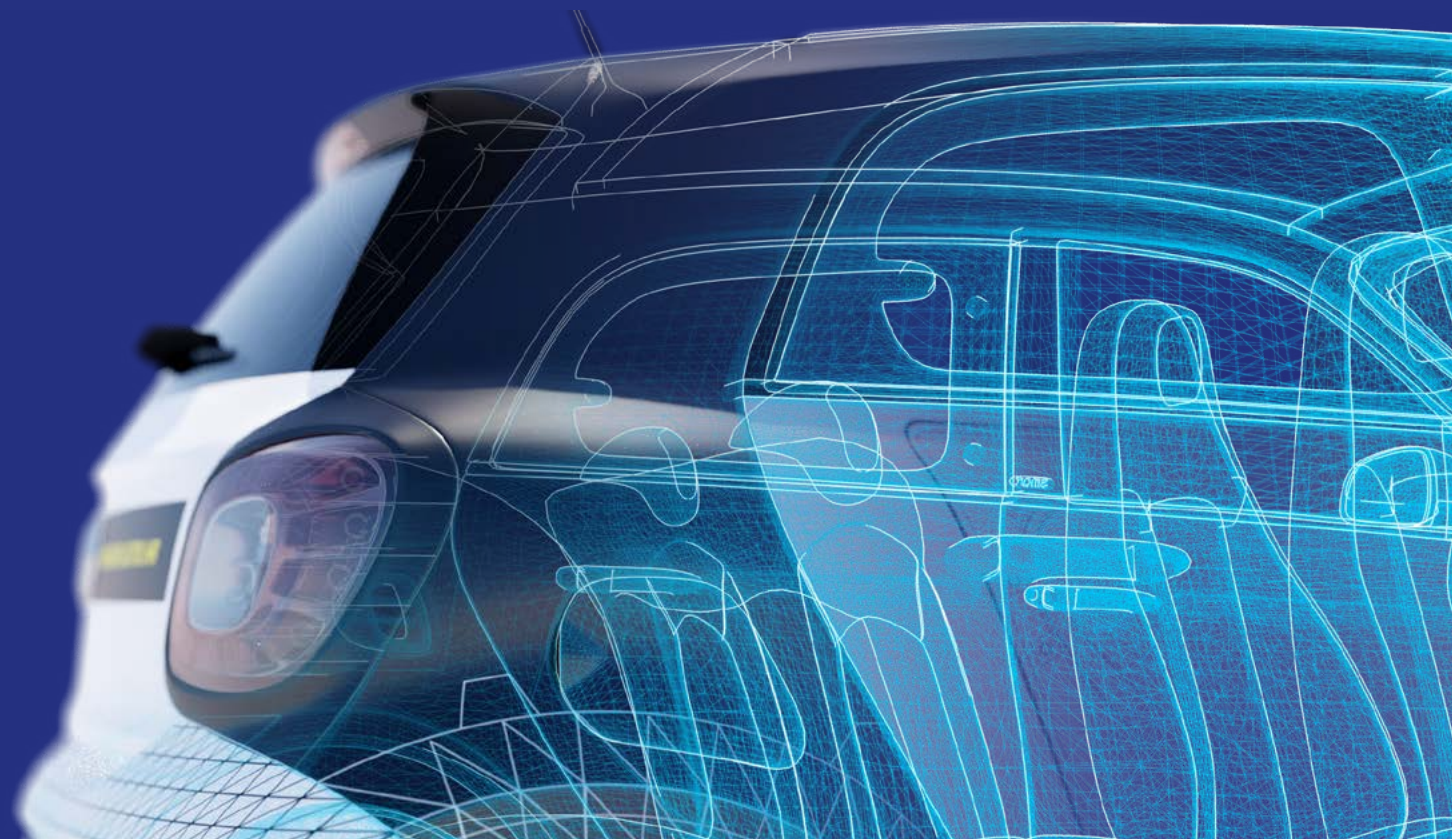


2017

INTEGRATED ANNUAL FINANCIAL STATEMENT





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Introduction



This is the first year for AD Plastik Group to publish the company's integrated annual financial statement, consisting of the Company's business report, auditor's report and sustainability report, i.e. non-financial information concerning the company's environmental and social impact, produced in line with the Global Reporting Initiative (GRI) Standard.

We opted for an integrated report with the aim of informing our stakeholders in a more quality and comprehensive manner. This way, we connect the financial values of the company to the social and environmental values of our business. Our aim is to present the company's business strategy, financial results, corporate culture and approach to socially responsible business to our stakeholders in a thorough and transparent manner.

The statement attempts to aggregate various material activities of the company and present how they are managed and how they influence the financial results of the Group.

We believe that this new manner of reporting provides all of our stakeholders with a better understanding of the company's strategy, social, environmental and economic impacts, a more comprehensive overview of business opportunities and risk management and ultimately increases our transparency. Our desire is to ensure that every stakeholder understands better how the company's values are created.



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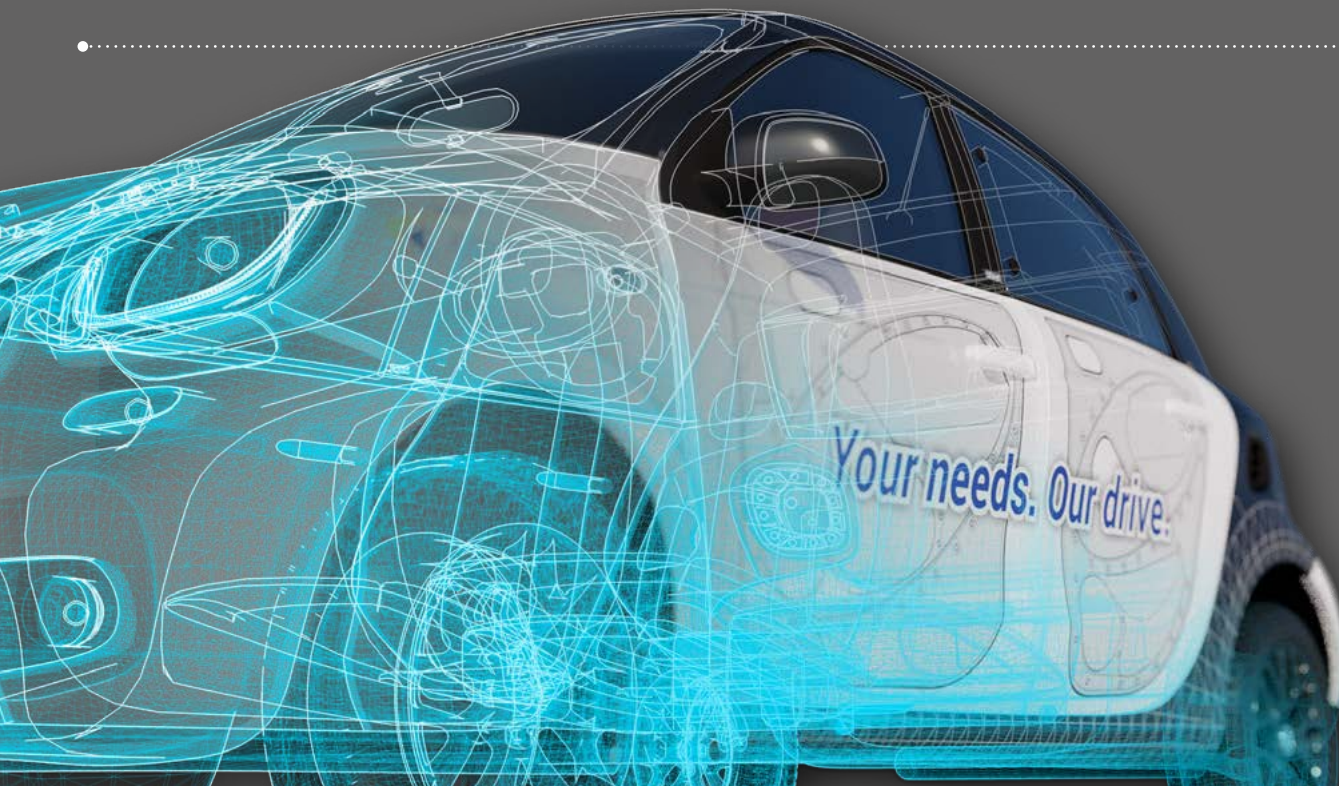
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Letter from the President of the Management Board

Dear stakeholders

It is my great pleasure to present you with the first integrated annual financial statement of AD Plastik Group encompassing our business report, sustainable development report and auditor's report. It contains all crucial financial and non-financial information; in the non-financial part, in which we report on the Company's impact on the environment and society, for the first time ever we report in line with the new Global Reporting Initiative Standards (GRI).

Transparent and open communication with our stakeholders is one of the key premises of the Company's survival, hence the aim of integrated reporting is to present the Company's relations with all its relevant stakeholders in a comprehensive, detailed and strategic manner.

2017 was one of the best years for us in the last ten years of business and we are extremely happy to present the year's results to you. Good results give us pleasure, but they also encourage us to further achievement of the planned goals. This was an extremely successful year for AD Plastik Group providing us with a strong foundation for the planned future.

Our business revenue in the reporting period increased by 16.5% from the previous year and amount to HRK 1,090.14 million. This shows that the investments, programmes and technologies implemented in the past year were a good strategic choice. The buyer is always a key figure when we plan our further activi-

ties, hence in the past year we expanded our manufacturing capacities in Zagreb, while our capacities in Solin have been utilised to the maximum. The quality of our factories was highly rated, which, alongside correct and timely delivery, is a prerequisite for success in the supply chain of the automotive industry.

The increase of production efficiency and rationalization of expenses resulted in a 16.6% increase of EBITDA from 2016 and it now stands at HRK 158.43 million. The achieved net profit increased by 41.2% and it now stands at HRK 70.21 million, while the last quarter of last year was characterised by record high sales volumes.

We constantly invest and build a corporate culture featuring open communication, a proactive attitude, a clear remuneration system, recognition of excellence and preservation of company knowledge while building partnerships and respecting the integrity of every employee.

In particular, I would like to emphasize our satisfaction with the improved rating by the EcoVadis agency, which, as per our customers' request, assesses our socially responsible business operations.

We have won the golden recognition level and entered the top five percent of the best companies. Retaining this position and further improving our rating is a goal towards which we strive and which we plan to achieve.

Socially responsible business is the distinguishing feature of a successful company.

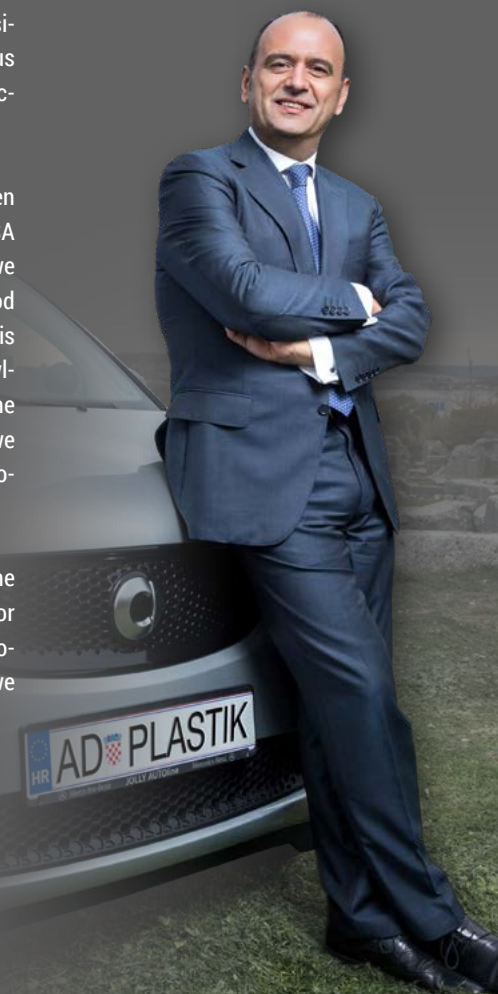
As of this year, we are also signatories of the diversity charter, whose ambassador is myself. It obliges us to create a stimulating business environment that accepts diversity and ensures the right to equality.

During 2017, a large number of new deals have been made for various models of the Renault Group, PSA Group, Ford, Volkswagen, Nissan and others, so we have a very significant and dynamic project period ahead. Our priority in further business operations is investment in technology development and knowledge, along with the overall growth of the Group in the European and Russian automobile markets, which we will achieve through the planned increase in the production and sales at all locations.

But we are also still looking at opportunities in the market related to potential business co-operation or acquisition of ownership of one of the existing automotive component manufacturers, through which we plan to expand our production capacities.

Marinko Došen

President of the Management Board





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We are the leading company specialising in the development and production of interior and exterior car components in Croatia and one of the leading companies in Eastern Europe. We have over 30 years of experience in the automotive industry. AD Plastik Group is a multinational company with seven production locations in four countries. Our operational activities spread across 59 countries in five continents.

We collaborate with our buyers from the early stages of development to the final product. We use modern tools and techniques while applying specific

expertise, skills and experience. Our core value is a focus on customer needs, while maintaining high quality and competitiveness of products and services.



2017 in numbers



>30 years of experience in the automotive industry



>20 years of presence in Russia



7 production sites in **4** countries



Headquarters **Solin, Croatia**



EBITDA margin..... **14.5%**

Net profit margin..... **6.4%**

Business revenue

HRK **1,090.14** mill.



compared to the previous year

EBITDA

HRK **158.43** mill.



compared to the previous year

Net profit

HRK **70.21** mill.



compared to the previous year



Key events in 2017

Renault Clio BJA

We sealed a deal for the new Renault Clio model, the heir to the current Clio, one of the best selling models in its class. We will be manufacturing the front and rear bumpers and their components, inner wheel arch housings, painted external stabilizers (spoilers), dashboard and door sides. Various parts of the car's interior will be manufactured in collaboration with Faurecia, which will be in charge of their development.

Injection moulding, painting and assembly of the contracted parts will be performed at our sites in Zagreb and Solin, and we would particularly like to highlight new development activities. We will produce a total of 26 components, and our independent manufacturing of the front and rear bumpers represents a new step ahead and great responsibility for the Company's development team. Serial produc-

tion is planned to start in mid-2019 and the estimated duration is seven years. The Clio project represents the future of the Revoz factory in Novo Mesto.

"We are proud that Renault placed their trust in us as we acquired that trust through years of partnerships, raising our quality in the last number of years and high ratings in the area of logistics. We need to keep up with the trends in the automotive industry which requires all suppliers to work at a quick pace, follow changes and new requests and to be constantly available. Our goal is to keep Renault high on our list of main buyers," said **Gordana Erceg Sindik**, Renault Group's Head of Sales.

The project is worth a total of EUR 72.5 million.

The Edison project - Stage 2

We sealed a new deal for the second stage of the Edison project, more precisely the Smartfour (S4S) automobile. We will be manufacturing the front bumpers and their components as well as the inner wheel arch housings, for which we will use the technologies of injection moulding and painting, as well as assembly. The Company was entrusted with manufacturing 24 components. One specific feature of Smart is the possibility to personalise the

vehicle due to its two-colour bodywork and a large selection of colours and materials for the interior. Serial production is planned to start in the second half of 2019 and the estimated duration of the project is four years.

The project is worth a total of more than EUR 14 million.

Renault and Ford Russia

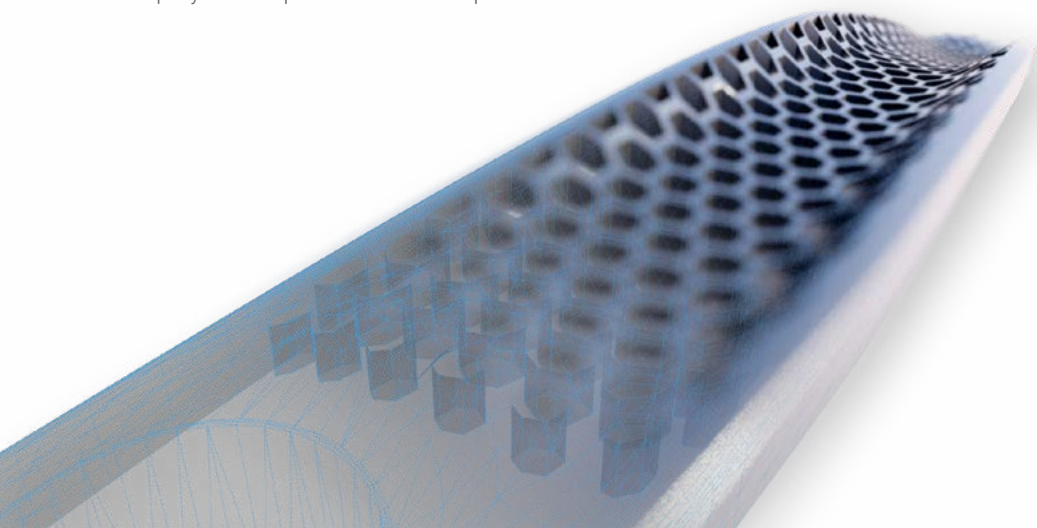
We sealed a number of deals in Russia, such as the manufacturing of injected chassis shields for Renault Logan, Sandero and VAZ X-ray, whose serial production is planned to start in late 2018. We also signed a contract for manufacturing injected components of the interior for Ford Kuga, whose serial production is planned to start in 2020. The planned duration of the Ford Kuga project is five years, while the Renault Logan, Sandero and VAZ X-ray projects are expected to last four years.

"There are several reasons why this deal is important for us. First of all, we are in charge of developing individual components, thus expanding the range of our development products within the Re-

nault-Nissan-VAZ Alliance. This will also enable us to fill our capacities in Vintai and ensure better performance of the factory," said **Mislav Čelar**, Sales Director for the Russian market.

Ford Kuga Project Manager **Dragan Buljubašić** added: "This deal confirms that we are Ford Sollers' preferred choice when it comes to injected interiors." This is a resumption of our successful collaboration in the same position as well as in the EcoSport project, whose serial delivery will commence in early 2018."

Expected revenue of the contract above is valued at EUR 8.5 million.



Key events in 2017

Hella-Volvo V43X

We signed a deal for manufacturing headlight casings for Volvo V43X automobiles, together with the assembly of the fitted components via Hella as the buyer. The casings will be manufactured at AD Plastik Group's Zagreb site, and the serial production is planned to start in April 2018 with an estimated duration of four years.

Although this nomination only deals with casings injection, it is a proof of the continuity of our business relations with the buyer with no additional investment, thus filling our capacities at the Zagreb factory.

Expected contract revenue is valued at EUR 22.8 million.

Ford Focus Active

We signed a deal for manufacturing two packages of exterior for the new Ford Focus Active automobile, containing various positions of bumper components and decorative platings for mudguard protector and vehicle sills. The packages above contain almost 17 items, all of which will be manufactured in Solin. This makes AD Plastik Ford's supplier for the new line of aspectual exterior products, whose manufacturing values and engagement with development are worth several times more than the price of chassis manufacturing, which, up to now, was the largest realised deal for this buyer.

Serial production is planned to start in the final quarter of 2018 and the estimated duration of the project is six years.

"I am proud to look back on the period from December 2016 to August 2017, during which I was dedicated to the development of this automobile's rocker claddings. This is one of the most challenging development projects of AD Plastik Group. Vehicle sill is one of the largest pieces of plastic on a car and its 2000 mm of surface operates under rules of its own. Ford is so much different from our other buyers and this is a serious future reference in every sense," said **Uroš Pavlović**, Deputy Development Manager.

The expected revenue from the deal above amounts to EUR 8.3 million, of which a significant part is related to product development and design.

Ford Mondeo

We have also sealed a deal for the manufacturing of inner wheel arch housings for Ford Mondeo, with which we continue our collaboration on this vehicle. The current Mondeo's factory in Valencia is one of the most remote sites we collaborate with. Production is planned to start in early 2019 and the estimated duration of the project is five years.

"Ford re-designed its products within the company, so we were forced to offer competitive prices of manufacturing and optimum costs of mould modification for the new bodywork of the vehicles," said **Tonći Jakaša**, Ford's Head of Sales.

Expected project revenue is valued at EUR 2.5 million.





Key events in 2017

VW Group

We signed new deals for manufacturing sets of inner weatherstrips for Audi Q3 automobiles in Croatia and front wheel arch housings for VW Tiguan automobiles in Russia.

Inner weatherstrips for Audi Q3 will be manufactured in our extrusion facility in Solin, and the production is planned to start in September 2018. The estimated duration of the project is seven years, and the planned production volume is 140,000 vehicles per year.

"Since we used to make extruded profiles for the Touran model and we are currently working for Golf and will also be working for Touareg, entering into a deal with Audi, one of the leading brands within the VW Group, represents an improvement for our Company as a development and strategic partner in profile manufacturing," said Ivan Matić from VW's Sales Department.

Front wheel arch housings for VW Tiguan automobiles will be manufactured in AD Plastik's factory in Kaluga, and the production was announced to start in February 2018. The estimated duration of the project is four years, and the planned production volume is 22,000 vehicles.

"This is our first deal agreed directly with Volkswagen in Russia, which places us into the pool of their serial suppliers. This project is a result of several years' engagement of the Sales and Development Department in Solin," highlights **Mislav Čelar**, Sales Director for Russia.

The overall estimated annual revenue from the nominations above amounts to EUR 4 million.

We signed a deal for manufacturing injected cooling fan motor brackets for the VW Polo and Škoda Rapid automobiles in the Kaluga factory in Russia. Serial production is planned to start in late 2019 and the estimated duration of the project is five years.

"This is the largest individual deal signed with VW in Russia. This proves that AD Plastik Group reinforced its position on the list of VW's suppliers of injected components. This is an excellent opportunity for us to also increase our development competencies," said **Drago Marković**, Project Manager.

Expected contract revenue is valued at EUR 6 million.

PSA Group

We signed several new deals for the PSA Group, namely the manufacturing of the camera brackets and cover for Peugeot 508, PHEV (plug-in hybrid vehicle) screen for Peugeot 508 and Peugeot 3008, air extractor for Peugeot 208 and glass run channel for Citroen Cactus. Serial production for all automobiles mentioned above is planned to start in 2018.

We also signed a contract for manufacturing PHEV toothed belt protecting cover for several vehicles of the PSA Group, whose production is planned to start in August 2019. We also agreed on deals for manufacturing glass run channels, mobile and fixed grab handles for several vehicles, all of which are expected to materialise in early 2018.

"We are particularly pleased with the nominations awarded to us by the PSA Group in the last year since we experienced a two-year pause with this buyer during which no new nominations had been awarded. Our plan is to significantly increase the materialization levels for PSA Group, primarily through being awarded deals for new large-scale projects for which we are expecting queries," said **Almir Mahmutović**, Programme Manager.

Expected revenue from the projects above is valued at EUR 5.2 million.



Key events in 2017

Nissan

AD Plastik Kaluga in Russia was awarded the deal for manufacturing injected trims for Nissan Qashqai automobile. Serial production is planned to start in June 2018 and the new Nissan Qashqai will be manufactured at their factory in Saint Petersburg.

“Apart from further localization and the increase of materialization with Nissan in Russia, this deal is important because this is the first time we were nominated as Nissan’s development supplier. We are in charge of developing products and tools”, said **Mislav Čelar**, Sales Director for the Russian market.

Expected revenue is valued at EUR 2.2 million in the four-year period.

Awarded grants

AD Plastik signed a Grant Agreement with the Croatian Ministry of Economy, Entrepreneurship and Crafts and the Croatian Agency for SMEs, Innovation and Investments for projects financed from the European Structural and Investment Funds in the financial period 2014- 2020. Pursuant to the aforementioned Agreement, we received a grant in the amount of HRK 19,632,690.36 for the research development project “Painting pilot line for industrial

research, development and innovation.” The project needs to be implemented within 48 months from its start or by 30 June 2020 at the latest. The project is worth a total of a little over HRK 74 million and it will enable the development of new interior painting technologies within AD Plastik Group, which will be one of the factors generating the growth of sales in the medium term.

Diversity Charter

AD Plastik Group is one of the first Croatian companies to have signed the Diversity Charter, which was developed as part of the joint project of the Croatian Business Council for Sustainable Development (HR PSOR) and partners from Slovenia and Romania. President of AD Plastik Group’s Management Board, **Marinko Došen**, was also designated Ambassador of Diversity.

“Being the ambassador of the Diversity Charter for me is a responsibility, but above all a pleasure, because I can personally contribute to the development and progress of this project. This is another in the line of recognition of AD Plastik Group for our achievements and progress in the area of social responsibility,” said **Marinko Došen**.





Key events in 2017

Golden Key Award

AD Plastik was awarded the Golden Key Award by Croatian exporters in the category **Best Exporter to Slovenia in 2016**, accompanied by nominations in two more categories (Best Exporter to France and Most Innovative Exporter in 2016).

"Slovenia is a remarkably significant market for our business, because the Revoz (Renault) factory is located there, one of our biggest customers. We can expect further growth of exports to Slovenia due to new business based on our many years of experience, knowledge and the quality of our company," said **Marinko Došen**.

EcoVadis

Following the regular annual evaluation of socially responsible business, the company EcoVadis awarded AD Plastik Group with the golden level of recognition, thus confirming its positive trend of improving sustainable business. We made it to the top 5% of the companies that the agency evaluates.

EcoVadis promotes the creation of a reliable and consistent system of evaluating socially responsible business and provides comparable data so that suppliers may be evaluated across sectors and countries. The evaluation takes into consideration the policies, programmes and implementations in the areas of environmental management, fair business

practice, work and human rights, and sustainable procurement.

Our buyers evaluate the sustainability of our business via the agency EcoVadis.

"We are very pleased with the improved rating which assesses our socially responsible operations, despite the increasingly more demanding evaluations in terms of the breadth of the covered topics and the amount of information required," said **Marinko Došen**.

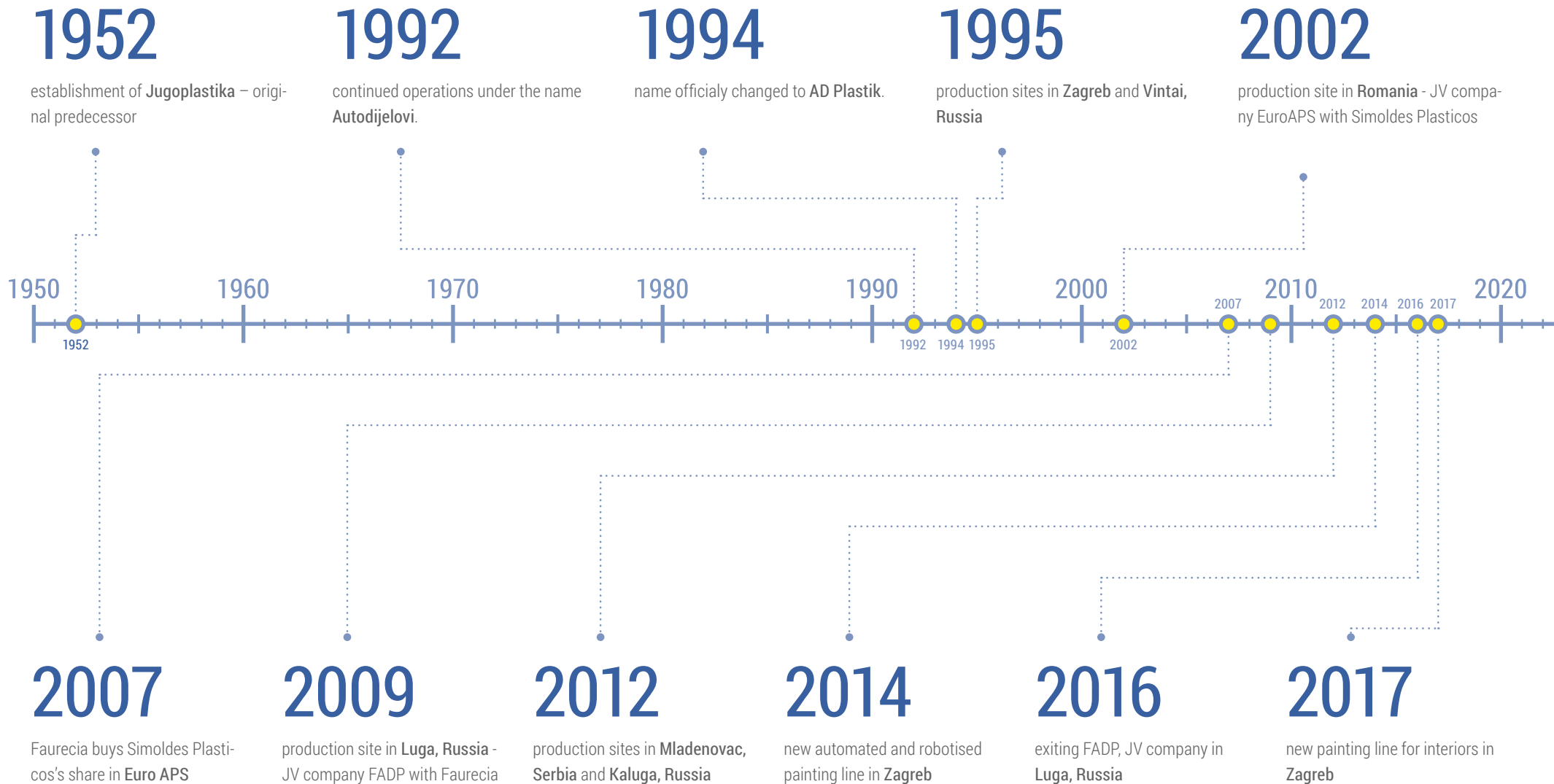
Green Frog Award

As part of Deloitte's competition for the Best Report on Sustainable Development (Green Frog Award), AD Plastik Group's Sustainability Report for 2016 was selected in the top three reports in Croatia. In the regional part of Deloitte's competition Green Frog, AD Plastik Group's report has been commended as the best practice of presenting human rights in report. The Green Frog Award project was initiated in 2001 at the level of Central Europe with the aim

of rewarding socially responsible companies and promoting social responsibility among the general public. The best reports were chosen by an independent evaluation committee, taking into account the following four key guidelines: reporting on the key indicators the subject company uses to measure sustainability, materiality, the contents of the report, and its structure and the way information is communicated.



Company history





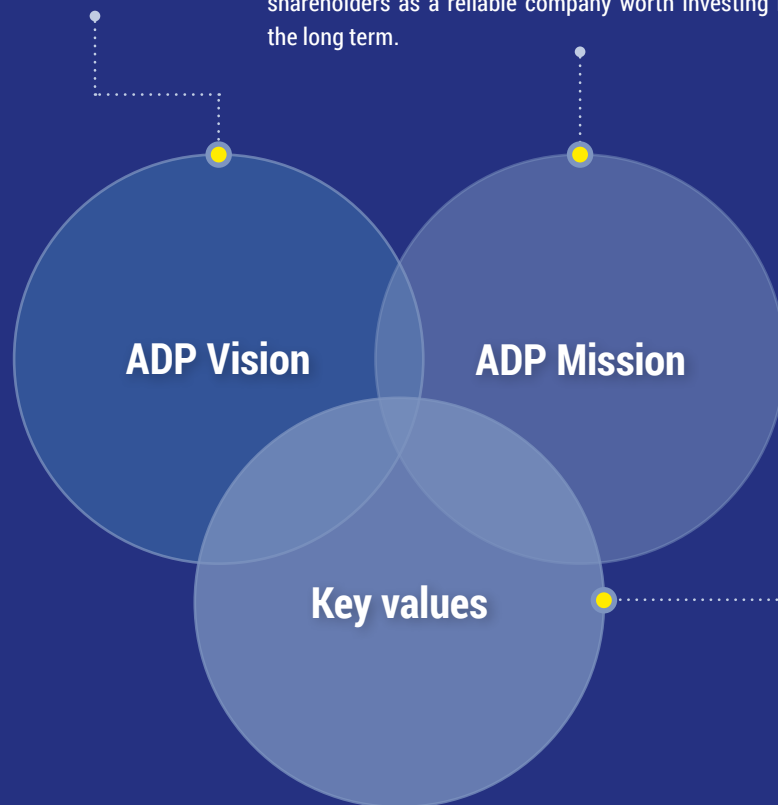
Mission, Vision, Key values

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 introducing innovative solutions and constantly improving the development and quality of our products, we contribute to the success of our buyers. We achieve our goals as an ethical, responsible and preferable employer. We conduct business in harmony with our environment to the satisfaction of our stakeholders. We are acknowledged by our shareholders as a reliable company worth investing in for the long term.



Reliability

Relationships with all our stakeholders are based on trust, open and honest communication. Building long-term partnerships with all our stakeholders is based on mutual respect.

Quality

Developing and maintaining the highest standards of quality and safety in every segment of business are at the heart of our business success and our stakeholders' satisfaction.

Innovation

Our ideas, creativity and technologies contribute to achieving constant progress and enable us to keep in line with world trends. This way we contribute to the improvement and development of the Company, thus confirming our position in the global market.

Responsibility

Responsibility is a prerequisite for the company's development, growth and performance. It is demonstrated every day through our approach towards each individual, work, partners, stakeholders and our actions aimed at the society, nature and the community in which we operate.

Respect

Our employees are our greatest value and they hold the key role in the Company's business. We treat them fairly and with respect regardless of their position and location. We encourage them to take initiative, make decisions and govern with quality.

Togetherness

We encourage mutual collaboration at all levels based on trust, making clear and swift decisions and taking responsibility. Exchange of ideas and knowledge, multiculturalism, mutual respect and solidarity are the key ideas of developing togetherness within the company.

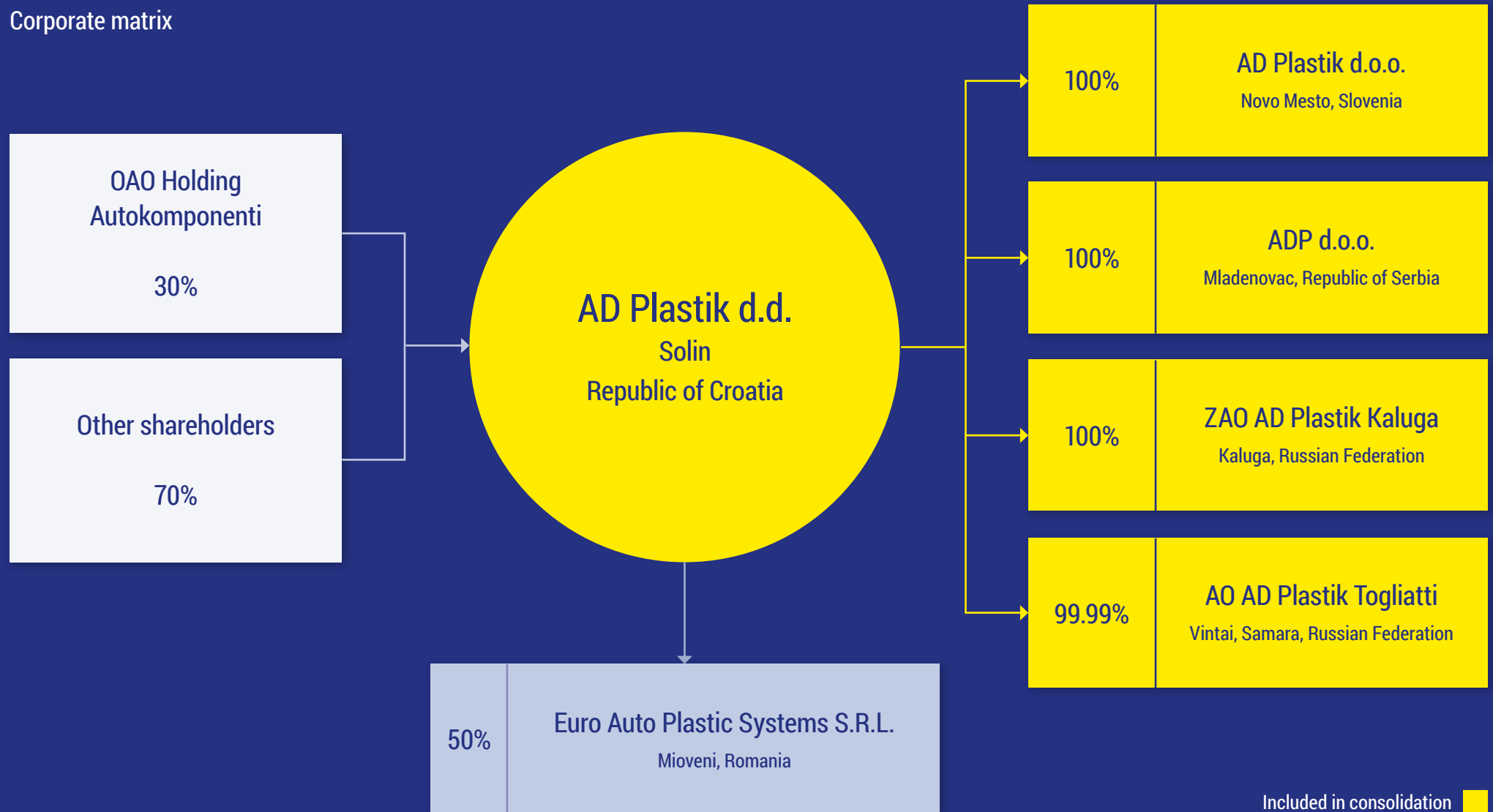
Production sites





Corporate governance

Corporate matrix



Corporate governance

Governance in the AD Plastik Group



We base our business activities on good practices in corporate governance, transparent and efficient business and good relations with the environment we conduct business in. We aim at achieving our strategic goals, further growth and development and successful business results.

We reach those goals by conducting business in line with the high criteria of quality, responsibility, reliability, innovation, dedication, respect and community as the core values of AD Plastik Group. Every Company employee needs to abide by the high corporate standards and the Company's sustainable development standards, aimed primarily at respecting human rights, preventing conflicts of interest and any form of corruption.

With this in mind, in 2016 AD Plastik Group's Management Board founded a Committee for imple-

menting activities connected to socially responsible business, which is responsible for making decisions on economic, environmental and social impacts. The Committee is directly responsible to the member of the Management Board in charge of Finance, Accounting, Controlling and IT.

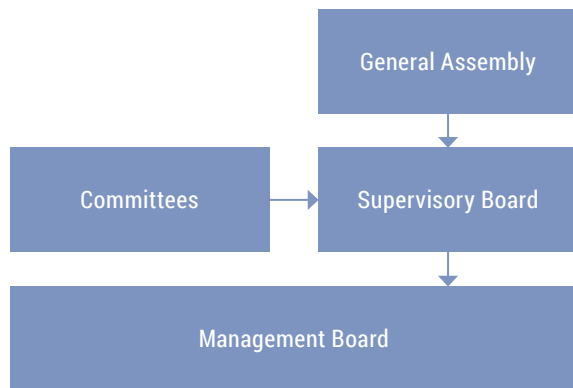
The Committee consists of eight members, each of which is responsible for the area within their own function, and covers the following areas: corporate governance, environment, suppliers, quality and all social aspects. One of the basic tasks of the Committee is improving socially responsible business as well as coordinating, promoting and encouraging all relevant services within AD Plastik Group to actively participate in its improvement. The Committee is obliged to draw up, deliver and present the annual results, plans and strategy to the Company's Management Board.



Corporate governance

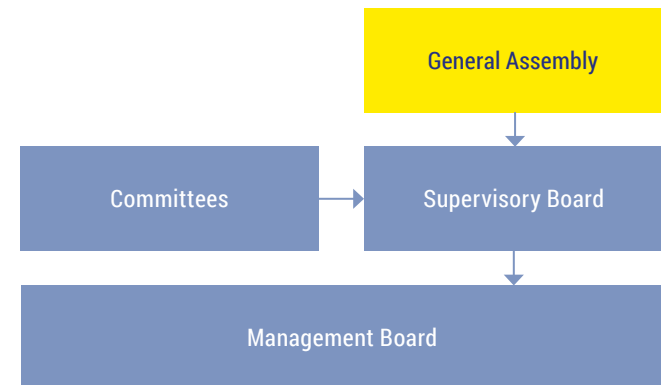
Governance structure

The structure of AD Plastik's corporate governance is based on a dualist system consisting of the Management Board and the Supervisory Board. The four key functions of the Company are constituted by the Management Board, Supervisory Board, General Assembly and the Audit Committee.



General Assembly

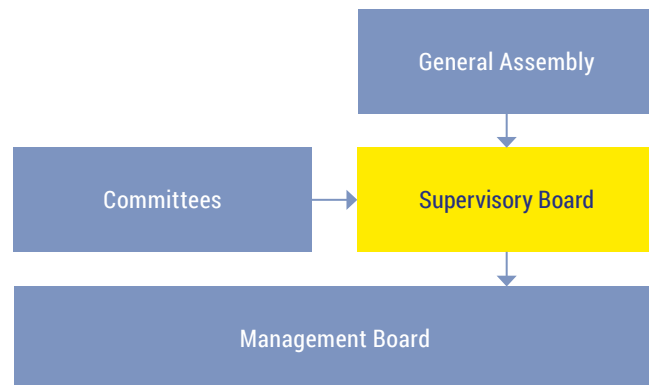
A regular session of the General Assembly was held on 20 July 2017 at which the following decisions were adopted in accordance with Company Statute and Companies Act: decision on the acceptance of the Annual Report on the state of AD Plastik Group for 2016, reports of the Supervisory Board on the supervision of the Group's business operations for 2016, appropriation of profit, decision on dividend payment, on granting release from duty to Management and Supervisory Board members, on the appointment of an auditor, decision on the election of one member of the Supervisory Board, and a decision on authorising the Management Board for acquiring own shares.



Corporate governance

Supervisory Board

The conduct of the Company's business is supervised by the Supervisory Board and reported to the General Assembly. Its written report shall explicitly state whether business is conducted in accordance with the law and Company acts as well as whether the annual financial statements have been drawn up so as to reflect the actual state of financial records. The conduct of business may not be transferred to the Supervisory Board, but the Statutes may define certain types of activities that may be conducted only upon prior approval of the Supervisory Board. The Supervisory Board shall hold the right to call a meeting of the General Assembly, more specifically, it needs to do so when it is beneficial to the Company.



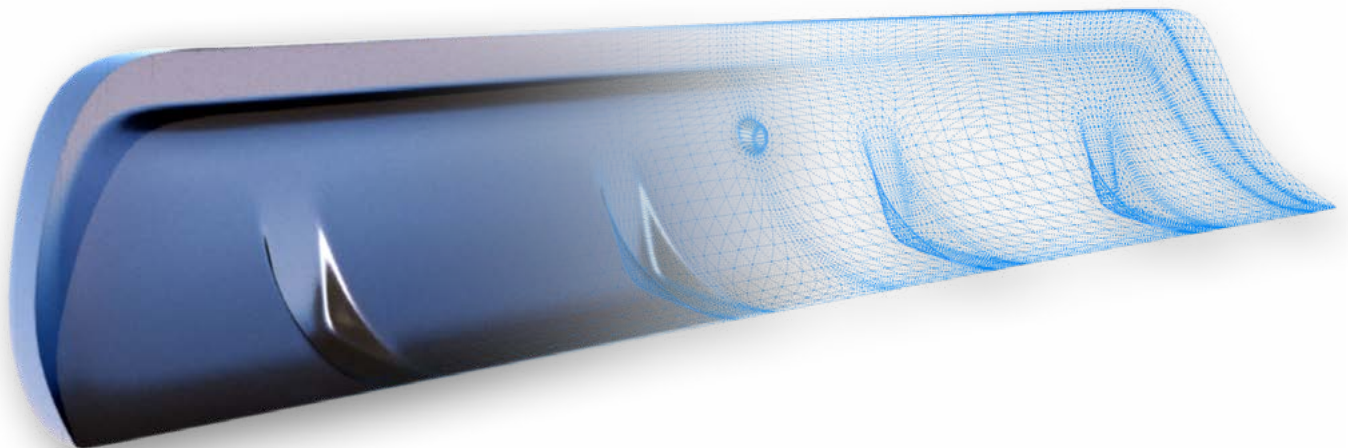
The Supervisory Board consists of seven members, four of which are elected by the General Assembly to a four-year mandate with the possibility of re-election. One member is appointed by the Workers' Council to a four-year mandate, while two members are appointed by the shareholder – Open joint stock company Holding Autokomponenti from Saint Petersburg, Russia, to four-year mandates, all of which may be re-appointed.

In accordance with the previously published calendar of events, the Supervisory Board held four regular meetings in 2017. In accordance with the Rules of Operation of the Supervisory Board in the form of absentee voting, it made one decision in the form of absentee voting in the reporting period..

On 10 May 2017, **Marijo Grgurinović**, member of the Supervisory Board, stepped down from duty, taking effect on 19 July 2017.

In accordance with the decision of the General Assembly, **Zoja Crnečki** was appointed new member of the Supervisory Board to a four-year mandate, starting from 20 July 2017.

Dolores Čerina, member of the Supervisory Board, was recalled from duty by the Workers' Council on 22 September 2017, and a new representative, **Robert Kuhta**, was appointed on 30 October 2017 to a four-year mandate.





Corporate governance

Members of the Supervisory Board

Dmitrij Leonidovič Drandin, President

- current mandate from 19 October 2015 to 19 October 2019
- appointed by the shareholders of the Open joint stock company Holding Autokomponenti

Ivica Tolić, Vice President

- current mandate from 20 July 2016 to 20 July 2020
- appointed by the General Assembly

Hrvoje Jurišić, member

- current mandate from 20 July 2016 to 20 July 2020
- appointed by the General Assembly

Zoja Crnečki, member

- current mandate from 20 July 2017 to 20 July 2021
- appointed by the General Assembly

Igor Antoljević Solomatin, member

- current mandate from 23 July 2015 to 23 July 2019
- appointed by the General Assembly

Nadezhda Anatolyevna Nikitina, member

- current mandate from 19 October 2015 to 19 October 2019
- appointed by the shareholders of the Open joint stock company Holding Autokomponenti

Robert Kuhta, member

- current mandate from 30 October 2017 to 30 October 2021
- appointed by the Workers' Council

Statement on the remuneration policy for members of the Supervisory Board

Pursuant to the Statutes, the members of the Supervisory Board may be remunerated for their work; the remunerated amount shall be determined by a decision of the General Assembly for the business year in which the remuneration will be paid, depending on the results of business and the company's state.

In the year 2017, the decision on the payment of remuneration to members of the Supervisory Board was not made.

Pursuant to the decision, the following remunerations to the members of the Supervisory Board have been determined:

- the President shall receive a remuneration in the amount of 1.5 gross average monthly salaries per each meeting;
- other members shall receive a remuneration in the amount of one gross average monthly salary per each meeting.

