair view of the development and operating results with due description of the most significant risks and uncertainties to which the Company is exposed.

President of the Management Board



Marinko Došen

Member of the Management Board:

Sanja Biočić

The Company is registered at the Court Register of the Commercial Court of Split under the Registered Company Number (MBS): 060007090, Company Identification Number (OIB): 48351740621
IBAN: HR04 2340 0091 1101 5371 1, Privredna banka Zagreb d.d., Zagreb

The capital stock in the amount of HRK 419,958,400 was paid in full. AD Plastik issued a total of 4,199,584 of ordinary shares, in nominal amount of HRK 100.
President of the Management Board: Marinko Došen, members of the Management Board: Katija Klepo, Sanja Biočić, Mladen Peroš
Chairman of the Supervisory Board: Dmitrij Leonidovič Drandin

K Separate and Consolidated Financial Statements For the Year Ended 31 December 2016

AD Plastik d.d. and its subsidiaries

Consolidated Financial Statements Together with Independent Auditor's Report For the Year Ended 31 December 2016

Responsibility for the consolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs"), as adopted in the European Union, which give a true and fair view of the financial position and results of operations of AD Plastik d.d., Solin ('the Company') and its subsidiaries ('the Group') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the Management Board is responsible for:

- selecting and then consistently applying suitable accounting policies;
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards and disclosing and explaining any material departure in the financial statements;
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group and its' compliance with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of embezzlement and other irregularities.

Signed on behalf of AD Plastik d.d. Solin by the members of the Management Board:

For AD Plastik d.d. Solin by:

Marinko Došen, President of the Management Board

Katija Klepo, Member of Management Board

Sanja Biočić, Member of Management Board

Mladen Peroš, Member of Management Board

AD Plastik d.d.
Matoševa 8, 21210 Solin, Republic of Croatia

19 April 2017

Deloitte. Deloitte d.o.o., ZagrebTower, Radnička cesta 80, 10 000 Zagreb, Croatia, TAX ID: 11686457780, Tel: +385 (0) 1 2351 900, Fax: +385 (0) 1 2351 999, www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the owners of AD Plastik d.d., Solin:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AD Plastik d.d. and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Accuracy of the foreign and domestic sales balances
(Note 6 to the consolidated statement of comprehensive income)

According to the disclosures made in Note 6, the total sales of the Group for the financial year amount to HRK 913,383 thousand (2015: HRK 1,002,363 thousand).

Sales are important for assessing the Group's performance. There is a risk that the reported sales may be higher than the actual amount earned by the Group. Operating income is accounted for when a sales transaction is completed, the goods are delivered to the customer and when all economic risks are transferred by the Group. The Group generates revenue from foreign and domestic sales. The transfer of the risks and rewards takes place when goods or services are transferred to the customer, when the goods are paid and available at the location of a third or related party. The sales process is supported by internal controls implemented in the Group's IT systems.

Given a high degree of reliance on the IT systems and the potential impact of incorrect revenue accounting, we have concluded that the accuracy of the revenue is a key audit issue to be focused on during the audit.

Description of audit procedures performed and their results

Our substantive audit procedures included the test of the design and the operational efficiency of internal automated and manual controls at the Group, as well as tests of details so as to ensure that the revenue and the transactions are correctly accounted for. The key internal automatic control the Group relies on in asserting the correct recognition of revenue is the automatic matching of the order numbers and contract numbers in the Group's IT environment.

Testing of internal control

We tested the design and operating effectiveness of the key internal controls surrounding the sales process. Our test procedures included:

- checking whether dispatch documents match with the underlying contracts and orders,
- review of contracts with selected customers,
- checking whether the ordered quantity corresponds with the quantity i.e. amount specified in the dispatch document, and
- checking whether dispatch documents have been signed by a designated authorised person of the Group.

Based on the internal control test results, we defined the scope and nature of tests to be performed to consider whether the revenue is properly accounted for, which included test of details of internal documents, by matching them with the recognised sales and the related payment transactions. Based on all the audit evidence obtained by applying the procedures described above, we consider the methodology of revenue recognition to be appropriate.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Capitalisation of non-production costs of finished products on stock at the Group

As disclosed in the Group's consolidated statement of comprehensive income, the total increase in the value of work in progress and finished products amounts to HRK 541 thousand (2015: a decrease of HRK 593 thousand), while Inventories stated in separate statement of financial position at December 31, 2016 amount to HRK 107,565 thousand (at December 31, 2015 HRK 97,786 thousand). Inventory items are subject to the risk of capitalisation of non-production costs, i.e. those costs that, according to IAS 2 "Inventories", do not qualify for capitalisation as other production overheads.

Other production overheads are important for the purpose of assessing the Group's performance, as they affect the carrying amount of finished products and hence the calculations of the Group's KPIs.

The Group defines the costs to be recognised as expenses for the period and those to be included in the carrying amount of finished products in its internal regulations, procedures and based on past experience and industry practice. The costs are reviewed and apportioned to the production process of the Group.

Given the high degree of reliance on the IT systems and the potential impact of incorrect inventory accounting, as well as the methodology used to perform the calculations, we have concluded that the accuracy in determining capitalised non-production costs is a key audit issue to be focused on during the audit.

Description of audit procedures performed and their results

Our audit procedures included mapping the production accounting process, identifying internal controls the Group has established over those processes and testing the production calculations by means of tests of details of capitalised costs. This included analysing the nature of the cost incurred, the cost centres, the functions of the costs in the Group's production process as well as the management estimate of the portion of non-production costs associated with the production process to be capitalised and the portion to be recognised directly as an expense for the period.

In addition, we re-performed and checked the calculations of the inventory values on the entire Group's inventory population in accordance with the Group's internal cost accounting methodology.

While performing the audit procedures, we identified all items split by internal allocation keys to production and non-production costs. We identified the costs we considered material and performed an assessment of the compliance of the capitalised costs with IAS 2. We considered the nature of the costs, the cost centres as well as the methodology for capitalising the costs of finished products. Based on all the audit evidence obtained by applying the procedures described above, we consider the methodology of capitalising non-production and production costs of finished products to be appropriate.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

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

Our opinion on the consolidated annual financial statements does not cover the other information.

In connection with our audit of the consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Board Report and the Declaration of application of the Code of Corporate Governance, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Board Report and Declaration of application of the Code of Corporate Governance include required disclosures as set out in Article 21 of the Accounting Act and whether the Corporate Governance Strategy includes the information specified in Article 22 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached consolidated financial statements.
2) Management Board Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.
3) Declaration of application of the Code of Corporate Governance has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4, and also includes the information from Article 22, paragraph 1, points 2, 5, 6 and 7 of the Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the consolidated financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of the Management and Supervisory Board for the Consolidated Financial Statements

The Management Board is responsible for the preparation and fair presentation of the consolidated annual financial statements in accordance with IFRSs, as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for oversight of financial reporting process established by the Management Board.

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INDEPENDENT AUDITOR’S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements (continued)

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.

Branislav Vrtačnik
President of the Management Board
and certified auditor

Vanja Vlak
Certified auditor

Deloitte d.o.o.

Zagreb, 19 April 2017

Radnička cesta 80,
10 000 Zagreb,
Croatia

Consolidated statement of comprehensive income
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Notes	2016	2015
Sales	6	913,383	1,002,363
Other income	7	22,367	23,032
Total income		**935,750**	**1,025,395**
Increase/(decrease) in the value of work in progress and finished products		541	(593)
Cost of raw material and supplies	8	(461,912)	(482,238)
Cost of goods sold	9	(26,377)	(52,627)
Service costs	12	(60,376)	(72,702)
Staff costs	10	(181,044)	(187,560)
Depreciation and amortisation	11	(77,115)	(73,198)
Other operating expenses	13	(64,688)	(109,243)
Provisions for risks and charges	14	(6,040)	(5,553)
Total operating expenses		**(877,010)**	**(983,714)**
Profit from operations		**58,739**	**41,681**
Financial income	15	45,512	121,454
Financial expenses	16	(98,308)	(153,231)
Share in the profit of associates	17	43,172	36,458
(Loss)/profit from financing activities		**(9,625)**	**4,681**
Profit before taxation		**49,115**	**46,362**
Income tax expense	19	589	(140)
Profit for the year		**49,704**	**46,222**

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

Consolidated statement of comprehensive income
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Notes	2016	2015
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of a foreign operation, net	19	24,120	(34,908)
Items that will not be reclassified subsequently to profit or loss			
Change in the revaluation reserve of non-current assets, net		(3,388)	(6,904)
Other comprehensive income/(loss) for the year, net of income tax		**20,732**	**(41,812)**
Total comprehensive income for the year		**70,436**	**4,410**
Profit attributable to:			
Equity holders of the Company		49,704	46,225
Non-controlling interests		-	(3)
Total comprehensive income attributable to:			
Equity holders of the Company		70,436	4,413
Non-controlling interests		-	(3)
Basic and diluted earnings per share (in kunas and lipas)	20	11.92	11.09

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

Consolidated statement of financial position
At 31 December 2016

(All amounts are expressed in thousands of kunas)

ASSETS	Notes	31.12.2016	31.12.2015
Non-current assets			
Intangible assets	21	119,136	125,980
Goodwill	40	9,411	7,612
Property, plant and equipment	22	699,947	695,404
Investment property	23	8,064	-
Investments in associates	24	82,964	86,508
Other financial assets	25	4,961	46,085
Long-term receivables		95	14,176
Deferred tax assets	18	5,764	22,399
Total non-current assets		**930,341**	**998,164**
Current assets			
Inventories	26	107,565	97,786
Trade receivables	27	132,831	143,355
Other receivables	28	40,462	34,209
Current financial assets	29	60,656	6,505
Cash and cash equivalents	30	10,422	12,384
Prepaid expenses and accrued income	31	58,478	45,190
Total current assets		**410,416**	**339,429**
TOTAL ASSETS		1,340,757	1,337,593

EQUITY AND LIABILITIES	Notes	31.12.2016	31.12.2015
Capital and reserves			
Share capital	32	419,958	419,958
Reserves		166,463	105,282
Retained earnings		61,260	51,496
Profit for the year		49,704	46,225
Equity attributable to the owners of the Company		*697,385*	*622,961*
Non-controlling interests		-	(5)
Total equity		**697,385**	**622,956**
Long-term provisions	33	3,743	3,483
Long-term borrowings and other non-current liabilities	34	185,759	291,080
Total non-current liabilities		**189,502**	**294,563**
Advances received	35	34,442	23,613
Trade payables	36	143,681	180,511
Short-term borrowings	37	223,058	163,100
Other current liabilities	38	17,854	26,623
Short-term provisions	33	9,352	8,607
Accrued expenses and deferred income	39	25,483	17,620
Total current liabilities		**453,870**	**420,074**
Total liabilities		**643,371**	**714,637**
TOTAL EQUITY AND LIABILITIES		1,340,757	1,337,593

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

Consolidated statement of changes in shareholders' equity
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal and statutory reserves	General reserves	Reserve from revaluation of long-term fixed assets	Reserve from revaluation of long-term receivables	Reserves for own shares	Own shares	Retained earnings	Exchange differences on translation of a foreign operation	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total
Balance at 31 December 2015	**419,958**	**191,971**	**6,139**	**25,410**	**25,257**	**(112,292)**	**3,107**	**(3,107)**	**97,721**	**(31,203)**	**622,961**	**(5)**	**622,956**
Profit for the year	-	-	-	-	-	-	-	-	49,704	-	49,704	-	**49,704**
Other comprehensive income for the year, net of income tax	-	-	-	-	(3,388)	31,292	-	-	6,452	(7,169)	27,187	-	**27,187**
Total comprehensive income for the year	-	-	-	-	**(3,388)**	**31,292**	-	-	**56,156**	**(7,169)**	**76,891**	-	**76,891**
Realisation of recognised exchange differences	-	-	-	-	-	44,802	-	-	-	-	44,802	-	**44,802**
Dividends paid	-	-	-	(4,769)	-	-	-	-	(45,275)	-	(50,044)	-	**(50,044)**
Effect of the combination of business KZA	-	-	-	-	-	-	-	-	2,367	-	2,367	-	**2,367**
Acquisition of a part of a non-controlling interest	-	-	-	-	-	-	-	-	(5)	-	(5)	5	**-**
Release of own shares	-	-	-	414	-	-	(414)	414	-	-	414	-	**414**
Valuation of own shares	-	-	-	-	-	-	1,182	(1,182)	-	-	-	-	**-**
Balance at 31 December 2016	**419,958**	**191,971**	**6,139**	**21,055**	**21,869**	**(36,201)**	**3,875**	**(3,875)**	**110,964**	**(38,372)**	**697,385**	**-**	**697,385**

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

Consolidated statement of changes in shareholders' equity
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal and statutory reserves	General reserves	Reserve from revaluation of tangible and intangible fixed assets	Reserve from revaluation of long-term receivables / liabilities	Reserves for own shares	Own shares	Retained earnings	Exchange differences on translation of a foreign operation	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total
Balance at 31 December 2014	**419,958**	**191,971**	**6,139**	**25,866**	**32,161**	**(81,277)**	**2,945**	**(2,945)**	**44,592**	**(34,880)**	**604,530**	**(7)**	**604,523**
Profit for the year	-	-	-	-	-	-	-	-	46,225	-	46,225	(4)	**46,221**
Other comprehensive income for the year, net of income tax	-	-	-	-	(6,904)	(38,585)	-	-	6,904	3,677	(34,908)	-	**(34,908)**
Total comprehensive income for the year	-	-	-	-	(6,904)	(38,585)	-	-	53,159	3,677	11,317	(4)	11,313
Realisation of recognised exchange differences	-	-	-	-	-	7,570	-	-	-	-	7,570	-	**7,570**
Acquisition of a part of a non-controlling interest	-	-	-	-	-	-	-	-	-	-		6	**6**
Valuation of own shares	-	-	-	-	-	-	162	(162)	-	-	-	-	**-**
Purchase of own shares	-	-	-	(456)	-	-	-	-	-	-	(456)	-	**(456)**
Balance at 31 December 2015	**419,958**	**191,971**	**6,139**	**25,410**	**25,257**	**(112,292)**	**3,107**	**(3,107)**	**97,721**	**(31,203)**	**622,961**	**(5)**	**622,956**

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

Consolidated statement of cash flows for the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Cash flows from operating activities	Note	2016	2015
Profit for the year		**49,704**	**46,222**
Income tax (credit)/expense	18	(589)	140
Depreciation and amortisation	11	77,115	73,198
Net book value of disposed of property, plant and equipment, and intangible assets		4,189	7,614
Increase in long-term and short-term provisions	33	1,005	2,494
Share in the profit of associates	24	(43,172)	(35,781)
Increase in accrued expenses and deferred income	39	7,864	3,950
(Increase)/decrease in accrued income and prepaid expenses	31	(13,289)	40,099
Exchange differences, net		42,791	51,700
Profit from operations before working capital changes		**125,618**	**189,636**
Increase in inventories	26	(9,779)	(3,471)
Decrease/(increase) in current and non-current trade receivables		14,016	(16,448)
(Increase)/decrease in other receivables		(5,107)	14,319
Decrease in trade payables		(8,580)	(62,155)
Increase/(decrease) in advances received	35	10,829	(33,611)
Decrease in other short-term and long-term liabilities		(9,468)	(154)
Interest paid	37	(18,567)	(24,903)
Net cash generated from operating activities		**98,961**	**63,213**
Purchase of treasury shares		-	(456)
Proceeds from the sale of shares and interests in unrelated companies		129	-
Dividends from associates		46,080	41,731
Decrease in deposits		426	6,604
Proceeds from given long-term and short-term loans		3,155	9,128
Proceeds from the sale of plant and equipment, and intangible assets		6,708	5,643
Purchases of property, plant and equipment	22	(32,625)	(84,021)
Purchases of intangible assets	21	(21,662)	(26,428)
Investments in associates		-	(24)
Net cash generated from/(used in) investing activities		**2,210**	**(47,823)**

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

Consolidated statement of cash flows
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Cash flows from financing activities	Note	2016	2015
Dividends paid		(50,044)	(56)
Repayment of finance leases		(3,528)	(2,856)
Proceeds from received short-term and long-term borrowings	34,37	100,065	180,537
Repayment of short-term and long-term borrowings	37	(149,625)	(188,901)
Net cash used in financing activities		**(103,133)**	**(11,276)**
Net (decrease)/increase in cash and cash equivalents		**(1,961)**	**4,114**
Cash and cash equivalents at the beginning of the year		**12,384**	**7,806**
Cash and cash equivalents at the end of the year	**30**	**10,422**	**12,384**

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

Notes to the consolidated financial statements For the year ended 31 December 2016

1. GENERAL INFORMATION

AD Plastik d.d., Solin, a public limited company for the production of motor vehicle spare parts and accessories and of plastic masses (abbreviated firm: AD PLASTIK d.d.), was established by a decision of the Founding Assembly dated 15 June 1994 following the transformation of the socially-owned entity Autodijelovi – Solin pursuant to the decision on the transformation of ownership and the Decision of the Croatian Privatisation Fund No. 01-02/92-06/392 of 6 December 1993. The Company is the legal successor of the socially-owned entity Autodijelovi and, according to the decision of the Commercial Court in Split No. Fi 6215/94 of 28 June 1994, assumed all of its assets and liabilities as of the date of registration in the court register.

