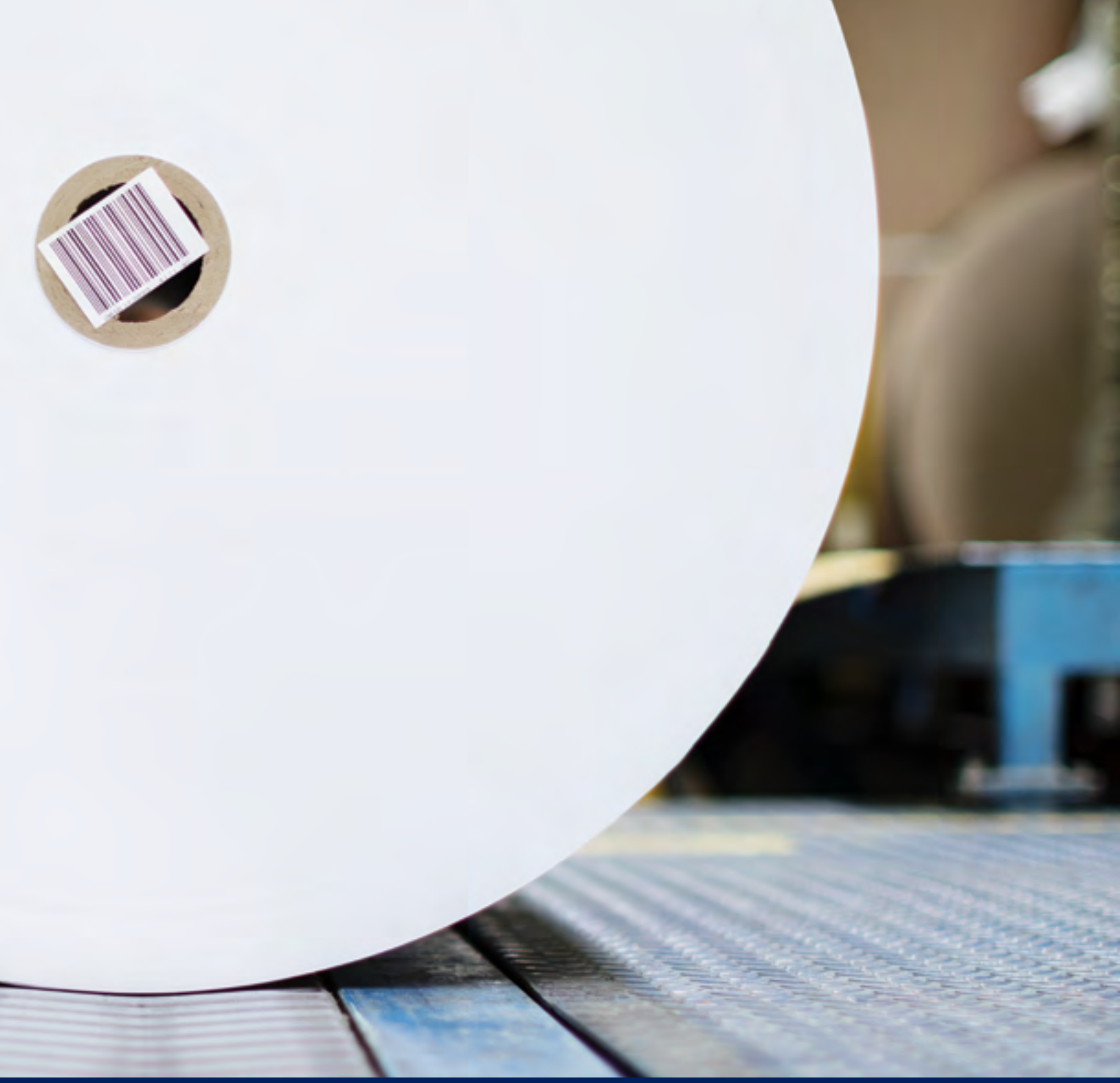


ANNUAL REPORT 2017

GORIČANE

ANNUAL REPORT 2017
GORIČANE, TOVARNA PAPIRJA MEDVODE, D.D.

Goričane, August 2018

2017 Performance highlights

67,5 million EUR
NET SALES REVENUE

1.82%
GROWTH OF NET SALES COMPARING TO 2016

13%
RETURN ON CAPITAL

8.0 million EUR
WORTH OF PRODUCTS SOLD IN THE DOMESTIC MARKET

59.4 million EUR
WORTH OF PRODUCTS SOLD IN THE FOREIGN MARKET

88.1%
OF TOTAL SALES ARE FOREIGN SALES

82,955 tons
OF PRODUCED PAPER

6,913 tons/month
AVERAGE NET PRODUCTION ON THE PAPER MACHINE

7.2%
EXCEEDED ANNUAL PLAN

216 employees
NUMBER OF EMPLOYEES AT THE END OF 2017

12.91 hours
THE AVERAGE TIME OF TRAINING PER EMPLOYEE

11.5%
GROWTH OF PULP PRICES COMPARING TO 2016

Contents

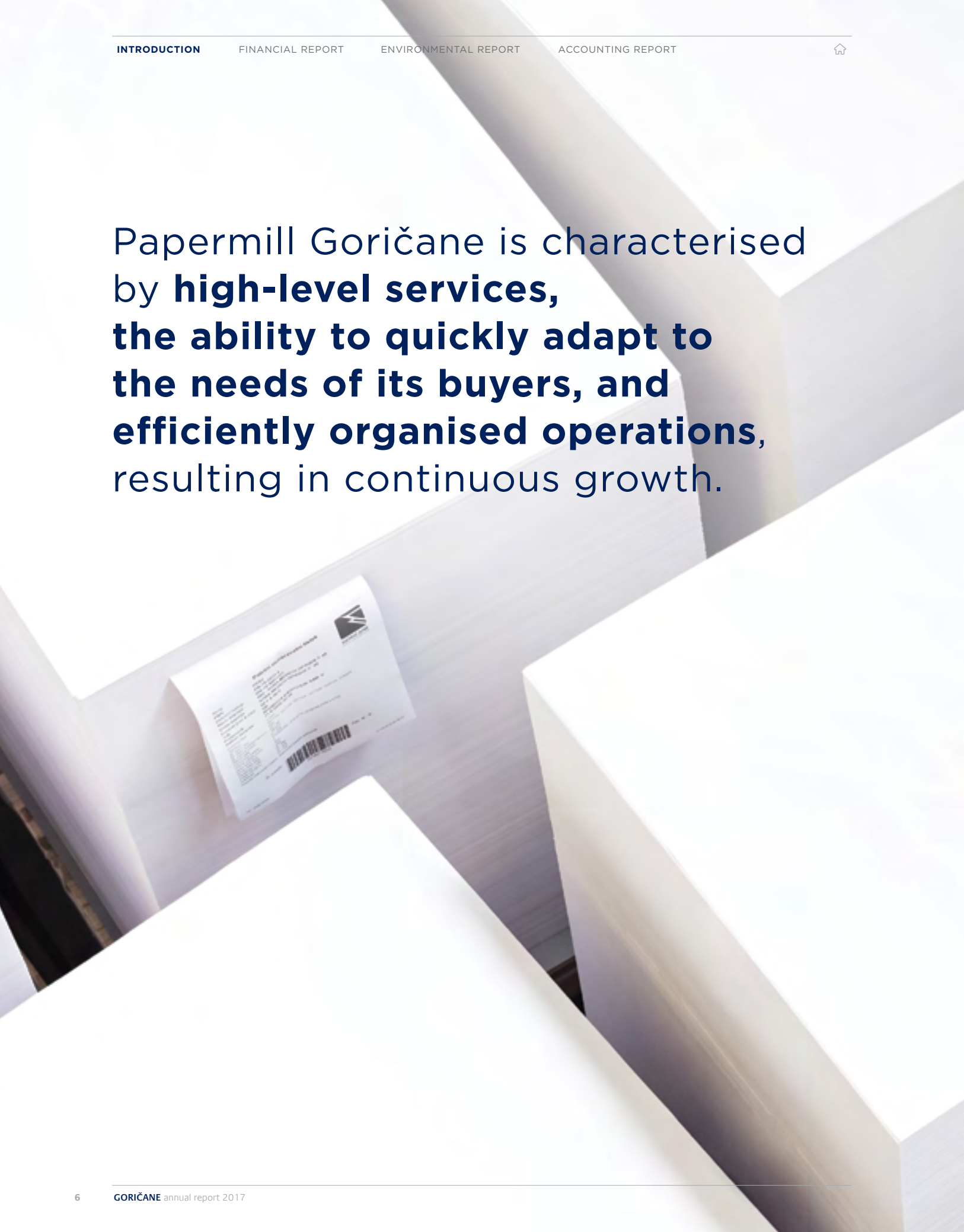
INTRODUCTION

FINANCIAL REPORT

ENVIRONMENTAL REPORT

ACCOUNTING REPORT

Papermill Goričane is characterised by **high-level services, the ability to quickly adapt to the needs of its buyers, and efficiently organised operations**, resulting in continuous growth.



INTRODUCTION

Company profile

Company profile

Company name

Goričane, tovarna papirja Medvode, d.d.

Address

Ladja 10, 1215 Medvode, Slovenia

Telephone	Fax
+386 1 58 23 400	+386 1 36 12 804

E-mail	Website
goricane@goricane.si	www.goricane.si

Current accounts

02923-0017654625 Nova Ljubljanska banka, d.d.

05100-8012136923 Abanka Vipa, d.d.

07000-0001129364 Gorenjska banka, d.d.

Company registration number	Tax identification number
5042291	SI48619922

Activity subclass code	Activity subgroup code
17.120 – Manufacture of paper and paperboard	012410

Size	Share capital
a large company pursuant to the Companies Act	EUR 1,875,209

Company bodies

Assembly

The Supervisory Board:

Izidor Rejc - chairman

mag. Andrej Pagon, M.Sc. - deputy chairman

Klemen Burgar - member

Management Board

The company is represented by	Financial year
Andraž Stegu, Managing Director, B.Sc.	calendar year

Controlling company

Company name

Papigor, holding, d.o.o.

Address

Ladja 10, 1215 Medvode, Slovenia

Consolidated annual report

Consolidated annual report is prepared on the level of the parent company Papirus, holding, d.o.o., Goričane 38, 1215 Medvode, Slovenia where it is possible to obtain the report.

Ownership structure as of 31.12.2017

Papigor, holding, d.o.o.	85.56%
Papirus, holding, d.o.o.	10.97%
Zaposleni in bivši zaposleni	3.05%
Goričane, d.d.	0.42%

Key activities

- manufacture of paper and paperboard,
- steam and hot water supply,
- wholesale of waste and scrap,
- buying and selling of own real estate,
- research and experimental development in natural sciences and technology.

Product lines

The company's core activity is the production of high-quality woodfree papers in the weight range of 37 to 150 g/m². The product lines include:

Sora matt+

is a woodfree two-side matt-coated graphic paper that impresses with its unique volume and a warm colour tone. It is distinguished by excellent stiffness and high printability. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing as well as cold and hot laser printing. It is designed for the printing of atlases, picture books, school books and manuals as well as for all mail applications since its exceptionally high bulk allows for lighter weight and thus enables savings on mail services.

Sora matt 1.1

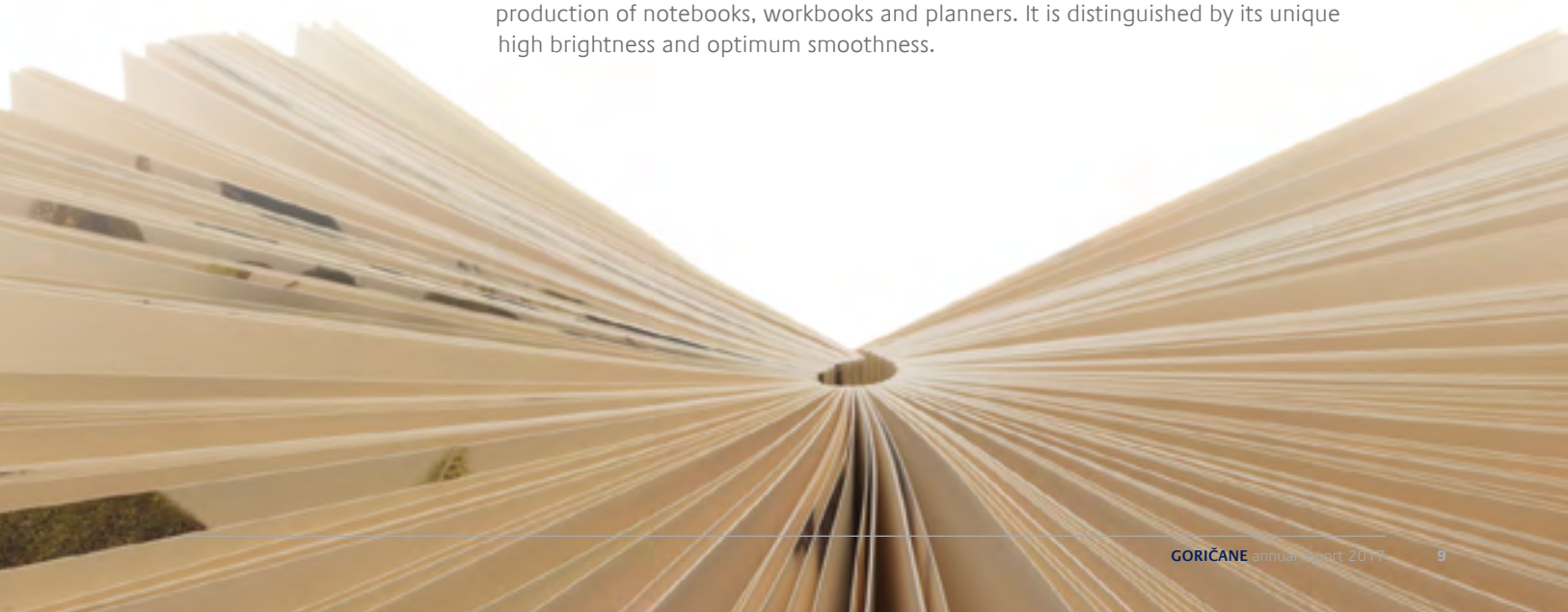
is a woodfree two-side matt coated paper with a higher volume and excellent printing properties. High opacity, an easy-to-read surface and precise pictorial reproduction of colour tones give the paper its unmistakable character. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing as well as cold and hot laser printing. It is designed for the printing of textbooks, brochures, magazines, supplements, maps etc.

Sora Silk

is a woodfree two-side coated graphic paper. It is distinguished from the matt quality by improved smoothness and a lower volume. Its smooth surface brings out excellent printing properties and precise pictorial reproduction of colour tones. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing, as well as cold and hot laser printing. It is designed for the more complex printing of reports, price lists, catalogues, business reports etc.

Sora press

is a woodfree uncoated paper with excellent offset printing properties, ideal for the printing of books and pamphlets. Due to its surface treatment it is best suited for the production of notebooks, workbooks and planners. It is distinguished by its unique high brightness and optimum smoothness.



SORA silico

is a paper designed for all known silicone coating techniques. Distinguished by its excellent dimensional stability, good rigidity and optimal silicone use SORA silico is well-suited for flexo printing. It is designed for the manufacture of self-adhesive labels and PVC foils, adhesive tapes, bands and plasters, personal hygiene products, envelopes etc.

SORA light

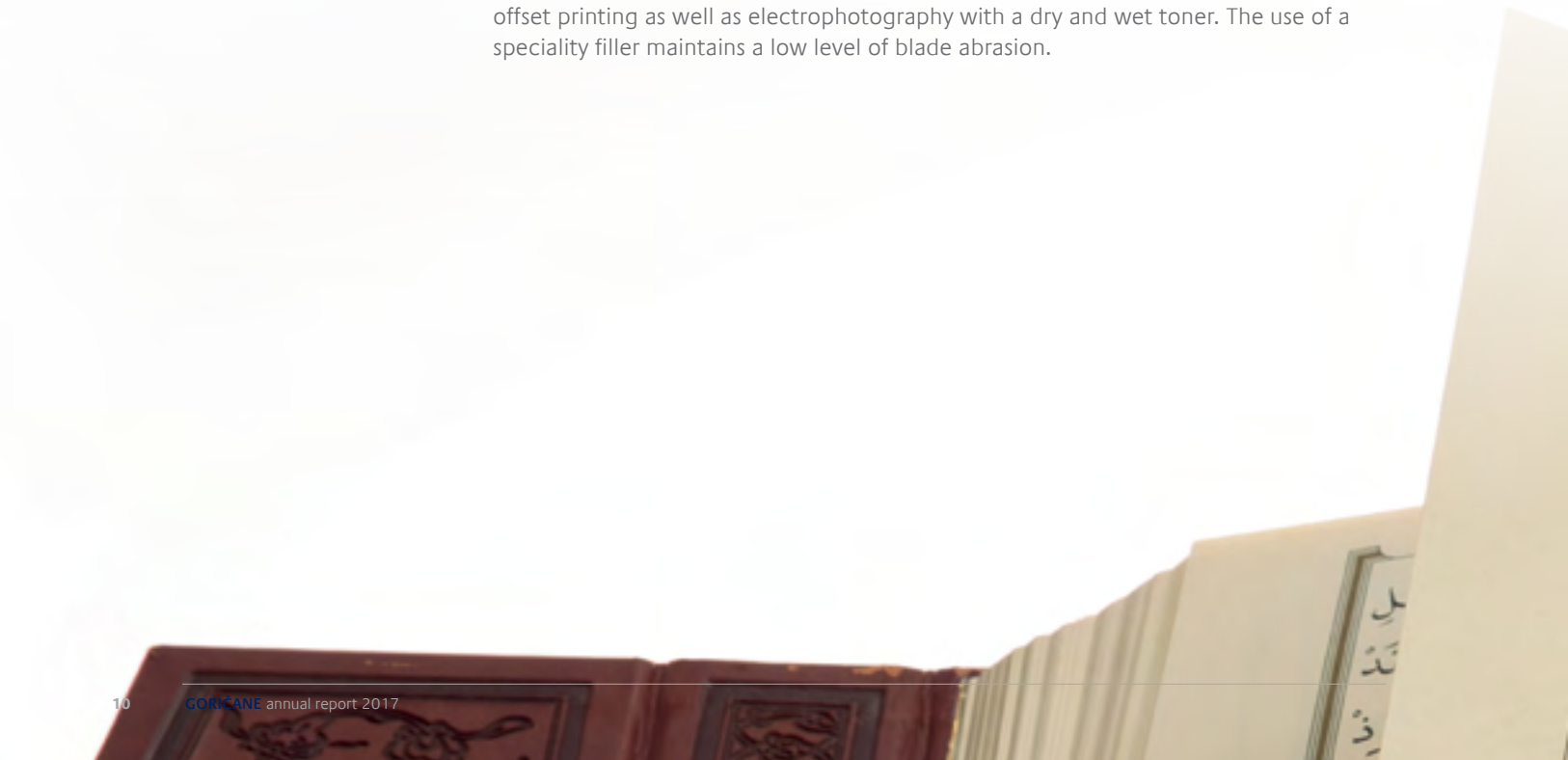
is a woodfree lightweight paper enhanced by a special coating. Its high opacity and special coating features enable quality multicolour offset printing. It is an excellent choice for the printing of pharmaceutical and cosmetic instructions, catalogues, technical manuals, encyclopaedias and dictionaries.

SORA medico

is an uncoated woodfree paper designed for the printing and production of pharmaceutical instructions. Exceptional stability and optimal stiffness are required for the fast running of sheet-fed offset printing machines, and medico paper surely allows for that. In addition to enabling a high efficiency of printing machines, it is also distinguished by good opacity and excellent folding capacity.

SORA medico opaque

is an uncoated woodfree paper, specifically designed for the printing of pharmaceutical and cosmetic instructions. Optimum luminescence ensures good readability of the bar code by means of optical scanners. Good mechanical properties, excellent stability and antistatic treatment provide for high-speed printing and excellent folding capacity. Superb opacity and excellent formation ensure high quality printing of instructions, also in multicolour. It is well-suited for rotational and flat offset printing as well as electrophotography with a dry and wet toner. The use of a speciality filler maintains a low level of blade abrasion.



Sora print opaque

is a lightweight uncoated paper with high opacity. It is a pigmented woodfree paper which has been developed for offset printing of products with a large number of pages, for example religious literature, technical manuals, encyclopaedias, dictionaries etc.

Sora press cream

is an uncoated woodfree paper developed for offset printing and suitable for the printing of books, advertising materials, planners and calendars. Its tone, which is both warm and subtle, makes it an excellent choice for the printing of religious literature, exclusive literary editions and art books.

Its enhanced smoothness and surface sizing provide for very favourable printed results both in one- and multicolour printing. Good mechanical properties and excellent stability ensure high-speed printing.

Sora face

is a one-side coated, woodfree label paper with a silk surface. Its excellent stability, high volume and stiffness provide for high speeds both in printing and in labelling. The main characteristics of this paper are its multi-purpose applicability and reliability. As a reasonably priced product, it is ideal for self-adhesive labels, tin labels, jars, disposable bottles (plastic, PET, glass) and soft cigarette packs.

Vision with a clear mission

Goričane, d.d. is a company that strives to provide high-quality papers to customers seeking excellence. By providing quality products and a competitive level of service, our buyers are guaranteed a high added value to help them succeed.

Our vision is to become one of the most distinguished smaller-scale producers of woodfree lightweight papers in Europe, and we intend to streamline our activities towards achieving this goal. The company's core values are **responsibility, cooperation, freedom of action, innovation and commitment**.

In order to make our vision a reality, we will continue to:

- foster an increasingly cost-efficient administrative approach,
- continue specialising in the production of speciality papers,
- focus on increasing customer satisfaction, and
- cultivate the ability to quickly react to market needs and demands.

Through continuous growth, development and investments into machines, equipment and people, Goričane, d.d. fosters its long-term goals and contributes to the growth of Slovenian economy.

Message from the chairman of the management board

Year 2017 started very optimistically. We continued with the outlined path of the papermill's strategic development. The challenges brought to us by the more demanding but also more profitable markets did not scare us, and we made sure to remain one of the key players in the speciality paper market.

Our production capacities were full throughout the year, even in summer months, which allowed us to plan optimal switching between product line changes and utilise the paper machine well. Thus, 82,955 tonnes of paper was produced on the paper machine.

Throughout the year, we continued with the ongoing projects focused on environmental investments, the information system and production. We completed the 1.5 million EUR project of a biological wastewater treatment plant which started operating at the end of 2017.

Having a favourable standing with our business partners made it possible for us to save considerably on the cost of raw materials, the prices of which have started to increase in 2017. The price of pulp started increasing in January, and has been growing by 2 to 5 percent on a monthly level. The prices of energy products and latex have been increasing as well. Long-term partnerships with our suppliers and their trust were therefore essential if we wanted to achieve good results.

Despite the difficult situation in human resources, in which finding new people has become a really demanding task, we still managed to hire 10 additional employees all anew in 2017. By organising courses and promoting an active lifestyle as well as a well-organised work environment, we are trying to emphasise the importance of occupational health.

Dear shareholders and business partners, let me hereby thank you for the trust you have placed in our company last year. I am sure that my colleagues and I will continue to meet your expectations in the future. Years such as this last one inspire and encourage us to keep going in this cyclical industry, and to stay true to our mission – doing the best we can.

Andraž Stegu,
Managing Director

Major events

01

May 2017

Last year, we started a larger project of renovating the exterior of the mill. In November, we started renovating the exterior of the 43 m tall chimney which was built for the needs of the Energy Sector in 1976. The renovation was completed in April 2017 and the chimney literally shone in its new appearance. **The whole project was documented with photographs that were compiled into a short video.**

02

August 2017

The annual general meeting of Goričane, d.d. was held on August 30, 2017. The meeting was attended by 97.36% of shareholders with the right to vote. The 2016 annual report and the report of the Supervisory Board were presented, and the proposed conclusions were approved. For the next term, the assembly confirmed a new Supervisory Board with the same members. Fiscal year 2016 was concluded with profit.

