SPAČVA d.d., Vinkovci

ANNUAL REPORT
AS AT 31 DECEMBER 2019

This version of the Annual report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements and Auditors' report takes precedence over translation.

Contents

Spačva d.d., Vinkovci

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union („IFRS"), which give a true and fair view of the state of affairs and results of Spačva d.d. ("the Company") for that period.

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

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

- selecting suitable accounting policies and then applying them consistently;
- making reasonable and prudent judgments and estimates;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Managing Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and their compliance with the Croatian Accounting Act. The Managing Board is also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of embezzlement and other illegal acts..

Signed on behalf of the Managing Board:

Josip Faletar	Ante Radoš	Ivan Perković
President of the Management Board	Board Member	Board Member

29 April 2020

Management's Letter to shareholders

Dear shareholders,

the end of the year is the right time to stop a bit and look back on the past year. When we draw the line and look at the financial report which shows that we had a 3% lower revenue from the sale of our products compared to the plan, and a 6% higher compared to 2018. EBITDA margin and net profit are weaker than planned in 2018 solely due to a significant increase in the largest costs of raw materials, wages and electricity.

The business of the previous year by individual profit centers and other business segments is briefly presented below.

Sawmill - in this production plant, which mainly works internally and produces products that end up as raw materials in the Final Production, the total value of production was less than 3% compared to 2018, and 8% higher compared to the business plan;

Veneer - production and sale of veneer is lower by 1% compared to 2018, and 6% compared to the business plan. In veneer production, the most significant impact for the non-realization of the plan is the quality of raw materials in the last two quarters of 2019;

Final - production and sales of final products is 11% higher than in 2018 and 4% higher than the business plan for 2019;

Bioenergy - production and sales of pellets and briquettes in 2019 is higher by 11% compared to 2018 and lower by 1% compared to the business plan;

Investments - in 2019, Spačva invested a total of over HRK 59 million, this is the largest amount of investments in one year in recent history. The most significant investments are dry finishing, sawdust dryers and veneer dryers;

Human resources - last year the company employed an average of 20 more workers than in 2018; also, the professional resources of the society are continuously strengthened by young highly educated people and the achieved results can certainly be thanked to the contribution of these new members of society. For this purpose, in 2019 Spačva was one of the leading beneficiaries of CES active employment policy measures.

There are three trade unions in Spačva, the Workers 'Council is active, and the President of the Workers' Council is a member of the Supervisory Board. The collective agreement valid in the company was signed between all three unions and the Management Board and is a rarity in the Croatian wood industry, and our workers under the Collective Agreement have significantly greater employment rights than guaranteed by the Labor Act. Therefore, we believe that we are conducting and developing a social dialogue that can be a role model for many. The salary in Spačva is above the average of the Croatian wood industry, and also above the average of the economy of our county. Here we should definitely mention the payment of special prizes, which is already a traditional and common thing in Spačva.

We want to incorporate the development of socially responsible business into every pore of our activities and we want to behave as responsibly and respectfully as possible towards the environment and in the future.

Every member of our society deserves respect and attention. We encourage the building of good interpersonal relationships in all relations: workers-workers, workers-managers.

Respectfully.
PRESIDENT OF THE MANAGEMENT BOARD:
Ph. D. Josip Faletar

Introduction

The annual report comprises data for the business year 2019. It provides an overview of financial information, description of business operations, and financial statements together with the independent auditor's opinion for Spačva d.d.

The annual report provides basic Company data, its organization and management.
In addition, you may find out more on the latest achievements in terms of development, research and investment.

This report ensures an insight into data on the most valuable capital of the Company - human resources, and the efforts of Spačva d.d. to contribute to sustainable development with its corporate social responsibility and promoting environmental awareness.

About the Company

Spačva d.d. was established in 1956 under the name DIP Slavonski Hrast. Our 60-year old tradition of wood processing has been maintained all through the Homeland War and post-war economic and social changes. Spačva d.d. continues to successfully operate as one of the leading wood industry companies in Croatia.

Company registration and activity

Spačva d.d. was registered with the Commercial Court of Osijek under the company registration number (MBS) 030014502. The registered seat of the Company is located in Vinkovci, Duga ulica 181.

The main activity of the Company is wood processing and manufacture of products of wood. Some of its additional activities are the following:

- *manufacture of furniture*
- *brokering*
- *wholesale of furniture, and wooden, wickerwork and cork products*
- *retail sale of furniture, lighting apparatus and household goods.*

Company organisation

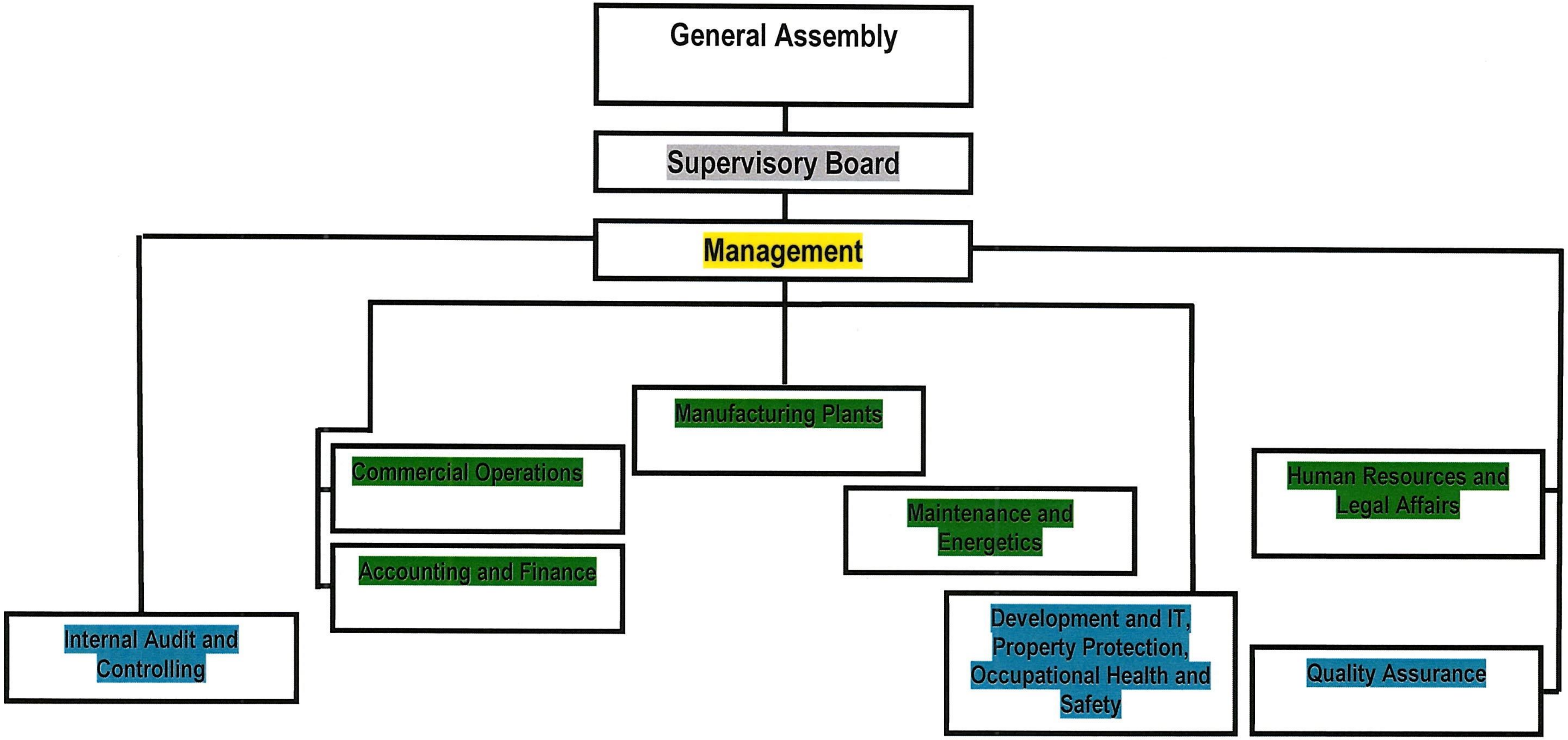
Company's organisation is defined by the Statute and decisions of the Supervisory and Management Board.

The Company is divided into 4 profit centres:

- *SAWMILL*
- *VENEER*
- *FINAL PRODUCTS*
- *BIOFUELS*

and 8 cost centres:

- *MAINTENANCE AND ENERGETICS*
- *DEVELOPMENT AND INFORMATION TECHNOLOGY*
- *OCCUPATIONAL HEALTH AND SAFETY*
- *PROPERTY PROTECTION*
- *COMMERCIAL OPERATIONS*
- *ACCOUNTING AND FINANCE*
- *HUMAN RESOURCES AND LEGAL AFFAIRS*
- *QUALITY ASSURANCE*


General Assembly
Supervisory Board
Management
Manufacturing Plants
Commercial Operations
Accounting and Finance
Maintenance and Energetics
Development and IT, Property Protection, Occupational Health and Safety
Human Resources and Legal Affairs
Quality Assurance
Internal Audit and Controlling

Management and management organisation

The Company's bodies are the Management Board, Supervisory Board and General Assembly.

Management Board

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

The President and members of the Management Board represent the Company individually and independently, without limitations, and are authorised to legally represent the Company before courts and other authorities.

The Management Board makes decisions by majority vote of all the members. In case of equal distribution of votes, the President of the Management Board has the casting vote. The Company's Supervisory Board appoints members and the President of the Management Board and also stipulates the mode of operation by adopting the Management Board's Rules of Procedure.

Supervisory Board

The Supervisory Board has 5 members. Four members of the Supervisory Board are elected by the Company's General Assembly and one member is elected by the Company's employees. In 2019, the Supervisory Board had the following composition:

1. *Borislav Škegro, Chairman*
2. *Mario Popić, Vice-Chairman*
3. *Jakov Krešić, member*
4. *Ilija Budimir, member*
5. *Ante Lučić, member, replaced by Krešimir Čemerika, member.*

The Supervisory Board supervises the Company's management of operations and reports in writing to the General Assembly.

The Supervisory Board makes decisions by majority vote of all the members. In case of equal distribution of votes, the Chairman of the Management Board has the casting vote.

General Assembly

The General Assembly consists of all shareholders with voting rights. The voting right is exercised in line with nominal amounts of shares.

The General Assembly is chaired by the Chairperson, elected by the General Assembly of the Company for a term of 4 (four) years Hrvoje Bogutovac is the Chairperson of the General Assembly since 11 July 2017.

The General Assembly makes decisions by majority vote of all the members.

Issued capital and shares

The issued capital of SPAČVA d.d. amounts to HRK 105,530,440.00. The total amount of issued capital has been divided into 5,276,522 ordinary shares, registered in the computer system of the Central Depositary and Clearing Company as dematerialised securities, each with a nominal value of HRK 20.00.

Shareholder structure as at 31 December 2019.

• *Raiffeisenbank Austria d.d.*	*75.81 %*
• *Hrvatska poštanska banka d.d.*	*18.95 %*
• *Addiko Bank d.d.*	*3.92 %*
• *Other shareholders*	*1.32%*

Research and development

Since Croatia joined the European Union, additional efforts are being made in all segments in order to remain competitive with Western companies, which is also a prerequisite for market survival. Our so-far investments actually increased the value of total production with the same amount or raw materials, i.e. increased efficiency per employee, which directly increases the company's competitiveness.

Wood processing represents an activity with high growth rates. Therefore, we expanded and modified our production programme. The primary goals of Spačva d.d. are oriented towards creating customer trust and loyalty and strengthening our brand. We constantly monitor and examine the market situation, and detect our clients' desires, thus trying to adjust to their needs.

Quality

The quality system that is being built by Spačva d.d. in order to attain the highest standards in the wood industry, a high level of responsibility, continued examination and verification of procedures and processes, represents the basis for customer and business partners' trust. The strategic decision of Spačva d.d. to implement international ISO standards meant accepting the process approach to managing an organization, i.e. becoming one of the companies who base their quality management systems on identifying processes, their network connection and monitoring.

The quality management system and its improvement includes all employees, meaning that every individual is obliged to consistently apply elements of prescribed quality on their work post and within their everyday tasks.

The internal benefits include increasing production efficiency, continuous advancement and profit growth, and greater employee satisfaction, whereas the external benefits are an internationally recognised quality management system, resulting in increased chances in foreign markets and the ultimate goal - satisfied customers.

Human resources, health and safety at work, human rights, education and training

SPAČVA d.d. recognised and implemented in its operations corporate social responsibility as one of the crucial sustainable growth factors by promoting responsible practices of good and transparent governance and promoting interests of different shareholders in its path towards achieving quality and sustainable growth. This business practice is based on the principle of a balanced consideration of the company's economic, social and environmental impact and investment in human resources. Human resources are seen as employees precious to the company, which is why we are oriented towards growth and developing individuals' potential and skills. Investing in human resources is more profitable than investing in any other resources.

The greatest asset of SPAČVA d.d. are its employees, which is why developing human resources is of particular importance, especially in terms of encouraging creativity, innovation and dynamics and paying special attention to a responsible performance of tasks. Demanding goals are set before employees, and their knowledge has been implemented in processes and high quality products which position SPAČVA d.d. among leading companies in the wood industry and ensure its competitiveness on the domestic and foreign market. Our employee satisfaction is equally important as our customer satisfaction.