The amount of remuneration shall be determined on the basis of gross average monthly salaries of employees achieved in the three months prior to the payment of such remuneration. Remuneration is paid after each meeting of the Supervisory Board.



Corporate governance

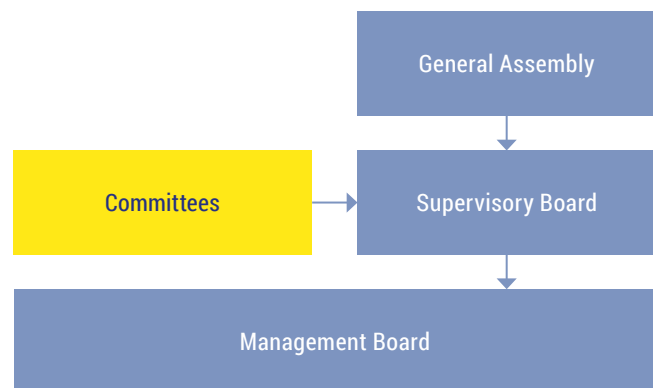
Supervisory Board's Committees

On 6 March 2017, **Nikola Zovko** resigned as a member of the Audit Committee, the Remuneration Committee and the Appointment Committee.

On the session of the Supervisory Board from 25 May 2017, **Ivica Tolić** was appointed member of the Audit Committee, Remuneration Committee and the Appointment Committee with a four-year mandate.

Committees:

- Audit Committee, four members
- Remuneration Committee, three members
- Appointment Committee, three members



Audit Committee

President:
Ivica Tolić

Members:
Nenad Škomrlj
Dmitrij Leonidovič Drandin
Anatolij Janovskis

The Audit Committee is responsible for monitoring the financial reporting processes and determining whether all statutory financial statements have been drawn up in line with formal accounting policies, relevant accounting standards and legal acts. It is in charge of monitoring the efficiency of the internal control system, internal audit, risk management system, overseeing the audit of annual financial and consolidated statements and discussing the plans, the internal audit annual report and significant matters in connection with this area.

Three meetings of the Audit Committee were held in the reporting period.

On 25 May 2017, the Committee's 19th meeting was held, during which the Report on the implementation of the annual internal audit plan for 2016, Report on the implementation of policies on non-auditory services for 2016 and Annual internal audit plan for 2017 were adopted. The Group's Consolidated Annual Financial Statement for 2016 and the Auditor's Report on the audit of the above statements were reviewed and the Audit Committee issued recommendations to the Supervisory Board for their adoption. Draft decisions on the use of profit for 2016, on dividend payment, on the appointment of auditors for 2017 and on determining their remuneration were discussed. The Internal Audit Report for the first quarter of 2016 was adopted and recommendations to the Supervisory Board for the adoption of the decisions above were issued. The Internal Audit Report for the first quarter of 2017 was adopted.

On 20 July 2017, the Committee's 20th meeting was held, during which the Internal Audit Report for the second quarter of 2017 was discussed and adopted, and Ivica Tolić was appointed President of the Audit Committee.

On 14 December 2017, the Committee's 21st meeting was held, during which the Internal Audit Report for the third quarter of 2017 was discussed and adopted.



Corporate governance

Remuneration Committee

President:
Ana Luketin

Members:
Dmitrij Leonidovič Drandin
Ivica Tolić

The Remuneration Committee recommends the Management Board's remuneration policy to the Supervisory Board and remuneration for Supervisory Board members, which are decided on by the General Assembly, as well as the appropriate form and contents of the contracts with Management Board members.

One meeting of the Remuneration Committee was held in the reporting period, on 20 July 2017, during which the minutes from the previous meeting were adopted and the President and Vice President of the Committee were appointed.

Appointment Committee

President:
Ivica Tolić

Members:
Nenad Škomrlj
Dmitrij Leonidovič Drandin

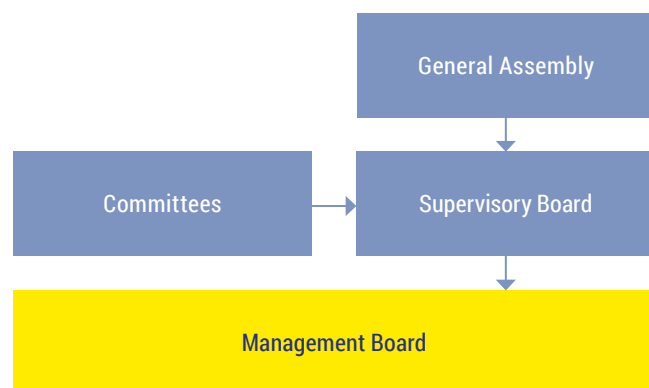
The Appointment Committee nominates candidates for members of the Management and Supervisory Boards, reviews the Management Board's employment policy for senior managers and assesses the quality of the Supervisory and Management Boards' work.

The Appointment Committee held one meeting during the reporting period, on 20 July 2017, during which Ivica Tolić was appointed as its President.



Corporate governance

Management Board



AD Plastik Group's Management Board is in charge of running the business under its own responsibility. It is appointed and repealed by the Supervisory Board. The Management Board must have the protection of the Company's interests in mind, which includes the interests of the shareholders, employees and general interests.

Running the business includes defining the corporate functions and their tasks, representing the company individually, drafting decisions (economic, development, social and environmental policy) and general acts and contracts within the General Assembly's jurisdiction. It also includes enforcing decisions issued by the General Assembly within its jurisdiction, submitting reports to the Supervisory Board, submitting consolidated annual financial statements to the General Assembly, activities related to the management of the Company's subsidiaries and participating in affiliated companies governance.

The Management Board currently consists of four members, even though the Statutes define that this number can vary from three to



eight. The mandate of the Management Board members can be up to five years long, and they may be re-appointed for an unlimited number of mandates. Management Board members have an executive function and each member represents the Company on an independent and individual basis. They are appointed based on their expertise and necessary experience.

Marinko Došen, President of the Management Board

- born on 25 March 1963
- Management Board member since 06 February 2015
- current mandate from 20 July 2016 to 20 July 2020

Marinko Došen was born in 1963 in Rijeka, where he graduated from the Faculty of Engineering with a Master's Degree in Mechanical Engineering. He completed an MBA programme at the Zagreb School of Business, specialization 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 Coca-Cola Bottling Energy Ltd., he managed the construction of several energy projects in the Republic of Hungary. Following this, 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, as the President of the Management Board, he managed the project of the operative restructuring of Mirna d.d. Rovinj.

He started working in AD Plastik Group in 2012 as General Director of ZAO PHR (today AO AD Plastik Togliatti) in Russia, and was appointed as the President of the Management Board in 2015.

His specialization is in change and crisis management.



Corporate governance

Management Board (members)

Katija Klepo, member of the Management Board in charge of Sales and Strategic Procurement

- born on 09 August 1969
- member of the Management Board since 20 February 2008
- current mandate from 20 July 2016 to 20 July 2019

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 for the 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 AD Plastik 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 Group, which is a position she still holds today.



Mladen Peroš, member of the Management Board in charge of Development, Research and Tool Procurement

- born on 03 July 1968
- management Board member since 9 November 2011
- current mandate from 20 July 2016 to 20 July 2020

After graduating from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, majored in 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 in charge of Finance, Accounting, Controlling and IT

- born on 28 September 1959
- member of the Management Board since 20 July 2016
- current mandate from 20 July 2016 to 20 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 withdrawal from 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.



Corporate governance

Governance (continued)

The Management Board directly participates in the development, authorisation and updating of the organizations' purpose, value and mission statements, its strategies, policies and goals. It is responsible for quality management of potential risks to business, and it examines the economic, environmental and social impacts and circumstances during its regular meetings.

In 2017 there were no conflicts of interest within the highest body of the Group's governance structure, hence there was no need to inform the stakeholders. A report on the Company's business activities with related entities in the period from 1 January 2017 to 31 12/ 2017 has been drawn up and it will be submitted to the Tax Authority within the statutory deadline. The Company does not own mutual shares of suppliers or other stakeholders.

The Management Board of AD Plastik Group, i.e. the President of the Management Board, is responsible for approving the Group's sustainability report and the annual financial statement.

Management Board held 23 sessions in 2017.

The total amount of remuneration paid to Supervisory Board members, Management Board members and Executive Directors in 2017 amounted to gross HRK 8,026,335.23.

Management of subsidiaries

AO AD Plastik Togliatti, Russia

Lebed Aleksandar Vladimirović - general director

Supervisory Board

- Katija Klepo - President
- Denis Miletić
- Matko Serdarević
- Sanja Biočić
- Hrvoje Jurišić

ADP d.o.o., Mladenovac, Serbia

Andrija Kalajžić - general director

Supervisory Board

- Katija Klepo - President
- Mladen Peroš
- Denis Miletić

Other members

- Ana Luketin
- Katia Zelić
- Sanja Biočić

AD Plastik d.o.o., Novo mesto, Slovenia

Mladen Sopčič - general director

ZAO AD Plastik Kaluga, Russia

Nino Kačanski - general director

Supervisory Board

- Sanja Biočić - President
- Katija Klepo
- Denis Miletić
- Matko Serdarević
- Hrvoje Jurišić





Corporate governance

Statement on the remuneration policy for members of the Management Board

Management Board members signed managerial contracts with the Company, defining their rights and obligations:

- 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 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;
- severance payment in the event of the termination of the mandate, unless the member was removed prior to the expiry of mandate or resigned himself.

At the Supervisory Board meeting held on 25 May 2017 Management Board members were awarded with remunerations by reason of successful business in 2016. The President and other Management Board members were awarded three monthly salaries, paid out in full in the form of the Company's shares.



Corporate governance

Corporate functions

The corporate functions of AD Plastik Group are the following:

- **Controlling,**
- **Internal Audit,**
- **Human Resources,**
- **Research & Development,**
- **Sales,**
- **Strategic Procurement,**
- **Central Logistics,**
- **Finance,**
- **Legal Affairs,**
- **Enterprise Architecture,**
- **IT,**
- **Occupational Health and Safety,**
- **Quality System,** and
- **Production**

Each corporate function has a defined position at the executive level corresponding to the highest managing body or a corresponding managing position (Director, Manager), it is directly responsible to the Management Board and it reports its plans, progress and task implementation to the Management Board.

President of AD Plastik's Management Board is the executive manager for the following areas: Human Resources, Enterprise Architecture, Quality System, Production, Logistics, Legal Affairs, Safety and General Affairs.

The Management Board occasionally sets up consultations with the Group's individual stakeholders, while regular consultations have been

delegated to the management, who is obliged to provide feedback to the Management Board. Upon adopting strategies and plans, existing governance methods are analysed and new, more advanced methods are proposed; each corporate function regularly proposes improvements in their respective areas. The Management Board constantly aims at improving collective knowledge on all relevant topics.

The Management Board's efficiency is assessed and evaluated at the Supervisory Board's regular meetings. Evaluation is based on indicators of business results and building and maintaining a positive Company image in all relevant communities.

Pursuant to the Croatian Companies Act, no member of the Management Board may be appointed member of the Management or Supervi-

sory Board of another company that operates in the same line of work as the Company, without prior consent of the Supervisory Board. They may also not, without prior consent of the Supervisory Board, take part in the decision-making process or close legal deals if their legal representative, procurator or proxy of the other party is their blood relative or spouse, cohabiting partner or in-law relative up to the second degree. Members of the Management Board may not take part in the decision-making process connected with any legal affair in which there is a conflict of interest between the member of the Management Board and the Company. The Management Board member is obliged to inform the other members as well as the Supervisory Board of the circumstances, whether or not they take part in the decision-making process or the closing of the legal deal. They need to state all relevant facts regarding the nature of their relationship with the other contracting party and their own estimate on the existence of conflict of interest.





Corporate governance

Statement on the Application of the Corporate Governance Principle

- AD Plastik d.d. applies the Corporate Governance Code (hereinafter: the Code) published on the official website of Zagreb Stock Exchange, www.zse.hr.
- The Company has not adopted or implemented its own corporate governance code in its regular business operations, instead the Company has implemented recommendations and guidelines prescribed by the Code of Zagreb Stock Exchange.
- All information was published required 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), we demonstrate our commitment to adhere to the principles of corporate governance and social responsibility in detail.
- The Company did not deviate from the legally binding and accepted Corporate Governance Code, except from its individual recommendations, as explained in detail in the Annual Survey of the said Code.
- The internal control system in place at the Company is organized in such a way that the internal organization and operating procedures define check-points 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. Controlling subsequently notifies the Management Board, whereas the Internal Audit department informs the Management Board and the Audit Committee on monitoring results. 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 reports and analysis of business results; evaluating the overall business efficiency, and proposing guidelines for improvement; giving orders and determination of preventive and cor-

rective activities; and forecasting the impact of external and internal changes in the overall business.

The Internal Audit scope includes assessments and recommendations for improving the corporate governance process, assessment of control adequacy and efficiency in managing organisation, business operations and information system, monitoring of objective achievement and compliance with laid down policies, procedures and guidelines, reporting and providing opinions on implementation per business areas, anticipating and managing risks, and protecting Company's assets.

- Ten significant indirect and direct shareholders are listed on page 31. 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. The 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.

On 20 July 2017, the Company's General Assembly gave authorisation to the Management Board, for the period of five years, to acquire own shares.

On 31 12/ 2017, the Company owned 23,801 own shares.

- Company bodies are as follows: Management Board, Supervisory Board and General Assembly
- The General Assembly is responsible for making decisions on the following issues: electing and granting relieve from duty to Supervisory Board members, use of profit, granting relieve from duty to Management Board members, appointing auditors, amending the Statute, increasing or reducing share capital and on other issues under its

responsibility as regulated by the law. Shareholders exercise their rights via the General Assembly.

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

Members of the Management Board and Supervisory Board are listed on pages 19, 22 and 23.

In accordance with the Companies Act and the Rules of Procedure for the Supervisory Board, the Company 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. The Committees are as follows: Audit Committee, Remuneration Committee and the Appointment Committee

- The objective of the diversity policy of AD Plastik Group applied on the Company managing bodies is to establish necessary standards ensuring the diversity of the Management and Supervisory Boards members. This improves the quality of their work and enables them to make better management decisions.

Appointment criteria are as follows: candidates' skills and experience, industry knowledge, personal qualities and integrity, while diversity criteria such as gender, age, work experience, nationality and individual differences in professional and personal experience are also taken into consideration.

- The Appointment Committee tasked with electing members of the Management Board and the Supervisory Board implements the Diversity policy objectives by suggesting candidates for members of the Management Board and the Supervisory Board according to these criteria. ▶

Corporate governance

Statement on the Application of the Corporate Governance Principle (continued)

- The Company's Management Board was appointed in 2016, for the period of four years, and no changes occurred in the Management Board members during the reporting period. An even balance was established as per gender, skills, experience and competence criteria, which is evident from the members' CVs.

The Supervisory Board consists of seven members, three of whom are Russian citizens, while four members are Croatian citizens. 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 32 to 66 years of age.

Members of the Supervisory Board are listed on page 19.

Marinko Došen,
President of the Management Board



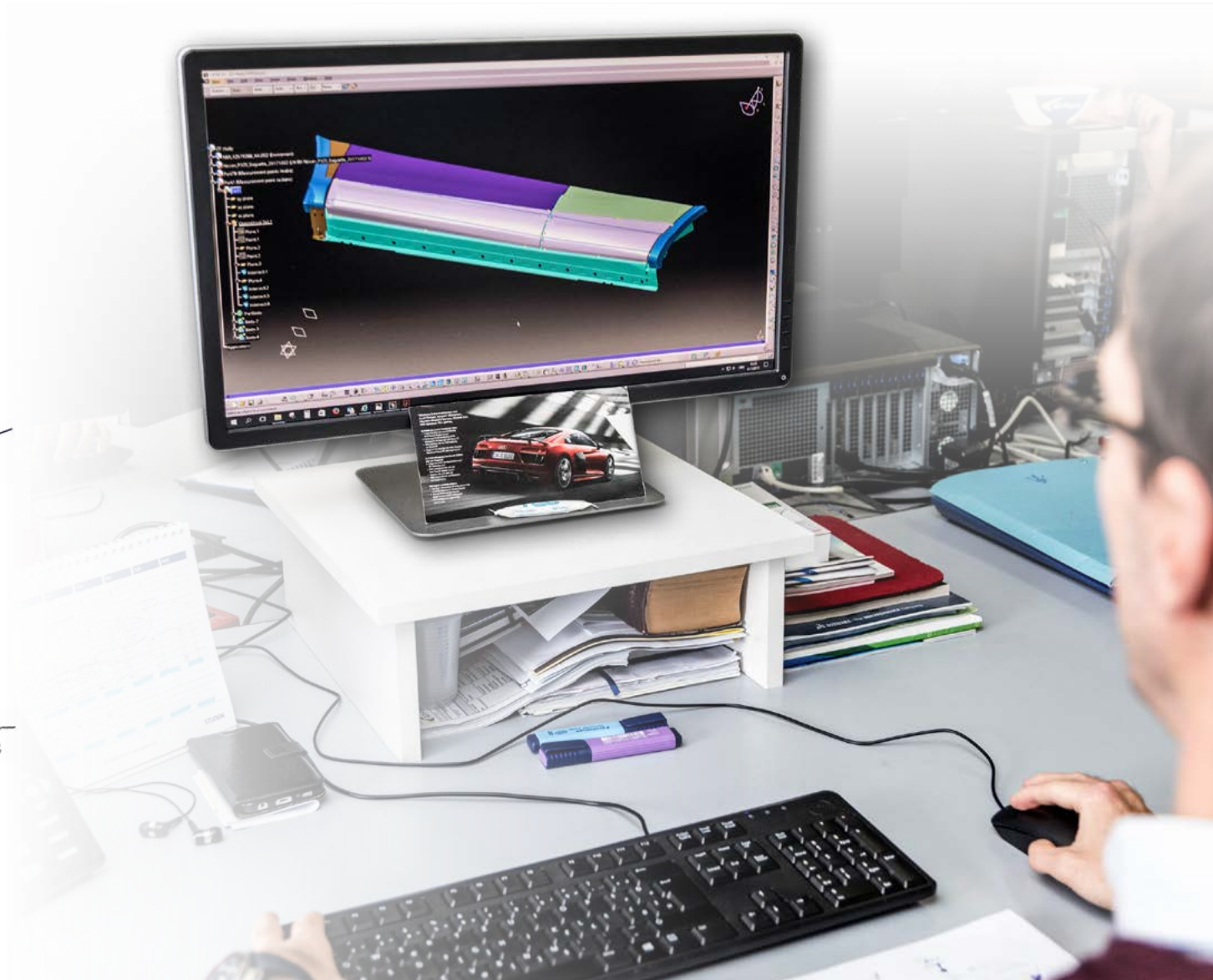
Katija Klepo,
Member of the Management Board



Sanja Biočić,
Member of the Management Board



Mladen Peroš,
Member of the Management Board



Corporate governance

Ethics and Integrity

During the reporting period, the *Code of Business Conduct and Policies brochure of AD Plastik Group* was prepared in three languages and printed and distributed to all employees in all locations.

Anti-corruption policy was promoted Group-wide and materials were printed and distributed to all existing and new employees. It was also published on the Company's website and introduced to all our stakeholders. During the period considered, there were no reports nor suspected corruption in any form, so no risk assessment measures were implemented in 2017 due to suspected corruption.

Education and training of employee of all levels take place regularly and their purpose is to improve understanding of the dangers of bribery and corruption. We show zero tolerance for any form of bribery and corruption, and all employees are familiar with their duty to report any conflict of interest or corruptive practice directly to their managers, Human Resources or Legal Service.

The Code of Business Conduct defines that, when exchanging gifts, the gifts must be legal and their value may not exceed EUR 200. It is especially highlighted that gifts from business partners may not be received at the time of sending a price quotation. The Code promotes the culture of ethic behaviour, and all irregularities can be reported orally, in writing or anonymously.

Violating the Code or the prescribed policies may lead to disciplinary action.


We have signed the Code of Business Ethics issued by the Croatian Chamber of Commerce, whereby we are committed to exhibit responsible and ethical behaviour as a necessary precondition for effective

functioning of the market. By defining ethical criteria, we contribute to transparent and efficient business operations.

AD Plastik Group is against any material or financial support of political parties, or giving political contributions. We promote transparent and public advocacy of various public policies through business and interest organisations, public appearances, expert discussions or direct suggestions and comments to a competent authority.

The AD Plastik Group respects the basic principles of free competition, and accordingly forbids coordinated actions of entrepreneurs, agreements between them and decisions of associations that aim to or result in a disruption of competition, and which place the Company in an advantageous position in relation to the competition and customers. In accordance with that, the Anti-Monopoly Policy was adopted at the Group level which is also a part of the printed brochure. With regards to violating principles of free competition and specified legislation, there were no complaints in the reporting period.

I	KODEKS POSLOVNOG PONAŠANJA 4
	Poruka Marinika Došena, predsjednika Uprave Naši temelji Kodeks poslovnog ponašanja Osnovna načela Zaposlenici i ljudska prava Poslovni partneri Zajednica Imovina i informacije Izbjegavanje sukoba interesa Korupcija Odgovornost prema okolišu Izjava o prihvatanju Kodeksa poslovnog ponašanja
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Kodeks poslovnog ponašanja i Politike AD Plastik Grupe 3

ADPL Share

AD Plastik d.d. is a joint-stock company founded in the Republic of Croatia and registered in the Court Register of the Commercial Court in Split under the company number (MBS) 060007090, PIN 48351740621.

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

The ADPL-R-A share is listed on the official Zagreb Stock Exchange market and is a constituent of the Crobex index, while the free float is just under 70 percent of the shares. Interkapital vrijednosni papiri d.o.o company carries out the activities of a market maker supporting the Company's share turnover.

In 2017, 4,763 own shares were released on the account of bonus payments to employees for successful work in 2016, and 700 own shares were acquired. On 31 12/ 2017, the Company held 23,801 of own shares which represents 0.57 percent of the equity capital. Through the ESOP (Employee Stock Ownership) programme, the employees hold 81,834 shares which represents 1.95 percent of the equity capital.

The share price grew by 22.5 percent compared to the previous year and thus surpassed the Crobex trend which dropped by 7.6 percent. The price ranged between HRK 137.1 and HRK 175.9, while the last price in the period considered was HRK 169.1. The share turnover increased by almost 50 percent, with the trading volume increasing by 16.1 percent, thus surpassing the increase in the total stock exchange turnover growth of 37.3 percent.

Earnings per Share (EPS) amounts to HRK 16.7, which represents an increase of 41.2 percent compared to the previous year when it amounted to HRK 11.8. The achieved P/E in the amount of HRK 10.1 is somewhat lower than the previous year, when it amounted to HRK 11.7. The reason is a greater increase in the net profit in relation to the share price increase, which indicates that there is room for further price share increase.

ROE grew as the result of the increase in net profit and is 9.7 percent, as opposed to the ROE of 7.5 percent in the previous year.

In 2017, a dividend of HRK 8.5 per share was paid which represents a dividend yield of 5 percent. This represents a continuation of a long-term trend and dividend policy of paying 50 percent of available funds at the minimum.

22.5%

increase in price compared to 2016

9.7%

ROE in 2017

49.0%

increase in turnover compared to 2016

10.1 kn

P/E according to the final price in observed year

5.0%

dividend yield in 2017

16.7 kn

EPS in 2017



ADPL Share

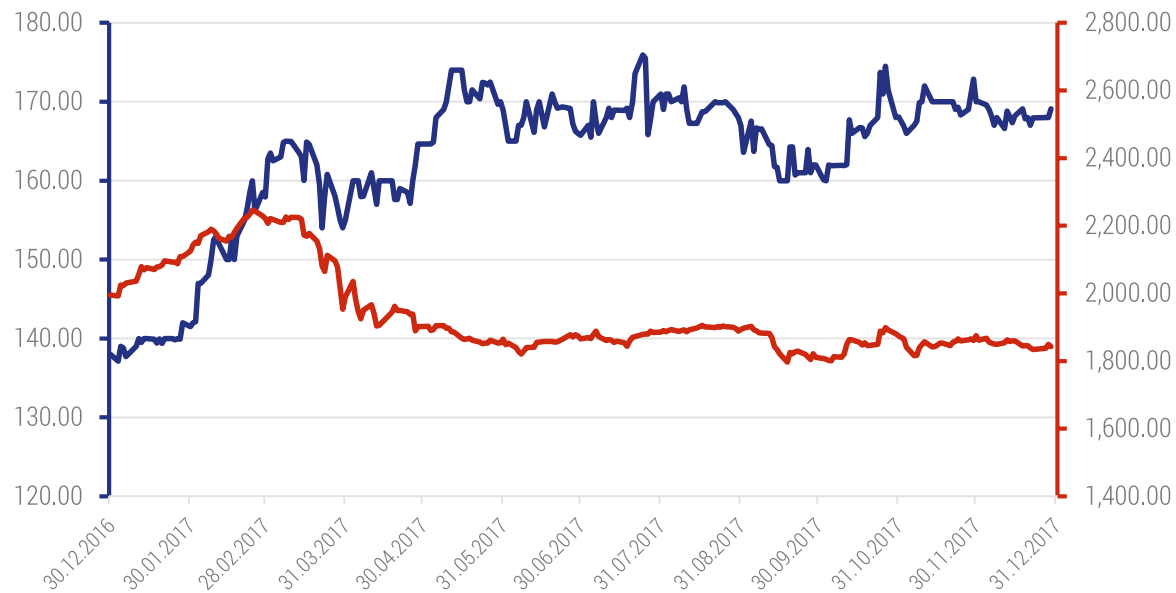
ADPL share price behaviour and index CROBEX in 2017

+22,54%

ADPL (growth by 22,54 percent in 2017)

-7,62%

CROBEX (decrease by 7,62 percent in 2017)

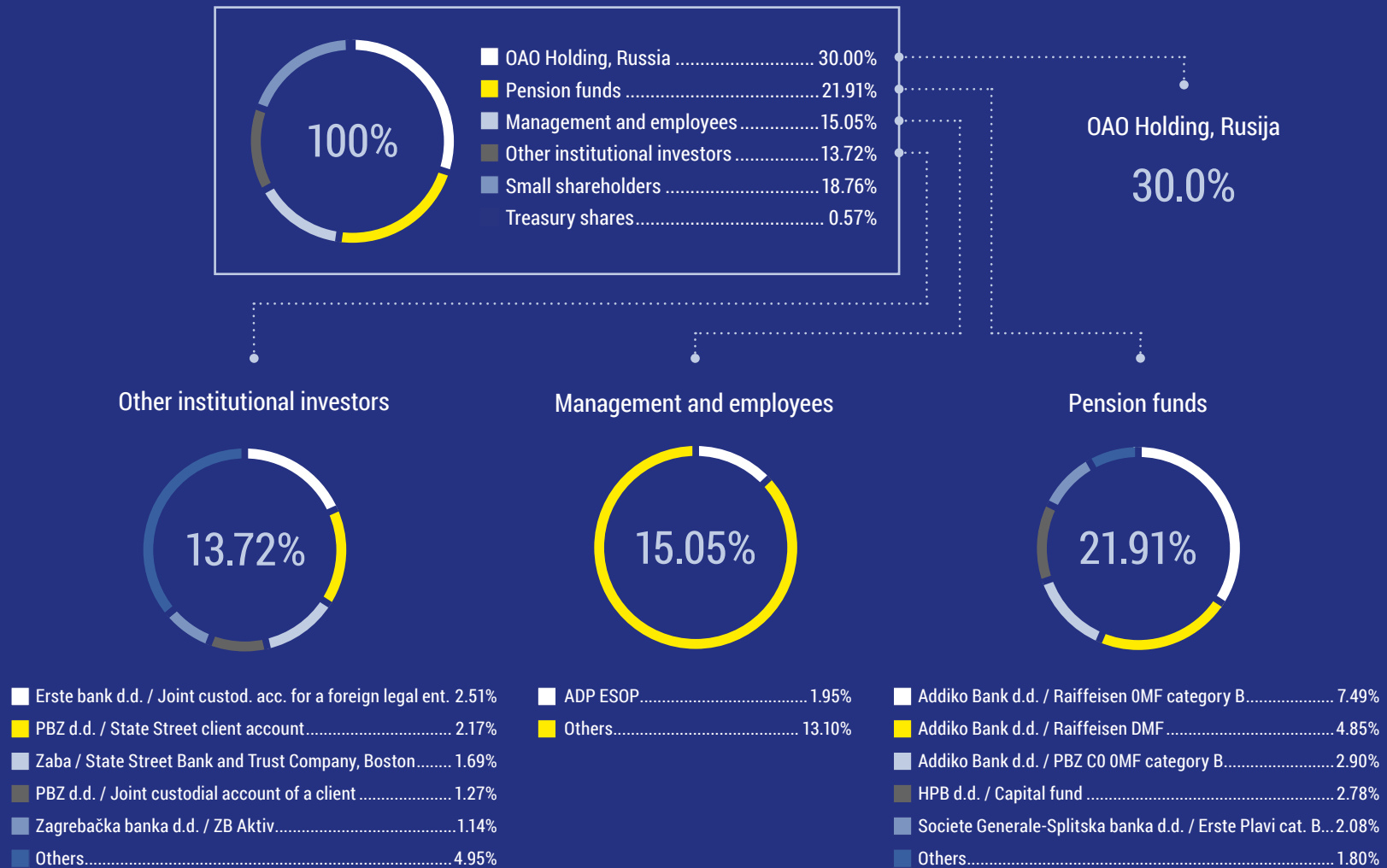


ADPL share price behaviour

ADPL (HRK)	2017	2016	Change
Highest price	175.9	144.2	22.0%
Lowest price	137.1	92.1	49.0%
Final price	169.1	138.0	22.5%
Volume	340,285	293,021	16.1%
Turnover	53,905,767	36,179,476	49.0%
Market capitalization	710,149,654	579,542,592	22.5%

ADPL Share

Shareholders structure as of 31.12.2017





ADPL Share

10 largest Shareholders

The Company does not have a 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 in the Company's Equity capital. The Russian owner and Croatian pension funds hold more than 50 percent of AD Plastik Group shares. In 2017, Raiffeisen pension funds increased their shares

in the ownership structure from 9.96 percent to 12.35 percent, while other shareholders, among the 10 largest shareholders, had no significant changes in their shares.

Shareholder	Number of shares 31.12.2017	Share	Number of shares 31.12.2016	Share	Kretanje
1 OAO HOLDING AUTOKOMPONENTIw	1,259,875	30.00%	1,259,875	30.00%	■
2 RAIFFEISEN MANDATORY PENSION FUND - CATEGORY B	314,704	7.49%	269,462	6.42%	▲
3 RAIFFEISEN VOLUNTARY PENSION FUND	203,884	4.85%	148,645	3.54%	▲
4 PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND - CATEGORY B	121,980	2.90%	119,640	2.85%	▲
5 KAPITALNI FOND D.D.	116,541	2.78%	116,541	2.78%	■
6 ERSTE & STEIERMARKISCHE BANK D.D. - Joint custodial account for a foreign legal entity	105,349	2.51%	105,349	2.51%	■
7 PRIVREDNA BANKA ZAGREB D.D. - State Street client account	90,938	2.17%	92,948	2.21%	▼
8 ERSTE PLAVI MANDATORY PENSION FUND - CATEGORY B	87,501	2.08%	115,353	2.75%	▼
9 ADP-ESOP D.O.O.	81,834	1.95%	130,532	3.11%	▼
10 ZAGREBAČKA BANKA D.D. - State Street Bank and Trust Company, Boston	70,774	1.69%	73,777	1.76%	▼
Total	2,453,380	58.42%	2,432,122	57.91%	

ADPL Share

Calendar of significant events and publications on Zagreb stock exchange

Month	Date	Financial statements	Supervisory Board and General Assembly
2	23/2/2018	Unaudited AD Plastik Group Annual Report for 2017	
	12/4/2018		Supervisory Board meeting
4	no later than 30/4/2018	Integrated and audited AD Plastik Group Annual Report for 2017	
	no later than 30/4/2018	AD Plastik Group Interim Report for the first quarter of 2018	
5	24/5/2018		Supervisory Board meeting
	12/7/2018		General Assembly 2018
7	no later than 31/7/2018	AD Plastik Group Interim Report for the second quarter of 2018	
9	12/9/2018		Supervisory Board meeting
10	no later than 31/10/2018	AD Plastik Group Interim Report for the third quarter of 2018	
12	13/12/2018		Supervisory Board meeting



Research and Development

Research and development importance and activities

The technological advance and changes in the automotive industry are extremely progressive. Quality, safety, technical and technological solutions, finishings, new materials, competitiveness, innovation and environmental acceptability are a must which needs to be fulfilled by all the links of the automotive industry supply chain. Car manufacturers are searching for affordable, robust and light structure solutions, but also a large offer of materials. Efficiency, process economics and planning based on efficient material and resource use have a major influence. Strict requirements for the energy efficiency of machines and systems, choice of materials and sustainable development need to be fulfilled, while remaining competitive. Car manufacturers are focusing more and more on their core activity, leaving the research and development to suppliers which thus gain a much more serious partner status. The status of a desirable and reliable global supplier in the development and manufacture of automotive components can be kept only by continuous improvement of product development and quality and by offering innovative solutions to end manufacturers.

AD Plastik Group invests three to four percent of its revenue annually into improvement of product and process research and development, excluding capital investments, to ensure its perfect competitiveness on the demanding automotive market and to follow global trends. More than a hundred of employed engineers and continuous investments demonstrate the importance of the said area. We intensely work on improving the existing and introducing

new technologies which will ensure the further growth and development of the Company, making us a reliable and stable partner for global car manufacturers.

To deliver ready and easy to install modules to customers, very often several production technologies need to be used and specific knowledge is necessary.

Therefore, the close cooperation with the customers, from the early stages of development to stable serial production, is crucial. ▶



Research and Development

Research and development importance and activities (continued)

- ▶ AD Plastik Group engineering expert team is capable of providing a quick and quality response to the market requirements they are faced with, thus creating new directions and higher development and production standards. This ensures better and more efficient solutions for the customers.

In 2017, we invested 34 million HRK into a new project “Pilot Painting Line for Industrial Research, Development and Innovation”, which should be a growth generator in the mid-term period. A grant was approved from the European Regional Development Fund intended for the

purchase of equipment and research and development activities with the purpose of significantly improving the existing technological painting process and development of painted vehicle interiors as a new manufacturing niche.

Environmental Protection

We systematically carry out activities aimed at reducing harmful vehicle gas emissions into the environment, i.e. minimising their impact. The goal of the global automotive industry is a continuous reduction in CO2 emission.

Therefore, a special attention is paid, in the product and process development stage, to environmental aspects of choosing raw materials and materials. For this purpose, the environmental impact until the end of their life cycle is analysed.

Reduction in emissions is, among other things, achieved by reducing the vehicle weight, i.e. by reducing the weight of each individual component and using the so called lightweight materials. By researching new materials, and by developing and implementing lighter components and natural materials, we directly reduce the impact of emission to environment. We also keep working on increasing the share of recycled raw materials which are environmentally more acceptable. In addition, the reduction of impact on the environment is achieved with continuous improvements of the product design as well as optimisation of the production process.





Research and Development

Composite Materials

Composite materials are one of the alternatives to conventional materials and play a major impact on the reduction of the vehicle weight. They



demonstrate extremely good properties of specific strength and rigidity and smaller specific gravity. During this reporting period, we have continually worked on research and development of applying materials for thermoformed products in interior and exterior, all aimed at reducing their weight and implementation possibilities in future periods.

AD Plastik Group offers solutions to its customers which are in accordance with the global trends and requirements of the automotive industry.

Recycling Materials

Recycling has a great potential in reducing environmental impact of our products and conserving resources. Apart from recycling products at the end of their life cycle, we draw attention to recycling raw materials and materials, use of high-quality recycled materials in processes and reducing environmental impact when developing new products. In cooperation with its customers, AD Plastik Group selects materials with as large a share of recycled materi-

al as possible or natural materials. We constantly check for possibilities of using such materials so that each individual product at the end of its life cycle would be as recyclable as possible.

To reduce the environmental impact upon the expiry of the product life cycle, we are working on improving the possibility of their recycling.

Innovation in 2017

In 2017, we launched several activities for introducing new and enriching existing technologies all aimed at increasing innovation and development and cost competitiveness of our products.

Hot Stamping technology enables decorating very complex injection moulded parts of vehicle exteriors and interiors whereby using multilayer foils whose use reduces the application of environmentally more aggressive chrome plating technology.

With the MuCell technology, i.e. the technology of injecting polymers, in addition to using expanding

agents and with appropriate technological moulding, a product is achieved with required mechanical properties and shorter production time. It is important to note that during the product moulding engineer calculation methods are used, by applying the finite-element method aimed at multiple product optimisation.

In addition, we keep enhancing technologies for joining components of various materials, various finishings with the objective of increasing technical and decorative possibilities, such as various welding types and two-component gluing.



Technologies and Products

In order to satisfy the needs of our customers and manufacture as complex high value-adding products as possible, we continually develop existing technologies and adopt new ones. Key technologies used in our regular business operations are the following: injection pressing, painting, extrusion, blowing, non-woven textile and thermofforming.

For product installation, almost all known technologies of joining plastic products, including automated welding and gluing, are used.

Trust of our key customers, based on a long-time successful cooperation, is crucial for introducing new technologies which need to follow the latest global trends in automotive industry. In 2017, an important step was taken in terms of robotic two-component gluing of plastic components. Preparations were done for introducing

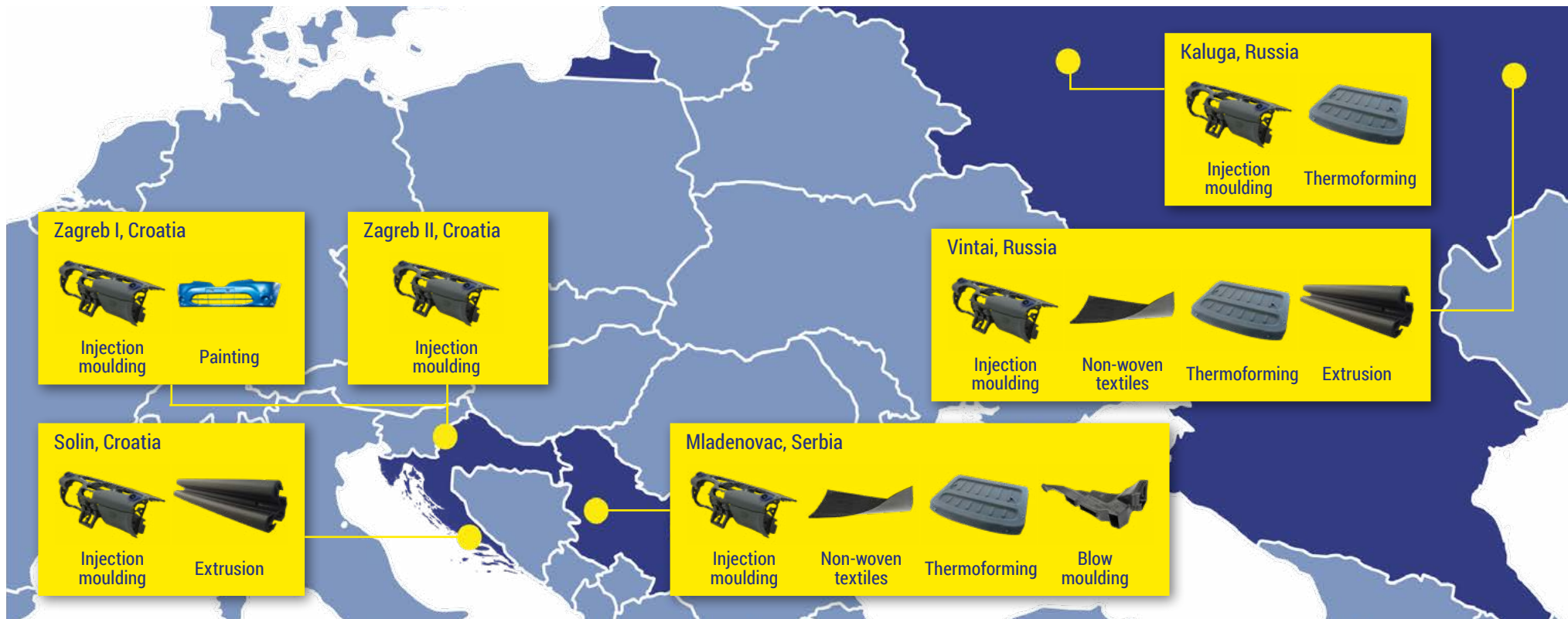
a new technology of hot pressing of foils on plastic components - hot-stamping. This increases the complexity degree, i.e. the added value of our products and provides for new references for contracting the manufacture of even more complex products in the future.



Technologies and Products

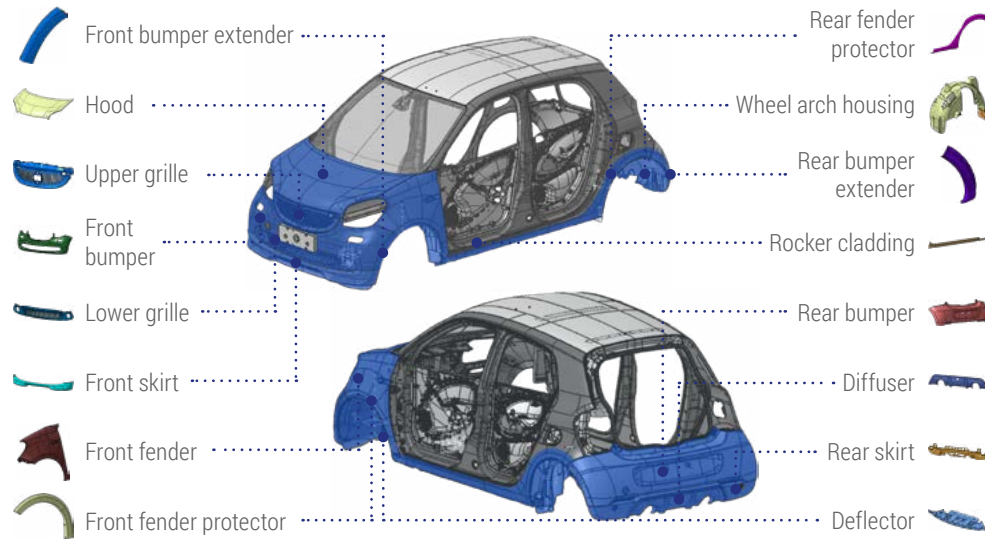
Map by Sites

	Injection moulding	Extrusion	Thermoforming, textiles	Painting	Blow moulding
Sales	61%	9%	11%	17%	2%

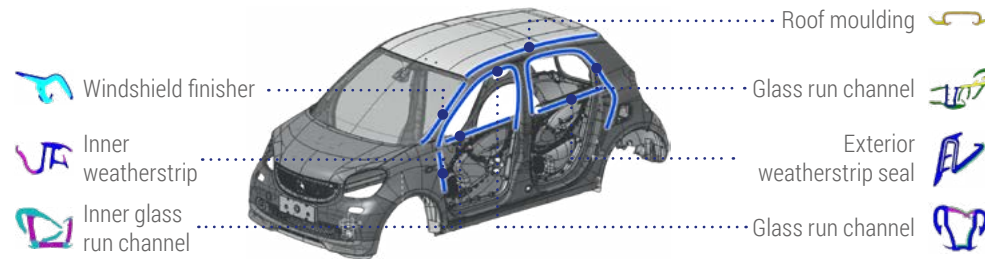


Technologies and Products

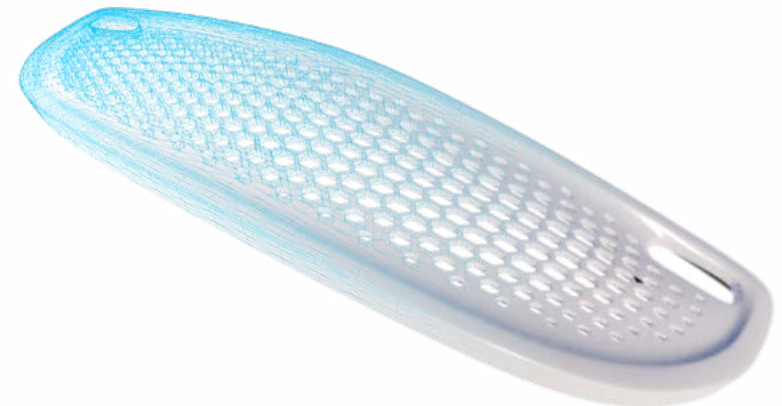
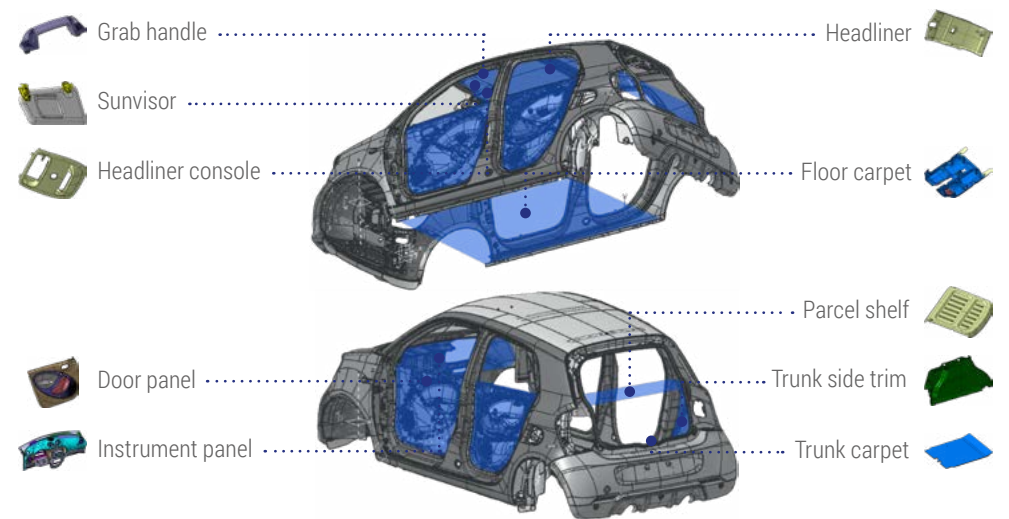
Exterior



Sealing systems



Interior



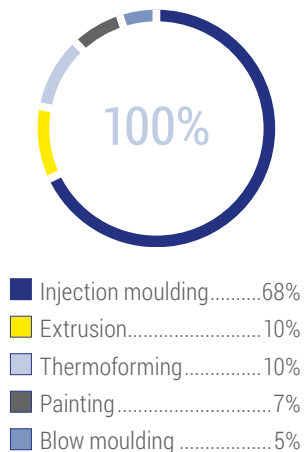


Technologies and Products

Major Projects in 2017 per Technologies

During the reporting period, a total of 74 projects were active, two of which were general-purpose projects, while the remaining projects were development projects. The figure of 74 projects means creating 405 tools, 160 devices, 262 controllers and 39 Poka yokes (devices for visual control of final product components). During the year, 26 project were completed, and 33 new projects were started, so that a total of 48 projects were active on 31 December 2017. More than two thirds of these projects were realised by using the injection pressing technology, demonstrated in the illustration.