By decision of the General Shareholders' Assembly dated 21 June 2007, the Statute of the Company of 8 July 2004 was amended and a decision was made to increase the share capital of the Company in cash. Pursuant to the Decision No. Tt-07/2145-3 of 25 September 2007, the increase of the share capital by HRK 125,987,500 effected by OAO Saint Petersburg Investment Company was registered, and the total subscribed capital now amounts to HRK 419,958,400 and consists of 4,199,584 shares, with a nominal amount of HRK 100.00 each. Under the Share Transfer Agreement of 29 June 2009 OAO Spik transferred the shares of the AD Plastik d.d. to OAO Group Aerokosmicheskoe Oborutovanie, St. Petersburg, which transferred those shares to OAO HAK, Sankt Petersburg on 4 August 2011.

The Company has been included in the listing of public limited companies on the Official Market of the Zagreb Stock Exchange since 1 October 2010.

1.1. Principal business

The primary activity of the Company comprises manufacture of motor vehicle spare parts and accessories. The registered activities of the Company comprise the following:

- manufacture of motor vehicle spare parts and accessories;
- production and trade in medical supplies for one-off application made of plastic masses: plastic syringes for one-off application; infusion sets; transfusion sets; disposable hemodialysis needles, and others.
- representation of foreign companies;
- international forwarding and shipping
- production of finished textile products other than clothing;
- production of synthetic rubber in primary forms;
- production of glues and jellies;
- production of rubber and plastic products;
- production of metal products other than machinery and equipment;
- construction and repair of leisure and sports boats;
- production of chairs and seats;
- production of sports equipment;
- recycling of non-metal waste and scrap;
- computer and related activities;
- providing advice, guidance and operational assistance to legal entities;
- designing of accounting systems, materials accounting software, budgeting control procedures;
- advice and assistance to legal entities in connection with planning, organisation, efficiency and controls, management information, etc.;
- management consulting (agronomists and agricultural economists, on farms, etc.);
- purchase and sale of goods;
- trade intermediation on domestic and international markets;
- use of hazardous chemicals; and
- treatment of hazardous and non-hazardous waste.

1.2. Consolidated subsidiaries

1) Closed-end company (ZAO) ADP Luga, established by an Articles of Association of the Closed-end Company ADP LUGA of 26 March 2007.
   In early 2012 ZAO ADP Luga, Luga, changed both its official name and registered seat to ZAO AD Plastik, 248016, Skladskaja ulica 6, Kaluška oblast, Russian Federation. Ad Plastik d.d. Solin, holds all the Company's shares and is the sole owner of the Company.

1. GENERAL INFORMATION (CONTINUED)

1.2. Principal business (continued)

The company's registered activities comprise the following:
- development, manufacture and delivery of production parts for automotive industry;
- manufacture and delivery of plastic products; and
- commercial (retail and wholesale trade, commission sales) and other activities.

2) Closed-end foreign investment company PHR (abbreviated firm: ZAO PHR), established on 25 April 1995 and operating under the Constitution of the Russian Federation and the Federal Act on Incorporations. Its registered seat is in Russia, Samara, Krasnoglinski Raion, the village of Vintaj.
On 6 July 2015 the company was renamed to public limited company AO AD Plastik (abbreviated firm: AO ADP).

AD Plastik d.d., Solin, has an equity share of 99.99 percent.

The company's registered activities comprise the following:
- production of node and accessory sets for cars as ordered by AO Avto VAZ and other legal entities;
- transportation services; and
- brokerage, dealer, distribution, consignment, commission, agency and acquisition sale services, and other activities;

3) AD Plastik d.o.o. Novo Mesto, Slovenia, established in 1997 and fully owned by Ad Plastik d.d., Solin.

The registered activities of the Company comprise the following:
- production of various products made of plastic masses;
- production of motor vehicle parts; and
- wholesale and retail trade, and trade intermediation.

4) Production and trade company ADP d.o.o. Mladenovac (Varoš), Kralja Petra I 334, Serbia, established on 6 December 2011. The principal activity of the company comprises manufacture of other parts and additional accessories for motor vehicles, foreign trade and foreign trade services. The company is fully owned by AD Plastik d.d., Solin.

1.3. Associated companies

1) EURO Auto Plastik Systems s.r.l., Romania, established on 20 August 2002 as a limited liability company with its registered seat in Romania, Mioveni, ul. Uzinei, No. 1.

The equity share of AD Plastik d.d., Solin, in the company is 50 percent.

The principal activities of the associate are as follows:
- manufacture of motor vehicle and motor parts and accessories;
- production of items made of plastics;
- trade mediation in vehicles, industrial equipment, ships and aircraft;
- services of other transport agencies;
- business and management consulting services.

2) Centar za istraživanje i razvoj automobilske industrije d.o.o. established on 22 July 2015 in the Republic of Croatia, with the registered seat in Zagreb, Jankomir 5.

The equity share of AD Plastik d.d., Solin, in the associate is 24 percent.

The principal activities of the associate are as follows:
- automotive industry research and development;
- trade intermediation on domestic and international markets;
- purchase and sale of goods;
- representation of foreign firms;
- consulting and mediation in the design, construction, production and distribution of products and services;
- production of parts for the automotive industry.

* In 2016, AD Plastik d.d., Solin, sold its entire 40-percent equity share in FADP Holding Nanterre, and no longer has any equity share in the associate.

1. GENERAL INFORMATION (CONTINUED)

1.3. Associated companies (continued)

An associate is an entity over which the Group has significant influence but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Commonly, an equity share from 20 to 50 percent represents an investment in an associate.

In these consolidated financial statements, investments in associates are presented under the equity method.

1.4. Number of staff

At 31 December 2016, the number of staff employed was 2,121 (31 December 2015: 2,134).

	31.12.2016	31.12.2015
AD Plastik d.d.	1,193	1,203
AO ADP / ZAO PHR	521	529
AD Plastik d.o.o. Novo Mesto	6	3
ADP d.o.o. Mladenovac	172	186
ZAO AD Plastik Kaluga	229	213
	2,121	2,134

At 31 December 2016 the number of staff employed by associates Centar za istraživanje i razvoj automobilske industrije d.o.o. Zagreb, Croatia, and EURO AUTO PLASTIC SYSTEMS Mioveni, Romania, was 579 (31 December 2015: 610).

1.5. Management and corporate governance

Members of the Supervisory Board:	Mandate from	Mandate to
Drandin Dmitrij Leonitovič (President)	19. 10. 2015	19. 10. 2019
Ivica Tolić (Deputy)	20. 07. 2016	20. 07. 2020
Hrvoje Jurišić	20. 07. 2016	20. 07. 2020
Marijo Grgurinović	23. 07. 2015	23. 07. 2019
Igor Anatoljevič Solomatin	23. 07. 2015	23. 07. 2019
Nikitina Nadežda Anatoljevna	19. 10. 2015	19. 10. 2019
Dolores Čerina	02. 06. 2015	02. 06. 2019

Members of the Company's Management Board	Mandate from	Mandate to
Marinko Došen (President)	20. 07. 2016	20. 07. 2020
Katija Klepo	20. 07. 2016	20. 07. 2020
Mladen Peroš	20. 07. 2016	20. 07. 2020
Sanja Biočić	20. 07. 2016	20. 07. 2020

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – "Investment Entities: Applying the Consolidation Exception" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 11 "Joint Arrangements"** – "Accounting for Acquisitions of Interests in Joint Operations" – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of the amended and revised Standards and Interpretations has not lead to any material changes in the Company's financial statements.

Amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU to not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 18 April 2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Company anticipates that the adoption of IFRS 15 "Revenue from Contracts with Customers" will have effect on financial statements in the period of initial application, however, currently is not possible to determine their significance.

The Company anticipates the adoption of other stated standards and amendments of existing standards will not have a material effect on the financial statements in the period of initial application.

Issue of hedge accounting of financial assets and financial liabilities remains unregulated due to the fact that the principles of hedge accounting in the European Union have not yet been adopted.
According to the Company's estimates, the application of hedge accounting to the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" as of the date of the statement of financial position would not significantly impact the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies consistently applied in the preparation of the financial statements for the current and prior year.

3.1. Statement of compliance

The separate financial statements are prepared in accordance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRSs), as adopted by the European Union.

3.2. Basis of preparation

The Group maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

The preparation of the financial statements in accordance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRSs) requires from management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of preparation of the financial statements, and actual results could differ from those estimates.

The consolidated financial statements of the Group represent aggregate amounts of assets, liabilities, capital and reserves of the Group as of 31 December 2016, and the results of its operations for the year then ended. The accounting policies are consistently applied by all the Group entities.

3.3. Basis of consolidation

The consolidated financial statements of the Group comprise the consolidated financial statements of the Company and its subsidiaries.

Subsidiaries are entities controlled by the Company. Parent has control over the subsidiary if, based on its control, is exposed to variable returns and has the capability to influence the variable returns of the subsidiary. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

3.4. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of operations.

Revenue is stated net of value added tax, estimated returns, rebates and discounts. The Group recognises revenue when the amount of the revenue can be measured reliably and when it is probable that future economic benefits will flow into the Group.

Income from sale of products

Product sales are recognized when the products are delivered to, and accepted by the customer and when the significant risks and rewards associated with the ownership of a product are transferred to the customer. Sales to customers with whom self- invoicing has been arranged are recognised upon receiving from such a customer the confirmation of delivery, i.e. when significant risks are transferred to the customer.

Income from the manufacture of tools for a known customer

Accrued revenues are matched with contracts that are specifically concluded for developing an asset, or a group of assets, closely linked and interdependent on the design, technology and function, or their final use or application. The Group is required to recognize revenue according to the stage of completion of a contractual performance. Pursuant to IAS 18, when the outcome of a production contract can be estimated reliably, the revenue and costs associated with the contract should be recognized according to the stage of completion of the contractual performance at the date of the statement of financial position.

Interest income

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Revenue recognition (continued)

Interest income is recognised on a pro rata basis, using the effective interest method. Interest earned on balances with commercial banks (demand and term deposits) is credited to income for the period as it accrues. Interest on trade receivables is recognised as income when accrued.

3.5. Foreign currency transactions

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. Cash, receivables and payables denominated in foreign currencies are retranslated at the rates of exchange in effect at the date of the statement of financial position. Gains and losses arising on translation are included in profit and loss for the year. At 31 December 2016, the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.557787 (31 December 2015: HRK 7.635047 for 1 EUR).

3.6. Income tax expense

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in profit and loss, except where it relates to items recognised directly in equity, in which case it is also recognised in equity. Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rates enacted at the date of the statement of financial position, adjusted by appropriate prior-period tax liabilities. The income tax rate for years 2015 and 2016 amounts to 20 %.

Under Croatian tax regulations, group entities are not subject to taxation on a consolidated bases, and tax losses cannot be transferred within group entities. Subsidiaries are subject to taxation in their respective jurisdictions.

Deferred tax

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rate expected to apply to taxable profit in the period in which the liability is expected to be settled or the asset realised, based on the tax rates in effect at the date of the statement of financial position. The income tax rate applicable to deferred tax assets is 18 %, given that the application of the new law is in force since 1 January 2017.

The measurement of deferred tax liabilities and assets reflects the amount that the Group expects, at the date of the statement of financial position, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each date of the statement of financial position, the Group reviews the unrecognised potential deferred tax assets and the carrying amount of the recognised deferred tax assets.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Property, plant and equipment, and intangible assets

Property, plant and equipment as well as intangible assets are recognised at purchase cost and subsequently reduced by accumulated depreciation/amortisation. The purchase cost comprises the purchase price, import duties and non-refundable sales taxes (on property, plant and equipment) and any directly attributable costs of bringing an asset to its working condition and location for its intended use, such as employee remuneration, professional fees directly arising from putting an asset into its working condition, test costs (for intangible assets), as well as all other costs directly attributable to brining an asset to a condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in an increase of expected future economic benefits to be derived from the use of an item of property, plant and equipment or intangible assets in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of property, plant and equipment or intangible assets are included in profit or loss in the period in which they occur. Depreciation commences on putting an asset into use. Depreciation is provided so as to write town the cost or revalued amount of an asset other than land, property, plant and equipment and intangible assets under development over the estimated useful life of the asset using the straight-line method as follows:

Tangible and intangible assets	Depreciation rates in 2016	Depreciation rates in 2015
Buildings	1.50	1.50
Machinery	7.00	7.00
Tools, furniture, office and laboratory equipment and accessories, measuring and control instruments	10.00	10.00
Vehicles	20.00	20.00
IT equipment	20.00	20.00
Others	10.00	10.00
Projects	20.00	20.00
Software	20.00	20.00

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of a business at the acquisition date. Goodwill is presented as an intangible asset.

Goodwill is tested for impairment anually or more often if the events and circumstances that indicate potential impairment occur. Goodwill is measured as cost of acquisition less accumulated losses due to impairment. Impairment losses on goodwill are not reversed. Gains and losses from the sale of a business include the net book value of goodwill, which relates to the sold business. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3.8. Investment property

Investment property is property held to earn rentals or for capital appreciation, or both. Investment properties are measured at cost, which includes transaction costs.

All of the Group's property interests held under operating leases are accounted for as investment properties.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Impairment of property, plant and equipment, and intangible assets

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

3.10. Investments in associates

An associate is an entity over which the Company has significant influence, but no control over the entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

The results of operations of associates are incorporated in these financial statements using the equity method of accounting. Under this method, the Group's share in the profit or loss of associates is recognised in profit and loss from the date of acquisition of significant influence until the date on which significant influence is lost. The results of operations of associates are incorporated in these financial statements using the equity method of accounting.

Investments are recognised initially at cost and are subsequently adjusted by the changes in the acquirer's share of the net profit of the investee. Where the Group's share of losses in an associate is equal to or higher than the equity investment in the associate, no further losses are recognised, except where the Group has assumed an obligation or committed to make a payment on behalf of the associate.

3.11. Inventories

Inventories of raw material and spare parts are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs.

Cost of work in progress and finished products comprises the cost of raw material and supplies, direct labour and other costs and the portion of overheads directly attributable to work in progress.

Small inventory is written off when put in use.

The cost of product inventories i.e. the production costs is based on direct material used, the cost of which is determined using the weighted average cost method, then direct labour costs, and fixed overheads at the actual level of production which approximates the normal capacities, as well as variable overheads that are based on the actual use of the production capacities.

Merchandise on stock is recognised at purchase cost.

3.12. Trade receivables and prepayments

Trade debtors and prepayments are carried at nominal amounts less an appropriate allowance for impairment for uncollectible amounts.

Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment loss is determined as the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Management determines the level of impairment allowance for doubtful receivables based on a specific review of the recoverability of amounts owed by strategic customers of the ADP Group and of the overall ageing of other current receivables. The allowance for amounts doubtful of collection is charged to the statement of profit and loss for the year.

3.13. Cash and cash equivalents

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.15. Termination, long-service and other employee benefits

(a) Pension-related obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date. The Group recognises its termination benefit obligations in accordance with the applicable Union Agreement.

(c) Regular retirement benefits

Otpremnine koje dospijevaju u razdoblju duljem od 12 mjeseci nakon izvještajnog datuma, diskontiraju se na njihovu sadašnju vrijednost.

(d) Long-term employee benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested.

3.16. Financial instruments

Financial assets and financial liabilities included in the accompanying financial statements consist of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables, long-term receivables, loans, borrowings and investments. The details of the recognition and measurement of those items are presented in the corresponding policies.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Financial instruments (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets are assessed for indications of impairment at each date of the statement of financial position. A financial asset is impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Impairment loss on a financial asset is recognised by reducing the carrying amount of the asset through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recoded as income for the period.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset have expired, when the asset is transferred and when substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the underlying contractual arrangement.

Revaluation reserves

A part of the Group companies have elected the revaluation method as a method of subsequent measurement. When the carrying amount of such assets increases on revaluation, the increase is recognized in other comprehensive income and accumulated within equity as a revaluation reserve. Revaluation is performed with sufficient regularity to ensure that the carrying amount does not differ materially from the one that would be measured at fair value at the date of the statement of financial position. On derecognition of such an asset (as a result of retirement or disposal), the revaluation reserve accumulated in equity relating to that asset can be transferred directly to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Financial instruments (continued)

Translation reserves

The Group may have a monetary item as an amount receivable from, or payable to a foreign entity. An item neither planned to be settled nor likely to arise in the foreseeable future is essentially part of the entity's net investment in a foreign operation and accounted for in accordance with IAS 21. The Group recognizes foreign exchange differences arising from monetary items that are part of the net foreign investment initially in other comprehensive income and accumulates them under a separate component of equity – revaluation reserves.

On disposal of a net investment in a foreign operation, the entire balance of exchange differences is transferred from equity to profit or loss (as a reclassification adjustment).

3.17. Contingencies

Contingent liabilities are not recognised in financial statements. They are disclosed only when the possibility of outflow of resources embodying economic benefits is certain. A contingent asset is not recognised in the financial statements but it is disclosed when the inflow of economic benefits becomes probable.

3.18. Events after the reporting date

Events after the date of the statement of financial position that provide additional information about the Group's position at that date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3.19. Segment reporting

The Group monitors and presents the results of its principal operating segments separately. The segment reporting is based on identified geographical areas. Certain financial information about the geographical segments are presented in Note 5.

The Group presents the revenue by geographical location, but does not monitor information about the long-term assets and the revenue generated in those areas from external customers.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Areas of estimation include, but are not limited to, depreciation periods and residual values of property, plant and equipment, and of intangible assets, value adjustment of inventories, impairment of receivables, and litigation provisions. The key areas of management estimation in applying the Group's accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

Useful life of property, plant and equipment

As described in Note 3.7, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Property, plant and equipment are recognised initially at cost, less accumulated depreciation.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized for unused tax losses only to the extent that it is probable that the related tax benefit will be realised. In determining the amount of deferred taxes that can be recognised significant judgements are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2016, deferred tax assets on available tax differences were recognised.