Also, a very important segment of management is the policy of health and safety at work and includes the right to a safe and healthy workplace at all levels, and priority is always given to the principles of prevention of injuries, accidents and diseases.

At regular sessions of the Occupational Safety and Health Committee, the application of the rules of health and safety at work is analyzed, and measures to prevent the risk of injuries, accidents and illness are proposed, planned and analyzed.

When establishing an employment relationship, all employees perform previous medical examinations, and further periodic examinations, depending on the needs of the workplace where they work.

SPAČVA d.d. has recognized respect for human rights as its ethical and moral obligation.

By employing the local population, the disabled, national minorities and foreigners, we contribute to general social development and encourage a culture of business.

Human resources, health and safety at work, human rights, education and training (continued)

The company ensures that all people working for or on behalf of the Company have adequate competencies in terms of education, training, skills and experience. Qualification requirements for employees (professional qualifications) for performing certain tasks and assignments, i.e. minimum qualifications for individual work posts are stipulated in the Job Classification Rule Book. Needs for additional education/training related to work and governance are determined on the level of the business year.

Human Resources collect and compile the training needs of individual departments and suggest an annual plan and education programme. This plan entails different internal trainings for employees, language courses, various trainings for employees in the areas of wood processing, managing forklifts, loaders, etc., specialist trainings, participation in seminars, fairs, workshops, courses.

Records are made on education, schooling, skills and experience through notes on education and an education report is produced at least once a year. In the spirit of corporate social responsibility, all pupils of the School for Wood Technology who become trainees of SPAČVA d.d. and stand out due to their effort and engagement, become the company's employees after graduation.

We have had the practice of concluding contracts for an indeterminate period with all employees for a longer period of time. On the one hand, this resulted in a formal equality of all employees in terms of their working status and, on the other hand, this practices contributes to the development of a feeling of security and stability and enables workers to focus on their work tasks and obligations exclusively. We notify our employees on all relevant company events and information via our noticeboard and our Facebook page E-Novosti SPAČVA d.d.

Furthermore, in order to improve communication, the company made and set in each plant a "small idea box" for employees' praises, suggestions, and remarks.

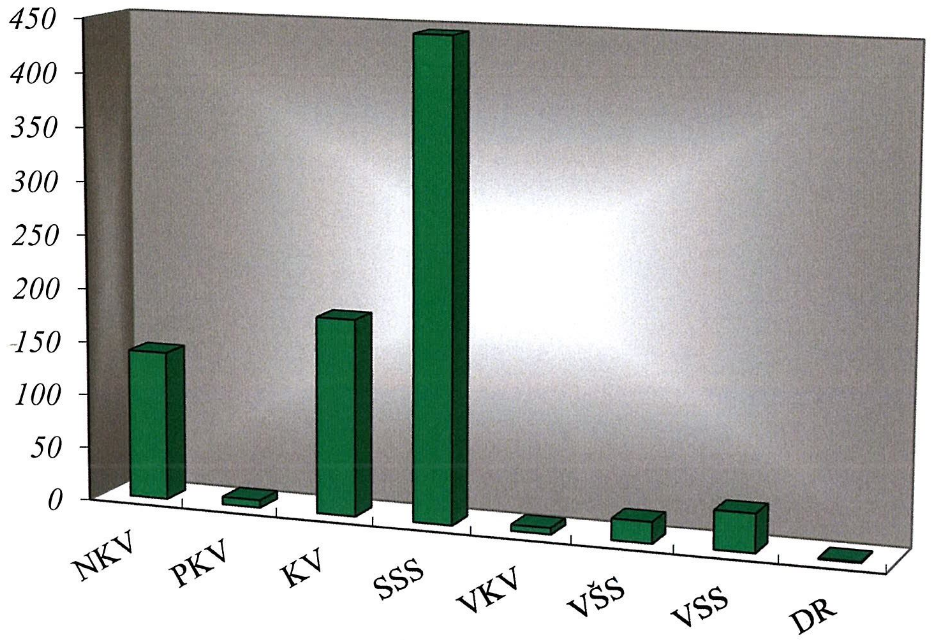
Human resources, health and safety at work, human rights, education and training (continued)

In addition, in order to improve employees' behaviour and work results and enhance internal communications, the company introduced a performance management process, which will eventually bring about benefits both for the employer and employees. In this process, employees gain a better insight into the importance of their work post in the company, find out about their particular work goals and to what extent those have been achieved, and obtain timely information on measures to be taken to further improve the outputs, thus ensuring better two-way communication of employees and their immediate managers. In line with all of the reasons provided above, we do not see corporate social responsibility as a cost, but as an investment into our future.

In 2019, the Company had 837 employees.
The employee structure according to formal qualification levels as at 31 December 2019 is provided in the table and visual overview provided below:

Formal qualifications	Number of employees
Unskilled worker	139
Semi-skilled worker	7
Skilled worker	183
High-school diploma	445
High-skilled worker	6
Vocational degree	20
University degree	36
Phd.	1
Total	**837**

Human resources, health and safety at work, human rights, education and training (continued)

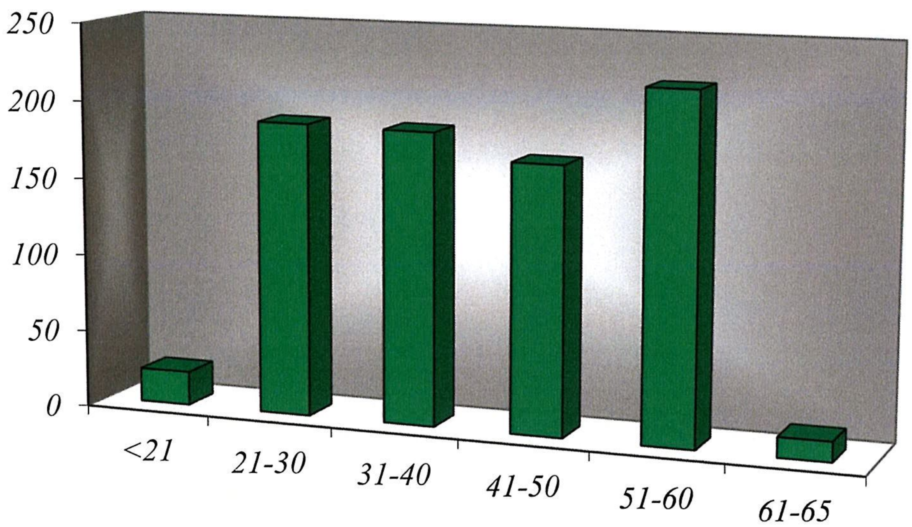


Of the total number of employees, 4.42% have a vocational degree and 2.39% have a university degree, making a total of 6.81% of staff with tertiary-level education.

Human Resources (continued)

The age structure of employees of Spačva d.d. as at 31 December 2019 is provided in the table and visual overview provided below:

Age	Number of employees
<21	14
21-30	180
31-40	196
41-50	177
51-60	234
61-65	36
Total	**837**



Average monthly salary paid

Average monthly salary paid	2017	2018	Year 2019	Index 19/18
Gross	4,923	5,257	5,719	109
Net	3,856	4,096	4,423	108

Social responsibility

In line with the fact that competitiveness and social responsibility are positively correlated, we are trying to contribute to sustainable growth and develop activities in the segment of social responsibility, which represents one of the company's strategic goals. We should like to stress the fact that business success is not measured merely through financial results, but also through environmental protection, and safety of employees and production processes. Spačva d.d. is actively included in a series of socially useful projects and provides financial aid for numerous associations and societies active in the area of culture, art, sports, humanitarian aid and environmental protection.

Suppliers relation

Suppliers and their agents must adhere to the highest ethical standards including the following:

-Business integrity and fair business

Suppliers must adhere to customs, rules, practices and codes of conduct that apply to all markets and areas of activity. Suppliers must not tolerate any form of bribery, corruption, extortion and embezzlement and must prohibit them in an effort to conduct all business transparently and to keep proper business books and records of suppliers. Suppliers may not resort to misrepresentation or provide inaccurate information about the company's transactions or transactions. Suppliers must accept only those jobs for which they have the appropriate skills and experience and be informed of practices in the profession to ensure ethical conduct and the provision of quality products and services.

-No bribe

Suppliers must comply with all applicable local and international laws. Suppliers must not promise, offer, allow, give or receive anything of value for the purpose of obtaining or retaining business, direct business with any person, or otherwise gain undue advantage. Suppliers may not use third parties to participate in the above activities in which suppliers may not participate directly.

-Publishing information

Information concerning the practices applied by the supplier in the field of work, health and safety, environmental protection, as well as information on business activities, structure, financial situation and efficiency will be published in accordance with applicable laws and regulations and common market practices. Suppliers must not misrepresent activities in their posts.

Environmental protection

Spačva d.d. is an environmentally friendly company which realises its operations with a wholesome and complete application of ecological standards, as well as sustainable growth measures visible in both core activities of the Company and its periodical activities with the aim of contributing to environmental protection.

Particular attention is paid to raising employees' environmental awareness.

The Company's environmental aims are long-term and their realisation requires continuous activity, with competent staff and significant investment.

We build our relationship towards our surroundings on the principle of awareness of the environmental impact of our activities, improvements in our everyday working practice, cost-effectiveness of resource use, cooperation with other entities with the aim of protecting the environment, and transparency of new activities and communication with our surroundings.

By increasing production as a direct consequence of the consolidation and stabilization of the company, SPAČVA d.d. faced the appearance of complaints from people from the neighboring settlement to dust from the factory circle. Like everything else, this problem is taken very seriously. It was approached in detail and measures and technical solutions were taken to mitigate the consequences. This research identified the main foci of dust and implemented the following solutions to alleviate the same problem.

Equipment for a new system for dedusting, collecting and transporting sawdust, planning and sanding has been put into operation.

In order to mitigate the raising of dust from the roads due to the driving of trucks that run on a daily basis in the factory circuit, the Administration has made a decision to purchase a road surface cleaner. The purchased machine is constantly in operation in the function of eliminating the collection of sawdust on the roads within the factory circle of the Company.

A canopy was built to store sawdust and wood chips. Additional tarpaulins closed the side attack sides, thus significantly preventing the wind from scattering sawdust.

Risk exposure

Spačva d.d. is exposed to financial risks related to currency risk, interest rate risk, credit risk and liquidity risk. Development programmes, investments and marketing investments require high liquidity of the Company and its ability to finance profitable projects, thus resulting in indebtedness with additional risks. The Company tries to manage risks well, by establishing a framework preventing significant impact on the Company's result due to disruptions in the environment. The biggest risk for the Company is currency risk concerning the fluctuations in the foreign exchange rate, considering the fact that more than 60% of total revenue is realised in EUR on the foreign market. Long-term loans are predominantly denominated in EUR. Currency risk is present on account of potential changes in the foreign exchange rate.

The Company is also exposed to interest rate risk as the loans have been contracted with variable interest rates. Liquidity risk management implies maintaining a sufficient level of cash and marketable securities and ensuring the availability of financial assets in the shape of credit lines. The Management Board of Spačva d.d. is responsible for managing this risk, as it sets a relevant framework for managing short-, medium-, and long-term financing and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and realized cash flow by monitoring the maturity of claims and liabilities.

Business environment risk

The wood industry of the Republic of Croatia, traditionally export-oriented and dominant in rural areas of the country, has a significant role in the overall national economy, which is reflected in the economic and wider social contribution.

The wood industry bases its development on the use of domestic natural resources and is traditionally export-oriented, and its following features are of particular importance: a very high share of domestic raw materials in products of all stages of processing; permanent export orientation; long-term upward trend in demand for products of all stages of wood processing in the world; the possibility of a high level of employment in small places where it is often the only source of income and where there is no infrastructure, other raw materials, professional staff, etc., to organize some other production (model combination of individual agriculture and wood processing); relatively low value of investments in individual production facilities and per employee; relatively environmentally friendly activity.

Business environment risk (continued)

In accordance with the Strategic Guidelines for the Development of the Wood Processing Sector 2013-2020, there is no doubt that the results achieved so far in the industrial wood processing sector are largely due to its comparative advantages (large share of domestic raw materials, relatively low investment in individual facilities, etc.). But these so-called comparative advantages are not sufficient for further survival and development, which is why there is a need to boost its competitive and export capabilities.

Investments

The main investment criteria in 2019 were sustainability of operations and return on invested capital.

HRK '000

Investments	*2017*	*2018*	*Year 2019*
Patents, licences, concessions, trademarks	*10*	*299*	*6*
Buildings	*7,184*	*5,210*	*10,088*
Plants and equipment	*27,601*	*8,850*	*47,254*
Tools, plant fittings, furniture	*1,086*	*4,004*	*1,905*
Other	*179*	*1,270*	*1,842*
TOTAL	***36,060***	***19,633***	***61,095***

The most significant item of the investment plan is the kiln drying project in the total amount of HRK 29,810,572, of which HRK 20,555,461 refers to the purchase of a new line of machinery, HRK 6,746,788 to the construction of a new production hall, HRK 2,508,323 to the new kiln drying line.

This investment changes the technological order of processing logs and results in purpose-specific elements of the requested dimensions and class, and the period from the order to the delivery of final products shortens to 2-3 weeks.