Technologies in 2017 Projects



One of the most distinguished projects in the period considered, which is in a large part represented by the injection pressing technology, is the new Renault Clio model. For this project, we have been independently creating 26 tools, among which, tools of front and rear bumpers. The grab handle project for Volkswagen vehicles should also be mentioned since it is a synergy of injection pressing technology and assembly..

Regarding the painting technology, we would like to single out the Smart exterior painting due to the particularity demonstrated in the possibility of personalising the vehicle with a two-colour body. The

coloured external spoilers project for Renault Clio is also interesting since the spoilers are first injection moulded, then painted and finished by gluing with 2K adhesive with thermal activation.

Regarding the thermoforming technology, we would single out the carpet project for the Renault Group salons which are manufactured at the AD Plastik Group facilities in Kaluga, Russia.

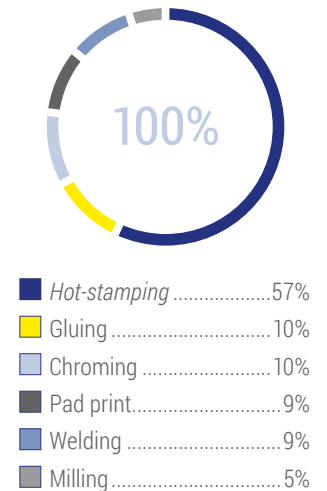
During the reporting period, two blowing technology projects were completed in Mladenovac, the Alfa Romeo and Maserati projects which are special for

belonging to the luxury vehicle segment, although they are non-aspect products.

The largest extrusion project, i.e. static seals for Renault Group vehicles, was started late last year.

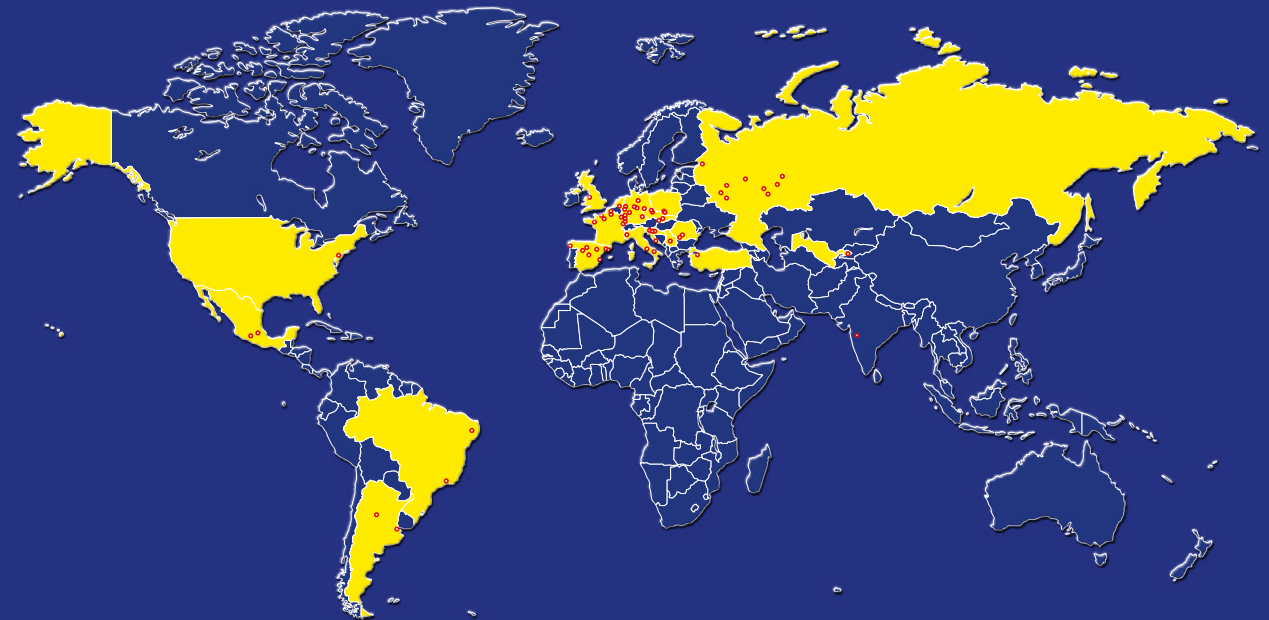
In 2017, we should also emphasise the application of a new additional technology of hot-stamping, more accurately, transferring foil on a surface at high temperatures. This technology is used in two projects, i.e. Renault Twingo exterior and interior projects.

Additional technologies used in projects during 2017



Markets and Sales

Overview of markets and customers



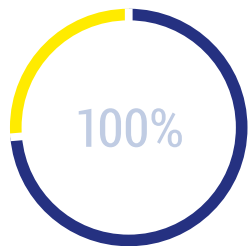
- Argentina**
 - Córdoba
 - Buenos Aires
- Brazil**
 - Pernambuco
 - Porto Real
- Czech Republic**
 - Kolín
 - Mladá Boleslav
- France**
 - Batilly
 - Douai
 - Hambach
- India**
 - Ranjangaon
- Italy**
 - Cassino
 - Melfi
 - Mirafiori
- Mexico**
 - Cuautitlán
 - Toluca
- Germany**
 - Bochum
 - Cologne
 - Eisenach
 - Kassel
 - Mosel
 - Regensburg
 - Ruesselsheim
 - Saarlouis
 - Wolfsburg
- Poland**
 - Gliwice
 - Tychy
- Romania**
 - Craiova
 - Mioveni
- Russia**
 - Izhevsk
 - Kaluga
 - Moscow
 - Naberezhnye Chelny
 - Nizhny Novgorod
 - Saint Petersburg
- Serbia**
 - Kragujevac
- Slovakia**
 - Bratislava
 - Trnava
- Slovenia**
 - Ljubljana
 - Novo Mesto
- Spain**
 - Barcelona
 - Madrid
- Togliatti**
 - Ulyanovsk
- Turkey**
 - Bursa
- UK**
 - Ellesmere Port
- USA**
 - Detroit
- Uzbekistan**
 - Asaka
- Palencia**
 - Valencia
 - Valladolid
 - Vigo
 - Zaragoza



Markets and Sales

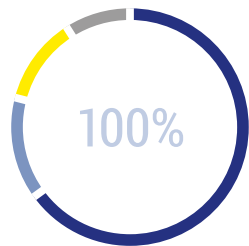
Overview of Sales revenue by Technology and Sites

By markets



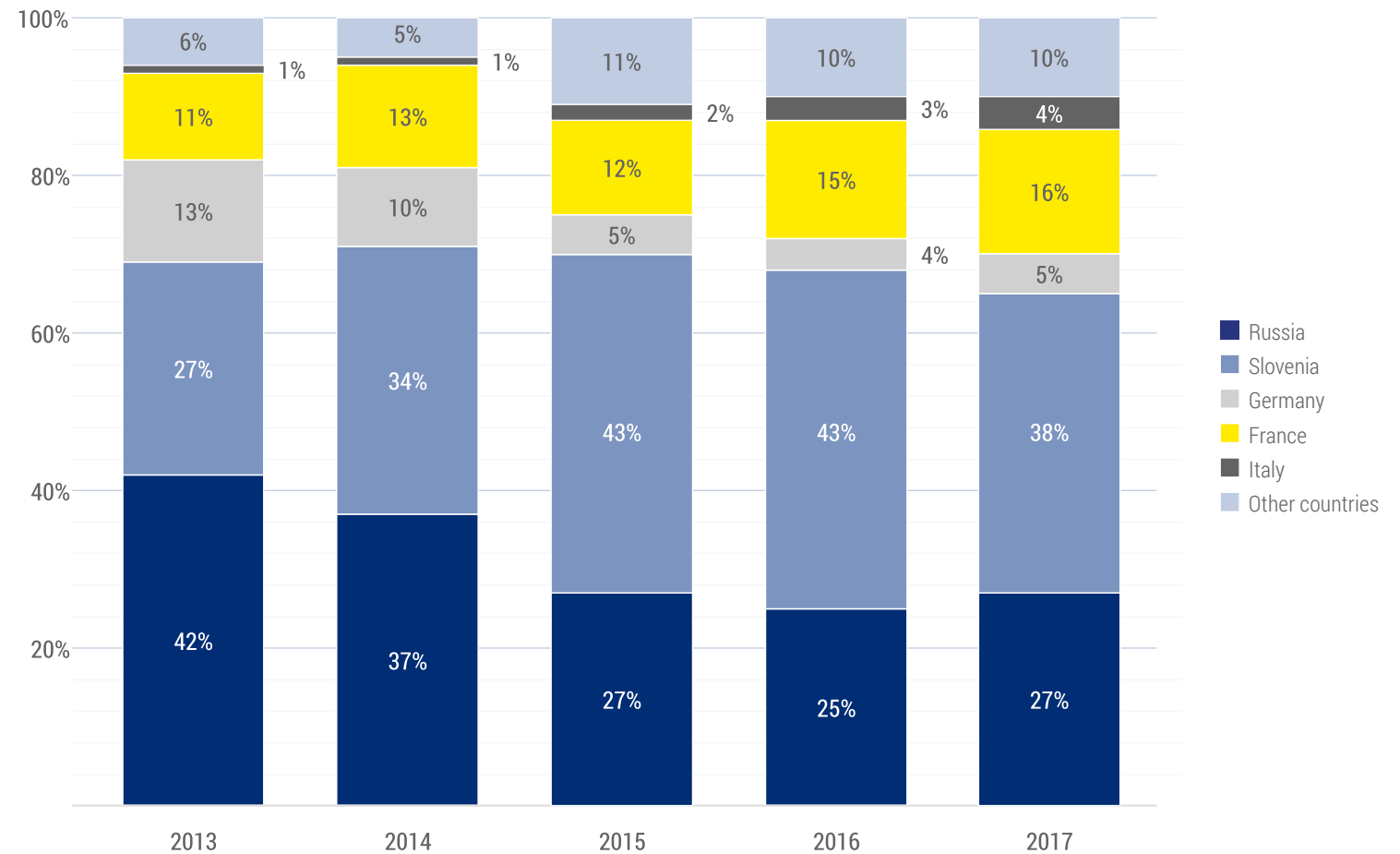
■ EU + Serbia 72,81%
 ■ Russia 27,19%

By technology



■ Injection moulding + blow moulding 64%
 ■ Painting 17%
 ■ Thermoforming + non-woven textile 11%
 ■ Extrusion 9%

By sites



Markets and Sales

European Union + Serbia

Last year, the car sales in the EU hit a record sale in the last ten years. The economic growth has obviously gained back the consumers' trust, and better, more beautiful and interesting vehicles of world-renowned manufacturers that encourage demand also helped. The number of newly registered vehicles increased by 3.3 percent, and there were 15.6 million of them in 2017. These are the highest figures since the record year of 2007, when 16 million vehicles were registered.

It is interesting that the sales in England dropped by 5.7 percent, which was certainly largely affected by Brexit, while at the same time all EU Member States witness a large increase. The largest increase is found in Italy with 7.9 percent, then Spain with 7.7 percent, followed by France with 4.7 percent and Germany with 2.7 percent. It is interesting to emphasise the significant increase in other EU Member States of up to 12 percent.

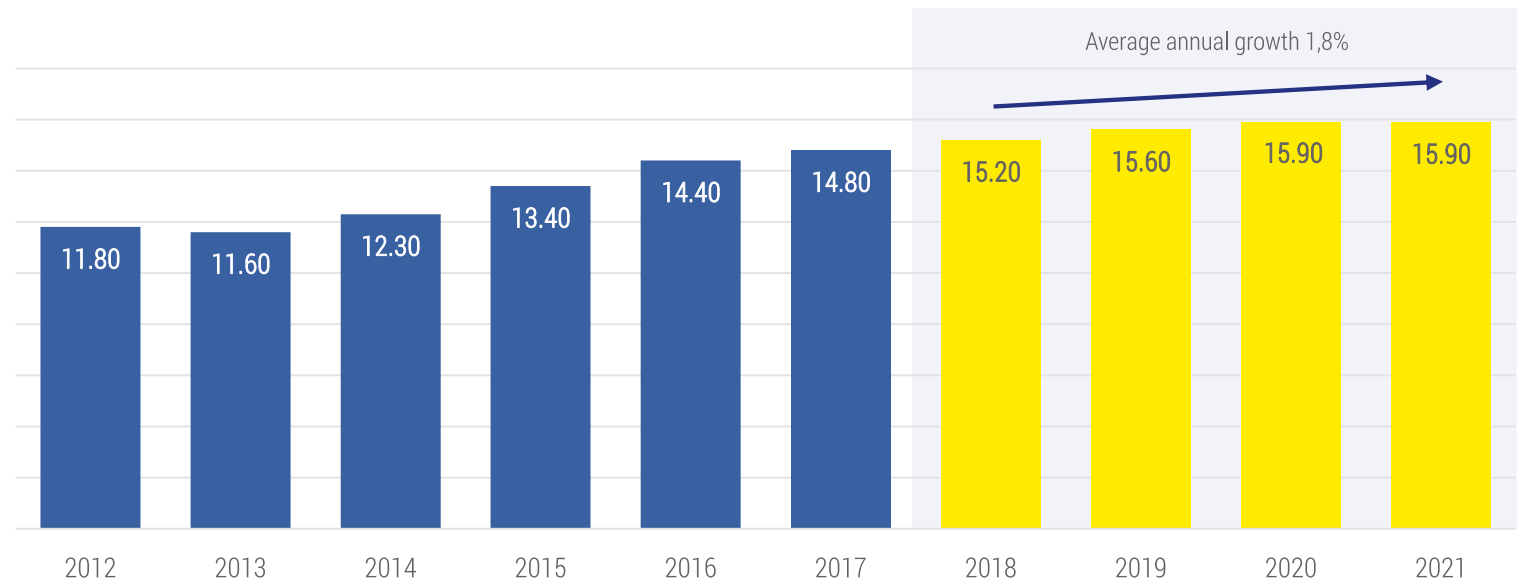
The Renault Group sales, supported with the 12 percent increase in Dacia, increased by 6.7 percent. Alfa Romeo increased its sales by 30 percent and thus contributed to the 5.2 percent increase of the FCA Group. Some of the most popular sports vehicles in the year considered were as follows: Renault Captur, Logan Stepway, Peugeot 5008, Citroen C3 Aircross and Alfa Romeo Stelvio.

Volkswagen is still the largest car manufacturer in Europe and its share of the market is 23.6 percent. Their sales increased by 2.1 percent. However, the changes occurred with the runner-ups, and thus PSA Group with 15 percent leapfrogged Renault Group with 12.7 percent of share, primarily on ac-

count of good choice of new PSA Group models and acquisition of Opel. They are followed by Ford with 6.2 percent, FCA Group with 5.5 percent and Toyota with 4.5 percent. In 2018, the growth is expected to subside, but still an increase in the sales of all vehicles is anticipated compared to 2017.

During 2018, on the Serbian market, a decision on manufacturing a new FCA Group vehicle is expected.

Passenger vehicles in Europe (mil.)



Data source: Statista, February 2018



Markets and Sales

European Union + Serbia

FCA

Currently in production:	air ducts, grab handles, vehicle chassis protection, painted components
Technologies:	blow moulding, injection moulding, painting
Sales Market:	Serbia, Italy, Poland, Mexico, Brazil, USA, India
Nominations won in 2017:	grab handles extension for Jeep Compass model

Ford

Currently in production:	wheel arch liners, vehicle chassis protection, injected exterior components
Technologies:	injection moulding
Sales Market:	Germany, Spain, Romania, Russia, Turkey
Nominations won in 2017:	bumper parts and decorative shells for mudguard protector and sills of Ford Focus Active vehicles, inner wheel arch liners for Ford Mondeo Panther vehicles

Grupo Antolin

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

Hella

Currently in production:	front light housings
Technologies:	injection moulding, assembly
Sales Market:	Slovenia
Nominations won in 2017:	light housings for Volvo V43X

PSA Group

Currently in production:	grab handles, glass run channels, speaker brackets, screens, camera brackets, camera cover and extractor
Technologies:	injection moulding and extrusion
Sales Market:	France, Spain, Czech Republic, Slovakia, Argentina, Brazil, China, Russia
Nominations won in 2017:	camera brackets and covers, screens, air extractors and glass run channels for a number of Group vehicles

Reydel

Currently in production:	instrument panel, steering wheel trims, gear shift and handbrake consoles
Technologies:	injection moulding, UV welding
Sales Market:	Slovenia, France

Customer's list is made in alphabetical order.

Markets and Sales

European Union + Serbia

Customer's list is made in alphabetical order.

Renault Group

Currently in production:	painted exteriors, injection moulded components, motor fans, headliner coverings, painted and unpainted decorative trims, all exterior spare parts and grab handles
Technologies:	injection moulding, painting, thermoforming of headliners (assembly)
Sales Market:	Slovenia, France, Spain, Korea
Nominations won in 2017:	front and rear bumpers with components, internal wheel arch housings, painted external spoilers, instrument panels and door panels for Clio, front bumpers with components and internal wheel arch housings for Smart (Edison phase2)

VW Group

Currently in production:	weatherstrip seals and grab handles
Technologies:	extrusion, injection moulding and installation
Sales Market:	Germany
Nominations won in 2017:	weatherstrip seals for 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, carpets
Technologies:	injection moulding, thermoforming
Sales Market:	Romania

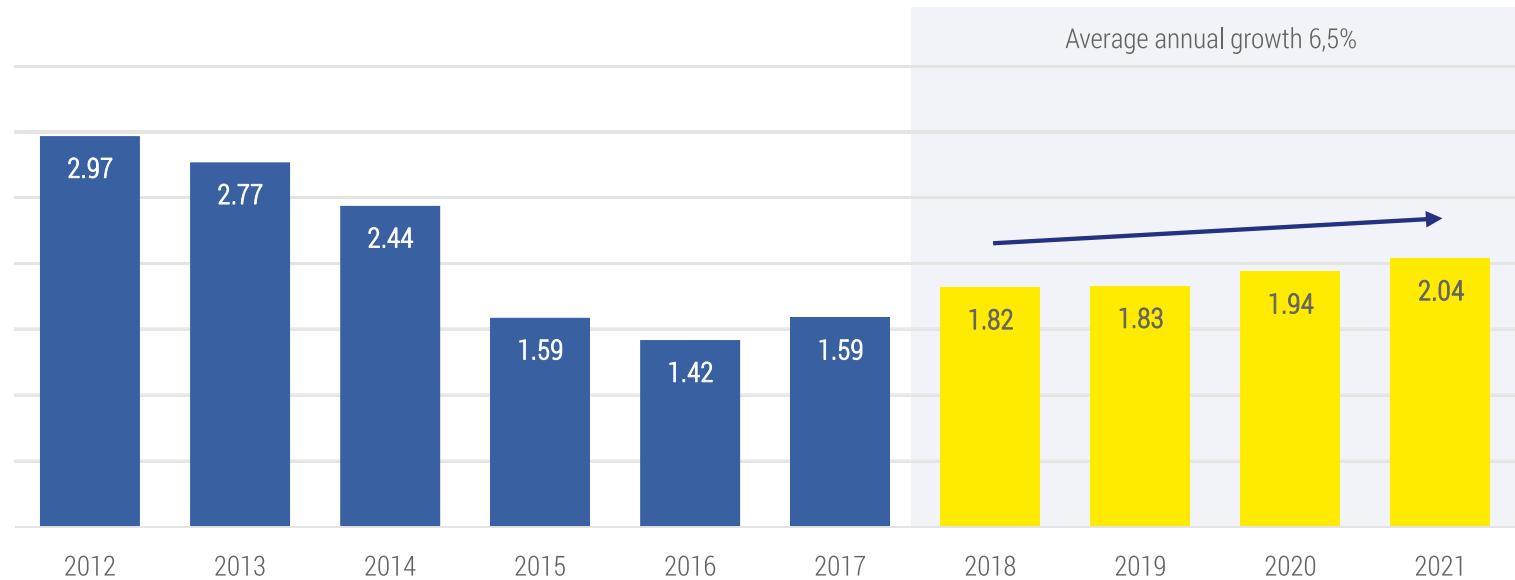


Markets and Sales

Russia

After four consecutive years of drop in vehicle sales on the Russian market, where the market was cut in half, the year 2017 finally brings a double digit sales growth of almost 12 percent. According to published data, 1,595,737 new vehicles were registered in the period considered. In December, the sales of new cars and light commercial vehicles increased by 14 percent compared to the same period in the previous year. In spite of a weak start in January and February, during the year, the sales increased by 12 percent. The Russian market is facing a long recovery road before it returns to its old position, but the most important step in that direction is made. All key car manufacturers in Russia increased their sales, while the most significant AD Plastik customers experience faster growth than the market average. VAZ, thus has an increase of 17 percent, while Renault has an increase of 16 percent. With regards to the ruble stabilisation and the rise in oil prices, further market growth of 14,5 percent is forecast for 2018.

Passenger and LCV vehicles in Russia (mil.)



Data source: pwc.ru and rusautonews

Markets and Sales

Russia

Customer's list is made in alphabetical order.

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 2017:	Injected protection for vehicle chassis for new Logan, Sandero and X-Ray (VAZ manufacturer)

Ford

Currently in production:	headliners
Technologies:	thermoforming
Sales Market:	Russia
Won nominations in 2017:	injection moulded interior positions for Ford Kuga vehicle

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
Won nominations in 2017:	injection moulded trims for Qashqai vehicle

PCMA (Peugeot Citroen Mitsubishi Automotive)

Currently in production:	injection moulded exterior positions and trunk shelves
Technologies:	injection moulding and thermoforming
Sales Market:	Russia

Renault

Currently in production:	headliners, carpets, injection moulded interior and exterior positions, trunk shelves
Technologies:	thermoforming, injection moulding
Sales Market:	Russia
Won nominations in 2017:	LJC auxiliary wheel insulations

Volkswagen

Currently in production:	injection moulded exterior positions
Technologies:	injection moulding
Sales Market:	Russia
Won nominations in 2017:	injection moulded wheel housing for Kodiaq, cooling fan motor brackets for Polo and Rapid, door housing grab handles



Business Risks

In their business operations, both the parent Company and the Group are exposed to risks typical for entities operating on the global market, and especially to those in the automotive industry. They are also exposed to various economic and political risks and legislation of individual countries on the markets in which they operate.

Risk management is considered to be one of key instruments in protecting the Company from competition which enables the Company to recognize opportunities and timely react to changes. Each risk is approached proactively, looking at the impact each individual risk may have on potential opportunities it brings. When defining the business strategy, we pay special attention to short- and mid-term business risks, and on micro and macro level to ensure sustainability of business over time.

Various risk types we encounter may be divided into the following risk groups:

Financial risks

Business risks

Operative risks

Legislation risks



Business Risks

Financial risks

Financial risks are connected to financial variables which can cause problems in settling financial obligations, liquidity, debt management, etc. We do not have a formal risk management programme in place, however, the overall risk management is handled by the Finance Department which provides services to other Group members. It 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 risks to the lowest possible level.

Financial risks to which we are exposed include:

- Currency risk
- Interest rate risk
- Price risk
- Credit risk
- Liquidity risk
- Risks related to the share

Currency risk

The currency risk includes the transaction risk and balance risk. The transaction risk represents the risk of negative impact of currency rate changes on cash flow from commercial activities. The balance risk represents the risk of the value of net monetary funds in foreign currencies being lower when converting to HRK as a result of changes in currency rates.

The Group operates in an international environment and is mostly exposed to changes in euro and Russian ruble exchange rates and to a lesser extent to changes in Serbian dinar and Romanian lei exchange rates.

The exposure to changes in euro and Russian ruble exchange rates is related to revenue the Group generates on the EU market mainly in euro, while the sales revenue on the Russian market is generated in rubles. 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. Exposure to currency risk also arises from the purchase of raw materials which is mainly made in euros. Companies located in Russia manage currency risk by using natural hedging, i.e. selling price is ad-

justed 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.

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 asset and liability return, as well as to changes in values due to interest rate trends.

The Group's interest rate risk results from credit indebtedness and partly from assets generating revenue from interest rates of approved loans of the parent company to affiliates. The Group's exposure to interest rate risk from credit indebtedness is minimum, since more than 90 percent of the Group's credit indebtedness is contracted with a fixed interest rate. The interest rate risk on assets generating revenue from interest rates is related to decisions of the CNB on the interest rate among affiliates. The Group continuously takes note of the changes and forecasts in interest rates, simulations of different situations are done, taking into consideration refinancing, recovering the current status and alternative financing.

Price risk

The Group operations are 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. Open product price calculation is found in the automotive industry, and thus the changes in prices of raw materials, materials and other costs are adjusted with customers on a monthly, quarterly or semi-annual level (depending on the customer).

The largest markets on which the Group provides its services and sells its goods are the markets of the European Union and the Russian Federation. Based on market prices, the Group's Management Board determines the prices of its services for each for- ▶





Business Risks

Financial risks (continued)

- ▶ eign market separately.

Credit risk

Credit risk is the risk that a party to a financial instrument will not meet its obligations and hence incur losses to the other party. The Company assets is exposed to credit risk in respect of given loans and trade receivables.

Since loans are granted to subsidiaries, credit risk is under the control of the Company. Trade receivables are made with minimal credit risk because we work with customers who are essentially financially stable companies with minimal charge risk, which is also the business policy of the Group. Trade receivables are presented net of allowance for bad and doubtful accounts.

Five largest customers of AD Plastik Group include:

- Revoz Slovenia
- Reydel France
- OAO Avtovaz Russia
- Renault Russia
- Hella Slovenia

Liquidity risk

The liquidity risk represents the risk that the Company will not be able to meet its obligations towards

its creditors. The responsibility for liquidity risk management is borne 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.

The liquidity risk is controlled through strong positive operating cash flows which are generated, ensuring credit lines for capital investments and contracting affordable credit lines which enable fast drawing of short-term funds for covering the risks from business operations. Based on operating business plans and planned investments, cash flows of individual Group members for the following year per months are created, as well as a long-term cash flow plan which are then aggregated at the Group level. We monitor the level of available financial assets and liabilities on a daily basis, and compare the planned and realised cash flow. The surplus of financial assets is invested into deposits or is used for covering short-term sources of funding which are not necessary at a given moment.

Risks Related to the Share

The share market price is under influence of various factors, starting from the volatility of the entire capital market, macroeconomic trends on markets on which the Group does its business, business results,

dividend policy, potential new acquisitions, investments, etc. Should any of the said factors have a negative connotation, there is a risk of share market price depression and consequently a risk of the investor not being able to sell its shares at fair market price at any given moment.

To the extent to which this is possible, we undertake all necessary activities for managing risks related to the share. We publish all important information which could impact the share price in a timely manner. We promote an open and honest communication with all stakeholders and transparent business operations. We are strongly focused on achieving set business plans and on further developing the quality of business reporting and improving the high level of transparency.



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 cyclical and regular business policies and decisions.

Adopting good business decisions in the previous multi-annual period, contributed to the increase of the Company's competitiveness on the demanding automotive market. We improved the business results and efficiency, and with the deliberate strategic management, we expect these positive trends to continue in the future.

Business environment risks

The business environment risk includes political, macroeconomic and social risks present in markets where the Company operates. As a rule, the aforementioned risks cannot be influenced individually, however, they can be diversified by operating in several countries. The diversification degree depends mainly on the risks present in the countries where the Company operates.

AD Plastik Group is exposed to various macroeconomic environment risks, economic situation and trends in economic activities in the countries it op-

erates in. Political stability at both global and regional level, as well as the operational stability of countries in which we operate are important factor in our business stability and directly influence Company's results.

The Group operates in a relatively diversified business environment. Our production takes place in Croatia, Serbia, Russian Federation and Romania, while the product export to customers takes place globally. Due to dominant 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, the ability to regularly meet obligations and on our competitiveness in the global market where we place our products and on which we buy raw materials and production materials. Since the sale of the product range is affected by such macroeconomic variables as private consumption, levels of disposable personal income and trends in the sale of vehicles, we must continuously monitor the aforementioned macroeconomic factors. We especially carefully monitor macroeconomic factors on the Russian market which are finally, after a longer period, more favourable.





Business Risks

Business Risks (continued)

Political risk refers to all risks associated with a possible political instability in a certain country. The Company manages the political risks by operating in various countries, investing into opening of new markets and continuous monitoring of macroeconomic and long-term market indicators.

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 its suppliers non fulfilling their contractual obligations in a timely manner, which can then result in the Company not fulfilling its contractual obligations in a timely manner towards the customer. Failure to fulfil contractual obligations can lead to loss of customers and negatively impact operating results. Therefore, significant operational attention and responsibility is given to the accuracy of the fulfilment of contractual obligations towards customers.

Technological risk

In order to meet the growing 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 has a major role in added value, price and product quality. 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. The competition of car manufacturers on the market is stiff, so we continually monitor technological changes and invest into new technologies in order to maintain and increase our competitiveness. The most significant technological change in automobile production is certainly the increasing presence of electric cars and the demand for lighter cars, which we do not see as a risk but as an opportunity, since such cars have more and more plastic parts inside them. There is, however, a risk associated with the use of materials from which we manufacture plastic parts, as they are obtained by processing fossil fuels. In response to this, in cooperation with customers, we are working on exploring the possibilities of using bioplastics that are fully obtained from renewable sources and biomass.

Operative Risks

Operative risk is the risk of losses arising from inadequate procedures and failed internal processes, human factor, system and external events. By efficient management of operative risks, better security (of employees, assets) is achieved, awareness is raised on the importance of existing procedures and/or creating new procedures, control of key indicators which need to be introduced and systematically monitored, which in the end significantly improves the operational quality, efficiency and transparency.

We manage the operative risks through a developed process quality system whereby we develop efficient preventive systems of early detection of operative risks and prevention of errors and weaknesses in processes, procedures, potential human errors and/or system errors as well as unpredictable external events. Aware of the risks of reliability of IT business solutions and business cyber safety, we continually work on improving, further developing and implementing of new technologies into everyday business operations. A special attention in this reporting period was paid to preparations for implementation of the General Data Protection Regulation (GDPR).

Legislation Risks

We are exposed to the risk of changes in fiscal and other regulations which can directly positively or negatively affect our competitiveness. During the last year, the income tax rate in Croatia was decreased from 20 to 18 percent, which improved the future financial position of the Company. We are currently using the tax shield achieved in 2012, by way of investing into a new painting line in Zagreb, so that this measure did not have any affect in 2017. A new regulation was adopted in Russia, whereby accumulated losses from previous years can be used for covering only a half of the current base for calculating income tax, while according to the previous regulation, the accumulated losses could have been used for covering the entire base.



Financial Statement 2017

Financial Results in 2017

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 Togliatti, Vintai, Russia
- ZAO AD Plastik Kaluga, Russia

(hereinafter: AD Plastik Group)

The results of AD Plastik Group show that the business year of 2017 was extremely successful and excellent results were achieved in all financial indicators. Pursuant to set objectives, a growth in revenue, operating earnings and net profit was realised.

Operating revenues are increased by 16.5 percent compared to 2016 and amount to HRK 1,090.14 million. Significant increase in vehicle sales in Europe and recovery of the Russian market had a positive impact on the revenue growth of AD Plastik Group. However, the continuous strengthening of kuna compared to euro keeps the negative impacts on the level of generated revenue in the last two years. The impact of ruble is still two-fold. It positively impacts the operating revenue due to a significantly lower value of average ruble compared to the previous year, but it also has a negative impact in terms of unrealised exchange rate difference due to weakening of ruble compared to the end of 2016.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of AD Plastik Group in the period considered is HRK 158.43 mil-



HRK 1,090.14 mill.

Operating revenues

lion, which represents an increase of 16.6 percent compared to the previous year. EBITDA margin, as announced, remained on the level of the previous year of 14.5 percent, which is still significantly higher than the industry average.

Thanks to realised operating revenue, continuous improvements of business processes and more favourable net financial result, net profit of AD Plastik Group for 2017 is a record HRK 70.21 million and it is higher by 41.2 percent than the previous year.

14.5%

EBITDA margin

The vision of AD Plastik Group as a market leader in development and manufacture of car components in the Eastern Europe region, expanding business to new markets and the Company mission and key values have fully come to life. Continuous reorganisation of the Company, investment into human resources and development of products and programmes have set strong foundations for future growth and development.

HRK 70.21 mill.

Net profit



Financial Statement 2017

Key Indicators

Indicators	AD Plastik Group			AD Plastik d.d.		
	2016	2017	Indeks	2016	2017	Indeks
Operating revenue (in thsd. of HRK)	935,750	1,090,140	116.50	717,876	834,654	116.27
Sales revenue (in thsd. of HRK)	913,383	1,069,061	117.04	701,423	817,682	116.57
NFD (in thsd. of HRK)	372,452	321,347	86.28	364,644	321,580	88.19
EBITDA (in thsd. of HRK)	135,855	158,434	116.62	83,427	91,155	109.26
NFD/EBITDA	2.74	2.03		4.37	3.53	
EBITDA margin	14.52%	14.53%		11.62%	10.92%	
Net profit margin	5.31%	6.44%		5.34%	6.40%	

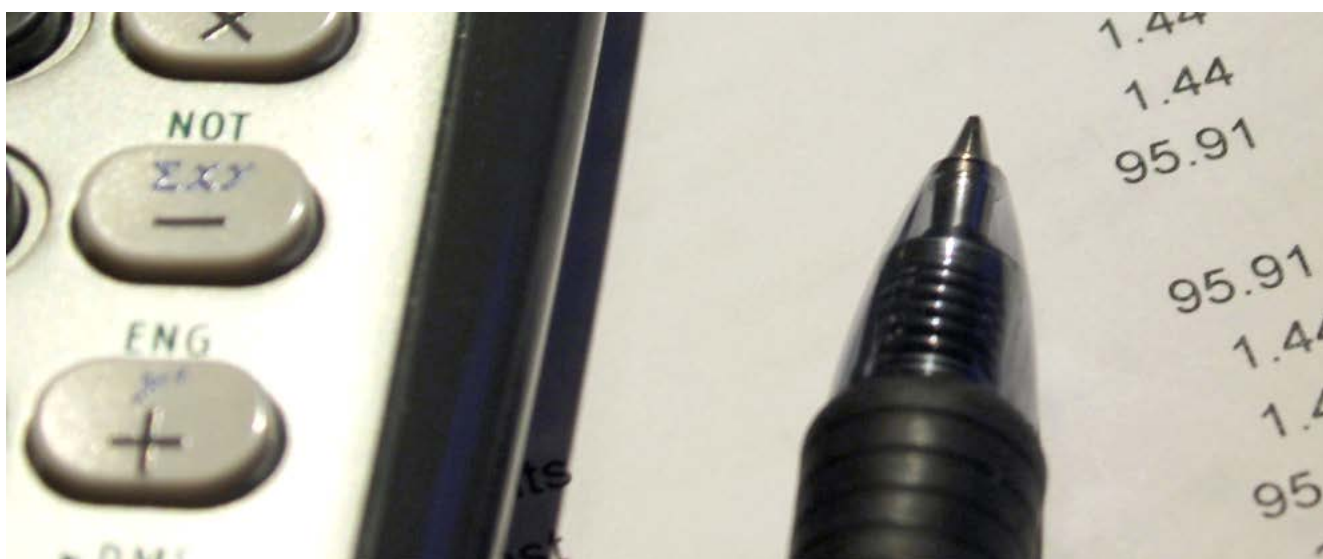
Financial Position

The trend of improving financial position of AD Plastik Group still continues. Business growth was achieved in addition to further decrease in net debt and more affordable average financing cost. Thus, compared to 31 12/ 2016, credit indebtedness is lower by HRK 54.11 million which brought the NFD/EBITDA ratio to the level of 2.03. This opens the possibility of further capital investments and realising the potential acquisition.

Record sales in the last quarter of 2017 resulted in higher trade receivables by HRK 56.2 million compared to 31 12/ 2016, while the total payables were increased by HRK 28.3 million in the same period. Despite increased payables, the debt ratio in 2017 was additionally lowered and on 31.12. 2017, it was 0.44.

In 2017, the Return on Equity (ROE) increased to 9.7 percent, which is the result of a significant increase in the Group's net profit. In 2016, ROE was 7.5 percent.

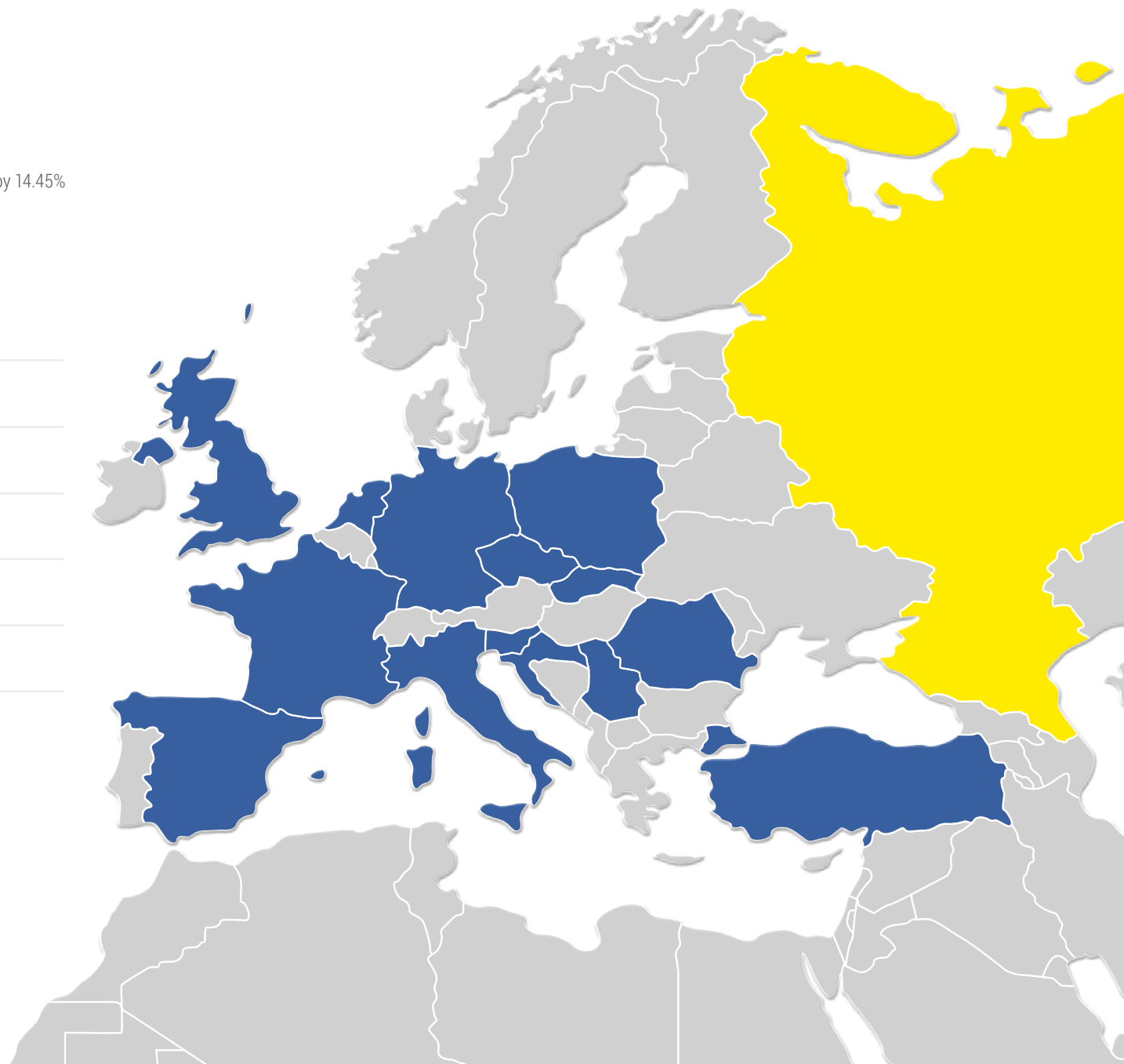
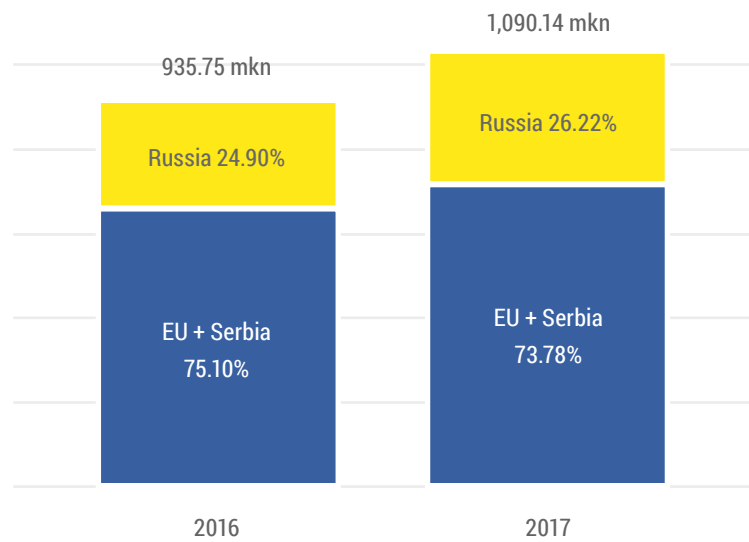
In 2017, ADPL-R-A share price increased by 22.54 percent, so that on 31 12/ 2017, it was HRK 169.10, while CROBEX decreased by 7.62 percent in the same period. On 31.12. 2017, the Company market capitalisation amounted to HRK 710.15 million. Dividend was paid in 2017, in the amount of HRK 8.5 per share.



Financial Statement 2017

Operating revenue of AD Plastik Group by markets

- Revenue of AD Plastik Group in the EU and Serbia market increased by 14.45%
- Revenue of AD Plastik Group in Russia increased by 22.67%





Financial Statement 2017

EU and Serbian market



In 2017, the EU and Serbia markets reported an operating revenue of HRK 804.32 million. In the same period, the European market recorded an increase in sale of new cars by 3.3 percent compared to the previous year, while the AD Plastik factories in Croatia and Serbia recorded an increase of 14.45 percent. Operating revenue share from these markets in the total operating revenue of AD Plastik Group is 73.78 percent in 2017.

Apart from the increase in the automotive market, the start of mass production under contracted multi-annual works also contributed to the revenue growth. For example, Renault Clio vehicle, for which the mass production started in 2017, recorded a sales increase of 6.7 percent. Strong kuna com-

pared to euro still has a negative impact on revenue from this market, so that revenue in the parent company reduced by HRK 7.4 million compared to the previous year.

During 2017, a significant number of new contracts was concluded for this market whose mass production was planned for 2018 and 2019. This will completely fill the capacities of factories in Croatia and Serbia, which will require additional investments into capacity increase. The total value of new agreed work in 2017 for this market surpasses EUR 134 million.

Russian market (subsidiaries)

After four consecutive years of drop in car sales on the Russian market, 2017 records a much anticipated increase in sales of almost 12 percent or more accurately, 1.6 million vehicles were sold. Such a market trend encourages and supports forecast of growth in this market of an average 6,5 percent in the next four years. Revenue of AD Plastik Group in the Russian market increased by 22.67 percent in the period considered, compared to the previous year. This is largely a contribution of the growth in the sales of key vehicles for which AD Plastik delivers parts such as Alijansa Renault/Nissan/AvtoVAZ. Consequently, the share in operating revenue from the Russian market recorded an increase and in relation to the total operating revenue of the Group, it is 26.22 percent.

As previously stated, the strong ruble also has the positive influence on consolidated revenue from the

Investments 2017

In the previous year, AD Plastik Group invested HRK 86.1 million and largely into expanding its capacities, purchase of new machines and intangible assets.

Russian market compared to euro when converted to kuna, if compared to the previous year. The influence of the weakened ruble in the second part of 2017 was mitigated by using the natural hedging, i.e. by constant adjustment of sales objectives with our business partners in Russia.

Since the automotive industry in Russia has just started awakening after a long crisis, it will take some time before the sales level of 2.8 million vehicles from 2012 is reached. The value of new contracted work of AD Plastik Group for the Russian market in 2017 amounts to EUR 17 million, while new and more significant projects in this market are yet expected. Until then, the market increase is mostly generated by the increase in sales of existing vehicle models.

The planned investment of HRK 34 million kuna into the "Pilot Painting Line for Industrial Research, Development and Innovation" project in Zagreb was realised, which strengthens the portfolio of painted products. For this project, a grant of HRK 19.6 million was given.