Impairment allowance on trade receivables

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the profit and loss for the year.

Actuarial estimates used in determining the retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates.

5. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Segment revenue and results

(in thousands of kunas)

Segment revenue analysis by country:

	2016	2015
Slovenia	390,767	428,796
Russia	229,242	271,697
France	133,355	117,435
Germany	36,443	52,304
Italy	32,272	24,483
Spain	25,431	16,406
Romania	18,093	9,135
Croatia	15,452	11,705
Serbia	14,762	16,030
Slovakia	7,619	4,070
Other countries	9,947	50,303
	913,383	**1,002,363**

6. SALES

(in thousands of kunas)

Sales represent amounts receivable (excluding excise and similar duties) for goods sold and services rendered.

	2016	2015
Foreign sales	897,931	990,658
Domestic sales	15,452	11,705
	913,383	**1,002,363**

7. OTHER INCOME

(in thousands of kunas)

	2016	2015
Service sales – cardboard packaging	3,997	1,326
Rental income	3,240	2,978
Income from recovery of written-off receivables (note 27)	2,794	256
Income on reconciliation of trade payables with suppliers	2,538	307
Income from the sale of non-current assets	1,701	1,241
Income from damages and insurance	1,360	15
Income from consumption of own products and services	1,046	3,761
Income from the sale of services to tenants	1,003	525
Income from waste management and disposal services	342	2,121
Income from reversal of provisions for penalties	272	-
Income from transport services	121	112
Income from accounting services	16	-
Other operating income	3,937	10,390
	22,367	**23,032**

Other operating income consist mostly of compensations for damages, overstock and other extraordinary income.

8. COST OF RAW MATERIAL AND SUPPLIES

(in thousands of kunas)

	2016	2015
Cost of basic and auxiliary materials	411,321	429,985
Electricity	18,529	19,441
Other raw material and supplies	32,062	32,812
	461,912	**482,238**

9. COST OF GOODS SOLD

(in thousands of kunas)

	2016	2015
Cost of goods and spare parts sold	20,723	27,601
Cost of direct material sold	5,144	18,338
Cost of goods sold	510	6,661
Other costs of goods sold	-	27
	26,377	**52,627**

10. STAFF COSTS

(in thousands of kunas)

	2016	2015
Net wages and salaries	102,658	104,781
Taxes and contributions out of salaries	34,296	36,571
Contributions on salaries	25,656	28,508
Other staff costs	18,434	17,700
	181,044	**187,560**

Other staff costs comprise per diems, overnight accommodation costs and business travel costs, costs of commutation and reimbursement of other business related costs.

11. DEPRECIATION AND AMORTISATION

(in thousands of kunas)

	2016	2015
Depreciation (Note 22)	49,928	54,489
Amortisation (Note 21)	26,972	18,709
Depreciation of investment property (Note 23)	215	-
	77,115	**73,198**

12. SERVICE COST

(in thousands of kunas)

	2016	2015
Transport	33,189	25,329
Current and preventive maintenance of machinery	8,609	5,847
Rental costs	8,436	9,966
Tool modification costs	2,303	2,115
Telecommunication and information system costs	1,809	1,365
Municipal utility fees	1,151	3,293
Water supply	1,007	1,261
Forwarding and shipping costs	308	551
Other service costs	3,566	22,975
	60,376	**72,702**

14. PROVISIONS FOR RISKS AND CHARGES

(in thousands of kunas)

	2016	2015
Vacation accruals	4,322	-
Litigation provisions	1,243	1,710
Provisions under actuarial calculations	260	3,483
Other provisions for risks and charges	215	360
	6,040	**5,553**

13. OTHER OPERATING EXPENSES

(in thousands of kunas)

	2016	2015
Temporary and occasional service costs - tools	24,567	46,569
Professional service cost	9,995	6,277
Insurance premiums	2,598	2,165
Customer complaints	2,560	3,953
Items directly written off	2,488	1,801
Other taxes, duties and fees	2,348	2,928
Other non-material expenses	1,690	5,323
Communal fees for the use of construction plots	1,507	1,706
Entertainment	1,426	733
Bank and payment operation charges	1,232	4,020
Professional training costs	1,189	638
Property tax	652	533
Occupational health and safety services	586	601
Measuring equipment and laboratory tests	488	584
Net book value of tangible and intangible fixed assets	475	2,842
Property security services	394	362
Costs of goods provided free of charge	271	920
Support to employees and their families	240	233
Forest reproduction levies	198	209
Gifts, donations and sponsorships of up to 2 % of prior-period revenue	186	150
Other expenses	9,598	26,696
	64,688	**109,243**

Service costs for tools comprise of purchase price of tools and dependant costs of completion.

Other operating expenses consist mostly of damages paid, shortfalls and other extraordinary expenses.

15. FINANCE REVENUE

(in thousands of kunas)

	2016	2015
Foreign exchange gains	44,740	111,741
Interest income	763	9,675
Other financial income	9	38
	45,512	**121,454**

16. FINANCIAL EXPENSES

(in thousands of kunas)

	2016	2015
Foreign exchange losses	74,334	123,634
Interest expense	23,974	29,597
	98,308	**153,231**

17. SHARE IN THE PROFIT FROM INVESTMENTS IN ASSOCIATES

(in thousands of kunas)

	2016	2015
Share in the profit of associates recognised as income	43,172	36,458
	43,172	**36,458**

18. INCOME TAX

(in thousands of kunas)

Income tax comprises the following:

	2016	2015
Deferred tax	589	299
Current tax	-	(439)
	589	**(140)**

Deferred tax, as presented in the statement of financial position, is as follows:

	2016	2015
Balance at 1 January	**22,399**	**15,568**
Recognised deferred tax assets	(16,635)	6,831
Balance at 31 December	**5,764**	**22,399**

Deferred tax assets arise from the following:

2016	Opening balance	Charged to the statement of comprehensive income	Closing balance
Temporary differences:			
Provisions for long-service and termination benefits	4,043	(1,145)	2,898
Reserves from translation of foreign currencies, net	26,619	(19,379)	7,240
Movements in reserves on revaluation of property, plant and equipment and intangible fixed assets	(8,263)	3,889	(4,374)
Balance at 31 December	**22,399**	**16,635**	**5,764**

2015	Opening balance	Charged to the statement of comprehensive income	Closing balance
Temporary differences:			
Provisions for long-service and termination benefits	3,806	237	4,043
Reserves from translation of foreign currencies, net	24,766	1,854	26,619
Movements in reserves on revaluation of tangible and intangible fixed assets	(13,004)	4,741	(8,263)
Balance at 31 December	**15,568**	**6,831**	**22,399**

18. INCOME TAX (CONTINUED)

(in thousands of kunas)

Reconciliation between the accounting and tax results is shown as follows:

	2016	2015
Accounting profit before tax and deferred taxation	**49,115**	**46,362**
Effect of tax base increasing items	21,986	6,330
Effect of tax base decreasing items	(107,118)	(2,425)
Tax base	**(36,017)**	**50,267**
Tax at the weighted average rate	-	4,444
Tax reliefs	-	(4,883)
Income tax expenses before effects of deferred taxation	-	*(439)*
Deferred tax recognised in profit or loss	589	299
Income tax expense	**589**	**(140)**

The income tax rate for years 2015 and 2016 amounts to 20 %. The income tax rate applicable to deferred tax assets is 18 %, given that the application of the new law is in force since 1 January 2017.

19. EXCHANGE DIFFERENCES ON TRANSLATION OF A FOREIGN OPERATION, NET

(in thousands of kunas)

	2016	2015
Balance at beginning of the year	**(143,495)**	**(116,157)**
Exchange differences on translation of a foreign operation	31,943	(44,552)
Income tax on exchange rate losses from translation of a foreign operation	(7,823)	9,646
Exchange differences on translation of a foreign operation, net	**24,120**	**(34,908)**
Realization of exchange differences	44,802	7,570
Balance at end of year	**(74,573)**	**(143,495)**

20. EARNINGS PER SHARE

(in thousands of kunas)

Basic earnings per share are determined, by dividing the Group's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Group as treasury shares. The basic earnings per share equal the diluted earnings per share, as there are currently no share options that would potentially increase the number of issued shares.

	2016	2015
Net profit attributable to the shareholders of the Group	49,704	46,222
Weighted average number of shares	4,169,725	4,167,822
Basic and diluted earnings per share (in kunas and lipas)	**11.92**	**11.09**

21. INTANGIBLE ASSETS

(in thousands of kunas)

	Licences	Software	Projects	Other intangible assets	Intangible assets under development	Total
Cost						
Balance at 31 December 2014	**55**	**7,792**	**196,211**	**1,301**	**34,588**	**239,947**
Additions	-	-	-	-	26,428	26,428
Assets put into use	722	2,535	18,923	526	(22,705)	-
Disposals and retirements	-	(3,940)	(31,666)	324	816	(34,465)
Effect of exchange differences	(74)	(156)	(5,886)	(364)	(968)	(7,449)
Balance at 31 December 2015	**702**	**6,231**	**177,582**	**1,787**	**38,158**	**224,461**
Additions	-	-	-	-	21,662	21,662
Assets put into use	-	454	32,552	24	(33,030)	-
Disposals and retirements	(55)	(613)	(3,838)	(4)	(2,470)	(6,979)
Effect of exchange differences	(16)	5	3,725	(32)	230	3,912
Balance at 31 December 2016	**631**	**6,077**	**210,021**	**1,776**	**24,551**	**243,055**
Accumulated amortisation						
Balance at 31 December 2014	**-**	**4,284**	**108,916**	**15**	**-**	**113,215**
Charge for the year (Note 11)	443	950	17,305	11	-	18,709
Disposals and retirements	-	(597)	(29,467)	1	-	(30,063)
Effect of exchange differences	(22)	(86)	(3,267)	(4)	-	(3,380)
Balance at 31 December 2015	**421**	**4,551**	**93,487**	**23**	**-**	**98,481**
Charge for the year (Note 11)	126	604	26,148	94	-	26,972
Disposals and retirements	-	(392)	(692)	-	-	(1,084)
Effect of exchange differences	(10)	(34)	(407)	2	-	(449)
Balance at 31 December 2016	**536**	**4,728**	**118,536**	**119**	**-**	**123,920**
Net book value						
At 31 December 2015	**282**	**1,680**	**84,095**	**1,764**	**38,158**	**125,980**
At 31 December 2016	**95**	**1,349**	**91,485**	**1,656**	**24,551**	**119,136**

Projects comprise investments in the development of new products that are expected to generate revenue in future periods. Consequently, the costs are amortized over the period in which the related economic benefits flow into the Group.

22. PROPERTY, PLANT AND EQUIPMENT

(in thousands of kunas)

	Land	Buildings	Plant and equipment	Assets under development	Other tangible assets	Prepayments for tangible assets	Total
Cost							
Balance at 31 December 2014	**142,392**	**314,676**	**690,497**	**69,796**	**360**	**23**	**1,217,745**
Additions	-	-	-	60,317	-	-	60,317
Transfer from assets under development	-	37,416	78,761	(116,177)	-	-	-
Disposals and retirements	-	-	(17,186)	-	-	-	(17,186)
Effect of exchange differences	(1,259)	(11,076)	(46,263)	(3,392)	(147)	-	(60,156)
Balance at 31 December 2015	**141,133**	**341,016**	**707,790**	**10,544**	**213**	**23**	**1,200,720**
Additions	-	-	-	31,390	-	696	32,625
Revaluation	1,832	4,118	-	-	-	-	5,950
Transfer from assets under development	7,307	5,657	23,829	(37,282)	488	-	-
Disposals and retirements	-	-	(9,436)	(710)	-	-	(10,146)
Transferred to investment property (Note 23)	-	(14,303)	-	-	-	-	(14,303)
Effect of exchange differences	580	14,965	57,589	83	108	-	73,326
Balance at 31 December 2016	**150,852**	**351,453**	**779,773**	**4,566**	**810**	**719**	**1,288,173**
Accumulated depreciation							
Balance at 31 December 2014	**-**	**74,994**	**396,843**	**-**	**(139)**	**-**	**471,698**
Charge for the year (Note 11)	-	4,139	50,072	-	278	-	54,489
Disposals and retirements	-	-	(8,346)	-	-	-	(8,346)
Effect of exchange differences	-	-	(12,525)	-	-	-	(12,525)
Balance at 31 December 2015	**-**	**79,133**	**426,044**	**-**	**139**	**-**	**505,316**
Charge for the year (Note 11)	-	6,056	43,771	-	102	-	49,929
Disposals and retirements	-	-	(5,143)	-	-	-	(5,143)
Transferred to investment property (Note 23)	-	(6,024)	-	-	-	-	(6,024)
Effect of exchange differences	-	1,783	42,308	-	57	-	44,149
Balance at 31 December 2016	**-**	**80,949**	**506,980**	**-**	**297**	**-**	**588,226**
Net book value							
At 31 December 2015	**141,133**	**261,883**	**281,746**	**10,544**	**75**	**23**	**695,404**
At 31 December 2016	**150,852**	**270,505**	**272,793**	**4,566**	**513**	**719**	**699,947**

22. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2016 the estimated value of land and buildings pledged as collateral with commercial banks amounts to HRK 344,007 thousand (31 December 2015: HRK 360,948 thousand), and the balance of short-term and long-term borrowings covered by the collateral amounts to HRK 283,988 thousand (31 December 2015: HRK 374,740 thousand). Total value of liabilities under financial leases at December 31 2016 amounts to HRK 2,239 thousand (31 December 2015: HRK 4,743 thousand).

23. INVESTMENT PROPERTY

(in thousands of kunas)

	Buildings	Total
Cost		
At 31 December 2014	-	-
At 31 December 2015	-	-
Reclassified from property, plant and equipment (Note 22)	14,303	14,303
At 31 December 2016	**14,303**	**14,303**
Accumulated depreciation		
At 31 December 2014	-	-
At 31 December 2015	-	-
Reclassified from property, plant and equipment (Note 22)	6,024	6,024
Charge for the year (Note 11)	215	215
At 31 December 2016	**6,239**	**6,239**
Net book value		
At 31 December 2015	-	-
At 31 December 2016	**8,064**	**8,064**

In 2016, the part of the building used to rent office space was reclassified. Income from the rental of the building in 2016 amounts to HRK 404 thousand, and the depreciation charge for the year amounts to HRK 215 thousand.

24. INVESTMENTS IN ASSOCIATES

(in thousands of kunas)

Name of associate	Principal activity	Country of incorporation and business	Ownership interest in %		Amount of equity investment, HRK'000	
			2016	2015	2016	2015
EURO AUTO PLASTIC SYSTEMS	Manufacture of other motor vehicle spare parts and accessories	Mioveni, Romania	50.00%	50.00%	82,928	86,481
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE	Automotive industry research and development	Zagreb, Croatia	24.00 %	24.00 %	35	27
					82,964	**86,508**

Name of associate	Country of incorporation and business	Amount of equity investment	Share in the result for the year 2015	New investments made during the period	Dividends paid	Amount of equity investment
		31.12.2014				31.12.2015
EURO AUTO PLASTIC SYSTEMS	Mioveni, Romania	81,732	46,712	-	(41,963)	86,481
FAURECIA ADP HOLDING	Nanterre, France	10,934	(10,934)	-	-	-
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE	Zagreb, Croatia	-	3	24	-	27
Total		**92,666**	**35,781**	**24**	**(41,963)**	**86,508**

Name of associate	Country of incorporation and business	Amount of equity investment	Share in the result for the year 2016	New investments made during the period	Dividends paid	Amount of equity investment
		31.12.2015				31.12.2016
EURO AUTO PLASTIC SYSTEMS	Mioveni, Romania	86,481	43,164	-	(46,716)	82,929
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE	Zagreb, Croatia	27	8	-	-	35
Total		**86,508**	**43,172**	**-**	**(46,716)**	**82,964**

Euro Auto Plastic Systems s.r.l. is considered to be related because the management of its operations is under the control of Faurecia Automotive Holdings s.a.s. In 2016 AD PLASTIK d.d., Solin, sold its entire 40-percent equity share in Faurecia ADP Holding Nanterre and as of December 31 2016s has no more financial investment in named associate.

25. OTHER FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2016	31.12.2015
Long-term loans to unrelated companies	6,400	9,788
Other financial assets	62	62
Current portion of long-term loan receivables (Note 29)	(1,500)	(1,500)
Long-term loans to associates	-	37,735
	4,961	**46,085**

Long-term loans have been provided to associated companies at an interest rate of 5.14% percent (2015: 20.16 %) and mature in period 2019-2022. Long-term loans to third parties have been provided at an interest rate of 6.00% percent (2015: 6.00 %), with the ultimate maturity in 2021.

26. INVENTORIES

(in thousands of kunas)

	31.12.2016	31.12.2015
Raw material and supplies on stock	68,929	65,039
Finished products	19,117	18,576
Merchandise on stock	13,940	9,907
Work in progress	5,442	4,264
Advances for inventory	137	-
	107,565	**97,786**

27. TRADE RECEIVABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign trade receivables	131,357	140,470
Domestic trade receivables	3,701	6,273
Impairment allowance on receivables	(2,226)	(3,388)
	132,831	**143,355**

The average credit period on sales is 63 days (2015: 70 days). The Group has provided for all for all sued debtors, regardless of the past due period, as well as for all receivables that are past due and assessed as doubtful of collection.

