

SPAČVA d.d., Vinkovci

**ANNUAL REPORT
FOR THE YEAR 2020**

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.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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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.

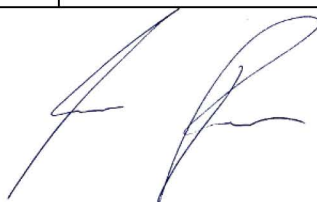
In preparing those financial statements, the Managing Board is responsible for the following:

- 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



19 April 2021

Management's Letter to shareholders



Dear shareholders,

the previous 2020 started with the announcement of the crisis and continued with a pandemic and great uncertainty. With the postponement of the payment to Hrvatske šume from 60 to 100 days and with the support of the Government for the preservation of jobs, we maintained liquidity and stable operations. The financial report shows that we had 11% less revenue from the sale of our products compared to the plan and 7% compared to 2019. EBITDA margin is lower than planned and the margin in 2019, while net profit is lower than planned, and higher than in 2019.

Hereafter, is briefly description of business in previous year by individual profit centers and other business segments.

Sawmill - in this production plant, which mainly works internally and produces products that end up as raw material in the final production, the total value of production is less by 9% compared to 2019;

Veneer – the production and the sales of veneer is less by 5% compared to 2019;

Final products – the production and the sales of final products is the same as in 2019;

Biofuel – the production and the sales of pellets and briquettes in 2020 is less by 18% compared to 2019; Investments - in 2020, Spačva invested a total of over HRK 12 million, although it planned HRK 18 million; namely, due to the pandemic, investments that were not contracted and that could have been postponed were postponed;

Management's Letter to shareholders (continued)

Human resources - last year the company employed an average of 17 employees less compared to 2019; In 2020, Spačva was one of the leading beneficiaries of employment policy measures. In 2020, Spačva received the award for contribution to the economic development of Vukovarsko-Srijemska županija and the award Zlatna kuna as the most successful company in Vukovarsko-Srijemska županija, and in 2019 in the category of large companies.

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 domestic wood industry, and the workers of Spačva have significantly greater employment rights under the Collective Agreement than guaranteed by the Labor Act. Therefore, we believe that a social dialogue is being implemented and developed in Spačva, which can be a role model for many. The amount of salary in Spačva is above the average of the Croatian wood industry, and also above the average of the economy of Vukovarsko-Srijemska županija.

We want to incorporate the development of socially responsible business into every pore of the company's 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.

S poštovanjem.

PREDSJEDNIK UPRAVE:

dr.sc. Josip Faletar



Introduction

The annual report comprises data for the business year 2020. 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.

Non – financial report

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.*

Management report (continued)

Non – financial report (continued)

Company organisation

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

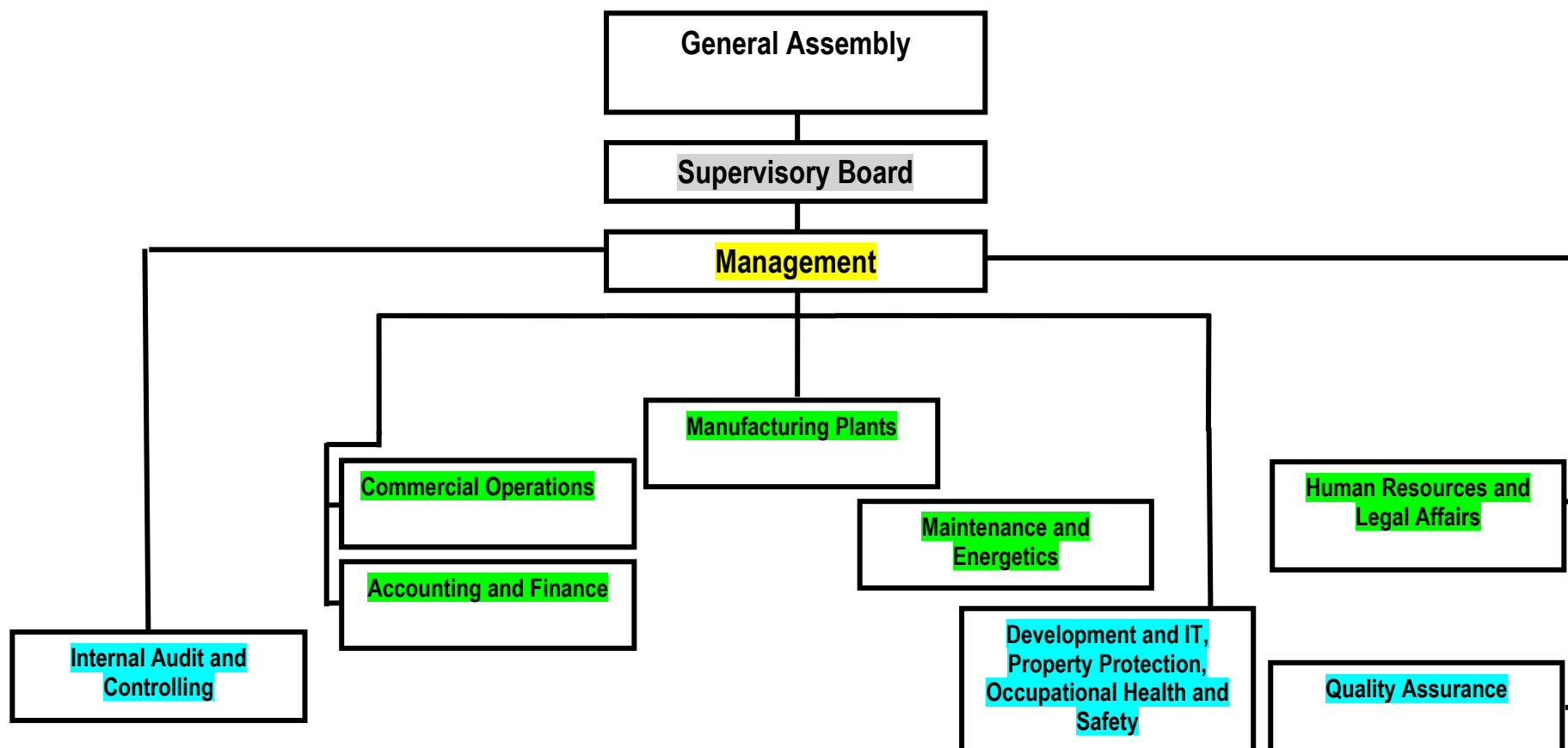
The Company is divided into 4 profit centres:

- *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*

Management report (continued)



Management Report (continued)

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 2020, 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. Krešimir Čemerika, member.*

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

Management Report (continued)

Management and management organisation (continued)

Supervisory Board (continued)

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 Depository and Clearing Company as dematerialised securities, each with a nominal value of HRK 20.00.