Financial Statement 2017

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

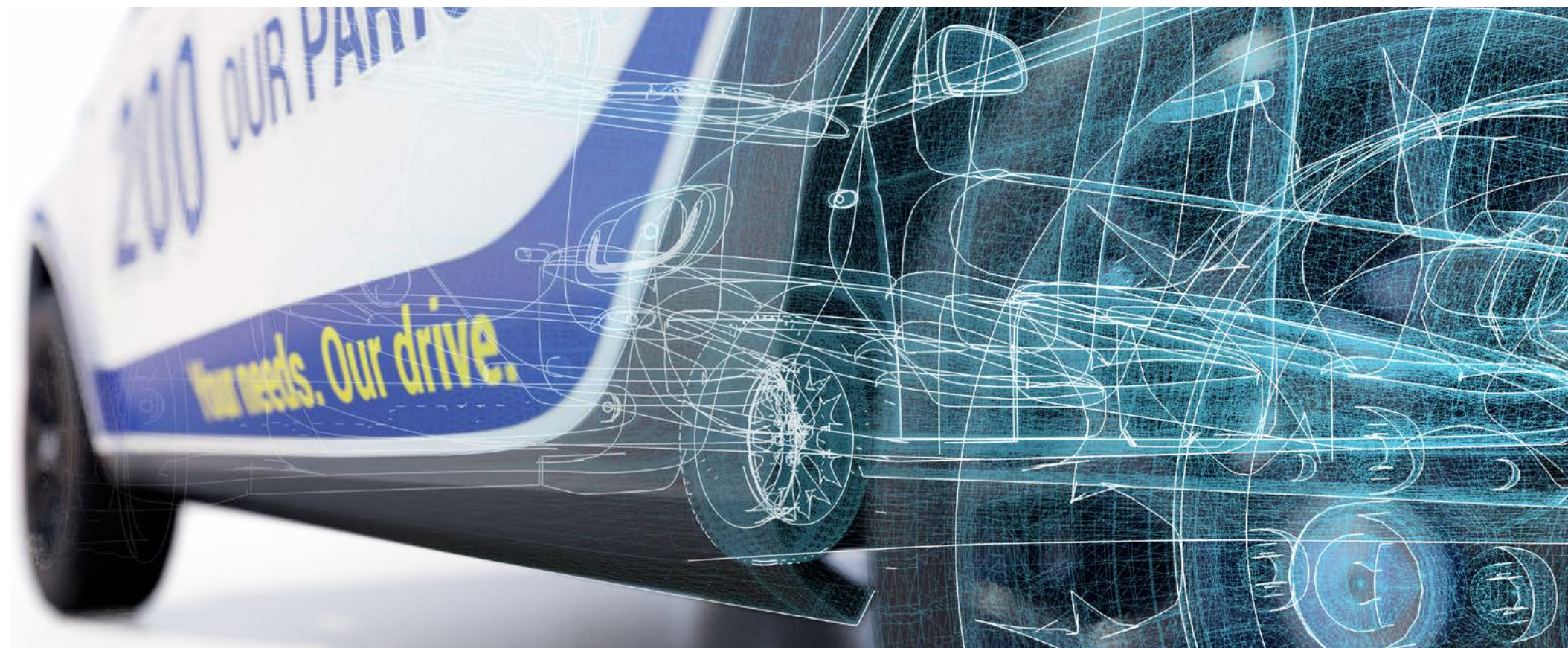
With the aim of presenting a clearer picture of business of AD Plastik Group, we have created an comparable, abbreviated Consolidated profit and loss account for 2016 and 2017 with consolidated profit and loss account of affiliated companies Euro Auto Plastic Systems s.r.l. Mioveni, Romania (50% of ownership of AD Plastik d.d.), and Centre for research and development of automotive industry Croatia (24% of ownership AD Plastik d.d.).

Operating revenue of AD Plastik Group with consolidated accompanying ownership share in affiliated companies increased by 12.83 percent in the period considered. EBITDA amounts to HRK 231 million and it records an increase of 17.62 percent compared to the previous year.

The results of affiliated companies are included into the results of AD Plastik Group using the equity method. Affiliate companies have no

financial obligations towards AD Plastik d.d., nor loan obligations towards external entities.

The Centre for Research and Development of Automotive Industry Croatia started, on 26.9.2017 liquidation proceedings due failure to achieve reasons for foundation, which, with regards of its significance, has no influence on the business operations of AD Plastik Group.





Financial Statement 2017

AD Plastik Group's consolidation of the corresponding part of the ownership interest in affiliated companies
(continued)

(in thousands of kunas)

Positions	2016	2017	Index
OPERATING REVENUE	1,326,137	1,496,292	112.83
OPERATING EXPENSES	1,212,112	1,353,503	111.66
Material costs	740,990	904,033	122.00
Staff costs	215,250	244,134	113.42
Amortization	82,369	88,213	107.10
Other costs	173,503	117,123	67.50
FINANCIAL REVENUE	45,512	26,871	59.04
FINANCIAL EXPENSES	98,666	79,288	80.36
TOTAL REVENUE	1,371,649	1,523,163	111.05
TOTAL EXPENSES	1,310,778	1,432,791	109.31
Profit before taxation	60,871	90,371	148.46
Income tax	11,168	20,165	180.56
PROFIT FOR THE PERIOD	49,704	70,206	141.25
EBITDA	196,395	231,002	117.62



Business Plan for 2018

The Business Plan for 2018 defines the key categories and objectives of the revenue, costs and development components of AD Plastik Group business operations. These elements fully meet the conditions of achieving objectives of the Group's main strategy for all the key stakeholders of the business environment.

In the revenue forecast for 2018, revenue from two new technologies are included, i.e. revenue from technology of painting interiors by applying two-component paints and revenue from components manufactured using the Hot Stamping technology. Investment into development and new technologies is what ensures the long-term stability of business operations and necessary growth.

In 2018, an operating revenue increase of 12 percent is planned, with EBITDA margin at the level of 14,2 percent and net profit growth. Return on equity (ROE) is expected at the level of 10 percent. CAPEX is planned at a somewhat higher level compared to 2017 and amounts to HRK 110 million.

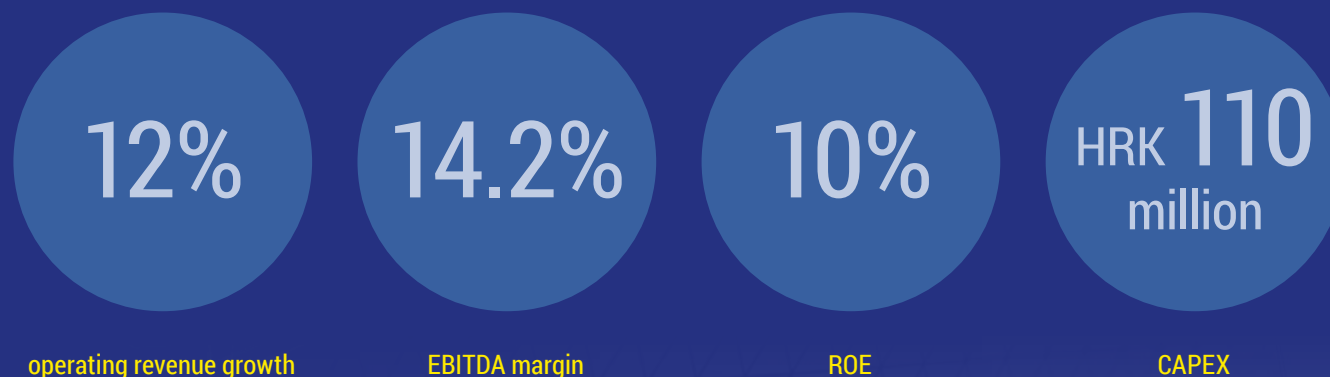
The basis for revenue increase is certainly an organic growth with existing customers, as well as the growth in capital projects of the key customer - Renault Group. An excellent position of the group on the list of their suppliers has enabled winning significant contracts in two new big projects; i.e. Edison - phase2 and Clio BJA.

Following the main strategy of AD Plastik Group, the Management Board is, apart from the activities enabling realisation of objectives through the organic growth, focused on potential acquisitions or taking a share in ownership of technologically compatible and market-wise complementary companies in the markets of Central and Eastern Europe. This type of expansion is a logical step in achieving growth strategy, and also the fastest and most efficient way of achieving these objectives.

During 2018, we are expecting a full industrialisation and capacitation of reconstructed automotive interior painting line using new technology of applying two-component paints, installation and commissioning of Hot Stamping technology in Zagreb, as well as optimisation and preparation for industrial use of equipment in the new technology of injection moulding plastic components made lighter with gas (Mu-Cell) in the production facility in Solin.

AD Plastik Group will maintain and improve its position of a supplier with high reliability, cost and technical competitiveness and flexibility in the automotive industry.

Our business plan for 2018 ensures stable cash flows of the Group and financial stability optimisation. By realising the plan, transparent and regular reporting, additional communication, reporting and technical activities, we would like to ensure raising value of the Company and further increase in share price.





Sustainability Report

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AD Plastik Group has drawn up its fifth Sustainability Report for 2017, and it also publishes for the first time its integrated non-financial and financial annual statements. The previous report related to 2016 and was published in July 2017.

This report was drawn up in line with the requirements of the Global Report Initiative (GRI) Standard. The selected option was, once again, the Core option, the same as in the previous report. AD Plastik Group collects data for the Sustainability Report in all countries and at all locations where it operates.

The report will be published at the website of the company www.adplastik.hr and at the website of the Zagreb Stock Exchange www.zse.hr. It is available to any interested stakeholder upon request..

The business and the calendar year in this case are concordant. AD Plastik Group reports in one-year cycles. In terms of verification of the report, AD Plastik Group selected the Croatian Business Council for Sustainable Development (HR BCSD), an independent and the most competent institution to verify this type of report in the Republic of Croatia.

Contact person:

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Profile

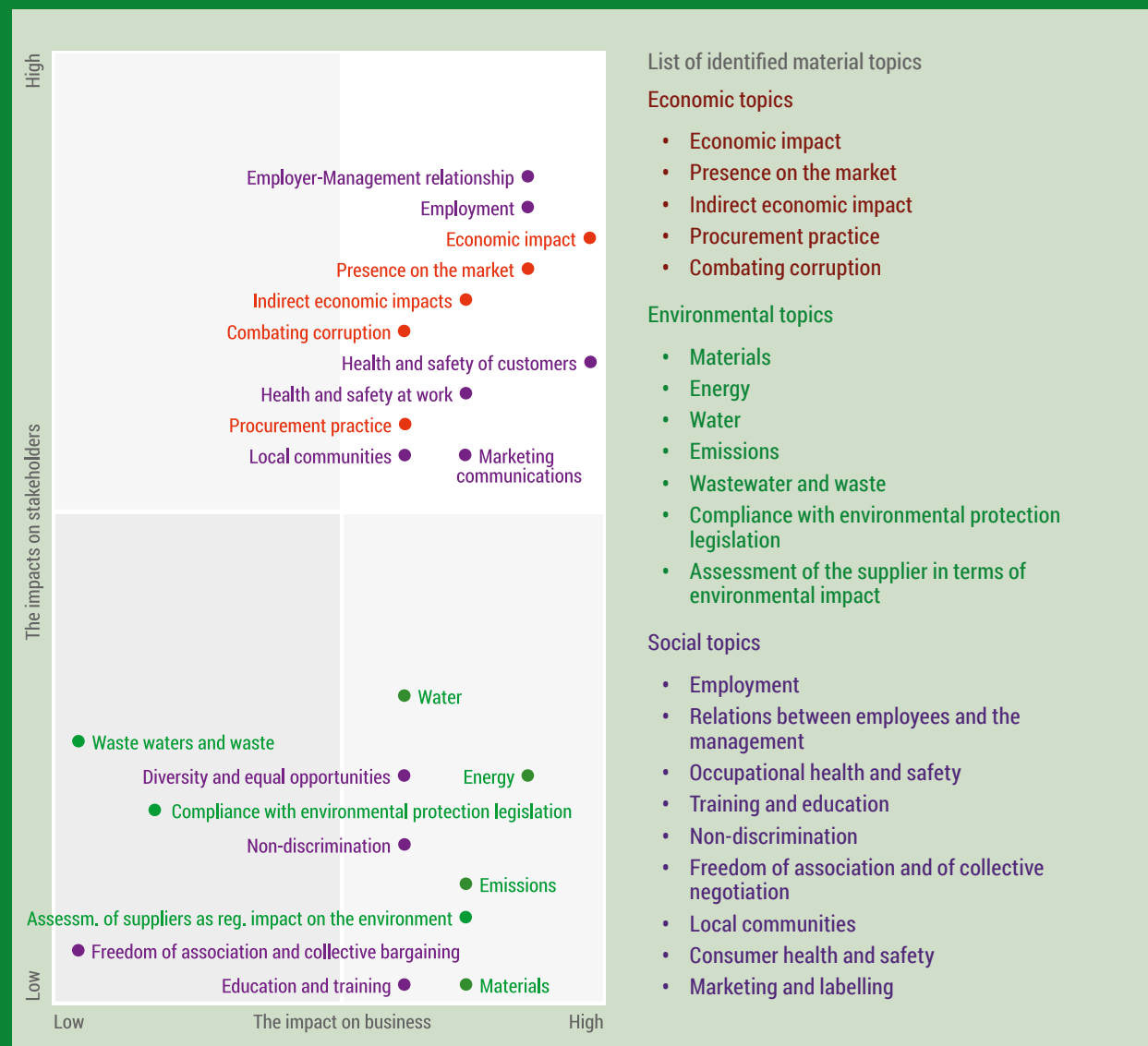
Material topics and limits identified

AD Plastik Group could report about numerous topics, but not all of them are equally important for the company or its stakeholders. At the same time, there is a large number of topics that is not materially measurable, so it is not possible to make a comparison. In view of the introduction of the new GRI standards, but also the desire to improve reporting, we conducted a renewed procedure of identification of material topics in the reporting period.

By combining internal and external factors, topics, strategies, missions and policies that we find important as well as feedback that we received by including stakeholders with a view to identifying significant environmental, economic, and social material topics, we have made a final selection that is different from the one in the previous reporting period. We classified the results we obtained by priority, so that their selection in this report also reflects their importance to us and the stakeholders. Finally, we verified their importance from the point of view of influence on business strategies, decisions and access to management.

Certain topics that we regarded as material are no longer regarded as such in view of changes to the new standards and because we have not examined their measurability, and the resulting comparability of data, correctly enough. At the same time, we changed limits for two standards, ie, indirect economic influences and diversity and equal opportunities.

By signing the Diversity Charter and by appointing the President of the Management Board, Marinko Došen, as its ambassador, we placed special emphasis on the promotion of acknowledgement of diversity, non-discrimination, inclusion, and equal opportunities as the fundamental values of modern society, which is the reason why the relevance of the topic changed. The previously identified limits of indirect economic influences were overly emphasised, so in this report we revised them to present them more realistically.



List of identified material topics

Economic topics

- Economic impact
- Presence on the market
- Indirect economic impact
- Procurement practice
- Combating corruption

Environmental topics

- Materials
- Energy
- Water
- Emissions
- Wastewater and waste
- Compliance with environmental protection legislation
- Assessment of the supplier in terms of environmental impact

Social topics

- Employment
- Relations between employees and the management
- Occupational health and safety
- Training and education
- Non-discrimination
- Freedom of association and of collective negotiation
- Local communities
- Consumer health and safety
- Marketing and labelling



Stakeholders

The stakeholders of AD Plastik Group are all individuals, groups, organisations and companies that have, or can have, a significant interest in the success or failure of the company. Since various groups of stakeholders have various interests, the manner of communication with individual stakeholders depends on their needs. Our goal is to ensure transparent and regular communication with all stakeholders as the foundation of mutual understanding and, consequently, to ensure progress and development of the company.

It is very important to us that we understand the needs of our stakeholders, so we work on their inclusion and interconnectedness on an ongoing basis.

We try to involve certain stakeholders as actively as possible in the preparation of the Sustainability Report of the company, although customers, as one of our most important stakeholders, are actively involved from the very beginning of reporting. Since the Sustainability Report must fulfil the standards of sustainable development of certain customers, large part of the Sustainability Report is based on regular counselling with customers. AD Plastik Group has an agreement or guidelines on conformity with the rules of socially responsible conduct in the automotive industry with most customers. Occasional counselling and meetings are the most frequent form of inclusion for most stakeholders. This year we conducted our first survey amongst a segment of our stakeholders concerning the Sustainability Report. We involved employees, suppliers, partners, financial and educational institutions, associations, local communities and institutions.

With a view to identifying topics and their perceived importance in the eyes of stakeholders and, consequently, adjusting the content of the report that will justify their expectations and needs, we conducted a survey on 57 stakeholders from various groups.

Our goal in the future is to select a certain number of stakeholders from each group, so that through their inclusion and ongoing evaluation of topics we gain better insight into what is truly important to certain groups of stakeholders, concerning which topics they wish to receive more information and, accordingly, in which segment they expect us to make improvements.

We hold that the process of including stakeholders is very important, because their opinion greatly influences our operation, regardless whether they are investors, customers, employees, suppliers or any other stakeholders. We still have many unrealised ideas and room for improvement as well as development of their inclusion ahead of us.

Our customers regularly examine our sustainable operation via the EcoVadis agency and, more recently, Achilles Automotive, while the first audits of our socially responsible operation at our locations were conducted by the Intertek agency.

According to AD Plastik Group's business development strategy, its key stakeholders are:

- customers
- employees
- trade unions
- suppliers and partners
- owners and shareholders
- financial public
- local and central government
- community (universities, associations, organizations)
- media.

The most important stakeholders are at the same time part of AD Plastik Group's mission and vision.



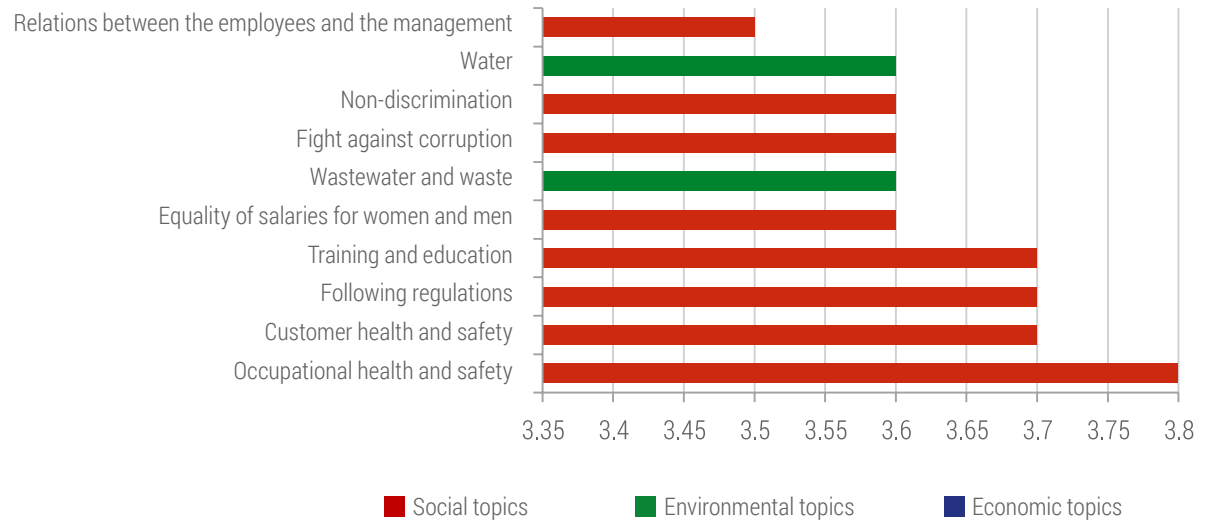
Stakeholders

Results of the survey

The results of the survey lead to the conclusion that most stakeholders find that social and environmental topics are exceptionally important. The first five places in the table relate to topics concerning society and functional efficiency in social settings, with special emphasis on the relationship that the company has towards its employees and customers. Four out of five selected groups of stakeholders hold that the topic of occupational health and safety is the most important topic.

Considering that differences in grades are not substantial, one has to conclude that our stakeholders take into consideration all aspects of our economic, environmental and social impact and then make a decision about our successfulness on the basis of that evaluation.

The results of the survey are also guidelines for improvements in 2018, which we shall know how to implement successfully.





Stakeholders

Customers



Customers are one of the most important groups of stakeholders in the automotive industry. Their significance provides them with an opportunity to influence company decisions and policies. They analyse, process and check enormous quantities of information on which they base their business choices. They are involved in business processes, and suppliers are not ordinary service providers, but partners and associates. Accordingly, AD Plastik Group builds partner relations in all phases of co-operation with its customers. The goal of such inclusion is contribution to the quality of the final product, which is reflected in the successfulness of operation of AD Plastik Group, but also the satisfaction of our customers and the safety of end users.

Types of counselling and frequency

- Visits/meetings (regularly)
- Audits (whenever necessary)
- Written communication (regularly)
- Satisfaction appraisal (regularly via specialised portals)
- Official website (regularly)
- Sustainability report (annually)

During the reporting period in AD Plastik Group, 36 customer audits of customers were held, viz. 14 in Croatia, 14 in Russia, and eight in Serbia.

Almost 40 percent of the audits were conducted by Renault Group, which is expected because it is our largest customer. Other audits were conducted by the customers of VW Group, PSA Group, Fiat Group, VAZ, Ford, Nissan, Helle, Daimler, Webast, Suzuki, and Toyota.

Although the total number of customer audits in 2017 was significantly smaller, they were very demanding and complex, especially in view of the reconstruction of the paint line in Zagreb.



Stakeholders

Employees

The most important stakeholders and the greatest value of AD Plastik Group are its employees, therefore the company pays special attention to investments in the development of its personnel and resources. They can be credited with the realisation of ambitious company projects, which are a precondition for long-term growth and development. By mutual co-operation, exchange of knowledge and experience, new ideas, unity, and respect of high industry standards, our employees create a competitive advantage on the global market.

Types of counselling and frequency

- Research of organisational climate and satisfaction (annually)
- Notifications via e-mail (regularly)
- Notifications via bulletin boards (whenever necessary)
- Internal bulletin (bimonthly)
- Intranet (regularly)
- Sustainability report (annually)
- Informal gatherings (regularly)
- Individual counselling (whenever necessary)

In the reporting period, activities aimed at better informing and communication with employees at all levels continued. Ongoing communication, as an important indicator of the motivation and successfulness of each individual, is a practice that is regularly conducted by the company. In 2017, the company organised numerous internal workshops, education courses, and gatherings; the day of the company was celebrated at all locations; a team building was organised, and so was a story-telling event, Christmas party, meetings by and between various departments and locations, and various informal meetings of employees. The company organised the celebratory award ceremonies for employees on a regular basis, while employees from production locations in Solin and Zagreb participated in B2B races. Employees participated in various humanitarian activities in Croatia and Russia, and their initiatives were also supported by the Management Board of the company. With a view to ensuring better informing and encouraging bilateral communication, a representative of production workers joined the internal bulletin editorial board.





Stakeholders

Trade unions and the workers' council

Trade unions and the workers' council participate in the making decisions that are important for the position of workers in the company via participation in the decision-making process about questions in connection with the economic and social rights as well as the interests of workers.

Trade unions take part in making decisions via collective negotiation and, finally, via the conclusion of the collective agreement with the company. The workers' council represents the interests of workers and reports to them regularly about all issues related to the position of workers. A member of the workers' council is also one of the members of the Supervisory Board. (S)he, thus, participates in the supervision of the operation of the company. Collective negotiation as a model of business operation in the company has proved to be very successful and efficient.

Via co-operation, exchange of information and joint resolution of problems, we attribute great significance to social partnership and dialogue.

Types of counselling and frequency

- Meetings/negotiation (whenever necessary)
- Internal bulletin (bimonthly)
- Intranet (regularly)
- Sustainability report (annually)
- Operating report to the Workers' Council (quarterly, in conformity with the Labour Act)

In the reporting period, trade unions met with the employer on several occasions during the collective negotiation process with a view to the conclusion of the new collective agreement in Croatia. The collective agreement signed for a one-year term was in force during 2017 and, at the end of the year, collective negotiations for the conclusion of a new agreement began. The existing collective agreement is in force in the Russian factory in Vintai. Amendments were signed during the reporting period.



Stakeholders

Owners and shareholders

All shareholders of the company together are the owner of the joint-stock company. Shareholders are a particularly important public segment, so it is our aim to permanently improve communications with shareholders and to build relations based on mutual trust. Regular and transparent publication of official notifications on the website of the company serves to present all significant current activities intended for all shareholders. Thus, shareholders can learn about new contracts, which ensures security and trust in the future of the Group and continued growth of the company's value.

The long-term strategy is always aimed at increasing the satisfaction of shareholders and at the payment of a regular incentive dividend.

Types of counselling and frequency

- Notifications (whenever necessary)
- Financial statements (quarterly)
- Shareholders' assembly (annually)
- Official website (regularly)
- Communication via e-mail (whenever necessary)
- Annual financial statements (annually)
- Sustainability report (annually)

Continued advancement and improvement of financial reporting, regular communication, and sending of notifications to shareholders were working priorities during the reporting period.



The financial public

The financial public consists of investors and creditors as important stakeholders of AD Plastik Group, with whom they have a partnership relationship based on timely and transparent reporting. The goal of the company is to inform said stakeholders about all major events in the Group, so that the decisions they make might be based on accurate information in real time.

Types of counselling and frequency

- Official website (regularly)
- Notifications (whenever necessary)
- Communication via e-mail (whenever necessary)
- Financial statements (quarterly)
- Annual financial statements and report (annually)
- Sustainability report (annually)
- Road show (annually)

Ongoing work on improving the way of financial reporting aims to increase transparency and to inform stakeholders regularly and timely about all relevant information that might be useful to them in creating a comprehensive picture about the company and about the adoption of decisions concerning the company..





Stakeholders

Suppliers and partners



Contracting commercial and other business relations with suppliers and quality management thereof have a significant role in the realisation of annual and mid-term goals of the company. Operation of the company greatly depends on suppliers, because they have to be our partners, so that we might offer better quality products and services to customers, with a view to reducing costs and strengthening a positive impact on the environment and society as a whole.

Types of counselling and frequency

- Appraisal of suppliers (monthly)
- Appraisal of quality criteria (monthly)
- Visits (whenever necessary)
- Sustainability report (annually)

Monitoring the performance of suppliers is conducted regularly further to prescribed procedures and questionnaires. In the reporting period, monthly appraisals of suppliers were carried out according to the criteria of quality and logistics, and so was an annual appraisal according to guidelines for socially responsible operation. We perform continued co-operation with suppliers with the aim of improving their operation systems and satisfying the required standards. We are particularly committed to the development of new materials to improve products, with a view to ensuring better competitiveness.



Stakeholders

Bodies of state and local government

As a respected economic operator who wants to contribute to the improvement of the business environment and society as a whole at all locations where we do business, we co-operate with various bodies of local and regional government in accordance with company policies.



In 2017, the Management Board of the company reacted promptly to all queries and initiatives relating to the improvement of the business climate in Croatia and the initiation of new projects. They mostly related to opinions concerning the existing laws, operation, barriers, industry incentive programmes, exchange policy, etc. Thus, we use our experience and professional knowledge to contribute to the development of the economy and to improve operating conditions in the local settings.

Types of counselling and frequency

- Participation at public gatherings and conferences (whenever necessary)
- Participation at meetings and consultations in institutions (whenever necessary)
- Membership in associations and organisations (regularly)
- Visits (whenever necessary)
- Sustainability report (regularly, annually)





Stakeholders

The community

As part of the corporate culture of a company that builds new business standards, co-operation and partnership with the community are very important to us. In order to raise the quality of business and life in the community, we regularly take part in the exchange of knowledge, projects, ideas, and initiatives that can help us in our endeavours. Representatives of the company regularly participate at conferences, fora, and round tables, and we also develop regular co-operation with the academic community.

We encourage the employment of the local population and we support various vocational and civil associations.

We support local initiatives and associations through donations and sponsorships.

Types of counselling and frequency

- Participation at conferences (whenever necessary)
- Membership (regularly)
- Visits (whenever necessary)
- Sustainability report (annually)

In 2017, representatives of AD Plastik Group attended and participated in a series of economic events concerning the topic of competitiveness, export, monetary policy, socially responsible operation, financial business and corporate governance.

- "Lightness of Business in RC", a panel discussion within the framework of the conference entitled "Croatia—A Country Desirable for Business?", which was attended by the President of the Management Board, Marinko Došen.
- The conference entitled "Challenges of Croatian Diplomacy" that included a round table with Marinko Došen, President of the Management Board of the company.
- "New Challenges for Croatia—Improving the Business Climate and Attracting Investments" was a panel discussion within the international conference "The best FDI practices in Central

- and South Eastern Europe", which was attended by the President of the Management Board.
- "Business in Croatia with the EU Prefix" was a panel discussion within the conference "Economic Growth in the EU", which was also attended by Marinko Došen.
- "The Danger of the Return of Global Protectionism" was a panel discussion as part of the fourth Lider's conference on export. It was attended by the member of the Management Board, Sanja Biočić.
- "Four Years of the RC in the EU—How Success-

ful Were We?" was a panel discussion within the framework of the conference "Ahead of the Fifth Anniversary of Croatia's Membership of the European Union", attended by Zoja Crnečki, advisor for relations with state institutions and funds.



Stakeholders

The community (continued)

In the reporting period, there was a number of activities relating to the co-operation of the economic and academic community, professional practice, community visits within the Group's factories, visits of company representatives to fairs, and participation at the college career days. In 2017, we had 11 visits to Group locations, during which students had an opportunity to learn a bit more about the operation of the company and its departments. Students and professors from various parts of Croatia, Germany, and America visited factories in Croatia. The Russian factory in Vintai organised an Open Day for students.

We presented AD Plastik Group at business fairs in Split, Zagreb, and Mladenovac, but also at the international scientific conference "Mechanical Technologies and Structural Materials—MTSM 2017" in Split. Further, we presented our experiences with recruitment at open days for engineering colleges.

We recognise the importance of our role in the community in which we do business, so we support adjustments to education in line with the needs on the labour market. AD Plastik Vintai organised an action entitled "Our Forest" at which they collected used paper. The funds were used to buy seedlings to repopulate forests in the Samara Oblast that were devastated in the fires of 2011.

We attended the first session of the Economic Forum as part of the day of the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split. As part of the day of the Faculty of Mechanical Engineering and Naval Architecture of the University of Zagreb, we presented two of its best students with a cash prize.

We were included in the project entitled "Experience is Worth More than Gold" that provides students with a lower socio-economic status and students with disability with an opportunity to work as trainees.

We co-operate with junior and senior year students in drawing up their graduation theses. In 2017, the result were seven theses, drawn up with the help of a mentor from our company. At the same time, our company helped three final year secondary school students to prepare their theses.

We received a recognition for excellent co-operation at the ceremony of the Day of Teaching Bases of the University in Split. We are proud of our mentors who selflessly relay their knowledge, experience, and skills to students.





Stakeholders

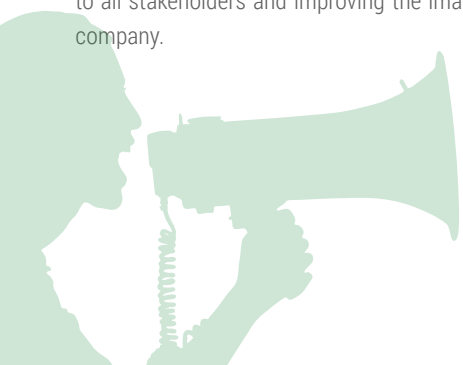
The media

We transmit information about all relevant topics and changes in the company to all interested stakeholders and the wider public via media. The media are stakeholders with whom we have regular and successful co-operation in order to ensure that all other stakeholders of the company are informed timely and accurately.

Types of counselling and frequency

- Press releases (regularly)
- Media conferences (whenever necessary)
- Visits (whenever necessary)
- Statements (regularly)
- Panels (occasionally)

In the reporting period, we continued our regular and structured communication with the media with the aim of ensuring accurate and timely information to all stakeholders and improving the image of the company.



Employees

Aware of the fact that people are the most important resource of the company, we hold that the development of human resources is one of our priorities. The Human Resources Management Strategy is one of the key levers for achieving business goals. Its component parts are based on the business strategy of the company. It is aimed at more effective and efficient human resources management, and it includes the revision, adjustment, and organisation of the organisational infrastructure as the basis for quality implementation of modern systems, subsystems or tools for human resources management. Through their implementation, we change the company culture and value system oriented towards effective and efficient conduct of all employees. We, thus, create foundations for long-term success of the company with an encouraging climate in which employees realise their set goals in a competent, motivated, and engaged fashion.

We manage careers of key employees, set annual interview systems (GURU), and adjust our reward systems via well-defined requirements for work posts through the "map of competencies" in accordance with optimum and efficient operation of key business processes.

The power of our company lies in the exceptional expertise of employees and their commitment to the realisation of business goals. Teams of people with different age, nationality, gender, education, and walk of life are our driving energy. The relationship towards employees is based on the principles of equal opportunities and respect of diversity, while investments in education and professional development of employees are our strategic guideline. We encourage personal and professional development within the group and develop and implement various educational programmes and education courses.

Number of employees of ADP Group by region and type of employment

as on 31/12/2017		Subject to contract:			employed in total	share 2017
State	location	indefinite term	fixed term	temporary and occasional employment		
Croatia	Solin, Zagreb	964	357	10	1321	56.25%
Serbia	Mladenovac	175	58		233	8.11%
Slovenia	Novo Mesto	6	0		6	0.28%
Russia	Kaluga	223	0	0	223	10.80%
	Vintai	603	0	2	603	24.56%
Total		1971	415	12	2386	

We recognised global changes in the demographic structure of the labour force as one of the guidelines for introducing improvements in diversity management in AD Plastik Group. In the future, we expect an increase in the share of employees in the age group 45–65. Older employees are a significant and valuable component of the labour force, because they are characterised by smaller rates of absenteeism, fluctuation, and accidents at work, greater experience and efficiency as well as greater ability to assume mentor roles. Via continued and planned recruitment of young people, we ensure that company knowledge is maintained and that the business environment of generational diversity is developed.

Diversity of employees in the company strengthens the innovative capacity and releases the potential of employees, thus directly contributing to their business success. Therefore, in our company we encourage diversity in all activities, actions, and programmes.

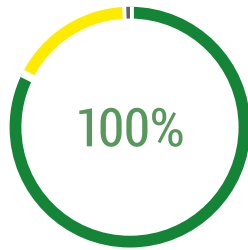
On 31 December 2017, AD Plastik Group employed the total of 2,386 persons (1,321 in Croatia, 233 in Serbia, 826 in Russia, and six in Slovenia). The greatest share of employees works in Croatia. Most employees are between 30 and 35 years of age, both women and men.

The number of employees in the company for several years in a row shows that a stable number of employees is maintained.



Employees

The share of various types of contracts of the employees of AD Plastik Group in 2017 (G4 10)



■ Employed at indefinite term	82.61%
■ Employed at fixed term	17.39%
■ Temporary and occasional employment	0.5%

During the reporting period, the percentage of definite term contracts dropped by 2 percent. Of the total number of employees, 82.61 percent has an indefinite term contract, while 17.39 percent of employees have a definite term contract.

The share of employees of AD Plastik Group by country of operation



■ Croatia	55.36%
■ Russia	34.62%
■ Serbia	9.77%
■ Slovenia	0.25%

The same as in the previous reporting period, in 2017, the greatest number of employees worked in Croatia and there were no significant changes in their share by state of operation. Croatia accounts for 55.36 percent of employees, Russia 34.62 percent, Serbia 9.77 percent, and Slovenia only 0.25 percent.

Employees of AD Plastik Group by type of performed work



■ Direct employees	57%
■ Indirect employees	36%
■ Management	7%

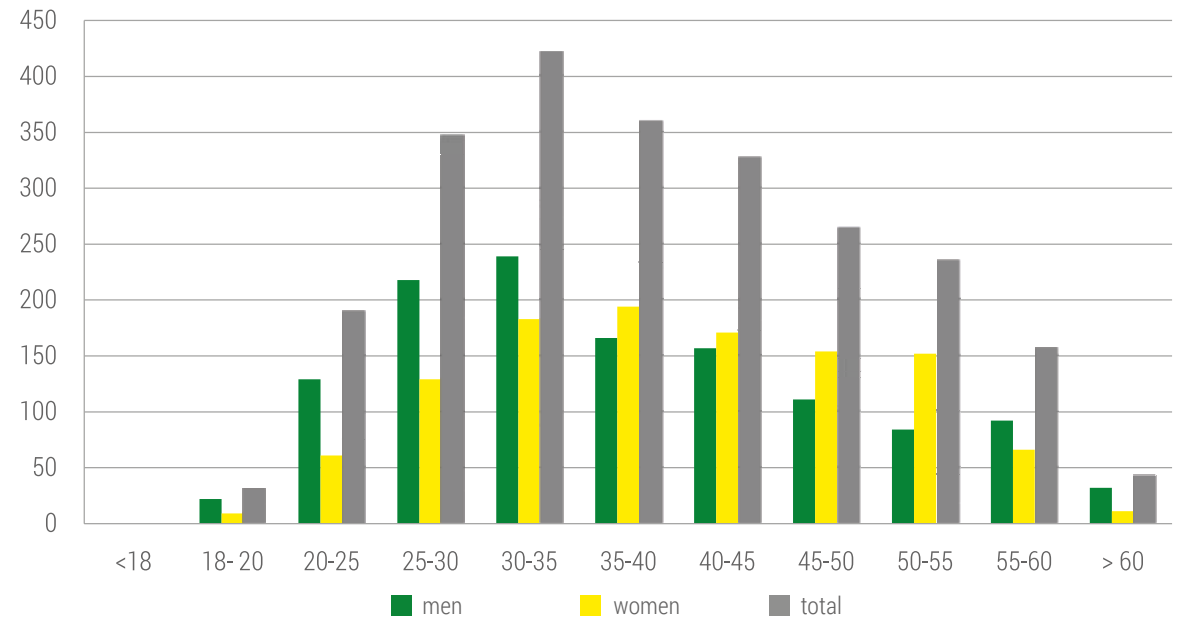
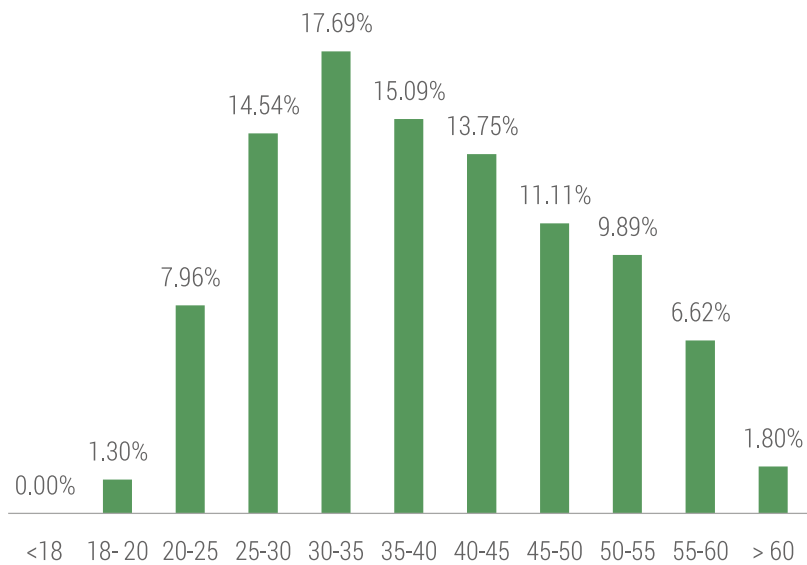
On the basis of the type of work they perform, employees of the Group are divided into management (the Management Board and top management consisting of executive officers and directors), indirect employees (administrative staff, administrative staff in production), and direct workers (workers in production).

In the previous reporting period, the number of direct workers, who account for the largest share in the total number of employees, rose.



Employees

Age structure of AD Plastik Group in 2017



In comparison to the previous year, in 2017, there are no significant changes in the age structure of employees of AD Plastik Group. The largest number of employees is in the age group 30–35, and the largest share of employees, ie, 61.19 percent, is in the age group 25–45. The smallest number of employees is in the age group 18–20, although the share of the said group rose by more than one percent in 2017. The average age of female employees of the Group is 41, and male employees 38 years of age.

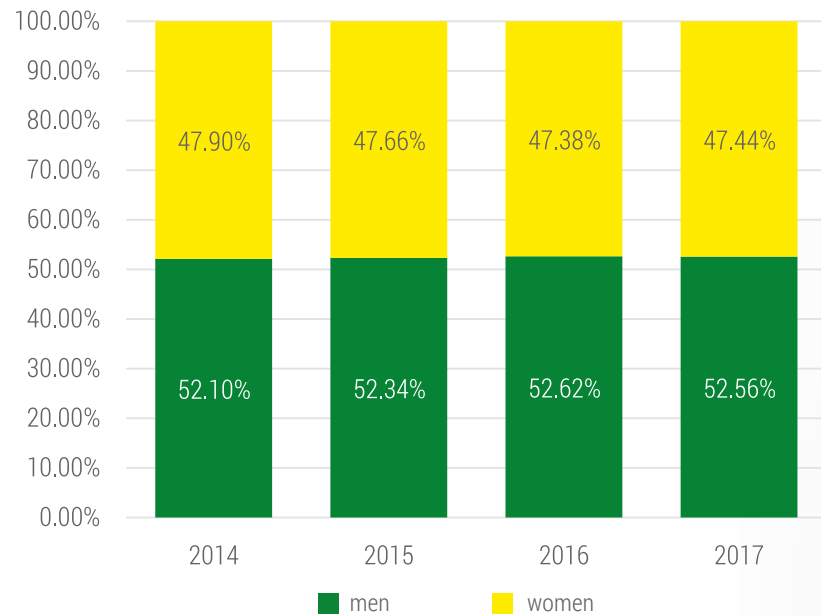
In 2017, AD Plastik Group did not employ anyone under 15 years of age or under 18 years of age.





Employees

Gender structure of employees of AD Plastik Group in 2014, 2015, 2016 and 2017



In the total structure of employees by gender in 2017, women account for 47.44 percent, while men account for 52.56 percent. There were no significant changes in the structure of employees by gender in comparison to the previous reporting period.

Percentage of the total number of employees covered by collective agreements

Support to further improvements of social dialogue and good relations with employees continues in this reporting period. Collective negotiations with trade unions were conducted and a new collective agreement in Croatia as well as amendments to the collective agreement in Vintai were concluded. The collective agreements apply to all employees in Croatia and to employees of the factory in Vintai in Russia, which includes 80.60 percent of employees of AD Plastik Group. The rights and obligations of other employees are set out in various ordinances in accordance with legislation.



The supplier chain

The selection of suppliers at the time of queries is based on the principle of the policy of sustainable supplier management, in a way that we select suppliers before entry in the base of approved suppliers on the basis of self-appraisal questionnaires and the criteria set out by the internal procedure. Thus, we reduce the risks of negative impact in the supplier chain in an early phase of procurement.

At the time of selection, local suppliers have priority if they satisfy the required specifications and quality requirements. In the long run, this means the development of local suppliers and, consequently, greater competitiveness of AD Plastik Group. Regardless whether suppliers are selected by the Group or appointed by customers, which is not rare in the automotive industry, they are still subject to the rules and standard verification and supervision procedures. Verification and supervision are conducted in accordance with the prescribed procedures set out in the quality rules of AD Plastik Group, which are a mandatory tool for supplier management. Supervision is conducted once a month in line with the supplier appraisal procedure, which is followed by the agreed plan of activities. Once a year, a survey is conducted amongst all suppliers concerning socially responsible operation, via the self-appraisal questionnaire. Supplier audits at their locations are carried out according to the annual audit plan.

Referential documents

- Sustainable supplier management policy
- CII-6 procurement procedure
- Supplier selection procedure ADP-KOM-PR-1013
- Supplier appraisal ADP-KOM-PR-1007
- Questionnaire for self-appraisal concerning conformity with the guidelines for socially responsible operation

Stability in the supplier chain is implemented in part through the formalisation of mutual contract, but primarily through clear company policies regarding the maintenance of long-term partnership relations. Suppliers within AD Plastik Group are divided into the suppliers of base materials, component parts, moulds, tools, equipment, and spare parts as well as service suppliers.

Comprehensive evaluation of suppliers in terms of impact they have on society was not conducted in this reporting period, although the self-appraisal questionnaire regarding socially responsible operation includes some of the questions from the field of societal impact.





The supplier chain

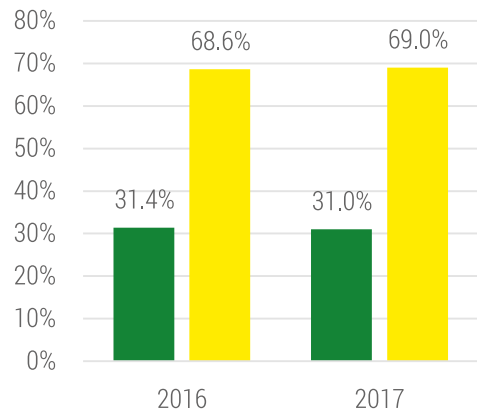
The share of local suppliers in the total value of procurement

In the reporting period, the total number of suppliers at all significant locations of operation grew because of a large number of new contracts for works and projects. By significant locations of operation, we mean production locations in Croatia (Solin and Zagreb), Russia (Kaluga and Vintai), and in Serbia. Local suppliers means

those registered in the states in which our production locations are established.

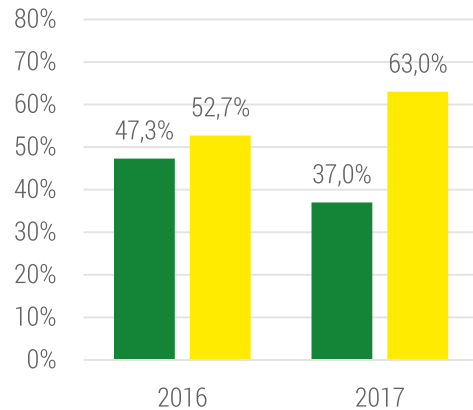
AD Plastik d.d., Croatia

The financial share of local suppliers in relation to import suppliers is almost the same as in the previous reporting period, although total numbers are higher because of improved realisation. The relationship between local and import suppliers is skewed heavily in favour of import suppliers because of non-existence of materials necessary for production in the automotive industry, ie, such suppliers in Croatia.



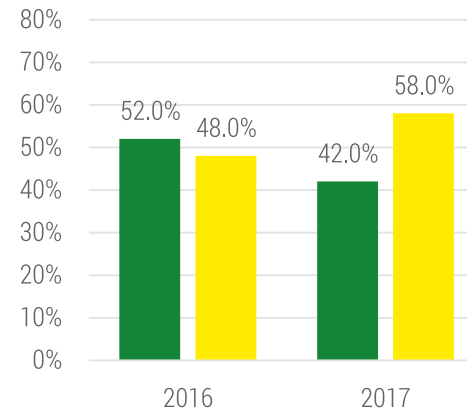
ADP Mladenovac, Serbia

The share of import suppliers rose because of agreed projects for new customers and the fact that it was not possible to find adequate materials on the local market.



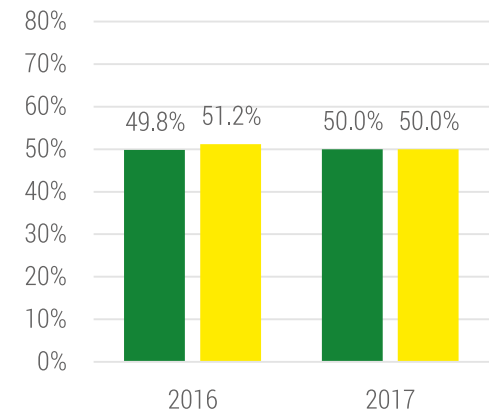
AD Plastik Togliatti, Russia

The share of import suppliers grew because of new projects and the production of a large number of tools for injection moulding. The progress of localisation of materials is satisfactory and is in line with the requirements of customers.



AD Plastik Kaluga, Russia

The shares of local and import suppliers are now more or less the same, which is the result of an ongoing campaign to localise materials, supported by our customers. On the Russian market, the number of suppliers developing in parallel with the development of the automotive industry and the arrival of an increasing number of customers and suppliers from the global market is on the rise.



