

**Construction Company
GRANIT AD Skopje**

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING
31 DECEMBER 2016**

Skopje, May 2017

These reports are translation from the official ones issued in Macedonian language

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**INDEPENDENT AUDITOR'S REPORT
TO THE
SHAREHOLDERS ASSEMBLY OF
Construction Company GRANIT AD - Skopje**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Construction Company GRANIT AD - Skopje ("the Company"), which comprise Consolidated Statement of Financial Position as at 31 December 2016, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of changes in equity and Consolidated Cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting standards which are accepted in the Republic of Macedonia and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing which are accepted and published in the Official gazette of the Republic of Macedonia (79/2010). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
SHAREHOLDERS ASSEMBLY OF
Construction Company GRANIT AD - Skopje**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Construction Company GRANIT AD - Skopje as of 31 December 2016, and of its financial performance and its cash flows for the period then ended in accordance with the accounting standards which are accepted in the Republic of Macedonia.

Report on Other Legal or Regulatory Requirements

The management of the Company is also responsible for preparation of the annual business report according to the article 384 from the Law on trade companies. Our responsibility, according to the Audit Law, is to report whether the annual business report is consistent with the consolidated annual accounts and the consolidated financial statements for the year ended 31 December 2016. Our job regarding the annual business report is conducted according to the ISA 720 and is restricted to reporting whether the historical financial information presented in the annual business report are consistent to the annual accounts and the audited consolidated financial statements.

The annual business report is consistent, in all material aspects, with the consolidated annual account and the audited consolidated financial statements of the Construction Company GRANIT AD - Skopje as of 31 December 2016.

Skopje, 16 May 2017

Certified Auditor

Goce Hristov

Manager and Certified Auditor

Antonio Veljanov

Construction Company GRANIT AD - Skopje
CONSOLIDATED INCOME STATEMENT for the year ended at 31 December

	Note	2016 (000) MKD	2015 (000) MKD
Revenues from construction works	8	5,996,823	5,217,971
Other operating income	9	471,307	438,839
Changes in inventories of finished goods and work in progress		(42,956)	27,568
Raw materials used	10	(1,572,412)	(1,484,082)
Employees expenses	11	(1,178,344)	(893,586)
Depreciation		(422,662)	(401,187)
Expenses for sub-contractors		(1,983,032)	(1,656,339)
Other operating expenses	12	(989,995)	(902,097)
OPERATING PROFIT (LOSS)		278,730	347,087
Financing income	13	58,276	99,039
Financing expenses	14	(23,306)	(21,611)
PROFIT BEFORE TAXATION		313,699	424,514
Income tax expense	17	(19,584)	(53,292)
NET PROFIT FOR THE PERIOD		294,115	371,222
Net profit (loss) for:			
Shareholders of the Parent Company		294,115	371,222
Minority shareholders in the subsidiaries		-	-
		294,115	371,222
Basic earnings per share (In MKD)	15	106	127

Skopje, 15 May 2017

**For the Steering Committee
President**

Straso Milkovski

Construction Company GRANIT AD - Skopje
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended at 31 December

Note	2016 (000) MKD	2015 (000) MKD
Net profit for the period	294,115	371,222
Other comprehensive income:		
PPE revaluation	-	-
Revaluation of investments available for sale to their fair value	-	-
Foreign exchange differences from foreign currencies translations	(36,294)	11,284
Total other comprehensive income	(36,294)	11,284
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	257,821	382,506

Construction Company GRANIT AD - Skopje
CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December

	Note	2016 (000) MKD	2015 (000) MKD
ASSETS			
Cash and cash equivalents	18	381,384	448,966
Investments for trading at fair value	25	6,775	-
Trade receivables	19	2,345,548	3,467,011
Receivables for advances	20	180,562	276,215
Short-term loans	21	23,814	16,058
Other short term assets and prepaid expenses	22	82,018	285,536
Inventories	23	1,341,909	1,169,491
Total current assets		4,362,010	5,663,277
Investments in associates	24	14,411	14,411
Long-term loans	26	198,895	201,155
Intangible assets	27	19,322	22,258
Property, plant and equipment	28	3,369,467	3,503,713
Total non-current assets		3,602,095	3,741,537
TOTAL ASSETS		7,964,105	9,404,814
LIABILITIES AND EQUITY			
Trade payables	29	1,398,048	2,404,986
Payables for advances and deposits	30	1,088,087	1,420,221
Short-term borrowings	31	-	10,000
Current portion of long-term borrowings	32	6,368	16,427
Other short-term liabilities and accrued expenses	33	259,296	556,231
Total current liabilities		2,751,800	4,407,866
Long-term borrowings	34	-	5,820
Provision for litigation claims	35c	231,276	185,335
Total non current liabilities		231,276	191,155
Shareholders capital		932,367	932,367
Treasury shares		(148,097)	(148,097)
Share premium		51,895	51,895
Legal reserves		1,809,907	1,672,544
Revaluation and other reserves		(9,792)	26,502
Retained earnings		2,344,679	2,270,512
Total		4,980,959	4,805,723
Non-controlling interest		70	70
Total equity		4,981,029	4,805,793
TOTAL LIABILITIES AND EQUITY		7,964,105	9,404,814

Construction Company GRANIT AD - Skopje
CONSOLIDATED CASH FLOW STATEMENT for the year ended at 31 December