Shareholder structure as at 31 December 2020

• <i>QUAESTUS PRIVATE EQUITY d.o.o.</i>	<i>75.85 %</i>
• <i>Hrvatska poštanska banka d.d.</i>	<i>18.96 %</i>
• <i>Addiko Bank d.d.</i>	<i>3.92 %</i>
• <i>Other shareholders</i>	<i>1.27%</i>

Management Report (continued)

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 of 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.

Management Report (continued)

Human Resources

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 illness.

At regular sessions of the Occupational Safety and Health Committee, the application of the rules, and measures to prevent the risk of injuries, accidents and illness are proposed, planned and analysed.

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.

Management Report (continued)

Human Resources (continued)

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

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.

Management Report (continued)

Human Resources (continued)

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 practice 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.

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.

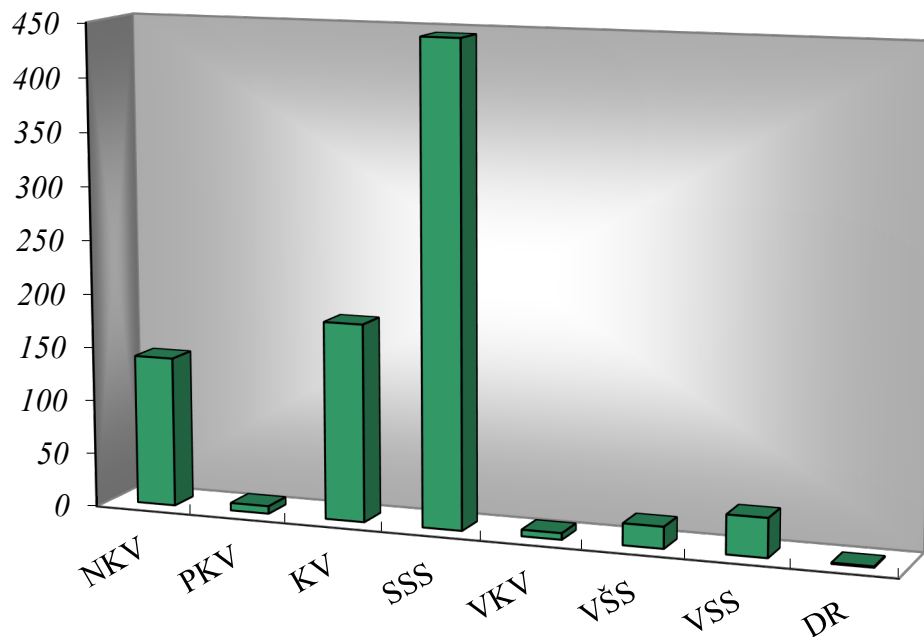
In 2020, the Company had 807 employees.

Management Report (continued)

Human Resources (continued)

The employee structure according to formal qualification levels as at 31 December 2020 is provided in the table and visual overview provided below:

<i>Formal qualifications</i>	<i>Number of employees</i>
<i>Unskilled worker</i>	141
<i>Semi-skilled worker</i>	7
<i>Skilled worker</i>	172
<i>High-school diploma</i>	422
<i>High-skilled worker</i>	5
<i>Vocational degree</i>	21
<i>University degree</i>	38
<i>Phd.</i>	1
<i>Total</i>	807



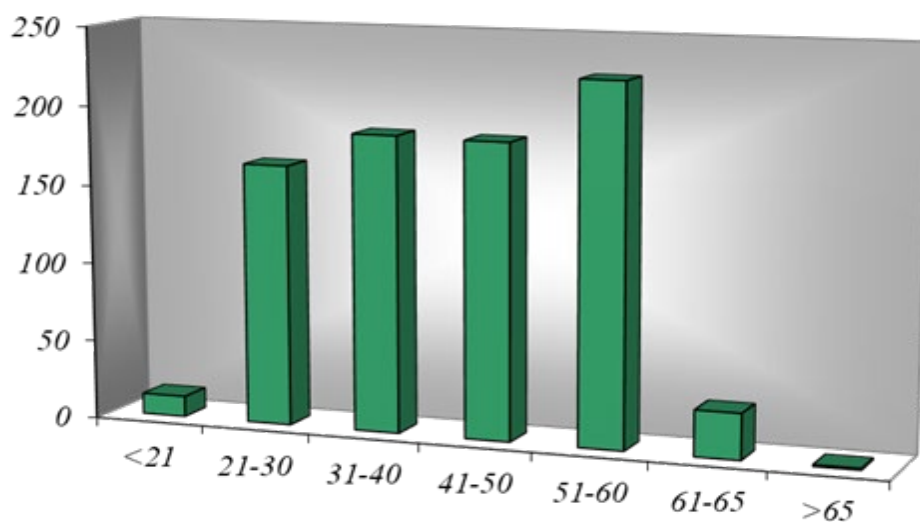
Of the total number of employees, 4.83% have a vocational degree and 2.60% have a university degree, making a total of 7.43% of staff with tertiary-level education.

Management Report (continued)

Human Resources (continued)

The age structure of employees of Spačva d.d. as at 31 December 2020 is provided in the table and visual overview provided below:

<i>Age</i>	<i>Number of employees</i>
<21	13
21-30	165
31-40	187
41-50	186
51-60	226
61-65	29
>65	1
<i>Total</i>	<i>807</i>



Management Report (continued)

Human Resources (continued)

Average monthly salary paid

<i>Average monthly salary paid</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Index 20/19</i>
<i>Gross</i>	<i>5,257</i>	<i>5,719</i>	<i>5,985</i>	<i>105</i>
<i>Net</i>	<i>4,096</i>	<i>4,423</i>	<i>4,646</i>	<i>105</i>

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.

Relationship with suppliers

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.

Management Report (continued)

Relationship with suppliers (continued)

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 bribery

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 an undue advantage. Suppliers may not use third parties to participate instead 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.

Management Report (continued)

Risk exposure

In its business, Spačva d.d. is exposed to numerous risks that need to be adequately managed. Risk management involves anticipating and identifying potential risks and taking certain measures to minimize risks.

Financial risk

Spačva d.d. is exposed to financial risks related to currency risk, interest rate risk, credit risk and liquidity risk.

*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. In 2020, the impact of the change in the average exchange rate did not require the use of potential hedging instruments.*

***Interest rate** risk is minimized since loans are contracted at fixed 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.*

***Credit risk** mainly refers to the management of risks regarding collection of receivables from the customers. The Company continuously assesses the creditworthiness of customers through available data, monitors overdue receivables and thus seeks to minimize credit risks.*

Also, an important measure of credit risk protection is the contracted insurance of trade receivables with insurance companies, which reduces credit risk to a minimum.

***Price risk** is also present and includes monitoring prices, developing partnerships with suppliers, timely response to price changes, and seeking potential alternatives in the procurement process.*

Management Report (continued)

Risk exposure (continued)

Business risks

Business environment risk implies the risk of the markets in which the Company operates.