■ local suppliers ■ import suppliers

Obligations towards external initiatives

Sustainable operation of AD Plastik Group in a wider social context is recognised through its activities and active participation in the work of national and regional economic initiatives that represent the strategic interests of the Croatian economy. The management of the company usually has leading roles in such initiatives and its proactive operation makes a significant contribution to the wider economic and social community.

In the reporting period, we became one of the first Croatian signatories of the **Diversity Charter**, while the President of the Management Board, Marinko Došen, is its ambassador.

The President of the Management Board, Marinko Došen, is member of the **Assembly of the Croatian Chamber of Commerce**, and member of the Management Board, Mladen Peroš, is the deputy President of the **Economic Council of the County Chamber Split**.



The company has a leading role in the work of the national **Plastics and Rubber Industry Association** with the Croatian Chamber of Economy and the regional **Vocational Plastics and Rubber Manufacturing Group** of the County Chamber Split.



We are the founders of the cluster of auto parts manufacturers, **AD Klaster**, and the President of the Management Board, Marinko Došen, is also the President of the Assembly of AD Klaster. The director of AD Klaster is Zoja Crnečki, advisor for relations with state institutions and funds in AD Plastik, who is also the President of the **Board of Directors**

of the Croatian Competitive-ness Cluster for Automotive Industry.

With our membership and work in the think tank organisation of the **Industrial Development Institute**, we contribute to the creation of smart, sustainable and inclusive growth and development by improving the theory and policy of industrial development and supporting policies, subject to an interdisciplinary approach.



We promote the importance of production and export and the raising of awareness on the positive impact of exporters on the Croatian economy via membership in the **Club of Exporters**.



With a view to improving socially responsible operation of AD Plastik Group, it is significant to point out membership of the **Croatian Business Council for Sustainable Development** as an efficient platform for promoting social responsibility in all segments of society. At the same time, we are a member of the **Community for Socially Responsible Operation, Community for Environmental Protection in the Economy, and the Community for Human Resources Development** of the Croatian Chamber of Commerce.



We signed the **Code of Business Ethics** of the Croatian Chamber of Commerce that sets out basic guidelines for ethical conduct of business entities within the framework of the Croatian economy.

We also signed the United Nations initiative **Global Compact**, thus assuming the obligation to promote their ten principles in the area of human and labor rights, environmental protection and combating corruption in our business.



**United Nations
Global Compact**

AD Plastik Group is a member of the **Croatian–Russian Business Club**, through which we work on the promotion of economic relations and elimination of administrative barriers between the Croatian and Russian economies.

Membership of the Moscow-based **Association of European Businesses** is a contribution to our social engagement in associations outside Croatia.



**Association
of European
Businesses**



Economy

Direct, generated and distributed economic value

For AD Plastik Group, 2017 was exceptionally successful. Business receipts generated in the reporting period are higher by 16.5 percent than those generated the year before and amount to HRK 1,090.14 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) in 2017 was HRK 158.43 million, which is by 16.6 percent higher than the year before. Thanks to the business results of the company, ongoing improvements to the business processes, and more favourable net financial results, net profit of AD Plastik Group for the reporting period is the record amount of HRK 70.21 million, which is by 41.2 percent higher than the year before.

Directly generated economic value by AD Plastik Group in 2017 is HRK 1,090.14 million, which is by 16.5 percent higher than in the previous reporting period. Its growth, to a somewhat lesser extent (14.47 percent), is followed by economic value distributed, resulting in the growth of economic value retained of 42.96 percent. Distribution of economic value in 2017 is by structure somewhat different than in 2016. Active debt management and continued work on reducing financing costs as well as the decision on payment of dividend that is somewhat lower than the previous year resulted in significantly lower payments to capital providers. At the same time, payments were increased for the salaries and benefits of employees and communal

investments are higher by the staggering 300 percent. Economic value retained was to the greatest extent used for investments that form the foundation for further development of the Group.

The trend of improving the financial position of AD Plastic Group continued in 2017. There was growth of business operations with further decrease of net debt and more favourable average

cost of financing. So, in relation to 31/ 12/ 2016, loan indebtedness was lower by HRK 54.11 million, thus lowering the NFD/EBITDA ratio to the level of 2.03. Further, in the reporting year, the amount of HRK 34 million was invested in the project "Pilot Paint Line for Industrial Research, Development and Innovations", thus strengthening the portfolio of painted products. The price of share of ADPL in 2017 increased by 22.54 percent, so that on 31/

12/ 2017, it was HRK 169.10, while CROBEX decreased by 7.62 percent in the same period. The market capitalisation on 31/12/ 2017 was HRK 710.15 million. The dividend paid in the reporting period was HRK 8.5 per share. ▶

Direct, generated and distributed economic value in 000 HRK

	2013	2014	2015	2016	2017
Directly generated economic value	835,771	897,477	1,025,395	935,750	1,090,140
Receipts from sale	817,591	869,553	1,002,363	913,383	1,069,061
Other revenues	18,180	27,924	23,032	22,367	21,079
Economic value distributed	822,856	896,847	934,820	869,253	995,077
Operating costs	601,777	653,826	716,810	613,353	722,522
Salaries and benefits to employees	165,658	182,196	187,560	181,044	210,790
Payments to capital providers	53,561	59,106	29,653	74,018	51,473
Payments to the state	1,746	1,484	647	652	9,719
Communal investments	114	235	150	186	572
Economic value retained	12,915	630	90,575	66,497	95,063

Economy

- In accordance with the legislation of the Republic of Croatia, all employees are registered with and included in the state pension fund. The rate of pension contributions in Croatia is 20 percent of the base for contributions, and the employer makes pension payments in the name and at the expense of the worker.

In Russian companies, all employees are registered with and included in the state pension fund. The rate of payments is 22 percent up to the limit of RUB 876,000.00 for 2017, and as soon as the limit is reached the rate of payments is 10 percent.

In Serbia, all employees are registered with the state PIO fund. Fourteen percent from the gross salary is paid to the fund at the expense of the employee and 12 percent at the expense of the employer. Employees receive a 0.4 percent supplement for past work per full year of service, counting the existing employer. At the time of retirement, two average gross salaries are paid in conformity with legislation. In AD Plastik Group, we have no organised pension funds within the company.

The minimum gross salary in AD Plastik Group at all locations is higher than the prescribed minimum salary of the states in which we do business. The long-term goal of the company is to preserve and improve competitiveness on the labour market. In the reporting period, the minimum gross salary in Croatia was HRK 3,276.00, while the minimum gross salary in the company is higher by 6.7 percent.

In Russia, the prescribed minimum gross salary differs by district. In the Kalushka Oblast, the minimum gross salary was RUB 10,387, while the minimum gross salary in our factory was higher by 72.2 percent. In the Samara Oblast, the minimum gross salary is RUB 7,800, and in our factory in Vintai, the minimum gross salary is higher by 95.3 percent.

In Serbia, the average minimum gross salary was DIN 30,462.00, while the minimum gross salary in ADP Mladenovac was higher by 0.12 percent.

It is important to point out that in 2017 the minimum prescribed gross salary increased at all locations.

In AD Plastik Group, the basic salary of employees is set depending on the work post, which means that it is the same for all employees who work at a particular work post, regardless of their gender or any other characteristic of the employee. The salary for a particular work post is set further to legislation and internal documents of each individual member of the Group that define salaries in accordance with work posts as well as other additions to the salary, compensation, and stimulation. It is important to mention other additional rewards to employees set out in internal rules.





Economy

Financial assistance

After none of the companies within the Group used 2016 government financial assistance, in 2017 the parent company used financial assistance in the form of tax reliefs for investment and capital investments from 2012 in the amount of HRK 3.83 million.

At the same time, an agreement on the award of grants for projects funded from European structural and investment funds was signed in 2017 between the Ministry of Economy, Entrepreneurship and Crafts, Croatian Agency for SMEs, Innovations and Investments, and AD Plastik. Further to the said agreement, AD Plastik received grants in the amount of HRK 19.6 million for the project "Pilot Paint Line for Industrial Research, Development and

Innovation", with the total value higher than HRK 74 million. The total value of grants used under this scheme in 2017 is HRK 8.2 million.

The amount and intensity of financial assistance that governments provide depends on the policies and programmes of governments and the capital investments of companies. Therefore, in AD Plastik Group we actively follow contests for the award of aid and adjust our investment plans, whenever possible.

Financial assistance received from the government in HRK 000

	2014	2015	2016	2017
Tax reliefs	3,328	5,190	0	3,834
Aid	4,661	5,851	0	8,176
Total	7,989	11,041	0	12,010

Significant indirect economic impact

Indirect economic impact of AD Plastik Group on its environment is not the same for all members of the Group in view of the specific nature of the environment in which they do business and the activities they perform. The common feature of all members of the Group is their impact on the number of work posts in the supplier chain. Considering that in the past several years we record ongoing growth in the scope of production and operation, this affects the increase and expansion of the supplier chain and growth in the number of work posts.

Indirect impact that the Group has on improving social conditions is not negligible, especially in areas with a low rate of employability in which industry almost does not exist. This is most visible at the locations of Mladenovac and Solin.

Significant indirect economic impact in the sense of improving skills and knowledge within the framework of the professional community is particularly visible in Croatia, which includes the research and development department of the Group and where most complex and advanced technologies are used. This results in close co-operation and partnership with faculties, primarily those for electrical engineering and mechanical engineering.



Economy

The share of senior management recruited from the local community in significant places of operation

We support the recruitment and employment of the local population in the states in which we do business, so that the largest share of employees, and of our senior management, in all our companies consists of the local population. On the other hand, we enable our employees to pursue international development, mobility, and advancement within the Group. The senior management includes employees who developed their careers and promotions in a way to assume key functions in some other states in which the Group does business. We encourage mobility and transfer of professional knowledge amongst various locations of the Group. Improvements to individual plans for career development and succession plans will result in better management of the said topic.

In 2017, senior management consisted of 46 employees, 44 of them from the local community. The share of the local population in the structure of AD Plastik Group is 96 percent.

Senior management of AD Plastik Group includes members of the Management Board and top management, ie, executive officers and directors. Local recruitment is defined as the recruitment of persons who live in the county or district or region in which members of the Group operate. Accordingly, significant place of operation means the seat of operation of each member of the Group.





Environment

For many years we have been improving and re-affirming our operation based on the principles of sustainable development. Responsibility for the environment is part of all our business activities. All our locations are certificated on the basis of the requirements of the standard ISO 14001, while at the locations of Solin, Zagreb, and Mladenovac, we implemented the standard ISO 50001. Our policies for environmental protection and energy management are the axis of our operation and activity and the foundation for setting goals for improvements. Aware of our permanent responsibility for the environment, we constantly supervise and improve all aspects that affect or that might affect the environment.



Environment

Materials

Materials used in our production processes have a significant role in terms of costs both for our customers and suppliers, but they are important in terms of environmental impact. Management of the selection and use of materials is based on the corporate policy of quality, environmental protection, and sustainable management of suppliers. Procedures and activities that we conduct in connection with materials are described in internal procedures and instructions for work and they are part of our everyday business activities in all services of the company. Raw materials that we use for the production of auto parts are thermoplastic organic polymers that are shaped into the final product. In view of their characteristics, these materials have become indispensable in everyday work, and oil, which is a non-renewable natural resource, is the basic raw material used to obtain them. In view of the limited oil and chemical reserves and the threat of global warming, the research and development department of the Group, in co-operation with customers, is conducting research on the possibility to use bioplastics, which is primarily made from renewable plant materials. Other than thermoplastic polymers, in our technological process of applying paint, we use paint, varnish, and solvents made from volatile organic compounds. Our final products are made according to the technical specifications of the customer. In order for the product to go from the development phase into serial production it passes

through a whole set of testing protocols and controls specific to the automotive industry in accordance with the requirements of the customer and the standard ISO/IATF 16949. In order to minimise the negative impact on the environment that the vehicle has after the end of its life cycle, customers and AD Plastik Group work on improving the recycling options of the plastic parts from the vehicle. Customers have also developed recycling indicators for their suppliers and we abide by them. Further, in the production process, we increase the share of recycled raw materials that are ecologically more acceptable. We regularly control materials we obtain in conformity with testing protocols, while the results are taken into consideration in the appraisal of suppliers that the procurement service conducts on a regular basis.

AD Plastik Group applies the precautionary principle, which states that any risks entailed in the use of new technology is to be avoided until its impact on the environment and human health is completely known and understood.

The tables show the quantity of material used in tons, the quantity of recycled material used in tons, and the percentage of recycled material used. During the reporting period, its quantity increased in view of increased scope of production.





Environment

Materials (continued)

Material used by weight or quantity

Material	Location	2015	2016	2017
PP/PE/PES (t)	Solin	3,379	3,048	4,549
	Zagreb	5,965	5,140	6,823
	Mladenovac	1,097	1,246	780
	Vintai	2,319	1,925	2,641
	Kaluga	1,239	1,403	1,671
	TOTAL	13,999	12,762	16,464
Paint, varnish, solvents (t)	Zagreb	223	242	321
	Mladenovac	394	231	290
	Vintai	10	6.8	8.5
	Kaluga	1	0.2	15.3
	TOTAL	628	480	634.8

Recycled incoming material (t)

Material	Location	2015	2016	2017
PP/PE/PES (t)	Solin	1,349	1,352	1,910
	Zagreb	896	317	795
	Mladenovac	28	110	25
	Vintai	240	219	260
	Kaluga	128	97	110
	TOTAL	2,641	2,095	3,100

Percentage of material used that is recycled incoming material (%)

Material	Location	2015	2016	2017
PP/PE/PES (t)	Solin	40	44.36	41.98
	Zagreb	15	6.17	11.65
	Mladenovac	3	8.83	3.20
	Vintai	4	11.38	9.84
	Kaluga	10	6.92	6.58
	TOTAL	15	16.42	18.83

Environment

Energy

Energy is a significant and indispensable resource of AD Plastik Group. Energy consumption management is an unavoidable part of our operation. Increased production results in an increase of our energy needs which affect energy consumption. With the aim of reducing such needs, but also with the goal of protecting the environment, we have selected and assumed the obligation to undergo ongoing optimisation of the energy management system.

Our locations in Solin, Zagreb, and Mladenovac are certified further to the requirements of the norm ISO 50001.

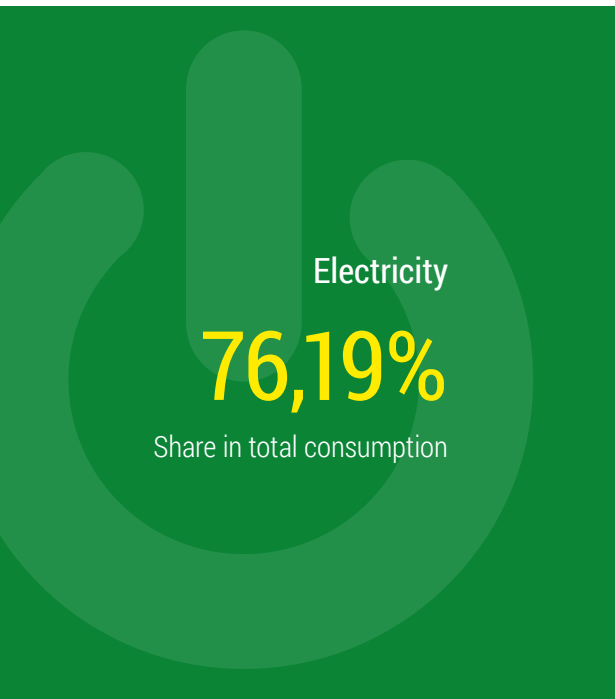
For that purpose, we performed the following:

- We defined the energy management policy and informed all employees about the policy;
- We appointed a representative of the energy management;
- We identified and examined fields that have a significant impact on energy consumption;
- We set the energy basis for monitoring energy efficiency;
- We identified the largest energy consumers and set up the supervision system;
- We continuously improve the system to optimise processes important for energy consumption;
- We regularly (once a year) examine the efficiency of the energy management system.

At all locations of the Group, technical services maintain installed technical facilities for the distribution and production of energy. In line with the instructions for work, we regularly conduct preventive examinations of energy facilities and maintain minutes and propose measures to improve energy efficiency.

The general goals concerning energy efficiency that we set for the next three years:

- To raise awareness about energy efficiency of all employees of the Group;
- To achieve technical preconditions to measure energy efficiency by setting electrical energy measuring instruments for all processes at locations in Solin, Zagreb, and Mladenovac;
- To replace old energy non-efficient equipment with new energy efficient equipment;





Environment

Energy (continued)

In order to satisfy energy needs for indirect energy, we use electrical energy that is indispensable for the work of machinery in the production process and equipment for heating and cooling of working areas; For the needs of the boiler room and for the purpose of generating thermal energy, we use heating oil and natural gas. In the paint shop in Zagreb, we also use natural gas in the process where a flame treatment robot applies paint in the paint process to ensure better paint adhesion and in the process of burning volatile organic compounds in the incinerator. In terms of other energy sources, we use liquefied petroleum gas for the operation of fork trucks and petrol and diesel fuel for official vehicles.

The main energy source we use is electrical energy. Electrical energy in total energy consumption within the company in 2017 accounted for 76.19 percent. In relation to the year before, its share in total consumption decreased by three percent. In the reporting period, 20 percent of electrical energy used to supply the locations in Solin and Zagreb was obtained from renewable sources (HEP-Opkrba's ZelEn).

During the reporting period, we continued to replace old lighting units (450W) with LED bulbs (60W); we installed accurate consumption meters on large electrical energy consumers (cooling station); we installed movement sensors for automated turn-

ing-off of lights in warehouses; we replaced old light fixtures on roofs to use less artificial lighting during the day; we installed energy saving software to improve the work of injection moulding machines, thus cutting the operation of hydraulic pumps when the machine is not in the automated cycle. Further, we replaced some fork trucks that used liquefied petroleum gas as fuel with electric ones. At the same time, we used the fleet of official vehicles at the locations of Solin and Zagreb and replaced them with new energy efficient vehicles.

We monitor energy consumption daily and monthly and, by analysing energy features, EnPI indicators, we regularly conduct appropriate preventive and corrective measures.

Total consumption of energy inside the organisation (GJ)

Location	2015	2016	2017
Solin	35,371	34,382	38,024
Zagreb	72,605	70,077	75,016
Mladenovac	14,952	15,388	16,829
Vintai	43,073	24,151	26,408
Kaluga	12,416	12,536	16,360
TOTAL	178,417	156,534	172,637

Consumption of energy inside the organisation (GJ)

Location	2015	2016	2017
Electric energy (GJ)	141,586	123,712	131,524
Natural gas (GJ)	31,433	26,916	34,786
Liquefied petroleum gas (GJ)	5,152	5,805	6,005
Heating oil (GJ)	246	101	322
TOTAL	178,417	156,534	172,637

Environment

Energy (continued)

Increased consumption of energy in 2017 is the result of increased production and extraordinary climate conditions during the winter and summer periods, because of which our consumption increased. At the location Mladenovac, the increase is the result of unstable operation of the nonwoven textile plant because of low capacity, where the facility has great installed power. In Solin, the reason for increased consumption is the beginning of new production (grab handle assembly), more precisely increased work on machines which are great consumers of compressed air. At the location in Zagreb, increased consumption of electrical energy and natural gas is the result of practical tests during works on the reconstruction of the paint line.

Total consumption of energy within the Group shows consumption of electrical energy, natural gas, liquefied petroleum gas, and heating oil. We used national conversion standards to calculate energy consumption.

Total consumption of energy outside the organisation (GJ)

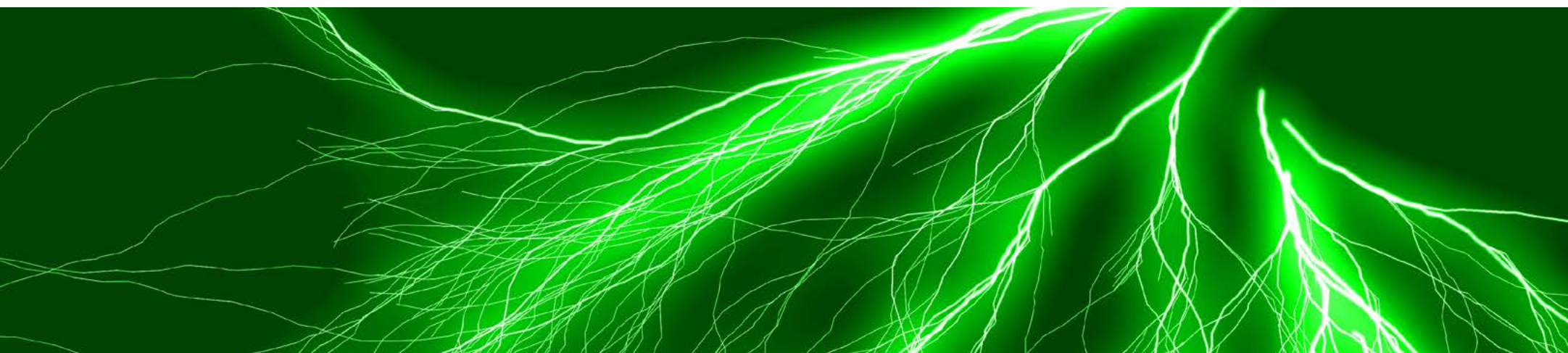
Energy consumption outside the organisation shows fuel consumption (diesel and petrol) for business trips in vehicles owned by the Group.

Location	2015	2016	2017
Solin	2,354	2,159	2,242
Zagreb	535	600	410
Mladenovac	259	259	132
Vintai	4,981	4,291	4,409
Kaluga	285	126	216
TOTAL	8,414	7,435	7,409

Energy intensity (kWh/kg product)

We measure energy intensity by the ratio of total energy consumption inside the organisation (kWh) and the total weight of delivered product (kg).

Site	2015	2016	2017
Solin	2.82	2.69	2.92
Zagreb	3.32	3.14	3.22
Mladenovac	1.84	2.01	2.21
Vintai	3.21	2.27	2.16
Kaluga	0.00	1.64	1.45
TOTAL	2.86	2.56	2.56





Environment

Water

Taking care of the environment we work in is a part of our strategy and our Environmental Policy. We are aware of the unfortunate fact that the supply of drinking water, one of the most important natural resources, keeps diminishing, leaving in its wake permanent and negative effects on the environment. Our production sites are mostly supplied with drinking water from the local water supply system, whereas a smaller part of our on-site supply comes from our well at the Zagreb site. In accordance with water protection legislation, all of our sites have all the required water-related permits and documents. In all production sites, water is used for sanitary and technological needs. Process water is used for:

- Machine cooling (cooling water is not drained into the sewerage system since it circulates in a closed system and gets refilled as needed);
- Water curtain in the process of applying paints and lacquers at the Zagreb paint facility (a closed recirculating system in which water is refilled as needed);
- Humidification of air supplied to the Zagreb paint facility.

For each production site, the water consumption and the status of the water supply system is monitored by the technical service. Everyday activities performed by the service are described in internal procedures and operating instructions in order to ensure a smooth production process. According to the ISO 14001 standard requirements, water consumption is one of recognised aspects of environmental protection. We assess the individual impact of various aspects on the environment at least once per year in accordance with the following criteria:

- Compliance with statutory regulations and other mandatory requirements;

- Complaints from the citizens, local administration, and from workers;
- Potential risks and event probability;
- Aspect impact on operating costs.

During the reporting period, water was recognised as a significant aspect at the Solin site, where during the first four months an increase of 59,31 percent of consumption had been recorded, compared to the same reporting period last year. The increase had been caused by an on-site pipeline rupture, which was afterwards repaired. Waste water is not recycled in our production facilities, and water consumption is measured directly on the water meter.

The water consumption of AD Plastik Group does not have an adverse effect on water and the aquatic ecosystem of the area in which we operate. The amount of water we use does not endanger the capacities of local water wells. The Solin site receives its supply of water from the source of the Jadro River, with 9.0 m³/s of capacity; the Zagreb site from the Zagreb internal water supply system, with 4.5 m³/s of capacity; the Mladenovac site from Mladenovac internal water supply system that pumps water from artesian wells (55 wells), the capacity of which is 2-5 l/s per well; the Vintai site from the well in Vintai, with 1.5 m³/s; and the Kaluga site from Kaluga internal water supply system, with 180 m³/h.

The table shows the amount of water consumed per source in 2017. Savings were achieved at the Mladenovac and Vintai sites due to a closed cooling system that was installed (injection moulding and thermoforming facilities) and due to the replacement of the water meters.

Water consumption per source (m³)

Location	Consumption of water from public water supply (m ³)			Consumption of water from private well (m ³)		
	2015	2016	2017	2015	2016	2017
Solin	27,184	33,705	41,305	0	0	0
Zagreb	14,134	9,547	10,915	5,713	5,445	8,176
Mladenovac	11,975	11,584	4,691	0	0	0
Vintai	13,296	8,035	5,949	0	0	0
Kaluga	4,269	3,074	3,194	0	0	0
TOTAL	70,858	65,945	66,054	5,713	5,445	8,176

Environment

Emissions

Air emissions affect our environmental and economic impact and we are aware of adverse effects they may have on the environment as well as on our business activity. Therefore, an important segment of our business is air emission management. Activities related to this topic are carried out and coordinated through systems implemented within the Group, such as the system for quality, environmental protection and energy management. All activities are in compliance with national environmental protection legislation as well as related international standards. The system effectiveness is regularly assessed and evaluated by AD Plastik Group management, and, on the basis of results, it adopts proposed objectives for the following period.

Air emissions include the following:

- CO₂ emissions;
- Emissions of ozone depleting substances (ODS);
- NO₂, SO₂, CO emissions;
- Emissions of volatile organic compounds (VOC).

Direct emissions of greenhouse gases shown in the table result from the combustion of energy products used in boiler rooms, such as fuel oil and natural gas, and due to consumption of liquefied oil gas for forklift operations. Indirect emissions shown in the table result from the production of electricity purchased from distributors, which we use for machine and equipment operation in production facilities. The emissions are measured directly according to monthly and yearly energy product consumption.

Total direct and indirect greenhouse gas emissions according to mass (t CO₂*)

Location	2015		2016		2017	
	Direct greenhouse gas emissions according to mass	Indirect greenhouse gas emissions according to mass	Direct greenhouse gas emissions according to mass	Indirect greenhouse gas emissions according to mass	Direct greenhouse gas emissions according to mass	Indirect greenhouse gas emissions according to mass
Solin	276	2,594	243	2,542	283	2,226
Zagreb	1,425	3,796	1,445	3,505	1,526	3,003
Mladenovac	250	833	219	916	290	916
Vintai	750	2,787	512	1,584	546	1,724
Kaluga	21	954	10	964	251	934
TOTAL	2,722	10,964	2,429	9,511	2,896	8,803

Total direct and indirect greenhouse gas emissions according to mass (t CO₂*)

	2015	2016	2017
Direct greenhouse gas emissions according to mass	2,722	2,429	2,896
Indirect greenhouse gas emissions according to mass	10,964	9,511	8,803
TOTAL	13,686	11,940	11,699

The most significant step towards the reduction of greenhouse gas emissions in 2017 refers to the reduction of CO₂ emissions due to the renewable energy supply. Other improvements during the reference period have been realised at the end of the year and their results will be observed in the following period.

* t CO₂ - Emission data calculated according to national standard



Environment

Emissions (continued)

Diagram of greenhouse gas emission intensity represents the ratio of total direct and indirect greenhouse gas emissions per kilogram of delivered product (kg CO₂/kg of delivered product).

Greenhouse gas emission intensity (kg CO₂ / kg product)

Site	2015	2016	2017
Solin	0.77	0.74	0.65
Zagreb	0.84	0.79	0.69
Mladenovac	0.47	0.52	0.57
Vintai	0.84	0.60	0.57
Kaluga	0.00	0.45	0.37
TOTAL	0.75	0.67	0.60

Ozone depleting substances can be found in cooling equipment, air conditioning, and fire extinguishers. In compliance with statutory regulations, we regularly perform equipment safety inspections according to technical data. Inspections are performed quarterly, semi-annually, and annually, with regard to the quantity of the active substance in the equipment. Records are kept on equipment service cards, while leakage checks and functionality testing are performed by authorised repairers.

Active substance quantity in the equipment (kg)

	2015				2016				2017			
	R22	R407C	R134A	227ea	R22	R407C	R134A	227ea	R22	R407C	R134A	227ea
Solin	240	32	133	40	240	32	133	40	128	23	127	40
Zagreb	120	863	0	0	120	863	0	0	120	853	0	0
Mladenovac	8	70	0	164	8	70	0	164	8	77	0	164
Vintai	0	1316	0	0	0	40	0	0	0	40	0	0
Kaluga	0	980	0	0	0	120	0	0	0	180	0	0
TOTAL	368	3261	133	204	368	1125	133	204	256	1173	127	204

In 2017, new cooling equipment was acquired for the Solin and Zagreb sites, increasing the active substance quantity of R407C by 519 kg and R134A by 118 kg. Equipment with new active substances - R404C, R410A, and R505 was also acquired. In the reporting period there was no uncontrolled releasing of ozone depleting active substances in the environment, and there were no fires, i.e. releasing of 227ea active substance due to fire suppressing activities.

	2015	2016	2017
R22	368	256	248
R407C	1125	1173	1692
R404C	0	0	4
R410A	0	0	18
R505	0	0	4
R134A	133	127	245
227ea	204	204	204

Environment

Emissions (continued)

Other relevant emissions we measure are NO₂, SO₂, and CO, occurring due to heat generation. Air emissions are measured on stationary exhaust vents in compliance with the statutory regulations, annually or once every two years, depending on the power of the equipment used. On the paint line exhaust vent in Zagreb, we also measure emissions of volatile organic compounds (VOC) generated during the plastic part painting process.

In 2017, the measured values of emissions from stationary sources were in compliance with the statutory provisions. The reports on annual emissions are regularly submitted to national competent authorities responsible for environmental protection.

For the purpose of reducing the negative impact that volatile organic compounds in the paint line facility have on the environment, we use Regenerative Thermal Oxidizers (RTO) with heat output of 320 kW, and 14,000 m³/h maximum capacity. It incinerates VOCs collected in coating and VOC volatilisation booths. The application of coatings is performed in booths by robots, without human presence. The air circulates in booths, until a solvent content of 3 vol% is reached. The polluted air is then guided to the oxidizer that had previously been heated to 850 °C with a natural gas burner. When introducing polluted air to the chambers, the VOC is incinerated at the specified temperature, and the burner is turned off. The process is automatic, and with VOC content below

NO_x,SO_x and other relevant air emissions according to type and mass (t)

	2015				2016				2017			
	NO ₂	SO ₂	CO	VOC	NO ₂	SO ₂	CO	VOC	NO ₂	SO ₂	CO	VOC
Solin	0.095	1.000	0.080	0.000	0.005	0.015	0.000	0.000	0.025	0.060	0.150	0.000
Zagreb	1.255	0.000	0.950	17.060	1.004	0.000	0.000	5.200	1.340	0.000	0.092	5.812
Mladenovac	0.050	0.000	0.030	0.000	0.825	0.000	0.614	0.000	0.906	0.000	0.720	0.000
Vintai	4.523	0.024	0.427	0.000	4.523	0.024	0.427	0.000	4.523	0.024	0.427	0.000
Kaluga	0.018	0.009	5.191	0.000	0.001	0.000	0.266	0.000	0.001	0.000	0.266	0.000
TOTAL	5.941	1.033	6.678	17.060	6.358	0.039	1.307	5.200	6.795	0.084	1.655	5.812

Emission data calculated according to national standard

the flammability threshold (< 3 percent), the burner automatically turns on to maintain the prescribed flammability. The polluted air is guided to the oxidizer from the primer booth, the primer volatilisation area, the paint booth, the paint volatilisation area, the lacquer booth, the lacquer volatilisation area, and from the drying chamber. In 2017, the regenerative oxidizer incinerated 140.566 t of VOC.

During the reporting period, due to increased use of organic solvents at the Zagreb site, we began reconstructing the paint line that was out of commission since 2015, due to obsolete equipment and exceeded VOC emission thresholds. The entire ventilation system, booths, and

the paint application system have all been replaced. The polluted air is guided through the enclosed air circulation system to the regenerative thermal oxidizer (RTO). The heating, cooling, ventilation, compressed air, and gas installations for the lacquer facility, the workshop, and auxiliary facilities, have all been reconstructed. This investment will result in a lot of savings and improvements.



Environment

Waste water and waste

Waste water and waste management is our daily responsibility. By implementing the environmental protection management system in accordance with the ISO 14001 standard, we made a great impact on the increase of business efficiency and environmental protection. The system review framework as well as measures for setting objectives are based on the Environmental Protection Policy, brought to the attention of all employees. Protection of the environment is the duty of all employees and it is achieved through regular monitoring, control, and optimisation of the existing business processes. Each investment is reviewed for its potential environmental impact, ensuring optimum business compliance with environmental issues.

Daily control of the environmental status in our facilities is performed by environmental departments as well as technical service, responsible for regular maintenance of machines and equipment. The impact of waste waters and waste on the environment is monitored in compliance with statutory regulations. For that purpose, written procedures and instructions have been prepared, and we also keep records of monitoring results, which serve as the basis for preventive and corrective measures.

In all AD Plastik Group sites, waste water sewerage systems have been constructed separately. The

waste water drainage is carried out through an internal sewerage system connected to the public sewerage system through a metering and control shaft. Sanitary waste water, process water, and rainwater occur on-site.

Process water is drained through a settler and an oil and grease separator to the internal sewerage system. Hazardous waste produced by cleaning the settler of the separator is disposed of in compliance with waste management regulation. Process water from the new paint line in Zagreb is not drained into the sewerage system since it is in a closed, circulating control system, to which clean water is added (due to evaporation), and which produces a solid residue as special hazardous waste. A part of the painting material that does not end on the product is pushed to the floor of the booth by a vertical air current, where it passes through water curtains, which collect the material and drain it to the central basin. In the central basin, a coagulating system is used for separating the colour. The pumps dose precise amounts of coagulants and antifoaming agents. These attach to paint particles which then lose their adhesiveness. Water is constantly stirred in the basin in order to prevent the sedimentation or the flotation effect. The water is then guided through a system of pumps and pipelines to the decanter (centrifugal separator) where the remaining paint is

separated from water and disposed of as hazardous waste. The reclaimed water is returned to the basin and from there pumped to the booths.

Sanitary waste water and rainwater are purified through the city sewerage systems and then discharged to local waste water sewerage systems. The quality of waste water discharged from our facilities is regularly controlled by licensed companies. The analysis has shown that in 2017 the waste

water was in accordance with legally prescribed parameters. The reports on the quality of discharged water are regularly submitted to national competent authorities responsible for environmental protection. In the reporting period, there were no significant outpours of hazardous substances that could have had a negative impact on the environment with potential adverse effects on the soil, water, air, and human health.



Environment

Waste water and waste (continued)

The following representation shows data on the amounts of discharged waste water and its destination. The amounts of discharged water are not measured with water meters, but a record is kept on the amount of acquired sanitary water and the amount of water pumped from our own well, measuring them directly on the water meter.

Amount of discharged water (m³) and its destination

	2015	2016	2017	Destination of discharged waste water
Solin	27,184	33,705	41,305	Adriatic Sea/Mediterranean Sea
Zagreb	5,336	4,346	5,015	Sava River/Danube River/Black Sea
Mladenovac	11,975	11,584	4,691	Veliki Lug River/Danube River/Black Sea
Vintai	13,296	8,035	5,949	Oka River/Volga River/Caspian Sea
Kaluga	4,269	3,074	3,194	Volga River/Caspian Sea
TOTAL	62,060	60,744	60,154	

Objectives met in 2017:

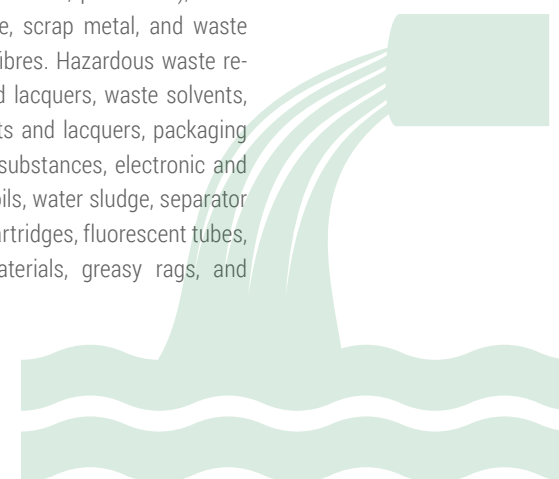
- Waste water quality testing was performed on all sites in accordance with water permit requirements;
- A three year water permit was obtained for the Mladenovac site;
- The sewerage and the rainwater system have been tested for watertightness, as were the rainwater grids at the Solin site.

The waste generated in our production processes is handled in compliance with statutory provisions. The on-site waste is placed in containers according to its physical and chemical properties. Each type of waste is marked with a classification number and its name. The transport and the disposal of the waste is entrusted to licensed waste disposal companies, who regularly collect waste from our sites. The records on the produced waste and the waste delivered for disposal are kept in legally prescribed documentation, while the data on the amount of waste delivered for disposal is obtained by weighing, during the delivery to licensed collectors.

Our production processes generate non-hazardous and hazardous waste. Non-hazardous waste refers to packaging waste (cardboard, plastic foil), wood packaging, plastic waste, scrap metal, and waste from processed textile fibres. Hazardous waste refers to waste paints and lacquers, waste solvents, waste sludge from paints and lacquers, packaging tainted with hazardous substances, electronic and electrical waste, waste oils, water sludge, separator sludge, waste printing cartridges, fluorescent tubes, absorbents, filtering materials, greasy rags, and gloves.

In order to prevent the production of waste we implemented the following measures:

- In all of our sites we installed mills that grind unusable plastic products, and the produced ground plastic we then reuse in the final product;
- At the Zagreb site we distil a hazardous, organic, contaminated solvent and produce a pure organic solvent, which we then reuse in painting plastic products;
- We have signed a contract for the Solin and Zagreb sites with a company licensed for the disposal and cleaning of contaminated greasy rags, who then delivers them back for reuse.





Environment

Waste water and waste (continued)

In late 2017, we initiated negotiations with a company licensed for the disposal and recycling of hazardous waste, regarding the collection and recycling of the hazardous, contaminated organic solvent produced at the Zagreb site. Due to the overcapacity of our distiller, we are unable to distil this waste in our facility, so we have plans to send it for recycling and reuse it in our production process. The amount of this type of waste in the reporting period was 73.29 t.

Total waste mass according to type (t)

	2015		2016		2017	
	non-hazardous	hazardous	non-hazardous	hazardous	non-hazardous	hazardous
Solin	219	20	172.89	29.38	193.758	15.025
Zagreb	301	237	300.90	268.80	543.26	398.87
Mladenovac	180	5	188.49	13.04	214.8	15.3
Vintai	1,099.00	334.00	337.50	2.20	470.00	4.16
Kaluga	62.00	7.00	249.60	6.40	294.00	2.00
TOTAL	1,861.00	603.00	1,249.38	319.82	1,715.82	435.36

Waste mass refers to the amount recorded in the waste production and management logbook, obtained by direct weighing

Waste mass (t)

Waste disposal methods	2015	2016	2017
Recycling	862.58	565.33	692.28
Waste storage before applying any disposal method	275.31	271.73	458.75
Using waste as fuel or other method for generating energy	27.68	0.00	36.03
Physical and Chemical waste Processing	27.08	12.59	32.07
Waste incineration on land	55.66	130.25	84.12
Waste disposal at specially prepared landfills	1,215.69	589.30	847.94
TOTAL	2,464.00	1,569.20	2,151.18

The increase of the amount of waste in 2017, compared to the previous year, resulted from an increase of production volume and the structural and technological reconstruction of the paint line carried out at the Zagreb facility. During the reconstruction, 135.779 t of non-hazardous and 57.529 t of hazardous waste was disposed. The annual reports on the amount of produced waste are regularly submitted to national competent authorities responsible for environmental protection.

Environment

Environmental investments and expenditures

In the reporting period, the environmental expenditures were related to the waste disposal costs, the water and air emission testing, and the preparation of documents for obtaining the environmental permit. Environmental investments in 2017 refer to the acquiring of the mill, the electricity meters, lights, high speed doors at the entrance to the production facility, window adaptation, and the scale for hazardous waste weighing.



Environmental investments and expenditures in total (€)

Site	2015		2016		2017	
	Environmental expenditures	Environmental investments	Environmental expenditures	Environmental investments	Environmental expenditures	Environmental investments
Solin	29,200	10,360	38,567	113,000	27,163	80,934
Zagreb	106,800	240,640	120,000	275,580	114,650	19,330
Mladenovac	27,100	1,600	25,580	1,250	30,217	2,716
Vintai	60,102	3,218	53,691	2,726	47,635	4,857
Kaluga	22,000	0	14,416	0	1,174	0
TOTAL	245,202	255,818	252,254	392,556	220,839	107,837





Environment

Environmental impact assessment of suppliers

Environmental impact assessment of suppliers is performed regularly once per year for the existing suppliers, and is mandatory prior to the final selection of a new supplier.

One of the criteria for the selection of new suppliers is the ISO 14001 environmental certificate. If the supplier does not hold the certificate, and if for any reason whatsoever it is impossible to find a replacement supplier, he is audited according to the self-assessment questionnaire that contains questions from the environmental protection system. As a long term measure, the material supplier is asked to provide a schedule for introducing the environmental protection system.

All new suppliers having an impact on the quality of our products have been evaluated according to the environmental impact criterion. Seven in total,

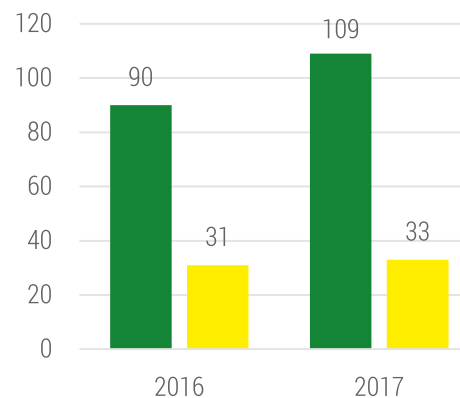
or precisely 100 percent of all new suppliers, have been evaluated according to the environmental impact criterion. Four of them have the ISO 14001 environmental certificate, while others were evaluated according to the questionnaire and received an A grade.

Solin monitors 142 suppliers for environmental impact, and all of them are evaluated annually. Their grades are recorded on the company's internal portal.

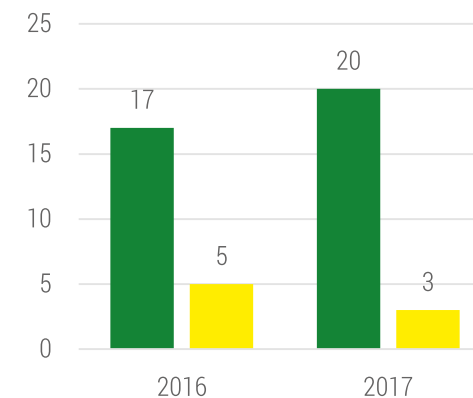
Mladenovac evaluates 20 suppliers according to the same criterion; Kaluga - 41; and Togliatti - 45 suppliers. Within the reported period, there were no suppliers with whom business relations had been terminated due to a negative environmental impact, and none of them had been discovered as having a real or potential negative environmental impact.

■ ISO 14001 ■ Questionnaire

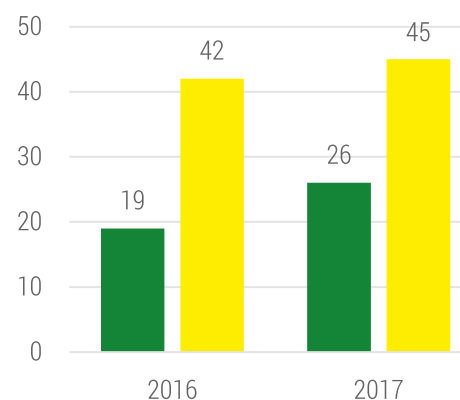
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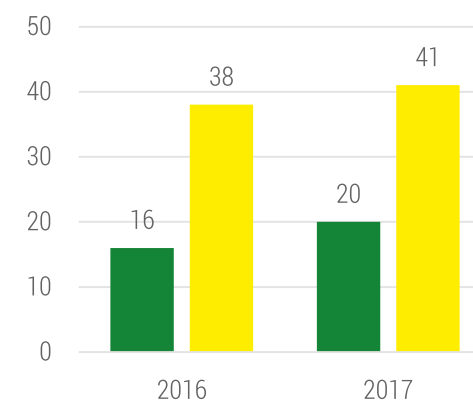
ADP, Mladenovac, Serbia



AD Plastik Togliatti, Russia



AD Plastik Kaluga, Russia



Environment

Environmental compliance

Environmental compliance is an inseparable part of our business policy. Eco-friendliness and environmental awareness is evident from our adoption of the Environmental Management System according to the ISO 14001 standard, implemented in all of our sites. The implementation of this international standard allows us to design an Environmental Policy and set objectives.

The process of identification, coordination, and implementation of statutory and other mandatory requirements as well as the related compliance assessment, is performed in accordance with internal procedures. These are recorded in a document entitled "Record of statutory regulations and other mandatory requirements".



During the supervision, there were no monetary or non-monetary sanctions due to non-compliance with laws and regulations. External audits found no evidence of non-compliance in this area, and there were no complaints from clients or citizens in the reporting period.

The identified regulations include:

- Current national regulations in countries we operate;
- Client requests defined in contracts, standards, protocols, and terms and conditions of supply;
- National regulations in the country of the client or the country of distribution;
- Provisions of the Council of the European Community.

The assessment procedure for the compliance with statutory and other mandatory requirements in force is performed at least once per year, and where appropriate, we revise it for the following reasons:

- New production processes or modifications of the existing ones;
- New technologies, equipment, facilities, and objects;
- New replacement raw materials and supplies;
- Changes in the organisational structure;
- New projects that generate new or changed working conditions;
- Changes in statutory regulations.

The compliance with statutory regulations is monitored and measured through results contained in the reports of performed inspections and external audits as well as any potential complaints from clients or citizens. Activities in 2017 per site were as follows:

Solin

- Supervision by the water protection inspection and the fire protection inspection agencies;
- External audit by Bureau Veritas according to the ISO 14001 standard.

Zagreb

- Supervision by inspection agencies for environmental protection, water protection, fire protection, occupational safety, health and safety, electricity installations, and for pressurised containers;
- External audit by Intertek on behalf of AUDI AG for corporate social responsibility;
- External audit by Bureau Veritas according to the ISO 14001 standard.