Movements in the impairment allowance on doubtful trade receivables are presented as follows:

	2016	2015
Balance at beginning of the year	3,361	7,417
Written-off during the year	(567)	(4,056)
Collected during the year (Note 7)	(2,794)	-
Total impairment allowance on domestic trade receivables	**-**	**3,361**
Balance at beginning of the year	27	1,152
New impairments and writte-offs during the year	2,199	(869)
Collected during the year (Note 7)	-	(256)
Total impairment allowance on foreign trade receivables	**2,226**	**27**
Total impairment allowance	**2,226**	**3,388**

All receivables provided against are under litigation or included in bankruptcy estate. Ageing analysis of impaired receivables:

	31.12.2016	31.12.2015
Over 365 days	2,226	3,388
	2,226	**3,388**

Ageing analysis of receivables past due but not impaired:

	31.12.2016	31.12.2015
0 - 365 days	19,529	19,430
Over 365 days	2,313	-
	21,842	**19,430**

27. TRADE RECEIVABLES (CONTINUED)

(in thousands of kunas)

Receivables from associated companies:

	31.12.2016	31.12.2015
Trade receivables	5,453	4,883
	5,453	**4,883**

28. OTHER RECEIVABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Prepayments made	28,750	19,158
Receivables from the State and State institutions	11,424	10,182
Due from employees	288	382
Other receivables	-	4,487
	40,462	**34,209**

Amounts due from the State and state institutions comprise receivables from the State Budget in respect of VAT refund, refunds from the Croatian Health Insurance Fund and similar.

Prepayments made comprise mainly prepayments for purchases of production equipment and tools.

29. CURRENT FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2016	31.12.2015
Short-term loans	46,651	2,259
Current portion of given long-term loans (Note 25)	1,500	1,500
Interest receivable	9,704	389
Deposits	2,802	2,357
	60,656	**6,505**

Short-term loans to unrelated companies represent loans given to Faurecia ADP LLC, with maturity date in second quarter of 2017. Most of interest receivables also relate to above mentioned loans and will be collected in second quarter of 2017.

Deposits relate to a deposit of AO ADP/ZAO PHR for a term of six months and with an interest rate of 8.15 percent, with a maturity of four months.

30. CASH AND CASH EQUIVALENTS

(in thousands of kunas)

	31.12.2016	31.12.2015
Current account balance	10,422	12,384
	10,422	**12,384**

31. PREPAID EXPENSES AND ACCRUED INCOME

(in thousands of kunas)

Accrued income in the amount of HRK 50,185 thousand (31 December 2015: HRK 31,739 thousand) relates to the value of investment made in the manufacture of tools for a known customer.

	31.12.2016	31.12.2015
Other accrued income on tools	50,185	31,739
Prepaid expenses	3,702	7,280
Other accrued income	4,592	6,171
	58,478	**45,190**

32. SHARE CAPITAL

Subscribed capital amounts to HRK 419,958 thousand and consists of 4,199,584 shares, with a nominal value of HRK 100.00 per share (2015: HRK 419,958 thousand; 4,199,584 shares, with a nominal value of HRK 100.00 each).

Shareholders holding over 2 percent of the shares at 31 December 2016 were as follows:

Shareholder	Headquarters	Number of shares	Ownership in %	Type of account
OAO HOLDING AUTOKOMPONENTI	Saint Petersburg, Russia	1,259,875	30.00%	Primary account
ADDIKO BANK D.D. / RAIFFEISEN MANDATORY PENSION FUND	Zagreb, Croatia	269,462	6.42%	Custody account
ADDIKO BANK D.D. / RAIFFEISEN VOLUNTARY PENSION FUND	Zagreb, Croatia	148,645	3.54%	Custody account
ADP-ESOP D.O.O.	Zagreb, Croatia	130,532	3.11%	Primary account
ADDIKO BANK D.D. PBZ CO B-CATEGORY MANDATORY PF (1/1)	Zagreb, Croatia	119,640	2.85%	Custody account
HRVATSKA POŠTANSKA BANKA D.D./ KAPITALNI FOND D.D.	Zagreb, Croatia	116,541	2.78%	Custody account
SOCIETE GENERALE-SPLITSKA BANKA D.D./ / ERSTE PLAVI B-CATEGORY MANDATORY PF	Split, Croatia	115,353	2.75%	Custody account
ERSTE & STEIERMARKISCHE BANK D.D./ / JOINT CUSTODY ACCOUNT FOR A FOREIGN LEGAL PERSON	Zagreb, Croatia	105,349	2.51%	Custody account
SOCIETE GENERALE-SPLITSKA BANKA D.D./ / AZ B-CATEGORY MANDATORY PENSION FUND	Split, Croatia	93,900	2.24%	Custody account
PBZ D.D./ STATE STREET CLIENT ACCOUNT	Zagreb, Croatia	92,948	2.21%	Custody account
Other shareholders	-	1,747,339	41.61%	-
Total:		**4,199,584**	**100.00%**	

33. PROVISIONS

(in thousands of kunas)

	Short-term		Long-term	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Jubilee awards (long-service benefits)	-	-	1,474	1,759
Retirement benefits	-	-	2,269	1,724
Legal actions	4,474	5,430	-	-
Vacation accrual	4,477	2,631	-	-
Other provisions	401	546	-	-
	9,352	**8,607**	**3,743**	**3,483**

Movement in provisions is presented as follows:

	Jubilee awards (long-service benefits)	Termination and retirement benefits	Legal actions	Provision for taxes	Vacation accrual	Other provisions	Total
At 1 January 2015	**1,302**	**688**	**3,720**	**51**	**3,197**	**638**	**9,596**
Increase/(decrease) of provisions	457	1,036	1,710	(51)	(566)	(92)	2,494
At 31 December 2015	**1,759**	**1,724**	**5,430**	**-**	**2,631**	**546**	**12,090**
Increase/(decrease) of provisions	(285)	545	(956)	-	1,846	(145)	1,005
At 31 December 2016	**1,474**	**2,269**	**4,474**	**-**	**4,477**	**401**	**13,095**

Long-service and termination benefits

Defined benefit plan

According to the Union (Collective) Agreement, the Company has the obligation to pay long-service (jubilee awards), retirement-related and other benefits to employees. The Company operates a defined benefit plan for qualifying employees. Benefits payable upon retirement and long-service benefits are defined in the Collective Agreement and employment agreements. No other post-retirement benefits are provided.

Long-service benefits are paid for full years of service in the month of the current year in which the service is determined as completed.

The present value of defined benefit obligations arising from long-service benefits and benefits payable upon retirement is determined using the Projected Credit Unit method and serves as the basis for arriving at the past and current service costs, the interest expense and the actuarial gain or loss.

Key assumptions used in calculating the required provisions are the discount rate of 3.60 % and the fluctuation rate of 6.60 %.

34. LONG-TERM BORROWINGS AND OTHER NON-CURRENT LIABILITIES

(in thousands of kunas)

	31.12.2016	31.12.2015
Long-term borrowings	268,498	340,517
Long-term borrowings for purchase of machinery	16,520	28,488
	285,018	**369,005**
Current portion of long-term borrowings (Note 37)	(99,259)	(77,925)
	185,759	**291,080**

34. LONG-TERM BORROWINGS AND OTHER NON-CURRENT LIABILITIES

(in thousands of kunas)

Long-term borrowings are mainly those realized through programs of HBOR and are used to finance capital investments and development projects. Instruments of collateral provided for the for long-term loans include mortgage on real estate and/or equipment and payment instruments. The existing long-term loans are ultimately repayable in the period 31 March 2017 – 31 December 2021.

In 2016, the weighted average interest rate on the long-term loans in 2016 was 3.85 percent (2015: 4.40%).

The Group regularly meets all its obligations arising from the loans and observes all the conditions specified in the underlying contracts.

Movements in long-term borrowings during the year:

	2016	2015
Balance at 1 January	**291,080**	**212,344**
New loans raised	-	116,906
Exchange differences, net	763	(173)
Reclassification to short-term (Note 37)	(106,084)	(66,658)
Balance at 31 December	**185,759**	**291,080**

35. ADVANCES RECEIVED

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign customers	31,942	16,441
Domestic customers	2,500	7,172
	34,442	**23,613**

Advances received from foreign customers represent cash advanced from known customers for ordered tools.

36. TRADE PAYABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign trade payables	113,733	99,987
Domestic trade payables	29,948	80,524
	143,681	**180,511**

Average payment period for trade payables during 2016 equalled to 99 days (2015: 110 days).

37. SHORT-TERM BORROWINGS

(in thousands of kunas)

	31.12.2016	31.12.2015
Short-term loans - principal payable	122,052	84,108
Current portion of long-term borrowings (Note 34)	99,259	77,925
Short-term borrowings - interest payable	1,747	1,067
	223,058	**163,100**

The short-term borrowings were used to finance development projects and for working capital purposes. Instruments of collateral provided for the short-term borrowings are payment instruments. Of the total balance of the short-term borrowings, 75 percent represent revolving facilities and approved overdrafts on current accounts, with the limits renewable on an annual basis.

The short-term borrowings represent loans provided by commercial banks, with an average interest rate of 4.54 percent (2015: 5.49 %).

37. SHORT-TERM BORROWINGS (CONTINUED)

(in thousands of kunas)

	2016	2015
Balance at 1 January	**163,100**	**221,712**
New loans raised	100,065	63,631
Current portion of long-term borrowings (Note 34)	106,084	66,658
Invoiced interest	20,355	26,002
Exchange differences	1,646	(1,099)
Interest paid	(18,567)	(24,903)
Repayments of received loans	(149,625)	(188,901)
Balance at 31 December	**223,058**	**163,100**

38. OTHER CURRENT LIABILITIES

(in thousands of kunas)

	31.12.2016	31.12.2015
Amounts due to employees	9,075	9,899
Due to the State and State institutions	8,647	15,042
Other current liabilities	133	1,682
	17,854	**26,623**

39. ACCRUED EXPENSES AND DEFERRED INCOME

(in thousands of kunas)

	31.12.2016	31.12.2015
Accrued tool expenses	19,677	15,400
Due to the State and State institutions	663	29
Other current liabilities	5,143	2,191
	25,483	**17,620**

40. GOODWILL

(in thousands of kunas)

	31.12.2016	31.12.2015
Goodwill	9,411	7,612
	9,411	**7,612**

Recognized goodwill relates to the difference between the net assets of KZA and the value paid for the purchase of KZA by ZAO AD Plastik Kaluga.

Pursuant to International Financial Reporting Standard 3 "Business Combinations", the Group recognized at 31 December 2013 the business combination at provisional amounts because the fair values of identifiable assets, liabilities and contingent liabilities of the acquiree could be determined only provisionally. The Group acquired the control of the acquiree at 31 December 2013 and completed the recognition of the business combination within 12 months from the acquisition.

Movement of goodwill:

	2016	2015
At 1 January	**7,612**	**8,908**
Effect of exchange differences	1,799	(1,296)
At 31 December	**9,411**	**7,612**

41. REMUNERATION PAID TO THE MEMBERS OF THE SUPERVISORY BOARD, MANAGEMENT BOARD AND EXECUTIVE DIRECTORS

(in thousands of kunas)

The total remuneration provided to the members of the Supervisory Board, the Management Board and executive directors in 2016 amounts to HRK 12,459 thousand (2015: HRK 15,576 thousand).

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

42.1. Gearing ratio

(in thousands of kunas)

The Group's gearing ratio, expressed as the ratio of net debt to equity, is as follows:

	31.12.2016	31.12.2015
Short-term borrowings (Note 37)	223,058	163,100
Long-term borrowings (Note 34)	185,759	291,080
Cash and cash equivalents (Note 30)	(10,422)	(12,384)
Deposits (Note 29)	(2,802)	(2,357)
Net debt	**395,593**	**439,439**
Equity	697,385	622,956
Net debt-to-equity ratio	**56.73%**	**70,54%**

Net debt includes credits extended to purchase goods in the amount of HRK 16,520 thousand (31 December 2015: HRK 28,488 thousand).

Equity consists of share capital, reserves, own shares and retained earnings.

42.2. Categories of financial instruments

	31.12.2016	31.12.2015
Financial assets	**238,004**	**333,040**
Loans and receivables	224,780	318,299
Cash and cash equivalents and deposits (Notes 29 and 30)	13,224	14,741
Financial liabilities	**596,147**	**669,885**
Trade and other payables	187,330	215,705
Borrowings (Notes 34 and 37)	408,817	454,180

At the reporting date there are no significant concentrations of credit risk for loans and receivables designated at fair value through the statement of comprehensive income. Excluded from the balance are amounts receivable from and payable to the State.

42.3. Financial risk management objectives

The Finance function of the Group, which coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group, performs risk management at Company's by means of internal risk reports, which analyse exposures by the degree and magnitude of risks, and implementing activities to manage the risks effectively and minimise them. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk and cash flow interest rate risk. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes.

42.4. Price risk management

The Group's operations expose it to price risk, which is the risk associated with changes in the prices of key raw materials, transportation, other production costs and strong pressure from competitors and customers. However, in the automotive industry, open product price calculations prevail, and the price fluctuations of raw materials and other costs, either the upward or downward, are being adjusted with customers through selling price on a monthly, quarterly or semi-annual basis (depending on the customer). The largest markets on which the Group provides its services and sells its products comprise the EU market and the market of the Russian Federation. The Management Board of the Group determines the prices of its products for each foreign market separately.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(in thousands of kunas)

42.5. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest rate risk arises from its borrowings. The interest rate risk exposure is low, as there are no significant financial instruments at variable rates.

42.6. Credit risk

Credit risk is the risk that a party to a financial instrument will not meet its obligations arising therefrom and hence incur losses to the other party. The assets that expose the Group to credit risk consist mainly of loans and trade receivables. Loans are granted to its subsidiaries and as such credit risk is under the control of the Group. Trade receivables are presented net of allowance for bad and doubtful accounts.

The five largest customers of the Group are Revoz, Slovenia; Reydel Automotive France; OAO Avtovaz Russia; Hella Saturnus, Slovenia; and Renault Russia. In 2016 the Company generated 61.41% percent of its sales from its major customer, Renault and its subsidiaries (2015: 61.23 %).

It is the policy of the Group to transact with financially sound companies where the risk of default is minimised.

42.7. Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below using the middle exchange rates of the Croatian National Bank:

As at 31 December	Assets		Liabilities		Net FX position	
	2016	2015	2016	2015	2016	2015
EUR	115,921	131,250	286.864	587,527	(170,943)	(456,277)
RUB	108,062	90,612	19,561	57,868	88,501	32,744
RSD	3,748	3,744	4,901	-	(1,153)	3,744
USD	118	356	218	1,029	(100)	(673)
GBP	35	3	-	239	35	(236)
	227,884	**225,965**	**311,544**	**646,663**	**(83,660)**	**(420,698)**

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk of changes in the exchange rates for the euro (EUR) and the Russian rouble (RUB). The following table details the Group's sensitivity to a 2 percent change of the Croatian kuna against the euro and a 10 percent change of the Croatian kuna against the Russian rouble in 2016 and 2015. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the year-end. A negative figure below indicates a decrease in profit and a positive figure where the Croatian kuna changes against the relevant currency for the percentage specified above.

EUR impact	2016	2015
Change in exchange differences (2%)	+/- 3,419	+/- 9,119

RUB impact	2016	2015
Change in exchange differences (10%)	+/- 8,850	+/- 3,275

42 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.8. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board. The Group manages its liquidity using banking facilities (overdrafts) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can require payment i.e. can be required to pay.

2016	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Non-interest bearing	-	82,401	67,249	22,638	99	62	**172,449**
Interest bearing	6.58%	2,818	-	58,194	5,297	-	**66,309**
		85,219	**67,249**	**80,832**	**5,396**	**62**	**238,758**
Liabilities							
Non-interest bearing	-	80,585	64,423	42,323	-	-	**187,331**
Interest bearing	3.76%	4,569	44,139	183,116	198,674	29	**430,527**
		85,154	**108,562**	**225,439**	**198,674**	**29**	**617,858**

2015	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Non-interest bearing	-	65,184	74,935	41,952	-	86,508	**268,579**
Interest bearing	9.48%	41	-	4,887	65,435	1,709	**72,072**
		65,225	**74,935**	**46,839**	**65,435**	**88,217**	**340,651**
Liabilities							
Non-interest bearing	-	84,468	81,151	46,535	3,551	-	**215,705**
Interest bearing	4.62%	3,693	25,960	145,108	280,770	37,022	**492,553**
		88,161	**107,111**	**191,643**	**284,321**	**37,022**	**708,258**

42 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.9. Fair value of financial instruments

Financial instruments held to maturity in the ordinary course of business are carried at the lower of cost and net amount less repaid portion.

The fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, except in the event of a forced sale or liquidation. The fair value of a financial instrument is the price quoted on a stock exchange or arrived at using the discounted cash flow method.

At 31 December 2016 the carrying amounts of cash, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term maturity of these assets and liabilities.

43. EVENTS AFTER THE REPORTING PERIOD

After 31 December 2016, there were no events that would have a significant impact on the financial statements for the year 2016, respectively they are not of such significance to the Group to require disclosure in the notes to the financial statements.

44. CONTINGENT LIABILITIES

Based on the Management's estimate, the Group had no material contingent liabilities at 31 December 2016 which would require to be disclosed in the notes to the consolidated financial statements.

As at 31 December 2016 there were no material legal actions with a potential negative outcome for the Group other than those reflected in these consolidated financial statements.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of AD Plastik d.d. and authorised for issue on 19 April 2017.