The year 2020 was marked by the COVID-19 pandemic in almost all countries to which we export our products. Some of the countries, such as Italy and France, which were most affected by the pandemic and had strict closures, are also our largest export markets. Since the beginning of the pandemic, the Company's management has been closely monitoring all market changes and announcements regarding new measures. Throughout the year, intensive work was done on opening new markets in order to diversify the risk and achieve maximum sales revenues in the given, uncertain conditions.

The Company's Management Board has constantly invested in marketing and sales improvement activities.

*The **industry risk** is also present. The wood industry of the Republic of Croatia is traditionally export-oriented and dominant in rural areas of the country and has a significant role in the overall national economy.*

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: very high share of domestic raw materials in products of all stages of processing, permanent export orientation, increasing demand for products of all stages of wood processing; 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., a relatively environmentally friendly activity.

As the Company expands its export markets from year to year, it is necessary to constantly adapt to individual markets, habits and customer preferences. In order to be able to successfully compete in world markets, key capital investments are aimed at increasing product quality and increasing efficiency in production processes.

Management Report (continued)***Investments***

After the completion of a large investment cycle in 2019, in which new production lines, machines and equipment were procured and put into operation, in 2020, investments continued according to the investment plan, but still in a slightly smaller amount. Since 2020 was specific and marked by uncertainty related to the COVID-19 pandemic, some items of the investment plan needed to be corrected, but we believe that the plan was successfully implemented.

The realized investments are shown in the following table:

	HRK '000		
<i>Investments</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Patents, licences, concessions, trademarks</i>	299	6	440
<i>Buildings</i>	5,210	10,412	1,855
<i>Plants and equipment</i>	8,850	47,526	7,855
<i>Tools, plant fittings, furniture</i>	4,004	64	2,704
<i>Vehicles and other</i>	1,270	1,842	17
<i>TOTAL</i>	<i>19,633</i>	<i>59,850</i>	<i>12,871</i>

This year, most of the investments are related to the renewal of the vehicle fleet. New forklifts and loaders worth HRK 1,805,000 and a new forest tractor for the transport of logs - forwarder Komatsu worth HRK 1,735,000 were purchased.

In some production halls, investments and improvements have been made. Thus, the roof panels were replaced in the veneer hall, and the veneer warehouse was asphalted.

Electrical installation and air distribution works have been completed on the dry finishing hall in the sawmill.

We regularly invest in the purchase of new computers and computer programs, also in existing machinery and equipment.

A new water supply installation and waterproofing have been made on the water management facilities and the hydrant network.

Management Report (continued)

Investments (continued)

All investments are made in order to increase efficiency, improve and speed up the production process, maintain the necessary competitiveness in the market and reduce future costs.

Statement on corporate governance rules

In order to establish high criteria and standards of corporate governance, during the business year 2020 the Company voluntarily applied the recommendations of the Corporate Governance Code, adopted by the decision of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange d.d. Zagreb on April 26, 2007. Given that the Company's shares are traded on a regulated securities market, the Company's Management Board has decided to draft and adopt the SPAČVA D.D. Vinkovci.

Some provisions-recommendations from the Code have not been applied, so the financial statements are not yet available in English, the records of shareholders are the records from the shareholders' account with the Central Depository and Clearing Company, for the Company's Shares. There are no internal rules for the work of the Supervisory Board, because the rules of the Companies Act and the Articles of Association are considered sufficient. The manner of voting at the General Assembly is determined by the Articles of Association, in connection with the work of the Audit Committee. Internal supervision in the Company consists of administrative controls that are organized in the business functions of the Company by reviewing received and delivered goods, documentation on received goods and services, control of orders, invoices, supplier conditions, controls in services.

Internal accounting controls-supervision, ie procedures of competent employees ensure the accuracy, validity, comprehensiveness of financial records and reports, which are the basis for the preparation of annual financial statements.

The Code will be published on the Company's website and consists of a set of relationships between managers, the Management Board, the Supervisory Board, shareholders and other stakeholders.

Management Report (continued)




**Responsibility of the Management and the Supervisory Board
- for the preparation and approval of the Annual Financial
Statements**

Pursuant to the Croatian Accounting Act, the Management Board is obliged to ensure that the financial statements are prepared in accordance with the legal requirements of the financial reporting framework applicable in the Republic of Croatia to large companies and companies whose shares or debt securities are listed or are being prepared for listing. securities, which since the date of accession of the Republic of Croatia to the European Union is based on the International Financial Reporting Standards adopted in the EU, their amendments and related interpretations, established by the Croatian Financial Reporting Standards Committee, and published in the Official Gazette an objective picture of the financial condition and results of operations of the company Spačva dd (hereinafter referred to as the Company) for that period.

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

- To select and then consistently apply appropriate accounting policies;*
- To make judgments and estimates reasonable and prudent;*
- Applicable accounting standards are applied, and any significant deviations are disclosed in the financial statements;*
- Financial statements should be prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.*
- The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act (OG 109/07).*

The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Management Board has the responsibility to submit to the Supervisory Board its annual report for the Company, together with the annual financial statements. After that, the Supervisory Board must approve the annual financial statements for submission to the Company's Assembly for approval

<i>Josip Faletar, President of the Management Board</i>	<i>Ante Radoš, Board Member</i>	<i>Ivan Perković, Board Member</i>
		

Management Report (continued)*Analysis of operating income and expenses**Income analysis*

During 2020, the sales department failed to realize the annual sales plan, mostly due to the situation with the COVID-19 pandemic and locking. At the end of 2020, the profit centers did not achieve growth compared to last year, nor were they all above the planned targets. Profit centre Sawmill was at 73% execution of the annual sales plan, profit centre Final products was at 99.2% of the annual sales plan, while profit centre Veneer with 92.3% and profit centre Biofuels with 75.2% were below the annual sales plan.

The fall in the prices of biofuels on the domestic market due to a significant drop in the prices of domestic producers of A1 pellets also affected the sales prices of the Company's biofuels. The reduction in prices and the relatively warmer last quarter of 2020 compared to 2019 resulted in weaker sales of bioenergy which affected total sales revenues.

Nevertheless, the active approach to sales continued in the form of opening new markets, monitoring market trends and emphasizing the improvement of customer relations.

It is not possible to talk about the growth of sales compared to 2019, but in 2020 we were closest to achieving sales of final products.