Mladenovac

- Supervision by inspection agencies for environmental protection, water protection, fire protection, and for pressurised containers;
- External audit by Bureau Veritas according to the ISO 14001 standard.

Vintai

- External audit by Bureau Veritas according to the ISO 14001 standard.

Kaluga

- External audit by Bureau Veritas according to the ISO 14001 standard.



Society

Recruitment

The fundamentals of AD Plastik Group's contemporary business operations are globalisation, dynamic and changing environment, interactions between people from different cultures and growing changes in our workforce demographics. Due to this we have recognised a need to more efficiently manage diversity within our company. This is based on the idea that each individual has unique qualities which should be recognised and properly directed. Therefore, diversity management is beneficial both to individuals, because it provides them with the opportunity for individual development, and to the company, which in this way increases its efficiency.

We are focused on attracting most talented individuals, supporting the development of their capabilities and facilitating a work culture of engagement, high efficiency, and diversity. By offering positions with numerous possibilities for development in a contemporary work environment, AD Plastik Group enables optimum development of its talent. We employ and retain talent regardless of age, race, gender, nationality, sexual orientation, education, etc. We foster fundamental work values such as professionalism, respect and perseverance.

Planning and managing the recruitment of new talent is based on a business plan which specifies our staff needs, with clearly defined capabilities, knowledge and skills needed. Recruitment includes internal recruitment, which is a result of managing employee career development. We predict and monitor changes on the labour markets in our sites' regions which may cause fluctuation.



Society

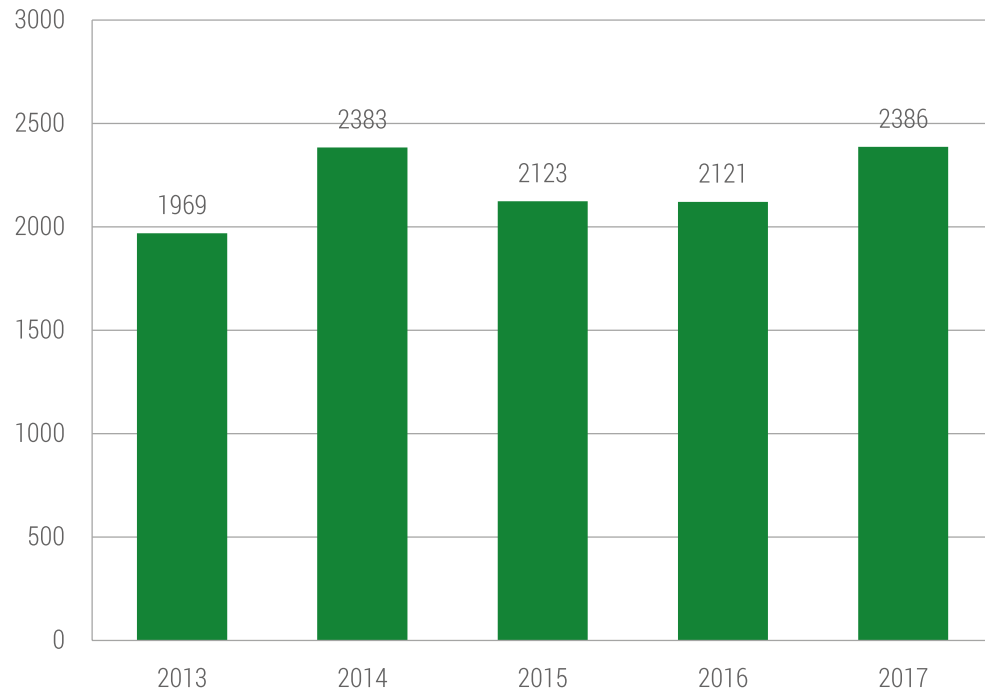
Recruitment (continued)

The indicators for the number of employees for the last two years suggest a positive recruitment trend in AD Plastik Group. In the reporting period, the number of our employees had increased, and on 31 12/ 2017 the Group had 2386 employees.

Since projects require several years of preparation, which should be started much earlier for them to be successfully carried out, in the reporting period we also started and continue recruitment. The selection pro-

cesses for engineering positions are conducted every year with the aim of transfer and retaining company knowledge. The number, age, gender and region of the organisation's new employees indicate a strategic approach to planning the number of employees, ability to attract different qualified employees, and an effort to optimally use the workforce and talent available in different regions.

AD Plastik Group's employee trends between 2012 and 2017



Number of employees who joined or left AD Plastik Group in 2017, shown per month

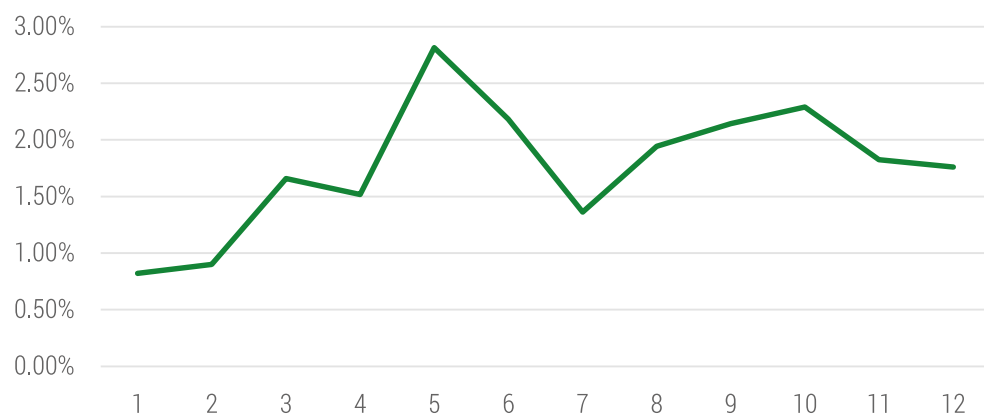




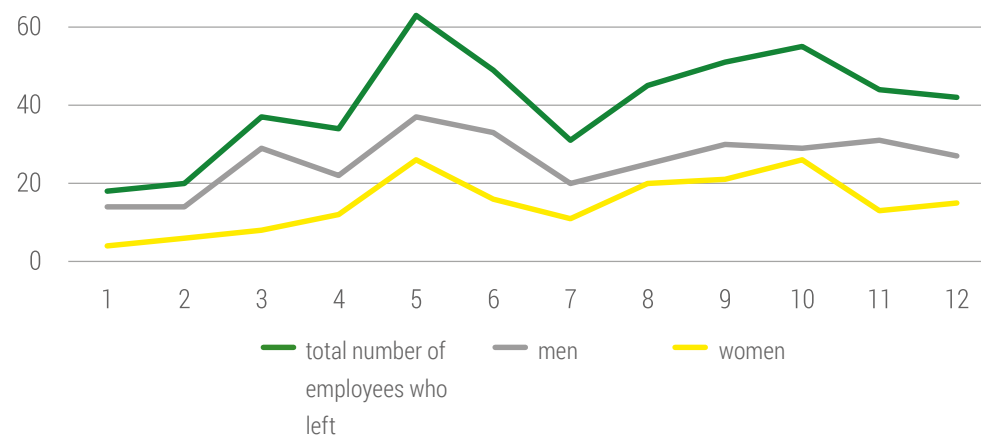
Society

Recruitment (continued)

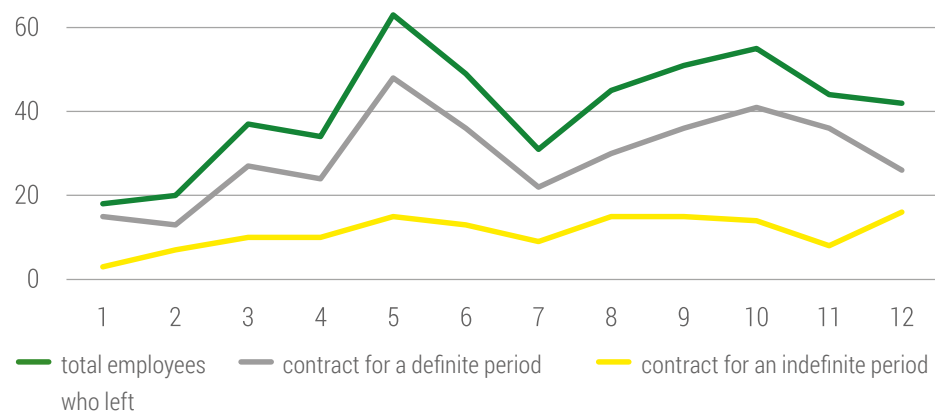
Total rate of employee fluctuation in AD Plastik Group in 2017, shown per month



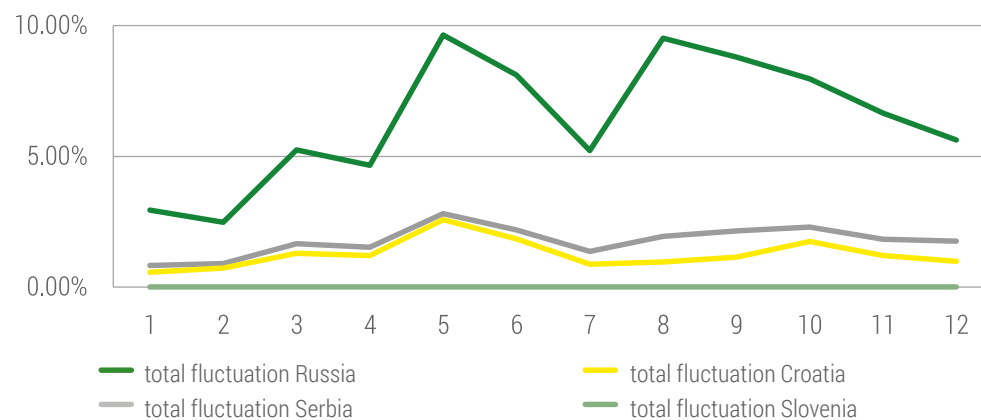
Employees leaving the Group in 2017, by gender



Employees leaving the Group in 2017, by type of contract



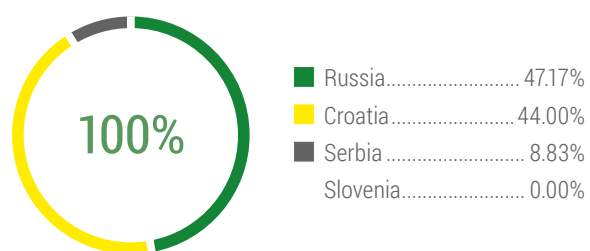
Employees leaving the Group in 2017, by region



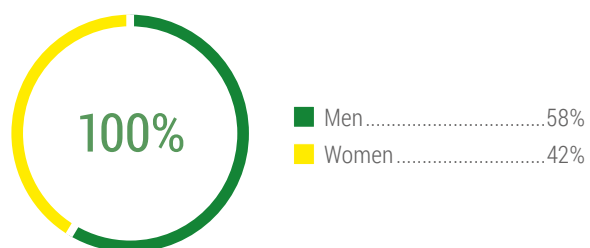
Society

Recruitment (continued)

Total employees joining AD Plastik Group in 2017, by region



Total employees joining AD Plastik Group in 2017, by gender



In 2017, the largest share of recruitment was recorded in the Russian Federation, at 47.17 percent, followed by 44 percent in Croatia, and 8.83 percent in Serbia. The ratio of newly employed men to women in the reporting period was 58.62 percent men to 41.38 percent women. This is an almost equal share of women, just as in the previous reporting period. Employees with a fixed-term contract and part-time employees have the same benefits and rights as full-time company employees.

We promote systemic building of relationships with our employees in order to provide everyone with equal opportunities for professional development, regardless of their parental status. All employees of AD

Plastik Group are entitled to maternity and parental leave in accordance with the regulations of the country of operation. ▶

Maternity and parental leave in 2017		Total number of employees by gender	Total number of employees exercising their right to maternity and parental leave in 2017, by gender	Total number of employees returning to work after the end of maternity leave in 2017, by gender	Total number of employees returning to work after the end of maternity leave and remaining employed 12 months after returning to work, by gender
AD Plastik, Croatia	Men	752	2	3	2
	Women	569	22	13	4
ADP, Mladenovac, Serbia	Men	170	0	0	0
	Women	63	2	1	1
AD Plastik Kaluga, Russia	Men	89	0	0	0
	Women	134	26	3	3
AD Plastik, Vintai, Russia	Men	239	0	0	0
	Women	364	48	14	12
AD Plastik, Novo Mesto, Slovenia	Men	4	0	0	0
	Women	2	0	0	0
AD Plastik Group	Men	1254	2	3	2
	Women	1132	98	31	20
	Total	2386	100	34	22



Society

Recruitment (continued)

- ▶ During the reporting period, all employees of the Group had right to maternity leave. The right to maternity leave was exercised by 98 women and 2 men in the Group. During the reporting period, 31 women and 3 men returned to work from maternity leave.

The total number of employees who returned to work after the end of maternity leave and remained employed 12 months after their return was 20 women and 2 men.

Monitoring these indicators allows us to obtain an insight into the current state of the organisation for the purpose of attracting, developing and retaining experts, additionally increasing employee motivation, as well as further improving the area of balancing the employees' personal and professional obligations. AD Plastik Group is aware of the importance of balancing one's personal and professional life, and of the effect of the employees' satisfaction with the work environment on productivity, which is why it promotes gender equality and policies which take family into account.

In the reporting period, the good practice of holding a social dialogue at the level of AD Plastik Group, and of its individual members was continued. Timely and efficient consultations with our employees and other relevant parties help us in managing the effects of significant changes in business operations.

Employees are regularly and on time informed about any important changes in business operations, and are included in a timely manner even more frequently than prescribed by law.

The minimum period in which employees are in advance informed about important changes in business operations depends on the country of operations and its legislation. Thus, it varies from the shortest period of eight days to the longest one of three months. The employee representative is a member of the Supervisory Board of AD Plastik Group, and is therefore familiar with all important changes in business operations which may significantly affect employees even before a final decision is made.

We also provide additional information to our employees regarding all important changes in business operations by means of channels of internal communication, such as ADP News, which are distributed to all our companies in the language of the individual country.

There were no disputes against AD Plastik Group regarding employment relations in the reporting period. One dispute had been initiated earlier, and was resolved in the reporting period.



Society

Occupational health and safety

AD Plastik Group unconditionally takes care of its employees' health and safety in the workplace, and continuously improves occupational health and safety by ensuring safe working conditions, prevention of occurrence of injuries at work and occupational diseases. Our occupational health and safety system was integrated into our business operations system and complies with the legislation of the country of operation. This was included in other Company acts and the Collective Agreement, which contains the agreement between the Management Board and the Trade Union representatives regarding the issues of employees' occupational health and safety. Collective agreements cover 80.57 percent of employees, and are applicable in Croatia and in Vintay, Russia. In Croatia, a Workers' Council also exists, which comprises 55.32 percent of workers.

Rate of injuries, professional diseases, lost days or absences, and number of deaths connected with accidents at work

At all Group sites, we have occupational health and safety services, which provide professional help and carry out internal supervision of the implementation of occupational health and safety measures. The Group also has occupational health and safety boards, which act as advisory bodies for improvement of occupational health and safety. The board comprises the employer's authorised representatives, occupational health and safety experts, occupational medicine specialists, employee representatives and coordinators appointed to the board. The board convenes four times a year on a proposal from the employer's authorised representatives. During these sessions, the state of occupational health and safety organisation is discussed and measures for more efficient implementation are proposed, all with the aim of preventative action. Occupational health and safety management systems were implemented at the Solin, Zagreb and Mladenovac sites in accordance with the requirements of the ISO 18001 standard.

Implementation of occupational health and safety is ensured by:

- Drawing up and applying an occupational health and safety policy
- Drawing up and applying operating procedures, policies and working instructions
- Drawing up and applying workplace hazard assessment
- Internal and external supervision
- Training and educating employees
- Providing the necessary means of work
- Implementing safety rules when working with means of work
- Inspecting the work environment
- Inspecting the means of work
- Taking care of employees' health
- Applying safe technological processes
- Keeping records
- Reporting



Site	2015				2016				2017			
	Number of injuries	Number of professional diseases	Number of lost days	Number of deaths	Number of injuries	Number of professional diseases	Number of lost days	Number of deaths	Number of injuries	Number of professional diseases	Number of lost days	Number of deaths
Solin	6	0	278	0	6	0	329	0	10	0	277	0
Zagreb	6	0	159	0	7	0	29	0	6	0	85	0
Mladenovac	6	0	225	0	9	0	210	0	7	0	240	0
Vintai	0	0	0	0	0	0	0	0	0	0	0	0
Kaluga	3	0	19	0	1	0	35	0	0	0	0	0
TOTAL	21	0	681	0	23	0	603	0	23	0	602	0



Society

Occupational health and safety (continued)

Risk identification and workplace hazard assessments were carried out for all positions in the company, by taking into account their descriptions and technologies. With respect to this, the risk of positions was determined as low, medium or high.

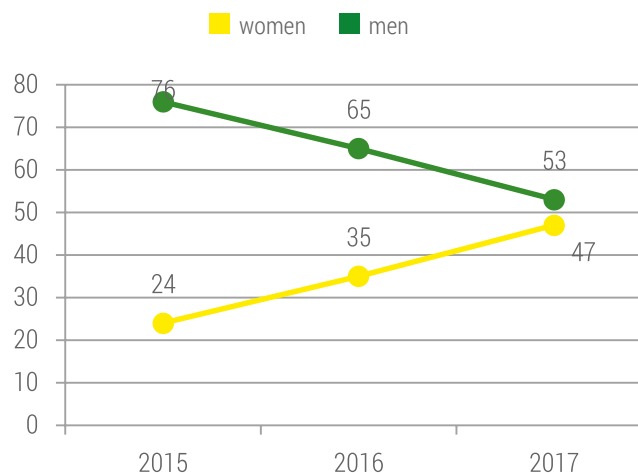
Hazards present at the workplace were avoided by choosing and using the best plant and machinery techniques, built-in safeguard mechanisms and robots, well-trained employees and personal protective equipment. Of the total number of employees, 30 percent have jobs with special working conditions. Since these processes are production processes, a wide range of hazards, harms and exertions occurs while working. Some of these are mechanical hazards (work with machinery in production), electrical hazards, fires and explosions, chemical hazards, noise exposure, statodynamic exertions, and manual handling of loads.

Safety measures for risk reduction we apply are basic safety measures for the facility and machinery. Machinery, devices and plants are equipped with protective equipment. Therefore, in case machinery or plant is opened, robots and conveyor belts are immediately stopped. Rooms at risk of fire and explosion have installations protected against explosion which are equipped with sprinkler systems and automatic fire alarm system, which is supervised by the fire protection service. Volunteer firefighters are always ready to intervene if needed, and they are periodically trained for this. LED lighting installed in production plants is not straining the employees' vision.

Risks are still present, which is why at certain workplaces special safety measures are taken. Therefore, employees working in the painting line

Parameter	2015	2016	2017
IR (injury rate)	0.99	1.09	0.96
ODR (occupational disease rate)	0.00	0.00	0.00
LDR (lost day rate)	0.12	0.11	0.09
AR (absentee rate)	0.00	0.00	0.00

Injury rate by gender (%)



Society

Occupational health and safety (continued)

plant have to wear personal protective equipment to protect their respiratory organs, hearing, and sight. Shoes with toe caps and antistatic clothing and shoes have to be worn in all plants and constitute obligatory work equipment.

Regular special safety measures include health checks for employees working under special conditions, and these employees usually have to undergo an annual health check. Occupational health and safety service and authorised representatives are responsible for this. It should be mentioned that, due to three-shift work, a large number of employees also have to undergo an obligatory health check for night work. Employees undergo training for safe work, and professional training is provided for specific tasks, such as working with chemicals. All employees handling chemicals are trained for this.

Employees are actively involved in offering suggestions for improving occupational health and safety; in case of uncomfortable protective equipment, we look for better solutions. In case an employee has health issues which are not occupational, we try to temporarily reduce the burden of his or her workload.

In 2017, we had 23 workplace injuries, of which 20 were mild and three were serious. These injuries

were without lasting consequences for the health of workers. Out of the total number of injuries, 18 occurred at the workplace, while five occurred during the arrival and departure of workers to and from the workplace. A total of 602 working days was lost due to injury. Out of the workplace injuries, 11 were caused by collision with an object, four by falls in the same plane, two by an employee getting an arm stuck between a moving and an immovable object, and one by a rotating object hitting an employee. There were no occupational diseases nor injuries resulting in death recorded in the reporting period. In comparison to the previous two years, the total number of injuries and lost working days did not significantly change. It is important to mention that there were no workplace injuries at the Vintay site in Russia for three years in a row, and in 2017, there were no workplace injuries at the Kaluga site.





Society

Training and education

We are managing development and retention of company knowledge by providing our employees with quality education and by developing their competencies. Acquisition of the necessary skills and knowledge helps us become more competitive and manage the total improvement of the quality of services we provide to our customers.

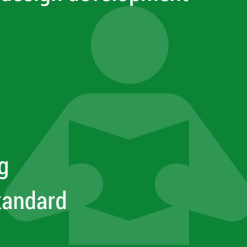
In the reporting period, we intensively worked on further training our employees. The average number of training hours per employee was 36, which is 71 percent higher than the previous year. Investment into employee development programmes according to our customers' specific demands, as well as into programmes related to the installed technology and processes was substantially increased. A significant increase in introduction of new products to our production plants also resulted in more production training, with emphasis on product quality. Our development programmes were focused on raising awareness in the fields of occupational health and safety, environmental protection and energy conservation.

We follow trends in the automotive industry and its high standards regarding product and process quality, and in this way ensure competency of our employees by means of external and internal training programmes.

In 2017, the key areas of training were product and process development, technical and technological knowledge related to the installed equipment, and adaptation to the new IATF 16949 standard in automotive industry.

Notable training activities during 2017:

- Advance product quality planning / Production part approval process requirements
- Advanced moldflow
- Packaging management in the automotive industry
- Problem solving tools and methods
- Injection process and product design development
- Product safety officer
- Statistical process control
- Value stream mapping
- VDA 6.5 product audit
- FANUC advanced programming
- Transition to the IATF 16949 standard
- IATF 16949 internal auditor



Communication in the business world of the automotive industry would not be possible without knowing and using foreign languages. For this reason, our employees regularly broaden their knowledge with the help of foreign language courses. By means of a number of workshops for experts and the management we improved our team work and management skills, and special attention was given to improving employees' personal efficiency and organisation.

A survey of the management confirmed that training programmes significantly contribute to a positive work environment, quality of work, motivation and employee engagement, new ideas, application of new knowledge in work and, finally, the performance of individual departments and overall performance.



Society

Training and education (continued)

Internal training

By sharing knowledge and experience we build a relationship of trust, while internal coaches from various Group sites help our employees in their development. We organised a number of internal trainings during the year. Internal training programmes are all published once a year in the Catalogue of internal training placed on the Intranet site of the company. Internal coaches, just like mentors, are engaged depending on their competences and specific knowledge.

We also regularly hold consultations and provide help regarding retirement. Some retired employees are involved in the mentorship programme so that they can continue contributing and transferring knowledge to their younger colleagues.

Structured annual performance reviews of employees

We use structured annual performance reviews of employees to talk to them about their contribution and quality of work, and thus ensure that planning future development activities for them will warrant their growth and development. Sharing information between managers, employees and human resources department is the foundation of employee development programmes.

Integration – introducing new employees to the workplace

We find introduction of new employees to the workplace and transfer of employees to new positions during horizontal job rotation particularly important. All employees follow a structured programme of introduction to the workplace, and are included in the work process with the support and mentorship of experienced colleagues, by gradually taking on constructive and responsible tasks. Support, help and advice of experienced colleagues guide highly motivated and enthusiastic young people, which ensures successful introduction to the workplace. In 2017 we launched 306 programmes related to introducing new employees to the workplace, and successfully concluded 265 of these programmes.

Project management

We promote additional self-actualization, motivation to learn and broaden one's knowledge with the help of a model where employees are given the opportunity to take on the role of a project manager. Taking on a new role, using their existing, related competences and knowledge to tackle new challenging tasks gives employees the opportunity for additional personal development.





Society

Awards

AD 5 model - rewarding excellence

The motto of the project is: "Let's be excellent – let's change together". We use the AD5 model of rewarding to recognize and reward outstanding employees. A total of 264 awards were given out in 2017 at Solin and Zagreb sites. Those employees who stood out with their engagement, initiative and proactivity were proud to be awarded the AD5 award.



Monitoring performance - management by objectives

Rewarding employees at Russian sites is carried out with the help of a continuous process of management by objectives. Cascading organisational objectives to employee objectives leads to more engagement from employees, and results in increased process efficiency and rewarding with bonuses.

Percentage of employees of AD Plastik Group who receive regular feedback on their performance and individual development

ZAO AD Plastik Kaluga	87%	30%
AO AD Plastik Togliatti	13%	
AD Plastik d.d.	14%	
ADP d.o.o.	4%	

Ideas for improvement

We use the Ideas for improvement project to continuously encourage employees at all sites to make propositions and in this way participate in continuous improvement of products, processes and the organisation as a whole. An idea can be proposed by an individual or a team, and it doesn't matter whether it's a big or smaller idea because idea implementation adds value to the company. We encourage and recognise employees' initiatives and creativity, which is why we rewarded 83 employees in 2017. New ideas build a strong and innovative community and organisational culture.



Society

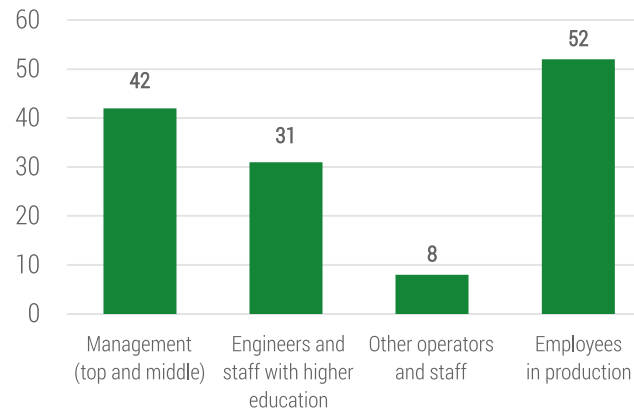
Employee development in numbers

Average number of training hours per employee gender and category

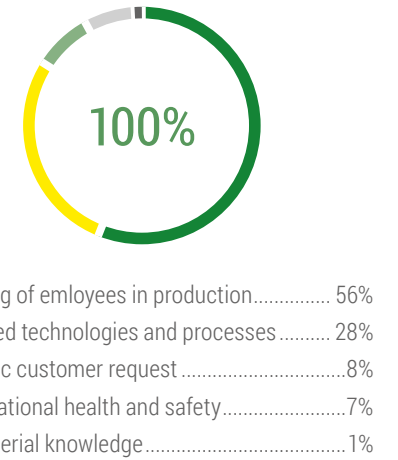


	Women	Men
Management (top and middle)	50	33
Engineers and staff with higher education	35	26
Other operators and staff	9	6
Employees in production	45	59

Average number of training hours per employee category



Share of different programmes in 2017





Society

Diversity and equal opportunity

We are building a work environment where all employees are given an opportunity to reach their full potential. All our employees should have utmost respect for cultural and individual differences, and promote a sense of community and mutual support.

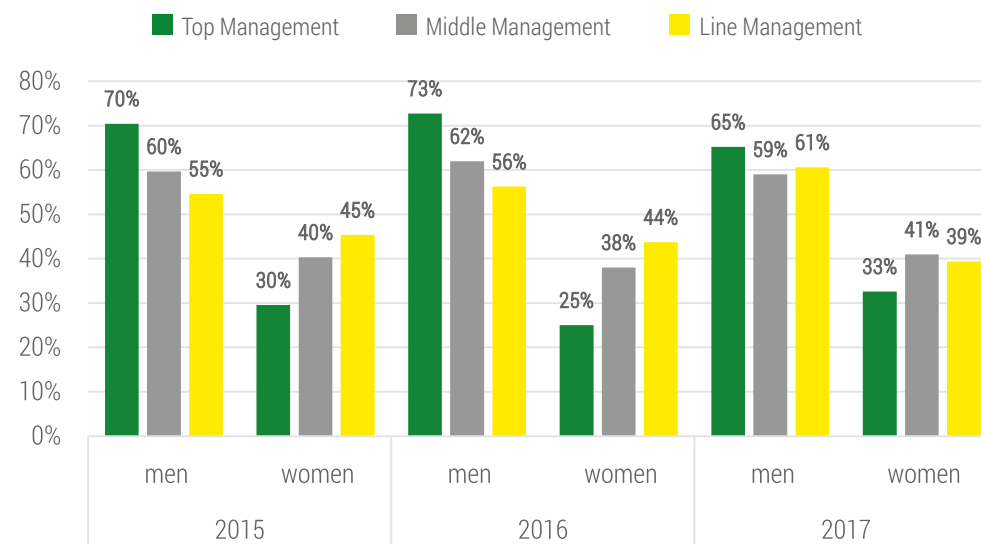
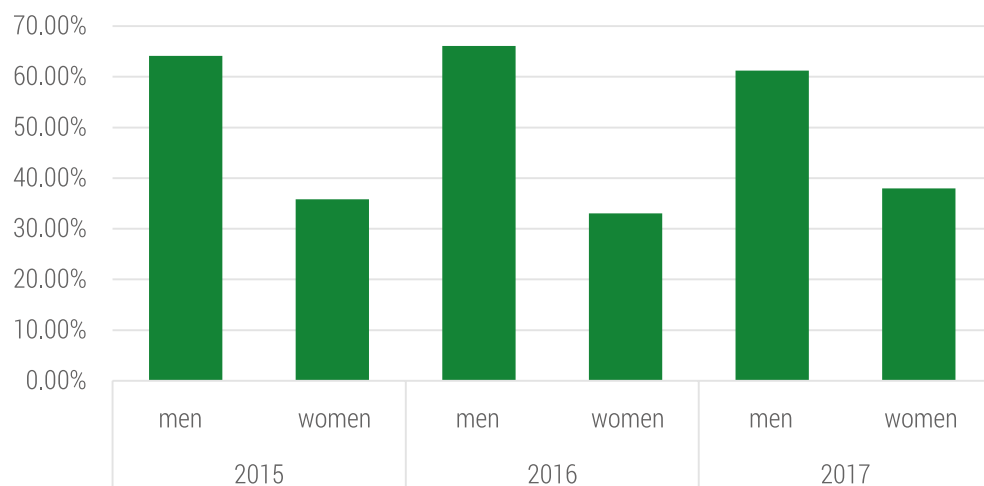
Pursuant to the Code of AD Plastik Group, each employee has a right to be treated with respect and dignity, regardless of his or her race, religion, gender, age, nationality, political beliefs, genderual orientation, marital status, disability or any other personal characteristics. In case a violation of the Group

Code is reported, a procedure to investigate the circumstances of the reported event will be initiated, legitimacy of the report will be determined, and appropriate measures will be taken against the reported employee. In the reporting period, no case of discrimination were reported to any of the members of AD Plastik Group.

In order to manage discrimination in the Company in the best possible way, we appointed an authorised representative who receives and resolves complaints regarding protection of employees' dignity and all employees are informed of this. The Company Policy Manual precisely elaborates the internal procedure in case of complaints. Moreover, the Code of Business Conduct defines what constitutes acceptable and professional conduct of all employees of AD Plastik Group.

In the management structure of AD Plastik Group, the largest percentage of women is employed in middle management (40.96 percent), then in line management (39.39 percent), and the smallest percentage is employed in top management (32.61 percent). In comparison to the previous reporting period, the percentage of women in top and middle management somewhat increased, and decreased in the line management. At the Group level, the share of women in the management structure increased in 2017 and equalled 37.98 percent.

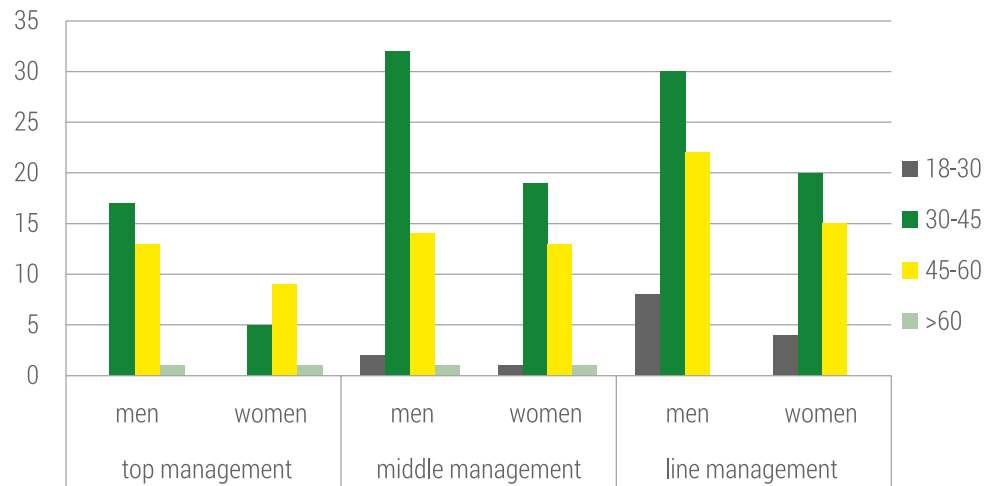
Gender structure of employees in 2016 and 2017, depending on the line of management



Society

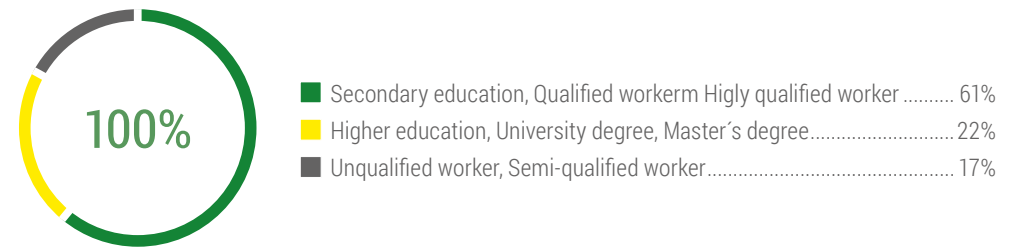
Diversity and equal opportunity (continued)

Age structure of management positions of AD Plastik Group in 2017



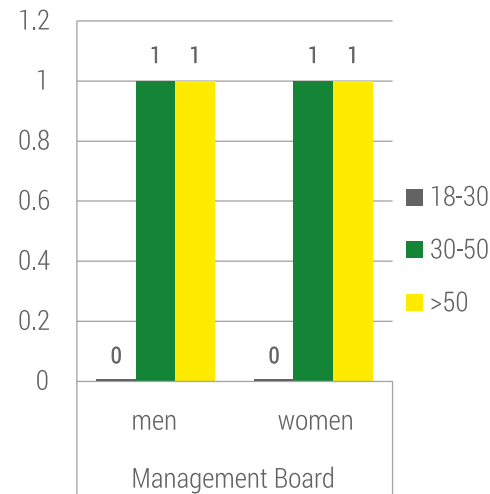
In 2017, just as in the previous reporting period, the structure of management positions was dominated by employees between the ages of 30 and 50, and their share at the Group level equalled 73.68 percent. In top management, the share of employees between the ages of 30 and 45 increased in comparison to the previous reporting period. Employees between the ages of 30 and 45 also prevailed in middle and line management. A significant share of employees on management positions were also over 50, and at the Group level their share equalled 19.74 percent.

Educational structure of AD Plastik Group in 2017

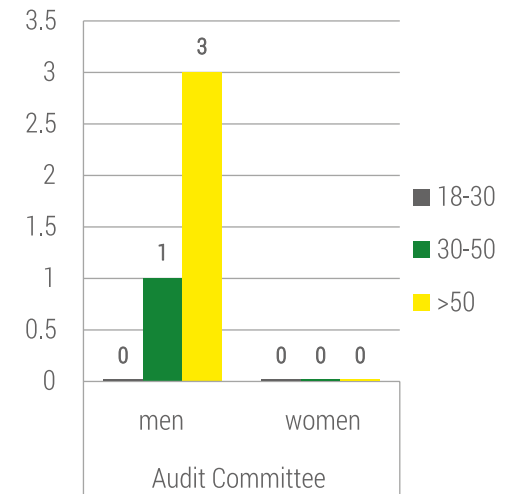


As in the previous reporting period, the Management Board structure had an almost equal representation of women and men, and there were no changes in the structure of the Audit Committee.

Management Board structure of AD Plastik Group in 2017



Audit Committee structure of AD Plastik Group in 2017





Society



Human rights

In the reporting period, there were no disputes in relation to human rights impacts and no complaints reported by means of the formal mechanisms of resolution. Since there had been no disputes in the previous reporting period, no disputes were resolved in 2017 because there were no disputes.

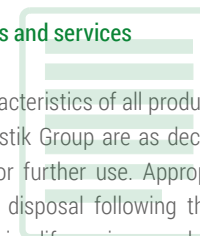
AD Plastik Group did not conclude any employment contracts with persons under 15 and 18 years of age in this reporting period, which was also the case in the preceding reporting periods. The Human Resources Service takes special account of candidate age in the candidate selection processes, and there are additional internal regulations which decrease the risk of employing persons under 18. The subject of safety practices was omitted due to insufficient tangible data to measure the impact and progress of business operations, and due to a lack of the stakeholders' interest in this subject.

Customer health and safety



AD Plastik Group develops all products in accordance with the regulations and standards pertaining to customers, as well as legislation and directives regarding the automotive industry. By complying with the regulations and standards pertaining to customers, from product design planning and development, through checks and validation to disposal following the expiry of the working life, we continuously work on improving and enhancing the final product so that it doesn't pose a risk to the health or safety of the end customer. In the reporting period, there were no recorded cases of any breach of regulations in relation to the impact of the product on health and safety.

Labelling of products and services



The quality and characteristics of all products manufactured by AD Plastik Group are as declared. All products are safe for further use. Appropriate labelling and ensured disposal following the expiry of the product's working life are in accordance with the legislation, regulations and standards. For each product we list the source of its components and its contents, particularly as regards substances that may have an impact on the environment or end users.

Society

Certificates

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** - Occupational health and safety
- **ISO 50001** - Energy Management System
- **ISO 27001** - Information Security Management System



The following external audits of implemented standards were carried out in 2017 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

Certification regarding IATF standard was carried out in 2018 and locations Solin, Zagreb and Vintai are awaiting certification.

In 2017 AD Plastik Kaluga was certified regarding standard IATF 16949 and is still awaiting certificate. Until then existing one is valid.

	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	21. September 2020	27. November 2019
Zagreb, Croatia	14. September 2018	15. September 2018	21. September 2020	27. November 2019
Vintai, Russia	14. September 2018	15. February 2021		
Kaluga, Russia	14. September 2018	15. September 2018	19. November 2020	
Mladenovac, Serbia	14. September 2018	15. June 2018	20. December 2018	14. February 2020



Society

ADP Activities

By creating a unique organisational culture, we promote the achievement of joint values and the sense of belonging to the company.

ADP Day

It is marked at all the locations of the AD Plastik Group on April 22 when we celebrate the company day. We jointly create a modern, comfortable and desirable business environment.

Chat Room

It is organised in order to exchange experience, develop two-way communication and jointly create a better future. On that day, all members of the Management Board are available just to talk to the employees.

Football Matches

Traditionally, football matches and trainings are organized among employees of the sites in Solin and Zagreb and Mladenovac has its football team which represents ADP in business league.

B2B RUN

The company employee running teams participated in races in Split and Zagreb and achieved remarkable results. We recognized this race as a good model for creating a team atmosphere.

Holiday Environment

For the Christmas holidays we organized a corporate reception for the company management, holiday gatherings at all locations and lunch for all employees.

Active Day in Nature

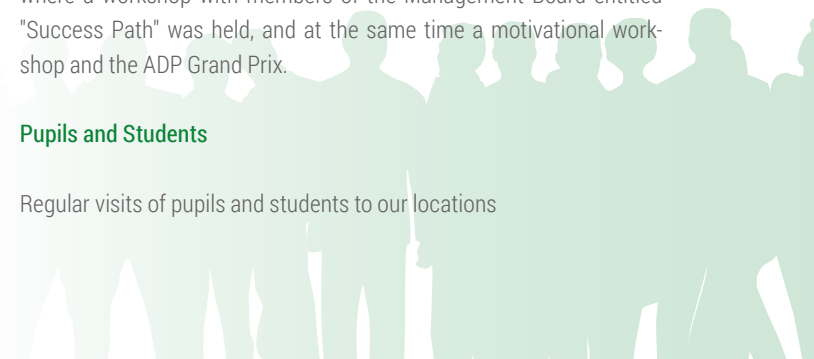
Amongst themselves, the employees organized several one-day excursions under the working name 'Active Day in Nature', where, together with socializing and sports activities, they set a stronger foundation for future cooperation.

Team Building

It was organized in 2017 in Zadar for the Management of the Group, where a workshop with members of the Management Board entitled "Success Path" was held, and at the same time a motivational workshop and the ADP Grand Prix.

Pupils and Students

Regular visits of pupils and students to our locations



Society

Sponsorships and Donations

- Conferences The Best FDI Practices in Central and South East Europe
- Feature film "General" directed by Antun Vrdoljak
- Croatian Association of Visual Artists - "Light of Christmas" project
- VHF analogue digital receiver for the Voluntary Fire Brigade West, Zagreb
- Faculty of Mechanical Engineering and Naval Architecture Days
- World Championship in Robotics WER, China, Julije Klović Elementary School
- "Mir" Centre for Occupational Therapy and Rehabilitation
- Solin Brass Fest 2017 - Gradska glazba Zvonimir
- Concert "Neno Belan svira Đavole" in Split
- Smart benches for improving the culture of living of the Lovreć Municipality
- Professional summer camp for the "OSI Kutina" organisation
- "Labud" Sailing Club - realization of the 2016-2020 Olympic cycle
- Humanitarian action "By heart with heart", Rotary Club Split
- Croatian Championship for Cadets and Juniors in Slavonski Brod, Split Basketball Club
- Electric wheelchair for Nika Rogar
- Hockey Club Medveščak
- Oliver Dragojević's concert for the 25th anniversary of the establishment of diplomatic relations between Croatia and Russia in Moscow
- "Jadran" water polo club
- "Challenges of Europe" - international scientific conference, Faculty of Economics, Split
- "The Challenge of Change" Conference
- Russian Cultural Association
- Požega Association for assisting people with disabilities
- Žrnovnica Voluntary Fire Brigade

Community

Helping Fire Fighters

Employees and the Management Board of AD Plastik actively participated in assisting fire fighters in the field during major fires at the outskirts of Split.

Green Spring

Spring cleaning which is regularly carried out at our location in Vintai.

Forest Gratitude Certificate

Organized collection of old paper in Samara, the proceeds of which were used to purchase seedlings for the renewal of forests in the Samara County, devastated in fires in 2011.





Comparative Table of GRI and Global Compact Indicators

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Global Sustainable Development Goals

Seventeen global sustainable development goals defined by the United Nations Global Sustainable Development Agenda by 2030 represent priority areas to which special attention needs to be paid and activities focused towards the sustainable development of the planet Earth. Every country, community, company, or individual can make a very large contribution in their segment of action. In its business operations, AD Plastik Group contributes to the development of the wider social community and strives to fully follow the global sustainable development goals.

As a large company we have a considerable economic impact in the regions and countries in which we operate. We ensure stable and sustainable economic growth and jobs where employees are provided with dignified work. We contribute to the industrialization of the countries in which we operate, and around us we have built a network of partners and suppliers which we enable to grow, develop and ensure employment. Following the latest trends in the automobile industry, we encourage innovation and continuous technological advancement of a number of small and medium-sized enterprises. With our business, we have a positive impact on the growth of the living standard of the population and

the reduction of inequality. We promote science, education, professional and personal development of every individual.

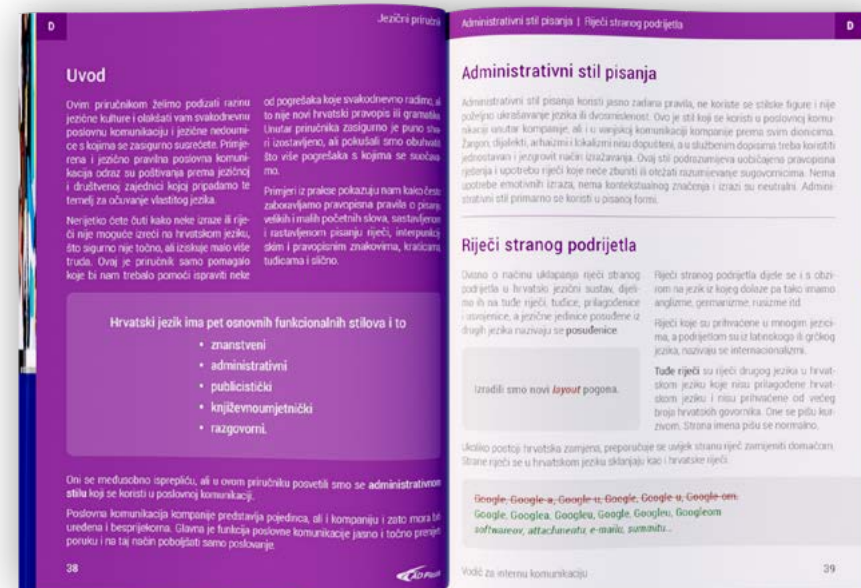
In our business we take care of the environment. We use resources responsibly and manage waste, take care of our social responsibility in the supply chain, reduce our negative impact on the environment using the latest technology, renewable energy, and green materials. This way, we protect biodiversity, and avoid adverse impacts on water, soil, air and climate change.

The greatest strength of the AD Plastik Group are its employees. We are a multinational company building a unique corporate culture, respecting diversity, promoting and encouraging co-operation at all levels, proactivity, taking responsibility, rewarding efficiency, recognizing excellence, developing collegiality, and respecting each individual's personal integrity. This way, we create synergy between the different business segments and locations where we operate. As a global company, we ensure equal opportunities for employees regardless of age, gender, disability, race, ethnicity, origin, religion, economic or other status.



Tasks Achieved in 2017

- Implementation of the ISO 50001 standard at the Mladenovac location
- Implementation of the ISO 27001 (Information Security Management System) at the Solin and Zagreb locations has not been fully realized due to the reorganization of the IT department
- The implementation of the ISO 27001 standard at the Mladenovac location was not initiated due to the reorganization of the IT department
- Implementation of the OHSAS 18001 standard at the Kaluga location
- Publishing and distributing the "AD Plastik Group Business Conduct and Policy Code" brochure to all the employees in three languages, at all locations
- Introducing the system of Awarding Ideas for Improvement at the Mladenovac location
- Preparation, design and distribution of the Internal Communication Guide for all locations in three languages
- Preparation, design and distribution of a Language Handbook for locations in Croatia
- An internal awareness-raising campaign on the importance of sustainable business
- Membership in the Community For Environmental Protection in the Croatian Economy
- The online poll on the company website regarding the sustainability report was not conducted due to technical problems, but a poll was conducted among stakeholders via an electronic questionnaire.