	Note	2016 (000) MKD	2015 (000) MKD
Cash flows from operating activities			
PROFIT (LOSS) BEFORE TAXATION		313,699	424,514
Adjusted for:			
Depreciation of PPE	28	411,256	380,364
Amortization of intangible assets	27	11,407	20,822
Provision of bad receivables	12	115,931	47,830
Interest income (expenses), net	13;15	(32,158)	(24,401)
Provision for litigation claims	12	45,942	(5,388)
Other reconciliation		(33)	-
Provision on bad inventories		102	-
Write off interest receivables		1,902	1,954
Other reconciliation in fixed assets		1,662	(18,728)
Gain from disposal of securities		8,860	3,131
Gain from disposal of PPE	9;12	(91,136)	(87,009)
Profit (loss) before changes in current assets		787,433	743,090
Trade receivables		969,237	68,703
Receivables for advances		95,653	(219,403)
Other short term assets and prepayments		219,445	(113,321)
Inventories		(172,519)	(156,773)
Trade payables		(1,006,937)	(184,308)
Payables for advances		(332,134)	64,715
Other short -term liabilities and accruals		(303,316)	(39,495)
Net cash used in operations		256,862	163,209
Interest paid		(14,360)	(11,031)
Income tax paid		(25,576)	(81,968)
Net cash flows from operating activities		216,925	70,210
Cash flows from investment activities			
Cash inflows (outflows) from investments, net		(6,775)	-
Received interest	13	36,861	43,932
Bank deposits, net		-	814,200
Collected (given) loans	26	2,260	13
Acquisition of intangible assets	27	(8,471)	(25,825)
Acquisition of PPE	28	(392,289)	(835,886)
Proceeds from disposed PPE	28	195,894	207,409
Net cash flows from investment activities		(172,521)	203,843
Cash flows from financing activities			
Proceeds (repayment) of long-term borrowings	34	(15,879)	(26,852)
Proceeds (repayment) of short-term borrowings	31	(10,000)	(119,296)
Acquired treasury shares		-	(85,933)
Dividends paid		(59,783)	(45,728)
Rewards paid		(26,325)	(5,450)
Net cash flows from financing activities		(111,987)	(283,259)
Net increase (decrease) of cash and cash equivalents		(67,582)	(9,205)
Cash and cash equivalents at the beginning of the year	18	448,966	458,171
Cash and cash equivalents at the end of the year	18	381,384	448,966

Notes comprise an integral part of the Consolidated Financial Statements
Auditors report is on pages 1 and 2

Construction Company GRANIT AD - Skopje
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended at 31 December

	Ordinary shares		Treasury shares		Share premium	Reserves (legal and from reinvested income)	Reserves for treasury shares	Revaluation and other reserves	Retained earnings	Non-controlling interest	Total equity
	Number of shares	Amount	Number of shares	Amount							
In (000) MKD											
a) Changes in 2015											
Balance as at 01.01.2015	3,071,377	932,367	(125,037)	(62,164)	51,895	1,481,362	62,164	15,218	2,087,451	70	4,568,363
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	-	371,222	-	371,222
Foreign exchange differences from foreign currencies translations	-	-	-	-	-	-	-	11,284	-	-	11,284
Total comprehensive income	-	-	-	-	-	-	-	11,284	371,222	-	382,506
Transactions with owners:											
Shares issued	-	-	-	-	-	-	-	-	-	-	-
Distribution for reserves	-	-	-	-	-	129,018	-	-	(129,018)	-	-
Distribution for dividends	-	-	-	-	-	-	-	-	(47,143)	-	(47,143)
Distribution for rewards	-	-	-	-	-	-	-	-	(12,000)	-	(12,000)
Adjustments	-	-	-	-	-	-	-	-	-	-	-
Acquired treasury shares	-	-	(176,136)	(85,933)	-	-	-	-	-	-	(85,933)
Balance as at 31.12.2015	3,071,377	932,367	(301,173)	(148,097)	51,895	1,610,380	62,164	37,786	2,641,735	70	4,805,794

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Notes comprise an integral part of the Consolidated Financial Statements
Auditors report is on pages 1 and 2

Construction Company GRANIT AD - Skopje

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended at 31 December (Continued)

	Ordinary shares		Treasury shares		Share premium	Reserves (legal and from reinvested income)	Reserves for treasury shares	Revaluation and other reserves	Retained earnings	Retained earnings	Total equity
	Number of shares	Amount	Number of shares	Amount							
In (000) MKD											
b) Changes in 2016											
Balance as at 01.01.2016	3,071,377	932,367	(301,173)	(148,097)	51,895	1,610,380	62,164	26,502	2,270,513	70	4,805,794
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	-	294,115	-	294,115
Foreign exchange differences from foreign currencies translations	-	-	-	-	-	-	-	(36,294)	-	-	(36,294)
Total comprehensive income	-	-	-	-	-	-	-	(36,294)	294,115	-	257,821
Transactions with owners:											
Shares issued	-	-	-	-	-	-	-	-	-	-	-
Distribution for reserves	-	-	-	-	-	137,363	-	-	(137,363)	-	-
Distribution for dividends	-	-	-	-	-	-	-	-	(61,554)	-	(61,554)
Distribution for rewards	-	-	-	-	-	-	-	-	(21,000)	-	(21,000)
Acquired treasury shares	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	(33)	-	(33)
Balance as at 31.12.2016	3,071,377	932,367	(301,173)	(148,097)	51,895	1,747,743	62,164	(9,792)	2,344,679	70	4,981,029

Notes comprise an integral part of the Consolidated Financial Statements

Auditors report is on pages 1 and 2