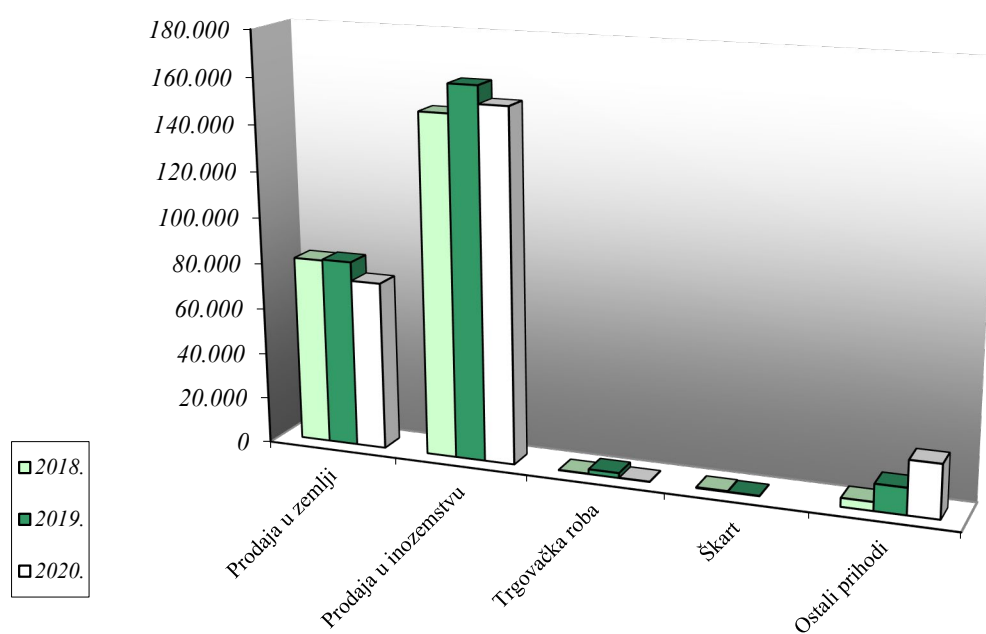
The end of 2020 was greeted with optimism, and in accordance with the achieved results, the Management Board of Spačva is convinced of a successful start of business in 2021.

<i>Income</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Index 20/19</i>
<i>Domestic sales</i>	81,045	81,443	73,310	90
<i>Foreign sales</i>	148,314	160,676	152,966	95
<i>Trade goods</i>	86	2,109	64	3
<i>Scraps</i>	347	95	-	-
<i>Other income</i>	3,781	11,535	23,223	201
<i>TOTAL</i>	233,573	255,858	249,563	98

Analysis of operating income and expenses (continued)

Income analysis (continued)

Income structure



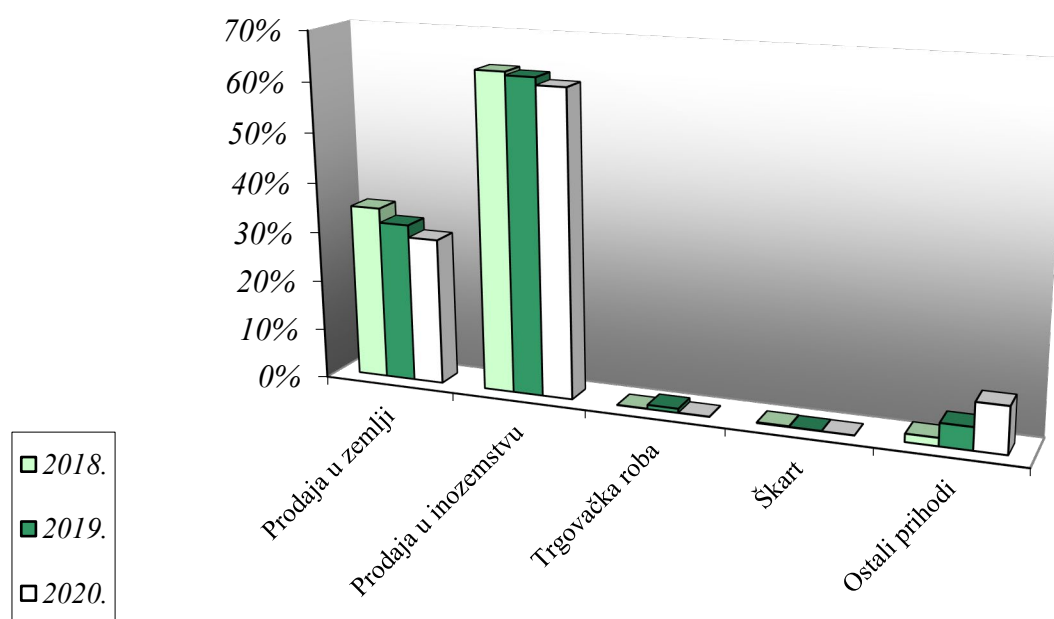
Management Report (continued)

Analysis of operating income and expenses (continued)

Income structure

<i>Income structure</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Domestic sales</i>	35%	32%	29%
<i>Foreign sales</i>	63%	63%	61%
<i>Trade goods</i>	0%	1%	0%
<i>Scraps</i>	0%	0%	0%
<i>Other income</i>	2%	5%	9%
<i>TOTAL</i>	100%	100%	100%

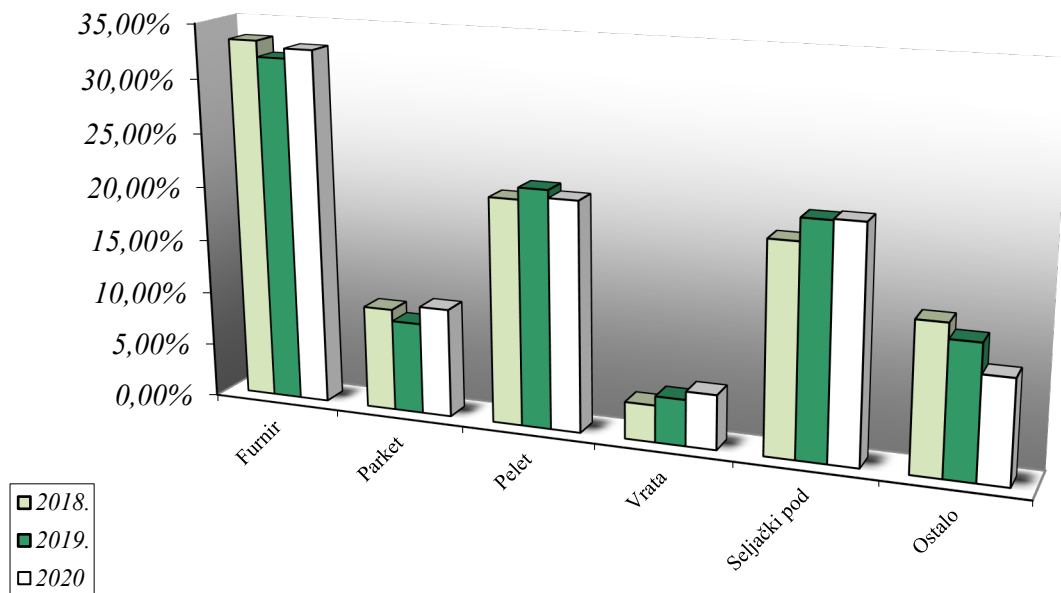
Income structure



Management Report (continued)