For AD Plastik d.d., Solin:

Marinko Došen, President of the Management Board

Katija Klepo, Member of Management Board

Sanja Biočić, Member of Management Board

Mladen Peroš, Member of Management Board

AD Plastik d.d., Solin

Separate Financial Statements for the Year Ended 31 December 2016 together with Independent Auditor's Report

Responsibility for the separate financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that separate financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRSs), as adopted in the European Union, which give a true and fair view of the financial position and results of operations of AD Plastik d.d. Solin (the "Company") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the separate financial statements.

In preparing those separate financial statements, the Management Board is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards and disclosing and explaining any material departure in the separate financial statements; and
- preparing the separate financial statements under the going concern principle 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 their compliance with the Croatian Accounting Act. 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.

Signed on behalf of the Management Board:

For AD Plastik d.d. Solin by:

Marinko Došen, President of the Management Board

Katija Klepo, Member of Management Board

Sanja Biočić, Member of Management Board

Mladen Peroš, Member of Management Board

AD Plastik d.d.
Matoševa 8, 21210 Solin, Republic of Croatia

19 April 2017

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INDEPENDENT AUDITOR'S REPORT

To the owners of AD Plastik d.d., Solin:

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate annual financial statements of AD Plastik d.d., Solin ("the Company") which comprise the separate statement of financial position as at 31 December 2016 and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate annual financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

Accuracy of the foreign and domestic sales balances

According to the disclosures made in Note 5, the total sales of the Company for the financial year amount to HRK 701,423 thousand (2015: HRK 753,704 thousand).

Sales are important for assessing the Company's performance. There is a risk that the reported sales may be higher than the actual amount earned by the Company. Operating income is accounted for when a sales transaction is completed, the goods are delivered to the customer and when all economic risks are transferred by the Company. The Company generates income from foreign and domestic sales. The transfer of the risks and rewards takes place when goods or services are transferred to the customer, when the goods are paid and available at the location of a third or related party. The sales process is supported by internal controls embedded in Company's IT systems.

Given a high degree of reliance on the IT systems and the potential impact of incorrect revenue accounting, we have concluded that the accuracy of the revenue is a key audit issue to be focused on during the audit.

Description of audit procedures performed and their results

Our substantive audit procedures included the test of the design and the operational efficiency of internal automated and manual controls at the Company, as well as tests of details so as to ensure that the revenue and the transactions are correctly accounted for. The key internal automatic control the Company relies on in asserting the correct recognition of revenue is the automatic matching of the order numbers and contract numbers in the Company's IT environment.

Testing of internal control

We tested the design and operating effectiveness of the key internal controls surrounding the sales process. Our test procedures included:

- checking whether dispatch documents match with the underlying contracts and orders,
- review of contracts with selected customers,
- checking whether the ordered quantity corresponds with the quantity i.e. amount specified in the dispatch document, and
- checking whether dispatch documents have been signed by a designated authorised person of the Company.

Based on the internal control test results, we defined the scope and nature of tests to be performed to consider whether the revenue is properly accounted for, which included test of details of internal documents, by matching them with the recognised sales and the related payment transactions. Based on all the audit evidence obtained by applying the procedures described above, we consider the methodology of revenue recognition to be appropriate.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

Capitalisation of non-production costs of finished products on stock at the Company

As disclosed in the Company's separate statement of comprehensive income, the total increase in the value of work in progress and finished products in 2016 amounts to HRK 1,528 thousand (2015: a decrease of HRK 3,256 thousand), while Inventories stated in separate statement of financial position at December 31, 2016 amount to HRK 54,644 thousand (at December 31, 2015 HRK 50,539 thousand). Inventory items are subject to the risk of capitalisation of non-production costs, i.e. those costs that, according to IAS 2 "Inventories", do not qualify for capitalisation as other production overheads.

Other production overheads are important for assessing the Company's performance, as they affect the carrying amount of finished products and hence the calculations of the Company's KPIs.

The Company defines the costs to be recognised as expenses for the period and those to be included in the carrying amount of finished products in its internal regulations, procedures and based on past experience and industry practice. The costs are reviewed and apportioned to the production process at the Company.

Given a high degree of reliance on manual calculations performed and the potential impact of incorrect inventory accounting, as well as the methodology used to perform the calculation, we have concluded that the accuracy of the capitalisation of non-production is a key audit issue to be focused on during the audit.

Description of audit procedures performed and their results

Our audit procedures included mapping the production accounting process, identifying internal controls the Company has established over those processes and testing the production calculations by means of tests of details of capitalised costs. This included analysing the nature of the cost incurred, the cost centres, the functions of the costs in the Company's production process as well as the management estimate of the portion of non-production costs associated with the production process to be capitalised and the portion to be recognised directly as an expense for the period.
In addition, we re-performed and checked the calculations of the inventory values on the entire Company's inventory population in accordance with the Company's internal cost accounting methodology.

In addition, we re-performed and checked the calculations of the inventory values on the entire Company's inventory population in accordance with the Company's internal cost accounting methodology.

While performing the audit procedures, we identified all items split by internal allocation keys to production and non-production costs. We identified the costs we considered material and performed an assessment of the compliance of the capitalised costs with IAS 2. We considered the nature of the costs, the cost centres as well as the methodology for capitalising the costs of finished products. Considering all the audit evidence above, we consider the methodology of capitalising non-production and production costs of finished products to be appropriate.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

Impairment of investments in subsidiaries and associates

As disclosed in Note 23 to the Company's separate financial statements, investments in subsidiaries and associates amount to HRK 66,163 thousand (2015: HRK 66,155 thousand).

The investments are subject to the risk of impairment in accordance with International Accounting Standard (IAS) 36 "Impairment of Assets".

In accordance with IAS 36 and accounting policy adopted, the Company reviews, at least annually, the carrying amounts of its investments in subsidiaries and associates using generally accepted methodologies for performing impairment tests. The Company tests its investments in subsidiaries and associates for impairment using the discounted cash flow (DCF) method. This includes using assumptions such as the discount rates used, and exchange rates if applicable, cash flow projections, etc.

Investments are considered to be impaired if there is objective evidence of impairment such as a reduced level of economic benefits flowing in from the investment, as a result of which the carrying amount of the investment in a subsidiary or associate becomes impaired.

Because of the significance of these judgements and the size of the investments in the subsidiaries and associates, the risk of impairment is a key area of focus.

Description of audit procedures performed and their results

Our procedures included evaluation and critical assessment of impairment testing process, taking into consideration the following:

- the pro-forma statements of comprehensive income of subsidiaries and associates to compare the budgeted against the actual amounts over a five-year period;
- the net operating profit calculation;
- the time horizon for the DCF model which included comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management's projections which also includes whether the model used by management to calculate the value in use of the individual Cash Generating Units complies with the requirements of IAS 36 Impairment of Assets.;
- the Weighted Average Cost of Capital (WACC) calculation which included subjecting the key assumptions to sensitivity analyses; and
- the overall exposure of the Company to its subsidiaries and associates.

We reviewed the accuracy of the pro-forma statement of comprehensive income of the identified companies to identify any instances of inconsistently estimated net operating profits of those companies. Based on the audit evidence obtained, we concluded that the pro-forma statements of comprehensive income are appropriate. We assessed the time horizon used in the investment impairment model and, based on the audit evidence obtained, we concluded that the time horizon of five (5) years is a common industry practice and therefore appropriate.

Based on the re-performed calculations of the remaining inputs and a verification of their respective sources, we concluded that the DCF calculations for the identified subsidiaries and associates are appropriate.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

Related-party transactions

During the financial year the Company entered into significant transactions with its subsidiaries and associates, which are considred to be its related companies. At 31 December 2016 the Company's exposure with respect to receivables from its related companies amounts to HRK 278,844 thousand (2015: HRK 302,590 thousand) and its liabilities to related parties amount to HRK 5,537 thousand (2015: HRK 17,882 thousand). Based on the separate statement of comprehensive income, the Company's operating income from related companies amounts to HRK 58,546 thousand (2015: HRK 86,227 thousand) and its operating expenses with respect to related companies amount to HRK 41,703 thousand (2015: HRK 20,607 thousand). Other related-party transactions include financial income in the amount of HRK 50,481 thousand (2015: HRK 47,373 thousand) and financial expenses in the amount of HRK 181 thousand (2015: HRK 87 thousand).

In addition to the transactions involving legal entities, the Company also transacted with the members of its Supervisory and Managing Boards as well as its executives, who are classified as related parties in accordance with International Accounting Standard (IAS) 24.

Given the Company's high exposure to the related parties and the long-term nature of the exposures, the related-party transactions have been identified as one of key audit issues..

Description of audit procedures performed and their results

Our audit procedures included identifying the Company's related parties. The related parties were identified based on the following audit procedures:

- making enquiries to the Company's employees;
- review of the Company's documents describing the related parties as well as internal controls implemented by the Company to identify related parties;
- review of the internal Managing and Supervisory Board meeting minutes and other documents of the Company;
- identifying any unusual transactions at the Company during the audit;
- identification of factors that may indicate a potential fraud at the Company arising from related-party transactions;
- Identification of the nature of the transactions involving the Company.

Given the Company's exposure to its related parties, the audit procedures applied to substantiate the related-party transactions involved tests of details on the outstanding balances and the amounts arisen from the related-party transactions. The tests of details substantiate all the open balances, income and expenses arising from the Company's related-party transactions. The balances and transactions were substantiated by means of confirmation letters in which we sought from the responsible persons at the subsidiaries and associates to confirm their exposures to the Company. After having identified the manner in which the Company monitors its related-party transactions, we independently reconciled the balances with the list of transactions. Due to the importance of the related-party transactions, we also assessed the appropriateness and completeness of the related-party disclosures. Based on all the audit evidence obtained by applying the procedures described above, we consider that transactions with related parties are appropriately presented in separate financial statements.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Other Information

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

Our opinion on the separate annual financial statements does not cover the other information.

In connection with our audit of the of the separate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Board Report and the Declaration of application of the Code of Corporate Governance, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Board Report and Declaration of application of the Code of Corporate Governance include required disclosures as set out in Article 21 of the Accounting Act and whether the Corporate Governance Strategy includes the information specified in Article 22 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached separate annual financial statements.
2) Management Board Annual Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.
3) Declaration of application of the Code of Corporate Governance has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, items 3 and 4, and also includes the information from Article 22, paragraph 1, points 2,5,6 and 7 of the Act..

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the unconsolidated separate financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of the Management and Supervisory Board for the Separate Financial Statements

The Management Board is responsible for the preparation and fair presentation of the of the separate annual financial statements in accordance International Financial Reporting Standards (IFRSs) as adopted by the European Union and for such internal control as the Management Board 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 separate annual financial statements, the Management Board 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.

Supervisory Board is responsible for oversight of financial reporting process as established by the Management Board.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

- Identify and assess the risks of material misstatement of the separate annual 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 auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate annual financial statements, including the disclosures, and whether the separate annual 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 separate annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Separate Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Separate Financial Statements (continued)

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.

Branislav Vrtačnik
President of the Management Board
and certified auditor

Vanja Vlak
Certified auditor

Deloitte d.o.o.

Zagreb, 19 April 2017

Radnička cesta 80,
10 000 Zagreb,
Croatia

Separate statement of comprehensive income
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Notes	2016	2015
Sales	5	701,423	753,704
Other income	6	16,453	14,325
Total income		**717,876**	**768,029**
Increase / (decrease) in the value of work in progress and finished products		1,528	(3,256)
Cost of raw material and supplies	7	(340,681)	(365,394)
Cost of goods sold	8	(62,704)	(56,203)
Service costs	9	(45,978)	(55,908)
Staff costs	10	(132,489)	(133,677)
Depreciation and amortisation	11	(48,918)	(42,878)
Other operating expenses	12	(50,283)	(76,394)
Provisions for risks and charges	13	(3,842)	(5,194)
Impairment of investments in subsidiaries and associates	14	-	(30,220)
Total operating expenses		**(683,367)**	**(769,124)**
Profit / (loss) from operations		**34,509**	**(1,095)**
Financial income	15	72,696	65,388
Financial expenses	16	(68,312)	(32,041)
Profit from financing activities		**4,384**	**33,347**
Profit before taxation		**38,894**	**32,252**
Income tax expense	17	(547)	299
Profit for the year		**38,347**	**32,551**
Items that may be included subsequently in profit or loss			
Exchange differences on translation of a foreign operation, net	18	5,436	(12,273)
Items that are not subsequently reclassified to profit or loss			
Changes in revaluation reserves of fixed assets, net		(1,696)	-
Total comprehensive income for the year		**42,087**	**20,278**
Earnings per share			
Basic and diluted earnings per share (in kunas and lipas)	19	9.20	7.81

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

Separate statement of financial position
At 31 December 2016

(All amounts are expressed in thousands of kunas)

ASSETS	Notes	31.12.2016	31.12.2015
Non-current assets			
Intangible assets	20	93,749	99,186
Property, plant and equipment	21	490,887	511,442
Investment property	22	8,064	-
Investments in subsidiaries and associates	23	66,163	66,155
Other financial assets	24	86,950	121,108
Long-term receivables	25	135,937	212,619
Deferred tax assets	17	3,161	11,968
Total non-current assets		**884,910**	**1,022,478**
Current assets			
Inventories	26	54,644	50,539
Trade receivables	27	139,730	113,878
Other receivables	28	27,431	24,716
Current financial assets	29	65,054	21,244
Cash and cash equivalents	30	4,033	3,414
Prepaid expenses and accrued income	31	48,634	36,922
Total current assets		**339,526**	**250,713**
TOTAL ASSETS		1,224,436	1,273,191

Shareholders' equity and liabilities	Notes	31.12.2016	31.12.2015
Share capital	32	419,958	419,958
Reserves		207,413	192,463
Profit for the year		38,347	32,551
Total shareholders' equity		**665,718**	**644,972**
Long-term provisions	33	3,576	3,483
Long-term borrowings	34	174,412	265,343
Total non-current liabilities		**177,988**	**268,826**
Advances received	35	12,249	10,805
Trade payables	36	124,815	163,556
Short-term borrowings	37	211,430	147,381
Other current liabilities	38	11,136	14,302
Short-term provisions	33	6,980	8,062
Accrued expenses	39	14,119	15,287
Total current liabilities		**380,729**	**359,393**
Total liabilities		**558,717**	**628,219**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,224,436	1,273,191

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

Separate statement of changes in shareholders' equity
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal reserve	General reserves	Reserve from revaluation of non-current tangible assets	Reserve from revaluation of non-current receivables	Reserves for own shares	Treasury shares	Retained earnings	Total
Balance at 31 December 2015	**419,958**	**191,565**	**6,129**	**25,410**	**1,696**	**(45,062)**	**3,108**	**(3,108)**	**45,275**	**644,972**
Profit for the year	-	-	-	-	-	-	-	-	38,347	**38,347**
Other comprehensive income for the year, net of income taxes	-	-	-	-	(1,696)	5,436	-	-	-	**3,740**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(1,696)**	**5,436**	**-**	**-**	**38,347**	**42,087**
Dividends paid	-	-	-	(4,769)	-	-	-	-	(45,275)	**(50,044)**
Disposal of own (treasury) shares	-	-	-	415	-	-	(415)	415	-	**415**
Valuation of own (treasury) shares	-	-	-	-	-	-	1,182	(1,182)	-	**-**
Realization of the recognised exchange differences (Note 18)	-	-	-	-	-	28,289	-	-	-	**28,289**
Balance at 31 December 2016	419,958	191,565	6,129	21,056	-	(11,337)	3,875	(3,875)	38,347	665,718

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

Separate statement of changes in shareholders' equity (continued)
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal reserve	General reserves	Reserve from revaluation of non-current tangible assets	Reserve from revaluation of non-current receivables	Reserves for own shares	Treasury shares	Retained earnings	Total
Balance at 31 December 2014	419,958	191,565	6,129	25,866	1,696	(32,686)	2,945	(2,945)	12,724	625,252
Profit for the year	-	-	-	-	-	-	-	-	32,551	**32,551**
Other comprehensive income for the year, net of income taxes	-	-	-	-	-	(12,273)	-	-	-	**(12,273)**
Total comprehensive income for the year	-	-	-	-	-	(12,273)	-	-	32,551	**20,278**
Exchange differences recognised (Note 18)	-	-	-	-	-	(103)	-	-	-	**(103)**
Valuation of own (treasury) shares	-	-	-	-	-	-	163	(163)	-	**-**
Purchase of own (treasury) shares	-	-	-	(456)	-	-	-	-	-	**(456)**
Balance at 31 December 2015	419,958	191,565	6,129	25,410	1,696	(45,062)	3,108	(3,108)	45,275	644,972

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

Separate statement of cash flows

For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Cash flows from operating activities	Notes	2016	2015
Profit for the year		**38,447**	**32,551**
Adjusted for:			
Income tax expense/(credit)	17	547	(299)
Depreciation and amortisation	11	48.918	42.878
Value adjustment of investments in subsidiaries and associates	14	-	30,220
Net book value of retired property, plant and equipment and intangible assets	20,21	2,399	103
Interest expense and exchange rates recognised in profit or loss		42,853	23,534
Interest income	15	(4,282)	(14,368)
Increase in long-term and short-term provisions	33	1,642	2,638
Profit from operations before working capital changes		**130.424**	**117,257**
(Increase)/decrease in inventories	26	(4,104)	6,343
Increase in current and non-current trade receivables		(12,947)	(7,515)
(Decrease)/increase in other receivables	28	(2,715)	10,651
Decrease in trade payables		(38,947)	(57,416)
Increase/(decrease) of advances received		5,423	(45,183)
(Decrease)/increase in other current liabilities		(5,797)	2,131
(Decrease)/increase in accrued expenses and deferred income	39	(1.168)	5.010
(Increase)/decrease in accrued income and prepaid expenses	31	(11,712)	25,585
Interest paid	37	(17,608)	(23,944)
Cash flows from operating activities		**40,850**	**32,919**
Cash flows from investing activities			
New investments in subsidiaries and associates	23	(7)	(24)
Interest received		9,875	1,275
Purchases of property, plant and equipment	21	(17,768)	(28,462)
Purchases of intangible assets	20	(19,240)	(23,973)
Proceeds from sale of property, plant and equipment and intangible assets		3,624	11,933
New loans given		(1,770)	-
Decrease in given long-term and short-term loans		16,337	16,437
Decrease/(increase) in deposits		436	(428)
Proceeds from sale of financial assets		129	-
Dividends received		46,080	41,731
Cash generated from investing activities		**37,686**	**18,490**

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

Separate statement of cash flows (continued)
For the year ended 31 December 2016

(All amounts are expressed in thousands of kunas)

Cash flows from financing activities	Notes	2016	2015
Purchase of treasury shares		-	(456)
Dividends paid		(50,044)	-
Proceeds from borrowings	34,37	95,927	180,537
Repayment of borrowings	37	(120,459)	(227,021)
Repayment of financial lease		(3,339)	(2,856)
Cash used in financing activities		**(77,916)**	**(49,796)**
Increase in cash and cash equivalents, net		620	1,613
Cash and cash equivalents at the beginning of the year		**3,414**	**1,801**
Cash and cash equivalents at the end of the year	**30**	**4,033**	**3,414**

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

Notes to the separate financial statements
For the year ended 31 December 2016

1. GENERAL INFORMATION

AD Plastik d.d., Solin, a public limited company for the production of motor vehicle spare parts and accessories and of plastic masses (abbreviated firm: AD PLASTIK d.d.), was established by a decision of the Founding Assembly dated 15 June 1994 following the transformation of the socially-owned entity Autodijelovi – Solin pursuant to the decision on the transformation of ownership and the Decision of the Croatian Privatisation Fund No. 01-02/92-06/392 of 6 December 1993. The Company is the legal successor of the socially-owned entity Autodijelovi and, according to the decision of the Commercial Court in Split No. Fi 6215/94 of 28 June 1994, assumed all of its assets and liabilities as of the date of registration in the court register.