03

September 2017

September saw the start of construction works for the new biological wastewater treatment plant. The construction project for a new biological wastewater treatment plant, which includes an expansion of the existing mechanical treatment plant with a biological part, has been estimated to EUR 1.5 million. We selected Aquabiotec's technology. The wastewater treatment plant is expected to start operating at the end of November.

04

December 2017

The new wastewater treatment plant started operating at the beginning of the month.

Social responsibility

The existence of mankind has a great impact on the environment. At Goričane, we are aware that the economy must contribute to the improvement of the environmental situation. We strive to maximally reduce our impact on the environment, safety and health. This guides us in our research work, in optimisation of production processes, training and education, investments in technologies for reducing the impacts on the environment and our employees, and in providing a pleasant work environment.

We are trying to understand the needs of society and follow the current trends. After all, we are a part of the social flows both in our immediate environment, and if possible, broader surroundings as well. In addition to helping kindergartens, schools and local communities with paper and other materials, several financial donations were given out in 2017 as well; to an art society (Bienale slovenske grafike), we made a contribution for young creators of original graphic art. We helped the talented trio Rupnik with the performance of their concert in Vrhnika. And supported the biggest sports event in Medvode – the "Medvode v gibanju" festival. For the second year in a row, we donated paper for festival publications to the Vilenica cultural society for the Vilenica international festival. We cooperate with the Goričane-Vaše tourist society in organising larger events such as festivities in early December involving St. Nicholas and his terrifying companions, the Krampuses, outdoor cinema and bonfires to celebrate International Workers' Day on May 1st.

We need to live and operate within the limits set by our natural environment. This involves a sustainable consumption of all natural resources, limiting emissions as much as possible, protecting biodiversity and knowing that our natural heritage has to be protected and preserved for the generations to come. It all starts with the selections of raw materials. In production, we use pulp fibers purchased from FSC or PEFC certified suppliers. At Goričane, we use these certification schemes to prove the traceability of wood origin and guarantee that our pulp is sourced from legal and sustainably managed forests. FSC or PEFC certified paper products are therefore a result of environmentally friendly and socially responsible forest management.

Upon submitting evidence of compliance with the requirements of both national legislation and European directives focused on obtaining environmental impacts equal to those achieved by using best available technologies listed in reference documents, we have been awarded the IPPC environmental permit for the operation of machines potentially causing environmental pollution on a larger scale. We are implementing, maintaining and developing an environmental management system which is in accordance with ISO 14001:2015 standard and ISO 9001:2015 certificate. In 2017, we implemented compliance with the new FSC-STD-40-004 V3-0 standard. The company management made a decision to exclude products with CW status from sales, and to change the scope of the certificate to "Production and sale of FSC Mix Credit coated and non-coated papers".

But – our employees are the ones who should take the biggest credit in creating our success story. Together, we are building a culture of mutual trust, respect, cooperation and teamwork, continuous learning, and responsible and efficient work. Our values – responsibility, teamwork, freedom of action, innovation and commitment – are our guidance in setting goals, achieving results, cooperating with each other and working with our employees.

Economic trends in 2017

Slovenia's economic growth accelerated towards the end of last year, thus reaching a ten-year high in 2017. The national Office for Macroeconomic Analysis and Development points out that export growth was again high last year. This has been linked with the quickening growth in foreign demand, the favourable export structure and companies' improved competitiveness. Higher private consumption and revitalised investments have also significantly contributed to the economic growth. Employment growth continues, and companies are increasingly reporting a lack of skilled workforce. Wage growth has increased slightly at the end of the year but remains moderate.

Slovenia's GDP growth has again notably exceeded the euro area average (2.5% in 2017) and thus additionally reduced the gap that expanded during crisis.

Export was again the area which contributed most to the GDP growth in 2017, which is attributed to the faster economic growth in the international environment and the improvement of the competitive position of Slovenian companies in the recent years, as well as to the favourable structure of Slovenian export and the better integration of companies in global value chains. The growth of the export of goods was mostly accelerated by a stronger export of motor vehicles, follow by the export of electrical and other devices, pharmaceutical products, metals and chemical products. This, together with an increase in domestic consumption, contributed to the significant growth of production in converting industries. Transport services and travel contributed most to last year's growth in export of services.

In papermaking, 2017 was similar to the year before. In comparison with the same period of 2016, EU data for the third quarter of this year indicates a 1.3% increase in pulp and paper production, and as much as a 2.5% increase in pulp production. This year was mainly characterised by the high prices of waste paper and recycling paper respectively, especially in the first and second quarter. Namely, large amounts of waste paper are bought by China. The high demand they produce is increasing the price of waste paper. The price increase mostly affected those paper mills that mainly use recycling paper in production. In Slovenia, waste paper represents as much as 62 percent of the raw material used for paper production by six Slovenian paper mills. In addition, all consumers were surprised by the unexpectedly high prices of latex which is used as a binder in paper production and affects the mechanical properties of paper.

PAPERMAKING IN 2017

1.3%

increase of paper and board production in the third quarter in comparison with 2016

2.5%

increase in pulp production in comparison with 2016

High prices of waste/recycling paper

High prices of latex which is used as a binder in paper production

Corporate governance statement in accordance with the corporate governance code for unlisted companies

Use of the Code

Goričane, d.d., is managed in accordance with the valid regulations of the Republic of Slovenia, company's internal acts and standard business practices. These documents guarantee for due operation of its bodies in order to ensure a sustainable competitive position.

It is based on a two-tier system in which the company is managed by the Management Board while its operations are controlled by the Supervisory Board.

Although the company did not adopt any governance code in the financial year of 2017, it has one in the process of preparation. For that reason, this annual report does not contain a statement on compliance with the Code.

Framework of corporate governance

1. Corporate governance bodies are:
   - the Management Board,
   - the Supervisory Board and
   - the Assembly.
2. The scope of competence of corporate governance bodies are defined in the corporate articles of association.
3. Any issue that does not fall into the competence of the Board is decided upon by the Assembly.

Composition of the supervisory body

Goričane, d.d. has a two-tier system of governance.

Management bodies

Management Board

The company is managed by the Management Board which acts independently and on its own responsibility. The Management Board is appointed and dismissed by the Supervisory Board. The Management Board is running Goričane, d.d. by closing deals to the benefit of the company, independently and on its own responsibility. It carries out its activities in accordance with the company's Articles of Association and the law. The Management Board adopts the company's general acts and appoints the bodies which decide on the employees' rights, obligations and responsibilities.

The rights and obligations pertaining to the relationship between the Management Board and the company are laid down in a special agreement which is concluded by the president of the Supervisory Board on behalf of the company.

The payment and remuneration to the members of the Management Board do not depend directly on the company's business performance and are presented in the accounting report in the chapter on other disclosures.

Supervisory Board

The Supervisory Board consists of three members. It is appointed by the shareholders' Assembly, except for the member of the Supervisory Board elected by the workers' council. The term of office of the Supervisory Board members lasts two years and may be extended.

The main task of the Supervisory Board is to control the operations and management of the company. The Supervisory Board appoints and dismisses the Management Board, discusses the business plan and examines and approves the annual report.

The payment and remuneration to the members of the Supervisory Board do not depend directly on the company's business performance and are presented in the accounting report in the chapter on other disclosure.

The work of members of the Supervisory Board has to be guided by the company's goals and not affected by any personal interests or individual interests of third persons.

The Supervisory Board of Goričane, d.d. is composed of:

Representatives of the capital:

- Izidor Rejc – President of the Supervisory Board,
- Andrej Pagon, M.Sc. – Deputy Chairman.

Predstavnik zaposlenih:

- Klemen Burgar – member.

Assembly

Pursuant to the Companies Act the shareholders' Assembly is the highest body of a company. It implements the will of the shareholders and adopts basic and statutory decisions. The number of votes held by an individual shareholder is determined by the number of shareholders he/she holds when the Assembly is convened. The voting right is obtained when the whole amount of the value of one share is paid upon the company's establishment or increase of share capital and entry in the share register.

As a rule the Assembly meets once a year, usually in the place of the company's head office. The Assembly is convened by the company's Managing Director on his own initiative, on the demand of the Supervisory Board or on the demand of the company's shareholders. The shareholders are informed of the meeting of the Assembly with the publication in the Official Gazette of the Republic of Slovenia and on the company's notice-boards. The Assembly is chaired by the Chairman of the Assembly who is elected by the shareholders on the proposal of the convenor.

The Assembly adopts decisions on:

- the adoption of the annual report,
- the use of the distributable profit,
- the appointment and dismissal of members of the Supervisory Board,
- the discharge of the members of the Management Board and Supervisory Board,
- the appointment of the auditor,
- the amendments to the statute,
- the measures to be taken to increase and decrease share capital,
- the winding up of the company and its status transformation,
- other matters laid down by the law and the statute.

The annual general meeting of Goričane, d.d. was held on August 30, 2017. The meeting was attended by 97.36% of shareholders with the right to vote.

At the meeting, the shareholders:

- processed the information about the 2016 annual report and took note of the report prepared by the Supervisory Board on the annual report audit results. In addition, they received information about the income of the members of the Management and the Supervisory Boards, and gave a discharge to the Management Board and the Supervisory Board.
- The shareholders appointed KPMG d.o.o. as the auditor for Goričane, d.d. in financial year 2017.
- The existing members of the Supervisory Board, Izidor Rejc and Andrej Pagon, were reappointed as members of the Supervisory Board for the next two years starting on August 30th, 2017.

Main features of internal control systems and risk management in the company in relation to the process of financial reporting

Internal controls are the policies and procedures that were established by the company and are being implemented on all levels to manage any risks related to financial reporting. The purpose of internal controls is to ensure operational efficiency and effectiveness, reliable financial reporting and compliance with applicable legislation as well as other external and internal regulations.

The accuracy, completeness and truthfulness of financial reporting is ensured by the implementation of the following internal controls:

- control of accounting data accuracy, provided in various ways, e.g. by aligning items with buyers and suppliers,
- control of data acquisition completeness (for example documentation sequence, numbering of documents),
- control of separating duties and responsibilities (e.g. separate implementation of bookkeeping and payments),
- control of access restrictions (selectively assigned permissions for access to accounting records),
- control of supervision.

Because the accounting process is IT supported, all of the internal controls listed above are also connected to IT integrated controls, which include controls of restricting access to networks, data and applications, as well as controls of the accuracy and completeness of data acquisition and processing.

Public reporting

The statement of governance is part of the annual report published on the website of AJPES agency, and on the company's website.

Statement of events after the date of the statement of financial position

Goričane, d.d. does not state any important events after the date of the statement of financial position.

Statement of management's responsibility

The Management confirms the validity of the company's financial statements for year 2017, completed as of 31.12.2017.

In addition, the Management confirms that the financial statements were prepared in accordance with appropriate accounting guidelines and the principle of conservative accounting and sound management. Therefore, this report represents a real and fair picture of the company's financial position and its business results for financial year 2017.

The Management is fully responsible for the preparation and fair presentation of the financial statements in accordance with international financial reporting standards. Such responsibility includes: establishment, operation and maintenance of internal controlling related to the preparation and fair presentation of financial statements in order to eliminate any significant false statements due to fraud or error. Selection and application of appropriate accounting guidelines and preparation of accounting estimates justifiable in given circumstances.

The Management hereby confirms that the financial statements and their accompanying notes have been prepared on the understanding that the company shall continue its operation and in accordance with applicable legislation and international financial reporting standards.

The Management takes note of the contents of annual report for Goričane, d.d. for year 2017, and thus also the complete annual report of Goričane, d.d. for the before mentioned period. I hereby confirm my consent with my signature.

Medvode, 6.7.2018

Managing Director:
Andraž Stegu, B. Sc.

Statement on harm to interest

The managing director of company Goričane, d.d. hereby confirms that in 2017, company Goričane, d.d. did not perform any business transactions with a controlling company or its affiliates, or on the initiative or in the interest of these companies, nor did it conduct or abandon any transactions on the initiative or in the interest of these companies that could present a disadvantage for Goričane, d.d.

Medvode, 6.7.2018

Managing Director:
Andraž Stegu, B. Sc.

Business highlights

in thousand eur	2017	2016	Index 2017/2016
Financial data and indicators			
Net sales revenues	67,516	66,312	102
Gross profit or loss	70,403	66,665	106
Operating profit or loss	3,366	3,413	99
Total expenses	67,541	65,575	103
EBITDA	5,671	6,487	87
Net profit or loss	2,947	1,490	198
Balance sheet total	73,319	74,835	98
Long-term assets	54,009	55,392	98
Short-term assets	19,154	19,381	99
Capital	22,613	23,636	96
Long-term financial liabilities	28,371	33,220	85
Short-term liabilities	21,540	16,875	128
Activated investments in capital assets	3,061	727	421
Indicators			
Share of EBITDA in sales revenues	8.4 %	9.8 %	86
Annual profit in sales revenues	4.4 %	2.2 %	194
Return on capital	13.0 %	6.3 %	207
Production data			
Production in tonnes	82,955	81,469	102
Productivity per employee (t/empl. from hrs)	411	404	102
Stock/share			
Book value per stock/share	59,5	52,8	113
Dividend per stock/share	0	0	
Company data			
Employees from hours	204.0	201.0	101
Value added per employee in EUR thousand	48	67	72
Average salary in EUR	1,916	2,083	92

Nowadays, companies operate in an extremely complex and competitive environment. The performance of Papermill Goričane is strongly influenced by the **movement of pulp prices and the exposure to exchange risks.**

FINANCIAL REPORT

Analysis of business performance

Goričane, d.d. operates in a competitive environment which is strongly affected by the movements of pulp price and exposure to exchange risks, especially in connection with the American dollar. In 2017, we witnessed intense developments on the pulp market. The prices of pulp were ranging from 504 eur/t to 651 eur/t.

in thousand eur	2017	2016	2015	2014
Sales revenues	67,516	66,312	65,999	61,858
Product inventory value change	2,838	85	11	553
Other operating revenues	49	268	113	92
Operating revenues	**70,403**	**66,665**	**66,124**	**62,504**
Costs of goods and materials sold	-49,542	-45,221	-49,873	-45,668
Costs of services	-8,132	-7,660	-6,963	-6,767
Labour costs	-6,499	-6,586	-5,313	-5,386
Depreciation	-2,127	-2,207	-2,217	-2,225
Operating expenses from revaluation	-179	-867	-149	-189
Other operating expenses	-558	-711	-560	-628
Operating profit (EBIT)	3,366	3,413	1,048	1,639
EBIT margin	4.8%	5.1%	1.6%	2.6%
EBITDA	5,671	6,487	3,414	4,054
EBITDA margin	8.1%	9.7%	5.2%	6.5%
Financial revenues	576	316	387	425
Financial expenses	-504	-2,323	-1,416	-2,384
Other revenues	0	0	0	19
Other expenses	0	0	0	-2
Operating profit or loss before taxes	3,438	1,406	18	-303
Tax from profit + tax deferred	-490	84	40	414
Operating profit or loss	**2,947**	**1,490**	**58**	**110**
Operating expenses as % of sales				
Costs of goods and materials sold	73.4%	68.2%	75.6%	73.8%
Costs of services	12.0%	11.6%	10.6%	10.9%
Labour costs	9.6%	9.9%	8.1%	8.7%
Other operating expenses	0.8%	1.1%	0.8%	1.0%

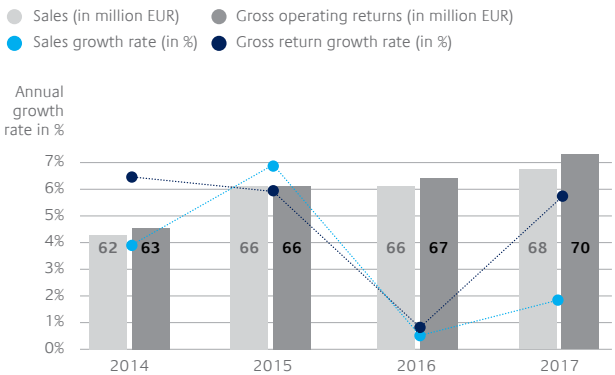
Sales revenues

In 2017, Goričane, d.d. created EUR 67.5 million of sales revenues, which is 1.82% more than in 2016, mostly due to increased sales. A total of EUR 8.0 million worth of products were sold in the domestic market, and EUR 59.4 million were sold in foreign markets, which represents 88.1% of total sales.

Gross profit or loss

Sales gross profit or loss was EUR 70.4 million, which is EUR 3.7 million or 5.6% more than in 2016. In comparison with the realisation in 2016, the gross profit or loss in 2017 was mostly affected by the inventories of end products which increased in comparison with 2016 and resulted from the replenishment of inventories for sales at the beginning of 2017 when production was stopped for the scheduled annual paper machine overhaul.

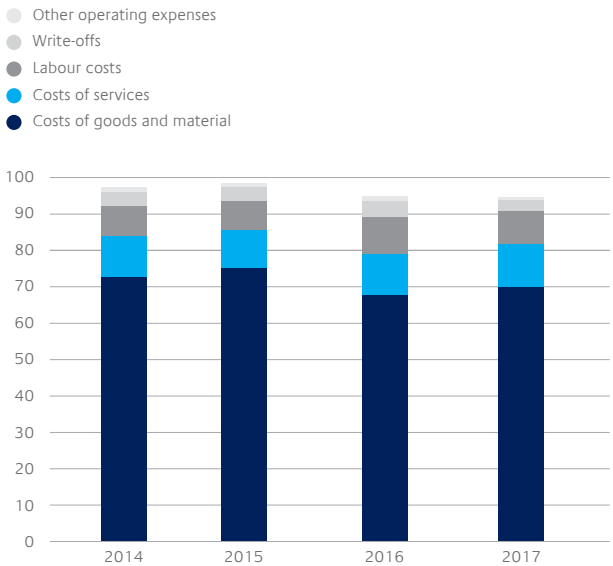
Sales, gross operating returns and annual sales growth rate



Operating expenses

The operating expenses of Goričane, d.d., amounting to EUR 67.03 million, were EUR 3.7 million or 6% higher than in 2016 when their share in gross operating returns amounted to 95.2%.

Share of costs in company's operating expenses in 2014-2017



In 2017, costs of material amounted to EUR 49.5 million and were 9.7% or EUR 4.4 million higher than the year before. Included were the costs of pulp that, as a result of higher pulp prices on the market, increased by EUR 3.7 million (12.9%). Energy costs increased by 3.3%, mainly due to higher taxes on natural gas, which affected the final price of gas.

With a total of EUR 8.1 million, the costs of services were EUR 0.4 million or 6.2% higher than in 2017. The highest item among the costs of services were the costs of export, represented by a sum of transport costs and brokerage fees incurred by sales abroad. They amounted to EUR 3.8 million and were 1.2% lower than in 2017. The biggest item among other costs of services are the costs of construction maintenance which increased in comparison with 2017 due to the urgent repairs on the pipeline and unscheduled construction-maintenance works on facilities, which already started in 2016.

Labour costs, amounting to EUR 6.5 million, have decreased by 1.3%. The costs of labour per employee

amounted to EUR 31,800, with income per employee totalling EUR 331,000.

Write-offs include depreciation and operating expenses from the revaluation of intangible assets, tangible fixed assets and current assets. The costs of depreciation, totalling EUR 2.1 million, are 3.6% lower than in 2016. Other operating expenses include taxes unrelated to labour costs, environmental protection expenses, the costs of donations and other unallocated costs. In 2017, they amounted to EUR 747,000.

Financial revenues include financial revenues from shares, from granted loans and from operating receivables. In 2017, they amounted to EUR 576,100 or 82.3% less than in 2016. Financial expenses include financial expenses from interests on bank loans, interests from suppliers and exchange rate differences from accounts payable, as well as the costs of investment impairments. In 2017 they amounted to EUR 504,000 and are thus 78.3% lower than in 2016.

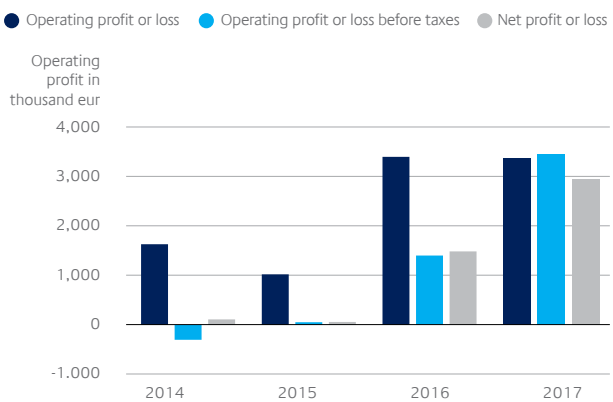
Operating profit or loss

The operating profit (EBIT) of Goričane, d.d. in the amount of EUR 3.4 million was EUR 47,000 or 1.4% lower than in 2016. The operating profit in the amount of EUR 5.7 million, increased by depreciation (EBITDA), has decreased by EUR 816,000 or 12.6%.

In 2017, the profit before taxes of Goričane, d.d has increased by EUR 2.0 million or 144%, and amounted to EUR 3.4 million.

Net profit amounted to EUR 2.9 million and was EUR 1.5 million or 97.8% higher than in 2016.

Operating profit or loss, profit or loss before taxes and net profit or loss



Financial statements of Goričane, d.d.

As of the end of 2017, the assets of Goričane, d.d. were worth EUR 74.8 million which is EUR 507,000 or 0.9% less than in 2016. In comparison with the end of year 2016, the ratio between short-term and long-term assets in the asset structure changed in favour of short-term assets because the share of long-term assets decreased by 3 percent points and equalled 71%.

The long-term assets of Goričane, d.d., worth a total of EUR 54.1 million, have decreased by EUR 1.3 million or 2.5% in comparison with the end of 2016. The most important item, worth EUR 39.7 million or 54% of all assets owned by Goričane, d.d., is represented by property, machinery and equipment, followed by long-term financial investments worth EUR 11.9 million. Intangible assets, worth EUR 1.4 million, have a 2-percent share in total assets.

A lot of attention is put on the management of short-term assets that represent 26% of all assets owned by Goričane. The volume of current operating assets affects corporate borrowing both from suppliers and from banks. The short-term assets of Goričane d.d. are worth EUR 19.3 million and have remained on the same level as in the end of 2016. On the last day of the year, trade receivables were worth EUR 7.8 million and were 1.1% lower than at the end of 2016, whereas the inventories are worth 35% more than the year before. The highest share of short-term assets, 58%, is held by inventories.

As of 31.12.2017, the capital of company Goričane, d.d. amounted to EUR 23.4 million which is 1.1% less than in 2016. Its decrease was caused by the reduction of revaluation provisions by EUR 3.3 million which is mostly the consequence of property revaluation due to the conversion to fair value. As of 31.12.2017, the debt-to-equity ratio was 1.3 which is lower in comparison with the end of 2016.

Provisions worth EUR 0.7 million, owned by Goričane, d.d., were 7.2% higher than at the end of 2016, which is mostly due to the legal increase of provisions for termination benefits and long-term service awards.