*Analysis of operating income and expenses (continued)**Sales per product type*

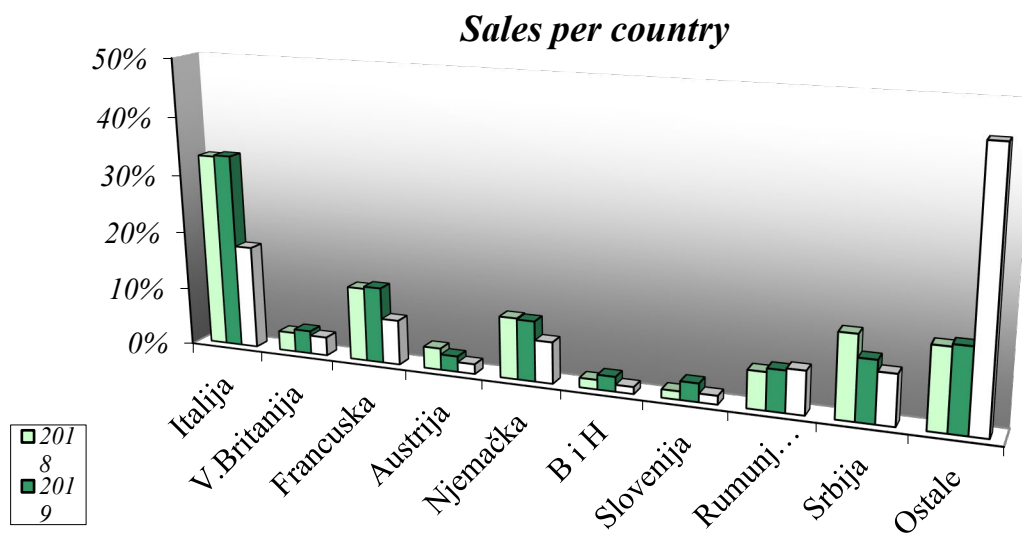
<i>Sales per product type</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Index 20/19</i>
<i>Veneer</i>	33.40%	31.93%	32.84%	103
<i>Parquet floor</i>	9.50%	8.44%	10.06%	119
<i>Pellets</i>	20.80%	21.88%	21.16%	97
<i>Doors</i>	3.40%	4.25%	5.02%	118
<i>Hardwood floor</i>	19.30%	21.34%	21.45%	101
<i>Other</i>	13.60%	12.20%	9.50%	78
<i>TOTAL</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	

Sales per product type

Management Report (continued)

*Analysis of operating income and expenses (continued)**Sales per country*

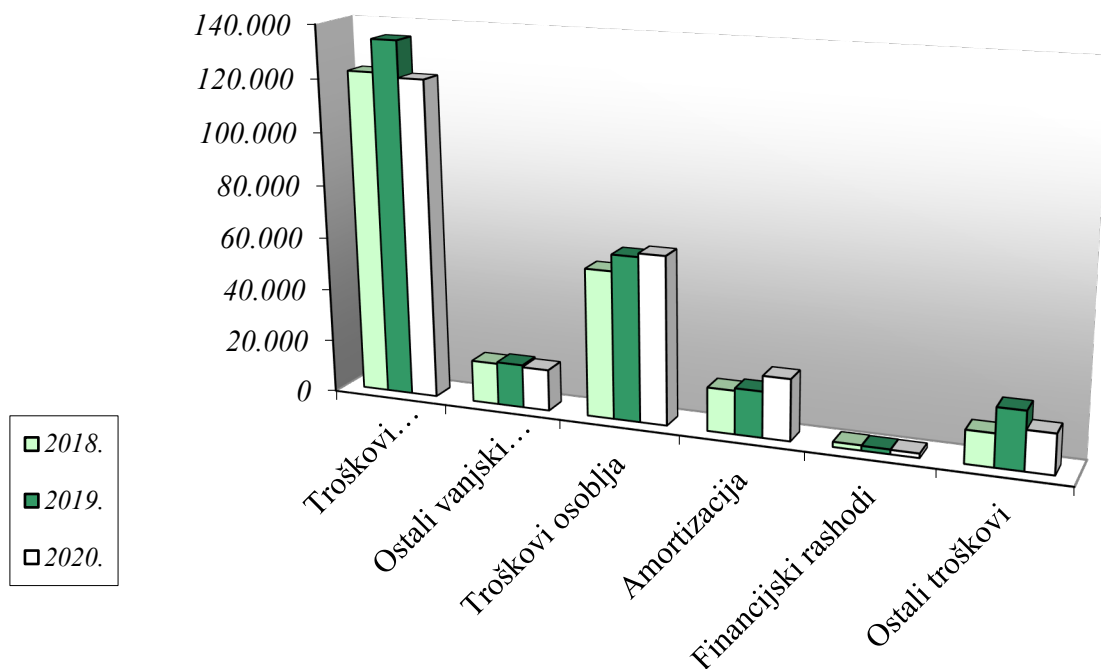
<i>Country</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Index 20/19</i>
<i>Italy</i>	<i>33.2%</i>	<i>33.4%</i>	<i>26%</i>	<i>78</i>
<i>United Kingdom</i>	<i>3.3%</i>	<i>3.9%</i>	<i>4.7%</i>	<i>119</i>
<i>France</i>	<i>12.6%</i>	<i>13.0%</i>	<i>11.2%</i>	<i>86</i>
<i>Austria</i>	<i>3.7%</i>	<i>2.7%</i>	<i>2.5%</i>	<i>91</i>
<i>Germany</i>	<i>10.04%</i>	<i>10.2%</i>	<i>10.4%</i>	<i>102</i>
<i>Bosnia and Herzegovina</i>	<i>1.6%</i>	<i>2.5%</i>	<i>1.7%</i>	<i>68</i>
<i>Slovenia</i>	<i>1.4%</i>	<i>3.1%</i>	<i>2.1%</i>	<i>69</i>
<i>Romania</i>	<i>6.3%</i>	<i>6.9%</i>	<i>10.7%</i>	<i>155</i>
<i>Serbia</i>	<i>14.0%</i>	<i>10.03%</i>	<i>12.5%</i>	<i>121</i>
<i>Other</i>	<i>13.6%</i>	<i>14.0%</i>	<i>18.2%</i>	<i>130</i>
TOTAL	100.0%	100.0%	100.0%	



Management Report (continued)