Tasks for 2018

- A new company website which will be more accessible and clear to stakeholders
- A new, more modern and more accessible Intranet platform
- Creating a Diversity Policy
- Internal Diversity Campaign
- Training the Management on the application of the Diversity and Non-Discrimination Policy
- E-corner for employees
- Self-assessment poll on the company website
- Publishing the Integrated Annual Report of the Group
- New showroom in Zagreb
- New restaurant for employees in Zagreb
- Increase the share of ISO14001-certified suppliers by five percent
- Conduct an evaluation of new suppliers in terms of their impact on the company
- Reduce the intensity of greenhouse gases by 0.05 kg CO₂ / kg of product
- Obtain the environmental permit for the locations in Zagreb
- Starter programme for hiring interns
- Implementation of the ISO 27001 standard (Information Security Management System) at the Solin and Zagreb locations
- Start the implementation of the ISO 27001 standard at the Mladenovac location



Opinion by the Commission of the Management Board of the Croatian business council for Sustainable development (HR BCSD) regarding the 2017 sustainability report of AD Plastik Group

The 2017 sustainability report of AD Plastik Group was analysed by the independent commission of the management board of the Croatian Business Council for Sustainable Development. This is the first Integrated report by AD Plastik Group, which includes all the most important business information, as well as the most important non-financial impacts presented by applying the newest GRI (Global Reporting Initiative) Standards for sustainability reporting. We confirm that the subject report has fulfilled the core option requirements of reporting according to the GRI Standards. Regarding its content, amount of information and the handling of topics important for realising the company's goals and managing its impact, the report represents a comprehensive and detailed source of information on the key impacts.

Since it is integrated, this report contains a significantly larger amount of information which give a much clearer overview of the AD Plastik Group business during the previous year. Although some parts of this information refer to the Group's financial operations and product range, they also contribute to understanding the Group's business from a sustainability aspect as well. It is very useful to read about the positive financial and business results which show substantial growth in all aspects when compared to the results from the previous year. Based on the number of new contracts and jobs, it can be expected that AD Plastik Group shall continue its successful business in the following years.

Furthermore, the Report also presents the challenges of the industry and the demands from the aspect of sustainability that the car manufacturers place before their suppliers, which means the company's engineers are required to have extensive knowledge and abilities that they use to develop new products with a greater content of

expanded plastic, thus reducing the overall material consumption, but also the weight of the products, which ultimately reduces the weight of the car and decreases fuel consumption. AD Plastik Group is also continuously increasing the quota of recycled plastic used in making their products.

Last year, AD Plastik Group modernised its paint shop in Zagreb with new technologies, which are both safe for the employees and environmentally friendly. The Group has also made significant investments in its Croatian, Serbian and Russian factories, which resulted in more environmentally friendly solutions.

When the report is analysed in the context of the GRI Standard requirements, AD Plastik Group, with the help of its stakeholders, used an analysis to select a significant number of material topics which were covered and presented in one or more publications specific for the topic, as required by the Standards. What is especially commendable about this report and should serve as an example to other reporting companies is the thorough and detailed account of the approach to managing every material topic or, when appropriate, a set of topics. These accounts clearly show how AD Plastik Group approaches a topic, why a topic is a material topic and how the topic, i.e. the impact the topic represents, is managed. The report also includes a clear overview of what has been done until now with regard to managing the impact of material topics and what the plans for the future regarding this issue are. Key plans and investments for the future have once more clearly been highlighted at the end of this Report.

AD Plastik Group also supports current initiatives and programmes, which shows that the Group is aware it has a responsibility in contributing to the social development as well as to segments which aren't directly connected to the company's business. Therefore, the Group signed the Diversity Charter which was launched last year in Croatia, while the President of the Management Board of the Group accepted the role of the Charter ambassador. Although the report contains publications which show that AD Plastik Group has recognised the value and knowledge the female workforce can provide, the Group has shown to be at the forefront of promoting the principles of sustainability in Croatia through its engagement in the initiative.

Lastly, it is important to note that the report has fulfilled its purpose completely, which was to clearly show the business and impact of AD Plastik Group in a transparent, understandable, balanced, comparable and correct manner. The report also provided information on the company's material topics and impacts and in what way the company manages these, with what results and what the strategy for managing them in the future is. Improvements for the future reports can be made in the accounts dealing with the inclusion of stakeholders and by clearly setting the limits for each identified material topic.

The report contains information which shows that this is a company that is technologically and strategically advanced and that understands and manages its business and non-financial impacts, i.e. strategies very well, thereby contributing greatly to sustainable development. We would like to express our satisfaction and commend the very thorough report and the fact that the reporting guidelines included in the new GRI standards were taken and followed very seriously.



Financial Statements for Year 2017

AD Plastik d.d., Solin and Its Subsidiaries

Consolidated Financial Statement

Together with Independent Auditor's Report For the Year Ended 31 December 2017

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

Responsibility of The Management Board 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 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 above stated responsibility includes the responsibility for accuracy of the Management Report, which is an integral part of separate financial statements. 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 the Management Board

Sanja Biočić, Member of the Management Board

Mladen Peroš, Member of the Management Board

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

19. April 2018

INDEPENDENT AUDITOR'S REPORT

To the owners of AD Plastik d.d., Solin and its subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of of AD Plastik d.d. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the 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 ethical responsibilities in accordance with 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 Matter

Key audit matter is that matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 that matter.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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Member of Deloitte Touche Tohmatsu Limited

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

According to the disclosures made in Note 6, the total sales of the Group for the financial year amount to HRK 1,069,061 thousand (2016: HRK 913,383 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 tests of the design and the operating effectiveness of automatic and manual internal controls at the Group level as well as tests of details so as to satisfy ourselves that the revenue and the transactions are correctly accounted for. The key internal automatic control the Group relies on to be satisfied that revenue is correctly accounted for is automatic matching of order numbers with contract numbers in the Group's IT environment.

We tested the design and operating effectiveness of the key internal controls surrounding the sales process.

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 recognized sales and the related payment transactions.

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 financial statements and our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, 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 Report and Corporate Governance Statement includes required disclosures as set out in the Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 and 24 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 Report has been prepared, in all material respects, in accordance with the Article 21 and 24 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7 and the Article 24, paragraph 2

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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the consolidated financial statements, Management 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.

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

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 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 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 the matter that is of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Group by the General Assembly of the Company on 20 July 2017 to perform audit of accompanying consolidated financial statements. Our total uninterrupted engagement has lasted 8 years and covers period 1 January 2010 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying consolidated financial statements is consistent with the additional report issued to the Audit Committee of the Group on 19 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings.

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

Deloitte d.o.o.
Zagreb, 19 April 2018
Radnička cesta 80,
10 000 Zagreb,
Croatia

Consolidated statement of comprehensive income for the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

	Notes	2017	2016
Sales	6	1,069,061	913,383
Other income	7	21,079	22,367
Total income		1,090,140	935,750
Increase/(decrease) in the value of work in progress and finished products	26	6,399	541
Cost of raw material and supplies	8	(546,355)	(461,912)
Cost of goods sold	9	(61,327)	(26,377)
Service costs	12	(71,754)	(60,376)
Staff costs	10	(210,790)	(181,044)
Depreciation and amortisation	11	(83,162)	(77,115)
Other operating expenses	13	(41,589)	(64,688)
Provisions for risks and charges	14	(6,290)	(6,040)
Total operating expenses		(1,014,868)	(877,011)
Profit from operations		75,272	58,739
Financial income	15	26,870	45,512
Financial expenses	16	(79,013)	(98,308)
(Loss) from financing activities		(52,143)	(52,796)
Share in the profit of associates	17	55,871	43,172
Profit before taxation		79,000	49,115
Income tax expense	18	(8,794)	589
Profit for the year		70,206	49,704



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 2017 (continued)

(All amounts are expressed in thousands of kunas)



	Notes	2017	2016
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of a foreign operation, net	19	(11,237)	24,120
Items that will not be reclassified subsequently to profit or loss			
Change in the revaluation reserve of non-current assets, net		(4,895)	(3,388)
Other comprehensive (loss)/income for the year, net of income tax		(16,132)	20,732
Total comprehensive income for the year		54,074	70,436
Profit attributable to:			
Equity holders of the Company		70,206	49,704
Non-controlling interests		-	-
Total comprehensive income attributable to:			
Equity holders of the Company		54,074	70,436
Non-controlling interests		-	-
Basic and diluted earnings per share (in kunas and lipas)	20	16.82	11.92

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



Consolidated statement of financial position at 31 December 2017

(All amounts are expressed in thousands of kunas)

ASSETS	Notes	31.12.2017	31.12.2016
Non-current assets			
Intangible assets	21	105,011	119,136
Goodwill	40	8,670	9,411
Property, plant and equipment	22	649,551	699,947
Investment property	23	54,765	8,064
Investments in associates	24	96,860	82,964
Other financial assets	25	3,071	4,961
Long-term receivables		63	95
Deferred tax assets	18	711	5,764
Total non-current assets		918,702	930,342
Current assets			
Inventories	26	155,235	107,565
Trade receivables	27	198,575	132,831
Other receivables	28	38,712	40,462
Current financial assets	29	1,105	60,656
Cash and cash equivalents	30	10,222	10,422
Prepaid expenses and accrued income	31	28,764	58,479
Total current assets		432,613	410,415
TOTAL ASSETS		1,351,315	1,340,757

EQUITY AND LIABILITIES	Notes	31.12.2017	31.12.2016
Capital and reserves			
Share capital	32	419,958	419,958
Reserves		179,403	166,463
Retained earnings		80,221	61,260
Profit for the year		70,206	49,704
Non-controlling interests		-	-
Total equity		749,788	697,385
Long-term provisions	33	3,711	3,743
Long-term borrowings and other non-current liabilities	34	204,298	185,759
Total non-current liabilities		208,009	189,502
Advances received	35	30,154	34,442
Trade payables	36	173,026	143,681
Short-term borrowings	37	141,962	223,058
Other current liabilities	38	22,402	17,854
Short-term provisions	33	11,688	9,352
Accrued expenses and deferred income	39	14,286	25,483
Total current liabilities		393,518	453,870
Total liabilities		601,527	643,372
TOTAL EQUITY AND LIABILITIES		1,351,315	1,340,757

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 2017

(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	Reserves from accruals of foreign exchange differences	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 2016	419,958	191,971	6,139	21,055	21,869	(36,198)	3,875	(3,875)	110,964	(38,372)	697,386	-	697,386
Profit for the year	-	-	-	-	-	-	-	-	70,206	-	70,206	-	70,206
Other comprehensive income for the year, net of income tax	-	-	-	-	(4,895)	(10,034)	-	-	4,867	(1,203)	(11,265)	-	(11,265)
Total comprehensive income for the year	-	-	-	-	(4,895)	(10,034)	-	-	75,073	(1,203)	58,941	-	58,941
Realisation of recognised exchange differences	-	-	-	-	-	28,258	-	-	-	-	28,258	-	28,258
Dividends paid	-	-	-	-	-	-	-	-	(35,489)	-	(35,489)	-	(35,489)
Purchase of own shares	-	-	-	(119)	-	-	119	(119)	-	-	(119)	-	(119)
Release of own shares	-	137	-	674	-	-	(675)	675	-	-	811	-	811
Creation of statutory reserves	-	-	121	-	-	-	-	-	(121)	-	-	-	-
Balance at 31 December 2017	419,958	192,108	6,260	21,610	16,974	(17,974)	3,319	(3,319)	150,427	(39,575)	749,788	-	749,788

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 2017 (continued)

(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	Reserves from accruals of foreign exchange differences	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	(36,198)	3,875	(3,875)	110,964	(38,372)	697,386	-	697,386

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 2017

(All amounts are expressed in thousands of kunas)



Cash flows from operating activities	Note	2017	2016
Profit for the year		70.206	49.704
Adjusted for			
Income tax (credit) / expense	18	8,794	(589)
Depreciation and amortisation	11	83,162	77,115
Write off of property, plant and equipment, and intangible assets	21,22	1,937	4,188
Interest expense and net exchange rates recognised in profit or loss	16	52,837	53,569
Dividends and share in profit of associates	17	(55,871)	(43,172)
Gain from sale of property, plant and equipment and intangible assets	7	(713)	(1,701)
Interest income	15	(686)	(763)
Increase in long-term and short-term provisions (net)	33	2,304	1,005
Decrease / (increase) in accrued income and prepaid expenses	31	29,715	(13,289)
(Decrease) / increase in accrued expenses and deferred income	39	(11,197)	7,864
Income from collected previously written-off trade receivables	27	(21)	(1,387)
Profit from operations before working capital changes		180,467	132,544
(Increase) / decrease in inventories	26	(47,670)	(9,779)
(Increase) / decrease in current and non-current trade receivables		(62,363)	7,087
Decrease / (increase) in other receivables		1,561	(5,107)
Increase / (decrease) in trade payables		23,662	(8,580)
(Decrease) / increase in advances received	35	(4,288)	10,829
Increase / (decrease) in other short-term and long-term liabilities		808	(9,468)
Interest paid	37	(16,964)	(18,567)
Net cash generated from operating activities		75,213	98,959
Cash flows from investing activities			
Interest received		10,045	-
Purchases of property, plant and equipment	22	(66,190)	(32,625)
Purchases of intangible assets	21	(19,914)	(21,662)
Proceeds from the sale of plant and equipment, and intangible assets		1,560	6,708
Proceeds from given long-term and short-term loans		47,930	3,155
Decrease in deposits	29	2,802	426
Proceeds from sale of financial assets		-	129
Proceeds from government grants		5,147	-
Dividends received		41,829	46,080
Net cash generated from/(used in) investing activities		23,209	2,211

Consolidated statement of cash flows for the year ended 31 December 2017 (continued)

(All amounts are expressed in thousands of kunas)

Cash flows from financing activities	Note	2017	2016
Purchase of treasury shares		(119)	-
Dividends paid		(35,489)	(50,044)
Proceeds from received short-term and long-term borrowings	34, 37	239,770	100,065
Repayment of short-term and long-term borrowings	37	(300,137)	(149,625)
Repayment of finance leases		(2,647)	(3,528)
Net cash used in financing activities		(98,622)	(103,132)
Net decrease in cash and cash equivalents		(200)	(1,962)
Cash and cash equivalents at the beginning of the year		10,422	12,384
Cash and cash equivalents at the end of the year	30	10,222	10,422

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 2017

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 Kaluga, 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. Consolidated subsidiaries (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) AO AD Plastik Togliatti was 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 Vintai.

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 Plastic 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. 2A.

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.



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 2017, the number of staff employed was 2,386 (31 December 2016: 2,121).

	31.12.2017	31.12.2016
AD Plastik d.d.	1,321	1,193
AO ADP / ZAO PHR	603	521
AD Plastik d.o.o. Novo Mesto	6	6
ADP d.o.o. Mladenovac	233	172
ZAO AD Plastik Kaluga	223	229
	2,386	2,121

At 31 December 2017 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 656 (31 December 2016: 579).

1.5. 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 (Vice President)	20. 07. 2016	20. 07. 2020
Hrvoje Jurišić	20. 07. 2016	20. 07. 2020
Igor Anatoljevič Solomatin	23. 07. 2015	23. 07. 2019
Nikitina Nadežda Anatoljevna	19. 10. 2015	19. 10. 2019
Zoja Crnečki	20. 07. 2017	20. 07. 2021
Robert Kuhta	30. 10. 2017	30. 10. 2021
Dolores Čerina	02. 06. 2015	22. 09. 2017
Marijo Grgurinović	23. 07. 2015	19. 07. 2017

Members of the 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

Members of Audit Committee	mandate from	mandate to
Ivica Tolić (President)	25. 05. 2017	25. 05. 2021
Drandin Dmitrij Leonidovič	23. 07. 2015	23. 07. 2019
Nenad Škomrlj	01. 06. 2016	01. 06. 2020
Anatolij Janovskis	01. 06. 2016	01. 06. 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 IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – adopted by EU on 6 November 2017 (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 – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
 - **Amendments to IFRS 12 due to “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 – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).
- The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.
- Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**
- At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:
- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 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),
 - **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (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 – adopted by the EU on 27 February 2018 (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 – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
 - **Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation** – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2019),
 - **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
 - **Amendments to IAS 40 “Investment Property” - Transfers of Investment Property** – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
 - **Amendments to IFRS 1 and IAS 28** due to “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 – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),



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

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

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group in the period of initial application.

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 2018 (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 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- 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 IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Group does not expect significant impact on the financial statements for the year 2018 by the changes of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" which come into effect after 1 January 2018. Total amount of liabilities under financial leases at 31 December 2017 amounts to HRK 2,050 thousand. Their classification will be influenced by the application of IFRS 16 "Leases" which comes into effect after 1 January 2019.



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

Consolidated financial statements are prepared on a historical cost basis, with the exception of certain land, buildings, which are stated in revalued amounts as explained in the accounting policies that follow. 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 2017, 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

Accompanying consolidated financial statements comprise of Company's financial statements and entities under its control, including entities of special purpose, and its i.e. their subsidiaries. The control principle sets out the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of those returns.

The Company re-evaluates the existence of its control when the facts and circumstances indicate that one or more of the above-mentioned control elements have occurred.

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 from tools 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 estimates that the transfer of significant risks and benefits from the ownership of tools, gauges and other devices is met at the time of „SOP“ (Start Of Production), i.e. start of the mass production on them. At that point Group recognizes revenue from the sale of tools. Costs of modification, completion and similar tool costs Group recognizes as an increase in inventory value as part of inventory process.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Revenue recognition (continued)

Interest income

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. Revenue recognition

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.6. 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 2017, the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7,513648 (31 December 2016: HRK 7.557787 for 1 EUR).

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 – Reserves from accruals of foreign exchange differences.

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

3.7. Income tax expense

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.

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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Income tax expense (continued)

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 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.

3.8. 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 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 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 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:

Tangible and intangible assets	Depreciation rates in 2017 (%)	Depreciation rates in 2016 (%)
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
Other	10.00	10.00
Projects	20.00	20.00
Software	20.00	20.00



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Goodwill

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 generated by acquisition of a subsidiary is presented as an intangible asset.

Goodwill is tested for impairment annually 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.

3.10. 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. After initial measurement, investment properties are measured at cost less accumulated depreciation and impairment losses.

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.

3.11. 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.

3.12. Investments in associates

An associate is an entity over which the Group 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. 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.

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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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 Group is not obliged to provide any other post-employment benefits.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Termination, long-service and other employee benefits (continued)

(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

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.

3.18. 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.

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 recorded as income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Financial instruments (continued)

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.

3.19. 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.

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.

3.20. 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.

3.21. 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.

3.22. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Leasing (continued)

The Group as lessee (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

3.23. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination (IFRS 3), (ii) held for trading, or (iii) it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



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.

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 2017 and 2016, deferred tax assets on temporary 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.

Accounting treatment of tools

In 2017, Company changed its key accounting judgements regarding accounting treatment of tools. According to the information available to the Company, tools are treated as inventory and are recognized in Company's Statement of financial position from the date of purchase to the date of start of production of mass deliveries to customers (SOP – Start Of Production). Date of start of production of mass deliveries shall be the date when significant risks and rewards of ownership of tools are transferred to the buyer

Goodwill impairment

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



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

Provision for legal claims

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions and recognises provisions for the liabilities that may arise to the Group in respect of claims. The Group recognises a provision in the total expected amount of outflows of economic benefits as a result of the court case, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of management after consultation with legal advisers, that the outcome of the court case will be unfavourable for the Group. The Group does not recognise provisions for court cases or the expected related legal costs and penalty interest (if applicable) in cases where management estimates that an unfavourable outcome of the court case is less likely than a favourable outcome for the Group.

Where indications exist of a possible settlement in relation to a particular court case, a provision is recognised, based on the best estimate of management made in consultation with its legal advisers, in the amount of the expected settlement less any existing amounts already provided for in relation to that particular court case.

Useful life of Projects

The Management of the Company considers it appropriate to amortize the development part of the Projects for an average duration of five years. The Management believes that the described period represents the average duration of the production cycle to which the described Projects are concerned.

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

Segment revenue analysis by country:

(in thousands of kunas)

	2017	2016
Slovenia	401,168	390,767
Russia	290,725	229,242
France	170,985	133,355
Germany	49,910	36,443
Italy	45,957	32,272
Serbia	40,385	14,762
Romania	21,026	18,093
Spain	17,693	25,431
Croatia	12,252	15,452
Poland	6,612	6,287
Other countries	12,348	11,279
	1,069,061	913,383

6. SALES*(in thousands of kunas)*

	2017	2016
Foreign sales	1,056,809	897,931
Domestic sales	12,252	15,452
	1,069,061	913,383

7. OTHER INCOME*(in thousands of kunas)*

	2017	2016
Service sales – cardboard packaging	3,984	3,997
Rental income	2,589	3,240
Income from consumption of own products and services	2,183	1,046
Income from damages and insurance	1,944	1,360
Income from penalties charged to buyers	1,723	-
Income from the sale of services to tenants	1,426	1,003
Income on reconciliation of trade payables with suppliers	1,168	2,538
Income from sale of long-term assets	713	1,701
Income from the quality control	687	-
Income from waste management services	628	342
Income from maintaining safety stock	556	120
Income from reversed provisions for pensions (Note 32)	64	-
Income from transport services	156	121
Income from inventory surpluses	141	53
Other operating income	3,117	6,846
	21,079	22,367

8. COST OF RAW MATERIAL AND SUPPLIES*(in thousands of kunas)*

	2017	2016
Direct materials	494,794	411,321
Electricity	20,682	18,529
Other raw material and supplies	30,879	32,062
	546,355	461,912

9. COST OF GOODS SOLD*(in thousands of kunas)*

	2017	2016
Cost of tools sold	43,041	-
Cost of trade goods and spare parts sold	18,286	20,723
Cost of direct material sold	-	5,144
Cost of goods sold	-	510
	61,327	26,377

Based on the changes in key accounting judgement, since 2017 Company has been treating tools as inventory from the moment of purchase to the moment of start of mass production on aforementioned tools (SOP – start of production). According to aforesaid, costs of tools sold are treated as costs of goods sold. In previous years, revenues and related costs were recognized by the degree of completion of tools and those costs were presented as part of other operating expenses. In line with the information the Group had available during 2017, the Management Board estimated that tools should be classified as Group's inventory. During the previous year, the Management Board recognized revenues after completion of the contractual activity, i.e. according to degree of completion of tools, because the costs incurred in connection with the transaction can be measured reliably. Revenues and costs related to the same transaction were simultaneously recognized. When the output of the tool construction contract was delivered, the contract revenue was recognized according to the contractual activities completed at the reporting date on the financial position.



10. STAFF COSTS

(in thousands of kunas)

	2017	2016
Net wages and salaries	120,350	102,658
Taxes and contributions out of salaries	39,156	34,296
Contributions on salaries	29,505	25,656
Other staff costs	21,779	18,434
	210,790	181,044

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)

	2017	2016
Depreciation of property, plant and equipment (Note 22)	51,398	49,928
Amortisation of intangible assets (Note 21)	30,870	26,972
Depreciation of investment property (Note 23)	894	215
	83,162	77,115

12. SERVICE COST

(in thousands of kunas)

	2017	2016
Transport	40,273	33,189
Rental costs	10,195	8,436
Current and preventive maintenance of machinery	9,061	8,609
Know-how costs	1,767	750
Telecommunication and information system costs	1,684	1,809
Municipal utility fees	1,343	1,151
Water supply	1,123	1,007
Forwarding and shipping costs	364	308
Other service costs	5,944	5,117
	71,754	60,376

13. OTHER OPERATING EXPENSES

(in thousands of kunas)

	2017	2016
Professional service cost	12,174	9,995
Customer complaints	3,629	2,560
Insurance premiums	2,670	2,598
Other taxes, duties and fees	2,173	2,348
Material and non-material assets write-off	1,937	4,189
Other non-material expenses	1,875	1,690
Withholding tax	1,859	51
Entertainment	1,791	1,426
Communal fees for the use of construction plots	1,506	1,507
Bank and transaction charges	1,207	1,232
Professional training costs	1,195	1,189
Property tax	925	652
Occupational health and safety services	838	586
Measuring equipment and laboratory tests	650	488
Gifts, donations and sponsorships of up to 2 % of prior-period revenue	572	186
Cost of goods provided free of charge	446	271
Support to employees and their families	347	240
Forest reproduction levies	226	198
Temporary and occasional service costs - tools	-	24,567
Other expenses	5,570	8,715
	41,590	64,688

14. PROVISIONS FOR RISKS AND CHARGES*(in thousands of kunas)*

	2017	2016
Employee bonus provisions (Note 33)	3,756	215
Vacation provisions (Note 33)	2,118	4,322
Provisions for jubilee awards and retirement benefits (Note 33)	416	260
Litigation provision (Note 33)	-	1,243
	6,290	6,040

15. FINANCIAL REVENUE*(in thousands of kunas)*

	2017	2016
Foreign exchange gains	26,175	44,740
Interest income	686	763
Other financial income	9	9
	26,870	45,512

16. FINANCIAL EXPENSES*(in thousands of kunas)*

	2017	2016
Foreign exchange losses	63,029	74,334
Interest expense	15,984	23,974
	79,013	98,308

17. SHARE IN THE PROFIT FROM INVESTMENTS IN ASSOCIATES*(in thousands of kunas)*

	2017	2016
Share in the profit of associates recognised as income	55,871	43,172
	55,871	43,172

18. INCOME TAX*(in thousands of kunas)*

Income tax comprises the following:

	2017	2016
Deferred tax	5,986	(589)
Current tax	2,808	-
	8,794	(589)

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

	2017	2016
Balance at 1 January	5,764	22,399
(Reversal) of deferred tax assets	(5,053)	(16,635)
Balance at 31 December	711	5,764

Deferred tax assets arise from the following:

2017	Opening balance	(Charged) to the statement of comprehensive income	Closing balance
<i>Temporary differences:</i>			
Provisions for jubilee awards and termination benefits	2,898	(2,784)	114
Reserves from translation of foreign currencies, net	7,240	(1,369)	5,871
Movements in reserves on revaluation of property, plant and equipment and intangible fixed assets	(4,374)	(900)	(5,274)
Balance at 31 December	5,764	(5,053)	711



18. INCOME TAX (continued)

(in thousands of kunas)

2016	Opening balance	(Charged) to the statement of comprehensive income	Closing balance
<i>Temporary differences:</i>			
Provisions for jubilee awards 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 tangible and intangible fixed assets	(8,263)	3,889	(4,374)
Balance at 31 December	22,399	(16,635)	5,764

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

	2017	2016
Accounting profit before tax and deferred taxation	79,000	49,115
Effect of tax base increasing items	22,784	21,986
Effect of tax base decreasing items	(65,328)	(107,118)
Tax base	36,456	(36,017)
Tax at the weighted average rate	6,642	-
Tax reliefs	(3,834)	-
<i>Income tax expenses before effects of deferred taxation</i>	2,808	-
Deferred tax recognised in profit or loss	5,986	(589)
Income tax expense	8,794	(589)

19. EXCHANGE DIFFERENCES FROM TRANSLATION OF FOREIGN OPERATIONS AND RESERVES FROM ACCRUALS OF FOREIGN EXCHANGE DIFFERENCES – TRANSACTIONS WITH SUBSIDIARIES

(in thousands of kunas)

	Reserves from accruals of foreign exchange differences – transactions with subsidiaries		Exchange differences from translation a foreign operations – transactions with subsidiaries	
	2017	2016	2017	2016
Balance at beginning of the year	(36,198)	(112,292)	(38,372)	(31,203)
Exchange differences from translation of foreign operations	-	-	(1,203)	(7,169)
Accruals of foreign exchange differences from the current year	(12,543)	39,115	-	-
Income tax	2,509	(7,823)	-	-
Exchange differences from translation of foreign operations, net	(10,034)	31,292	(1,203)	(7,169)
Realization of exchange differences	28,258	44,802	-	-
Balance at end of year	(17,974)	(36,198)	(39,575)	(38,372)

20. EARNINGS PER SHARE

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.

	2017	2016
Net profit attributable to the shareholders of the Group	70,206	49,704
Weighted average number of shares	4,173,705	4,169,725
Basic and diluted earnings per share (in kunas and lipas)	16.82	11.92

21. INTANGIBLE ASSETS

(in thousands of kunas)

	Licences	Software	Projects	Other intangible assets	Intangible assets under development	Total
Cost						
Balance at 31 December 2015	702	6,231	177,582	1,787	38,158	224,460
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	1,775	24,550	243,054
Additions	-	-	-	-	19,914	19,914
Assets put into use	-	1,315	22,964	-	(24,279)	-
Disposals	-	-	(810)	-	-	(810)
Write off	-	-	(3,356)	-	-	(3,356)
Effect of exchange differences	23	(24)	(2,435)	54	(32)	(2,414)
Balance at 31 December 2017	654	7,368	226,384	1,829	20,153	256,388
Accumulated amortisation						
Balance at 31 December 2015	421	4,551	93,487	23	-	98,482
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	537	4,729	118,536	119	-	123,921
Charge for the year (Note 11)	95	916	29,835	24	-	30,870
Disposals	-	-	(362)	-	-	(362)
Write off	-	-	(1,436)	-	-	(1,436)
Effect of exchange differences	23	(21)	(1,611)	(2)	-	(1,611)
Balance at 31 December 2017	654	5,623	144,962	141	-	151,380
Net book value						
At 31 December 2016	95	1,350	91,485	1,656	24,551	119,136
At 31 December 2017	-	1,746	81,423	1,689	20,153	105,011

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 equip- ment	Assets under development	Other tangible assets	Prepayments for tangible assets	Total
Cost							
Balance at 31 December 2015	141,133	341,016	707,791	10,544	213	23	1,200,720
Additions	-	-	-	31,930	-	696	32,626
Revaluation	1,832	4,118	-	-	-	-	5,950
Assets put into use	7,307	5,657	23,829	(37,282)	489	-	-
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	-	73,325
Balance at 31 December 2016	150,852	351,453	779,773	4,565	810	719	1,288,173
Additions	-	-	-	64,387	-	1,803	66,190
Assets put into use	-	4,537	24,085	(28,622)	-	-	-
Disposals	-	-	(6,724)	-	-	-	(6,724)
Write off and retirements	-	-	(23,354)	-	-	-	(23,354)
Decrease based on government grants	-	-	-	(7,407)	-	-	(7,407)
Transferred to investment property (Note 23)	(15,881)	(37,635)	-	-	-	-	(53,516)
Effect of exchange differences	(281)	(5,819)	(22,507)	(46)	(47)	84	(28,616)
Balance at 31 December 2017	134,690	312,536	751,273	32,877	763	2,606	1,234,746
Accumulated depreciation							
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	-	44,148
Balance at 31 December 2016	-	80,948	506,980	-	298	-	588,226
Charge for the year (Note 11)	-	6,130	45,149	-	119	-	51,398
Disposals	-	-	(6,324)	-	-	-	(6,324)
Write off and retirements	-	-	(23,337)	-	-	-	(23,337)
Transferred to investment property (Note 23)	-	(5,687)	-	-	-	-	(5,687)
Effect of exchange differences	-	(969)	(18,088)	-	(24)	-	(19,081)
Balance at 31 December 2017	-	80,421	504,380	-	393	-	585,194
Net book value							
At 31 December 2016	150,852	270,505	272,793	4,565	513	719	699,947
At 31 December 2017	134,690	232,113	246,893	32,878	371	2,605	649,551

22. PROPERTY, PLANT AND EQUIPMENT (continued)*(in thousands of kunas)*

Total value of liabilities under financial leases at December 31 2017 amounts to HRK 2,050 thousand (31 December 2016: HRK 2,239 thousand).

23. INVESTMENT PROPERTY*(in thousands of kunas)*

	Land	Buildings	Total
Cost			
At 31 December 2015	-	-	-
Reclassified from property, plant and equipment (Note 22)	-	14,303	14,303
At 31 December 2016	-	14,303	14,303
Reclassified from property, plant and equipment (Note 22)	15,881	37,635	53,516
Effect of exchange differences	-	(167)	(167)
At 31 December 2017	15,881	51,771	67,652
Accumulated depreciation			
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
Reclassified from property, plant and equipment (Note 22)	-	5,688	5,688
Charge for the year (Note 11)	-	894	894
Effect of exchange differences	-	66	66
At 31 December 2017	-	12,887	12,887
Net book value			
At 31 December 2016	-	8,064	8,064
At 31 December 2017	15,881	38,884	54,765



In 2017, the part of the building used to rent office space was reclassified. Income from the rental of the building in 2017 amounts to HRK 2,278 thousand (in 2016 HRK 404 thousand), and the depreciation charge for the year amounts to HRK 894 thousand (in 2016 HRK 215 thousand). Book value of asset classified as investment properties represents approximately the market value.



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	
			2017	2016	2017	2016
EURO AUTO PLASTIC SYSTEMS	Manufacture of other motor vehicle spare parts and accessories	Mioveni, Romania	50.00%	50.00%	96,822	82,929
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE	Automotive industry research and development	Zagreb, Croatia	24.00%	24.00%	38	35
Total					96,860	82,964

Name of associate	Country of incorporation and business	Amount of equity investment	Share in the result for the year 2016 (Note 17)	New investments made during the period	Dividends paid	Amount of equity investment
						31.12.2015
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

Name of associate	Country of incorporation and business	Amount of equity investment	Share in the result for the year 2017 (Note 17)	New investments made during the period	Dividends paid	Amount of equity investment
						31.12.2016
EURO AUTO PLASTIC SYSTEMS	Mioveni, Romania	82,929	55,867	-	(41,974)	96,822
CENTAR ZA ISTRAŽIVANJE I RAZVOJ AUTOMOBILSKE INDUSTRIJE	Zagreb, Croatia	35	3	-	-	38
Total		82,964	55,870	-	(41,974)	96,860

Euro Auto Plastic Systems s.r.l. is considered to be associate since the management of its operations is under the control of Faurecia Automotive Holdings s.a.s.

25. OTHER FINANCIAL ASSETS*(in thousands of kunas)*

	31.12.2017	31.12.2016
Long-term loans to unrelated companies	4,012	6,400
Other financial assets	62	61
Current portion of long-term loan receivables (Note 29)	(1,003)	(1,500)
	3,071	4,961

Long-term loans to third parties have been provided at an interest rate of 6.00% percent (2016: 6.00 %), with the ultimate maturity in 2021.

26. INVENTORIES*(in thousands of kunas)*

	31.12.2017	31.12.2016
Raw material and supplies on stock	78,780	68,929
Tools	35,700	-
Finished products	23,943	19,117
Advances for inventory	7,145	137
Work in progress	6,275	5,442
Merchandise on stock	3,392	13,940
	155,235	107,565

27. TRADE RECEIVABLES*(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign trade receivables	195,462	131,357
Domestic trade receivables	5,718	3,700
Impairment allowance on receivables	(2,605)	(2,226)
	198,575	132,831

The average credit period on sales is 70 days (2016: 63 days). The Group has provided impairment 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:

	2017	2016
Balance at beginning of the year	1,367	3,361
Written-off during the year	(60)	(659)
Collected during the year	(12)	(1,335)
Total impairment allowance on domestic trade receivables	1,295	1,367
Balance at beginning of the year	859	743
New impairments and write-offs during the year	460	168
Collected during the year	(9)	(52)
Total impairment allowance on foreign trade receivables	1,310	859
Total impairment allowance	2,605	2,226

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

	31.12.2017	31.12.2016
0 - 365 days	448	169
Over 365 days	2,157	2,057
	2,605	2,226

Ageing analysis of receivables past due but not impaired:

	31.12.2017	31.12.2016
0 - 365 days	44,163	19,529
Over 365 days	316	2,313
	44,479	21,842



27. TRADE RECEIVABLES (continued)

(in thousands of kunas)

Receivables from associated companies:

	31.12.2017	31.12.2016
Trade receivables	5,369	5,453
	5,369	5,453

28. OTHER RECEIVABLES

(in thousands of kunas)

	31.12.2017	31.12.2016
Prepayments made	19,616	28,750
Receivables from the State and State institutions	18,997	11,424
Due from employees	99	288
	38,712	40,462

29. CURRENT FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2017	31.12.2016
Current portion of given long-term loans (Note 25)	1,003	1,500
Interest receivable	102	9,703
Short-term loans	-	46,651
Deposits	-	2,802
	1,105	60,656

30. CASH AND CASH EQUIVALENTS

(in thousands of kunas)

	31.12.2017	31.12.2016
Current account balance	10,195	10,374
Cash in hand	27	48
	10,222	10,422

31. PREPAID EXPENSES AND ACCRUED INCOME

(in thousands of kunas)

Accrued income in the amount of HRK 17,847 thousand (31 December 2016: HRK 50,185 thousand) relates to the value of investment made in the manufacture of tools for a known customer.

	31.12.2017	31.12.2016
Other accrued income on tools	17,847	50,185
Prepaid expenses	3,875	3,702
Other accrued income	7,042	4,592
	28,764	58,479





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 (2016: HRK 419,958 thousand; 4,199,584 shares, with a nominal value of HRK 100.00 each).

Ten largest shareholders at 31 December 2017 were as follows:

Shareholder	Headquarters	31.12.2017		31.12.2016		Type of account
		Number of shares	Ownership in %	Number of shares	Ownership in %	
OA0 HOLDING AUTOKOMPONENTI	Saint Petersburg, Russia	1,259,875	30.00%	1,259,875	30.00%	Primary account
ADDIKO BANK D.D. / RAIFFEISEN MANDATORY PENSION FUND – CATEGORY B	Zagreb, Croatia	314,704	7.49%	269,462	6.42%	Custody account
ADDIKO BANK D.D. / RAIFFEISEN VOLUNTARY PENSION FUND	Zagreb, Croatia	203,884	4.85%	148,645	3.54%	Custody account
ADDIKO BANK D.D./ PBZ CO MANDATORY PENSION FUND – CATEGORY B	Zagreb, Croatia	121,980	2.90%	119,640	2.85%	Custody account
HRVATSKA POŠTANSKA BANKA D.D./ CAPITAL FUND D.D.	Zagreb, Croatia	116,541	2.78%	116,541	2.78%	Custody account
ERSTE & STEIERMAERKISCHE BANK d.d. / JOINT CUSTODY ACCOUNT FOR A FOREIGN LEGAL ENTITY	Zagreb, Croatia	105,349	2.51%	105,349	2.51%	Custody account
PBZ D.D. / STATE STREET CLIENT ACCOUNT	Zagreb, Croatia	90,938	2.17%	92,948	2.21%	Custody account
SPLITSKA BANKA D.D. / ERSTE PLAVI MANDATORY PENSION FUND – CATEGORY B	Split, Croatia / Zagreb, Croatia	87,501	2.08%	115,353	2.75%	Custody account
ADP-ESOP D.O.O.	Split, Croatia	81,834	1.95%	130,532	3.11%	Primary account
ZAGREBAČKA BANKA D.D. / STATE STREET BANK AND TRUST COMPANY, BOSTON	Zagreb, Croatia / Boston, USA	70,774	1.69%	73,777	1.76%	Custody account
Remaining shareholders	-	1,746,204	41.58%	1,767,462	42.09%	-
Total		4,199,584	100.00%	4,199,584	100.00%	



33. PROVISIONS

(in thousands of kunas)

	Short-term		Long-term	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Jubilee awards (long-service benefits)	279	-	1,506	1,474
Retirement benefits	-	-	2,205	2,269
Legal actions	768	4,474	-	-
Vacation accrual	6,429	4,477	-	-
Employee bonuses	4,212	401	-	-
	11,688	9,352	3,711	3,743

Movement in provisions is presented as follows:

	Jubilee awards (long-service benefits)	Termination and retirement benefits	Legal actions	Vacation accrual	Employee bonuses	Total
At 1 January 2016	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
Increase/(decrease) of provisions	311	(64)	(3,706)	1,952	3,811	2,304
At 31 December 2017	1,785	2,205	768	6,429	4,212	15,399

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 3.25 % and the fluctuation rate of 7.18 %.



34. LONG-TERM BORROWINGS AND OTHER NON-CURRENT LIABILITIES *(in thousands of kunas)*

	31.12.2017	31.12.2016
Long-term borrowings	255,444	261,877
Long-term commodity credits provided by suppliers	14,691	23,141
	270,135	285,018
Current portion of long-term borrowings (Note 37)	(65,837)	(99,259)
	204,298	185,759

Long-term borrowings 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 equipment and payment instruments. The existing long-term loans are paid quarterly.

In 2017, the weighted average interest rate on the long-term loans in 2017 was 3.00 percent (2016: 3.85 %). 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:

	2017	2016
Balance at 1 January	185,759	291,080
New loans raised	153,775	-
Exchange differences, net	1,322	763
Reclassification to short-term (Note 37)	(136,558)	(106,084)
Balance at 31 December	204,298	185,759

35. ADVANCES RECEIVED *(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign customers	30,154	31,942
Domestic customers	-	2,500
	30,154	34,442

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

36. TRADE PAYABLES *(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign trade payables	132,157	113,733
Domestic trade payables	40,869	29,948
	173,026	143,681

Average payment period for trade payables during 2017 equalled to 83 days (2016: 99 days).

37. SHORT-TERM BORROWINGS *(in thousands of kunas)*

	31.12.2017	31.12.2016
Short-term loans - principal payable	75,334	122,052
Current portion of long-term borrowings (Note 34)	65,837	99,259
Short-term borrowings - interest payable	791	1,747
	141,962	223,058

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. Most of the total balance of the short-term borrowings represent 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 3.09% (2016: 4.54 %).



37. SHORT-TERM BORROWINGS (continued)

(in thousands of kunas)

	2017	2016
Balance at 1 January	223,058	163,100
New loans raised	85,995	100,065
Reclasification on current portion of long-term borrowings (Note 34)	136,558	106,084
Invoiced interest	15,984	20,355
Exchange differences	(2,532)	1,646
Interest paid	(16,964)	(18,567)
Repayments of received loans	(300,137)	(149,625)
Balance at 31 December	141,962	223,058

38. OTHER CURRENT LIABILITIES

(in thousands of kunas)

	31.12.2017	31.12.2016
Due to the State and State institutions	12,177	8,647
Amounts due to employees	10,162	9,075
Other current liabilities	63	132
	22,402	17,854

39. ACCRUED EXPENSES AND DEFERRED INCOME

(in thousands of kunas)

	31.12.2017	31.12.2016
Accrued tool expenses	3,286	19,677
Due to the State and State institutions	462	663
Other current liabilities	10,538	5,143
	14,286	25,483

40. GOODWILL

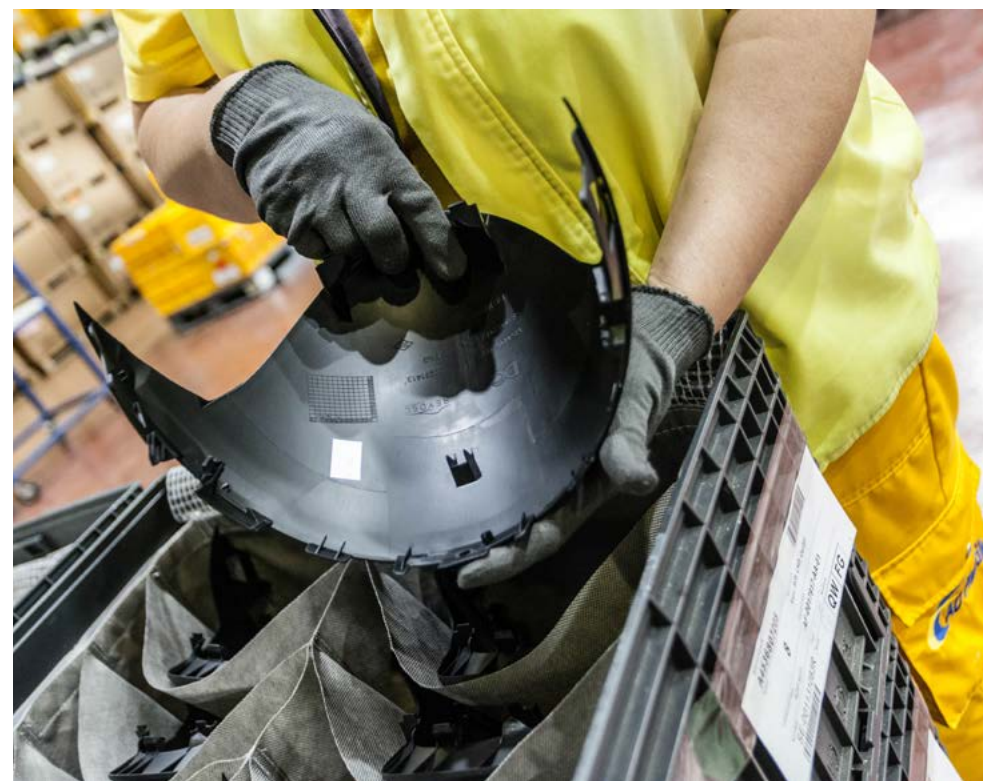
(in thousands of kunas)

	31.12.2017	31.12.2016
Goodwill	8,670	9,411
	8,670	9,411

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.

Movement of goodwill:

	2017	2016
At 1 January	9,411	7,612
Effect of exchange differences	(741)	1,799
At 31 December	8,670	9,411



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 2017 amounts to HRK 10,727 thousand (2016: HRK 12,459 thousand).

Receivables and payables for goods and services	Receivables		Payables	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EURO APS, Romania	5,369	5,451	0	189
Centar za istraživanje i razvoj, Croatia	1	2	5	5
	5,370	5,453	5	194

Purchase transactions	Income		Expences	
	2017	2016	2017	2016
<i>Operating income and expenses</i>				
EURO APS, Romania	12,030	15,124	0	2,632
Centar za istraživanje i razvoj, Croatia	7	8	16	24
	12,037	15,132	16	2,656





42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(in thousands of kunas)

42.1 Gearing ratio

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

	31.12.2017	31.12.2016
Short-term borrowings (Note 37)	141,962	223,058
Long-term borrowings (Note 34)	204,298	185,759
Cash and cash equivalents (Note 30)	(10,222)	(10,422)
Deposits (Note 29)	-	(2,802)
Net debt	336,038	395,593
Equity	749,788	697,385
Net debt-to-equity ratio	44.82%	56.73%

Net debt includes commodity credits provided by suppliers in the amount of HRK 14,691 thousand (31 December 2016: HRK 23,141 thousand).