Long-term financial liabilities refer to long-term bank loans. As of 31.12.2017, they were worth EUR 26.2 million, which is EUR 4.8 million or 14.6% less than on 31.12.2016. Short-term financial liabilities refer to the short-term part of long-term loans from banks, and

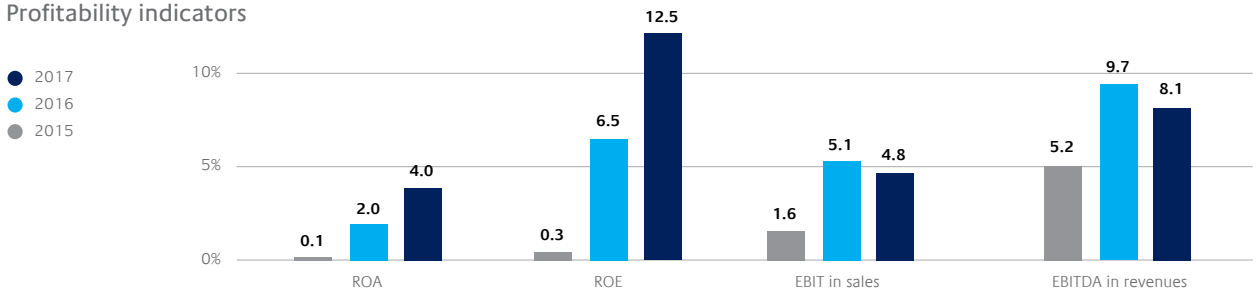
short-term liabilities to banks. As of 31.12.2017, they were worth EUR 3.6 million, which is EUR 0.6 million or 22.4% less than on 31.12.2016.

As of 31.12.2017, short-term operating liabilities were EUR 3.6 million or 25.8% higher than on 31.12.2016. Their value amounts to EUR 17.5 million. The highest share of short-term operating liabilities, 91.9%, is represented by trade payables which are 30% lower than in 2016.

in thousand eur	2017		2016		2015		2014	
Long-term assets	**54,009**	**74%**	**55,392**	**74%**	**57,394**	**74%**	**58,142**	**73%**
Intangible assets	1,403	2%	526	1%	481	1%	538	1%
Real estate, machinery and equipment	39,755	54%	45,345	61%	46,602	60%	47,826	60%
Financial investments and loans granted	11,975	16%	8,632	12%	9,733	13%	9,210	12%
Other	876	1%	889	1%	578	1%	568	1%
Short-term assets	**19,311**	**26%**	**19,443**	**26%**	**20,400**	**26%**	**21,477**	**27%**
Inventories	11,189	15%	8,270	11%	7,600	10%	7,924	10%
Trade receivables	7,875	11%	7,961	11%	9,106	12%	9,851	12%
Other	247	0%	3,212	4%	3,694	5%	3,701	5%
Total assets	**73,319**	**100%**	**74,835**	**100%**	**77,794**	**100%**	**79,618**	**100%**

in thousand eur	2017		2016		2015		2014	
Long-term financial liabilities	26,272	88%	31,107	91%	32,385	91%	35,468	94%
Short-term financial liabilities	3,620	12%	2,957	9%	3,061	9%	2,206	6%
Financial debt	**29,892**	**100%**	**34,064**	**100%**	**35,446**	**100%**	**37,674**	**100%**
Capital	**23,376**	**100%**	**23,636**	**100%**	**22,405**	**100%**	**22,406**	**100%**
Called-up capital	1,875	8%	1,875	8%	1,875	8%	1,875	8%
Capital reserves	10,838	46%	10,838	46%	10,838	48%	10,838	48%
Reserves from profit	8	0%	8	0%	8	0%	6	0%
Revaluation reserves	5,421	23%	8,818	37%	9,240	41%	9,444	42%
Fair value reserve	66	0%	18	0%	0	0%	0	0%
Net profit or loss brought forward	2,220	9%	589	2%	388	2%	139	1%
Net profit or loss for financial year	2,947	13%	1,490	6%	56	0%	105	0%
Financial debt / Capital	1.3		1.4		1.6		1.7	
Net financial debt / EBITDA	5.27		5.25		10.38		9.29	

Profitability indicators



	2015	2016	2017
Asset turnover ratio (Operating income / Average assets balance)	0.839	0.874	0.950
Accounts receivable turnover ratio (Sales revenues / Average receivables balance)	6.963	7.771	8.527
Immediate solvency ratio Liquid assets / short-term liabilities	0.174	0.183	0.004
Net return on equity ratio Profit / Average equity	0.003	0.067	0.134
Equity financing rate Equity / Liabilities	0.288	0.316	0.319
Long-term financing rate Equity + Long-term reserves + Long-term debts / Liabilities	0.736	0.770	0.706
Operating fixed assets rate Operating fixed assets (after carrying amount) / Assets	0.605	0.613	0.561
Long-term investment rate Total fixed assets + long-term financial investments + long-term operating receivables / Assets	0.730	0.728	0.725
Equity to operating fixed assets Equity / Fixed assets (after carrying amount)	0.476	0.515	0.568
Quick ratio Liquid assets + short-term receivables / Short-term liabilities	0.625	0.645	0.370
Current ratio Short-term assets / Short-term liabilities	1.001	1.124	0.889
Operating efficiency ratio Operating revenues / Operating expenses	1.016	1.054	1.050
Net return on equity ratio Net profit in financial year / average equity (without net profit or loss of the same year)	0.001	0.058	0.131

Sales

In 2017, the sales revenues of Goričane, d.d. totalled EUR 67.5 million, which is 1.8% more than in 2016. The company's volume growth in sales for 2017 thus amounted to 4%.

The largest share of our net sales revenue, EUR 35.8 million or 55.2% of the company's total sales, was generated on the European Union market, followed by revenue from sales to third countries with EUR 21.1 million or 32.6%, whereas domestic sales amounted to EUR 7.9 million. In comparison with 2016, revenues from sales to third countries increased by 19% and revenues from sales to EU decreased by 2%, whereas the income from domestic market remains on the same level.

Production continued at full capacity throughout 2017, and the year itself was definitely marked by the steep growth of prices of raw materials, especially pulp which has the biggest impact on the prices of paper. The movements in 2017 were in accordance with expectations regarding capacity and sale but of course, such high prices of raw materials were certainly a surprise. The second half of last year was particularly marked by quite unusual events, especially in China, which made the whole situation even more complex.

2017 was also a year of considerable changes in our sales network. In Italy, we terminated the contract with our oldest agent and started working with a new one, the Italbond company, which is also one of our buyers. The replacement has been due for a while and has already proved itself correct since our sales in Italy increased by 27%, followed by considerable strengthening of activities on speciality segments. In addition, we finally arranged a contract for paper cutting at the Nova Papira company where they also cut lightweight paper, which will enable us to free up a part of our capacities and thus ensure further growth in the lightweight paper sector.

We chose a new agent in Hungary as well because we believe it is the right way to increase our presence on this market. Belgium underwent a change of generations which is expected to positively affect our presence on this market.

Our production capacities were therefore full last year. The lightweight paper grade is developing well and we have achieved growth in this segment. We have also increased our presence on the bible paper market – in Turkey, our company became the registered supplier of SORA light chamois paper for the printing of Quran. A significant growth of lightweight paper for the pharmaceutical industry is expected as well. In addition, the market for our colour paper grade is expanding considerably and we have an increasingly stronger presence in Europe and North Africa. A lot of our expectations are put on the SORA matt cream grade which is successfully selling in Turkey, and has also become an officially renowned paper for the printing of Quran. A production of as many as 500 tonnes of paper is expected on an annual basis in this segment alone.

Net sales by quarter in comparison with 2016

in thousand eur	2017				2016			
	1. quarter	2. quarter	3. quarter	4. quarter	1. quarter	2. quarter	3. quarter	4. quarter
Slovenia	1,921	2,282	1,799	1,977	2,042	2,368	1,940	1,628
EU	9,015	9,158	8,280	9,432	9,551	9,420	8,472	9,257
Third countries	5,115	4,708	6,206	5,145	4,076	4,404	4,367	4,976
Total	**16,051**	**16,148**	**16,285**	**16,554**	**15,668**	**16,192**	**14,779**	**15,861**

Considering the high prices of pulp, two-side coated papers were hit the most and their price is considerably falling short of the actual costs of production, which is why we are trying to limit and reduce the production of this paper grade.

In the one-side coated paper grade segment, we have not been able to engage larger buyers of labels, which is basically alright since our prices are set per whole year and we would generate a significant loss in 2017 if we produced this grade, however, we are increasing our presence in the segment of heavier paper grades.

There have been no changes in the silicone paper segment. In principal, the market is growing, but the prices are not the best and we are not specifically promoting this segment, however, we did keep all the existing customers.

The share of sublimation transfer papers is increasing as well. We expect most from the replacement of our coat supplier. In 2018, the coat is supposed to be made by Helios and we expect Helios to be able to tackle the change of coat quality towards eliminating the odour and ensuring better ink drying.

The biggest sale, EUR 22.4 million or 34.5% of total sales made by Goričane, d.d. was generated by the Central European region, followed by the overseas markets with EUR 18 million and a 27.7% share. The third largest sales area was the region of Southeast Europe with a 8.2% share and sales revenue in the amount of EUR 5.3 million. The sales revenue made in Southern Europe was EUR 5.1 million (7.9% share), and EUR 4.5 million (6.9-percent share) in Western Europe. Sales on domestic market totalled EUR 7.9 million, which is 12.3% of the total sale revenues of Goričane, d.d.

Year 2017 has also shown that we can expect a strong increase in the amounts of lightweight paper, and possibly also sublimation paper and SORA matt cream. In addition, we are developing some new paper grades that will likely provide a higher added value. I believe that in 2018, we will further reduce our presence on the market of two-side coated papers, and we will definitely have to intervene more radically with the production programme, meaning that we will remove some of the grades from production and make room for papers with high added value.

Full production capacity and a strong growth in speciality papers sector is again expected in 2018.

SALES IN 2017

4%

volume growth in company sales in 2017

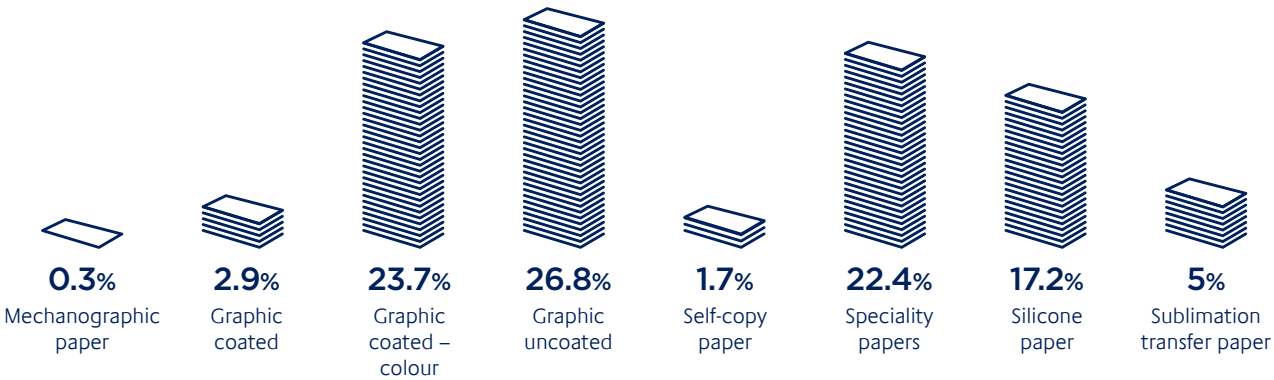
55.2%

of total sales revenue made on the EU market

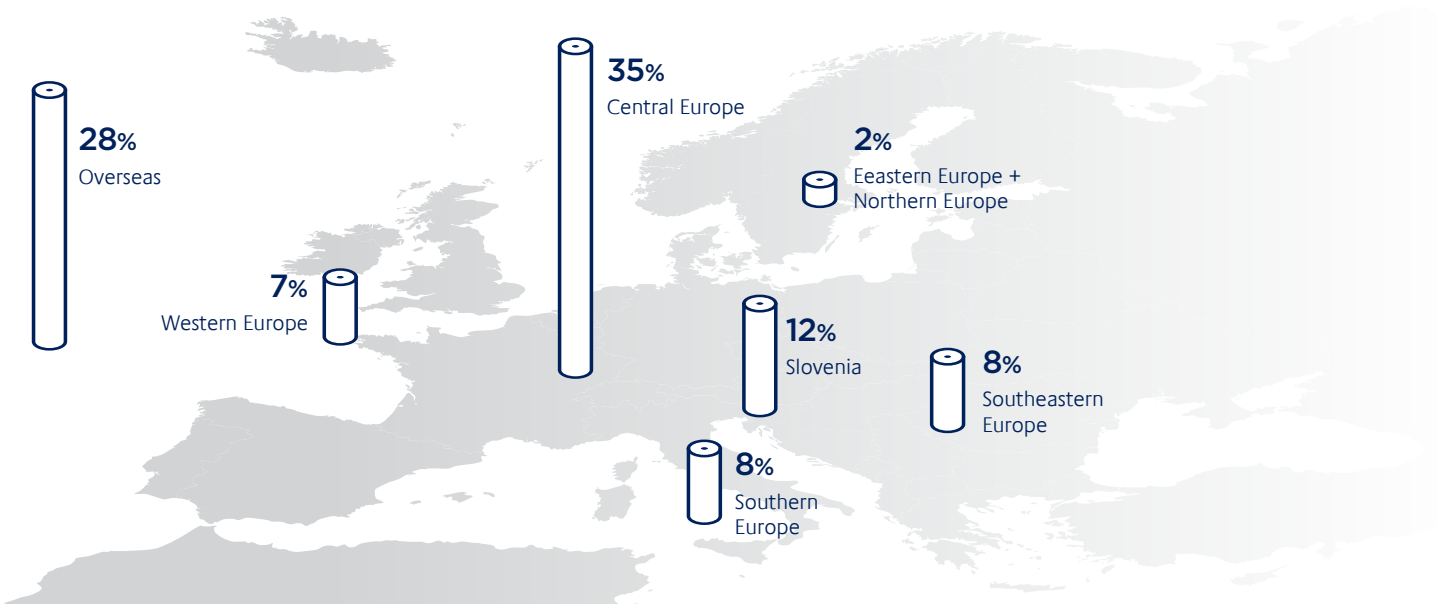
2017 was a year of changes in our sales network

High prices of pulp have the biggest effect on the price of two-side coated paper which is why we strive to limit and reduce their production

SALES BY PAPER GRADE



SALES BY REGION



Production

A new absolute record in the amount of paper produced was recorded in 2017. Successful operation reflected in the increase of total capacity utilisation, and the share of broke was extremely low.

We produced a total of 82,578 tonnes of paper or 82.955 tons including dr. Roller, and thus exceeded the annual plan by 7.2%. The total amount of broke on the level of the whole paper mill was just 12.4%. Production capacity remained on a high level and provided us with an ability to optimize raw material purchases, transitions and shutdowns.

Average net production on the paper machine (PM) amounted to 6,913 tonnes per month for the 71.5 g/m² weight grade (the weight grade planned was 70.6). Despite the lower weight, net production was still significant, which is the result of the most important indicators of the PM operation, such as the 7.4-percent record low broke and a scheduled capacity utilisation as high as 86.7-percent. The smallest loss of time was recorded in breaks, maintenance-related and technological shutdowns. The number of breaks is slightly higher than in 2016 but the amount of shutdown time keeps decreasing. We therefore achieved total capacity utilisation that exceeds 80% and, more precisely, amounts to 80.3%, which - for such a diverse production programme - is really an excellent result.

41% or 34,356 tonnes of all the paper produced went to sheet cutting, and only a small share of paper was cut elsewhere and not at our paper mill. The weight of sheet paper was reduced to as little as 71.1 g/m². A net production of 2,452 tonnes per month was achieved, which is 50 tonnes per month more than last year. Again, we have recorded a higher share of broke. The pressure to increase quantities is still very intense. Projects are evolving, progress is visible. We also had quite a few staffing changes.

In 2017, the staff fluctuation on the PM and the slitter continued. The project of involving mobile workers is continuing. The workplace rotation process lives as well. We are glad to see how our employees are committed to providing useful ideas, and experience the growth of responsibility and loyalty to the company.

The quantities of speciality papers keep growing, the number of complaints is decreasing, our quality is getting more and more stable, and all of that contributes to the strengthening of customer trust in our products.

The energy efficiency of the paper machine has improved but we still lack a systematic approach.

A biological wastewater treatment plant was constructed and is currently in optimisation phase.

Is it even possible to exceed these achievements in 2018? Papermaking is an industry that does not allow anyone to rest on their laurels. Our priorities are clear - we want to maintain reliable machine operation, strengthen the knowledge and commitment of our employees, ensure a stable quality of our products, quickly react to problems, and systematically seek for and troubleshoot any potential issues.

Year 2017 broke records again - in the number of tonnes produced, the low share of broke as well as the total capacity utilisation, which is a result of well-coordinated work within the company and a consequence of making the right decisions. We will keep looking for new opportunities in 2018.

PRODUCTION IN 2017

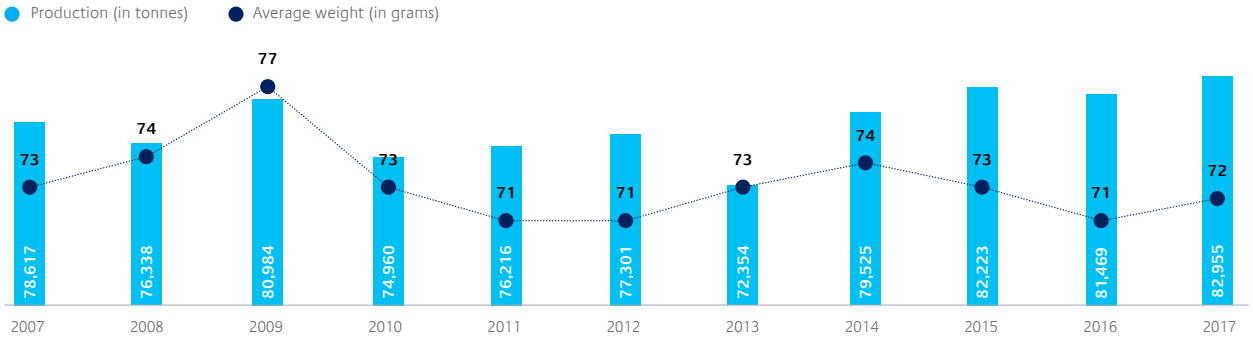
7.2%
exceeded annual plan in paper production

12.4%
total broke for the whole papermill

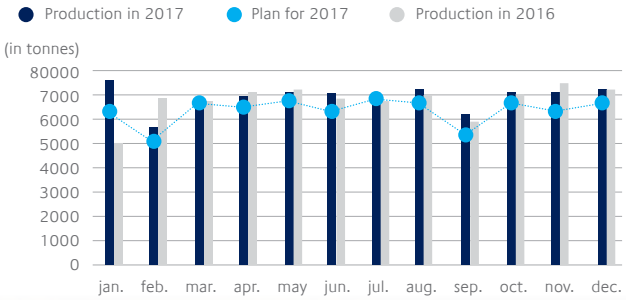
86.7%
scheduled capacity utilization of the paper machine

41%
of production intended for cutting

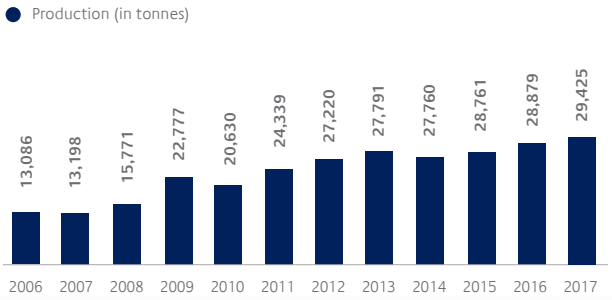
Production 2007–2017



Net production in comparison with the plan and year 2016



Production in finishing 2006–2017



Purchasing

Like in previous years, the purchasing department closely monitored the prices of raw materials, forecasts and trends in 2017 as well. An efficient purchasing process, which is one of the key factors for the successful operation of Goričane, d.d., has to be supported by price monitoring. Other main factors include solid payment terms, a reliable supply and a good relationships with suppliers. In addition, a new information system provides us with a better overview of data.

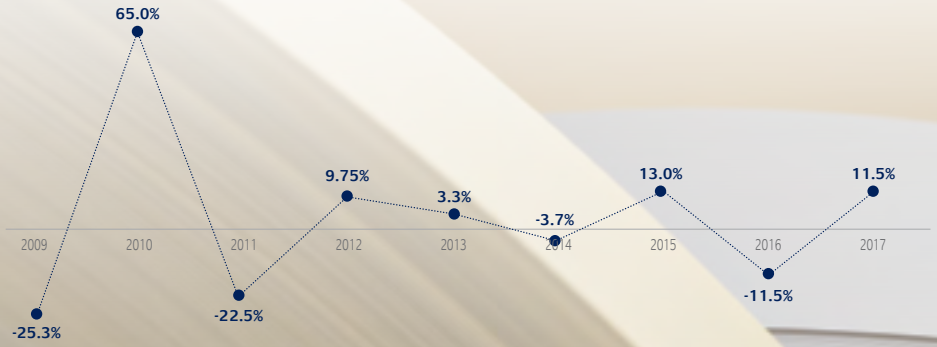
Same as in 2010, year 2017 was marked by the lack of pulp on the market, which resulted in increasing prices of the main raw material. Having signed an annual contract with some of the suppliers reduced the risk of pulp shortage, plus suppliers have granted volumes secured, which is crucial for a long-term business partnership. The price of pulp has increased by 29.2% from January to December, whereas the average price in 2017 increased by 11.5% in comparison with 2016.

The prices of other main raw materials remained on the same level as in 2016, except for latex, the price of which increased by 38% in the first half of the year, and then gradually decreased towards the end of the year. The price of latex has thus increased by 5% by the end of the year in comparison with December 2016.

The share of material costs in net sales revenues amounted to 71.9% whereas the costs of materials per tonne of paper produced increased by 7.1% in comparison with 2016.

The purchasing department strives to have a backup supplier in every segment in order to prevent any unexpected supply shortfalls.

PULP PRICE GROWTH RATE



11.5%

pulp price growth rate in 2017

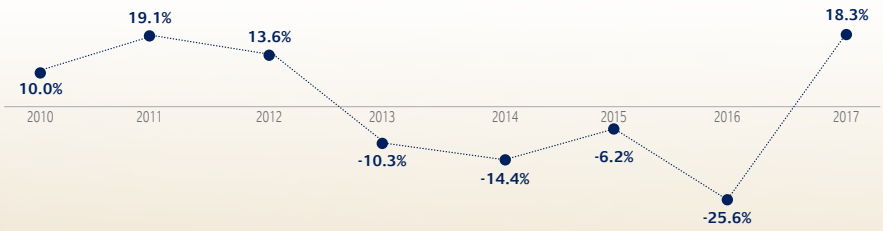
Energy sector

As far as the prices of energy products in 2017 are concerned, the energy sector had a stable and favourable year. The basic price of natural gas fluctuated slightly depending on the season of the year whereas other gas-related costs and duties increased. The average total price of natural gas has thus increased by 18%. Throughout the year, the price of electricity was stable and very affordable, which is why the WB40 boiler with cogeneration only operated at the beginning and then again in the middle of the year, during the inspection of the Bosch boiler. Due to a defect that occurred on the burner of the Bosch boiler, as well as the impact of storms on the exterior electricity grid, there were a few shortages of steam and electricity respectively, which resulted in us having exceeded the time planned for energy sector shutdowns.

The amount of freshly pumped water has decreased in comparison with the year before, whereas the consumption of compressed air is increasing. The specific consumption of electricity and thermal energy remained on the same level as in previous years.

During the year, negotiations with the electricity and natural gas suppliers for 2018 were taking place. The negotiations were based on the current exchange prices of energy products. The contracts concluded are valid for one year and shall expire at the end of 2018.