*Analysis of operating income and expenses (continued)**Cost analysis*

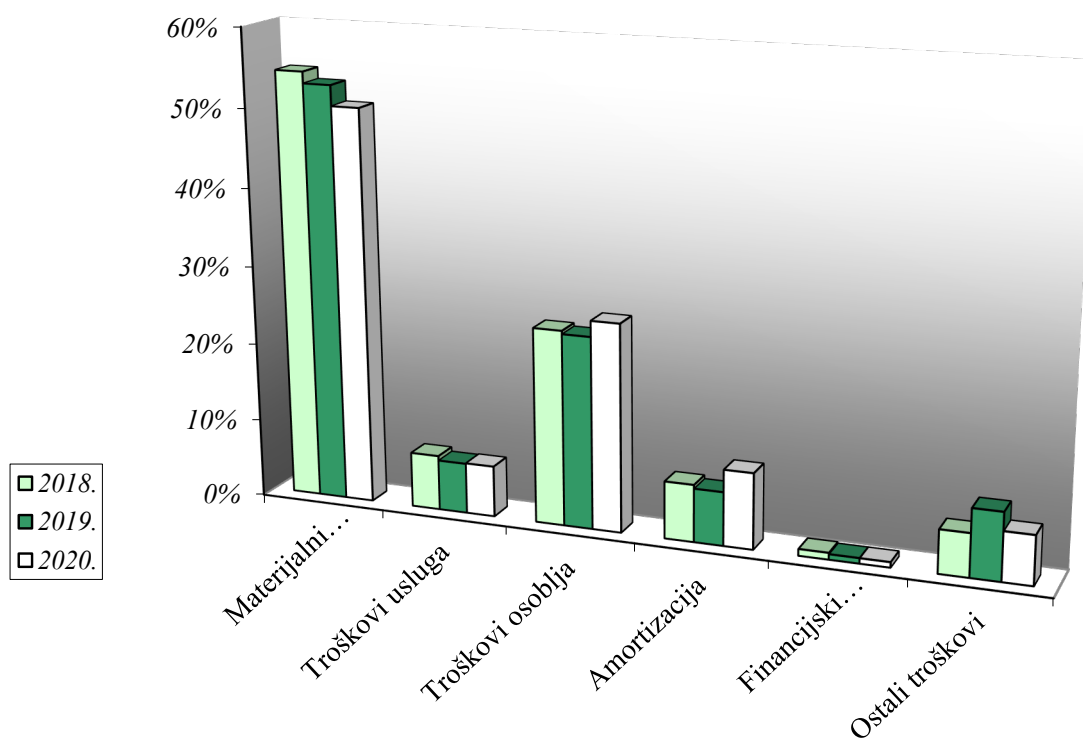
<i>Expenses</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Index 20/19</i>
<i>Raw materials and supplies</i>	122,296	134,536	120,819	90
<i>Other external costs</i>	15,750	16,339	15,711	95
<i>Staff costs</i>	55,869	62,093	63,455	102
<i>Depreciation</i>	16,386	17,328	23,147	134
<i>Financial expenses</i>	1,911	1,749	1,750	100
<i>Other costs</i>	12,387	21,800	17,094	78
<i>Total expenses</i>	224,599	253,845	241,976	95
<i>Changes in inventories (increase, decrease)</i>	6,573	84	917	1,093
<i>TOTAL</i>	218,026	253,761	241,057	95

Cost analysis in HRK '000

Management Report (continued)

*Analysis of operating income and expenses (continued)**Cost structure*

<i>Cost structure</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Material costs</i>	54%	53%	50%
<i>Service costs</i>	7%	6%	7%
<i>Staff costs</i>	25%	24%	26%
<i>Depreciation</i>	7%	7%	10%
<i>Financial costs</i>	1%	1%	1%
<i>Other costs</i>	6%	9%	6%
<i>TOTAL</i>	100%	100%	100%

Cost structure

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 19 April 2021 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 2020, 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 2020, the largest shareholders of the company are QUAESTUS PRIVATE EQUITY d.o.o. (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 2020 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 2020.

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



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 2020, 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 2020, 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.

Emphasis of Matter

We draw attention to note 2a. Comparative data and restatements that describe the nature and effects of corrections from prior period errors on the accompanying financial statements. Our opinion has not been modified on this issue.

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 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 report takes precedence over this translation.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Company Directors: Marina Tonžetić, Dražen Nimčević and Domagoj Vuković; Bank: Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Revenue recognition

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.

Key Audit Matters	How we approached the key audit matters during our audit
<p>Revenue is important for assessing the Company's performance. The Company recognised revenue of HRK 226,276 thousand (2019: HRK 245,041 thousand).</p> <p>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</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We conducted the following audit procedures with respect to the area of revenue recognition:</p> <ul style="list-style-type: none"> • 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.

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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.

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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 22nd October 2020 by the General Assembly to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 2 years and covers period from 1st January 2019 until 31st December 2020.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 19 April 2021 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.

Domagoj Vuković
Director and certified auditor

19 April 2021

For signature please refer to the original Croatian version.

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

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts are expressed in thousands of HRK)

	Note	2020	2019 restatement
Sales revenue	4,5	226,276	245,041
Other operating income	4,6	22,885	10,413
Changes in inventories of work in progress and finished goods		918	84
Cost of materials and services	7	(136,035)	(150,875)
Staff expenses	8	(73,473)	(73,305)
Depreciation	14	(23,147)	(17,328)
Impairment losses	9	(100)	(6,184)
Other net operating gains and losses	10	(7,365)	(4,404)
Profit from operations		9,958	3,442
Financial income	11	402	404
Financial expenses	11	(1,742)	(1,749)
Net financial result		(1,340)	(1,345)
Profit before taxation		8,619	2,097
Income tax	12	344	479
Profit for the year		8,963	2,576
Basic and diluted earnings per share (in HRK)	13	1.9	0.60
Other comprehensive income			
<i>Revaluation of assets</i>	14	-	(4,278)
Total comprehensive income for the year		8,963	(1,702)

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

<i>(All amounts are expressed in thousands of HRK)</i>			
	Note	31 December 2020	31 December 2019 restatement
ASSETS			
Non-current assets			
Intangible assets	14	583	220
Property, plant and equipment	14	219,201	229,807
Financial assets		48	48
Total non-current assets		219,832	230,075
Current assets			
Inventories	16	72,198	66,195
Assets held for sale	17	1,157	10,561
Receivables	19	22,104	23,876
Cash	18	46,922	880
Total current assets		142,381	101,512
Total assets		362,213	331,587

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

STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2020

<i>(All amounts are expressed in thousands of HRK)</i>	Note	31 December 2020	31 December 2019
			restatement
LIABILITIES			
Equity and reserves			
Subscribed capital	20	105,530	105,530
Treasury shares		(208)	(208)
Revaluation reserves	20	37,246	38,814
Legal reserves		2,905	2,776
Retained earnings		78,887	74,872
Result for the period		8,963	2,576
Total equity and reserves		233,323	224,360
Non-current liabilities			
Borrowings	21	52,678	41,694
Trade and other payables	23	1,202	1,202
Deferred tax liabilities	24	8,176	8,520
Provisions	22	3,969	2,031
Total non-current liabilities		66,025	53,447
Current liabilities			
Borrowings	21	18,565	10,003
Payables to suppliers	23	36,208	26,966
Other liabilities	23	8,092	16,811
Total current liabilities		62,865	53,779
Total liabilities		128,890	107,226
Total liabilities		362,213	331,587