Furthermore, our significant investments include 3 new dryers of total value of HRK 16,340,730. We also purchased a dryer with an integrated iron for manufacturing quality products able to satisfy customer needs.

Investments (continued)

In 2019, we renewed our vehicle fleet by purchasing 3 industrial forklifts worth HRK 729,972 and a new forklift truck with a trailer worth HRK 1,190,676.

Our significant investments also feature a hardwood floor sander worth HRK 476,400 and a brushing machine worth HRK 245,703. Having purchased a hardwood floors sander and brushing machine, we significantly increased the quality of our surface treatment and our competitiveness on the demanding European market.

We implemented the 2nd stage of our sewage network project, thus further increasing the quality of our work and working environment.

We renovated some of our production halls and objects by replacing roofs and rainwater drainage systems, installing new lighting and heating systems, and replacing windows. We arranged traffic areas, constructed a new access road to the log depot and a new unloading plateau for biofuel logs.

Subsequent events

The rapid development of the coronavirus SARS-CoV-2 pandemic, which caused COVID-19 disease, the development of Covid-19 virus and its social and economic impact in the Republic of Croatia and globally may result in assumptions and estimates that require audits, may lead to significant adjustments to the carrying values of the items assets and liabilities in the next financial year. At this time, the Company's Management is unable to reliably estimate the impact on the Company's financial statements in view of the day-to-day development of these events.

The emergence and spread of corona virus in the Republic of Croatia and the measures taken to stop the spread and suppression of the virus will surely have negative effects on the entire Croatian economy. To mitigate these effects, the Government of the Republic of Croatia has introduced a series of measures to support the economy.

However, given the recent developments, the uncertainty over how long prevention measures will be in place, and the fact that measures are being developed to support the economy, it is not currently possible to reliably assess their effects.

Subsequent events (continued)

The consequences of a decrease in sales revenue caused by the collapse of COVID-19 are significant to the Company's liquidity. However, government measures have reduced the significantly greater negative impact of declining sales revenue. Measures, that is, state aid, for the payment of salaries to employees in the amount of HRK 4,000 and deferrals and write-offs of contributions, taxes, etc., reduced the outflow and partially offset the income shortfall. The largest supplier ''Hrvatske šume d.o.o.'' has extended the currency by an additional 40 days. The company has agreed with the bank for a 6-month moratorium on existing loans. Also, in agreement with the commercial bank and HBOR, an application for a loan for working capital was submitted.
With the aforementioned measures of the state and the plan of the company for securing additional cash, the Company's Management believes that it will successfully maintain the liquidity and overall operations of the company to the satisfaction of shareholders, creditors, employees and all other key factors of the company.

There were no other significant events after the balance sheet date or until the date of approval of these financial statements, which would require adjustments to the financial statements or additional disclosure.

Analysis of operating income and expenses

Income analysis

In 2019, the Sales Department did not exceed the annual sales plan mainly due to the fact that the profit centre Veneer was working with a raw material of significantly lower quality (logs), resulting in a decrease in average prices of sliced veneer at the production outlet, while the profit centre Biofuels suffered a stagnation in the sale of briquettes and pellets due to a warm winter, and finished goods remained in stock. At the end of 2019, all profit centres recorded a growth in relation to the previous year, but did not exceed the planned goals. The profit centre Sawmill recorded a 100.8% execution of annual sales plan, profit centre Final products recorded a 104% execution of annual sales plan, while profit centres Veneer and Biofuels realised 92.2% and 93.8% of annual sales planes respectively.

Despite the aforementioned, an active approach to sales continued by opening new markets, monitoring market movement and focusing on further improving customer relations.

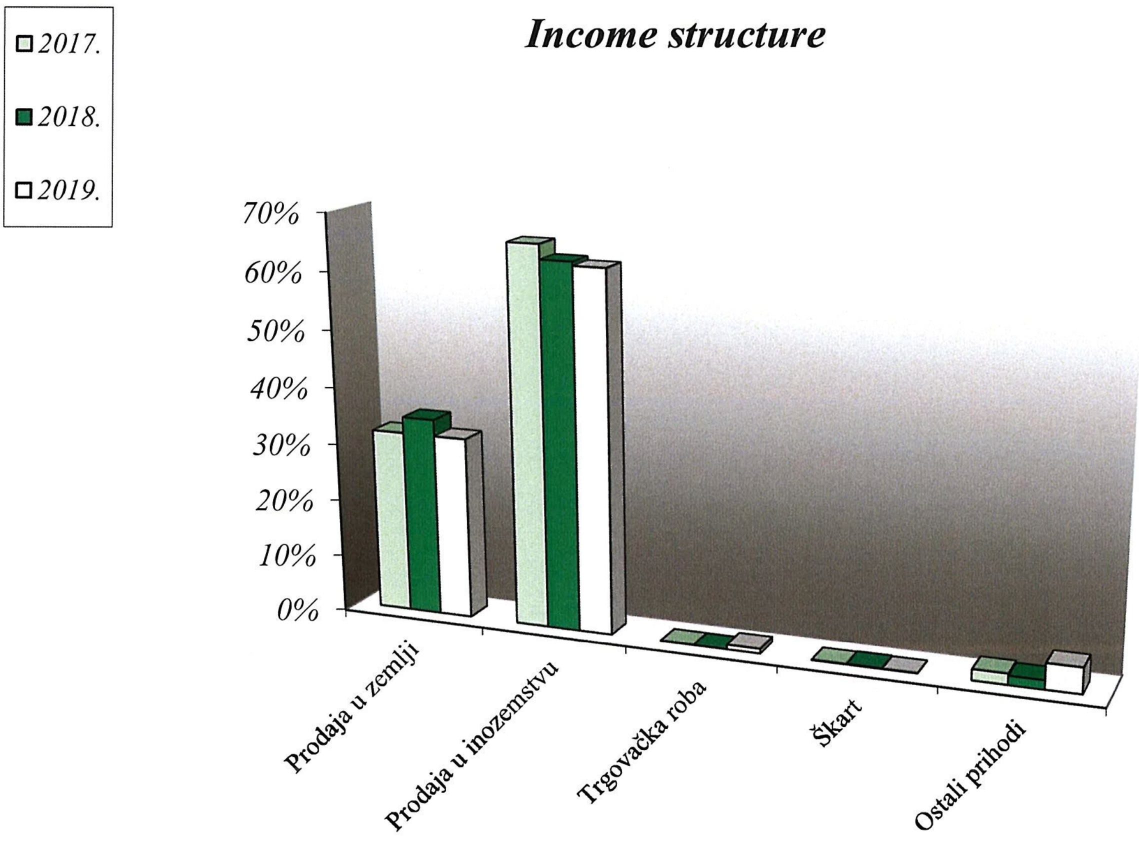
The largest increase in realisation in relation to 2018 and the plan for 2019 was recorded in the sales of final products. In the profit centre Final products, we managed to realise our aim of increasing the sale in floors with surface treatment in relation to floors without any treatment, thus increasing the realisation and profitability of the relevant profit centre. The profit centre Final products also recorded price increases for all groups of products.

Analysis of operating income and expenses (continued)

Income analysis (continued)

HRK '000

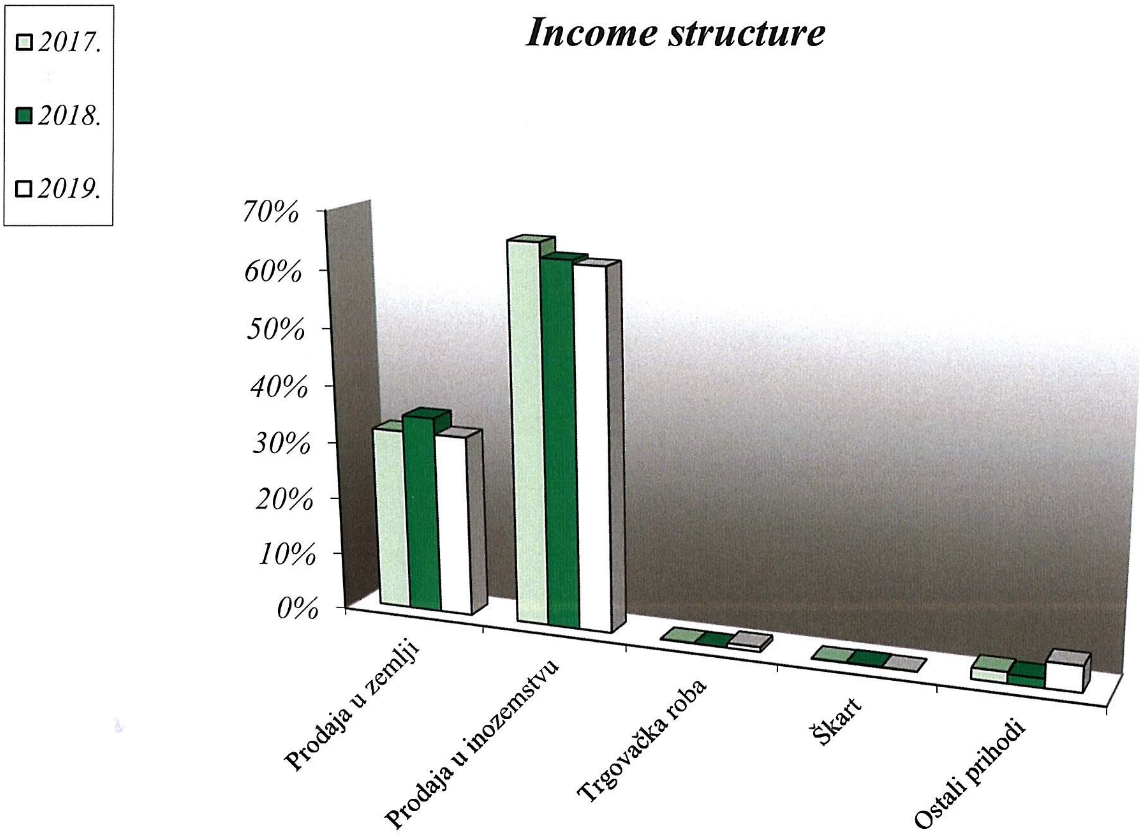
Income	*2017*	*2018*	*2019*	*Index 19/18*
Domestic sales	*64,894*	*81,045*	*81,443*	*100*
Foreign sales	*134,432*	*148,314*	*160,676*	*108*
Trade goods	*89*	*86*	*2,109*	*2,452*
Scraps	*120*	*347*	*95*	*27*
Other income	*3,943*	*3,781*	*11,535*	*305*
TOTAL	***203,478***	***233,573***	***255,858***	***110***



Analysis of operating income and expenses (continued)

Income structure

Income structure	*2017*	*2018*	*2019*
Domestic sales	*32%*	*35%*	*32%*
Foreign sales	*66%*	*63%*	*63%*
Trade goods	*0%*	*0%*	*1%*
Scraps	*0%*	*0%*	*0%*
Other income	*2%*	*2%*	*4%*
TOTAL	***100%***	***100%***	***100%***

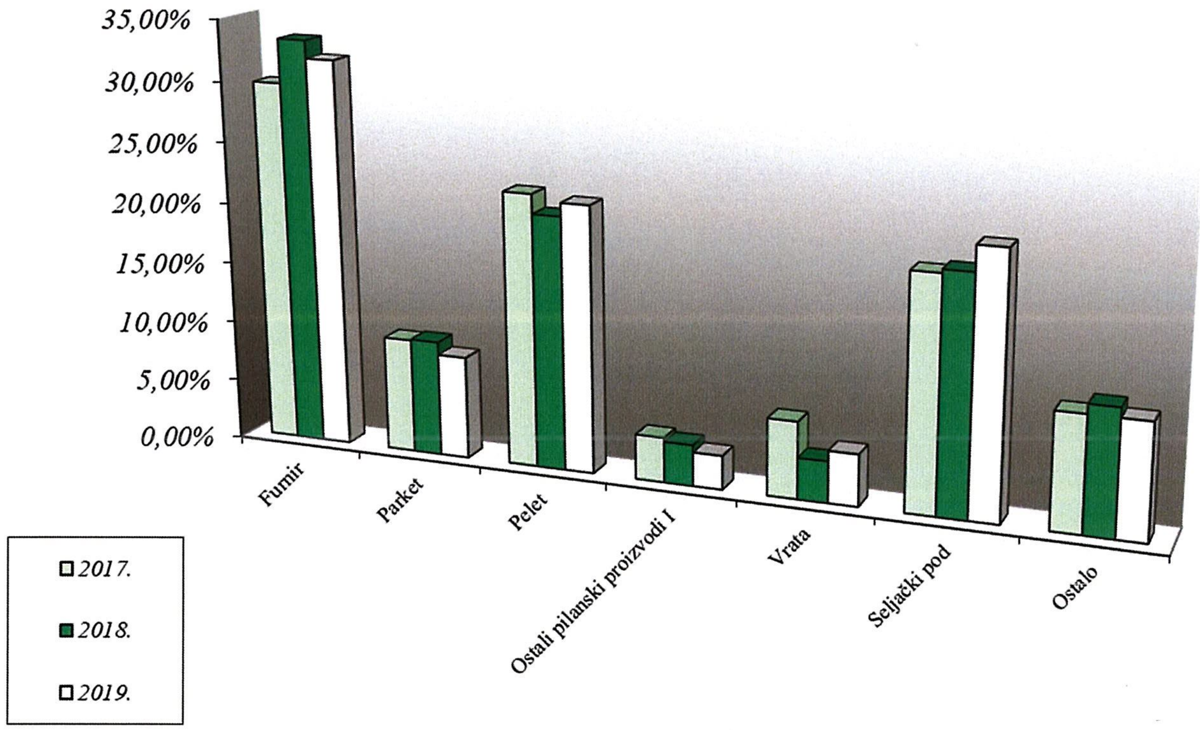


Analysis of operating income and expenses (continued)