Equity consists of share capital, reserves, own shares, retained earnings and profit for the year.

42.2. Categories of financial instruments

	31.12.2017	31.12.2016
Financial assets	232,751	238,004
Loans and receivables	222,529	224,780
Cash and cash equivalents and deposits (Notes 29 and 30)	10,222	13,224
Financial liabilities	559,665	596,147
Trade and other payables	213,405	187,330
Borrowings (Notes 34 and 37)	346,260	408,817

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

Financial risks are related to financial variables that can cause difficulties in servicing financial liabilities, ensuring liquidity, debt management, etc. The Group does not have a formal risk management program, however risk management is performed by 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 Group'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.

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 determines the prices of its products for each foreign market separately.

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 relative to the interest rate, which applies to the financial instrument. Interest rate risk is linked to changes in return rates of assets and liabilities and in values resulting from interest rate changes.

The Group's interest rate risk arises from its borrowings and from its interest generating assets, like loans given to subsidiaries. The interest rate risk exposure is minimal, considering that around 90% of

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(in thousands of kunas)

42.5. Interest rate risk (continued)

Group's borrowings are agreed with fixed interest rates, while interest rate risk exposure from interest generating assets is linked with Croatian National Bank decisions on interest rates that can be charged to subsidiaries. The Group continuously monitors interest rate changes and forecasts, various scenarios are simulated taking into account refinancing, current state renewal and alternative financing.

42.6. Credit risk

Credit risk is the risk that a party in a financial instrument will not fulfil its obligation and thus causes financial loss to the other party. The Group 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 Group. Trade receivables credit risk is minimal because it is Group policy to transact with financially sound companies where the risk of default is minimised. Impairment allowance was made on doubtful and disputed trade receivables.

The eight largest customers of the Group are Revoz d.d. Slovenija, Reydell Automotive France s.a.s. Francuska, OAO Avtovaz Rusija, Renault Rusija, Hella Saturnus d.o.o. Slovenija, PSA Groupe s.a. Francuska, Grupo Antolin Turnov s.r.o. Češka, FCA Italy s.p.a. Italija. In 2017 the Group generated 70.02% percent of its sales from its major customer (2016: 71.69%).

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	
	2017	2016	2017	2016	2017	2016
RUB	48,982	108,062	19,143	19,561	29,839	88,501
CZK	273	-	-	154	273	(154)
GBP	122	35	26	-	96	35
USD	87	118	89	218	(2)	(100)
RSD	3,642	3,748	4,032	4,901	(390)	(1,153)
EUR	181,406	115,921	393,502	286,864	(212,096)	(170,943)
	234,512	227,884	416,792	311,698	(182,280)	(83,814)

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 2017 and 2016. 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	
	2017	2016
Change in exchange differences (2%)	+/- 4.244	+/- 3.419

	RUB impact	
	2017	2016
Change in exchange differences (10%)	+/- 2.984	+/- 8.850



42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(in thousands of kunas)

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.

2017	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	-	122,791	91,195	14,629	63	62	228,740
Interest bearing	6.00%	-	-	1,305	3,370	-	4,675
		122,791	91,195	15,934	3,433	62	233,415
Liabilities							
Non-interest bearing	-	101,710	78,189	33,506	-	-	213,405
Interest bearing	3.05%	1,051	16,083	131,901	199,350	15,438	363,823
		102,761	94,272	165,407	199,350	15,438	577,227
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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

42.9. Fair value of financial instruments

Fair value is the price that would be generated from the sales of some item of an asset or paid for transferring some liability in a fair transaction between market participants at the measurement date, regardless of whether it would be directly visible or evaluated by applying some other valuation technique.

At 31 December 2017 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 2017, there were no events that would have a significant impact on the financial statements for the year 2017, 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 2017 which would require to be disclosed in the notes to the consolidated financial statements.

As at 31 December 2017 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 2018.

For AD Plastik d.d., Solin:

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



Financial Statements for Year 2017

AD Plastik d.d., Solin

Separate Financial Statements

For the Year Ended 31 December 2017 together with Independent Auditor's Report

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Responsibility of the Management Board 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 above stated responsibility includes the responsibility for accuracy of the Management Report, which is an integral part of separate financial statements. 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 the Management Board

Sanja Biočić, Member of the Management Board

Mladen Peroš, Member of the Management Board

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

19. April 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AD Plastik d.d., Solin

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AD Plastik d.d., Solin (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the 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 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 ethical responsibilities in accordance with 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Hrk 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the 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 817,682 thousand (2016: HRK 701,423 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 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 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 tests of the design and the operating effectiveness of automatic and manual internal controls at the Company level as well as tests of details so as to satisfy ourselves that the revenue and the transactions are correctly accounted for. The key internal automatic control the Company relies on to be satisfied that revenue is correctly accounted for is automatic matching of order numbers with contract numbers in the Company's IT environment.

We tested the design and operating effectiveness of the key internal controls surrounding the sales process.

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 recognized sales and the related payment transactions.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the 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 considered to be its related companies. At 31 December 2017 the Company's exposure with respect to receivables from its related companies amounts to HRK 267,451 thousand (2016: HRK 278,844 thousand) and its liabilities to related parties amount to HRK 12,705 thousand (2016: HRK 5,537 thousand). Based on the separate statement of comprehensive income, the Company's operating income from related companies amounts to HRK 67,822 thousand (2016: HRK 58,546 thousand) and its operating expenses with respect to related companies amount to HRK 63,017 thousand (2016: HRK 41,703 thousand). Other related-party transactions include financial income in the amount of HRK 46,547 thousand (2016: HRK 50,481 thousand) and there were no financial expenses in 2017 (2016: HRK 181 thousand).

In addition to the transactions involving related companies, the Company also transacted with the members of its Supervisory and Management Boards as well as its executive directors, who also qualify 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, by performing the following:

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the 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 financial statements and our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, 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 Report and Corporate Governance Statement includes required disclosures as set out in the Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the 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 financial statements.
- 2) Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by the General Assembly on 20 July 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 8 years and covers period 1 January 2010 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 19 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings.

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

Deloitte d.o.o.

19 April 2018

Radnička cesta 80,

10 000 Zagreb,

Croatia



Separate statement of comprehensive income for the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

	Notes	2017	2016
Sales	5	817,682	701,423
Other income	6	16,971	16,453
Total income		834,653	717,876
Increase / (decrease) in the value of work in progress and finished products		3,392	1,528
Cost of raw material and supplies	7	(373,577)	(340,681)
Cost of goods sold	8	(133,641)	(62,704)
Service costs	9	(55,501)	(45,978)
Staff costs	10	(151,035)	(132,489)
Depreciation and amortisation	11	(51,775)	(48,918)
Other operating expenses	12	(27,721)	(50,283)
Provisions for risks and charges (net)	13	(5,415)	(3,842)
Total operating expenses		(795,273)	(683,367)
Profit from operations		39,380	34,509
Financial income	14	59,742	72,696
Financial expenses	15	(43,523)	(68,312)
Profit from financing activities		16,219	4,384
Profit before taxation		55,599	38,894
Income tax expense	16	(2,200)	(547)
Profit for the year		53,399	38,347

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

Separate statement of comprehensive income for the year ended 31 December 2017 (continued)

(All amounts are expressed in thousands of kunas)

	Notes	2017.	2016.
Items that may be included subsequently in profit or loss			
Exchange differences on translation of a foreign operation, net	17	-	5,436
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		53,399	42,087
Earnings per share			
Basic and diluted earnings per share (in kunas and lipas)	18	12,79	9,20

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





Separate statement of financial position at 31 December 2017

(All amounts are expressed in thousands of kunas)

ASSETS	Notes	31.12.2017	31.12.2016
Non-current assets			
Intangible assets	19	86,472	93,749
Property, plant and equipment	20	467,092	490,887
Investment property	21	51,557	8,064
Investments in subsidiaries and associates	22	66,163	66,163
Other financial assets	23	101,596	86,950
Long-term receivables	24	76,925	135,937
Deferred tax assets	16	618	3,161
Total non-current assets		850,423	884,910
Current assets			
Inventories	25	75,785	54,644
Trade receivables	26	231,156	139,730
Other receivables	27	29,056	27,431
Current financial assets	28	7,561	65,054
Cash and cash equivalents	29	3,144	4,033
Prepaid expenses and accrued income	30	27,928	48,634
Total current assets		374,630	339,526
TOTAL ASSETS		1,225,053	1,224,436

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2017	31.12.2016
Shareholders' equity and liabilities			
Share capital	31	419,958	419,958
Reserves		222,304	207,413
Profit for the year		53,399	38,347
Total shareholders' equity		695,661	665,718
Long-term provisions	32	3,440	3,576
Long-term borrowings	33	202,445	174,412
Total non-current liabilities		205,885	177,988
Advances received	34	5,767	12,249
Trade payables	35	153,225	124,815
Short-term borrowings	36	133,455	211,430
Other current liabilities	37	12,251	11,136
Short-term provisions	32	8,656	6,980
Accrued expenses	38	10,153	14,119
Total current liabilities		323,507	380,729
Total liabilities		529,392	558,717
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,225,053	1,224,436

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 2017

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal reserve	General reserves	Reserves from accruals of foreign exchange diffe- rences – transactions with subsidiaries	Reserves for own shares	Treasury shares	Retained earnings	Total
Balance at 31 December 2016	419,958	191,565	6,129	21,056	(11,337)	3,875	(3,875)	38,347	665,718
Profit for the year	-	-	-	-	-	-	-	53,399	53,399
Other comprehensive income for the year, net of income taxes	-	-	-	-	-	-	-	-	-
<i>Total comprehensive income for the year</i>	-	-	-	-	-	-	-	53,399	53,399
Dividends paid	-	-	-	-	-	-	-	(35,485)	(35,485)
Disposal of own (treasury) shares	-	137	-	674	-	(675)	675	-	811
Acquisition of own (treasury) shares	-	-	-	(119)	-	119	(119)	-	(119)
Realization of the recognised exchange differences (Note 17)	-	-	-	-	11,337	-	-	-	11,337
Balance at 31 December 2017	419,958	191,702	6,129	21,611	-	3,319	(3,319)	56,261	695,661

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 2017 (continued)

(All amounts are expressed in thousands of kunas)

	Share capital	Capital reserves	Legal reserve	General reserves	Reserve from revaluation of non-current tangible assets	Reserves from accruals of foreign exchange differences – transactions with subsidiaries	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 17)	-	-	-	-	-	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 cash flows for the year ended 31 December 2017

(All amounts are expressed in thousands of kunas)

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		53,399	38,347
Adjusted for:			
Income tax paid	16	2,200	547
Depreciation and amortisation	11	51,775	48,918
Write-off of property, plant and equipment and intangible assets	19,20	1,920	2,399
Interest expense and exchange rates recognised in profit or loss	14,15	30,629	46,622
Dividend income	14	(41,983)	(46,725)
Gain from sale of property, plant and equipment and intangible assets	6	(676)	(58)
Interest income	14	(4,864)	(4,282)
Increase in long-term and short-term provisions (net)	32	1,540	1,642
Income from collected previously written-off trade receivables	6	(12)	(1,335)
(Decrease) of accrued expenses and deferred income	38	(3,966)	(1,168)
Decrease/(increase) of accrued income and prepaid expenses	30	20,706	(11,712)
Profit from operations before working capital changes		110,668	73,195
(Increase) in inventories	25	(21,141)	(4,104)
(Increase)/decrease in current and non-current trade receivables		(44,995)	33,287
(Increase) in other receivables	27	(1,755)	(2,715)
Increase/(decrease) in trade payables	35	28,024	(40,832)
(Decrease)/increase of advances received	34	(6,482)	5,423
Increase/(decrease) in other current liabilities	37	1,457	(5,797)
Interest paid	36	(16,166)	(17,608)
Cash flows from operating activities		49,610	40,849
Cash flows from investing activities			
New investments in subsidiaries and associates	22	-	(7)
Interest received		13,821	9,865
Purchase of property, plant and equipment	20	(56,597)	(17,768)
Purchase of intangible assets	19	(18,317)	(19,240)
Proceeds from sale of property, plant and equipment and intangible assets		2,068	3,624
New loans given		-	(1,770)
Proceeds from repaid principal of loans given		47,930	16,337
Decrease in deposits	28	10	436
Proceeds from sale of financial assets		-	129
Proceeds from government grants		5,147	-
Dividends received		41,829	46,080
Cash generated from investing activities		35,891	37,686



Separate statement of cash flows for the year ended 31 December 2017 (continued)

(All amounts are expressed in thousands of kunas)



Cash flows from financing activities	Notes	2017	2016
Purchase of own (treasury) shares		(119)	-
Dividends paid		(35,485)	(50,044)
Proceeds from borrowings	33,36	239,013	95,927
Repayment of borrowings	36	(287,152)	(120,459)
Repayment of financial lease		(2,647)	(3,339)
Cash used in financing activities		(86,390)	(77,916)
(Decrease)/increase in cash and cash equivalents, net	29	(889)	619
Cash and cash equivalents at the beginning of the year		4,033	3,414
Cash and cash equivalents at the end of the year	29	3,144	4,033

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 2017

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 2017, the number of staff employed was 1,321 (31 December 2016: 1,193).



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 (Vice President)	20. 07. 2016	20. 07. 2020
Hrvoje Jurišić	20. 07. 2016	20. 07. 2020
Igor Anatoljevič Solomatin	23. 07. 2015	23. 07. 2019
Nikitina Nadežda Anatoljevna	19. 10. 2015	19. 10. 2019
Zoja Crnečki	20. 07. 2017	20. 07. 2021
Robert Kuhta	30. 10. 2017	30. 10. 2021
Dolores Čerina	02. 06. 2015	22. 09. 2017
Marijo Grgurinović	23. 07. 2015	19. 07. 2017

Members of the 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

Members of Audit Committee	mandate from	mandate to
Ivica Tolić (President)	25. 05. 2017	25. 05. 2021
Drandin Dmitrij Leonidovič	23. 07. 2015	23. 07. 2019
Nenad Škomrlj	01. 06. 2016	01. 06. 2020
Anatolij Janovskis	01. 06. 2016	01. 06. 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 IAS 7 “Statement of Cash Flows”** – Disclosure Initiative – adopted by EU on 6 November 2017 (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 – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IFRS 12 due to “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 – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

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

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

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 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),
- **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),



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

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

- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (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 – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to “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 – adopted by the EU on 7 February 2018 (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”** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

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 2018 (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 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **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 IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),



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 (continued)

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Company does not expect significant impact on the financial statements for the year 2018 by the changes of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" which come into effect after 1 January 2018. Total amount of liabilities under financial leases at 31 December 2017 amounts to HRK 2,050 thousand. Their classification will be influenced by the application of IFRS 16 "Leases" which comes into effect after 1 January 2019.

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 2017, 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 22.



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 from tools 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 estimates that the transfer of significant risks and benefits from the ownership of tools, gauges and other devices is met at the time of „SOP“ (Start Of Production), i.e. start of the mass production on them. At that point Company recognizes revenue from the sale of tools. Costs of modification, completion and similar tool costs Company recognizes as an increase in inventory value as part of inventory process.

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. Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 the statement of comprehensive income for the year. At 31 December 2017, the official exchange rate of the Croatian kuna against 1 Euro (EUR) was HRK 7.513648 (31 December 2016: HRK 7.557787 for EUR 1).

3.6. 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 year 2016 is 20 % and for year 2017 amounts to 18 %.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Income tax (continued)

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 %.

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.

3.7. Plant, 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:

	Depreciation rates in 2017	Depreciation rates in 2016
Property, plant and equipment, and intangible assets		
Buildings	1.50	1.50
Machinery	7.00	7.00
Tools, furniture, office and laboratory equipment, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. After initial measurement, investment properties are measured at cost less accumulated depreciation and impairment losses.

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.

3.9. 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, if it 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.

3.10. 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.

3.11. 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.

3.12. 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.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Trade receivables and prepayments (continued)

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.

3.13. 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.

3.14. 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.

3.15. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. 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.

3.18. 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.

3.19. 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.

3.20. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

3.21. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination (IFRS 3), (ii) held for trading, or (iii) it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Financial liabilities (continued)

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 2017, 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



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

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.

Accounting treatment of tools

In 2017, Company changed its key accounting judgements regarding accounting treatment of tools. According to the information available to the Company, tools are treated as inventory and are recognized in Company's Statement of financial position from the date of purchase to the date of start of production of mass deliveries to customers (SOP – Start Of Production). Date of start of production of mass deliveries shall be the date when significant risks and rewards of ownership of tools are transferred to the buyer.

Provision for legal claims

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions and recognises provisions for the liabilities that may arise to the Company in respect of claims. The Company recognises a provision in the total expected amount of outflows of economic benefits as a result of the court case, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of management after consultation with legal advisers, that the outcome of the court case will be unfavourable for the Company. The Company does not recognise provisions for court cases or the expected related legal costs and penalty interest (if applicable) in cases where management estimates that an unfavourable outcome of the court case is less likely than a favourable outcome for the Company.

Where indications exist of a possible settlement in relation to a particular court case, a provision is recognised, based on the best estimate of management made in consultation with its legal advisers,

in the amount of the expected settlement less any existing amounts already provided for in relation to that particular court case.

Useful life of Projects

The Management of the Company considers it appropriate to amortize the development part of the Projects for an average duration of five years. The Management believes that the described period represents the average duration of the production cycle to which the described Projects are concerned.

5. SALES

(All amounts are expressed in thousands of kunas)

	2017	2016
Foreign sales	805,430	685,971
Domestic sales	12,252	15,452
	817,682	701,423

Segment revenue analysis by country:

	2017	2016
Slovenia	386,377	376,880
France	169,679	129,226
Serbia	50,427	19,294
Russia	50,239	37,606
Germany	49,910	36,440
Italy	45,957	32,272
Spain	17,694	25,431
Croatia	12,252	15,452
Others	35,147	28,822
	817,682	701,423

**6. OTHER INCOME***(in thousands of kunas)*

	2017	2016
Service income – cardboard packaging	3,984	3,997
Rental income	2,523	3,258
Income from consumption of own products and services	2,144	1,009
Income from damages and insurance	1,944	1,351
Income from the sale of services to tenants	1,426	1,003
Income from the quality control	687	-
Income from sale of long-term assets	676	58
Income from maintaining safety stock	556	120
Income from waste management services	521	257
Income from written-off liabilities	319	1,055
Income from reversed provisions for pensions	169	-
Income from transport services	156	117
Income from recovery of written-off receivables (Note 26)	12	1,335
Other operating incomeRental income	1,854	2,893
	16,971	16,453

7. COST OF RAW MATERIAL AND SUPPLIES*(in thousands of kunas)*

	2017	2016
Direct materials	329,060	302,290
Other raw material and supplies	30,311	25,296
Electricity	14,206	13,095
	373,577	340,681

8. COST OF GOODS SOLD*(in thousands of kunas)*

	2017	2016
Cost of merchandise	65,347	36,531
Cost of tools sold	37,197	-
Cost of materials sold	24,097	18,739
Re-export costs	6,380	7,228
Other costs of goods sold	621	206
	133,641	62,704

Based on the changes in key accounting judgement, since 2017 Company has been treating tools as inventory from the moment of purchase to the moment of start of mass production on aforementioned tools (SOP – start of production). According to aforesaid, costs of tools sold are treated as costs of goods sold. In previous years, revenues and related costs were recognized by the degree of completion of tools and those costs were presented as part of other operating expenses. In line with the information the Group had available during 2017, the Management Board estimated that tools should be classified as Group's inventory. During the previous year, the Management Board recognized revenues after completion of the contractual activity, i.e. according to degree of completion of tools, because the costs incurred in connection with the transaction can be measured reliably. Revenues and costs related to the same transaction were simultaneously recognized. When the output of the tool construction contract was delivered, the contract revenue was recognized according to the contractual activities completed at the reporting date on the financial position.

9. SERVICE COSTS*(in thousands of kunas)*

	2017	2016
Transport	31,665	25,450
Rental and lease costs	9,255	7,593
Current maintenance and preventive maintenance of machinery	4,673	4,672
Know-how costs	1,767	254
Engineering services costs	1,486	70
Info-communication costs	1,215	1,352
Communal fees	1,201	948
Water	1,109	993
Other service costs	3,130	4,646
	55,501	45,978



10. STAFF COSTS

(in thousands of kunas)

	2017	2016
Net wages and salaries	82,304	72,709
Taxes and contributions out of salaries	32,026	28,507
Contributions on salaries	18,493	16,757
Other staff costs	18,212	14,516
	151,035	132,489

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)

	2017	2016
Depreciation of property, plant and equipment (Note 20)	27,843	28,439
Amortisation of intangible assets (Note 19)	23,226	20,265
Depreciation of investment property (Note 21)	706	214
	51,775	48,918

12. OTHER OPERATING EXPENSES

(in thousands of kunas)

	2017	2016
Intellectual service cost	9,607	7,787
Customer complaints	3,082	2,376
Insurance premiums	2,039	1,607
Non-material assets write-off (Note 19)	1,920	55
Withholding tax	1,557	51
Communal fees for the use of construction plots	1,506	1,507
Professional training costs	913	963
Entertainment	899	745
Damages reimbursement	726	192
Measuring equipment and laboratory tests	650	488
Other non-material costs	606	1,635
Bank and transaction charges	521	638
Sponsorship of sport and culture	370	-
Cost of goods provided free of charge	361	208
Support to employees and their families	347	240
Penalties for missing handicapped employment quotas	303	227
Forest reproduction levies	226	198
Gifts, donations and sponsorships of up to 2 % of prior-period revenue	202	186
Costs of tools sold	-	24,362
Other expenses	1,886	6,818
	27,721	50,283

13. PROVISIONS FOR RISKS AND CHARGES*(in thousands of kunas)*

	2017	2016
Employee bonus provisions (Note 32)	3,561	-
Vacation provisions, net (Note 32)	1,822	2,506
Provisions for jubilee benefits, net (Note 32)	32	93
Litigation provision, net	-	1,243
	5,415	3,842

14. FINANCIAL INCOME*(in thousands of kunas)*

	2017	2016
Dividend income	41,983	46,724
Foreign exchange gains	12,894	21,690
Interest income	4,864	4,282
	59,742	72,696

15. FINANCIAL EXPENSES*(in thousands of kunas)*

	2017	2016
Foreign exchange losses	28,310	46,508
Interest expense	15,213	21,804
	43,523	68,312

16. INCOME TAX*(in thousands of kunas)*

Income tax comprises the following:

	2017	2016
Deferred tax	(2,200)	(547)
Current tax	-	-
	(2,200)	(547)

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

	2017	2016
Balance at 1 January	3,161	11,968
(Reversal) of deferred tax assets	(2,543)	(8,807)
Balance at 31 December	618	3,161

Deferred tax assets arise from the following:

2017	Opening balance	(Charged) to statement of comprehensive income, net	Closing balance
<i>Temporary differences:</i>			
Provisions for jubilee service and termination benefits	574	46	618
Reserves from translation of foreign currencies, net	2,587	(2,587)	-
Balance at 31 December	3,161	(2,543)	618

2016	Opening balance	(Charged) to statement of comprehensive income, net	Closing balance
<i>Temporary differences:</i>			
Provisions for jubilee 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



16. INCOME TAX (continued)

(in thousands of kunas)

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

	2017	2016
Accounting profit before tax	55,599	38,894
Effect of tax base increasing items	11,841	11,782
Effect of tax base decreasing items	(46,142)	(81,081)
Tax base	21,298	(30,405)
Tax at the rate of 18%	3,834	-
Tax reliefs	(3,834)	-
Deferred tax recognised in profit or loss	2,200	(547)
Income tax expense	2,200	(547)

The effective income tax rate in Republic of Croatia in year 2017 was 18% (2016: 20%).

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, having thus met the prerequisites for the utilization of the tax incentives for 2017.

17. RESERVES FROM ACCRUALS OF FOREIGN EXCHANGE DIFFERENCES – TRANSACTIONS WITH SUBSIDIARIES

(in thousands of kunas)

	2017	2016
Balance at beginning of the year	(11,337)	(45,062)
New accruals	-	6,629
Income tax	-	(1,193)
Reserves from accruals of foreign exchange differences, net	-	5,436
Realization of exchange differences	11,337	28,289
Balance at end of year	-	(11,337)

18. EARNINGS PER SHARE

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.

	2017	2016
Net profit (in HRK '000)	53,399	38,347
Weighted average number of shares	4,173,705	4,169,725
Basic and diluted earnings per share (in kunas and lipas)	12.79	9.20

19. INTANGIBLE ASSETS

(in thousands of kunas)

	Licences	Software	Projects	Intangible assets under development	Total
Cost					
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
Additions	-	-	-	18,317	18,317
Transfer from assets under development	-	1,281	20,701	(21,983)	-
Disposals	-	-	(810)	-	(810)
Write-off	-	-	(3,356)	-	(3,356)
Balance at 31 December 2017	-	6,945	199,629	16,388	222,962
Accumulated amortisation					
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
Charge for the year (Note 11)	-	833	22,393	-	23,226
Disposals	-	-	(362)	-	(362)
Write-off	-	-	(1,436)	-	(1,436)
Balance at 31 December 2017	-	5,258	131,232	-	136,490
Net book value					
At 31 December 2016	-	1,238	72,457	20,053	93,749
At 31 December 2017	-	1,687	68,397	16,388	86,472

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.



20. PROPERTY, PLANT AND EQUIPMENT

(in thousands of kunas)

	Land	Buildings	Plant and equipment	Assets under development	Total
Cost					
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 21)	-	(14,303)	-	-	(14,303)
Balance at 31 December 2016	147,283	253,390	418,708	5,324	824,704
Additions	-	-	-	56,597	56,597
Transfer from assets under development	-	1,511	17,451	(18,962)	-
Disposals	-	-	(7,467)	-	(7,467)
Retirements	-	-	(23,318)	-	(23,318)
Decrease based on government grants	-	-	-	(7,407)	(7,407)
Transfer to investment property (Note 21)	(15,881)	(33,050)	-	-	(48,931)
Balance at 31 December 2017	131,402	221,851	405,374	35,552	794,178
Accumulated depreciation					
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	-	-	(4,072)	-	(4,072)
Transfer to investment property (Note 21)	-	(6,024)	-	-	(6,024)
Balance at 31 December 2016	-	69,902	263,915	-	333,817
Charge for the year (Note 11)	-	3,313	24,530	-	27,843
Disposals	-	-	(6,523)	-	(6,523)
Retirements	-	-	(23,318)	-	(23,318)
Transfer to investment property (Note 21)	-	(4,733)	-	-	(4,733)
Balance at 31 December 2017	-	68,482	258,604	-	327,086
Net book value					
At 31 December 2016	147,283	183,488	154,792	5,324	490,887
At 31 December 2017	131,402	153,369	146,770	35,552	467,092

Total amount of liabilities under financial leases at 31 December 2017 amounts to HRK 2,050 thousand (31 December 2016: HRK 2,239 thousand). Total amount of financial leases was used to finance plant and equipment.

21. INVESTMENT PROPERTY

(in thousands of kunas)

	Land	Buildings	Total
Cost			
Balance at 31 December 2015	-	-	-
Transferred from property, plant and equipment (Note 20)	-	14,303	14,303
Balance at 31 December 2016	-	14,303	14,303
Transferred from property, plant and equipment (Note 20)	15,881	33,050	48,930
Balance at 31 December 2017	15,881	47,353	63,233
Accumulated depreciation			
Balance at 31 December 2015	-	-	-
Transferred from property, plant and equipment (Note 20)	-	6,024	6,024
Charge for the year (Note 11)	-	215	215
Balance at 31 December 2016	-	6,239	6,239
Transferred from property, plant and equipment (Note 20)	-	4,733	4,733
Charge for the year (Note 11)	-	705	705
Balance at 31 December 2017	-	11,677	11,677
Net book value			
Balance at 31 December 2016	-	8,064	8,064
Balance at 31 December 2017	15,881	35,676	51,557



In 2017 the part of the building used to rent office space was reclassified. Income from the rental of the building in 2017 amounts to HRK 2,218 thousand (2016: HRK 404 thousand), and the depreciation charge for the year 2017 amounts to HRK 705 thousand (2016: HRK 215 thousand).



22. 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	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
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 AD Plastik Togliatti	Manufacture of other vehicle spare parts and accessories	Samara, Russian Federation	99.99%	99.99%	5,077	5,077
AD PLASTIK d.o.o.	Manufacture of other vehicle spare parts and accessories	Novo Mesto, Slovenia	100.00%	100.00%	58	58
					44,384	44,384

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	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
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	66,163

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.

22. 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	31.12.2017	31.12.2016
Total assets	3,643	3,663
Total liabilities	(149)	(183)
Net assets	3,494	3,480
Share in the net assets of the subsidiary	100.00%	100.00%

AO AD Plastik Togliatti / AO ADP, Samara, Russian Federation	31.12.2017	31.12.2016
Total assets	150,395	157,261
Total liabilities	(143,762)	(161,089)
Net assets	6,633	(3,827)
Share in the net assets of the subsidiary	99.99%	99.99%

ZAO AD Plastik Kaluga, Kaluga, Russian Federation	31.12.2017	31.12.2016
Total assets	128,077	142,805
Total liabilities	(125,922)	(135,265)
Net assets	2,155	7,540
Share in the net assets of the subsidiary	100.00%	100.00%

ADP d.o.o, Mladenovac, Serbia	31.12.2017	31.12.2016
Total assets	93,089	78,394
Total liabilities	(81,017)	(70,719)
Net assets	12,072	7,675
Share in the net assets of the subsidiary	100.00%	100.00%

23. OTHER FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2017	31.12.2016
Long-term loans to subsidiaries	98,526	81,989
Long-term loans to unrelated companies	4,011	6,399
Other financial assets	62	62
Current portion of long-term loan receivables (Note 28)	(1,003)	(1,500)
	101,596	86,950

Long-term investment loans were granted to the subsidiaries with maturities of five years and an interest rate of 4.97 %.

24. LONG-TERM RECEIVABLES

(in thousands of kunas)

	31.12.2017	31.12.2016
AO ADP, Russia	49,070	86,146
ADP Kaluga, Russia	27,855	49,791
	76,925	135,937

24. INVENTORIES

(in thousands of kunas)

	31.12.2017	31.12.2016
Raw material and supplies on stock	46,079	36,553
Finished products	13,390	10,693
Tools	8,761	-
Work in progress	4,465	4,063
Merchandise on stock	3,090	3,335
	75,785	54,644

There was no impairment allowance on inventories at 31 December 2017.



26. TRADE RECEIVABLES

(in thousands of kunas)

	31.12.2017	31.12.2016
Foreign trade receivables	226,757	137,421
Domestic trade receivables	5,718	3,701
Impairment allowance on receivables	(1,319)	(1,392)
	231,156	139,730

The average credit period on sales is 98 days (2016: 77 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:

	2017	2016
Balance at beginning of the year	1,365	3,361
Amounts written-off in total during the year	(60)	(661)
Collected during the year (Note 6)	(12)	(1,335)
Total impairment allowance on domestic trade receivables	1,293	1,365
Balance at beginning of the year	27	27
Total impairment allowance on foreign trade receivables	27	27
Total impairment allowance	1,320	1,392

All receivables provided against are under litigation or included in bankruptcy estate. The maturity of the receivables can be analysed as follows:

	31.12.2017	31.12.2016
Over 365 days	1,320	1,392
	1,320	1,392

Ageing analysis of receivables past due but not impaired can be presented as follows:

	31.12.2017	31.12.2016
0 - 365 days past due	87,087	56,462
Over 365 days past due	9,146	7,123
	96,233	63,585

The majority of the receivables past due beyond 365 days comprise amounts owed by the subsidiaries.

27. OTHER RECEIVABLES

(in thousands of kunas)

	31.12.2017	31.12.2016
Foreign prepayments made	16,199	17,436
Receivables from the State and State institutions	11,717	5,315
Domestic prepayments made	1,137	4,548
Amounts due from employees	3	132
	29,056	27,431

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.

28. CURRENT FINANCIAL ASSETS

(in thousands of kunas)

	31.12.2017	31.12.2016
Interest receivables	6,558	16,893
Current portion of long-term loan receivables (Note 23)	1,003	1,500
Short-term loans to unrelated companies	-	46,651
Other deposits	-	10
	7,561	65,054

Interest receivables mostly relate to loans given to subsidiaries.

29. CASH AND CASH EQUIVALENTS*(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign account balance	3,095	2,677
Current account balance	46	1,343
Cash in hand	3	14
Total	3,144	4,033

31. SHARE CAPITAL*(in thousands of kunas)*

Subscribed capital amounts to HRK 419,958 thousand and consists of 4,199,584 shares, with a nominal value of HRK 100 per share (2016: HRK 419,958 thousand, comprising 4,199,584 shares, with a nominal value of HRK 100 each).

Ten largest shareholders at 31 December 2017 were as follows:

Shareholder	Headquarters	31.12.2017		31.12.2016		Type of account
		Number of shares	Ownership in %	Number of shares	Ownership in %	
DAO HOLDING AUTOKOMPONENTI	Saint Petersburg, Russia	1,259,875	30.00%	1,259,875	30.00%	Primary account
ADDIKO BANK D.D. / RAIFFEISEN MANDATORY PENSION FUND – CATEGORY B	Zagreb, Croatia	314,704	7.49%	269,462	6.42%	Custody account
ADDIKO BANK D.D. / RAIFFEISEN VOLUNTARY PENSION FUND	Zagreb, Croatia	203,884	4.85%	148,645	3.54%	Custody account
ADDIKO BANK D.D./ PBZ CO MANDATORY PENSION FUND – CATEGORY B	Zagreb, Croatia	121,980	2.90%	119,640	2.85%	Custody account
HRVATSKA POŠTANSKA BANKA D.D./ CAPITAL FUND D.D.	Zagreb, Croatia	116,541	2.78%	116,541	2.78%	Custody account
ERSTE & STEIERMAERKISCHE BANK d.d. / JOINT CUSTODY ACCOUNT FOR A FOREIGN LEGAL ENTITY	Zagreb, Croatia	105,349	2.51%	105,349	2.51%	Custody account
PBZ D.D. / STATE STREET CLIENT ACCOUNT	Zagreb, Croatia	90,938	2.17%	92,948	2.21%	Custody account
SPLITSKA BANKA D.D. / ERSTE PLAVI MANDATORY PENSION FUND – CATEGORY B	Split, Croatia / Zagreb, Croatia	87,501	2.08%	115,353	2.75%	Custody account
ADP-ESOP D.O.O.	Split, Croatia	81,834	1.95%	130,532	3.11%	Primary account
ZAGREBAČKA BANKA D.D. / STATE STREET BANK AND TRUST COMPANY, BOSTON	Zagreb, Croatia / Boston, USA	70,774	1.69%	73,777	1.76%	Custody account
Remaining shareholders	-	1,746,204	41.58%	1,767,462	42.09%	-
Total		4,199,584	100.00%	4,199,584	100.00%	

30. PREPAID EXPENSES AND ACCRUED INCOME*(in thousands of kunas)*

	31.12.2017.	31.12.2016.
Accrued income on tools	17,847	40,722
Other accrued income	6,979	4,527
Prepaid operating expenses	3,102	3,386
Total	27,928	48,634

Accrued income in the amount of HRK 17,847 thousand (31 December 2016: HRK 40,722 thousand) relates to the manufacture of tools for a known customer.



32. LONG-TERM AND SHORT-TERM PROVISIONS

(in thousands of kunas)

	Short-term		Long-term	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Legal cases	767	4,474	-	-
Vacation accrual	4,328	2,505	-	-
Jubilee awards (long-service benefits)	-	-	1,506	1,474
Termination benefits	-	-	1,934	2,103
Employee bonuses	3,561	-	-	-
	8,656	6,980	3,440	3,576

Movement in provisions was as follows:

	Jubilee awards	Retirement / termination benefits	Legal cases	Vacation accrual	Employee bonuses	Total
Balance at 1 January 2017	1,474	2,103	4,474	2,505	-	10,556
Increase/(decrease) in provisions, net	32	(169)	(3,707)	1,823	3,561	1,540
Balance at 31 December 2017	1,506	1,934	767	4,328	3,561	12,096

	Jubilee awards	Retirement / termination benefits	Legal cases	Vacation accrual	Employee bonuses	Total
Balance at 1 January 2016	1,759	1,725	5,431	2,630	-	11,545
Increase/(decrease) in provisions, net	(285)	378	(957)	(125)	-	(989)
Balance at 31 December 2016	1,474	2,102	4,474	2,506	-	10,556

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 3.25 % and the fluctuation rate of 7.18 %.

33. LONG-TERM BORROWINGS*(in thousands of kunas)*

	31.12.2017	31.12.2016
Long-term borrowings	248,598	244,892
Long-term commodity credits provided by suppliers	11,177	17,155
	259,775	262,047
Current portion of long-term borrowings (Note 36)	(57,330)	(87,634)
Total long-term borrowings	202,445	174,412

Long-term borrowings 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 2017, the weighted average interest rate on the long-term loans was 3.00 %.

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:

	2017	2016
Balance at 1 January	174,412	265,343
New loans raised	153,018	-
Foreign exchange differences	1,418	(425)
Reclassification to short-term loans (Note 36)	(126,403)	(90,506)
Total long-term borrowings	202,445	174,412

34. ADVANCES RECEIVED*(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign customers	5,767	9,750
Domestic customers	-	2,499
	5,767	12,249

35. TRADE PAYABLES*(in thousands of kunas)*

	31.12.2017	31.12.2016
Foreign trade payables	112,356	94,867
Domestic trade payables	40,869	29,948
	153,225	124,815

In 2017 the average days payables outstanding was 91 (2016: 110 days).

36. SHORT-TERM BORROWINGS*(in thousands of kunas)*

	31.12.2017	31.12.2016
Short-term borrowings – principal payable	75,334	122,052
Current portion of long-term borrowings (Note 33)	57,330	87,634
Short-term borrowings – interest payable	791	1,743
	133,455	211,430

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. Majority of the total balance of the short-term borrowings are approved overdrafts on current accounts, with the limits renewable on an annual basis.

In 2017, the weighted average interest rate on the short-term loans was 3.09 %.

The Company fulfils all its obligations under the loans regularly.



36. SHORT-TERM BORROWINGS (continued)

(in thousands of kunas)

	2017	2016
Balance at 1 January	211,430	147,381
Reclassification from long-term loans (Note 33)	126,403	90,506
New loans raised	85,995	95,927
Interest invoiced	15,213	18,297
Exchange rate differences	(2,268)	(2,614)
Interest paid	(16,166)	(17,608)
Principal repaid	(287,152)	(120,459)
Balance at 31 December	133,455	211,430

37. OTHER CURRENT LIABILITIES

(in thousands of kunas)

	31.12.2017	31.12.2016
Amounts due to employees	7,713	7,075
Due to the State and State institutions	4,493	4,016
Other current liabilities	46	46
	12,252	11,136

38. ACCRUED EXPENSES

(in thousands of kunas)

	31.12.2017	31.12.2016
Accrued tool expenses	3,286	12,920
Other current liabilities	6,867	1,199
	10,153	14,119

39. RELATED-PARTY TRANSACTIONS

(in thousands of kunas)

Transactions with related companies were as follows:

Receivables and payables for goods, services and interest	Receivables		Payables	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
AO AD Plastik Togliatti, Russia / AO ADP, Russia	84,458	103,639	1	2,111
ZAO ADP KALUGA, Russia	58,541	66,366	58	58
ADP d.o.o. Mladenovac, Serbia	22,053	22,699	10,614	2,355
EURO APS, Romania	3,872	4,149	-	79
Centar za istraživanje i razvoj, Croatia	1	2	5	5
AD Plastik d.o.o., Slovenia	-	-	2,027	929
	168,925	196,855	12,705	5,537

Receivables and payables for loans	Receivables		Payables	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
ZAO ADP KALUGA, Russia	39,915	38,154	-	-
ADP d.o.o. Mladenovac, Serbia	36,070	21,162	-	-
AO AD Plastik Togliatti, Russia / AO ADP, Russia	22,541	22,673	-	-
AD Plastik d.o.o., Slovenia	-	-	-	-
	98,526	81,989	-	-

39. RELATED-PARTY TRANSACTIONS (continued)*(in thousands of kunas)*

Purchase transactions	Income		Expenses	
	2017	2016	2017	2016
<i>Operating income and expenses</i>				
ZAO ADP KALUGA, Russia	24,558	14,760	777	243
ADP d.o.o. Mladenovac, Serbia	18,600	17,181	60,083	40,223
AO AD Plastik Togliatti, Russia / AO ADP, Russia	17,267	16,489	3	-
EURO APS, Romania	7,390	9,658	-	73
AD Plastik d.o.o., Slovenia	-	450	2,138	1,140
Centar za istraživanje i razvoj, Croatia	7	8	16	24
	67,822	58,546	63,017	41,703

Financial transactions	Income		Expenses	
	2017	2016	2017	2016
<i>Financial income and expenses</i>				
EURO APS, Romania	41,974	46,716	-	-
ZAO ADP KALUGA, Russia	1,956	1,611	-	-
ADP d.o.o. Mladenovac, Serbia	1,504	993	-	-
AO AD Plastik Togliatti, Russia / AO ADP, Russia	1,113	1,161	-	-
AD Plastik d.o.o., Slovenia	-	-	-	181
	46,547	50,481	-	181

The total remuneration provided to the members of the Supervisory Board, the Management Board and executive directors in 2017 amounts to HRK 8,026 thousand (2016: HRK 10,422 thousand).

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT*(in thousands of kunas)***40.1 Gearing ratio**

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

	31.12.2017	31.12.2016
Short-term borrowings (Note 36)	133,455	211,430
Long-term borrowings (Note 33)	202,445	174,412
Cash and cash equivalents (Note 29)	(3,144)	(4,033)
Deposits (Note 28)	-	(10)
Net debt	332,756	381,799
Equity	695,661	665,718
Net debt-to-equity ratio	47.83%	57.35%

Net debt includes credits extended to purchase goods in the amount of HRK 11,177 thousand (31 December 2016: HRK 17,155 thousand) (Note 33).

Equity consists of share capital, reserves, own shares, retained earnings and profit for the year.



40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(in thousands of kunas)

40.2. Categories of financial instruments

	31.12.2017	31.12.2016
Financial assets	437,722	453,820
Non-current trade receivables (Note 24)	76,925	135,937
Given loans (Notes 23, 28)	102,538	135,039
Trade receivables (Note 26)	231,156	139,730
Other receivables and other financial assets	23,959	39,071
Cash and cash equivalents and deposits (Note 29)	3,144	4,043
Financial liabilities	502,650	530,028
Loans received (Notes 33, 36)	335,900	385,842
Trade and other payables	166,750	144,186

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.

40.3. Financial risk management objectives

Financial risks are related to financial variables that can cause difficulties in servicing financial liabilities, ensuring liquidity, debt management, etc. The Company does not have a formal risk management program, however risk management is performed by 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.

40.4. 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.

40.5. 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. Interest rate risk is linked to changes in return rates of assets and liabilities and in values resulting from interest rate changes.

The Company's interest rate risk arises from its borrowings and from its interest generating assets, like loans given to subsidiaries. The interest rate risk exposure is minimal, considering that around 90% of Company's borrowings are agreed with fixed interest rates, while interest rate risk exposure from interest generating assets is linked with Croatian National Bank decisions on interest rates that can be charged to subsidiaries. The Company continuously monitors interest rate changes and forecasts, various scenarios are simulated taking into account refinancing, current state renewal and alternative financing..

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(in thousands of kunas)

40.6. Credit risk

Credit risk is the risk that a party in a financial instrument will not fulfil its obligation and thus causes financial loss to the other party. 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 credit risk is minimal because it is Company policy to transact with financially sound companies where the risk of default is minimised. Impairment allowance was made on doubtful and disputed trade receivables.

The eight largest customers of the Company are as follows: Revoz, Slovenia; Reydel Automotive France; Hella Saturnus Slovenia; PSA Groupe, France; Grupo Antolin Turnov, Czech Republic; FCA Italy; Renault, France and Daimler, Germany. Operating income generated from the sales made to the business partners represents 70.51 % of the total operating income (2016: 74.33 %).

40.7. 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 December	Assets		Liabilities		Net FX position	
	2017	2016	2017	2016	2017	2016
EUR	430,103	334,772	351,977	242,093	78,126	92,679
RUB	1,617	100,376	-	-	1,617	100,376
CZK	273	-	-	154	273	(154)
GBP	122	35	26	-	96	35
USD	86	118	89	191	(3)	(73)
	432,201	435,301	352,092	242,438	80,109	192,863

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of changes in the exchange rates for the EUR. The following table details the Company's sensitivity to a 2-percent change of the Croatian kuna against the Euro (EUR) and a 10-percent change of the Croatian kuna against the Russian rouble (RUB) in 2017 and 2016. 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	
	2017	2016
Change in exchange differences (2 %)	+/- 1,563	+/- 1,854

	RUB impact	
	2017	2016
Change in exchange differences (10 %)	+/- 162	+/- 10,038



40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(in thousands of kunas)

40.8. 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.

2017	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	-	95,056	67,562	89,020	76,925	62	328,625
Interest bearing	4.65%	1,111	1,121	10,013	87,923	28,195	128,362
		96,167	68,683	99,033	164,848	28,257	456,987
Liabilities							
Non-interest bearing	-	79,426	68,630	18,694	-	-	166,750
Interest bearing	3.05%	12,503	42,480	85,413	197,497	15,438	353,331
		91,929	111,110	104,108	197,497	15,438	520,081

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

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

40.9. 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.

Fair value is the price that would be generated from the sales of some item of an asset or paid for transferring some liability in a fair transaction between market participants at the measurement date, regardless of whether it would be directly visible or evaluated by applying some other valuation technique.

At 31 December 2017, the carrying amounts of cash, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments match their fair values.

41. EVENTS SUBSEQUENT TO THE REPORTING DATE

After 31 December 2017, there were no events that would have a significant impact on the financial statements for the year 2017, respectively they are not of such significance to the Company to require disclosure in the notes to the financial statements.

42. CONTINGENT LIABILITIES

Based on the Management's estimate, the Company had no material contingent liabilities at 31 December 2017 which would require to be disclosed in the notes to the financial statements.

As at 31 December 2017 there were no material legal actions outstanding against the Company with an expected negative outcome other than those reflected in these financial statements.

43. 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 2018.

For AD Plastik d.d. Solin:

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



Solin, April 2018

www.adplastik.hr