GAS PRICE GROWTH RATE



18.3%

gas price growth rate in 2017

Maintenance

The shutdown time for maintenance on the paper machine was adjusted to the needs of the production process and totalled 149 hours, which is in line with the plan. Scheduled shutdowns for maintenance were planned for every 5-6 weeks but since we had to adjust to the state of machine clothing and production capacity, these periods were not followed too strictly. Both of the longer scheduled shutdowns were done when scheduled and lasted as scheduled. The shutdown time was used for regular and urgent maintenance, construction and cleaning, as well as for certain overhauls and other works related to the investments in the production and energy sectors. During scheduled shutdowns, maintenance was performed by outsourced contractors from Slovenia and abroad (their number depended on the extent and nature of the interventions needed), as well as all our internal teams.

A total of 135 hours of shutdown time was spent for unscheduled technical-maintenance work, which is compliant with the plan (132 hours) and comparable to the previous two years. The total loss of time caused by the energy sector in production was 40 hours, which is 15 hours more than in 2016 and almost the same as in 2015. The unscheduled technical shutdowns were scheduled fairly evenly throughout the year and did not result from a potentially repetitive issue.

The costs of maintenance by account remained within the framework planned. The only exception is the account for construction-related maintenance costs which were higher. Previously, the budget for maintenance was mostly spent in the production sector whereas in 2017, more substantial and complex construction maintenance had to be performed in order to prevent the facilities from further deteriorating and becoming a safety risk, and to ensure continuous operability of facilities and machinery.

The average monthly overtime in maintenance (below 120 hours) was one of the lowest in the recent years, with the exception of March and September when more substantial maintenance work had to be performed, although it was done in the shortest time possible.

Construction maintenance

The construction work performed in 2017 can be roughly divided into regular maintenance, urgent interventions and unscheduled investment-related construction and maintenance work. Regular maintenance included maintenance work on the roofs, in sanitary facilities, offices, as well as in production facilities and on the machinery. Various smaller-scale construction, painting and cleaning works were carried out in the production sector during scheduled production shutdowns.

An intervention was performed to repair a broken underground water distribution pipeline, and unscheduled construction maintenance job was done to prevent facilities from deteriorating. The exterior of some buildings and some concrete parts were ruined to the extent that made any movement in their vicinity dangerous, so these interventions were necessary to ensure safety. Some of these works started already in 2016.

During the preparation stage for the construction of the biological part of the wastewater treatment plant, smaller construction work was also done in the area of production and treatment plant, which resulted in higher costs of construction maintenance than planned.

Investments

Some of the works related to the investments from 2016 have continued into 2017. The investment into a new business system was completed. We made the legally required investment into the expansion of the wastewater treatment plant with a biological part. The investment costs for the current year amounted to approx. EUR 1.6 million, whereas investments completed and activated by the end of the year exceeded EUR 3 million.

INVESTMENTS IN 2017

EUR 1.6 million	EUR 3 million
the amount of investment costs in 2017	the value of completed and activated investments by the end of 2017

Development

In 2017, Papermill Goričane has continued focusing its development activities on expanding the production range of speciality papers in order to create high added value.

Quite a few development projects were completed with a validation of the production documentation and a validation of products on the market. Standard products thus included sublimation transfer paper for the digital printing of synthetic fibers SORA transfer in 39, 42, 45, 62, 82 and 102 g/m², colour coated paper SORA matt cream in 70, 90, 100, 115, 135 and 150 g/m², and white coated paper with high opacity SORA matt premium in 70, 80, 90 and 100 g/m².

On the imitative of the demanding Swiss market we developed a new product, SORA press opaque, which differs from the standard SORA press uncoated paper by its high opacity and is still being tested by the buyers.

In 2017, we actively tested the applicability of our one-side coated papers for shopping bags. The testing resulted in our decision to develop a new SORA pack one-side paper whose custom coated surface will satisfy the needs of flexo printing and whose carefully selected fibers will allow for a good folding ability in the bag production stage.

In addition, we were actively working on improving our existing products. In order to meet the need for higher speeds in printing and folding of lightweight paper, we modified the surface treatment of paper and managed to improve its stability both for SORA medico and SORA medico opaque product lines. With SORA matt plus voluminous paper, we changed the type of filler used and managed to redirect the production process towards reducing the two-sidedness of printing properties and maintaining the volume of the paper.

New raw materials were introduced in the production process in 2017. Due to the need for continuous addition of inks without dilution, we replaced the black ink that had to be diluted with a non-pigment ink which is being added in the concentration supplied. Despite the ink replacement, we managed to maintain the tone of paper that complies with internal standards. A project for reducing impurities resulting from the hydrolysis of the AKD sizing agent was successfully implemented and completed. The supplier of the AKD sizing agent was replaced with another supplier who was able to get us a higher-quality sizing agent which ensures sizing stability but without the deposition of black hydrolysed products.

We also tested the impact of enzymatic refining on the reduction of energy consumption in the process of stock preparation. The tests were performed on a laboratory level but we will continue with industrial level in 2018.

Purchasing new laboratory equipment contributed greatly to an efficient implementation of development projects: we bought a ZETA SZP-10 device for monitoring the surface charge of materials suspended in water; a Mütek PCD-05 Travel device for monitoring the charge of colloidal substances in process water; and an Anton Paar rheometer for determining the viscoelastic properties of various coating and starch mixtures.

NEW PRODUCTS IN 2017

SORA transfer
in 39, 42, 45, 62, 82 and 102 g/m²

SORA matt cream
in 70, 90, 100, 115, 135 and 150 g/m²

SORA matt premium
in 70, 80, 90 and 100 g/m²

SORA press opaque
highly opaque paper developed for the needs of the Swiss market

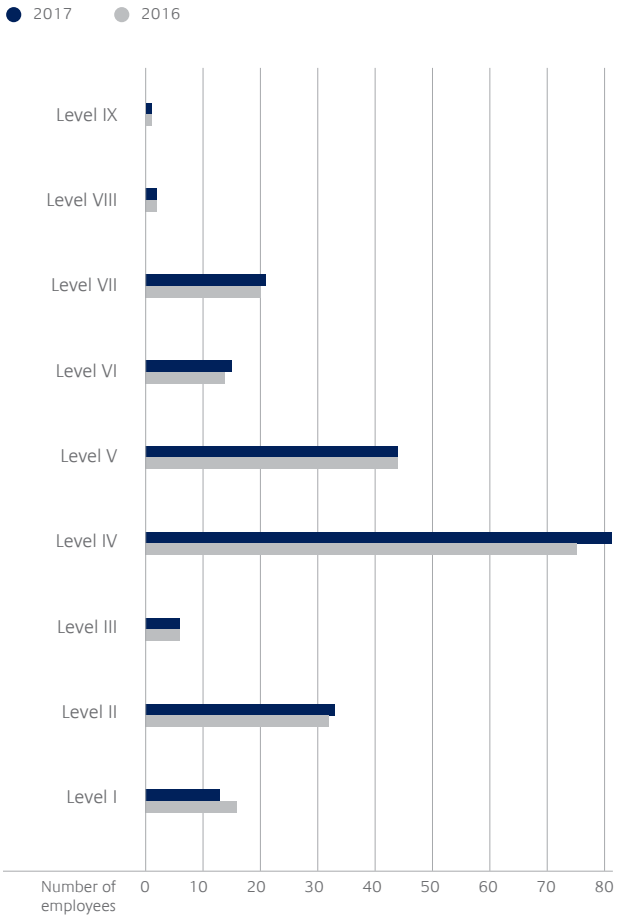
SORA pack
one-sided paper with a custom coating surface suitable for flexo printing and selected fibres suitable for folding in the bag production phase

Responsibility to employees

Employment figures and education level structure

At the end of 2017, the company had 216 employees, prevailingly with level 4 education (elementary to lower vocational education).

Education level



Recruiting potential new employees and the selection process

Potential new employees are reached through our website and the Employment service of Slovenia, but we are also posting ads in printed media and on an online employment platform for job seekers.

Our recruitment process includes at least two phases, i.e. at least two meetings are held with each potential candidate prior to signing the employment contract. The first interview, which is of informative nature, is usually conducted by our HR manager. In the next interview, the HR manager is joined by the head of the department searching for a new team member.

Fluctuation

Managing employee education and training

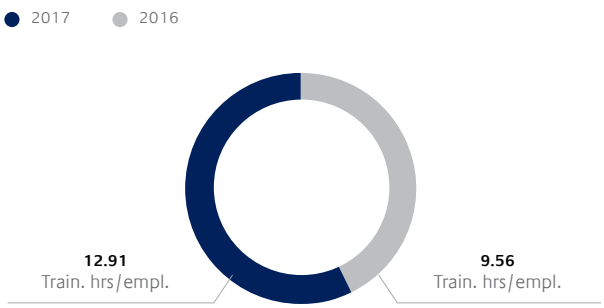
The training process at our company involves all employees. The average time of training in 2017 was 12.91 hours - 12.86 hours were spent on external and 0.05 hours on internal training. On average, the cost of training per employee was EUR 270.42.

In 2017, we mostly attended various training courses that are required by law (occupational health and safety, natural gas, first aid training), attended a few global conferences on the paper industry and development, and continued the papermaking school at the Pulp and Paper Institute with a second group of papermakers.

In 2017, a lot of time was also spent on promoting employment and apprenticeship in papermaking. Promotional leaflets were created in cooperation with other Slovenian paper mills, a website was created, and we have a Facebook page that contains more detailed information on professions in the paper industry, paper itself and various training courses. The project is called Papirnicar – it is used to persuade ninth graders to apply for apprenticeship and become papermakers. Unemployed and already employed people may join the system as well.

In addition, we continue with the "Papermaking School", a professional training program for papermakers, which is also a result of common efforts of the Slovenian paper industry.

Training hours per employee



Employee salaries and other benefits

The starting salaries are determined on the basis of the salary scale defined by the collective agreement applying to Goričane, d.d. Also, because we are aware of the importance of social security, our employees are included in the collective supplementary pension insurance system.

Health, safety and well-being of our employees

Health is of key importance in ensuring that we are efficiently fulfilling our job requirements.

Our company is promoting occupational health via various channels, e.g. in our online newsletter, on internal information displays and through email.

The occupational safety and health programme at our company is focused on implementing the required standards, a commitment of the Management, employee involvement, workplace risks and analysis, detection and elimination of potential hazards, training and education.

In 2017, occasional theoretical and practical exams in occupational safety were carried out for our employees in accordance with the HR department's training schedule, and introductory training courses were performed for new employees and students who

EDUCATION AND TRAINING IN 2017

continuing implementation of the "Papermaking School", a professional training programme for papermakers

in 2017, a lot of time was spent on the promotion of employment and apprenticeship in papermaking

are temporarily hired through student employment agencies. A larger group of workers completed the training in November 2017.

A periodic inspection of the work equipment was carried out, specifically of the stock preparation, paper machine and finishing. A part of the lifting devices was inspected as well.

Medical examinations were scheduled for new employees and any employees with an expired medical examination certificate.

There were no fires in 2017 but we did get a visit from the fire inspector who did not spot any shortcomings in this area.

In addition, there is a recreational activity organized for our employees to promote a healthy lifestyle.

Sick leave and the number of accidents

In 2017, our employees had 27,465 hours of sick leave.

Five injuries at work were recorded in 2017, i.e. injury frequency is 2.3%.

Expected development

Business planning, which forms the key elements of the 2018 plan, is performed by taking into consideration the basic quality characteristics of business information: understandability, relevance, reliability (prudence) and comparability. The plan is an estimate of the future conditions for business operations and their success, which is based on the currently available selection of external and internal information and should thus be treated as a prediction that includes a certain level of logical and expected uncertainty. Business success and financial goals can be affected by various factors which cannot be impacted by Goričane, d.d. Risk factors mainly include the fluctuations of US dollar exchange rates, and the price movement on the pulp market.

THE 2018 BUSINESS GOALS OF GORIČANE, D.D., ARE AS FOLLOWS:

- EUR 72.8 million of net revenues from sales,
- gross profit or loss in the amount of EUR 71.9 million,
- EBITDA in the amount of EUR 5.2 million,
- net profit or loss in the amount of EUR 2.1 million and
- investments into fixed assets in the amount of EUR 0.8 million.

The construction of the **new biological waste treatment plant** is a big contribution of Papermill Goričane to the environmental protection.

ENVIRONMENTAL REPORT

Introduction

In 2017, Papermill Goričane was very active in the area of recognising legislative changes in accordance with the IED (Industrial Emissions) Directive. As operators of an IED plant which can cause large-scale environmental pollution, we are obliged to update our environmental permit in compliance with the new requirements. What we added anew is a snapshot of the zero state of soil and groundwater condition as required by the IED Directive. A list was drawn up of the hazardous substances that are being stored and used in the area of the IED plant, and we specifically defined those hazardous substances that represent a potential risk for the soil and groundwater. Based on that, an authorised contractor will perform a soil and groundwater monitoring.

The construction of a biological wastewater treatment, completed at the end of 2017, represents a big contribution to the environmental management. A biofiltration-supported secondary biological treatment was added to the chemical-mechanical primary part of the wastewater treatment plant. Biofiltration was selected as the most convenient treatment method due to the low organic charge of process waste water from the primary section, and also due to the organic charge fluctuation (depending on the production programme). Our goal is to reduce water consumption in the production process to below 10 m^3/tonne of net product by means of a secondary biological treatment of organic substances.

with the construction of the biological waste water treatment plant, a secondary biofiltration-based biological treatment was added to the chemical-mechanical primary part of waste water treatment

Use of natural resources

A rational consumption of natural resources is measured by the index of material loss from the production process. Material loss calculated on the wastewater treatment plant are based on the amount of extracted sludge. They fell below the target value of 0.7 and have been the lowest in the last five years.

Indicator: % (calculation based on gross production)

Goal	2012	2013	2014	2015	2016	2017
0.7	0.84	0.88	0.89	0.77	0.75	0.68

The consumption of fresh well water in 2017 has been the lowest in the last three years. The level of consumption depends on the time of operation of individual boilers, Bosch and Wagner, which require different amounts of cooling water for their operation. Water used for cooling purposes by the Bosch steam boiler is treated as waste process water in the production process, whereas in the case of cogeneration and power generation, cooling water is treated as process water in thermal power plants. In the production process, we open the water loop containing waste cooling water from the Energy sector in order to keep any organic charges of waste process water within set limits. The specific consumption of water per net production was the lowest in the last five years but we did not achieve the goal of 10 m^3/tonne of net production. In 2018, we optimised the operation of the biological wastewater treatment plant which – if operating optimally – will reduce the amount of process water.

10 m^3/t

our goal is to reduce water consumption in the production process to below 10 m3/tonne of net product which we intend to achieve by means of the secondary biological treatment of organic substances

the consumption of fresh well water in 2017 was the lowest in the last three years

Consumption of energy products

	Indicator	Goal	2012	2013	2014	2015	2016	2017
Water consumption	Fresh water (water wells)1000m³		4,401	4,189	3,760	2,272	2,463	2,163
	Fresh water (cooling in the power station) 1000 m³		3,309	2,887	1,925* 485*	0 1,063**	1,279* 19**	875* 237**
	Fresh water (tech. purpose, paper production) 1000 m³		1,091	1,302	1,348	1,209	1,164	1,051
	Net spec. consumption of process water m³ per tonne	10 (BAT 15)	12.1	18	17	14.7	14.3	12.7
Energy consumption	Natural gas 1000 Sm³		15,937	14,628	13,462	10,591	12,510	12,110
	Electricity purchased (in MWh)		28,809	26,328	36,791	50,851	44,143	45,768
	Emission coupons	32,834	29,868	27,416	25,229	19,850	23,446	22,696
	Surplus of emission coupons		2,966	5,418	7,605	12,984	2,259	3,009
	Net consumption of electricity MWh/ton	0.7 do 0.9	0.651	0.647	0.640	0.622	0.627	0.624
	Net consumption of heat GJ/ton	7 do 8	3.69	4.05	3.98	3.79	3.76	3.74

*cooling as thermal power plant **cooling as technological purposes

Emissions

To air

Emissions to air are caused during steam production and paper drying and cutting. The monitoring of emissions to air is stipulated by the environmental permit and has to be conducted by an accredited external institution every third year for boiler devices and every fifth year for dust collectors. By investing in the new Bosch steam boiler, we managed to significantly reduce emissions of NO_X to air; the guarantee value is now below 100 mg of NO_X/m^3 of air. The first measurements taken in 2015 confirmed an improved situation of NO_X emissions (72 mg NO_X/m^3)

Because – considering the market prices of electricity and gas – steam is also generated in the Wagner steam boiler, monitoring of emissions to air was conducted in 2016 for this boiler as well. The measured emissions of NO_X slightly exceeded the legally required threshold, which is why we already launched a project to renovate the combustion part of the Wagner steam boiler.

Monitoring of emissions to air will be conducted at the beginning of 2018.

Emissions to air

Indicator	Environmental permit	2012	2013	2014	2015	2016	2017
NO_X mg/m³	200 - 150***	152**	152**	152**	72****	163*****	163*****
Prah mg/m³	150	11**	11**	11**	11**	11**	11**

*monitoring 2009 **monitoring 2012 ***as of November 2014, the limit of concentration NO_X has been lowered to 150 mg/m³
****first measurements of emissions to air on the Bosch steam boiler *****monitoring 2016

To water

Before being discharged to the water course, process waste water is treated on the mechanical chemical wastewater treatment plant. Annual monitoring shows compliance with the environmental permit requirements.

Noise

In accordance with the environmental permit, noise monitoring is conducted every third year by an accredited external institution. In 2016, the level of noise was measured on three locations in the vicinity of the papermill. They were below the maximum permitted limit for daytime, evening time and nighttime, and thus in compliance with the requirements of the environmental permit. The next monitoring of noise imissions to the environment is scheduled for 2019.

Waste

Papermill Goričane has a well-established system of separating waste at its source – we have smaller containers for separate types of waste being disposed of by our employees on a daily basis. There are waste

Emissions of substances to water

Emissions to water	Indicator	Environmental permit limits by 1.1.2013	Environmental permit limits after 1.1.2013	2012	2013	2014	2015	2016	2017
Suspended solids	mg/l	35		16.2	11.8	7.4	10.1	8.2	6.7
	kg/t	0.4	0.4	0.2	0.19	0.1	0.13	0.10	0.10
COD	mg/l			143	71	66.3	85	95.2	76.3
	kg/t	4**	4**	1.5	1.15	1.0	1.04	1.23	0.98
BOD_5	mg/l	50**	25**	39	18	15.5	13.5	17	12
	kg/t			0.4	0.28	0.2	0.17	0.22	0.15
N tot	mg/l	10		5.2	6.1	5.6	4.6	4.3	4.0
	kg/t		0.2	0.05	0.102	0.09	0.06	0.06	0.05
P tot	mg/l	2		0.09	0.07	0.34	0.06	0.07	0.09
	kg/t		0,01	0.001	0.001	0.0047	0.0008	0.001	0.001
AOX	mg/l			0.25	0.071	0.086	0.06	0.11	0.12
	kg/t	0.015	0.005	0.002	0.0011	0.0014	0.0007	0.0013	0.0015

**the limit is defined for production with more than one production programme change a day

Waste collected on the premises of Goričane, d.d.

	Indicator	Waste management plan	2012	2013	2014	2015	2016	2017
Paper sludge	tonnes	max. 1,600	1,879	1,937	2,041	2,220	1,809	1,769
Municipal waste	tonnes	max. 35	30	35	37	35	30	31
Paper packaging	tonnes	max. 350	350	392	368	373	397	500
Metal packaging	tonnes	max. 130	126	133	124	147	151	120
Plastic packaging	tonnes	max. 40	9	43	37	37	19	23
Wood packaging	tonnes	max. 50	57	45	58	51	53	37

disposal units available with separate containers for different types of waste. Waste packaging is contractually collected and treated by Dinos UNIREC company.

Hazardous substance management

In hazardous substance management, our well-kept and regularly maintained storage tanks and pumpings enabled us to retain a low risk rate. We have a well-established plan of hazardous chemicals management outlining all activities that are necessary in order to harmonise our operations with the legislation. Our employees are being regularly trained for hazardous substance management and the course of conduct in cases of accidental spillage of hazardous substance.

With migration to GHS labels, all emergency regulations (first aid and securing spillage sites) were updated in accordance with the new safety data sheets. The new safety data sheets with GHS labels were distributed to workplaces.

In 2017, an authorised institution conducted an inspection of storage facilities with hazardous chemicals. Any non-compliance on another storage facility will be resolved by the end of 2018. The certificates issued to confirm legislative compliance of storage facilities operation will be included in the report on inspecting the technical measures for preventing soil and groundwater pollution.

Exceptional events

In 2017, there were no exceptional events that would have impacted the environment.

Environmental goals and projects in 2017

1. *Reducing BOD5 process waste water at specific water consumption below 10 m^3/ton.* In 2017, we were focused on active engineering works and acquiring the necessary permissions and the building permit for the construction of a secondary biological treatment plan for waste process waters. The biological wastewater treatment plant is scheduled for regular operation in 2018.
2. *Reducing emissions of NO_x to air below the legislative requirement of 150 mg/Nm^3.* The monitoring of NO_x emissions shows exceedance by 2 mg/Nm^3 for the cogeneration boiler. Conceptual solutions and propositions were brought forward for recuperated air or conversion of heaters which to be implemented in 2018.
3. *Maintaining noise emissions below the level required by legislation.* New noise silencers by the fans and above the paper machine were installed in 2017.

The company management is regularly reviewing the environmental aspects and potential risks, and implementing projects to achieve the environmental goals.