Sales per product type

Sales per product type	*2017*	*2018*	*2019*	*Index 19/18*
Veneer	*29.80%*	*33.40%*	*31.9%*	*96*
Parquet floor	*9.40%*	*9.50%*	*8.4%*	*89*
Pellets	*22.40%*	*20.80%*	*21.9%*	*105*
Other sawmill products I	*3.70%*	*3.40%*	*2.8%*	*82*
Doors	*6.30%*	*3.40%*	*4.3%*	*125*
Hardwood floor	*19.00%*	*19.30%*	*21.3%*	*111*
Other	*9.40%*	*10.20%*	*9.4%*	*92*
TOTAL	***100.0%***	***100.0%***	***100.0%***	

Sales per product type

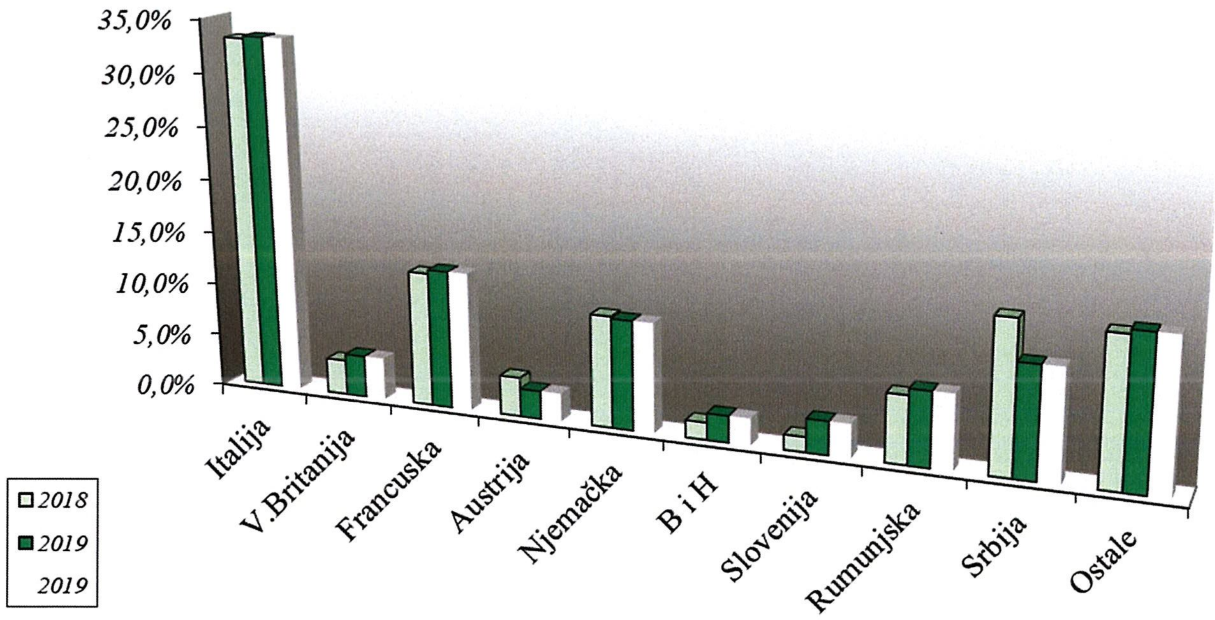


Analysis of operating income and expenses (continued)

Sales per country

Country	2017	2018	2019	Index 19/18
Italy	31.3%	33.2%	33.4%	101
United Kingdom	1.4%	3.3%	3.9%	120
France	13.7%	12.6%	13.0%	103
Austria	4.6%	3.7%	2.7%	72
Germany	9.0%	10.4%	10.2%	98
Bosnia and Herzegovina	3.3%	1.6%	2.5%	156
Slovenia	2.6%	1.4%	3.1%	222
Romania	7.4%	6.3%	6.9%	0
Serbia	16.6%	14.0%	10.3%	73
Other	10.1%	13.6%	14.0%	103
TOTAL	100.0%	100.0%	100.0%	

Sales per country

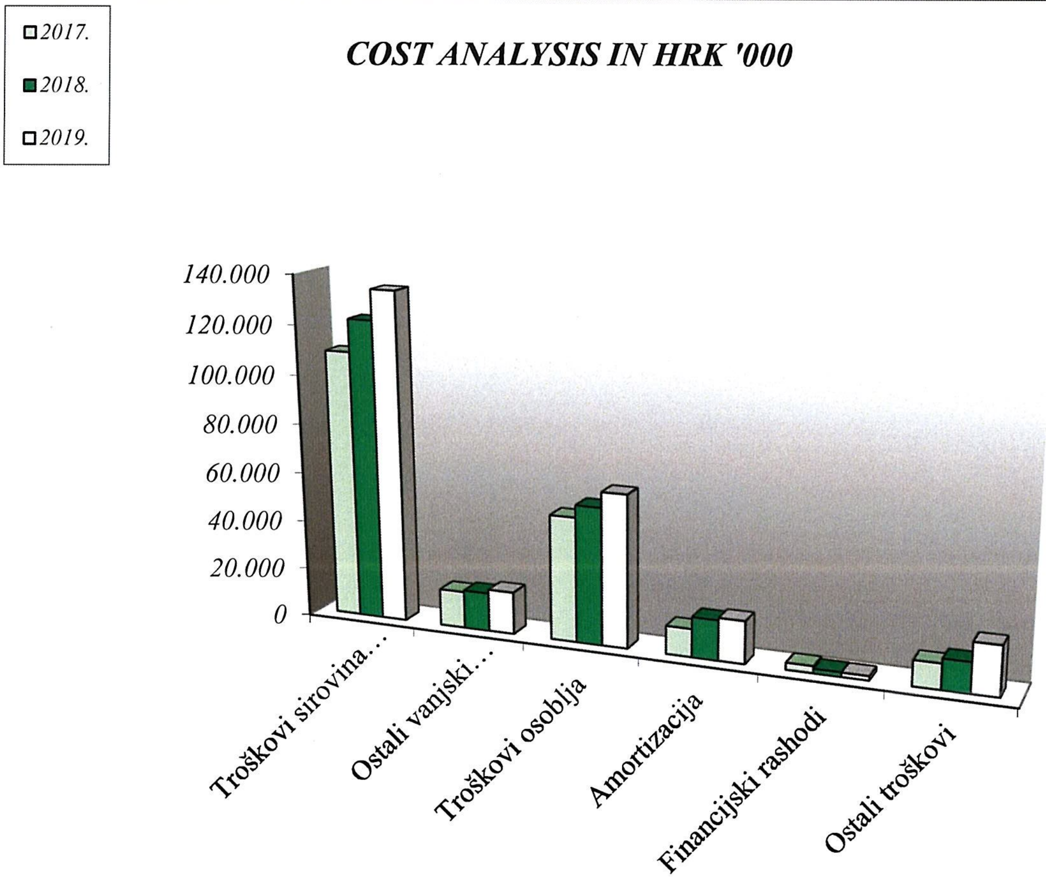


Analysis of operating income and expenses (continued)

Cost analysis

Expenses	*2017*	*2018*	*Year 2019*	*Index 19/18*
Raw materials and supplies	*109,023*	*122,296*	*134,540*	*110*
Other external costs	*15,004*	*15,750*	*17,249*	*110*
Staff costs	*50,844*	*55,869*	*62,093*	*111*
Depreciation	*11,447*	*16,386*	*17,327*	*106*
Financial expenses	*2,848*	*1,911*	*1,751*	*92*
Other costs	*10,367*	*12,387*	*20,717*	*163*
Total expenses	***199,533***	***224,599***	***253,677***	*113*
Changes in inventories (increase, decrease)	*5,316*	*6,573*	*84*	*1*
TOTAL	***194,217***	***218,026***	***253,761***	***116***

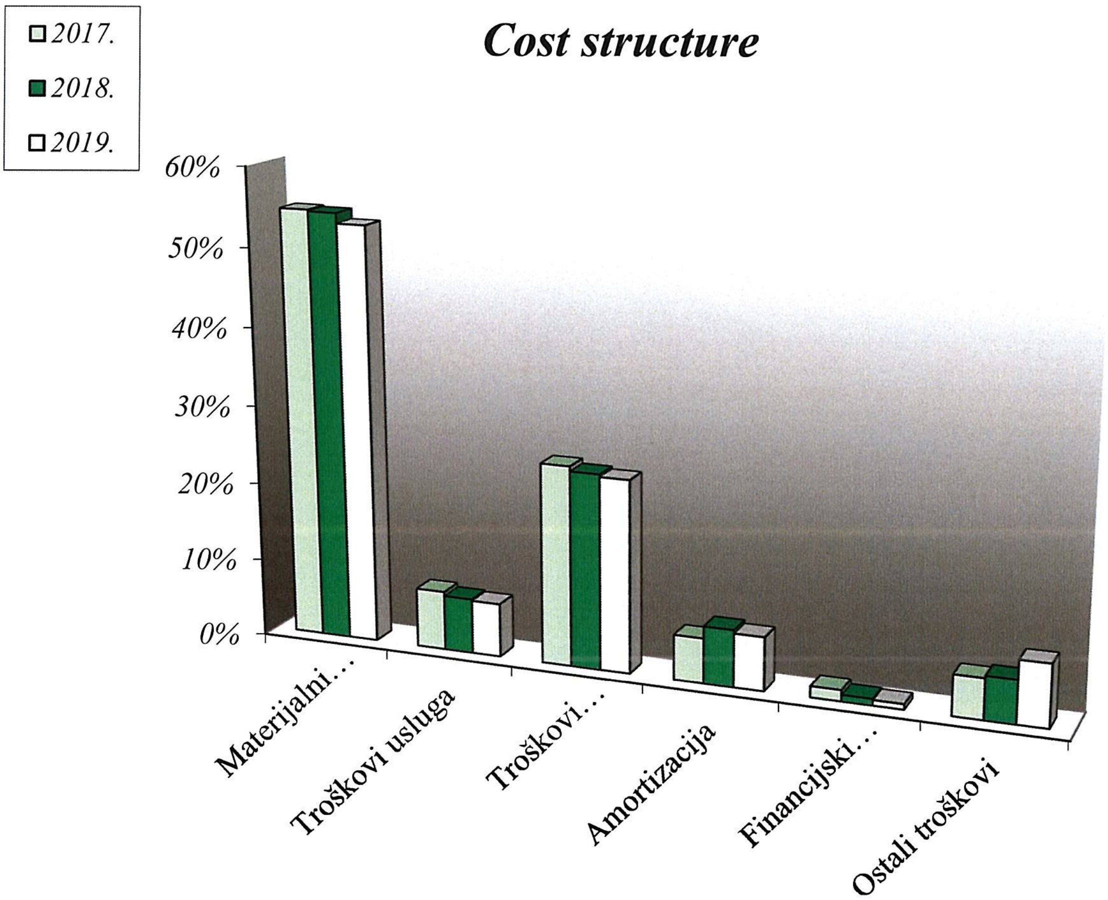
COST ANALYSIS IN HRK '000



Analysis of operating income and expenses (continued)

Cost structure

Cost structure	*2017*	*2018*	*2019*
Material costs	*55%*	*54%*	*53%*
Service costs	*8%*	*7%*	*7%*
Staff costs	*25%*	*25%*	*25%*
Depreciation	*6%*	*7%*	*7%*
Financial costs	*1%*	*1%*	*1%*
Other costs	*5%*	*6%*	*8%*
TOTAL	***100%***	***100%***	***100%***



Pursuant to Article 272.p, in relation to Article 250.a (4) of the Companies Act, the Management Board of the Company SPAČVA d.d. (hereinafter: "the Company") on 28 April 2020 issues the following

CORPORATE GOVERNANCE STATEMENT

1. The Company voluntarily applies the Corporate Governance Code issued by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange (hereinafter: "the Code").

2. In 2019, the Company complied with and adopted the recommendations specified in the Code, disclosing all information as stipulated in positive regulations, and information in the interest of the Company shareholders. Detailed explanations concerning minor departures from the individual recommendations provided in the Code are explained in the Annual questionnaire of the Corporate Governance Code. The Company submits the completed Annual questionnaire of the Code to the Zagreb Stock Exchange and the data for the preparation of the annual corporate governance statement for issuers listed on the Zagreb Stock Exchange to the Croatian Financial Services Supervisory Agency.

3. The Company's internal supervision consists of administrative controls organised within the Company's operating functions and including the review of goods received and delivered, documentation on goods received and services provided, controls of orders, invoices, suppliers' terms and conditions, and service controls. Internal accounting controls, i.e. procedures of competent employees ensure accuracy, validity, and comprehensiveness of financial records and statements, which form the basis for the preparation of annual financial statements.