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

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts are expressed in thousands of HRK)

	Note	2020	2019
Profit before taxation		8,619	2,097
Depreciation and impairment of non-current tangible assets	14	23,147	17,328
Foreign exchange differences (net)	11	276	159
Interest income	11	(22)	(29)
Interest expense	11	972	1,212
Retirement of non-current tangible assets	9	100	543
Provisions for bad and doubtful receivables	9,11	114	641
Income tax paid		1,937	-
Increase/(decrease) in trade and other receivables		902	(2,832)
Increase/(decrease) in inventories	16,17	3,401	(3,041)
Increase/(decrease) in trade and other payables		617	2,400
Cash generated from operating activities		40,062	24,763
Purchase of tangible and intangible assets	14	(12,871)	(47,604)
Gains from sale of non-current assets		80	207
Cash flow used in investing activities		(12,791)	(47,397)
Gains from borrowings		25,002	26,251
Repayment of borrowings		(5,288)	(3,662)
Interest paid		(943)	(580)
Cash flow generated/(used) in financing activities		18,771	(22,009)
Net (decrease) in cash and cash equivalents		46,042	(625)
Cash and cash equivalents at beginning of year		880	1,505
Cash and cash equivalents at end of year	18	46,922	880

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts are expressed in thousands of HRK)

Note	Subscribed capital	Treasury shares	Revaluation reserves	Legal reserves	Retained earnings	Total
Balance at 1 January 2019	105,530	(208)	45,271	1,902	73,567	226,062
Transfer of profit to legal reserves	-	-	-	874	(874)	-
Reversal of provisions for assets sold and differences in depreciation, net of tax	-	-	(2,179)	-	2,179	-
Effect of revaluation of non-current tangible assets	-	-	7,399	-	-	7,399
Transactions with owners	-	-	(2,179)	874	1,305	-
Profit for the year	-	-	-	-	2,576	9,975
Total comprehensive income	-	-	-	-	2,576	9,975
Balance at 31 December 2019	105,530	(208)	50,491	2,776	77,448	236,037
Effects of a prior period error correction - IAS 8	-	-	(11.667)	-	-	(11.667)
Adjustment of revaluation reserves	-	-	(11.667)	-	-	(11.667)
Balance at 31 December 2019 (restatement)	105,530	(208)	38,814	2,776	77,448	224,360
Balance at 1 January 2020	105,530	(208)	38,814	2,776	77,448	224,360
Transfer of profit to legal reserves	-	-	-	129	(129)	-
Reversal of provisions for assets sold and differences in depreciation, net of tax	-	-	(1.568)	-	1.568	-
Transactions with owners	-	-	(1,568)	129	1,439	-
Profit for the year	-	-	-	-	8,963	8,963
Other comprehensive income	-	-	-	-	8,963	8,963
Balance at 31 December 2020	105,530	(208)	37,246	2,905	87,850	233,323

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 1 – GENERAL INFORMATION

Drvena industrija Spačva („the Company“) was established in 1956 under the name DI Slavonski Hrast. Since then until 2003, the Company underwent 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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)

Standard and interpretations in force in the current 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:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business - adopted by the EU on 21 April 2020 (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 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

Standard and interpretations in force in the current period

- **Amendments to IFRS 16 “Leases”** - Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),*
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of amendments to the existing standards has not led to any material changes in the Company's financial statements.

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

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

- **Amendments to IFRS 4 Insurance Contracts “Extension of the Temporary Exemption from Applying IFRS 9”** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform — Phase 2** adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The adoption of amendments to the existing standards has not led to any material changes in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 19th April 2021 (the effective dates stated below is for IFRS as issued by 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”** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 “Property, Plant and Equipment”** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 “Business Combinations”** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **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),

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 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 various standards due to “Improvements to IFRSs (cycle 2018 -2020)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.11 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that is from a past event, it is probable that the Company will have to settle the obligation and the amount of the obligation can be estimated reliably. The amount recognized as a provision reflects the best possible estimate of the consideration that will be required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. If a provision is measured using an estimate of the cash flows required to settle the present obligation, the carrying amount of the obligation is the present value of those cash flows.

When a third party is expected to recover some or all of the economic benefits necessary to settle a provision, a related receivable is recognized as an asset if it is almost certain that the consideration will be received and the amount of the receivable can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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.

2.13 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.

2.14 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.

2.15 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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.

2.16 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.

2.17 Government aid

Government aid is not recognized until the fulfillment of the conditions for receiving government aid and receiving the aid becomes realistically certain. Government grants are recognized in profit or loss on a systematic basis over the period in which the Company recognizes the costs to be covered by the grant as an expense. In particular, government grants for which the Company is required to acquire, construct or otherwise acquire property, plant and equipment are recognized in the statement of financial position as deferred income and transferred to profit or loss systematically and rationally over the useful life of the asset. Receivables from state aid for the reimbursement of costs or losses already incurred or for the purpose of providing current financial support to the Company without future related costs are recognized in profit or loss in the period in which the receivable arises.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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 2a - COMPARATIVE DATA AND RESTATEMENTS

Correction of previous period errors

IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" requires the Company to correct an identified error by retroactively restatement of the opening balance of assets, liabilities and equity for the earliest period presented.

The Management Board considered the significance of the errors and concluded that it is sufficient for the Company to present the impact of the revision only in those notes on which the revisions have an impact. The correction has an impact only on 2019 since the Company did not present the financial position for 2018.

The reasons for the revisions and the individual items that have been revised are listed below:

Adjustment of revaluation reserves and deferred land tax liabilities

In 2019, the Company assessed the value of land and other real estate and, based on the valuation, recorded an increase or decrease in revaluation reserves and deferred tax liabilities and the related increase or decrease in land and other real estate.

In recording these valuations of land and other real estate, the Company took into account in the valuation land from the valuation that is no longer in their ownership because the appraiser erroneously included the said land in its valuation.

The Management Board revised the previous period by reducing the value of the said land, which affected the restructuring by reducing the value of the item Property, plant and equipment in the amount of HRK 14,420 thousand and accordingly reducing revaluation reserves in the amount of HRK 11,677 thousand and deferred tax liabilities in the amount of HRK 2,563 thousand. The revision affected other comprehensive income through a decrease in total comprehensive income by HRK 11,667 thousand.