By decision of the General Shareholders' Assembly dated 21 June 2007, the Statute of the Company of 8 July 2004 was amended and a decision was made to increase the share capital of the Company in cash. Pursuant to the Decision No. Tt-07/2145-3 of 25 September 2007, the increase of the share capital by HRK 125,987,500 effected by OAO Saint Petersburg Investment Company was registered, and the total subscribed capital now amounts to HRK 419,958,400 and consists of 4,199,584 shares, with a nominal amount of HRK 100.00 each. Under the Share Transfer Agreement of 29 June 2009 OAO Spik transferred the shares of the AD Plastik d.d. to OAO Group Aerokosmicheskoe Oborudovanie, St. Petersburg, which transferred those shares to OAO HAK, Sankt Petersburg on 4 August 2011.

The Company has been included in the listing of public limited companies on the Official Market of the Zagreb Stock Exchange since 1 October 2010.

1.1. Principal business

The primary activity of the Company comprises manufacture of motor vehicle spare parts and accessories. The registered activities of the Company comprise the following:

- manufacture of motor vehicle spare parts and accessories;
- production and trade in medical supplies for one-off application made of plastic masses: plastic syringes for one-off application; infusion sets; transfusion sets; disposable haemodialysis needles, and others.
- representation of foreign companies;
- international forwarding and shipping
- production of finished textile products other than clothing;
- production of synthetic rubber in primary forms;
- production of glues and jellies;
- production of rubber and plastic products;
- production of metal products other than machinery and equipment;
- construction and repair of leisure and sports boats;
- production of chairs and seats;
- production of sports equipment;
- recycling of non-metal waste and scrap;
- computer and related activities;
- providing advice, guidance and operational assistance to legal entities;
- designing of accounting systems, materials accounting software, budgeting control procedures;
- advice and assistance to legal entities in connection with planning, organisation, efficiency and controls, management information, etc.;
- management consulting (agronomists and agricultural economists, on farms, etc.);
- purchase and sale of goods;
- trade intermediation on domestic and international markets;
- use of hazardous chemicals; and
- treatment of hazardous and non-hazardous waste.

1.2. Number of staff

At 31 December 2016, the number of staff employed was 1,193 (31 December 2015: 1,203).

1. GENERAL INFORMATION (CONTINUED)

1.3. Management and corporate governance

Members of the Supervisory Board	mandate from	mandate to
Drandin Dmitrij Leonidovič (President)	19. 10. 2015	19. 10. 2019
Ivica Tolić (Deputy Chairman)	20. 07. 2016	20. 07. 2020
Hrvoje Jurišić	20. 07. 2016	20. 07. 2020
Marijo Grgurinović	23. 07. 2015	23. 07. 2019
Igor Anatoljevič Solomatin	23. 07. 2015	23. 07. 2019
Nikitina Nadežda Anatoljevna	19. 10. 2015	19. 10. 2019
Dolores Cerina	02. 06. 2015	02. 06. 2019

The members of the Company's Management Board	mandate od	mandate do
Marinko Došen (President)	20. 07. 2016	20. 07. 2020
Katija Klepo	20. 07. 2016	20. 07. 2020
Mladen Peroš	20. 07. 2016	20. 07. 2020
Sanja Biočić	20. 07. 2016	20. 07. 2020

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – "Investment Entities: Applying the Consolidation Exception" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – "Accounting for Acquisitions of Interests in Joint Operations" – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" -** Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of the amended and revised Standards and Interpretations has not lead to any material changes in the Company's financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (COUNTINUED)

Amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- •**IFRS 9 "Financial Instruments",** adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018),
- •**IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 19 April 2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (COUNTINUED)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

The Company anticipates that the adoption of IFRS 15 “Revenue from Contracts with Customers” will have effect on financial statements in the period of initial application, however, currently it is not possible to determine their significance.

The Company anticipates the adoption of other stated standards and amendments of existing standards will not have a material effect on the financial statements in the period of initial application.

Issue of hedge accounting of financial assets and financial liabilities remains unregulated due to the fact that the principles of hedge accounting in the European Union have not yet been adopted.

According to the Company’s estimates, the application of hedge accounting to the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” as of the date of the statement of financial position would not significantly impact the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies consistently applied in the preparation of the financial statements for the current and prior year.

3.1. Statement of compliance

The separate financial statements are prepared in accordance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRSs), as adopted by the European Union.

3.2. Basis of preparation

The Company maintains its accounting records in the Croatian language, in Croatian kunas and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

The preparation of the separate financial statements in accordance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRSs) effective in European Union requires from the Management Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of preparation of the financial statements, and actual results could differ from those estimates.

The separate financial statements of the Company represent aggregate amounts of assets, liabilities, capital and reserves of the Company as of 31 December 2016, and the results of operations for the year then ended.

The Company also prepares its consolidated financial statements in accordance with International Financial Reporting Standards, which include the financial statements of the Company, as the parent, and the financial statements of the subsidiaries controlled by the Company. In these financial statements, investments in entities controlled by the Company or in which the Company has significant influence are carried at cost less impairment, if any. For a full understanding of the financial positions of the Company and its subsidiaries, as a group, and of the results of their operations and their cash flows for the year, users are advised to read the consolidated financial statements of the Group AD Plastik d.d. Details of the investments in subsidiaries and associates are presented in Note 23.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of operations.

Revenue is stated net of value added tax, estimated returns, rebates and discounts. The Company recognises revenue when the amount of the revenue can be measured reliably and when it is probable that future economic benefits will flow into the Company.

Income from sale of products

Product sales are recognized when the products are delivered to, and accepted by the customer and when the significant risks and rewards associated with the ownership of a product are transferred to the customer. Sales to customers with whom self- invoicing has been arranged are recognised upon receiving from such a customer the confirmation of delivery, i.e. when significant risks are transferred to the customer.

Income from the manufacture of tools for a known customer

Accrued revenues are matched with contracts that are specifically concluded for developing an asset, or a group of assets, closely linked and interdependent on the design, technology and function, or their final use or application. The Company is required to recognize revenue according to the stage of completion of a contractual performance because the costs incurred in connection with the transaction can be measured reliably. Pursuant to IAS 18, income and expenses related to the same transaction are recognized simultaneously. When the outcome of a production contract can be estimated reliably, the revenue and costs associated with the contract should be recognized according to the stage of completion of the contractual performance at the date of the statement of financial position.

Interest income

Interest income is recognised on a pro rata temporis basis, using the effective interest method. Interest earned on balances with commercial banks (demand and term deposits) is credited to income for the period as it accrues. Interest on trade receivables is recognised as income when accrued.

3.4. Foreign-currency transactions

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. Cash, receivables and payables denominated in foreign currencies are retranslated at the rates of exchange in effect at the date of the statement of financial position. Gains and losses arising on translation are included in the statement of comprehensive income for the year. At 31 December 2016, the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.557787 (31 December 2015: HRK 7.635047 for EUR 1).

3.5. Income tax

Current tax

Income tax expense is based on taxable profit for the year and represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the statement of comprehensive income, except where it relates to items recognised directly in equity, in which case it is also recognised in equity. Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rates enacted at the date of the statement of financial position, adjusted by appropriate prior-period tax liabilities. The income tax rate for years 2015 and 2016 amounts to 20 %.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rate expected to apply to taxable profit in the period in which the liability is expected to be settled or the asset realised, based on the tax rates in effect at the date of the statement of financial position. The income tax rate applicable to deferred tax assets is 18 %, given that the application of the new law is in force since 1 January 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Income tax (continued)

Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the amount that the Company expects, at the date of the statement of financial position, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each date of the statement of financial position, the Company reviews the unrecognised potential tax assets and the carrying amount of the recognised tax assets.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

3.6. Property, plant and equipment, and intangible assets

Property, plant and equipment as well as intangible assets are recognised at purchase cost and subsequently reduced by accumulated depreciation/amortisation. The purchase cost comprises the purchase price, import duties and non-refundable sales taxes (for property, plant and equipment) and any directly attributable costs of bringing an asset to its working condition and location for its intended use, such as employee remuneration, professional fees directly arising from putting an asset into its working condition, test costs (for intangible assets), as well as all other costs directly attributable to bringing an asset to a condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in an increase of expected future economic benefits to be derived from the use of an item of property, plant and equipment or intangible assets in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of property, plant and equipment or intangible assets are included in the statement of comprehensive income in the period in which they occur. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset other than land, property, plant and equipment and intangible assets under development over the estimated useful life of the asset using the straight-line method as follows:

Property, plant and equipment, and intangible assets	Depreciation rates in 2016	Depreciation rates in 2015
Buildings	1.50	1.50
Machinery	7.00	7.00
Tools, furniture, office and laboratory equipment and accessories, measuring and control instruments	10.00	10.00
Vehicles	20.00	20.00
IT equipment	20.00	20.00
Others	10.00	10.00
Projects	20.00	20.00
Software	20.00	20.00

3.7. Investment property

Investment property is property held to earn rentals or for capital appreciation, or both. Investment properties are measured at cost, which includes transaction costs.

All of the Company's property interests held under operating leases to earn rentals are accounted for as investment properties.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Impairment of property, plant and equipment, and intangible assets

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is an indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, The Company's assets are also allocated to individual cash-generating units or, it this is not possible, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3.9. Investments in subsidiaries and associates

A subsidiary is an entity over which the Company has effective control over financial and operating policy decisions of the Company. The results, assets and liabilities of subsidiaries are incorporated in these separate financial statements using the cost method of accounting.

An associate is an entity over which the Company has significant influence and usually an ownership interest from 20 to 50 percent, but no control over the entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies. The results of operations of associates are incorporated in these financial statements using the cost method of accounting.

3.10. Inventories

Inventories of raw material and spare parts are stated at the lower of cost and net realisable value, whichever is lower. Cost is determined using the weighted-average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs.

Small inventory is written off when put in use.

The cost of product inventories i.e. the production price is based on direct material used, the cost of which is determined using the weighted average cost method, then direct labour costs and fixed overheads at the actual level of production which approximates the normal capacities, as well as variable overheads that are based on the actual use of the production capacities.

Merchandise on stock is recognised at purchase cost.

3.11. Trade receivables and prepayments

Trade debtors and prepayments are carried at nominal amounts less an appropriate allowance for impairment for estimated irrecoverable amounts.

Impairment is recognised whenever there is objective evidence that the Company will not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered objective evidence of impairment. The amount of the impairment loss is determined as the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Management determines the level of impairment allowance for doubtful receivables based on a specific review of the recoverability of amounts owed by strategic customers of the ADP Group and of the overall ageing of other current receivables. The allowance for amounts doubtful of collection is charged to the statement of comprehensive income for the year.

3.12. Cash and cash equivalents

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.14. Termination, long-service and other employee benefits

(a) Pension-related obligations and post-employment benefits

In the normal course of business, the Company makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. The contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Company does not have any other retirement benefit plan and, consequently, has no other obligations in respect of the retirement benefits for its employees. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognises its termination benefit obligations in accordance with the applicable Union Agreement.

(c) Regular termination benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value.

(d) Long-term employee benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in the period in which they arise.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over certain period until the benefits become vested.

3.15. Financial instruments

Financial assets and financial liabilities included in the accompanying financial statements consist of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables, long-term receivables, loans, borrowings and investments. The details of the recognition and measurement of those items are presented in the accounting policies below.

Investments are recognized and derecognized on a trade date basis, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss in the statement of comprehensive income.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition..

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Trade, loan and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets are assessed for indications of impairment at each date of the statement of financial position. A financial asset are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Impairment loss on a financial asset is recognised by reducing the carrying amount of the asset through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset have expired, when the asset is transferred and when substantially all the risks and rewards of ownership of the asset are passed onto another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the underlying contractual arrangement.

3.16. Contingencies

Contingent liabilities have not been recognised in these separate financial statements. They are disclosed unless the possibility of outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in financial statements, but it is disclosed when the inflow of economic benefits becomes probable.

3.17. Events subsequent to the date of the statement of financial position

Events after the date of the statement of financial position that provide additional information about the Company's position at that date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Segment reporting

The Company monitors and presents the results of its principal operating segments separately. The segment reporting is based on identified geographical areas. Certain financial information about the geographical segments are presented in Note 5.

The Company presents the revenue by geographical location, but does not monitor information about the long-term assets and the revenue generated in those areas from external customers.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the Management Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Areas of estimation include, but are not limited to, depreciation periods and residual values of property, plant and equipment and intangible assets, impairment of receivables, and actuarial estimates. The key areas of estimation in applying the Company's accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

Useful life of property, plant and equipment and intangible assets

As described in Note 3.6., the Company reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period. Property, plant and equipment are recognised initially at cost less accumulated depreciation.

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the related tax benefit could be realised. In determining the amount of deferred taxes that can be recognised significant judgement is required, which is based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2016, deferred tax assets were recognised in respect of tax differences available for utilisation.

Impairment allowance on trade receivables

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the statement of comprehensive income for the year.

Actuarial estimates used in determining the retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates.

5. SALES

(in thousands of kunas)

	2016	2015
Foreign sales	685,971	742,912
Domestic sales	15,452	10,792
	701,423	**753,704**

Segment revenue analysis by country:

	2016	2015
Slovenia	376,880	432,542
France	129,226	106,456
Russia	37,606	62,630
Germany	36,440	52,304
Italy	32,272	20,601
Spain	25,431	16,363
Serbia	19,294	16,816
Croatia	15,452	10,792
Others	28,822	35,200
	701,423	**753,704**

6. OTHER INCOME

(in thousands of kunas)

	2016	2015
Service income – cardboard packaging	3,997	1,326
Rental income	3,258	2,181
Income from damages and insurance	1,351	15
Income from recovery of written-off receivables (Note 27)	1,335	26
Income from written-off liabilities	1,055	248
Income from consumption of own products and services	1,009	1,773
Income from the sale of services to tenants	1,003	525
Income from waste management services	257	223
Income from transport services	117	107
Income from sale of non-current assets	58	123
Other operating income	3,013	7,778
	16,453	**14,325**

7. COST OF RAW MATERIAL AND SUPPLIES

(in thousands of kunas)

	2016	2015
Indirect materials	168,669	167,753
Direct materials	133,621	153,782
Electricity	13,095	14,182
Other raw material and supplies	25,296	29,677
	340,681	**365,394**

8. COST OF GOODS SOLD

(in thousands of kunas)

Cost of goods sold in the amount of HRK 36,531 thousand (2015: HRK 31,871 thousand) relate mainly to the purchase cost of tools, equipment and intermediary products for the start-up of new production and projects in subsidiaries.

	2016	2015
Cost of merchandise	36,531	31,871
Cost of materials sold	18,739	16,916
Re-export costs	7,228	6,661
Other costs of goods sold	206	755
	62,704	**56,203**

9. SERVICE COSTS

(in thousands of kunas)

	2016	2015
Transport	25,450	29,722
Rental and lease costs	7,593	8,236
Current maintenance and preventive maintenance of machinery	4,672	4,849
Tool modification costs	1,496	2,115
Info-communication costs	1,352	938
Water	993	871
Communal fees	948	1,012
Forwarding and shipping costs	123	135
Other service costs	3,351	8,030
	45,978	**55,908**

10. STAFF COSTS

(in thousands of kunas)

	2016	2015
Net wages and salaries	72,709	71,720
Taxes and contributions out of salaries	28,507	29,883
Contributions on salaries	16,757	17,930
Other staff costs	14,516	14,144
	132,489	**133,677**

Other staff costs comprise jubilee awards, termination benefits, per diems, overnight accommodation costs and business travel costs, commuting costs and other business-related costs.