4. The shareholders' voting rights are not limited by the Company By-laws. Furthermore, there are no time limits for exercising the voting rights. Each regular share carries one vote at the General Assembly. The Company did not acquire treasury shares in the prior year. As at 31 December 2019, the largest shareholders of the company are Raiffeisenbank Austria d.d. (75.85%), Hrvatska poštanska banka d.d. (18.96%), Addiko bank d.d. (3.92%) and other shareholders (1.27%)

CORPORATE
GOVERNANCE STATEMENT (continued)

5. The Management Board of the Company manages the Company affairs in line with the By-laws and Rules of Procedure and consists of three (3) members. The President of the Management Board is Josip Faletar, and members of the Management Board are Ante Radoš and Ivan Perković. Members of the Management Board manage the Company affairs at their own risk, and every Management Board member represents the Company solely and individually, without any limitations, and may undertake certain activities stipulated in Article 17 of the Company By-laws exclusively with the approval of the Supervisory Board of the Company. The Management Board is appointed and revoked by the Supervisory Board for a maximum of five years.

The Company's Supervisory Board has five (5) members. The Supervisory Board supervises the Company's operations, reviews and examines the business records, accounts and documentation of the Company, and reports to the General Assembly on the supervision performed. The Supervisory Board acts as a collegial body at meetings generally held on a monthly basis in order to discuss and decide on matters in its authority as stipulated in the Companies Act and the Company's By-laws. In line with the Company's By-laws, the Supervisory Board makes decisions by majority vote of all the members. Four members of the Supervisory Board are elected by the Company's General Assembly and one member is elected by the Company's employees, in the way stipulated in the Labour Act. The Supervisory Board has the following composition: Borislav Škegro (Chairman), Mario Popić (Vice-Chairman), Krešimir Čemerika (member), Jakov Krešić (member), Ilija Budimir (member). The Supervisory Board also acts through the Audit Committee appointed in April 2019 in the following composition: Mario Popić (Chairman), Borislav Škegro (member) and Ilija Budimir (member). The Audit Committee reports to the Supervisory Board on the outcome of the statutory audit, monitors the financial reporting process, tracks the effectiveness of the functioning of the internal quality control system and the risk management system, and performs other activities as stipulated by law.

6. In line with the provisions of Article 250.a (4) and Article 272.p of the Companies Act, this Statement represents a separate section and an integral of the Annual Report of the Company for 2019.

Josip Faletar	Ante Radoš	Ivan Perković
President of the Management Board	Board Member	Board Member

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Owners of Spačva d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Spačva d.d. (the Company), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has beentaken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<u>*Revenue recognition*</u>

For accounting policies, see Core Accounting Policies, Note 2.14. For additional information regarding the identified key audit matters, see Note 5 to the financial statements.

Ključno revizijsko pitanje	**Kako smo pristupili ključnom revizijskom pitanju tijekom naše revizije**
Revenue is important for assessing the Company's performance. The Company recognised revenue of HRK 245,041 thousand (2018: HRK 229,990 thousand). Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer. Revenue is reported in the amount net of value added tax, rebates and discounts Revenue is recognised when the Company has delivered the goods to the customer and when there is no outstanding liability that could affect the acceptance of the products by the customer. Products are sold at the agreed volume discounts, with the right of the customers to return faulty goods. Sales revenue is recognised based on the price from the underlying sales contract, less any estimated volume discounts and returns. Revenue is recognized in accordance with IFRS 15 "Revenue from Contracts with Customers", according to performance obligations at point in time and performance obligations over time. We consider this area to be a key auditing matter because of the potential material effects on the financial statements if revenues are reported in the amount of irregular or inaccurate amounts earned.	To address the risks associated with revenue recognition identified as a key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence to reach our conclusion on the matter. We conducted the following audit procedures with respect to the area of revenue recognition: • Testing the structure and effectiveness of the main internal controls over the revenue recognition process; • Based on the results of testing the structure and effectiveness of the main internal controls over the revenue recognition process, the determination of the scope and type of tests was performed to verify the accuracy and regularity of accounting and recognition of revenue; • Testing revenue using tests of details, auditing the contractual transactions that were the basis for issuing invoices as supporting documentation for revenue recognition.

Other Matter

The financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who, on April 30, 2019, issued an unmodified opinion on those financial statements.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.
3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22, paragraph 1, point 2, 5, 6 and 7

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This version of the auditor`s report is translation from the original, which was prepared in the Croatian language. All possible care has beentaken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

We were appointed as the statutory auditor of the Company 4th July 2019 by the General Assembly to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 year and covers period from 1st January 2019 untill 31st December 2019.
We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 29 April 2020 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

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

Marina Tonžetić
Director

For signatures, please refer to the original Croatian auditor`s report, which prevails.

Domagoj Vuković
Certified auditor

Deloitte d.o.o.
29 April 2020
Radnička cesta 80,
10 000 Zagreb,
Croatia

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	2019	2018
Sales revenue	4,5	245,041	229,990
Other operating income	4,6	10,413	2,857
Changes in inventories of work in progress and finished goods		84	6,573
Cost of materials and services	7	(150,875)	(137,292)
Staff expenses	8	(73,305)	(64,132)
Depreciation	14	(17,328)	(16,386)
Impairment losses	9	(6,184)	(630)
Other net operating gains and losses	10	(4,404)	(4,236)
Profit from operations		**3,442**	**16,744**
Financial income	11	404	725
Financial expenses	11	(1,749)	(1,923)
Net financial result		**(1,345)**	**(1,198)**
Profit before taxation		**2,097**	**15,546**
Income tax	12	479	1,935
Profit for the year		**2,576**	**17,481**
Basic and diluted earnings per share (in HRK)	13	**0.60**	**3.75**
Other comprehensive income		-	-
Items that will not be reclassified subsequently to profit or loss			
Gains on property revaluation	14	**7,399**	-
Total comprehensive income for the year		**9,975**	**17,481**

Accounting policies and other notes form part of these financial statement.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	14	220	289
Property, plant and equipment	14	244,047	212,279
Financial assets		48	48
Total non-current assets		**244,315**	**212,279**
Current assets			
Inventories	16	66,195	66,998
Assets held for sale	17	10,561	12,799
Receivables	19	23,876	20,403
Cash	18	880	1,505
Total current assets		**101,512**	**101,705**
Total assets		**345,827**	**313,984**

Accounting policies and other notes form part of these financial statement.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	31 December 2019	31 December 2018
LIABILITIES			
Equity and reserves			
Subscribed capital	20	105,530	105,530
Treasury shares		(208)	(208)
Revaluation reserves	20	50,491	45,271
Legal reserves		2,776	1,902
Retained earnings		74,872	56,086
Result for the period		2,576	17,481
Total equity and reserves		**236,037**	**226,062**
Non-current liabilities			
Borrowings	21	41,694	22,961
Trade and other payables	23	1,202	1,245
Deferred tax liabilities	24	11,083	9,938
Provisions	22	2,031	1,837
Total non-current liabilities		**56,010**	**35,981**
Current liabilities			
Borrowings	21	10,003	5,808
Payables to suppliers	23	26,966	30,058
Other liabilities	23	16,811	16,075
Total current liabilities		**53,779**	**51,941**
Total liabilities		**109,790**	**87,923**
Total liabilities		**345,827**	**313,984**

Accounting policies and other notes form part of these financial statement.

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	2019	2018
Profit before taxation		**2,097**	**15,546**
Depreciation and impairment of non-current tangible assets	14	17,328	16,386
Foreign exchange differences (net)	11	159	166
Interest income	11	(29)	(14)
Interest expense	11	1,215	1,046
Retirement of non-current tangible assets	9	5.543	-
Provisions for bad and doubtful receivables	9	641	630
Income tax paid		-	(661)
Increase/(decrease) in trade and other receivables		(2.832)	2,478
Increase/(decrease) in inventories	16,17	(3,041)	(11,502)
Increase/(decrease) in trade and other payables		2.400	(3,063)
Cash (used in)/generated from operating activities		**24,763**	**19,979**
Purchase of tangible and intangible assets	14	(47,604)	(28,368)
Gains from sale of non-current assets		207	(283)
Cash flow used in investing activities		**(47,397)**	**(28,651)**
Gains from borrowings		26,251	-
Repayment of borrowings		(3,662)	(7,295)
Interest paid		(580)	(1,033)
Cash flow generated/(used) in financing activities		**22,009**	**(7,295)**
Net (decrease) in cash and cash equivalents		(625)	(15,967)
Cash and cash equivalents at beginning of year		1,505	17,472
Cash and cash equivalents at end of year	18	**880**	**1,505**

Accounting policies and other notes form part of these financial statement.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts are expressed in thousands of HRK)	Note	Sub-scribed capital	Treasury shares	Revaluation reserves	Legal reserves	Retained earnings	Total
Balance at 1 January 2018		105,530	(208)	46,852	1,525	54,882	208,581
Transfer of profit to legal reserves		-	-	-	377	(377)	-
Reversal of provisions for assets sold and differences in depreciation, net of tax		-	-	(1,581)	-	1,581	-
Effect of revaluation of non-current tangible assets		-	-	-	-	-	-
Transactions with owners		-	-	***(1,581)***	***377***	***1,204***	-
Profit for the year		-	-	-	-	17,481	17,481
Total comprehensive income		-	-	-	-	***17,481***	***17,481***
Balance at 31 December 2018		**105,530**	**(208)**	**45,271**	**1,902**	**73,567**	**226,062**
Balance at 1 January 2019		105,530	(208)	45,271	1,902	73,567	226,062
Transfer of profit to legal reserves		-	-	-	874	(874)	-
Elimination of reserves for sold assets and difference in depreciation, less taxes		-	-	(2,179)	-	2,179	-
Total transactions with owners		-	-	(2,179)	874	1,305	-
The effect of revaluation of tangible fixed assets, net of tax		-	-	7,399	-	-	7,399
Profit for the year		-	-	-	-	2,576	2,576
Other comprehensive income		-	-	7,399	-	2,576	9,975
Balance at 31 December 2019		**105,530**	**(208)**	**50,491**	**2,776**	**77,448**	**236,037**

Accounting policies and other notes form part of these financial statement.

NOTE 1 – GENERAL INFORMATION

Drvna industrija Spačva („the Company“) was established in 1956 under the name DI Slavonski Hrast. Since then until 2003, the Company undewent several status changes.

On 3 May 2004, the Resolution of the Commercial Court of Osijek introduced status changes completing the establishment of the joint-stock company.

The Company's main activities are the following: wood processing, manufacture of products of wood, production of briquettes, retail sale of sawn wood, wooden elements and wood waste, and wholesale of wooden products.

The Supervisory Board consists of the following members:

- Borislav Škegro - Chairman of the Supervisory Board
- Mario Popić - Vice-Chairman of the Supervisory Board
- Krešimir Čemerika - Member of the Supervisory Board
- Jakov Krešić - Member of the Supervisory Board
- Ilija Budimir - Member of the Supervisory Board

The Management Board consists of the following members:

- Josip Faletar - President of the Management Board
- Ante Radoš - Member of the Management Board
- Ivan Perković - Member of the Management Board

The Audit Committee consists of the following members:

- Mario Popić - President of the Audit Committee
- Borislav Škegro- Member of the Audit Committee
- Ilija Budimir - Member of the Audit Committee

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the significant accounting policies adopted in the preparation of these financial statements. The accounting policies have been consistently applied to all the years presented in these financial statements, except where stated otherwise.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The financial statements have been prepared on the historical cost basis, adjusted after the revaluation of land and related properties, and securities at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain key accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies. Areas in which assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Adoption of new amendments of the international financial reporting standards (IFRS)

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

The following are new standards, amendments to existing standards, and new interpretations published by the International Accounting Standards Board ("IASB") and have been adopted in the European Union for the current reporting period:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation (continued)

Adoption of new amendments of the international financial reporting standards (IFRS) (continued)

The adoption of these new standards and amendments to the existing standards have no material impact on the financial statements of the Company.

Impact of initial application of IFRS 16 Leases

(a) Impact of the new definition of a lease
The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.
The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.
The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact on Lessee Accounting
(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.
- Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.
- Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.
- For all short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Company has opted to.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Impact of initial application of IFRS 16 Leases (continued)

The Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(i) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption. The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

Leases

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. Initial application of IFRS 16 has no impact on financial statements of the Company for the year ended 31 December 2019.

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

At the date of authorisation of these financial statements, the following new standard, amendments to the existing standard and interpretation issued by IASB and adopted by the EU are not yet effective.

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure" - Reform of Reference Interest Rates, adopted in the European Union on November 15, 2020 (effective for annual periods beginning on or after 1 January 2020),

- Amendments to the Conceptual Framework in IFRSs, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU (The effective dates set out below apply to IFRSs issued by the IASB).

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

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021)

- Amendments to IFRS 3 "Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

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

Adoption of these amendments to existing standards and interpretations did not result in material changes in the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and reporting currency

Items included in the Company's financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements are presented in Croatian kuna (HRK), both the Company's functional and reporting currency.

(b) Foreign currency transactions

Foreign-currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses relating to loan payables are reported in the statement of profit or loss as finance income or expenses. Other foreign exchange gains and losses are reported in the item "Other operating expenses" of the statement of comprehensive income.

2.3 Intangible assets

Intangible assets are stated at cost and after the initial recognition at cost less accumulated amortisation and impairment. Their useful life amounts to 5 years.

2.4 Property, plant and equipment

Land and buildings are stated at revalued amounts. Other non-current tangible assets are initially recognised at purchase cost and after the initial recognition at revalued amounts less accumulated depreciation and impairment.