The financial statements of Papermill Goričane are compiled in accordance with the **International Financial Reporting Standards.**

ACCOUNTING REPORT

Income statement

in eur		Notes	2017	2016
1.	Net sale revenues	1.	67,515,969	66,311,966
2.	Change in the value of inventories of products and work in progress	2.	2,838,245	84,757
4.	Other operating revenues	3.	48,715	268,251
5.	Costs of merchandise, materials and services		-57,674,432	-52,880,405
	a) Purchase price of merchandise and materials sold, and costs of material used	4.	-49,541,968	-45,220,767
	b) Cost of services	5.	-8,132,464	-7,659,638
6.	Labour costs	6.	-6,499,262	-6,586,433
	a) Salaries and wages		-4,689,229	-5,023,443
	b) Social security cost		-349,253	-365,831
	- pension insurance costs		-425,112	-445,783
	c) Other labour costs		-1,035,668	-751,376
	Write-offs	7.	-2,305,391	-3,074,536
7.	a) Amortisation		-2,126,825	-2,207,245
	b) Operating expenses from revaluation of intangible and tangible fixed assets		-94,490	-840,710
	c) Operating expenses from revaluation of current assets		-84,076	-26,581
	Other operating expenses	8.	-558,147	-710,655
8.	Financial revenues		576,106	315,913
9.	Financial expenses		-504,046	-2,322,800
10.	Net financial outcome	9.	72,060	-2,006,887
	Income tax	10.	-546,618	-124,448
12.	Deferred taxes	11.	56,230	208,385
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	**12.**	**2,947,369**	**1,489,995**

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Statement of other comprehensive income

in eur	Notes	31.12.2017	31.12.2016
Net profit or loss for financial year		2,947,369	1,489,995
Other comprehensive income during the period to be hereafter recognized in the income statement		-3,173,703	-226,819
Surplus changes from revaluation of tangible fixed assets (gross)		*-4,019,247*	*0*
Surplus changes from revaluation of financial resources (gross)		*101,095*	*-5,320*
Taxes from items to be hereafter recognized in the income statement		*-19,208*	*-221,499*
Elimination of deferred taxes from the revaluated part of tangible fixed assets		*763,657*	*0*
Other comprehensive income during the period that will hereafter not be recognized in the income statement		-33,189	-32,714
Actuarial gain and loss		*-33,189*	*-32,714*
Taxes from items that shall hereafter not be recognized in the income statement		*0*	*0*
Total comprehensive income of accounting period		**-259,522**	**1,230,462**

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Statement of financial position

in eur		Notes	31.12.2017	31.12.2016* changed	1.1.2016* changed
	ASSETS		73,319,487	74,835,118	77,915,975
A.	NON-CURRENT ASSETS		54,008,831	55,380,871	57,534,290
I.	Intangible assets and long-term deferred costs and accrued revenues	14.	1,402,505	525,583	602,372
	1. Long-term industrial rights		1,289,049	388,552	445,382
	3. Other long-term deferred costs and accrued revenues		113,456	137,031	156,990
II.	Tangible fixed assets	15.	31,566,575	37,145,933	46,620,270
	1. Land and buildings		16,641,320	20,640,811	20,859,390
	a) Land		8,840,732	12,830,395	12,648,772
	b) Buildings		7,800,588	7,810,416	8,210,618
	2. Manufacturing machines and equipment		14,358,923	14,506,542	15,578,639
	3. Other machines and equipment		564,082	497,079	452,499
	4. Tangible fixed assets under construction		2,250	1,501,501	9,729,742
	a) Tangible fixed assets under construction and in production		2,250	1,501,501	9,729,742
III.	Investment property in acquisition	16.	8,188,170	8,188,170	0
IV.	Financial assets available for sale	17.	573,904	456,809	446,129
	1. Other shares and stakes		573,904	456,809	446,129
	a) Other shares and stakes		512,571	411,476	416,796
	b) Other long-term financial investments		61,333	45,333	29,333
V.	Non-current loans granted	18.	11,401,579	8,175,552	9,287,023
	1. Long-term loans of companies in the Group		11,338,129	8,107,091	9,213,551
	2. Long-term loans to others		63,450	68,461	73,472
VI.	Long-term operating receivables		95,798	131,723	0
	3. Long-term operating receivables to others		95,798	131,723	0
VII.	Deferred tax receivables	19.	780,300	757,101	578,496

in eur		Notes	31.12.2017	31.12.2016* changed	1.1.2016* changed
B.	**SHORT-TERM ASSETS**		**19,310,656**	**19,454,247**	**20,381,685**
II.	Inventories	20.	11,188,675	8,270,310	7,600,290
	1. Material		3,302,153	3,222,034	2,636,771
	2. Production in progress		1,285,500	1,088,163	1,724,856
	3. Products and merchandise		6,601,022	3,960,113	3,238,663
	4. Advances for inventories		0	0	0
III.	Short-term financial investments	21.	6,000	3,106,154	3,371,733
	2. Short-term loans		6,000	3,106,154	3,371,733
	a) Short-term loans to companies in the Group			3,100,154	3,365,733
	b) Short-term loans to other entities		6,000	6,000	6,000
IV.	Short-term operating receivables	22.	7,874,511	7,972,179	9,087,483
	1. Short-term operating receivables to companies in the Group		12	12	12
	2. Short-term trade receivables		7,094,951	7,209,016	8,117,633
	3. Short-term trade operating receivables to other entities		779,548	763,151	969,838
	4. Short-term receivables on tax from profit		0	0	0
V.	Other assets	23.	156,820	62,023	185,448
VI.	Cash and cash equivalents	24.	84,650	43,581	136,731

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

*Correction disclosure of a significant error on page 100 of the annual report.

in eur		Notes	31.12.2017	31.12.2016* changed	1.1.2016* changed
	OBVEZNOSTI DO VIROV SREDSTEV		73,319,487	74,835,118	77,915,975
A.	CAPITAL	25.	23,376,434	23,635,956	22,405,493
I.	Called-up capital		1,875,209	1,875,209	1,875,209
	1. Share capital		1,875,209	1,875,209	1,875,209
II.	Capital reserves		10,838,180	10,838,180	10,838,180
III.	Reserves from profit		8,426	8,426	8,426
	1. Legal reserves		8,426	8,426	8,426
	2. Reserves for treasury shares and own business stakes		84,723	84,723	84,723
	3. Treasury shares (as a deductible item)		-84,723	-84,723	-84,723
	4. Statutory reserves		0	0	0
	5. Other reserves from profit		0	0	0
IV.	Revaluation reserves		5,421,309	8,817,717	0
V.	Reserves from valuation at fair value		66,202	17,503	9,240,149
VI.	Net profit or loss brought forward		2,219,739	588,926	388,018
VII.	Net profit or loss for financial year		2,947,369	1,489,995	55,512
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	26.	796,014	742,423	686,292
	1. Provisions for pensions		528,808	449,941	390,370
	2. Provisions for long-term service awards		135,750	137,451	120,932
	3. Other provisions		131,456	155,031	174,990
C.	LONG-TERM LIABILITIES		27,607,416	33,220,173	34,306,214
I.	Long-term financial liabilities	27.	26,272,061	31,107,337	32,385,098
	2. Long-term financial liabilities to banks		26,272,061	31,107,337	32,376,246
	3. Long-term financial liabilities to others		0	0	8,852
III.	Deferred tax liabilities	28.	1,335,355	2,112,836	1,921,116
D.	SHORT-TERM LIABILITIES		21,539,623	17,236,566	20,517,976
II.	Short-term financial liabilities	29.	3,620,068	2,957,144	3,060,230
	2. Short-term financial liabilities to banks		3,620,068	2,957,144	3,057,053
	3. Other short-term financial liabilities		0	0	3,177

in eur		Notes	31.12.2017	31.12.2016* changed	1.1.2016* changed
III.	Short-term operating liabilities	30.	17,919,555	14,279,422	17,457,746
	2. Short-term trade payables		16,097,305	12,378,841	16,252,118
	3. Short-term operating liabilities arising from advances		49,178	83,876	67,579
	4. Short-term liabilities for income tax		364,968	124,448	59,550
	5. Other short-term operating liabilities		1,408,104	1,692,257	1,078,499

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

*Correction disclosure of a significant error on page 100 of the annual report.

Cash flow statement (variant II)

in eur		2017	2016
A.	CASH FLOW FROM OPERATING ACTIVITIES		
a)	Income statement items	2,947,369	1,489,995
	Pre-tax profit	3,437,757	1,406,058
	Income tax and other taxes	-490,388	83,937
	Adjustments for:	2,419,630	4,668,457
b)	Depreciation	2,126,825	2,207,245
	Provisions formed	0	0
	Operating revenues from revaluation	-11,914	-186,623
	Operating expenses from revaluation	94,490	840,709
	Revaluation of financial investments	0	1,404,556
	Financial revenues excluding financial revenues from operating receivables	-176,499	-215,633
	Financial expenses excluding financial expenses from operating liabilities	386,728	618,203
c)	Changes in net operating current assets of the operating balance sheet items	738,826	-2,763,620
	Opening less closing operating receivables	90,919	1,126,307
	Opening less closing deferred costs (expenses) and accrued revenues	-94,797	123,425
	Opening less closing deferred tax assets	-23,199	-178,605
	Opening less closing inventories	-2,918,365	-670,020
	Closing less opening operating liabilities (debts)	3,598,586	-3,206,859
	Closing less opening accrued costs (expenses) and deferred revenues and provisions	118,713	71,912
	Closing less opening deferred tax liabilities	-33,031	-29,780
d)	Surplus of outflows from operating activities (a + b)	6,105,825	3,394,832
B.	CASH FLOW FROM INVESTING ACTIVITIES		
a)	Inflows from investing activities	62,540	55,725
	Inflows from interest	286	385
	Inflows from dividends	44,340	44,340
	Inflows from disposal of intangible assets	0	0
	Inflows from disposal of tangible fixed assets	11,914	5,000
	Inflows from disposal of investment property	0	0
	Inflows from disposal of long-term investments	6,000	6,000
	Inflows from disposal of short-term investments	0	0

in eur		2017	2016
b)	Outflows from investing activities	-1,577,700	-1,553,945
	Outflows for acquisition of intangible assets	-380,575	-191,973
	Outflows for acquisition of tangible fixed assets	-1,181,125	-1,345,972
	Outflows for acquisition of long-term investments		0
	Outflows for acquisition of short-term investments	-16,000	-16,000
c)	Surplus in inflows from investing activities (a + b)	-1,515,160	-1,498,220
C.	CASH FLOW FROM FINANCING ACTIVITIES		
a)	Inflows from financing activities	0	0
	Inflows from increase in long-term financial liabilities	0	0
	Inflows from increase in short-term financial liabilities	0	0
b)	Outflows from financing activities	-4,549,596	-1,989,762
	Outflows for interest paid in relation to financing activities	-381,280	-673,190
	Outflows for repayment of long-term financial liabilities	0	0
	Outflows for repayment of short-term financial liabilities	-4,168,316	-1,316,572
	Outflows for the payment of dividends and other profit shares*	0	0
c)	Surplus in inflows from financing activities (a + b)	-4,549,596	-1,989,762
D.	CLOSING BALANCE OF CASH	84,650	43,581
x)	Net cash flow for the period (sum of Ac, Bc and Cc)	41,069	-93,150
y)	Opening balance of cash	43,581	136,731

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Statement of changes in equity

2017

in eur	Share capital I	Capital reserves II
Closing balance of reporting period 31.12.2016	1,875,209	10,838,180
Opening balance of reporting period 1.1.2017	**1,875,209**	**10,838,180**
Total comprehensive income of the reporting period	**0**	**0**
Entry of net profit/loss of the reporting period	0	0
Revaluation of property	0	0
Transfers within equity	0	0
Distribution of other net profit of comparative reporting period to other equity components	**0**	**0**
Transfer of surplus from revaluation of tangible fixed assets to net profit brought forward	0	0
Elimination of deferred taxes from the revaluated part of tangible fixed assets	0	0
Utilisation of revaluation reserves from fair value reserve		
Balance as of 31.12.2017	**1,875,209**	**10,838,180**
Distributable profit		

2016

	in eur	Share capital I	Capital reserves II
A.2.	**Balance as of 1.1.2016**	**1,875,209**	**10,838,180**
B.1.	**Changes in owners' equity – trans. with owners**	**0**	**0**
B.2.	**Total comprehensive income of the reporting period**	**0**	**0**
a)	Entry of net profit/loss of the reporting period	0	0
b)	Entry of other comprehensive income of reporting period	0	0
B.3.	**Transfers within equity**	**0**	**0**
a)	Distribution of other net profit of comparative reporting period to other equity components	0	0
c)1	Transfer of surplus from revaluation of tangible fixed assets to net profit brought forward	0	0
c)2	Elimination of deferred taxes from the revaluated part of tangible fixed assets	0	0
C.	**Balance as of 31.12.2016**	**1,875,209**	**10,838,180**
	Distributable profit		

	PROFIT RESERVES					RETAINED EARNINGS		
	Legal reserves	Reserves for treasury shares	Treasury shares as deduct. items	Revaluation reserves	Fair value reserve	Net profit/ loss brought forward	Net profit or loss of financial year	Total equity
	III/1	III/2	III/3	IV		V	VI	VII
	8,426	84,723	-84,723	8,817,718	17,503	588,925	1,489,995	23,635,956
	8,426	84,723	-84,723	8,817,718	17,503	588,925	1,489,995	23,635,956
	0	0	0	-3,222,559	48,699	-33,031	2,947,369	-259,522
	0	0	0	0		0	2,947,369	2,947,369
	0	0	0	-4,019,247	48,699	0	0	-3,970,548
	0	0	0	796,688		-33,031	0	763,657
	0	0	0	-173,850		1,663,845	-1,489,995	0
	0	0	0	0		1,489,995	-1,489,995	0
	0	0	0	-173,850		173,850	0	0
	8,426	84,723	-84,723	5,421,309	66,202	2,219,739	2,947,369	23,376,434
						2,219,739	2,947,369	5,167,108

	PROFIT RESERVES						
Legal reserves	Reserves for treasury shares	Treasury shares as deduct. items	Other reserves from profit	Revaluation surplus	Net profit/ loss brought forward	Net profit or loss for financial year	Total equity
III/1	III/2	III/3	III/5	IV	V	VI	VII
8,426	-84,723	-84,723	0	9,240,149	388,018	55,512	22,405,494
0	0	0	0	0	0	0	0
0	0	0	0	-259,533	0	1,489,995	1,230,462
0	0	0	0	0	0	1,489,995	1,489,995
0	0	0	0	-259,533	0	0	-259,533
0	0	0	0	-145,395	200,907	-55,512	0
0	0	0	0	0	55,512	-55,512	0
0	0	0	0	-175,175	175,175	0	0
0	0	0	0	29,780	-29,780	0	0
8,426	-84,723	-84,723	0	8,835,221	588,925	1,489,995	23,635,956
					588,925	1,489,995	2,078,920

Summary of important accounting policies

Information about the company and its parent undertakings

Goričane, tovarna papirja Medvode, d.d. is a large company pursuant to the Companies Act. It is registered in Slovenia, with EU being its principal place of business. The company's core activity is production of high-quality woodfree papers in the weight range from 37 to 150 g/m².

Financial statements were approved by the company management on June 6, 2018.

Papigor, holding, d.o.o., is the parent company, whereas Papirus holding, d.o.o. (owned by Andraž Stegu), Goričane 38, 1215 Medvode, Slovenia, is the highest ranking company in the group, responsible for drawing up the consolidated annual report on the level of the ultimate parent company. The consolidated annual report can be acquired from the highest ranking company in the group.

Basis for the preparation of financial statements

Financial statements in this report are compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and with interpretations as provided by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Union, and in accordance with the provisions of the Slovenian Companies Act.

The company has no segments.

Basis for measurement

The financial statements are prepared with due consideration given to the original value, with the exception of land and saleable financial assets, the fair value of which can be reliably measured and whose fair value is taken into consideration. The methods used for measuring are described in section Important accounting policies.

Use of IFRS

These financial statements are financial statements prepared in accordance with the provisions of International Financial Reporting Standards (IFRS) as adopted by the European Union.

When preparing the financial statements, the company strictly applied IFRS valid as of 31.12.2017.

IMPORTANT ACCOUNTING POLICIES

Functional and reporting currency

The financial statements are presented in Euros; the Euro is also both the functional and the reporting currency of the company. Statements are rounded up to the nearest whole number, and totals may differ due to rounding up. Receivables, payables and foreign exchange on bank accounts are converted in accordance with the ECB reference rate at the balance sheet date. In the income statement, the conversion differences represent revenue and expenses from operating receivables, liabilities and assets.

Going concern

The Management deems this company a going concern. In 2014, the company signed an agreement with all its bank creditors on restructuring financial debts. This agreement helped the company gain capital adequacy that enables it to further operate smoothly and without interruptions. As per the aforesaid agreement, all liabilities by the company to creditor banks will be settled by 31.12.2022.

Important accounting valuations and assessments

In order to draw up accounting statements, the Management is required to provide specific estimates and assumptions that affect the carrying amount of company assets and liabilities, and to disclose any potential liabilities as of the balance sheet date, as well as the amounts of company revenue and expenses during the period ending on the balance sheet date. Valuations and assumptions are based on previous experience and other factors which, in given circumstances, are considered reasonable, and which represent the basis for the audits of the accounting value of assets and liabilities as expressed herewith.

Management estimates include, among others, the following items: the depreciation period and the residual value of tangible fixed assets long-term intangible assets, allowances for inventory and doubtful receivables with statements of claims, long-term deferred costs and accrued revenues for warranty repairs, and provisions for any potential employee-related expenses – termination benefits, long-time service awards. Future events and their implications cannot be determined with any reasonable certainty. Therefore, and because accounting valuations vary in the context of new events, experience, additional

information or as a consequence of the ever-changing business environment in which the company operates, accounting valuations require assessment. Actual results may differ from the estimated ones.

Data on the important assessments of uncertainty and deciding valuations which the company management prepared during the process of implementing accounting policies, and which have the biggest effect on the amounts listed in accounting reports, are described in the following notes:

- In notes 10, 11 and 12 – recoverable value of assets, serving as a comparison with the book value at asset impairment test;

  At asset impairment test, the Management compares the recoverable value of assets, and where this value exceeded the book value of the asset, the Management recognised its impairment.

- In notes 10, 11 and 12 – useful life of depreciable assets;

  At the end of a financial year at the latest, the Management verifies the useful life of depreciable assets, taking into account their technical and economic obsolescence,

- In note 17 – value of doubtful receivables;

  Taking into account the past experience, the group forms allowances for bad receivables based on the creditworthiness of buyers.

- In note 10, 16 and 27 – valuation of financial instruments and land at fair value;

  The fair value of saleable financial assets is valuated based on the purchase price offered at the end of the accounting period. In assessing the fair value of land, the group takes into consideration the ability of the market operator to create economic benefits with optimal use of assets, or its sale to another market operator.

- In note 22 - forming provisions;

  Individual companies within the group have provisions formed for termination benefits upon retirement, long-term service awards and lawsuits. A provision is recognised when – due to a past event – companies have either legal or indirect liabilities that can be estimated with certainty, and when it is probable that the settlement of liabilities will require an outflow of factors enabling economic benefits. Company managements are regularly verifying if the settlement of a probable liability should require an outflow of factors enabling economic benefits. The current value of termination benefits and long-time service awards is registered as one of the liabilities for certain post-employment benefits. Recognition is based on actuarial calculations that include assessments and estimates made at the time of the calculation (discount rate, staff fluctuation, death rate, wage growth). Liabilities for certain benefits are sensitive to the change of estimates listed.

Determining fair value

Considering the company's accounting policies and breakdowns, determining the fair value of financial and non-financial assets as well as liabilities is required in many cases. The fair values of specific groups of assets for the purpose of measuring and reporting were determined by the group using the methods described below. Where additional notes to the assumptions for determining fair values are needed, these are listed in the breakdowns of individual asset items and company liabilities.

Land and buildings

After recognition, the company measures land based on the revalued amount, which is the fair value on the date of revaluation (this is the price that would be received if the asset was sold, or paid if liabilities were transferred in a regular transaction on the main (or the most favourable) market among market operators on the date of measurement under current market conditions, regardless of whether the price can be indirectly monitored or assessed using another technique of value assessment). The fair value of land is - depending on the circumstances or the situation - measured using one or several valuation techniques such as the market method, the cost method and the return-based method. The company performs the revaluation every 5 years or more often if there are indications of an important change in fair value (such as price movement on the national real estate market, price movement on the local real estate market, changes in comparable advertising prices, a significant change in the applicability and intended purpose of the land, or a change in the transaction prices achieved).

Standards, explanations and modifications of standards published but not yet valid

The new standards and explanations listed hereafter are not effective yet and have thus not been taken into account for the annual accounting statements for the financial year ending as of December 31, 2017.

IFRS 9: Financial instruments (2014)

(Applies to the annual accounting period starting on 1.1.2018; it is used retroactively unless specifically stated otherwise. Recalculation of previous periods is not necessary and is allowed as long as data is available and discoveries are not used. Use prior to the aforementioned date is allowed.)

This standard has replaced IAS 39 Financial instruments: Recognition and Measurement, except that IAS 39 remains valid when protecting fair value of the portfolio of financial assets or financial liabilities against the risk of a changing interest rate; in any accounting scenario, companies have the possibility to decide between accounting protection in accordance with IFRS 9, or the existing risk protection assessment based on IAS 39.

Despite the foundations of the allowed measurement of financial resources - amortised cost, fair value through other comprehensive income and fair value through profit and loss - being similar to IAS 39, the criteria for determining appropriate measurements are significantly different.

A financial asset is measured against its amortised cost when the following conditions are met:

- assets are managed within the framework of a business model designed for collecting contractual cash flows; and
- contractual provisions comprise precise dates of cash flows which are solely payments of principal and interest from unpaid principal.

Furthermore, the company may irrevocably present any further changes to the fair value (including the positive and negative exchange rate differences) of the non-tradable capital instrument as a part of the accumulated other comprehensive income. By no means can before mentioned additional changes be regrouped into profit or loss.

Debt instruments, calculated at fair value through accumulated other comprehensive income, interest income, expected credit loss, as well as positive and negative exchange rate differences are being recognised as part of profit or loss in the same manner as assets measured at amortised cost.

Other profit and loss is recognised in accumulated other comprehensive income and - after derecognition - redistributed to operating profit and loss.

The loss-incurred model as known by IAS 39, which also includes the expected credit loss model, has been replaced by the IFRS 9 impairment calculation model. As a result, it will be possible to recognise impairment before the occurrence of a loss.

IFRS 9 includes a new common model of hedge accounting, which provides improved adjustment of calculating protection against risk to the actual risk management. The different types of hedging relationship - fair value, cash flow and net investments in foreign companies - remain unchanged but require an additional evaluation.

The standard contains new requirements that need to be complied with (continuation and discontinuation of hedge accounting), and allows additional types of exposure to be treated as hedged items.

Extensive additional disclosures regarding risk management and hedging activities are required.

The company estimated the effect of the first use of IFRS 9 on the capital as of 1.1.2018, as stated below. The actual effect may change because the group continues with activities related to the assessment of the effect of transition to IFRS 9. Due to the nature of the company's operations and the type of its financial instruments, the classification and measurement of financial instruments of the company will remain unchanged under IFRS 9. The company expects impairment-induced losses to be higher and more volatile for assets in the sense of credit loss volume, as predicted by the impairment model.

The effect of transition to IFRS 9 on the net profit or loss brought forward

in eur	Reported on 31.12.2017	Estimated correction caused by transition to IFRS 9	Estimated opening balance as of 1.1.2018
Net profit of loss brought forward	2,219,739	-403.640	1,816,099

The group believes that the application of the IFRS 9 standard as of 1.1.2018 will result in additional allowances.

The effect of transition to IFRS 9 by financial assets

in eur	Estimated additional allowances as of 1.1.2018
Loans to others and deposits	-403,640
Trade receivables	0
Total additional allowances	-403,640

IFRS 15: Revenue from contracts with customers

(Applies to annual accounting period starting on 1.1.2018. Earlier application is allowed.)

The new standard provides a framework that replaces the existing revenue recognition guidance in IFRS. Companies will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when the company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on the criteria met, revenue is recognised when control of the goods or services is transferred to the customer.

IFRS 15 also establishes principles that a company shall apply to ensure qualitative and quantitative disclosures and thus provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The company included the assessment of the impact of IFRS 15 on the company's financial statements for the year 2017 regarding the transfer of goods and services to the customer. The standard, on the date it was initially applied, did not significantly affect the company's final financial statements.

IFRS 16: Leases

(Applies to annual accounting periods starting on or after 1.1.2019. Earlier application is permitted if the company also uses IFRS 15.)

This pronouncement is not yet endorsed by the EU.

IFRS 16 replaces IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for leases and instead requires companies to bring most leases from the balance sheet under a single model, eliminating the distinction between operating and financial leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time against payment. For such contracts, the new model requires the lessee to recognise the right to use an asset and lease liabilities. The right to use an asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee is consistent with annual rent payments.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and financial leases will be retained.

The company does not expect the new standard, when initially applied, to have any significant impact on the financial statements because the company is not party to any contractual arrangements in scope of IFRS 16.

Amendment to IFRS 2: Classification and measurement of share-based payment transactions

(Applies to annual accounting period starting 1.1.2018. To be applied retroactively. Use prior to the aforementioned date is allowed.)

This pronouncement is not yet endorsed by the EU.

The amendment clarifies share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash settled to equity settled.

The company expects that the amendment, when initially applied, will not have a significant impact on the presentation of the company's financial statements because the company does not enter into share-based payment transactions.

Amendment to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts

(Applies to annual accounting period starting on 1.1.2021. To be applied retroactively.)

This pronouncement is not yet endorsed by the EU.

The amendment addresses concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing

for IFRS 4. The amendment introduces two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The second one is an overlay approach to presentation in order to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The company is not an insurance provider, and therefore does not expect any significant impact of this amendment on the company.

Amendment to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or a joint venture

(The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The amendment clarifies that in a transaction involving an associate or joint venture, the extent of recognised gain or loss depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Due to the company's lack of subsidiaries, associates or joint ventures, the company does not expect the new standard, when initially applied, to have any significant impact on its financial statements.