11. DEPRECIATION AND AMORTISATION

(in thousands of kunas)

	2016	2015
Depreciation of property, plant and equipment (Note 21)	28,439	28,404
Amortisation of intangible assets (Note 20)	20,265	14,474
Depreciation of investment property (Note 22)	215	-
	48,918	**42,878**

12. OTHER OPERATING EXPENSES

(in thousands of kunas)

	2016	2015
Temporary and occasional service costs - tools	24,362	41,672
Professional service cost	7,787	6,295
Customer complaints	2,376	3,518
Other non-material costs	1,690	5,323
Insurance premiums	1,607	1,834
Communal fees for the use of construction plots	1,507	1,561
Professional training costs	963	531
Entertainment	745	524
Bank and payment operation charges	638	2,787
Measuring equipment and laboratory tests	488	518
Net book value of tangible and intangible fixed assets	404	2,555
Support to employees and their families	240	233
Cost of goods provided free of charge	208	920
Forest reproduction levies	198	209
Gifts, donations and sponsorships of up to 2 % of prior-period revenue	186	150
Other expenses	6,884	7,764
	50,283	**76,394**

Service costs for tools comprise of purchase price of tools and dependant costs of completion.

13. PROVISIONS FOR RISKS AND CHARGES

(in thousands of kunas)

	2016	2015
Vacation provisions, net	2,506	-
Litigation provision, net	1,243	1,711
Provisions for long-service and retirement-benefit plans, net	93	3,483
	3,842	**5,194**

14. IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The Company, based on impairment indicators, recognised impairment of its investment in FADP in the amount of HRK 30,220 thousand in 2015, based on which impairment of investment is made. As a result, the carrying amount of the investment in FADP Holding amounts to nil. At the end of year 2016, the associate FADP Holding was sold, and the Company no longer has control over the financial asset.

15. FINANCIAL INCOME

(in thousands of kunas)

	2016	2015
Dividend income	46,724	41,969
Foreign exchange gains	21,690	9,050
Interest income	4,282	14,368
Other financial income	-	1
	72,696	**65,388**

The dividends consist mainly of dividends received from associate EURO APS, Romania, in the amount of HRK 46,716 thousand (2015: HRK 41,963 thousand).

16. FINANCIAL EXPENSES

(in thousands of kunas)

	2016	2015
Foreign exchange losses	46,508	8,507
Interest expense	21,804	23,534
	68,312	**32,041**

17. INCOME TAX

(in thousands of kunas)

Income tax comprises the following:

	2016	2015
Deferred tax	(547)	299
Current tax	-	-
	(547)	**299**

Deferred tax, as presented in the statement of financial position, is as follows:

	2016	2015
Balance at 1 January	11,968	8,575
(Reversal)/recognition of deferred tax assets	(8,807)	3,393
Balance at 31 December	**3,161**	**11,968**

Deferred tax assets arise from the following:

2016	Opening balance	Credited / (charged) to statement of comprehensive income	Closing balance
Temporary differences:			
Provisions for long-service and termination benefits	697	(123)	574
Reserves from translation of foreign currencies, net	11,271	(8,684)	2,587
Balance at 31 December	**11,968**	**(8,807)**	**3,161**

2015	Opening balance	Credited / (charged) to statement of comprehensive income	Closing balance
Temporary differences:			
Provisions for long-service and termination benefits	398	299	697
Reserves from translation of foreign currencies, net	8,177	3,094	11,271
Balance at 31 December	**8,575**	**3,393**	**11,968**

Odnos između računovodstvenog i poreznog rezultata prikazan je kako slijedi:

	2016	2015
Accounting profit before tax	**38,894**	**32,252**
Effect of tax base increasing items	11,782	36,552
Effect of tax base decreasing items	(81,081)	(44,394)
Tax base	**(30,405)**	**24,410**
Tax at the rate of 20 %	-	4,882
Tax reliefs	-	(4,882)
Deferred tax recognised in profit or loss	(547)	299
Income tax expense	**(547)**	**299**

The income tax rate effective in the Republic of Croatia for the years 2016 and 2015 was 20 percent. Income tax rate applicable to deferred tax assets in 2016 was 18 %, given that the new income tax rate is applicable as of 1 January 2017.

On 24 October 2012 the Company filed with the Ministry of Economy the Application for Incentive Measures for the investment project "Expansion of Production for the Purpose of Export of Car Industry Products", in accordance with the Act on Investment Promotion and Development of Investment Climate (OG 111/2012 and 28/2013) and the Investment Promotion and Development of Investment Climate (OG 40/2013).

As a result, the Company made investments in fixed assets in 2016, having thus met the prerequisites for the utilization of the tax incentives for 2016.

Pursuant to the tax regulations, the tax authorities may at any time inspect the Company's books and records within three years subsequent to the year in which the tax liability is reported and may assess additional tax liabilities and impose penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

18. EXCHANGE DIFFERENCES ON TRANSLATION OF A FOREIGN OPERATION, NET

(in thousands of kunas)

	2016	2015
Balance at beginning of the year	**(45,062)**	**(32,686)**
Exchange differences on translation of a foreign operation	6,629	(15,341)
Income tax on exchange rate losses from translation of a foreign operation	(1,193)	3,068
Exchange differences on translation of a foreign operation, net	**5,436**	**(12,273)**
Realization / (Recognition) of exchange differences	28,289	(103)
Balance at end of year	**(11,337)**	**(45,062)**

19. EARNINGS PER SHARE

(in thousands of kunas)

Basic earnings per share are determined by dividing the Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares. The basic earnings per share equal the diluted earnings per share, as there are currently no share options that would potentially increase the number of issued shares.

	2016	2015
Net profit (in HRK'000)	38,347	32,551
Weighted average number of shares	4,169,725	4,167,822
Basic and diluted earnings per share (in kunas and lipas)	**9,20**	**7.81**

20. INTANGIBLE ASSETS

(in thousands of kunas)

	Licences	Software	Projects	Intangible assets under development	Total
Cost					
Balance at 31 December 2014	**55**	**5,443**	**108,149**	**62,868**	**176,515**
Additions	-	-	-	23,973	23,973
Transfer from assets under development	-	205	52,031	(52,236)	-
Disposals and retirements	-	-	(5,351)	-	(5,351)
Balance at 31 December 2015	**55**	**5,648**	**154,829**	**34,604**	**195,137**
Additions	-	-	-	19,240	19,240
Transfer from assets under development	-	408	31.039	(31,447)	-
Disposals and retirements	(55)	(392)	(2,775)	(2,343)	(5,565)
Balance at 31 December 2016	**-**	**5,664**	**183,093**	**20,053**	**208,811**
Accumulated amortisation					
Balance at 31 December 2014	**-**	**3,412**	**78,078**	**-**	**81,490**
Charge for the year (Note 11)	-	888	13,586	-	14,474
Disposals and retirements	-	-	(13)	-	(13)
Balance at 31 December 2015	**-**	**4,300**	**91,651**	**-**	**95,951**
Charge for the year (Note 11)	-	518	19,747	-	20,265
Disposals and retirements	-	(392)	(761)	-	(1,154)
Balance at 31 December 2016	**-**	**4,425**	**110,637**	**-**	**115,062**
Net book value					
At 31 December 2015	**55**	**1,347**	**63,179**	**34,604**	**99,186**
At 31 December 2016	**-**	**1,238**	**72,457**	**20,053**	**93,749**

Projects comprise investments in the development of new products that are expected to generate economic benefits in future periods. Consequently, the costs are amortised over the period in which the related economic benefits flow into the Company.

21. PROPERTY, PLANT AND EQUIPMENT

(in thousands of kunas)

	Land	Buildings	Plant and equipment	Assets under development	Total
Cost					
Balance at 31 December 2014	**139,976**	**228,500**	**393,193**	**63,671**	**825,340**
Additions	-	-	-	28,462	28,462
Transfer from assets under development	-	37,416	46,906	(84,322)	-
Disposals and retirements	-	-	(26,886)	-	(26,886)
Balance at 31 December 2015	**139,976**	**265,916**	**413,213**	**7,811**	**826,916**
Additions	-	-	-	17,768	17,768
Transfer from assets under development	7,307	1,777	11,177	(20,260)	-
Disposals and retirements	-	-	(5,682)	5	(5,677)
Transfer to investment property (Note 22)	-	(14,303)	-	-	(14,303)
Balance at 31 December 2016	**147,283**	**253,390**	**418,708**	**5,324**	**824,704**
Accumulated depreciation					
Balance at 31 December 2014	**-**	**68,204**	**239,054**	**-**	**307,258**
Charge for the year (Note 11)	-	3,938	24,466	-	28,404
Disposals and retirements	-	-	(20,188)	-	(20,188)
Balance at 31 December 2015	**-**	**72,142**	**243,332**	**-**	**315,474**
Charge for the year (Note 11)	-	3,784	24,655	-	28,439
Disposals and retirements	-	-	(4,702)	-	(4,702)
Transfer to investment property (Note 22)	-	(6,024)	-	-	(6,024)
Balance at 31 December 2016	**-**	**69,902**	**263,915**	**-**	**333,817**
Net book value					
At 31 December 2015	**139,976**	**193,774**	**169,881**	**7,811**	**511,442**
At 31 December 2016	**147,283**	**183,488**	**154,792**	**5,324**	**490,887**

At 31 December 2016 the estimated value of land and buildings pledged as collateral with commercial banks amounts to HRK 323,435 thousand (31 December 2015: HRK 340,166 thousand), and the balance of short-term and long-term borrowings covered by the collateral amounts to HRK 267,003 thousand (31 December 2015: HRK 340,347 thousand).

Total value of liabilities under financial leases at December 31 2016 amounts to HRK 2,239 thousand (31 December 2015: HRK 4,743 thousand).

22. INVESTMENT PROPERTY

(in thousands of kunas)

	Buildings	Total
Cost	-	-
Balance at 31 December 2014	-	-
Balance at 31 December 2015	-	-
Transferred from property, plant and equipment (Note 21)	14,303	14,303
Balance at 31 December 2016	14,303	14,303
Accumulated depreciation		
Balance at 31 December 2014	-	-
Balance at 31 December 2015	-	-
Transferred from property, plant and equipment (Note 21)	6,024	6,024
Charge for the year (Note 11)	**215**	**215**
Balance at 31 December 2016	6,239	6,239
Net book value		
Balance at 31 December 2015	-	-
Balance at 31 December 2016	**8,064**	**8,064**

In 2016 the part of the building used to rent office space was reclassified. Income from the rental of the building in 2016 amounts to HRK 404 thousand, and the depreciation charge for the year amounts to HRK 215 thousand.

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(in thousands of kunas)

Set out below are details of the Company's material subsidiaries at the end of the reporting period:

Name of subsidiary	Principal activity	Country of incorporation and business	Ownership interest in %		Amount of equity investment, in HRK '000	
			31.12.2016	31.12.2015	31.12.2016	31.12.2015
ZAO AD Plastik Kaluga	Manufacture of other vehicle spare parts and accessories	Kaluga, Russian Federation	100.00 %	100.00 %	24,235	24,235
ADP d.o.o.	Manufacture of other vehicle spare parts and accessories	Mladenovac, Serbia	100.00 %	100.00 %	15,014	15,014
AO ADP / ZAO PHR	Manufacture of other vehicle spare parts and accessories	Samara, Russian Federation	99.99 %	99.95 %	5,077	5,069
AD PLASTIK d.o.o.	Manufacture of other vehicle spare parts and accessories	Novo Mesto, Slovenia	100.00 %	100.00 %	58	58
					44,384	**44,376**

In 2015 ZAO PHR, Russia, was renamed to AO ADP, Russia.
Further information about subsidiaries partly owned by the Company, but in which the Company holds a significant non-controlling interest is set out in the following table:

Name of associate	Principal activity	Country of incorporation and business	Ownership interest in %		Amount of equity investment, HRK '000	
			31.12.2016	31.12.2015	31.12.2016	31.12.2015
EURO AUTO PLASTIC SYSTEMS	Manufacture of other vehicle spare parts and accessories	Mioveni, Romania	50.00 %	50.00 %	21,755	21,755
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE d.o.o.	Automotive industry research and development	Zagreb, Croatia	24.00 %	24.00 %	24	24
					21,779	**21,779**
Total investments in subsidiaries and associates					**66,163**	**66,155**

Centar za istraživanje i razvoj automobilske industrije d.o.o., Croatia, established in 2015, is engaged in the research and development in the automotive industry.

Ad Plastik d.d., Solin has a 50-percent equity share in EURO AUTO PLASTIC SYSTEMS, but has no control over the entity. However, the company is treated as an associate.

In 2016 AD Plastik d.d. sold its 40-percent equity share in Faurecia ADP Holding, and hence no investment is recognised in that company as at 31 December 2016.

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

Set out below is a summary of financial information about the subsidiaries:

AD PLASTIK d.o.o., Novo Mesto, Slovenia	31.12.2016	31.12.2015
Total assets	3,663	11,203
Total liabilities	(183)	(8,107)
Net assets	3,480	3,096
Share in the net assets of the subsidiary	**100.00 %**	**100.00 %**

AO ADP / ZAO PHR, Samara, Russian Federation	31.12.2016	31.12.2015
Total assets	157,261	153,062
Total liabilities	(161,089)	(189,757)
Net assets	(3,827)	(36,695)
Share in the net assets of the subsidiary	**99.99 %**	**99.95 %**

ZAO AD Plastik Kaluga, Kaluga, Russian Federation	31.12.2016	31.12.2015
Total assets	142,805	118,351
Total liabilities	(135,265)	(137,670)
Net assets	7,540	(19,319)
Share in the net assets of the subsidiary	**100,00%**	**100,00%**

ADP d.o.o, Mladenovac, Serbia	31.12.2016	31.12.2015
Total assets	78,394	85,383
Total liabilities	(70,719)	(79,098)
Net assets	7,675	6,285
Share in the net assets of the subsidiary	**100,00%**	**100,00%**

24. OTHER FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2016	31.12.2015
Long-term loans to subsidiaries	81,989	75,024
Long-term loans to unrelated companies	6,399	9,788
Other financial assets	62	62
Long-term loans to associates	-	37,734
Current portion of long-term loan receivables (Note 29)	(1,500)	(1,500)
	86,950	**121,108**

Long-term investment loans were granted to the subsidiaries and associates, with maturities of four to five years and an interest rate from 5.14 % to 6.00 %.

25. LONG-TERM RECEIVABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
AO ADP, Russia	86,146	127,598
ADP Kaluga, Russia	49,791	70,845
FADP Holding, Russia	-	14,176
	135,937	**212,619**

Long-term receivables from FADP Holding were reclassified as short-term, as AD Plastik d.d., Solin, expects imminent payment of these receivables.

The Company has concluded with its subsidiaries contracts on deferred payment of the receivables, which fall due from 2018; hence, they are classified as non-current. Long-term receivables bear no interest.

26. INVENTORIES

(in thousands of kunas)

	31.12.2016	31.12.2015
Raw material and supplies on stock	36,553	35,087
Finished products	10,693	9,812
Work in progress	4,063	3,416
Merchandise on stock	3,335	2,224
	54,644	**50,539**

27. TRADE RECEIVABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign trade receivables	137,421	110,993
Domestic trade receivables	3,701	6,273
Impairment allowance on receivables	(1,392)	(3,388)
	139,730	**113,878**

The average credit period on sales is 77 days (2015: 82 days). The Company has provided for all for all sued debtors, regardless of the past due period, as well as for all receivables that are past due and assessed as doubtful of collection. The Company seeks and obtains from its domestic customers debentures as collateral for receivables, which are issued in the amount of the receivables.

Movements in the impairment allowance on doubtful trade receivables can be presented as follows:

	2016	2015
Balance at beginning of the year	3,361	7,417
Amounts written-off in total during the year	(661)	(4,030)
Collected during the year (Note 6)	(1,335)	(26)
Total impairment allowance on domestic trade receivables	**1,365**	**3,361**
Balance at beginning of the year	27	1,152
Amounts collected or written-off during the year (note 6)	-	(1,125)
Total impairment allowance on foreign trade receivables	**27**	**27**
Total impairment allowance	**1,392**	**3,388**

Sva ispravljena potraživanja su utužena ili prijavljena u stečajnu masu. Starosna analiza ispravljenih potraživanja od kupaca može se prikazati kako slijedi:

	31.12.2016	31.12.2015
0 - 365 days	-	-
Over 365 days	1,392	3,388
	1,392	**3,388**

Ageing analysis of receivables past due but not impaired can be presented as follows:

	31.12.2016	31.12.2015
0 - 365 days past due	56,462	48,665
Over 365 days past due	7,123	9,502
	63,585	**58,167**

The majority of the receivables past due beyond 365 days comprise amounts owed by the subsidiaries.

28. OTHER RECEIVABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign prepayments made	17,436	18,132
Receivables from the State and State institutions	5,315	5,254
Domestic prepayments made	4,548	1,026
Amounts due from employees	132	302
Other receivables	-	2
	27,431	**24,716**

Amounts due from the State and State institutions comprise receivables from the State Budget in respect of VAT refund, refunds from the Croatian Health Insurance Fund and similar. Domestic and foreign prepayments comprise mainly prepayments made for purchases of production equipment and tools.