All other investment and maintenance costs are charged to the statement of comprehensive income in the financial period they incurred in.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. The increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. The decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Land and buildings are stated at fair value, based on the assessment performed by an independent assessor. The assessment is performed regularly to ensure that the fair value of assets does not differ from its carrying value. As at the date of revaluation, accumulated depreciation is charged to the gross carrying amount of the asset and the net amount of the asset is adjusted by the revalued amount of the asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

Gains and losses arisen on disposal are determined by comparing the proceeds with carrying amount, and are recognised within "Other gains/(losses) – net". On disposal of revalued assets, amounts included in other reserves are transferred to retained earnings.

Land and tangible assets under construction are not depreciated. Depreciation of other property, plant and equipment is provided using the straight-line method so as to write down the cost to the residual value of the asset over its estimated useful life.

The estimated useful lives are as follows:

Buildings	15 - 55 years
Machinery and equipment	10 - 33 years
Tools, plant fittings and vehicles	2 - 10 years

2.5 Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, financial assets at fair value in other comprehensive income and financial assets at amortised cost.

The classification depends on contractual cash flows characteristics (SPPI test) and entity's business model for managing financial assets. Management determines the classification of financial assets at initial recognition and measures this decision only when business model for managing financial assets changes.

(a) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions have been met:

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows;
- contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost is subsequently measured using the effective interest method and is subject to impairment. Gains and losses are recognised in the profit or loss account.

Financial assets at amortised cost entail trade receivables and issued loans and deposits.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets (continued)

(b) Financial assets at fair value through profit or loss

This category entails financial assets held for trading and financial assets which fail Solely Payments of Principal and Interest (SPPI) test. Financial assets are classified into this category if they are acquired principally for the purpose of selling in the near term or if they are designated as such by management. Assets in this category have been classified as current assets, other than derivative financial instruments.

(c) Financial assets at FVTOCI

The Company measures financial assets at FVTOCI if both of the following conditions have been met:

- The financial asset is held within a business model whose objective is achieved by collecting and selling contractual cash flows; and

- Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange differences, allowances or reversal of allowances are recognised in profit or loss and are calculated in the same manner as for financial assets measured at amortised cost. The remaining changes in fair value are recognised in other comprehensive income. Upon derecognition, the cumulative changes in fair value recognised in other comprehensive income is recycled through profit or loss.

Financial assets at fair value in other comprehensive income are included in non-current assets, unless management plans to sell the investment within 12 months from the balance sheet date. Financial assets at fair value in other comprehensive income is recognised at fair value, except in case of investments in equity instruments which are not quoted on the active market and whose fair value may not be measured reliably; in that case, it is stated at investment cost.

All purchased and sold financial assets are recognised on the transaction date, i.e. the date on which the Company committed to buy or sell the asset. Investments are initially recognised at fair value increased by transaction costs for all of the financial assets which are not recognised at fair value in the profit or loss account. Financial assets are derecognised after rights to receive investment cash flows have expired or have been transferred and once the Company has transferred all relevant risks and rewards of ownership. For the purpose of recognising foreign exchange gains and losses under IAS 21, a financial asset measured at fair value through other comprehensive income is treated as a monetary item. Accordingly, such a financial asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss account.
Interest income and foreign exchange differences are recognised in profit or loss, and other changes in carrying value in other comprehensive income. Changes in fair value are recognised in other comprehensive income.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets (continued)

The fair value of quoted investments are based on current offer prices. If the market for a financial asset remains inactive, the Company determines the fair value by using value assessment techniques which consider recent transactions under regular trade conditions and comparison with other similar instruments; analysis of discounted cash flows; and option pricing models, maximising the use of market information and minimising the reliance on information specific for the business entity.

The Company recognises a loss allowance for expected credit losses (ECL) for all debt instruments which are not recognised at fair value in profit or loss. Expected credit losses are based on the difference between contractual cash flows maturing in line with the contract and all expected cash flows the Company expects to receive.

Expected credit losses are recognised in two stages. For credit exposures for which there has been no significant increase in credit risk since initial recognition, expected credit losses are recognised for the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date(12-month ECL). For credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance for expected credit losses needs to be recognised from all possible default events over the expected life of a financial instrument.

For trade receivables and contractual assets, the Company applies a simplified approach for calculating ECL and thus does not monitor changes in credit risk, but instead recognises a loss allowance based on the lifetime ECL at the end of each reporting period. Financial assets are written-off when there is no reasonably expected payment.

The amounts of allowance for receivables and subsequently collected receivables are recognised in the profit or loss account within other losses/gains for the period in which they incurred.

2.6 Inventories

Inventories of raw materials and supplies, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs.

The cost of work in progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) excluding borrowing costs. Small inventory and tools are expensed when put into use. Inventories of trade goods are stated at cost.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases

Policy effective from January 1, 2019

When concluding a contract, the Company assesses whether the contract is or has the characteristics of a lease. That is, it assesses whether the contract transfers the right to control the use of the subject property over time in exchange for compensation.

i. Group as lessor - finance lease

The lessor's accounting for the finance lease remains largely unchanged from the requirements of IAS 17.

ii. Company as lessor - operating lease

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of property are classified as operating leases. Rental income is recognized on a straight-line basis over the term of the lease and, because of its operating nature, is included in income in the income statement. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

iii. Company as lessee - operating lease

For all leases other than short-term leases and low-value leases, the Company applies a unique recognition and measurement approach. The Company recognizes the lease payment obligations and the right to use the property, which represents the right to use the property in question.

Assets with right of use

The Company recognizes the right to use the property at the time of the conclusion of the lease (ie at the time when the property in question is available for use). Useful assets are measured at cost less accumulated depreciation and impairment losses and adjusted for remeasuring lease liabilities. Cost of eligible assets includes the amount of recognized lease obligations, initial direct costs, and lease payments made on or before the contract, minus lease incentives received. Assets with right of use are depreciated on a straight-line basis over the lease term.

Lease obligations

When entering into a lease agreement, the Company recognizes the lease liability, measured at the present value of future lease payments over the term of the lease. Lease payments include fixed payments (net of all incentive payments), variable payments that depend on the index or rate, and amounts expected to be paid under the residual value guarantee. Lease payments may also include the value of the purchase option, which is reasonably expected to be realized, and the payment of penalties for termination of the lease if the terms of the contract provide for the option of termination. Variable payments on a lease basis that are independent of index or rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases (continued)

Policy applicable before January 1, 2019

The lease is initially classified as a finance lease or an operating lease.

i. Company as lessor - finance lease

Leases in which the Company as a lessor transfers substantially all the risks and rewards of ownership are classified as finance leases. When assets are leased under a finance lease, the present value of the lease payment is recognized as a receivable (within loans and receivables from customers). The difference between the gross finance lease receivable and the present value of future lease payments is the unearned financial income. The initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and reduce the amount of revenue recognized over the life of the lease.

ii. Company as lessor - operating lease

Leases in which the Company does not transfer a significant portion of the risks and rewards of ownership of property are classified as operating leases. Rental income is recorded as realized on the contractual terms of the lease in Other operating income. The initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the term of the lease on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

iii. Company as lessee - operating lease

Leases that do not substantially transfer to the Company all the risks and rewards of ownership of the lease are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the term of the lease. Contingent rent is recognized as an expense in the period in which they are incurred.

2.8 Receivables

Receivables are recognised initially at transaction price and subsequently measured at amortised cost less impairment allowance.

They are reported in the current assets, except for assets which mature more than 12 months after the balance sheet date. Such assets are classified as non-current assets. Measurement and recognition of receivables is explained in Note 2, item 2.5.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, borrowings are measured at amortized cost using the effective interest rate method. Interest expense is recognised in profit or loss.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Current and deferred income tax

Income tax expense comprises current and deferred taxes. Cost is recognised in the statement of comprehensive income, unless it refers to items recognised directly in other comprehensive income or directly in equity. In that case, tax is also recognised in other comprehensive income or directly in equity.

Current tax is calculated in line with tax laws effective as at the date of preparation of statements.

Deferred tax is calculated using the liability method, whilst taking into account the temporary differences between the tax bases of assets and liabilities and their carrying amounts in financial reports. Deferred tax assets and liabilities are determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised up to the amount of the future taxable profit which is likely to be available for the use of temporary differences.

Deferred tax assets and deferred tax liabilities are to be offset if there exists a legal right to offset current tax assets and current tax liabilities, and if they refer to income taxes imposed by the same tax authority to the same tax entity or different tax entities if they intend to settle their current net balance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Value added tax (VAT)

The Tax Administration requires that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.12 Employee benefits

(a) Pension obligations and other post-employment benefits

In the normal course of business the Company makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Company has no other pension scheme and, therefore, has no other pension obligations towards its employees. In addition, the Company is not obliged to provide any other post-retirement benefits.

(b) Short-term employee benefits

The Company recognises a provision for bonuses when there is a contractual obligation or a past practice giving rise to a constructive obligation. Furthermore, the Company recognises an obligation for accumulated compensation based on unused annual leave days as at the balance sheet date.

(c) Long-term employee benefits

The Company recognises a provision jubilee awards and termination benefits when there is a contractual obligation or a past practice giving rise to a constructive obligation.

2.13 Trade payables

Trade payables are payables to suppliers for goods or services received during the regular course of operations. Trade payables are classified as current if they mature within 1 year, i.e. in the regular course of the Company's operations. Otherwise, the trade payables are classified as non-current. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Revenue recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer. Revenue is reported in the amount net of value added tax, rebates and discounts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Revenue recognition (continued)

Revenue is recognised in the same period in which the Company provides the contracted service and in which the related costs for the provision of the service incur.

The company recognises revenue from the following major sources: wholesale and retail.

(a) Wholesale revenue

Wholesale revenue is recognised when the Company has delivered the goods to the customer and when there is no outstanding liability that could affect the acceptance of the products by the customer. A delivery is completed when the products are dispatched to a specific location, control over the corresponding products is transferred to the customer, and the customer accepts the products in line with the agreed terms and conditions. Agreed payment terms are up to 30 days.

Products are sold at the agreed volume discounts, with the right of the customers to return faulty goods. Sales revenue is recognised based on the price from the underlying sales contract, less any estimated volume discounts and returns. The discounts and returns are assessed based on past experience. Volume discounts are assessed based on anticipated semi-annual sales.

(b) Retail sales

Retail sales is recognised upon the sale to the customer. Retail sales are predominantly generated in cash or via credit cards. The recognised sales entail credit card fees reported in the distribution costs. Agreed payment terms are up to 30 days.

2.15 Operating segment reporting

Operating segments are presented in line with internal reports delivered to the chief operating decision maker (CODM). The chief operating decision maker (CODM) is a person or a group who allocate resources to operating segments and assess the Company's segment operations. The Company appointed the Management Board of the Company as the chief operating decision maker (CODM).

Company Spačva d.d. operates in one operating segment and reports accordingly.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Property held for sale

Non-current assets held for sale is intended for the settlement of separate debt to financial institutions which did not waive their right to separate settlement in the pre-bankruptcy settlement procedure. The Company assessed the property market value based on the calculations of independent assessors.

Property, plant and equipment withdrawn from active use and held for sale are stated at the lower of carrying and fair value as at the day the assets were withdrawn from active use.

2.17 Share capital

Share capital consists of ordinary shares. Amounts recognised in equity as a result of issuing new shares or options are presented net of the related transaction costs and profit tax. Any fair value of the consideration received in excess of the nominal value of issued shares is recognised in the notes as capital gains. The consideration paid for purchased treasury shares, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in the equity.

NOTE 3 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assessment of useful life of tangible assets

By using an asset, the Company consumes economic benefits embodied in the asset, which progressively decrease due to economic and technological ageing.

The useful life will be reviewed periodically with a focus on determining the existence of circumstances for adjusting the assessment with regard to the previous one. Assessment changes, if any, will be reported in future periods through changes in depreciation cost during the remaining, changed useful life.

NOTE 4 – REVENUE BY PRODUCT AND COUNTRY

(in thousands of HRK)	Veneer	Final products	Bioenergetics	Other	Total
2019					
Total revenue	79,463	89,350	63,410	23,653	255,858

(in thousands of HRK)	Veneer	Final products	Bioenergetics	Other	Total
2018					
Total revenue	80,787	90,353	57,584	4,848	233,572

Sales per country - geographical analysis was as follows:

Country	**2018**	**2019**	**Index 19/18**
Italy	*33.2%*	*33.4%*	*101*
United Kingdom	*3.3%*	*3.9%*	*120*
France	*12.6%*	*13.0%*	*103*
Austria	*3.7%*	*2.7%*	*72*
Germany	*10.4%*	*10.2%*	*98*
Bosnia and Herzegovina	*1.6%*	*2.5%*	*156*
Slovenia	*1.4%*	*3.1%*	*222*
Romania	*6.3%*	*6.9%*	*0*
Serbia	*14.0%*	*10.3%*	*73*
Other	*13.6%*	*14.0%*	*103*
TOTAL	***100.0%***	***100.0%***	

Income	**2018**	**2019**	**Index 19/18**
Domestic sales	81,045	81,443	100
Foreign sales	148,314	160,676	108
Trade goods	86	2,109	2,452
Scraps	347	95	27
Other income	3,780	11,535	305
TOTAL	**233,572**	**255,858**	**110**

NOTE 5 – SALES REVENUE

(in thousands of HRK)	**2019**	**2018**
Export revenue – direct export	160,248	148,248
Sales revenue – domestic	81,516	80,768
Sale goods	2,106	2
Sale of raw materials	776	347
Sales of services	361	531
Other sales	33	94
Export revenue – export companies	-	-
	245,041	**229,990**

Revenue recognised in accordance with IFRS 15, it amounts 245,041 thousand and is recognised at point of time.