Amendment to IAS 7

(Applies to annual accounting period starting on 1.1.2017. To be applied retroactively. Use prior to the aforementioned date is allowed.)

This pronouncement is not yet endorsed by the EU.

The amendment requires additional disclosures that will help users valuate changes in liabilities arising from financing activities, including changes of cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The company believes that the amendments, on the date of their initial application, have not had a significant impact on the presentation of company's financial statements.

Amendment to IAS 12: Recognition of deferred tax assets for unrealised losses

(Applies to annual accounting period starting on 1.1.2017. To be applied retroactively. Use prior to the aforementioned date is allowed.) This pronouncement is not yet endorsed by the EU.

The amendment clarifies how and when to account for deferred tax assets in certain situations, and how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The company believes that the amendments, on the date of their initial application, have not had a significant impact on the presentation of company's financial statements.

Amendments to IAS 40: Investment property

(Apply to annual accounting periods starting on or after 1.1.2018. To be applied prospectively).

These provisions are not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The company does not expect the amendments to have any significant impact on its financial statements since it does not have investment property.

IFRIC 22: Foreign currency transactions and advance consideration

(Applies to annual accounting periods starting on or after January 1, 2018).

These provisions are not yet endorsed by the EU.

The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange

rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The company does not expect the interpretation, when initially applied, to have any significant impact on its financial statements as the company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual improvements

Annual improvements to the IFRSs 2014–2016 cycle were issued on December 8, 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after January 1, 2017, whereas amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after January 1, 2018. Use prior to the aforementioned date is allowed.)

None of these amendments are expected to have a significant impact on the financial statements of the company.

Intangible assets and long-term deferred costs and accrued revenues

Intangible assets are represented by material rights and long-term deferred costs and accrued revenues.

An intangible asset that qualifies for recognition is measured at its purchase price. Cost also includes import and non-refundable purchasing taxes. Advances for intangible assets are an integral part of intangible assets. The company uses the purchase price model for the measuring after the recognition of an intangible asset. An intangible asset is measured at cost reduced by the allowance for depreciation. All intangible assets have their useful lives defined.

Emission coupons

Emission coupons are recognised by the company as intangible assets. The company obtains emission coupons for free by means of a decision issued by the Ministry of the Environment and Spatial Planning – Slovenian Environment Agency, which specifies the number of emission coupons for a certain period and the proportional shares to which the company is entitled in a single calendar year.

At the end of the financial year, the company forms liabilities to the state in the value of emissions produced for a free handover of emission coupons in accordance with the Environmental Protection Act, and recognises operating expenses. The liability to state for the handover of emission coupons in accordance with the Environmental Protection Act is settled by handing over emission coupons.

Since Slovenia does not have an active market of emission coupons, the company cannot revaluate them to a higher fair value. The value of coupons is 1 euro per coupon.

If a company trades with emission coupons, operating revenue or expenses are recognised for the amount of emission coupons that were either sold or bought.

Tangible fixed assets

At initial recognition, the company values tangible fixes assets at their procurement value. The purchase value includes both the amounts that are indirectly attributed to the purchase of assets, as well as the capitalised costs of borrowing. After the initial recognition of tangible fixed assets, the company uses the purchase value model for the equipment, and the revaluation model for land and buildings. Based on the purchase value model, the equipment is represented with its purchase value, reduced by the depreciation allowance and the loss gained due to impairment. Based on the revaluation model however, land and buildings are represented with their fair value as of the day of revaluation, reduced by the loss gained subsequently due to impairment. The company is checking the need for revaluation on a yearly basis. The revaluation of land is conducted every 5 years or more often if there are indications of an important change in fair value (such as price movement on the national real estate market, price movement on the local real estate market, changes in comparable advertising

prices, a significant change in the applicability and intended purpose of the land, or a change in the transaction prices achieved).

If the book value of land and buildings increases due to revaluation, the increase is recognised directly in capital as a revaluation surplus, namely in the statement of other comprehensive income. If the book value of land and buildings decreases due to revaluation, the revaluation surplus for the same land decreases as well. If, however, the decrease in book value exceeds the revaluation surplus gained for the same asset, the difference in decrease is transferred to the profit or loss as an expense. The surplus from land revaluation, which is a component of other comprehensive income, is transferred directly to the net profit or loss brought forward when the asset is derecognised.

In 2010, the company changed its accounting policy and is now using a revaluation model for evaluating land and buildings. Fair values are based on the assessment provided by a certified property valued registered with the Slovenian Institute of Auditors. The purpose of valuation is to assess the fair value needed in financial reporting.

The real estate appraisal was performed on 31.12.2017.

Borrowing costs related to tangible fixed assets

The purchase value involves any borrowing costs related to the acquisition of a tangible fixed asset until its placement in service for the intended use.

Subsequent expenses related to tangible fixed assets

Subsequent expenses related to a tangible fixed asset increase its cost value if the future economic benefits embodied in this asset are higher than originally estimated.

Repairs of or maintaining tangible fixed assets are intended for renewing or preserving the future economic benefits expected on the basis of the originally estimated level of asset efficiency. When incurred, they are recognised as expenses.

During the financial year, the company did not establish any dismantling expenses. Environmental hazard was thereby taken into consideration. According to our estimations, such assets are not present in our company nor are they expected to occur in the future.

Depreciation

The carrying amount of tangible fixed assets and intangible assets is reduced by depreciation. The depreciation of tangible fixed assets, however, begins as soon as they become available for use. Also, the depreciation of intangible assets begins as soon as they become available for use. Depreciation reduces the value of an asset on a straight-line basis.

Depreciation rates are based on the useful lives of assets.

Depreciation rates applied in 2017

Type of tangible fixed asset	Name	Depreciation rate in %
Facilities		
20	Hydrotechnical facilities	from 0.92 to 5.78
21	Transport	from 0.92 to 3.00
22	Equipment for power transmission	from 0.92 to 6.00
23	Company-owned buildings	from 1.61 to 6.00
24	Construction buildings - other	from 1.00 to 2.87
26	Vacation facilities	2.00
Equipment		
40	Machines	from 2.85 to 20.00
41	Transport and communications	from 5.00 to 33.33
42	Restaurant equipment	from 5.00 to 10.00
44	Standard and spec. equipment	from 6.00 to 20.00
45	Equipment, instruments	from 4.00 to 20.00
47	Measuring and monitoring devices	from 6.00 to 20.00
48	Business inventory, furniture	from 5.00 to 25.00
49	Environmental protection equipment	from 5.00 to 20.00
50	Personal vehicles	12.50
51	Furniture	from 5.00 to 25.00
52	IT equipment	from 5.00 to 25.00
Intangible assets		**from 5.00 to 50.00**

Depreciation rates are the same as in the previous year.

The part of the depreciation that refers to the revaluation of fixed assets is regularly transferred from revaluation surplus to the profit or loss brought forward.

Investment property

Investment property is property owned to bring in rent, to increase the value of a long-term investment, or both. An audit is needed to determine whether real estate should be considered investment property or not. The group estimates that parts of real estate which are partially let out on an operating lease and partially used by Intereuropa d.d., Koper or an individual controlled company, cannot be sold separately (or let out on a financial lease), which is why it treats such property as a tangible fixed asset and uses them in its provision of services. Only the property that is wholly let out on a lease is recognised as investment property.

After initial recognition, the group uses the cost model value based on which the investment property is presented by its purchase value reduced by the depreciation allowance and potential loss gained due to impairment. The transfer of revaluated investment property (land) from tangible fixed assets is conducted per its book value as of the date of transfer, whereas the revaluation surplus remains in the capital and is - at its disposal - transferred to net profit or loss brought forward. Depreciation of investment property uses the same depreciation rates as for property included in tangible fixed assets.

Financial instruments

Financial instruments include investments into capital and debt securities, operating and other receivables, cash and cash equivalents, loans by and to the company as well as operating and other liabilities.

Non-derivative financial instruments (assets)

Initially, they are recognised by their fair value. Regular purchases and sales of financial assets are recognised on trading day, which is the day on which the company commits itself to either purchase or sell an asset. Profit from disposal or loss at disposal of financial assets is also recognised on the same day. Measurement after initial recognition is described below. Calculation of financial revenue and expenses is described in the section on financial revenue and expenses.

Cash and cash equivalents

Cash and cash equivalents represent net credit in banks and other financial institutions, cash in hand and immediately realisable valuables. The inflows and outflows of cash and cash equivalents are represented in the group's cash flow statement (taking into account the indirect method in the accounting period) which also explains the changes in cash balance.

Financial assets available for sale

After initial recognition, these are measured by their fair value (including the expenses directly linked with the purchase); with the exception of financial investments into equity instruments which don't have a quoted market price on an active market and whose fair value cannot be measured reliably. They are measured by their purchase value. Changes in fair value are recognised in other comprehensive income (in equity). When an investment is derecognised, the cumulative profit and loss denominated in other comprehensive income of the period is transferred to net profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with defined or definable payments which are never used for trading on an active market. Loans are investments into financial debts of other companies, the state or investments of other issuers. Receivables are based on legal proprietary or other relationships and represent the right to require from a specific person the payment of debt, supply of goods or execution of a service. They are measured with the method of amortised cost, using the valid interest rate method.

Impairment of assets

Operating receivables

The company impairs operating receivables by forming a 100-percent allowance for all receivables older than 180 days from the due date of a single receivable, or - in exceptional cases (for example if unbiased evidence is presented, confirming that the receivable will in fact be paid) - on the basis of assessment of how recoverable is the receivable.

When impairment of receivables is a part of lawsuits, enforcements, bankruptcies, compulsory settlements and similar, the assessment of receivable's recoverability (an assessment of the expected future cash flows) is taken into consideration with regard to the category of each separate receivable. In profit or loss, the value of loss due to impairment is recognised as an expense.

Loans granted

If there is unbiased evidence of loss due to impairment in loans represented by their amortised cost, the group measures the amount of loss as the difference between the book value of the asset and the current value of expected future cash flows, discounted by the original valid interest rate. Impairment is also performed on the basis of management's assessment of non-recoverability of individual loans. In profit or loss, the group recognises the value of loss due to impairment as an expense.

Saleable financial assets measured at fair value

The company impairs saleable financial assets if their market price has either been decreasing for over a year, or if the decrease exceeds 20 percent of the investment's purchase value. If loss is gained with these assets, and if the loss is recognised in equity, it has to be removed from equity and recognised as an expense. The amount of such loss is the difference between the purchase value and the current fair value of the financial asset, reduced by loss due to impairment which was previously recognised in profit or loss.

Saleable financial assets measured at purchase value

If there is unbiased evidence that the loss was incurred due to the impairment of financial assets, recognised with their purchase value because their fair value cannot be measured reliably, the company recognises the amount of loss due to impairment in cases where on the balance sheet cut-off date, the book value of such financial investments exceeds the proportional share of the book value of total equity of the company into which this company has invested by 20 percent, specifically on the closest date for which data is available.

Income tax

Tax from profit or loss in a financial year includes current and deferred tax. It is presented in the profit and loss statement, except for the part where it refers to the items presented directly in other comprehensive income, where they are in fact presented.

Current tax is charged in accordance with the applicable tax legislation as of the statement of financial position date. A financial year is a calendar year equal to the tax year.

Deferred tax is presented considering the temporary differences between the book value of assets and liabilities for the purpose of financial reporting, and the amounts for the purpose of tax reporting.

Deferred tax liability is presented in the amount that is expected to be paid upon removal of temporary differences in accordance with legislation valid at the end of the reporting period.

Deferred tax asset is recognised in the amount for which there is a potential future taxable profit available, against which it will be possible - going forward - to use the deferred asset.

Deferred tax assets are recognised in the amount of probable future taxable profits, against which the deferred tax assets can be utilised in the future. Deferred tax assets are reduced by the amount for which the related tax relief will most probably not be claimed. Deferred taxes are formed from revaluation of receivables, from provisions for termination benefits and long-term service awards, impairment of investments in foreign fixed assets, impairment of interest for loans granted, and unused tax loss. Deferred tax liability is recognised from taxable temporary differences, namely from the revaluation of assets. Deferred tax liability is recognised from revaluation of land, buildings and financial investments available for sale, whose profits and thus tax liability have not been realised yet.

Inventories

Inventories of materials and supplies are valued with their purchase price. The purchase value is comprised of purchase price, import duties and the direct purchase costs. The purchase price is reduced by any discount granted. The direct costs of purchase include transport costs, loading and unloading expenses, the cost of transport insurance, the cost of accompanying goods and potential costs of services performed by intermediary agencies. Purchase price discounts include both the discounts specified on the invoice, as well as discounts received later on that apply to a specific purchase.

The company is managing inventories of production in progress and end products by their products costs which, in addition to the direct production costs, also include indirect costs of production work units, including Development, Maintenance, Energy Sector and the wastewater treatment plant.

Allowances for inventories of unfinished and end products are managed based on the structure of inventories if individual inventories have not changed for more than six months.

The FIFO method valuation is used to evaluate inventory burn. The FIFO method in based on an assumption that the inventory stock which was bought or produced first should also be the first to sell.

Cash and cash equivalents

Cash and cash equivalents include money on bank (or other financial institution) accounts that can be used for payments, and short-term deposits for up to 90 days. The company may access assets on its bank accounts without restrictions.

The book value of cash equals its initial face value until the need for a revaluation allowance appears. Cash in foreign currency is converted to national currency at the exchange rate valid at the date of the receipt. Cash is revaluated if it is in foreign currency and if the exchange rate has changed after initial recognition. The exchange rate difference that appears can either increase or decrease the initially presented value and represents a regular financial income and regular financial expenses respectively.

Capital

Total capital is comprised of called-up capital, capital reserves, reserves from profit, net profit or loss brought forward from previous years, revaluation reserve and net profit or loss for the current financial year. Share capital is managed in national currency.

Reserves are formed according to the Companies Act and the statute of Papermill Goričane.

Redemption of own shares (treasury shares)

Treasury shares acquired are not included in the capital. In the income statement, profit or loss from purchasing, selling, issuing or withdrawing treasury shares is not recognised and any differences are calculated as capital.

Reserves for treasury shares are established in the amount of treasury shares redeemed at the balance sheet date.

Provisions

Provisions are recognised if - due to a past event - the group has either legal or indirect liabilities that can be reliably estimated, and if the settlement of the liability potentially requires an outflow of factors enabling economic benefits. The amount recognised as a provision is the best estimate of expenses needed for the settlement as of the financial position statement date for the existing liability. Establishing the best estimate of the provision takes into account the risks and uncertainties which inevitably follow many events and circumstances. Where the impact of the time value of money is of key importance, the provision amount equals the current value of expenses expected to be needed for the liability settlement.

Provisions are recognised by accruing relevant costs or expenses, and reduced in a chronological order directly for costs or expenses for the covering of which they were initially formed, except for actuarial profit and loss resulting from the increases or decreases of the liability's current value by certain revenue from retirement benefits due to the changes in actuarial assumptions and experience adjustments, which are recognised in the revaluation surplus, and transferred to net profit or loss brought forward. Provisions are derecognised when the options for which they were initially formed are all exhausted or not needed anymore. Revenue is recognised from derecognition of provisions that were formed by accruing relevant costs or expenses. At the end of the accounting period, provisions are adjusted so that their value equals the current value of expenses that are likely needed to settle the liability.

Provisions include long-term cost provisions for liabilities from lawsuits and provisions for termination benefits and long-term service awards. Provisions for termination benefits and long-term service award are stated on the basis of an actuarial calculation. For each individual employee, the actuarial calculation includes expenses of termination benefits on retirement and the expense of all expected long-term service awards until retirement. Calculation for 2017 is based on a 1.6% discount rate. The actuarial calculations are drawn up by the company on a yearly basis.

Liabilities

Liabilities can be financial or operating, short-term or long-term. Liabilities are initially recognised according

to the amounts from corresponding documents about their appearance, proving the receipt of cash or redemption of any operating liability if such liabilities exist.

Long-term debts are then measured by their amortised cost, and are increased by imputed interest in accordance with the effective interest rate, or decreased by repaid amounts and potential other forms of settlement if priorly agreed upon with the creditor. In addition, long-term liabilities are decreased by the amount that should be repaid in less than a year, which is stated under short-term liabilities.

Short-term and long-term liabilities of all kinds are initially shown with the amounts which arise from the corresponding documents on condition that the creditors request their repayment. Liabilities are later measured by their amortised cost based on the effective interest rate. Liabilities are decreased by repaid amounts and any other settlements in agreement with the creditor.

In case of modifications to agreements with creditors, the new current value of future cash flow is evaluated and compared with its book value.

Recognition of revenues

Revenues are recognised if the company is likely to get economic benefits and if these benefits can be reliably measured. All of the following criteria must be met:

1. The amount of revenues can be reliably measured.
2. Probability for business-related economic benefits to flow into the company.
3. The level of transaction completeness as of the financial position statement date can be reliably measured.
4. Transaction-related costs and costs related to the completion of the transaction can be reliably measured.

Revenues from services performed

In the profit or loss statement, revenues from services performed are recognised based on the level of transaction completion at the end of the reporting period. The level of completion is assessed based on the review of the costs incurred (review of the job performed).

Revenues from services performed are measured based on the sales prices of services performed as indicated on invoices or other documents, or based on the prices of uncompleted services depending on their completion stage. The group considers that in cases when a certain transaction is not yet completed on the day of the financial position statement, a reliable assessment of the transaction outcome is not possible, which is why the revenues are only recognised to the level of direct costs incurred which are expected to be covered.

Any amounts cumulated for the benefit of third parties, such as value-added tax and other duties (for example customs duties), are not included in sales revenues.

At the moment of sale, revenues from sales are reduced by any discounts granted that are clearly indicated in invoices or other documents, and later on for the sales value of volumes returned and any subsequently granted discounts.

Costs – expenses

The company recognises costs as expenses in the period within which they are incurred.

Leases

Leases to others

Revenue from operating leases is recognised during the lease term period.

Leases to company

A lease, for which the group assumes all the important forms of risks and benefits related to the asset ownership, is considered a financial lease. After initial recognition, the asset leased is presented in the amount equal to the fair value or, if the fair value is smaller, the current value of the smallest amount of the lease payment. After initial recognition, the asset from financial lease is amortised in the same way as other tangible fixed assets. Other leases are treated as operating leases. In the profit and loss statement, the costs of lease are recognised on a straight-line basis.

Financial revenues and financial expenses

Financial revenues include mostly revenues from interest, revenues from dividends and other shares from profit, revenues from disposal of saleable financial assets, positive exchange rate differences and revenues from the disposal of financial investment impairment. Revenues from interest are recognised based on the effective interest rate method at the time of their occurrence. In the statement of profit or loss, revenues from dividends are recognised on the date when the shareholder's right to receive payment is established.

Financial expenses mainly include expenses from interest and other borrowing costs (if these are not capitalised), negative exchange rate differences, and loss from impairment of financial investment value. In the statement of profit or loss, the borrowing costs are recognised based on the method of effective interest rate as an expense of the period within which they are incurred.

Cash flow statement

Cash flow statement is prepared in accordance with the indirect method on the basis of balance sheet data for the current and previous year, income statement data for the current year and additional data from company's books of accounts stating the changes in cash flow for the current financial year. Data is also acquired by adjusting operating revenue and operating expense items.

Risk management

In the current economic situation and business environment, the importance of risk management has increased. Goričane, d.d., is therefore well aware of the significance of efficient risk management. In 2017, we therefore made sure to follow the objectives set for 2016 in this aspect. by continuing our systematic approach to risk detection, assessment and management.

Financial risk management

In financial risk management, our focus was on interest, liquidity, credit and currency risks. Quantitative disclosures regarding financial risks are explained in Risk-related disclosures section.

Interest rate risk

An interest rate risk is the risk of market interest rates negatively affecting the business operations of Goričane d.d. The interest rate of assets and liabilities is not reconciled due to the fact that Goričane d.d. has more loans than interest-bearing investments. In August 2014, an agreement on financial restructuring was signed with both banks and the Slovenian Bank Asset Management Company (DUTB) that includes new interest rates for all loans, namely a 3-month EURIBOR +3% or a max. total of 4%. In 2016, an amendment to the agreement was signed, effective as of 1.5.2016. It determines lower interest rates, namely a 3-month EURIBOR +2% and a max. total of 2% respectively. Goričane, d.d., does not have any specific protection in place against interest rate risks.

Liquidity risk

Liquidity risk is the risk of a company not being able to settle its liabilities in due time. The basic task of financial management is assuring solvency and thus providing for the proper functioning of all other company's business operations. Liquidity risks are handled by efficient financial management, appropriate credit lines for short-term cash flow management and by having access to financial resources necessary. During the financial crisis, the liquidity risk has increased in comparison with the previous periods due to lack of payment discipline.

In 2014, a contract on rescheduling of loans was signed between Goričane and our creditor banka, which is further clarified in the Going concern section. Because of the unexpected increase of pulp

prices and unfavourable movement of the currency exchange rate, our company can face the risk of not reaching the EBITDA rate or the debt-equity ratio as set in the contract. In 2017, the company fulfilled all commitments to the bank. In addition, the company management successfully continues with measures of business restructuring that are already starting to produce positive results. As of the day this annual report was concluded, the company's due liabilities towards the bank have been fully paid.

Credit risk

A credit risk is the possibility of late payment, partial payment or non-payment of trade receivables arising from deferred payment. Exposure to credit risk can be reduced in the following ways:

- by regularly checking the buyer's credit rating;
- by insuring most of the export and import operating receivables from commercial risks with the Slovenian Export Corporation, Inc.;
- additional insurance of riskier trade receivables by means of financial instruments (letters of credit) and advance payment requirements;
- regular control of operation receivables;
- systematic recovery of doubtful receivables;
- chain compensations.

The company uses well-established processes for managing receivables and forming allowances for bad receivables. The highest exposure to this risk equals the carrying amount of receivable value.

Currency risk

Currency risk is defined as the possibility of property value change resulting from exchange rate fluctuations. Most of our products are sold on markets within the European Union. On other markets, overseas countries included, sales contracts are concluded in euros. The main currency risk in 2017 was the purchase of pulp in US Dollars. Goričane, d.d., does not have an established system of protection from currency risks.

Price risk

The company is exposed to the price risk of pulp which represents 64% of material costs or a half of operating costs, and price movements on global markets may significantly affect the result.

Business risk management

Purchase risks

Purchase risks can be divided to:

- risks of an increase in prices of raw materials;
- risks caused by delays and incomplete deliveries;
- risks of low-quality raw materials.

Some of the raw materials we use are produced by only a limited number of suppliers which reduces our purchase possibilities and causes high risks related to a smooth supply of raw materials.

Purchase risks are prevented by increasing our purchasing power, thus strengthening our standing with suppliers as an important buyer demanding high quality products and services.

Still, although the abovementioned risks can definitely be reduced by listed measures, they cannot be entirely prevented. Namely, the most important trends causing purchase risks are explicitly global and difficult to influence.

Property risks

The main property risks of Goričane, d.d. (fire risk, production shutdowns caused by fire, transport risks and civil liability), are systematically transferred to insurance companies.

Human resources risks

In human resources, our goal is to promote the communication between employees and bodies representing employee interests (trade union, works council). In addition, our employees are regularly informed of any novelties by means of internal communication tools. Any risks related to the loss of key personnel are reduced by an established system of annual interviews, education and training possibilities, assessment of the current organisational climate, the strengthening of employee social security by means of additional insurances and the provision of health and safety at work.