29. CURRENT FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2016	31.12.2015
Short-term loans to unrelated companies	46,651	2,259
Interest receivables	16,893	3,675
Current portion of long-term loan receivables (Note 24)	1,500	1,500
Other deposits	10	441
Short-term loans to subsidiaries	-	13,369
	65,054	**21,244**

Short-term loans to unrelated companies represent a loan given to Faurecia ADP LLC, which is due in the second quarter of 2017. Interest receivables mostly relate to loans given to Faurecia ADP LLC, which will be collected in the second quarter of 2017.

30. CASH AND CASH EQUIVALENTS

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign account balance	2,677	2,862
Current account balance	1,343	547
Cash in hand	14	5
	4,033	**3,414**

31. PREPAID EXPENSES AND ACCRUED INCOME

(in thousands of kunas)

	31.12.2016	31.12.2015
Accrued income on tools	40,722	26,020
Other accrued income	4,527	4,285
Prepaid operating expenses	3,386	6,617
	48,634	**36,922**

Accrued income in the amount of HRK 40,722 thousand (31 December 2015: HRK 26,020 thousand) relates to the manufacture of tools for a known customer.

32. SHARE CAPITAL

Subscribed capital amounts to HRK 419,958 thousand and consists of 4,199,584 shares, with a nominal value of HRK 100 per share (2015: HRK 419,958 thousand, comprising 4,199,584 shares, with a nominal value of HRK 100 each).

Shareholders with over 2 percent of the shares at 31 December 2016 were as follows:

Shareholder	Headquarters	Number of shares	Ownership in %	Type of account
OAO HOLDING AUTOKOMPONENTI	Saint Petersburg, Russia	1,259,875	30.00 %	Primary account
ADDIKO BANK D.D. / RAIFFEISEN MANDATORY PENSION FUND	Zagreb, Croatia	269,462	6.42 %	Custody account
ADDIKO BANK D.D. / RAIFFEISEN VOLUNTARY PENSION FUND	Zagreb, Croatia	148,645	3.54 %	Custody account
ADP-ESOP D.O.O.	Zagreb, Croatia	130,532	3.11 %	Primary account
ADDIKO BANK D.D./ PBZ CO OMF – B-CATEGORY	Zagreb, Croatia	119.640	2.85 %	Custody account
HRVATSKA POŠTANSKA BANKA D.D./ KAPITALNI FOND D.D.	Zagreb, Croatia	116,541	2.78 %	Custody account
SOCIETE GENERALE-SPLITSKA BANKA D.D. / ERSTE PLAVI MANDATORY PENSION FUND	Split, Croatia / Zagreb, Croatia	115,353	2.75 %	Custody account
ERSTE & STEIERMAERKISCHE BANK d.d. / JOINT CUSTODY ACCOUNT FOR A FOREIGN LEGAL PERSON	Zagreb, Croatia	105,349	2.51 %	Custody account
SOCIETE GENERALE-SPLITSKA BANKA D.D. / AZ B-CATEGORY MANDATORY PENSION FUND	Split, Croatia	93,900	2.24 %	Custody account
PBZ D.D. / STATE STREET CLIENT	Zagreb, Croatia	92,948	2.21 %	Custody account
Remaining shareholders	-	1,708,545	41.61 %	-
Total		**4.199.584**	**100,00%**	

33. LONG-TERM AND SHORT-TERM PROVISIONS

(in thousands of kunas)

	Short-term		Long-term	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Legal cases	4,474	5,431	-	-
Vacation accrual	2,506	2,631	-	-
Jubilee awards (long-service benefits)	-	-	1,474	1,759
Termination benefits	-	-	2,102	1,724
	6,980	**8,062**	**3,576**	**3,483**

Movement in provisions was as follows:

	Jubilee awards	Retirement / termination benefits	Legal cases	Vacation accrual	Total
Balance at 1 January 2016	**1,759**	**1,725**	**5,431**	**2,630**	**11,545**
Increase/(decrease) in provisions	(285)	378	(957)	(125)	(989)
Balance at 31 December 2016	**1,474**	**2,103**	**4,474**	**2,506**	**10,556**

	Jubilee awards	Retirement / termination benefits	Legal cases	Vacation accrual	Total
Balance at 1 January 2015	**1,302**	**688**	**3,720**	**3,197**	**8,907**
Increase/(decrease) in provisions	457	1,037	1,711	(567)	2,638
Balance at 31 December 2015	**1,759**	**1,725**	**5,431**	**2,630**	**11,545**

Defined benefit plan

According to the Collective Agreement, the Company has the obligation to pay long-service (jubilee awards), retirement-related and other benefits to employees. The Company operates a defined benefit plan for qualifying employees. Benefits payable upon retirement and long-service benefits are defined in the Union Agreement and employment agreements. No other post-retirement benefits are provided.

Long-service benefits are paid for full years of service in the month of the current year in which the service is determined as completed.

The present value of defined benefit obligations arising from long-service benefits and benefits payable upon retirement is determined using the Projected Credit Unit method and serves as the basis for arriving at the past and current service costs, the interest expense and the actuarial gain or loss.

Key assumptions used in calculating the required provisions are the discount rate of 3.60 % and the fluctuation rate of 6.60 %.

34. LONG-TERM BORROWINGS

(in thousands of kunas)

	31.12.2016	31.12.2015
Long-term borrowings	244,892	304,249
Long-term commodity credits provided by suppliers	17,155	19,263
	262,047	**323,512**
Current portion of long-term borrowings (Note 37)	(87,634)	(58,169)
Total long-term borrowings	**174,412**	**265,343**

Long-term borrowings are mainly those realized through programs of HBOR and are used to finance capital investments and development projects. Instruments of collateral provided for the for long-term loans include mortgage on real estate and/or equipment and payment instruments. All the long-term loans are repayable on a quarterly basis.

In 2016, the weighted average interest rate on the long-term loans was 3.65 percent.

The Company regularly meets all its obligations arising from the loans and observes all the conditions specified in the underlying contracts.

Movements in the long-term borrowings during the year were as follows:

	2016	2015
Balance at 1 January	265,343	201,365
New loans raised	-	116,906
Amounts repaid	(425)	(157)
Reclassification to short-term loans (Note 37)	(90,506)	(52,771)
Total long-term borrowings	**174,412**	**265,343**

35. ADVANCES RECEIVED

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign customers	9,750	10,378
Domestic customers	2,499	427
	12,249	**10,805**

36. TRADE PAYABLES

(in thousands of kunas)

	31.12.2016	31.12.2015
Foreign trade payables	94,867	118,534
Domestic trade payables	29,948	45,022
	124,815	**163,556**

In 2016 the average days payables outstanding was 110 (2015: 132 days).

37. SHORT-TERM BORROWINGS

(in thousands of kunas)

	31.12.2016	31.12.2015
Short-term borrowings – principal payable	122,052	87,955
Current portion of long-term borrowings (Note 34)	87,634	58,169
Short-term borrowings – interest payable	1,743	1,257
	211,430	**147,381**

The short-term borrowings were used to finance development projects and for working capital purposes. Instruments of collateral provided for the short-term borrowings are payment instruments. Of the total balance of the short-term borrowings, 75 percent represent revolving facilities and approved overdrafts on current accounts, with the limits renewable on an annual basis.

In 2016, the weighted average interest rate on the short-term loans was 4.53 percent.

The Company fulfils all its obligations under the loans regularly.

37. SHORT-TERM BORROWINGS (CONTINUED)

	2016	2015
Balance at 1 January	147,381	257,778
New loans raised	95,927	63,631
Reclassification from long-term loans (Note 34)	90,506	52,771
Interest invoiced	18,297	23,944
Exchange rate change	(2,614)	(222)
Interest paid	(17,608)	(23,944)
Amounts repaid	(120,459)	(227,021)
Balance at 31 December	**211,430**	**147,381**

38. OTHER CURRENT LIABILITIES

(in thousands of kunas)

	31.12.2016	31.12.2015
Amounts due to employees	7,075	8,045
Due to the State and State institutions	4,016	6,218
Other current liabilities	46	39
	11,136	**14,302**

39. ACCRUED EXPENSES

(in thousands of kunas)

	31.12.2016	31.12.2015
Accrued tool expenses	12,920	14,611
Other current liabilities	1,199	647
	14,119	**15,287**

40. RELATED-PARTY TRANSACTIONS

(in thousands of kunas)

Transactions with related companies were as follows:

Receivables and payables for goods, services and interest	Receivables		Payables	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
AO ADP, Russia / ZAO PHR, Russia	103,639	127,598	2,111	5,468
ZAO ADP KALUGA, Russia	66,366	70,845	58	545
ADP d.o.o. Mladenovac, Serbia	22,699	11,244	2,355	4,440
EURO APS, Romania	4,149	4,880	79	-
Centar za istraživanje i razvoj, Croatia	2	3	5	8
AD Plastik d.o.o., Slovenia	-	9	929	1,695
	196,855	**214,579**	**5,537**	**12,156**

Receivables and payables for loans	Receivables		Payables	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
AO ADP, Russia / ZAO PHR, Russia	22,673	22,905	-	-
ZAO ADP KALUGA, Russia	38,154	32,535	-	-
ADP d.o.o. Mladenovac, Serbia	21,162	32,571	-	-
AD Plastik d.o.o., Slovenia	-	-	-	5,726
	81,989	**88,011**	**-**	**5,726**

40. RELATED-PARTY TRANSACTIONS (CONTINUED)

(in thousands of kunas)

Purchase transactions	Income		Expenses	
Operating income and expenses	2016	2015	2016	2015
ADP d.o.o. Mladenovac, Serbia	17,181	13,727	40,223	5,717
AO ADP, Russia / ZAO PHR, Russia	16,489	35,496	-	9,399
ZAO ADP KALUGA, Russia	14,760	16,832	243	5,490
EURO APS, Romania	9,658	9,169	73	-
AD Plastik d.o.o., Slovenia	450	11,001	1,140	-
Centar za istraživanje i razvoj, Croatia	8	2	24	1
	58,546	**86,227**	**41,703**	**20,607**

Financial transactions	Income		Expenses	
Financial income and expenses	2016	2015	2016	2015
EURO APS, Romania	46,716	41,963	-	-
ZAO ADP KALUGA, Russia	1,611	2,349	-	-
AO ADP, Russia / ZAO PHR, Russia	1,161	1,600	-	-
ADP d.o.o. Mladenovac, Serbia	993	1,461	-	-
AD Plastik d.o.o., Slovenia	-	-	181	87
	50,481	**47,373**	**181**	**87**

The total remuneration provided to the members of the Supervisory Board, the Management Board and executive directors in 2016 amounts to HRK 10,422 thousand (2015: HRK 11,605 thousand).

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(in thousands of kunas)

41.1 Gearing ratio

The Company's gearing ratio, expressed as the ratio of net debt to equity, is expressed as follows:

	31.12.2016	31.12.2015
Short-term borrowings (Note 37)	211,430	147,381
Long-term borrowings (Note 34)	174,412	265,343
Cash and cash equivalents (Note 30)	(4,033)	(3,414)
Deposits (Note 29)	(10)	(441)
Net debt	**381,799**	**408,869**
Equity	665,718	644,972
Net debt-to-equity ratio	**57.35 %**	**63.39 %**

Net debt includes credits extended to purchase goods in the amount of HRK 17,155 thousand (31 December 2015: HRK 19,263 thousand).

Equity consists of share capital, reserves, own shares and retained earnings.

41.2. Categories of financial instruments

	31.12.2016	31.12.2015
Financial assets	**453,820**	**495,400**
Non-current trade receivables (Note 25)	135,937	212,619
Given loans (Notes 24, 29)	151,932	141,849
Trade receivables	139,730	117,553
Other receivables and other financial assets	22,178	19,524
Cash and cash equivalents and deposits (Notes 29, 30)	4,043	3,855
Financial liabilities	**530,028**	**595,169**
Loans received (Notes 34, 37)	385,842	412,724
Trade and other payables (Notes 35, 36, 38)	144,186	182,445

Other receivables include the balances from the following line items in the statement of financial position: other receivables less receivables from the State, and other financial assets.

Trade and other payables include the balances from the following line items in the statement of financial position: trade payables, advances received and other current liabilities, less amounts owed to the State.

At the reporting date there are no significant concentrations of credit risk on loans and receivables designated at fair value through the statement of comprehensive income.

41.3. Financial risk management objectives

The Finance function of the Company, which coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company, performs risk management at Company's by means of internal risk reports, which analyse exposures by the degree and magnitude of risks, and implementing activities to manage the risks effectively and minimise them. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk and cash flow interest rate risk. The Company does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes.

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.4. Price risk management

The Company's operations expose it to price risk, which is the risk associated with changes in the prices of key raw materials, transportation, other production costs and strong pressure from competitors and customers. However, in the automotive industry, open product price calculations prevail, and the price fluctuations of raw materials and other costs, either the upward or downward, are being adjusted with customers through selling price on a monthly, quarterly or semi-annual basis (depending on the customer). The largest markets on which the Company provides its services and sells its products comprise the EU market and the market of the Russian Federation. The Management Board determines the prices of its products for each foreign market separately.

41.5. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate, which applies to the financial instrument. The Company's interest rate risk arises from its borrowings. The interest rate risk exposure is low, as there are no significant financial instruments at variable rates.

41.6. Credit risk

The Company is exposed to credit risk in respect of given loans and trade receivables. Loans have been granted to its subsidiaries, and as such the credit risk is under the control of the Company. Trade receivables are presented net of allowance for bad and doubtful accounts.
The largest five customers of the Company are as follows: Revoz, Slovenia; Reydel Automotive France; Hella Saturnus Slovenia; Peugeot Citroen Automobiles, France; and Grupo Antolin Turnov Czech Republic. Operating income generated from the sales made to the business partners represents 64.61 percent of the total operating income (2015: 66.55 %).
It is the policy of the Company to transact with financially sound companies where the risk of default is minimised.

41.7. Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's foreign-currency denominated monetary assets and monetary liabilities at the reporting date are provided in the table below using the middle exchange rates of the Croatian National Bank:

At 31.12.	Assets		Liabilities		Net FX position	
	2016.	2015.	2016.	2015.	2016.	2015.
EUR	334,772	502,570	242,093	277,557	92,679	225,013
RUB	100,376	84,086	-	215	100,376	83,871
RSD	3,525	3,744	-	-	3,525	3,744
USD	118	8,476	191	463	(74)	8,013
GBP	35	3	-	239	35	(236)
	438,826	**598,879**	**242,284**	**278,474**	**196,541**	**320,405**

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of changes in the exchange rates for the EUR and RUB. The following table details the Company's sensitivity to a 2-percent change of the Croatian kuna against the euro and a 10-percent change of the Croatian kuna against the Russian rouble (RUB) in 2016 and 2015. The sensitivity analysis includes only outstanding foreign-currency denominated monetary items and presents their translation at the year-end. A negative figure below indicates a decrease in profit, and a positive figure an increase in profit where the Croatian kuna changes against the relevant currencies by the percentages specified above.

EUR impact	2016	2015
Change in exchange differences (2 %)	+/- 1,854	+/- 4,519

RUB impact	2016	2015
Change in exchange differences (10 %)	+/- 10,038	+/- 8,607

41 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.8. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board. The Company manages its liquidity using banking facilities (overdrafts) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of its financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Company can require payment and can be required to pay.

2016	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Non-interest bearing	-	58,095	58,280	49,509	135,941	62	**301,887**
Interest bearing	5.20 %	1,532	4,360	63,566	92,293	4,675	**166,427**
		59,627	**62,640**	**113,076**	**228,234**	**4,737**	**468,314**
Liabilities							
Non-interest bearing	-	68,706	62,637	12,841	-	-	**144,184**
Interest bearing	3.76 %	4,569	42,200	174,389	187,196	29	**408,384**
		73,275	**104,838**	**187,230**	**187,196**	**29**	**552,568**

2015	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Non-interest bearing	-	39,063	55,777	41,952	212,619	-	**349,411**
Interest bearing	9.48 %	937	1,792	24,389	128,273	6,237	**161,628**
		40,000	**57,569**	**66,341**	**340,892**	**6,237**	**511,039**
Liabilities							
Non-interest bearing	-	74,594	68,635	35,665	3,551	-	**182,445**
Interest bearing	4.34 %	3,510	22,632	134,692	264,258	37,022	**462,114**
		78,104	**91,267**	**170,357**	**267,809**	**37,022**	**644,559**

41 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.9. Fair value of financial instruments

Financial instruments held to maturity in the ordinary course of business are carried at the lower of cost and net amount less repaid portion.

The fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, except in the event of a forced sale or liquidation. The fair value of a financial instrument is the price quoted on a stock exchange or arrived at using the discounted cash flow method.

At 31 December 2016, the carrying amounts of cash, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments match their fair values.

42. EVENTS SUBSEQUENT TO THE REPORTING DATE

After 31 December 2016, there were no events that would have a significant impact on the financial statements for the year 2016, respectively they are not of such significance to the Company to require disclosure in the notes to the financial statements.

43. CONTINGENT LIABILITIES

Based on the Management's estimate, the Company had no material contingent liabilities at 31 December 2016 which would require to be disclosed in the notes to the financial statements.

As at 31 December 2016 there were no material legal actions outstanding against the Company with an expected negative outcome other than those reflected in these financial statements.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of AD Plastik d.d. and authorised for issue on 19 April 2017.

For AD Plastik d.d. Solin:

Marinko Došen, President of the Management Board

Katija Klepo, Member of Management Board

Sanja Biočić, Member of Management Board

Mladen Peroš, Member of Management Board

Your needs. Our drive.

Solin, April 2017

www.adplastik.hr