NOTE 6 - OTHER OPERATING INCOME

(in thousands of HRK)	**2019**	**2018**
Income from subvention	6,359	-
Other operating income	4,054	2,857
	10,413	**2,857**

Income from subvention is related to subventions which are received for development of project documentation for infrastructure projects in the research, development and innovation sector (RDI).
Other operating income refer to income from reversal of provisions, income from active employment measures (Croatian Employment Service) and income from collecting insurance for non-current assets.

NOTE 7 – COST OF MATERIALS AND SERVICES

(in thousands of HRK)	**2019**	**2018**
Raw materials and supplies	103,040	95,741
Energy	17,967	15,570
Packaging and other	11,160	10,668
Transportation services	9,699	8,851
Other costs of materials and services	5,318	4,578
Cost of goods sold	2,367	278
Maintenance costs	1,324	1,606
	150,875	**137,292**

NOTE 8 - STAFF EXPENSES

(in thousands of HRK)	**2019**	**2018**
Net salaries	42,111	37,751
Taxes and contributions from and on salaries /i/	19,982	18,118
Other employee compensations /ii/	10,582	8,263
Changes in provisions for jubilee awards and termination benefits	347	-
Remuneration of Supervisory Board*	283	-
	73,305	**64,132**

As at 31 December 2019, the Company had 832 employees (2018: 848).

/i/ In 2019, cost of salaries include defined pension contributions paid to mandatory pension funds in Croatia amounting to HRK 12,655 thousand (2018: HRK 11,232 thousand). Contributions are calculated as a percentage of gross salaries and employees' bonuses.

/ii/ Other employee benefits include paid Christmas bonuses, termination benefits, transport allowances et sim.

*For the year ended 31 December 2018 " Remuneration to Supervisory Board Members " is included within Other net operating gains and losses (Note 10).

NOTE 9 - IMPAIRMENT LOSSES

(in thousands of HRK)	2019	2018
Impairment of non-current tangible assets (Note 14)	5,543	-
Customers – ordinary course of business (Note 19)	641	630
	6,184	**630**

NOTE 10 - OTHER NET OPERATING GAINS AND LOSSES

(in thousands of HRK)	2019	2018
Insurance premium	1,732	1,688
Bank guarantees and services	908	714
Membership and fees	402	180
Business trips	301	306
Remuneration of Supervisory Board	-	288
Donations	166	140
Entertainment	118	154
Other	777	766
	4,404	**4,236**

The item Other entails costs of employee training, costs of general medical examination, subsequently determined operating costs and other intangible costs.

For the year ended 31 December 2019 " Remuneration to Supervisory Board Members " is included within Staff expenses (Note 8).

NOTE 11 - NET FINANCIAL EXPENSES

(in thousands of HRK)	2019	2018
Financial income		
Interest income	29	14
Foreign exchange gains	375	711
Total financial income	**404**	**725**
Financial expenses		
Interest cost	(1,215)	(1,046)
Foreign exchange losses	(534)	(877)
Total financial expense	**(1,749)**	**(1,923)**
Net financial result	**(1,345)**	**(1,198)**

NOTE 12 – INCOME TAX

	2019	2018
Current income tax	-	(1,588)
Deferred income tax (Note 24)	(479)	(347)
	(479)	**(1,935)**

Reconciliation of the Company's tax expense as per the statement of comprehensive income and the tax at the statutory tax rate is presented in the table below:

(in thousands of HRK)	2019	2018
Profit before taxation	**2,097**	**15,546**
Tax expense calculated at the rate of 18% (2018: 18%)	377	2,798
Effect of non-deductible expenses	536	129
Effect of non-taxable income	(5)	(5)
The effect of tax relief	(908)	(4,507)

As at 31 December 2019, in line with the incentives from the Investment Promotion Act, the Company has been completely exempt from payment of income tax.
As at December 31, 2019, the Company has HRK 13,955 thousand of unused grants to which it did not recognize deferred tax assets due to uncertainty about the amount of future taxable profit.

NOTE 13 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the Company's net profit by the weighted average number of ordinary shares, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares.

	2019	2018
Net profit *(in thousands of HRK)*	2,576	17,481
Weighted average number of shares	4,655,974	4,655,974
Basic and diluted earnings per share (in HRK)	**0.60**	**3.75**

Diluted earnings/loss per share

The diluted earnings/loss per share for 2019 and 2018 are equal to the basic profit/(loss) per share, since the Company had no convertible instruments and share options during both of those years.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(in thousands of HRK)	Land	Buildings	Machinery and equipment	Tools	Tangible assets under construction	Other	Total	Intangible assets
for the year ended 31 December 2018								
Opening carrying amount, net	28,766	74,602	85,420	3,272	3,319	152	195,531	53
Depreciation expense	-	(3,623)	(11,782)	(887)	-	-	(16,292)	(63)
Impairment due to damages	-	-	(199)	(17)	-	-	(216)	-
Additions	-	5,210	10,120	4,004	10,702	-	30,036	299
Revaluation	-	-	-	-	-	-	-	-
Transfer to use	-	-	-	-	(9,274)	-	(9,274)	-
31 December 2019	**28,766**	**76,189**	**83,559**	**6,372**	**4,747**	**152**	**199,785**	**289**
Balance at 31 December 2018								
Cost or revaluation	28,766	179,862	214,163	10,928	4,747	152	438,618	953
Accumulated depreciation	-	(103,673)	(130,605)	(4,555)	-	-	(238,833)	(664)
Net carrying amount	**28,766**	**76,189**	**83,558**	**6,373**	**4,747**	**152**	**199,785**	**289**
For the year ended 31 December 2019								
Opening carrying amount, net	28,766	76,189	83,558	6,373	4,747	152	199,785	289
Depreciation expense	-	(3,816)	(12,378)	(1,057)	-	-	(17,251)	(75)
Impairment due to damages	-	(868)	(3,949)	-	-	-	(5,543)	-
Additions		10,088	47,254	1,905	58,248		117,495	6
Revaluation	16,147*	(7,121)*	-	-	-	-	9,026	-
Transfer to use	-	-	-	-	(60,192)	-	(60.192)	-
31 December 2019	**44,913**	**74,472**	**114,485**	**7,221**	**2,803**	**152**	**244,046**	**220**
Balance at 31 December 2019								
Cost or revaluation	44,913	177,248	242,206	12,752	2,803	152	480,074	951
Accumulated depreciation	-	(102,776)	(127,721)	(5,531)	-	-	(236,028)	(731)
Net carrying amount	**44,913**	**74,472**	**114,485**	**7,221**	**2,803**	**152**	**244,047**	**220**

**unrealized gains are recognized in other comprehensive income*

Impairment in amount of HRK 5,543 thousand (2018: 216 thousand) is recognised for buildings and equipment under IAS 16 because of damages during the year.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

/I/ As at 31 December 2019, the net carrying amount of assets amounting to HRK 91,928 thousand (2018: HRK 121,882 thousand) refers to the assets pledged for ensuring the settlement of borrowings (Note 22).

/II/ As at 31 December 2019 the revaluation of tangible assets was carried based on appraisal done by certified appraiser on April 8, 2020.

/III/ If revaluated land would have been carried under the cost model, value as at 31 December 2019 would be HRK 28,766 thousand (2018: HRK 28,766 thousand) and if revaluated buildings would have been carried under the cost model, value as at 31 December 2019 would be HRK 81,593 thousand (2018: HRK 76,189 thousand).

/IV/ Fer value:

a) **Fair value hierarchy** - The Company uses level 3 fair value in accordance with International Financial Reporting Standard 13 - Fair Value. The Company recognizes transfers and transfers outside the level of the fair value hierarchy at the end of the reporting period. During 2018 and 2019, there were no such transfers for Level 3 land and buildings.

b) **Level 3 fair value measurement method** - The Company engages an independent appraiser to determine the fair value of land and buildings, at least every five years. Management determines value within a range of reasonable estimates of fair value.

c) **Assumptions of valuation and impact on fair value** - In the estimate for 2019, for the assessment of fair value, the comparative method and the income and cost method were considered. The methods used by type of asset are explained below:

- ***Land*** - is determined by their character and location in space in relation to the existing condition and provisions of applicable spatial plans. Given that there is an organized database with values and coefficients that the Real Estate Valuation Act (OG 78/15) and the Ordinance on Real Estate Valuation Methods (OG 105/15) prescribe, which are approximate land values, real estate market reviews, comparative indicators, adjustment coefficients and data on similar real estate, a comparative method was chosen for land valuation. For the year ended 31 December 2019, after the interim and interqualitative equalization of prices obtained in statement of purchase prices (comparative prices vary between -11.59% and + 15.09%), and after excluding unusual circumstances, the market value for the land in question was determined in the amount of HRK 166.74 / m2. As mentioned, fair value is determined by equalizing comparative prices whose additional deviation would increase or decrease fair value.
- ***Construction facilities*** - Taking into account market and business conditions, a cost method was used. The value is calculated as calculated as the product of the net usable area (NFC) and the unit cost of construction for 1.0 m^2 of equivalent facility. The unit price was obtained from large construction companies in the Republic of Croatia and from other relevant sources. In this case, given the complexity, complexity and characteristics, the price of buildings varies between 1,100 kuna and 4,000 kuna. The unit price includes all project documentation, supervision, all construction and installation works, installation connections and the arranged environment. Impairment of real estate due to age and wear and tear of the object is obtained as the sum of impaired values of construction, installed materials and equipment, ie impairment due to age and wear of load-bearing structure, finishing works, crafts and installations in a certain percentage, all in relation to value new facility. Communal and water contributions increase the value - According to the Decree on the amount of water contribution for the subject area, the unit price of water contribution is: 10.05 kn / m2, and according to the Decision on communal contribution for the subject area, the unit price of communal contribution is: 30.00 kn / m2.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

/IV/ Fer value (continued):

Construction facilities (continued)

Also, the matrix and its weights in relation to the dependent and independent variables were used in the assessment. Independent variables represent: location / market, building in general and condition of the building which are evaluated in a matrix with numbers from 1 to 5, where 1 represents the best weight. The weights used are from 2 to 5, mostly 3.
As mentioned, fair value is determined based on the above assumptions, and any change could lead to an increase or decrease in fair value.

d) **Valuation process** - The Company has engaged an external, independent and qualified appraiser to determine the fair value of land and buildings. For the year ended 31 December 2019, the Company hired a permanent court expert for construction, architecture and real estate appraisal (OIB: 71139551089).
The assessment made by an external assessor is reviewed and approved by the Company's Management Board. Significant changes in fair value are discussed with appraisers.

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	**2019**	**2018**
Current receivables		
Trade receivables	14,610	14,779
Loans and deposits		
Given loans, deposits and similar	2,958	12,157
Cash	880	1,505
Financial assets		
Financial assets	48	48
	18,496	**28,489**

(in thousands of HRK)	**2019**	**2018**
Financial liabilities		
Other financial liabilities		
Payables to suppliers	26,966	30,058
Borrowings	10,003	5,808
Non-current financial liabilities		
Payables to suppliers	1,201	1,245
Borrowings	41,694	22,961
	79,864	**60,072**

NOTE 16 - INVENTORIES

(in thousands of HRK)	**2019**	**2018**
Finished products in warehouse	27,545	29,474
Work in progress	21,690	19,678
Raw materials	16,531	17,359
Trade goods	429	487
	66,195	**66,998**

NOTE 17 – ASSETS HELD FOR SALE

(in thousands of HRK)	**2019**	**2018**
Property for sale	10,561	12,799
	10,561	**12,799**

/i/ From the total value of property for sale, HRK 9,404 thousand (2017: HRK 9,404 thousand) is held for sale for the settlement of the debt in line with the right granting separate settlement which certain banks did not waive in the pre-bankruptcy settlement procedure (Note 23). The Company assessed the property market value based on the calculations of independent assessors.

NOTE 18 – CASH

(in thousands of HRK)	**2019**	**2018**
Foreign currency account balance	731	744
Domestic currency (HRK) account balance	128	748
Petty cash	21	13
	880	**1,505**

NOTE 19 – RECEIVABLES

(in thousands of HRK)	**2019**	**2018**
Current trade receivables		
Trade receivables	10,076	68,404
Foreign trade receivables	6,790	7,642
	16,886	76,046
Impairment allowance	(2,256)	(61,267)
Net trade receivables	14,610	14,779
Receivables from employees	66	165
Receivables from the State and other institutions	3,006	3,948
Other receivables	6,194	1,511
	23,876	**20,403**

The fair value of trade and other receivables approximates the carrying amounts.

As at 31 December 2019, trade receivables in the amount of HRK 3,382 thousand (2018: HRK 4,054 thousands) are due, but not impaired.