Notes to the income statement

Operating profit by functional groups

in eur	2017	2016
Net sale revenues	67,515,969	66,311,966
Costs of merchandise sold	-325	-64,065
Production costs of quantities sold	-55,578,827	-53,955,144
Gross yield from sale	**11,936,817**	**12,292,757**
Sales costs	-5,145,070	-5,263,085
Administration costs	-3,474,764	-3,017,688
Revaluating and other operating expenses	0	-867,290
Other operating revenues	48,715	268,251
Profit/loss from operation	**3,365,698**	**3,412,945**

1. Net sale revenues

in eur	2017	2016
Products and services - domestic market	8,001,401	8,464,109
Rents	7,810	20,772
Merchandise and material - domestic market	17,949	21,889
Products and services - foreign market	59,488,020	57,770,183
Merchandise and material – foreign market	789	35,013
Total	**67,515,969**	**66,311,966**

2. Change in the value of inventories of products and work in progress

in eur	2017	2016
Production in progress	-51,402	-73,010
Unfinished products	248,739	-563,683
End products	2,640,908	721,450
Total change	**2,838,245**	**84,757**

The value of product inventory is EUR 1,259,319 higher due to products en route which are recorded based on the actual time of transferring ownership to the buyer.

3. Other operating revenues

in eur	2017	2016
Tangible assets sales	11,914	186,623
Debt recovery and liability write-offs	7,734	34,021
Emission coupons	23,575	19,959
Other income	5,492	27,648
Total	**48,715**	**268,251**

COSTS OF MERCHANDISE, MATERIALS AND SERVICES

4. Costs of goods and materials sold

in eur	2017	2016
Purchase costs of goods and materials sold	325	64,065
Costs of materials	42,185,230	38,044,830
Costs of auxiliary materials	1,356,580	1,262,673
Costs of energy	5,685,089	5,501,223
Costs of spare parts and maintenance materials	207,446	268,425
Write-downs of small tools and packaging	7,433	28,314
Cost reconciliation of materials and small tools	7,005	0
Costs of office supplies and literature	14,822	17,818
Other costs of materials	78,038	33,419
Total	**49,541,968**	**45,220,767**

5. Costs of services

in eur	2017	2016
Costs of services in production and service supply	9,130	210,933
Costs of transport services	2,792,971	2,832,988
Costs of maintenance services	2,468,852	2,041,802
Rents	100,620	129,916
Reimbursement of work-related costs to employees	117,567	78,121
Costs of banking services and insurance premiums	545,868	577,866
Costs of professional and personal services	178,464	191,952
Costs of fairs, advertising and entertainment	105,367	131,131
Costs of export	1,079,419	1,048,555
Costs of other services	734,206	416,374
Total	**8,132,464**	**7,659,638**

6. Labour costs

in eur	2017	2016
Salaries and wages	4,689,229	5,023,443
Pension insurance costs	425,112	445,783
Other insurance costs	349,253	365,831
Other costs of labour	1,035,668	751,376
Total	**6,499,262**	**6,586,433**

Labour costs include gross salaries and holiday allowances of full-time employees as well as social and pension insurance benefits. They also include meal and commuting allowances in accordance with regulations and collective labour agreement, other benefits from employment and provisions for salaries.

Labour costs also include voluntary supplementary pension insurance premiums for employees in the amount of EUR 140,051.

7. Write-downs

Depreciation and revaluation operating expenses for tangible fixed assets

in eur	2017	2016
Depreciation of intangible long-term assets	110,038	61,823
Depreciation of tangible fixed assets	2,016,787	2,145,422
Operating expenses from revaluation of tangible and intangible fixed assets	94,490	840,710
Revaluation operating expenses for operating current assets	84,076	26,581
Total	**2,305,391**	**3,074,536**

Revaluation operating expenses for operating current assets

in eur	2017	2016
Allowance for receivables	43,373	0
Inventory allowance for spare parts and auxiliary materials	40,703	26,581
Total	**84,076**	**26,581**

8. Other operating expenses

in eur	2017	2016
Charges unrelated to profit	97,679	101,263
Expenses for environmental protection	209,884	481,827
Other expenses	250,584	127,565
Total	**558,147**	**710,655**

The main item of taxes unrelated to profit is the charge for the use of construction land in the amount of EUR 97,679.

Expenses for environmental protection include water return expenses and environmental duties for waste water in the amount of EUR 208,440, and EUR 1,444 for waste packaging.

Other expenses include payments to high school and university students in the amount of EUR 12,161, donations in the amount of EUR 12,750, costs of registration fees, an appraisal in the amount of EUR 62,042, the costs of holiday facilities in the amount of EUR 4,518, a compensation in the amount of EUR 100,000 paid out to an agent based on the contract termination agreement, EUR 38,080 of income tax balancing payment for 2016, and EUR 17,125 of other expenses.

9. Net financial effect

in eur	2017	2016
Financial revenues	576,106	315,913
Financial expenses	-504,046	-2,322,800
Total	**72,060**	**-2,006,887**

10. Income tax

in eur	2017	2016
Pre-tax profit	3,437,757	1,406,058
Revenues exempt from or increasing tax basis	-52,074	-44,714
Expenses not recognized as taxable	167,364	2,369,488
Tax base increase from revaluation transfer	173,849	173,975
Other tax base increase	2,217	2,217
Tax reliefs	-852,179	-1,440,325
Utilization of former loss	0	-1,734,649
Tax base	**2,876,934**	**732,050**
Income tax (19% required tax rate in 2017 and 17% in 2016)	546,617	124,449
Effective tax rate	**15.90 %**	**8.85 %**

In 2017, the company presents income tax. In both years, the following tax reliefs were applied:

- amount invested in tangible fixed assets,
- relief for the financing of retirement plans,
- relief for the employment of disabled persons,
- relief for donations.

A major proportion of expenses not recognised as taxable is comprised of allowances for bad receivables and provisions formed.

The company has no uncovered tax loss.

11. Changes of deferred taxes in income statement

Change in receivables for deferred tax from / in eur	2017	2016
- allowances for bad receivables	-16,837	17,402
- lawsuits	0	0
- provisions	40,036	7,840
- impairment of investments and receivables for interest	0	289,946
- impairment of investments in foreign tangible assets	0	158,307
- uncovered tax loss	0	-294,890
Total change in receivables for tax deferred through ICI	**23,199**	**178,605**

Change in liabilities for deferred tax from / in eur	2017	2016
- revaluation of property	33,031	29,780
Total change in liabilities for tax deferred through ICI	**33,031**	**29,780**
Total – net effect in ICI	**56,230**	**208,385**

*a new 19% tax rate is effective as of 1.1.2017 (up until 31.12.2016, the tax rate was 17%)

12. Net profit/loss for the financial year

in eur	2017	2016
Profit/loss from operations	3,365,698	3,412,945
Profit/Loss financing	72,060	-2,006,887
Deferred taxes	56,230	208,385
Income tax	-546,618	-124,448
Total	**2,947,369**	**1,489,995**

13. Changes of deferred taxes in comprehensive income statement

Change in liabilities for deferred tax from / in eur	2017	2016
Land*	0	-165,794
Buildings*	0	-52,077
Investments*	0	-4,785
Land	-758,036	34
Buildings	-38,652	116
Investments	19,208	1,007
Total	**-777,480**	**-221,499**

*change in tax rate

Notes to the balance sheet

14. Intangible assets and long-term deferred costs and accrued revenues

Balance and movement of intangible assets in 2017

in eur	Long-term industrial rights	Long-term deferred costs and accrued revenues	Total
PURCHASE COST			
Balance as of 31.12.2016	1,117,791	137,031	1,254,822
Increase	380,575	0	380,575
Transfer from on-going investments	639,532	0	639,532
Disposals and write-offs	-194,903	-23,575	-218,478
Balance as of 31.12.2017	1,942,995	113,456	2,056,451
ALLOWANCE			
Balance as of 31.12.2016	729,239	0	729,239
Depreciation	110,038	0	110,038
Disposals and write-offs	-185,331	0	-185,331
Balance as of 31.12.2017	653,946	0	653,946
Balance as of 31.12.2016	388,552	137,031	525,583
Balance as of 31.12.2017	1,289,049	113,456	1,402,505

Balance and movement of intangible assets in 2016

in eur	Long-term industrial rights	Long-term deferred costs and accrued revenues	Total
PURCHASE COST			
Balance as of 31.12.2015	1,112,798	156,990	1,269,788
Increase	4,993	0	4,993
Transfer from on-going investments	0	0	0
Disposals and write-offs	0	-19,959	-19,959
Balance as of 31.12.2016	1,117,791	137,031	1,254,822
ALLOWANCE			
Balance as of 31.12.2015	667,416	0	667,416
Depreciation	61,823	0	61,823
Disposals and write-offs	0	0	0
Balance as of 31.12.2016	729,239	0	729,239
Balance as of 31.12.2015	445,382	156,990	602,372
Balance as of 31.12.2016	388,552	137,031	525,583

Intangible assets include software licenses. The investments in the past few years required the purchase of software for the process computer, paper machine line, stock preparation management etc. This provided for computer-controlled management of the paper machine and the cutter.

Intangible assets of the company include emission coupons acquired in accordance with the Environmental Protection Act. As of January 1, 2014, the company owned 6,332 coupons. In March 2014, the Ministry of Environment and Spatial Planning of the Republic of Slovenia adopted a decree on the list of plant operators emitting greenhouse gas for the period 2013 to 2020. The decree also contains a list of gratis coupons distributed for the aforementioned period, which were fully handled in accordance with IFRS EU. In 2017, 23,575 coupons were handed over to the state (and 19,959 coupons in 2016). At the end of the year, we have 113,456 coupons.

15. Tangible fixed assets

in eur	31.12.2017	31.12.2016
Land	8,840,732	12,830,395
Buildings	7,800,588	7,810,416
Equipment	14,923,005	15,003,621
Tangible fixed assets under construction or manufacture	2,250	9,689,671
Total	**31,566,575**	**45,334,103**

At the balance sheet date, the company owned 132,108 m^2 of land located mainly on the company's location or nearby. A mortgage is placed on the company's property - the land, the buildings and the equipment – in accordance with contracts for bank loans and provisions received. The current value of buildings, land and equipment pledged for loans is EUR 23,284,209. The current value of equipment and land pledged for guarantees received is EUR 2,500,000.

At 31.12.2017, our liabilities to banks for the acquisition of tangible fixed assets amount to EUR 15,621,117. The company has no finance leases for tangible fixed assets. As of 31.12.2017, a revaluation of property was conducted on the basis of the appraisal value. The basis for the value is the replaceable value as provided in IAS 40 in accordance with the 2017 International Valuation Standards and standard IVS 400 – Real Property Interests.

Investments activated in 2017 and 2016

in eur	2017	2016
Land	0	222,684
Buildings	431,876	12,825
Machines	233,570	585,694
Transport and communications	39,574	20,134
Paper converting equipment	0	7,800
Standard and spec. equipment	2,183	846
Measuring and monitoring devices	978,708	37,707
Business inventory, furniture	25,139	40,674
Only furniture	10,293	5,465
Hardware	329,794	15,861
Software	1,020,107	4,993
Total	**3,060,951**	**949,218**

Overview of balance and movement of tangible fixed assets and investment property in 2017

in eur	Land	Buildings	Manufacturing machines and equipment	Other machines and equipment	Tangible assets under construction	Total
PURCHASE COST						
Balance as of 31.12.2016	**12,830,395**	**20,844,177**	**84,452,734**	**1,610,393**	**10,522,869**	**130,260,568**
Purchasing	0	0	0	0	2,121,700	2,121,700
Transfer of advances	0	0	0	0	-560,000	-560,000
Transfer from tangible assets to investment property	0	0	0	0	-9,021,368	-9,021,368
Activations	0	431,876	1,463,654	145,314	-2,040,844	0
Transfer to intangible fixed assets	0	0	0	0	-1,020,107	-1,020,107
Disposal, write-offs, impairment	0	-15,270	-420,448	-182,937	0	-618,655
Revaluation	-3,989,663	-29,583	0	0	0	-4,019,246
Balance as of 31.12.2017	**8,840,732**	**21,231,200**	**85,495,940**	**1,572,770**	**2,250**	**117,142,892**
ALLOWANCE						
Balance as of 31.12.2016	**0**	**13,033,761**	**69,946,192**	**1,113,314**	**833,198**	**84,926,465**
Disposals and write-offs	0	-15,269	-336,261	-182,207	0	-533,737
Impairment of investments in foreign tangible assets	0	0	0	0	0	0
Transfer from tangible fixed assets to investment property	0	0	0	0	-833,198	-833,198
Depreciation	0	412,120	1,527,086	77,581	0	2,016,787
Balance as of 31.12.2017	**0**	**13,430,612**	**71,137,017**	**1,008,688**	**0**	**85,576,317**
Carrying amount as at 31.12.2016	**12,830,395**	**7,810,416**	**14,506,542**	**497,079**	**9,689,671**	**45,345,106**
Carrying amount as at 31.12.2017	**8,840,732**	**7,800,588**	**14,358,923**	**564,082**	**2,250**	**31,566,575**

Overview of balance and movement of tangible fixed assets in 2016

in eur	Land	Buildings	Manufacturing machines and equipment	Other machines and equipment	Tangible assets under construction	Total
PURCHASE COST						
Balance as of 31.12.2015	12,648,772	20,844,983	84,854,170	1,480,119	9,711,458	129,539,502
Purchasing	0	0	0	0	1,760,629	1,760,629
Transfer of advances	0	0	0	0	0	0
Increase of advances	0	0	0	0	0	0
Activations	222,684	12,825	553,369	155,347	-944,225	0
Transfer to intangible fixed assets	0	0	0	0	-4,993	-4,993
Disposals and write-offs	-41,061	-13,631	-954,805	-25,073	0	-1,034,570
Balance as of 31.12.2016	12,830,395	20,844,177	84,452,734	1,610,393	10,522,869	130,260,568
ALLOWANCE						
Balance as of 31.12.2015	0	12,634,365	69,275,531	1,027,620	0	82,937,516
Disposals and write-offs	0	-12,628	-951,551	-21,819	0	-985,998
Impairment of investments in foreign tangible assets	0	0	0	0	833,198	833,198
Depreciation	0	412,024	1,622,212	107,513	0	2,141,749
Balance as of 31.12.2016	0	13,033,761	69,946,192	1,113,314	833,198	84,926,465
Carrying amount as at 31.12.2015	12,648,772	8,210,618	15,578,639	452,499	9,711,458	46,601,986
Carrying amount as at 31.12.2016	12,830,395	7,810,416	14,506,542	497,079	9,689,671	45,334,103

16. Investment property

Investment property also includes capitalised costs of investments in foreign tangible fixed assets. This concerns the renovation of the Goričane castle, representing the cultural heritage of our region. By investing in the castle, the company acquires the right to manage the building and use it for commercial purposes.

The company has a lawsuit filed against the Archdiocese of Ljubljana in the amount of EUR 8,188,170. For this amount, the company formed allowances for investments into foreign tangible assets in the amount of EUR 833,198 already in 2016.

in eur	Investment property in acquisition
PURCHASE COST	
Balance as of 31.12.2016	0
Purchasing	0
Transfer of advances	0
Transfer from tangible assets in construction	9,021,368
Activations	0
Transfer to intangible fixed assets	0
Disposals and write-offs	0
Balance as of 31.12.2017	9,021,368
ALLOWANCE	
Balance as of 31.12.2016	833,198
Disposals and write-offs	0
Impairment of investments in foreign tangible assets	0
Depreciation	0
Balance as of 31.12.2017	833,198
Carrying amount as at 31.12.2016	0
Carrying amount as at 31.12.2017	8,188,170

17. Saleable financial assets

in eur	Saleable financial assets
Balance as of 31.12.2016	456,809
Increase	16,000
Strengthening through surplus	101,095
Transfer to the short-term part	0
Long-term outstanding interest	0
Transfer from the short-term part	0
Transfer of interests from short-term loans	0
Balance as of 31.12.2017	**573,904**

in eur	Loans within group	Loans to others	Total
Balance as of 31.12.2016	8,107,091	68,461	8,175,552
Transfer to the short-term part	0	-6,000	-6,000
Long-term outstanding interest	83,324	989	84,313
Transfer from the short-term part	2,890,000	0	2,890,000
Transfer of interests from short-term loans	257,714	0	257,714
Balance as of 31.12.2017	**11,338,129**	**63,450**	**11,401,579**

in eur	Shares and other long-term finan invest.	Loans within group	Loans to others	Total
Balance as of 31.12.2015	446,129	9,213,551	73,472	9,733,152
Increase	16,000	0	0	16,000
Revaluation	-5,320	0	0	-5,320
Impairment	0	-1,195,975	0	-1,195,975
Transfer to the short-term part	0	0	-6,000	-6,000
Long-term outstanding interest	0	89,515	989	90,504
Balance as of 31.12.2016	**456,809**	**8,107,091**	**68,461**	**8,632,361**

As of the balance date, investments into the shares of insurance company Zavarovalnica Triglav were revaluated at fair value to EUR 101,095. ZVTG shares are pledged for bank loan insurance in the amount of EUR 512,570.

18. Non-current loans granted

in eur	Loans within group	Loans to others	Total
Balance as of 31.12.2016	8,107,091	68,461	8,175,552
Increase	0	0	0
Repayment	0	0	0
ICI impairment	0	0	0
Strengthening through surplus	0	0	0
Transfer to the short-term part	0	-6,000	-6,000
Long-term outstanding interest	83,324	989	84,313
Transfer from the short-term part	2,890,000	0	2,890,000
Reduction of deferred taxes	0	0	0
Transfer of interests from short-term loans	257,714	0	257,714
Balance as of 31.12.2017	**11,338,129**	**63,450**	**11,401,579**

As of the balance sheet cut-off date, a part of the long-term loan granted to our employees and due in 2017 was transferred to short-term financial investments, with the loan interest rate amounting to 2.014%. Loan to the Management in the amount of EUR 55,450 incl. interest, which is bound by the maturity of bank loans received, is included in long-term loans as per contract. Companies within the group were not granted any new loans. After long-term loans granted to the companies within the group, interest shall fall due in the long term as well. Based on signed amendments to the contract, EUR 2,890 thousand was transferred from the short-term part and is due as of 31.12.2022.

19. Deferred tax receivables

in eur	31.12.2017	31.12.2016
Opening balance	757,101	578,496
Change from allowances for bad receivables	-16,837	17,402
Change from provisions	40,036	7,840
Change from impair. of invest. and interest receiv.	0	289,946
Change from impair. of invest. into foreign tang. assets	0	158,307
Change from uncovered tax loss	0	-294,890
Closing balance	**780,300**	**757,101**

The abovementioned receivables for deferred tax are formed as per a 19% rate.

Reflection of deferred taxes in ICI

in eur	Balance as of 1.1.2017	Change in ICI	Change in other comprehensive income	Exchange rate differences	Balance as of 31.12.2017
Tangible fixed assets – invest. in foreign tangible assets	158,308	0	0	0	158,308
Revaluation of receivables from allowances	177,994	-16,837	0	0	161,157
Revaluation of financial investments	102,157	0	0	0	102,157
Provisions	39,450	40,035	0	0	79,485
Tax loss	0	0	0	0	0
Other	279,192	0	0	0	279,192
	757,101	**23,198**	**0**	**0**	**780,299**

Movement of deferred tax receivables in 2017

in eur	Receivables	Provisions for term. benef. and long-term serv. awards	Investments and receivables for interest	Investments into foreign tangible assets	Uncovered tax loss	Total
Balance as of 31.12.2016	177,994	39,450	381,350	158,307	0	757,101
ICI formation	8,241	41,171	0	0	0	49,412
Use of ICI	-25,078	-1,135	0	0	0	-26,213
Balance as of 31.12.2017	**161,157**	**79,486**	**381,350**	**158,307**	**0**	**780,300**

Movement of deferred tax receivables in 2016

in eur	Receivables	Provisions for term. benef. and long-term serv. awards	Investments and receivables for interest	Investments into foreign tangible assets	Uncovered tax loss	Total
Balance as of 31.12.2015	160,592	31,610	91,404	0	294,890	578,496
Change from tax rate adjustment	3,212	632	1,828	0	0	5,672
ICI formation	15,524	7,989	288,118	158,307	0	469,938
Use of ICI	-1,334	-781	0	0	-294,890	-297,005
Balance as of 31.12.2016	**177,994**	**39,450**	**381,350**	**158,307**	**0**	**757,101**

20. inventories

in eur	31.12.2017	31.12.2016
Material	4,120,619	3,999,820
Production in progress	1,285,500	1,088,163
Products	6,859,311	4,167,819
Impairment of old inventories	-1,076,755	-985,492
Total	**11,188,675**	**8,270,310**

In the current year, the additionally formed inventory allowance for spare parts and other material amounted to EUR 40,703 due to obsolescence. The value of inventories was registered and no significant surpluses or deficits were detected. Inventories are pledged as collateral in the amount of EUR 5,595 million. The book value of the inventories does not exceed their net realizable value.

21. Short-term financial investments and loans

in eur	Loans to companies in group	Short-term loans to others	Total
Balance as of 31.12.2016	3.100.154	6,000	3,106,154
Increase	0	0	0
Transfer from long-term loans	0	6,000	6,000
Payments of principal and interest	0	-6,000	-6,000
Interest from loans of company within the group	47.560	0	47,560
Transfer to long-term loans	-3.147.714	0	-3,147,714
Balance as of 31.12.2017	**0**	**6,000**	**6,000**

in eur	Loans to companies in group	Short-term loans to others	Total
Balance as of 31.12.2015	3.365.733	6,000	3,371,733
Transfer from long-term loans	0	6,000	6,000
Payments of principal, interest	-40.027	-6,000	0
Interest from loans of company within the group	47.907	0	7,880
Impairment	-273.459	0	-273,459
Balance as of 31.12.2016	**3.100.154**	**6,000**	**3,106,154**

Based on signed amendments to the loan agreements with companies within the group, EUR 3,174,714 was transferred to long-term loans, comprised of EUR 2,890,000 principal and EUR 257,714 interest.

As of the balance sheet cut-off date, the short-term part of long-term loans was included in short-term loans.

22. Short-term operating receivables and advance payments

in eur	31.12.2017	31.12.2016
Short-term operating receivables to companies in the group	12	12
Short-term trade receivables	8,416,197	7,209,016
National trade	1,703,209	1,424,091
Foreign trade	6,712,988	5,784,925
Short-term trade operating receivables to other entities	779,548	763,151
Receivables for advances and securities granted	213,909	41,113
Receivables from interests	17,728	7,916
Other short-term receivables	547,911	714,122
Balancing receivables in line with the time of supply	-1,321,246	0
Total	7,874,511	7,972,179

Short-term trade receivables according to their age:

in eur	%	amount
Undue receivables	92.4%	7,881,633
Receivables due in up to 30 days	3.66%	259,505
Due in up to 60 days	2.69%	191,023
Due in up to 90 days	0.61%	43,366
Due in more than 90 days	0.63%	44,925
Balancing receivables in line with the time of supply		-1,321,246
Total		7,099,206

As of 31.12.2017, undue receivables amounted to EUR 6.6 million. Receivables in the amount of EUR 2.8 million were pledged to insure loans and guarantees.

The company has 86% of national and foreign trade receivables insured. The book value of receivables does not exceed their net realizable value.

Allowances for bad receivables

in eur	2017	2016
Opening balance	955,771	963,618
Increase	43,373	0
Eliminations	-124,255	-7,473
Repayment of receivables	-7,734	-374
Closing balance	867,155	955,771

Other short-term receivables

in eur	31.12.2017	31.12.2016
Receivables for VAT	521,268	679,762
Receivables from refunds, receivables from employees and others	22,389	23,357
Receivables from income tax	0	0
Receivables for interest and advances	235,891	60,032
Total	**779,548**	**752,148**

Other short-term operating receivables from VAT refer to receivables from VAT for November and December in the amount of EUR 521,268, which were paid in January and February 2018 respectively. Other short-term receivables in the amount of EUR 22,389 include receivables from reimbursements for sickness and disability, and receivables from employees. At the end of the year, the balance of receivables from income tax equals zero.