The ageing analysis of outstanding receivables from customers and related parties are as follows:

(in thousands of HRK)	**2019**	**2018**
Up to 2 months	3,064	2,135
2 to 6 months	233	306
More than 6 months	85	1,613
	3,382	**4,054**

The maximum credit risk exposure as at the reporting date is the carrying amount of each item of the stated receivables.

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

(in thousands of HRK)	**2019**	**2018**
HRK	11,288	15,507
EUR	7,098	4,896
	23,876	**20,403**

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

Movements in impairment allowance for trade receivables:

(in thousands of HRK)	**2019**	**2018**
Balance at 1 January	**59,995**	**59,365**
Value adjustment during the year (Note 9)	641	630
Write-off and other trends	(58,380)	-
Balance at 31 December	**2,256**	**59,995**

NOTE 20 - EQUITY AND RESERVES

Share capital

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

Pursuant to the Decision of the Company's General Assembly dated 19 April 2017, the share capital was increased by an additional contribution of HRK 30,000,000 from HRK 75,530,440 to HRK 105,530,440. Due to this increase, the Company issued 1,500,000 regular shares, each with a nominal value of HRK 20. At 31/12/2018, the share capital of the Company amounts to HRK 105,530,440 thousand.

The shareholders' structure as at 31 December 2019 and 2018 was as follows:

31 December 2019

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

NOTE 20 – EQUITY AND RESERVES (continued)

31 December 2018

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

Revaluation reserves

The amount of the revaluation reserves equals to the increase in value of land and buildings. Revaluation reserves are not distributable.

NOTE 21 – BORROWINGS

(in thousands of HRK)	2019	2018
Long-term loans		
Bank loans	41,694	22,961
Short-term loans		
Current portion of long-term loans	10,003	5,808
Total borrowings	**51,697**	**28,769**

Borrowings refer to loans received from business banks.

The annual effective interest rates were as follows:

	2019	2018
Bank loans	1.5% - 2.65%	2% - 4%

NOTE 21 – BORROWINGS (continued)

The Company's exposure to changes in the interest rates on the borrowings and the contractual repricing dates at the balance sheet date is as follows:

(in thousands of HRK)	**2019**	**2018**
1 month or less	11,373	6,441
3 months	40,324	22,328
	51,697	**28,769**

Maturity of long-term borrowings:

(in thousands of HRK)	**2019**	**2018**
From 1 to 2 years	10,169	6,219
From 2 to 5 years	28,541	16,742
Over 5 years	2,984	-
	41,694	**22,961**

The carrying amounts correspond to the fair value of borrowings.

In order to ensure the repayment of the mentioned loans, the Company pledged its property amounting to HRK 91,928 thousand (Note 14).

The currency analysis of trade payables per loans received is the following:

(in thousands of HRK)	**2019**	**2018**
HRK	20,849	-
EUR	30,848	28,769
	51,697	**28,769**

NOTE 22 – PROVISIONS

(in thousands of HRK)	Provisions for jubilee awards	Provisions for termination benefits	Legal disputes	Total
As at 1 January 2018	**988**	**849**	**1,370**	**3,207**
Changes in provisions	-	-	(1,370)	(1,370)
Discounting of long-term provisions	-	-	-	-
Balance at 31 December 2018	**988**	**849**	**-**	**1,837**
Analysis of total provisions				
Long-term portion	**988**	**849**	**-**	**1,837**
Short-term portion	-	-	-	-
As at 1 January 2019	**988**	**849**	**-**	**1,837**
Changes in provisions	(65)	260	-	195
Discounting of long-term provisions				
Balance at 31 December 2019	**923**	**1,109**	**-**	**2,032**
Analysis of total provisions				
Long-term portion	**923**	**1,109**	**-**	**2,032**
Short-term portion				

Provisions for jubilee awards and termination benefits

The Company's collective agreement stipulates the payment of jubilee awards and termination benefits to employees.

NOTE 23 – TRADE AND OTHER PAYABLES

(in thousands of HRK)	2019	2018
Non-current trade payables		
Domestic trade payables	1,202	1,245
Current trade payables		
Domestic trade payables	24,887	29,717
Foreign trade payables	2,079	341
	26,966	**30,058**
Other current liabilities		
Amounts due to employees	4,562	4,346
Taxes, contributions and similar duties payable	1,645	1,513
Accrued default interest	-	2
Other liabilities	720	802
Deferred income	959	8
Other non-financial liabilities /i/	9,404	9,404
	16,811	**16,075**
	44,978	**47,378**

/i/ Other non-financial liabilities refer to fair value of loans received from commercial banks which will be settled with the Company's property in line with the banks' right granting separate settlement. The carrying amount of the relevant property amounts to HRK 9,404 thousand (Note 17).

The currency analysis of current payables to suppliers:

(in thousands of HRK)	2019	2018
Payables to suppliers		
HRK	24,887	29,717
EUR	2,079	341
	26,966	**30,058**

/i/ Non-current payables to suppliers as at 31 December 2019 - the supplier's payables will be settled from the property with the right granting separate settlement.

NOTE 24 – DEFERRED TAX LIABILITY

The changes in deferred tax liabilities for the year were as follows:

(in thousands of HRK)	Revaluation of land and buildings
Balance at 1 January 2018	**10,285**
Impairment of assets (depreciation)	(347)
Balance at 31 December 2018	**9,938**
Impairment of assets (depreciation, profit or loss)	(348)
Impairment of assets (expenses, profit or loss)	(131)
Impairment of assets (revaluation, equity)	(1,282)
Increase in value of assets (revaluation, equity)	2,906
Balance at 31 December 2019	**11,083**

NOTE 25 – RELATED-PARTY TRANSACTIONS

When considering all potential relationships between related parties, attention needs to paid to the essence of the relationship, not just its legal form.

In July 2013, after the Company's recapitalisation, Raiffeisenbank Austria d.d. became the controlling and ultimate owner (as at 31 December 2018, 75.81 % owned by the Company) and Hrvatska poštanska banka d.d. (as at 31 December 2018, 18.95% owned by the Company).

Receivables and payables, and income and expenses realised with related parties are the following:

(in thousands of HRK)	**2019**	**2018**
Owner with significant interest		
Received loan payables	-	21,267
Interest cost for received loans	202	678

Key management remuneration

In 2019, key management remuneration (comprising the cost of salaries and paid bonuses) paid by the Company amounted to HRK 2,989 thousand (2018: HRK 2,113 thousand). As at 31 December 2019, key management comprises three persons (2018: 3 persons).

NOTE 26 - FINANCIAL RISK MANAGEMENT

26.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (which includes foreign exchange rate risk, the fair value interest rate risk, the cash flow interest rate risk and investment in securities risk), credit risk and liquidity risk. The Company has no formal risk management programme (no derivative financial instruments were used to hedge financial risk exposures); however, the Finance Department is in charge of the entire risk management.

(a) Market risk

(i) Currency risk

The currency analysis of financial instruments for the Company as at 31 December 2019 and 31 December 2018 is provided below:

2019	EUR	HRK	Total
Financial assets			
Financial assets	-	48	48
Given loans and deposits	308	2,650	2,958
Trade and other receivables	6,790	11,281	18,071
Cash and cash equivalents	731	149	880
	7,829	**14,128**	**21,957**
Financial liabilities			
Borrowings	30,848	20,849	51,697
Payables to suppliers	2,079	24,887	26,966
Other liabilities	560	6,851	7,411
	33,487	**52,587**	**86,074**

2018	EUR	HRK	Total
Financial assets			
Financial assets	-	48	48
Given loans and deposits	8,199	3,930	12,129
Trade and other receivables	4,896	15,507	20,403
Cash and cash equivalents	744	761	1,505
	13,839	**20,246**	**34,085**
Financial liabilities			
Borrowings	28,769	-	28,769
Payables to suppliers	341	29,717	30,058
Other liabilities	407	6,265	6,672
	29,517	**35,982**	**65,449**

As at 31 December 2019, if the EUR would weaken/strengthen against the HRK by 1% (2018: 1%), with all other variables held constant, the net profit for the reporting period would have been HRK 157 thousand higher/lower (2018: HRK 156 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EUR-denominated trade payables, borrowings, foreign currency account and trade payables.

NOTE 26 - FINANCIAL RISK MANAGEMENT (continued)

26.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Fair value interest rate risk

The Company's interest rate risk arises from its borrowings. Variable-rate borrowings expose the Company to the interest-rate cash flow risk. As at 31 December 2019, if the borrowing interest rates would increase/decrease by 50 p. p. (2018: 50 p. p.), under the assumption that all other variables remain unchanged, net profit for the year would be HRK 6 thousand lower/higher (2018: HRK 105 thousand), predominantly resulting from the higher/lower variable-rate borrowing interest cost.

The Company has no material interest-bearing assets, which is why its revenue and operating cash flows do not significantly depend on fluctuations in market interest rates. The Company does not use derivative instruments to actively hedge its cash flow and fair value interest rate risk exposure.

(b) Credit risk

Assets that expose the Company to credit risk consist mainly of cash, trade and other receivables. The Company has no significant concentrations of credit risk.

The Company has sales policies in place to ensure that the sale is made to customers with an appropriate credit history. A detailed credit risk analysis is presented in Note 19.

2019			
Category	**Net**	**Impairment**	**Gross**
Undue	20,033	-	20,033
0-30	3,257	-	3,257
31-60	269	-	269
61-180	233	-	233
181-365	35	-	35
>365	49	2,256	2,305
Total	**23,876**	**2,256**	**26,132**
2018			
Category	**Net**	**Impairment**	**Gross**
Undue	15,567	-	15,567
0-30	2,490	-	2,490
31-60	211	-	211
61-180	521	-	521
181-365	530	-	530
>365	1,084	59,995	61,079
Total	**20,403**	**59,995**	**80,398**

NOTE 26 - FINANCIAL RISK MANAGEMENT (continued)

26.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies the maintenance of a sufficient cash level, ensuring the ability to settle all liabilities. The Finance Department monitors the level of available sources of cash funds and liabilities on a monthly basis. The table below provides an analysis of contracted financial liabilities of the Company according to contractual maturities, excluding contracted interest. The amounts presented below represent undiscounted cash flows.

(in thousands of HRK)	Less than 1 year	2-5 years	Over 5 years	Total
31 December 2019				
Payables to suppliers	26,966	1,201	-	28,167
Borrowings	10,799	40,283	3,018	54,100

(in thousands of HRK)	Less than 1 year	1-5 years	Over 5 years	Total
31 December 2018				
Payables to suppliers	30,058	1,245	-	31,303
Borrowings	6,827	26,746	-	33,673

(d) Price risk

Company is not significantly exposed to price risk considering the fact that the equity securities portfolio is very limited.

26.2 Capital risk management

There are no legal or other requirements for the Company to have a formal capital risk management programme. Furthermore, there are no capital goals monitored internally.

(in thousands of HRK)	2019	2018
Total borrowings (Note 21)	51,697	28,769
Net of: Cash and cash equivalents (Note 18)	(880)	(1,515)
Net borrowings	50,817	27,264
Equity and reserves	236,037	226,062
Total capital and net borrowings	**286,854**	**253,326**
Indebtness indicator	**18%**	**10%**

NOTE 26 - FINANCIAL RISK MANAGEMENT (continued)

26.3 Fair value measurement

The carrying value of receivables net of impairment corresponds to their fair value. Market prices for similar instruments on the active market are used for the initial recognition of long-term debt. For disclosure purposes, the fair value of financial liabilities is estimated by discounting future contractual cash flows using the current market interest rate available to the Company for similar financial instruments.

NOTE 27 – SUBSEQUENT EVENTS

The rapid development of the coronavirus SARS-CoV-2 pandemic, which caused COVID-19 disease, the development of Covid-19 virus and its social and economic impact in the Republic of Croatia and globally may result in assumptions and estimates that require audits, may lead to significant adjustments to the carrying values of the items assets and liabilities in the next financial year. At this time, the Company's Management is unable to reliably estimate the impact on the Company's financial statements in view of the day-to-day development of these events.

The emergence and spread of corona virus in the Republic of Croatia and the measures taken to stop the spread and suppression of the virus will surely have negative effects on the entire Croatian economy. To mitigate these effects, the Government of the Republic of Croatia has introduced a series of measures to support the economy.

However, given the recent developments, the uncertainty over how long prevention measures will be in place, and the fact that measures are being developed to support the economy, it is not currently possible to reliably assess their effects.

The consequences of a decrease in sales revenue caused by the collapse of COVID-19 are significant to the Company's liquidity. Specifically, in March the sales revenue decreased, also in April the Company expects a decrease compared to the same period last year. However, government measures have reduced the significantly greater negative impact of declining sales revenue. Measures, that is, state aid, for the payment of salaries to employees in the amount of HRK 4,000 and deferrals and write-offs of contributions, taxes, etc., reduced the outflow and partially offset the income shortfall. The largest supplier ''Hrvatske šume d.o.o.'' has extended the currency by an additional 40 days. The company has agreed with the bank for a 6-month moratorium on existing loans. Also, in agreement with the commercial bank and HBOR, an application for a loan for working capital was submitted.

With the aforementioned measures of the state and the plan of the company for securing additional cash, the Company's Management believes that it will successfully maintain the liquidity and overall operations of the company to the satisfaction of shareholders, creditors, employees and all other key factors of the company.

There were no other significant events after the balance sheet date or until the date of approval of these financial statements, which would require adjustments to the financial statements or additional disclosure.