23. Other assets

Other assets in the amount of EUR 156,820 refer to deferred costs from insurance costs for 2018 in the amount of EUR 57,950, EUR 15,763 of deferred costs for various subscriptions, other costs related to the sale in 2018 in the amount of EUR 82,899, and EUR 576 of VAT from advance payments.

24. Cash and cash equivalents

in eur	31.12.2017	31.12.2016
Cash and cash equivalents in the bank	84,650	43,581
Total	**84,650**	**43,581**

The company does not have any overdraft limits on its current accounts. All assets are available for use.

25. Capital

Share capital and earnings per share

Share capital is divided to 449,375 ordinary registered shares. All shares issued are paid in and have the same rights. As of 31.12.2017, the book value of one registered share (excl. treasury shares) amounts to EUR 59.5, and EUR 52.8 as of 31.12.2016. The weighted average number of shares is 447,482. Profit per share in 2017 amounts to EUR 6.59 per share, whereas in 2016 it amounted to EUR 3.33 per share.

Capital surplus

in eur	31.12.2017	31.12.2016
Paid-in surplus	3,864,307	3,864,307
Surplus from general equity revaluation adjustment	6,973,873	6,973,873
Total	**10,838,180**	**10,838,180**

Reserves from the general capital revaluation adjustment were established on January 1, 2006 from the prior general capital revaluation adjustment. Capital reserves are not payable.

Reserves from profit

Legal reserves

In 2017, the company did not allocate profit for the current year to legal reserves from profit (EUR 2,922 in 2015) due to sufficient reserves from other items as per Slovenian Companies Act (ZGD-1). Legal reserves are not payable.

Treasury shares

The company owns 1,893 treasury shares in the amount of EUR 84,723 which were bought in 2003 and 2004. Together they represent 0.42% of equity. The shares were acquired as awards for the Management and the Supervisory Board. There were no changes in treasury shares in 2017. A treasury share fund was established in the amount of treasury shares redeemed.

Acquisition of treasury shares:

in eur	2004	2003	Total
Number of shares acquired	476	1,417	1,893
Purchase price of shares	**26,865**	**57,858**	**84,723**

Other reserves from profit

The company has no other reserves from profit in 2017.

Revaluation reserves

in eur	Opening balance	Depreciation	Utilisation from valuation by fair value	Tax change	Change in actuarial profit/loss	Closing balance
Land	6,714,654	0	-3,989,664	758,036	0	3,483,026
Buildings	2,103,064	-173,849	-29,583	38,652	0	1,938,284
Total	**8,817,718**	**-173,849**	**-4,019,247**	**796,688**	**0**	**5,421,310**

Reserves from valuation at fair value

in eur	Opening balance	Depreciation	Strengthening / sale, write-off	Tax change	Change in actuarial profit/loss	Closing balance
Triglav investments	189,632	0	101,095	-19,207	0	271,520
Actuarial profit / loss	-172,130	0	0	0	-33,189	-205,319
Total	**17,502**	**0**	**101,095**	**-19,207**	**-33,189**	**66,201**

Distributable profit

in eur	31.12.2017	31.12.2016
Net profit or loss for financial year	2,947,369	1,489,995
Net profit brought forward	2,078,921	443,530
Reduction of reserves from profit	0	0
Increase of profit/loss brought forw. from surpl. from reval. of tang. assets	140,818	145,395
Increase of reser. from profit based on manag. and superv. board decision (other reserves from profit) and legal reserves from profit	0	0
Distributable profit / loss	**5,167,108**	**2,078,920**

26. Provisions

in eur	Balance as of 31.12.2016	Acquirement	Formation of ICI/imputed interest	Use of provisions	Decrease	Actuarial loss	Balance as of 31.12.2017
Provisions for termination benefits	449,941	0	45,678	0	0	33,189	528,808
Provisions for long-term service awards	137,451	0	10,251	-11,952	0	0	135,750
Other provisions for lawsuits	18,000	0	0	0	0	0	18,000
State aid - emission coupons	137,031	0	0	0	-23,575	0	113,456
Total	**742,423**	**0**	**55,929**	**-11,952**	**-23,575**	**33,189**	**796,014**

The provisions formed for the purpose of termination benefits and long-term service awards were decreased by EUR 11,952 due to retirements and the payment of long-term service awards. The actuarial calculation of provisions for termination benefits and long-term service awards to our employees was prepared on 31.12.2017. The new calculation uses a lower discount rate, 0.90%. This year, the company again demonstrates actuarial loss from provisions for termination benefits as part of revaluation surplus in the amount of EUR 33,189 as per IAS 19. Provisions for lawsuits are formed for lawsuits filed by employees and former employees due to grievance procedures. Provisions for lawsuits remained the same in 2017.

27. Long-term liabilities

in eur	31.12.2017	31.12.2016
Long-term financial liabilities to banks	26,272,061	31,107,337
Long-term financial liabilities to others	0	0
Total	**26,272,061**	**31,107,337**

In 2014, the company signed an agreement with its bank creditors on restructuring financial debts. As per this agreement, all loans were changed to long-term loans due end of 2022. In 2016, an amendment to the agreement was signed, effective as of 1. 5. 2016. It determines lower interest rates, namely a 3-month EURIBOR + 2% and a max. total of 2% respectively.

Loans are insured with a security interest on movable and immovable assets, inventories, receivables, bianco bills of exchange, a pledge of 17,736 shares of ZVTG, and a personal guarantee from the managing director in a form of a deposit.

Movement of long-term liabilities

in eur	2017	2016
Balance as at 1.1.	31,107,337	32,385,098
Increase of long-term financial liabilities	0	0
Amortisation of leasing	0	-8,852
Transfer from short-term loans	0	1,766,740
Transfer to short-term financial liabilities	-4,835,276	-3,035,649
Balance as at 31.12.	**26,272,061**	**31,107,337**

28. Long-term liabilities for deferred taxes

Deferred tax receivables from (in eur)	31.12.2017	31.12.2016
Receivables	161,157	177,994
Termination benefits / long-term service awards	79,485	39,450
AERO impairment	102,157	102,157
PV interest on loans	279,192	279,192
Impairment of investments into tangible assets	158,308	158,308
Total	**780,300**	**757,101**

in eur	31.12.2017	31.12.2016
Revaluation of property	1,271,665	2,068,354
Long-term financial investments	63,690	44,482
Total	**1,335,355**	**2,112,836**

Movement of deferred taxes - long-term liabilities

in eur	Long-term financial investments	Deferred land value tax	Deferred building value tax	Total
Balance as of 1.1.2017	44,482	1,575,043	493,311	2,112,836
Change of tax rate	0	0	0	0
Increase/decrease	19,208	-758,036	-5,621	-744,449
Elimination - depreciation	0	0	-33,032	-33,032
Balance as of 31.12.2017	**63,690**	**817,007**	**454,658**	**1,335,355**

in eur

Deferred tax liabilities (in eur)	Balance as of 1.1.2017	Change in ICI	Change in other comprehensive income	Exchange rate differences	Balance as of 31.12.2017
Tangible fixed assets	2,068,353	0	-796,688	0	1,271,655
Revaluation of financial investments	44,482	0	19,208	0	63,690
	2,112,835	**0**	**-13,823**	**0**	**1,335,355**

SHORT-TERM LIABILITIES

29. Short-term financial liabilities

in eur	31.12.2017	31.12.2016
Short-term part of long-term financial liabilities	3,620,068	2,957,144
Total	**3,620,068**	**2,957,144**

Movement of short-term financial liabilities

in eur	2017	2016
Balance as at 1.1.	2,957,144	3,060,230
Increase of short-term financial liabilities	0	0
Transfer to long-term financial liabilities	0	-1,766,740
Transfer from long-term financial liabilities	4,835,276	3,035,649
Change in interest	-4,036	-55,480
Repayment	-4,168,316	-1,316,515
Balance as at 31.12.	**3,620,068**	**2,957,144**

As of the balance sheet cut-off date, a part of long-term financial liabilities in the amount of EUR 4,835,276 was transferred to short-term financial liabilities as per effective annual instalment plan established by banks. These liabilities are due for payment in the following calendar year. Likewise, the balance of short-term and long-term due part of financial liabilities for the current year was already reconciled during the year as per agreements signed with creditor banks.

30. Short-term operating liabilities

in eur	31.12.2017	31.12.2016
Short-term trade payables	**16,097,305**	**12,378,841**
Payables to national suppliers	4,566,265	3,553,159
Payables to foreign suppliers	11,531,040	8,825,682
Short-term operating liabilities arising from advances	**49,178**	**83,876**
From national trade	3,443	190
From foreign trade	45,735	83,686
Other short-term operating liabilities	**1,773,072**	**1,816,705**
Short-term operating liabilities for income tax	364,968	124,448
Other short-term operating liabilities	1,408,104	1,692,257
Total	**17,919,555**	**14,279,422**

Short-term operating liabilities to suppliers based on age:

in eur	%	amount
Undue liabilities	78.07%	12,567,003
Receivables due in up to 30 days	16.35%	2,631,883
Due in up to 60 days	4.41%	709,523
Due in up to 90 days	0.54%	87,027
Due in more than 90 days	0.6 %	101,869
Total net liabilities		**16,097,305**

Short-term liabilities for corporate income tax

in eur	31.12.2017	31.12.2016
Short-term liabilities for corporate income tax	364,968	124,448
Total	**364,968**	**124,448**

Other short-term operating liabilities

in eur	31.12.2017	31.12.2016
Liabilities for net wages and salaries	251,604	471,539
Liabilities for taxes and contributions on gross salaries	151,633	254,037
Employee leave unexpended	203,604	155,660
Other liabilities to employees	39,350	37,009
Liabilities from export for third party account	230,414	232,664
Short-term liabilities from default interest	5,120	14,994
Liabilities for VAT and other taxes	95,298	146,038
Other short-term liabilities	27,638	18,420
Short-term deferred costs and expenses	401,356	359,669
VAT from advances to others	2,087	2,227
Total	**1,408,104**	**1,692,257**

Liabilities for VAT and other taxes are represented by the income tax liability for 2017, reduced by advances and VAT in the amount of EUR 370,468 already paid, liability for employee contributions and deductions in the amount of EUR 67,229, and liabilities for environmental taxes in the amount of EUR 22,569.

Other short-term liabilities in the amount of EUR 27,638 include deductions of employee salaries for December in the amount of EUR 12,340, liabilities for supplementary pension insurance in the amount of EUR 12,625, and other liabilities in the amount of EUR 2,673. Running payables were settled in January 2018.

31. Transactions with affiliates

in eur	2017	2016
Receivables from companies in the group		
PAPIGOR, HOLDING, d.o.o.	12,292,745	11,847,210
PAPIRUS, HOLDING, d.o.o.	514,830	503,470
Liabilities to companies in the group		
PAPIGOR, HOLDING, d.o.o.	0	0
PAPIRUS, HOLDING, d.o.o.	0	0
Revenues from sale of services in the group		
PAPIGOR, HOLDING, d.o.o.	120	120
PAPIRUS, HOLDING, d.o.o.	720	720
Financial revenues from interest		
PAPIGOR, HOLDING, d.o.o.	110,187	158,210
PAPIRUS, HOLDING, d.o.o.	20,696	11,700

32. Financial risks, capital management and fair value

Primary financial instruments recognised in the company's accounting statements include loans by and to the company, cash and cash equivalents, operating and other receivables, liabilities to suppliers and other liabilities from operations, as well as financial investments. The basic purpose of borrowing loans is to acquire the financial resources needed for company's operations.

The company does not use derivatives for hedging.

The most important risks related to financial instruments of the group include interest risk, liquidity risk, currency risk, credit risk and raw material price risk. The Management shall regularly review and endorse the policy of managing individual types of risks as described hereafter.

Interest rate risk

Interest rate risk is related to the negative impact of market interest rate changes on the company's business operations. The interest structure of active and passive balance items is not reconciled due to the fact that the company has more loans than interest-bearing investments.

If the company is exposed to interest rate risk, this may represent unfavourable movement (increase) of Euribor variable interest rate in case of loans received. All long-term loans have a variable interest rate.

Resources are partially subjected to a variable interest rate and partially to a fixed rate. All liabilities have a variable interest rate – hence, any potential changes may affect the cash flows but not the fair values. Furthermore, there are no assets or liabilities where a change in interest rate would impact the capital (through comprehensive income statement).

The company does not use hedging for exposure to interest rate risk.

Assets and liabilities per interest rate type

in eur	2017	2016
Financial instruments with a fixed interest rate		
Financial assets	3,543,775	3,549,775
Financial liabilities	0	0
Financial instruments with a variable interest rate		
Financial assets	6,562,179	6,562,179
Financial liabilities	29,861,337	34,029,653

Effect of interest rate change on cash flow

in eur	Interest rate change in basis points	Effect on ICI	Effect on capital
2017			
Increase of Euribor	50	-116,496	0
Decrease of Euribor	-50	116,496	0
2016			
Increase of Euribor	50	-137,337	0
Decrease of Euribor	-50	137,337	0

Liquidity risk

The basic task of financial management is assuring solvency and thus providing for the proper functioning of all other company's business operations. Liquidity risk is one of the main financial risks. It occurs when – due to a risk in the business process – there is a change in the financial intermediary position of the company, i.e. the ratio between debts and receivables.

Maturity of contractual obligations - undiscounted

31.12.2017	Due in one year	Due in one to 5 years	Due after five years	Total
Long-term and short-term liabilities	3,620,068	26,272,061	0	29,892,129
Short-term operating liabilities	16,097,305	0	0	16,097,305
TOTAL	**19,717,373**	**26,272,061**	**0**	**45,989,434**

31.12.2016	Due in one year	Due in one to 5 years	Due after five years	Total
Long-term and short-term liabilities	2,957,143	12,135,011	18,972,326	34,064,480
Short-term operating liabilities	13,917,526	0	0	13,917,526
TOTAL	**16,874,669**	**12,135,011**	**18,972,326**	**47,982,006**

Short-term loans and financial leases with regard to insurance

in eur	31.12.2017	31.12.2016
Secured	3,620,068	2,957,144
Security interest on real estate property	3,620,068	2,957,144
Bills of exchange	0	0
Other	0	0
Unsecured	0	0
Total	**3,620,068**	**2,957,144**

Long-term loans and financial leases by due date

in eur	31.12.2017	31.12.2016
Due date in 1 to 2 years	2,966,276	3,620,068
Due date in 2 to 3 years	3,011,024	2,966,276
Due date in 3 to 4 years	3,055,176	3,011,024
Due date in 4 to 5 years	3,102,535	3,055,176
Total	**12,135,011**	**12,652,544**

Credit risk

The company proactively manages accounts receivable through insurances with SID d.d., requests for advance payments, regular reviews of our customers, monitoring and prompt recovery of receivables.

The company deems the credit risk to be manageable. The highest exposure to the credit risk equals the carrying amount of receivable value. The book value represents the biggest exposure to the credit risk.

Maximum exposure to credit risk

in eur	31.12.2017	31.12.2016
Operating receivables	7,966,055	8,092,899
Loans granted to others	11,407,579	11,281,706
TOTAL	**19,373,634**	**19,374,605**

Currency risk

The company exports most of its products to foreign markets, mostly European Union markets. On the other hand, however, the company depends on the import of raw materials and other production materials. Exposure to currency risk is on a moderate level, most receivables are in euros. However, exposure to currency risk is higher for USD which represents a net liability.

The table below includes an impact analysis of the potential USD exchange rate change on company's profit before taxes (due to the influence of the net change value of monetary assets and liabilities) while all other variables remain unchanged. The change in currency ratios shall not affect the company capital.

Exposure to currency risk caused by currency rate change

31.12.2017	Change in foreign-exchang rate (%)	Impact on profit and less before income tax
USD	10%	-217,299
USD	-10%	217,299

31.12.2016	Change in foreign-exchang rate (%)	Impact on profit and less before income tax
USD	10%	-193,231
USD	-10%	193,231

Price risk

The company is exposed to the price risk of pulp which represents 65% of material costs or a half of operating costs, and price movements on global markets may significantly affect the result.

Exposure to raw material price risk - pulp

31.12.2017	Change in price of pulp (%)	Impact on profit and loss before income tax
Increase of pulp prices	5%	1,632,519
Decrease of pulp prices	-5%	-1,632,519

31.12.2016	Change in price of pulp (%)	Impact on profit and loss before income tax
Increase of pulp prices	5%	1,438,284
Decrease of pulp prices	-5%	-1,438,284

Capital management

The company is aware that in order to ensure smooth operations, we always need to have enough equity capital available – equity capital, after all, is like an air bag protecting the company from any unpredictable changes in the value of assets and debts. Therefore, we still follow the more conservative policy of financial leverage than is average in our industry; it provides us with a good credit rating and capital adequacy that we need to finance our operations and ensure added value for our shareholders.

The company is following the flow of capital via a financial leverage indicator calculated by dividing net liabilities with the total liability and total capital amount. Net liabilities include loans received, liabilities to suppliers and other liabilities minus the amount of cash.

Financial leverage

in eur	31.12.2017	31.12.2016
Financial liabilities	29,892,129	34,064,481
Operating liabilities	17,516,112	13,917,526
Cash and cash equivalents	84,650	43,581
Net liabilities	47,323,591	47,938,426
Total equity	26,632,024	23,635,956
Total equity and net liabilities	**73,955,615**	**71,574,382**
Financial leverage indicator	**63.99%**	**66.98%**

Fair value

Fair value is the amount for which assets may be exchanged or liability may be settled among well informed and willing parties in a deliberate business transaction. The fair value of financial instruments is not significantly different from their book value.

Comparison of fair value and book value

	31.12.2017		31.12.2016	
in eur	Book value	Fair value	Book value	Fair value
Land and real estate	31,570,829	31,570,829	46,178,304	46,178,304
Long-term financial investments	573,904	573,904	583,003	583,003

Fair value hierarchy

in eur

31.12.2017	Nivo 1	Nivo 2	Nivo 3	TOTAL
Land and real estate	0	0	31,570,829	**31,570,829**
Long-term financial investments	512,571	0	61,333	**573,904**

The company establishes a hierarchy of valuating techniques based on whether the input parameters for these types of valuation are published or not. Published parameters reflect market data acquired from independent sources, whereas unpublished parameters refer to market assumptions.

Fair value hierarchy is established as follows:

- **Level 1:** establishing fair value directly by referring to the official published price on an active market.
- **Level 2:** other techniques of establishing fair value based on assumptions with a significant impact on fair value that are in compliance with noticeable current market transactions with the same instruments, either indirectly or directly.
- **Level 3:** other techniques of establishing fair value based on assumptions with a significant impact on fair value that are not in compliance with noticeable current market transactions with the same instruments.

No transitions between levels were recorded in 2017 and 2016.

Contingent liabilities

Potential liabilities from lawsuits

Lawsuits in a total amount of EUR 123,028.61 are currently in progress in court against the company as a defendant and a debtor.

Other notes

Disclosure of transactions with affiliates

The company is not involved in any business transactions with its affiliates and thus does not disclose any affiliate-related operating revenue, operating expenses, operating receivables or operating liabilities.

The company has loans granted to affiliate companies. Disclosures about these loans are included in disclosure no. 18 Long-term financial investments, and disclosure no. 21 Short-term financial investments.

Disclosure of receipts awarded to members of the Management, the Supervisory Board and employees in line with individual employment contracts

Receipts awarded to the members of the Management are based on individual employment contracts that are not subject to the tariff part of the collective labour agreement. In the year considered, members of the Management received EUR 399,208 of gross income, a holiday allowance in the amount of EUR 1,600, benefits in the amount of EUR 690 and reimbursements in the amount of EUR 1,822. In addition, they received reimbursements for travel expenses in the amount of EUR 58,709. As of 31.12.2017, the principal amount of the long-term loan totals EUR 50,000.

In 2017, members of the Supervisory Board each received EUR 2,384 of attendance fees and other receipts for the performance of their functions. Chairman of the Board received EUR 947 of gross receipts, whereas the other members received EUR 1,437 each.

No employees with individual contracts were employed at the company in 2017.

Disclosure of auditing costs

An amount of EUR 20,000 was spent for auditing in 2017.

Important transactions after the end of the financial year

From the balance sheet date until the date of the auditor’s report, there were no transactions that could affect the company's financial statements.

Correction of significant error

In the comparative financial statements for 2016, the company corrected a significant error in categorising an investment in acquisition, which refers to the capitalised costs of investments in foreign tangible fixed assets. Considering the intended future use of the completed investment, the investment into the renovation of the Grad Goričane manor represents an investment property and not a fixed asset. After the elimination of this error, the classification of the renovation of Grad Goričane in the comparative financial statements as of 31.12.2016 is therefore represented as an investment property and not as a fixed asset in acquisition.

Effect of correction on the balance sheet as of 31.12.2016

in eur		31.12.2016 post-correction	correction of balance as of 31.12.2016	reported on 31.12.2016 pre-correction
II.	Tangible fixed assets	37 ,145 ,933	-8 ,188 ,170	45 ,334 ,103
4.	Tangible fixed assets in acquisition	1 ,501 ,501	-8 ,188 ,170	9 ,689 ,671
III.	Investment properties in acquisition	8 ,188 ,170	8 ,188 ,170	0

Effect of correction on the balance sheet as of 1.1.2016

in eur		1.1.2016 post-correction	correction of balance as of 31.12.2015	reported on 31.12.2015 pre-correction
II.	Tangible fixed assets	36 ,908 ,812	-9 ,711 ,458	46 ,620 ,270
4.	Tangible fixed assets in acquisition	18 ,284	-9 ,711 ,458	9 ,729 ,742
III.	Investment properties in acquisition	9 ,711 ,458	9 ,711 ,458	0

Independent Auditor's Report

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Independent Auditors' Report

To the shareholders of the Goričane d.d., Medvode

Qualified Opinion

We have audited the financial statements of Goričane d.d., Medvode ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Qualified Opinion

As at 31 December 2017 the Company carried investment property under development at EUR 8,188 thousand (31 December 2016: EUR 8,188 thousand). The investment property under development represents capital expenditures related to renovation of the Goričane Castel, owned by the Archdiocese of Ljubljana, which in accordance with the contract is expected to be used by the Company as an investment property. However, in the course of our audit we noted that there is an ongoing dispute between the Company and the Archdiocese of Ljubljana as to the continuation of the development as well as the market value of the development expenditures incurred by the Company. The renovation of the castle Goričane stopped and significant delays in completion of the development as well as the level of rental income required for the Company to recover the carrying amount of the investment property indicates that the investment property might be impaired. In accordance with the requirements of IAS 36 *Impairment of assets,* if such indications exist as at the reporting date, the entity should determine the recoverable amount of the asset and recognise an impairment loss. The management has not determined the recoverable amount nor recognised any impairment loss, which constitutes a departure from IFRS. It was impracticable for us to determine the extent the financial statements are misstated as a result of this matter including the required adjustments to the carrying amount of investment property and deferred tax asset as at 31 December 2017 and 31 December 2016, impairment losses, income tax expense and net profit for the years then ended.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

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Other Information

Management is responsible for other information. The other information comprises the Introduction, Business Report and Environmental Report included in the Annual report, but does not include the financial statements and our auditor's report thereon. Other information was obtained before the date of issuance of the auditor's report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent in all material aspects with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information that we obtained prior to the date of this auditors' report. As described in the Basis for Qualified Opinion section of our report above, the Company should have determine the recoverable amount of the investment property and recognise impairment loss. We have concluded that the Business Report and other information is materially misstated for the same reason with respect to amounts or other items included in the Business Report and other information which is affected by the failure to recognise the impairment loss.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate 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 of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of 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 auditors' 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

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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 separate 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 auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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.

On behalf of the auditing company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Polona Repinc Kofol
Certified Auditor

Tomaž Mahnič, FCCA
Certified Auditor
Director

Ljubljana, 6 July 2018

KPMG Slovenija, d.o.o.
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