An overview of these modifications is provided below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2a - COMPARATIVE DATA AND REVISIONS OF INITIAL CONDITIONS (continued)

	31.12.2019. previously published	modification	31.12.2019. restatement
Property, plant and equipment	244,047	(14,240)	229,807
TOTAL ASSETS	345,827	(14,240)	331,587
Revaluation reserves	50,491	(11,667)	38,814
Total equity and reserves	236,037	(11,667)	224,370
Deferred tax asset	11,083	(2,563)	8,520
Long – term liability	56,010	(2,563)	53,447
TOTAL EQUITY AND LIABILITIES	345,827	(14,240)	331,587

Corrections to the Comprehensive Income Statement for 2019

	2019. previously published	modification	2019. restatement
Other comprehensive income			
Revaluation of tangible assets	7,399	(11,667)	(4,278)
Total comprehensive income / (loss) of the current year	7,399	(11,667)	(4,278)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4 – REVENUE BY PRODUCT AND COUNTRY

<i>(in thousands of HRK)</i> 2020.	Veneer	Final	Bioenergetics	Other	Total
Total income	76,106	89,414	52,716	31,327	249,563

<i>(in thousands of HRK)</i> 2019.	Veneer	Final	Bioenergetics	Other	Total
Total income	79,463	89,350	63,410	23,653	255,858

Sales per country - geographical analysis was as follows:

Country	2019	2020	Index 20/19
Italy	33.4%	26.0%	78
France	13.0%	11.2%	86
Germany	10.2%	10.4%	102
Great Britain	3.9%	4.7%	119
Austria	2.7%	2.5%	91
Slovenia	3.1%	2.1%	69
Bosnia and Herzegovina	2.5%	1.7%	68
Romania	6.9%	10.7%	155
Serbia	10.3%	12.5%	121
Other	14.0%	18.2%	130
TOTAL	100.0%	100.0%	

Income	2019	2020	Index 20/19
Foreign sales	160,676	152,966	95
Domestic sales	81,443	73,237	90
Trade goods	2,109	46	2
Scraps	95	9	9
Other income	11,535	23,305	202
TOTAL	255,858	249,563	98

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 5 – SALES REVENUE

(in thousands of HRK)

	2020	2019
Export revenue – direct export	152,966	160,248
Sales revenue – domestic	72,525	81,516
Sales of services	649	361
Sale of raw materials	63	776
Sale goods	46	2,106
Other sales	27	33
	226,276	245,041

Revenue recognised in accordance with IFRS 15, it amounts 226,276 thousand and is recognised at point of time.

NOTE 6 - OTHER OPERATING INCOME

(in thousands of HRK)

	2020	2019
Income from subvention	6,091	6,359
Other operating income	16,794	4,054
	22,885	10,413

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 revenues relate to revenues from the release of provisions in the amount of HRK 644 thousand (2019: HRK 682 thousand), revenues from active employment measures (HZZ) and government aid in the amount of HRK 15,521 thousand (2019: HRK 0), revenues from collection of fixed assets insurance in the amount of HRK 402 thousand (2019: HRK 0), subsequently determined revenues from previous periods in the amount of HRK 49 thousand (2019: HRK 2 thousand) and revenues from the sale of tangible assets in the amount of HRK 175 thousand HRK (2019: HRK 172 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 7 – COST OF MATERIALS AND SERVICES

<i>(in thousands of HRK)</i>	2020	2019
Raw materials and supplies	91,996	103,040
Energy	18,003	17,967
Packaging and other	10,540	11,160
Transportation services	7,738	9,699
Maintenance costs	1,082	1,324
Cost of goods sold	226	2,367
Other costs of materials and services	6,450	5,318
	136,035	150,875

NOTE 8 - STAFF EXPENSES

<i>(in thousands of HRK)</i>	2020	2019
Net salaries	43,230	42,111
Taxes and contributions from and on salaries /i/	20,226	19,982
Other employee compensations /ii/	9,721	10,582
Remuneration of Supervisory Board*	296	-
Changes in provisions for jubilee awards and termination benefits	-	347
	73,473	73,305

As at 31 December 2020, the Company had 807 employees (2019: 837).

- /i/ In 2020, cost of salaries include defined pension contributions paid to mandatory pension funds in Croatia amounting to HRK 12,814 thousand (2019: HRK 12,655 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9 - IMPAIRMENT LOSSES

(in thousands of HRK)

	2020	2019
Impairment of non-current tangible assets (Note 14)	100	5,543
Customers – ordinary course of business (Note 19)	-	641
	100	6,184

NOTE 10 - OTHER NET OPERATING GAINS AND LOSSES

(in thousands of HRK)

	2020	2019
Costs - provisions for initiated litigation	2,118	-
Insurance premium	1,849	1,732
Subsequently approved sales discounts	886	-
Membership and fees	623	402
Bank guarantees and services	327	908
Donations	230	166
Business trips	144	301
Entertainment	60	118
Other	1,128	777
	7,365	4,404

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

NOTE 11 - NET FINANCIAL EXPENSES

(in thousands of HRK)

	2020	2019
Financial income		
Foreign exchange gains	380	375
Interest income	22	29
Total financial income	402	404
Financial expenses		
Interest cost	(972)	(1,215)
Foreign exchange losses	(656)	(534)
Other financial expenses	(114)	-
Total financial expense	(1,742)	(1,749)
Net financial result	(1,340)	(1,345)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – INCOME TAX

	<u>2020</u>	<u>2019</u>
Current income tax	-	-
Deferred income tax (Note 24)	(344)	(479)
	<u>(344)</u>	<u>(479)</u>

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:

<i>(in thousands of HRK)</i>	<u>2020</u>	<u>2019</u>
Profit before taxation	8,618	2,097
Tax expense calculated at the rate of 18% (2019: 18%)	1,551	377
Effect of non-deductible expenses	400	536
Effect of non-taxable income	(2,165)	(5)
The effect of tax relief	-	(908)
The effect of unrecognized deferred tax assets	214	-

As at 31 December 2020, the Company incurred a tax loss in the amount of HRK 1,185 thousand. The allowances arising from the Investment Promotion Act were not used by the Company in 2020.

As at 31 December 2020, the Company has HRK 14,636 thousand of unused grants and tax losses carried forward in the amount of HRK 1,185 thousand for which it has not recognized deferred tax assets due to the uncertainty of the amount of future taxable profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

	<u>2020</u>	<u>2019</u>
Net profit (<i>in thousands of HRK</i>)	8,963	2,576
Weighted average number of shares	4,655,974	4,655,974
Basic and diluted earnings per share (in HRK)	1.9	0.60

Diluted earnings/loss per share

The diluted earnings/loss per share for 2020 and 2019 are equal to the basic profit/(loss) per share, since the Company had no convertible instruments and share options during both of those years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Land	Buildings	Machinery and equipment	Tools	Tangible assets under construction	Other	Total	Intangible assets
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)	-	-	-	(4,817)	-
Additions	-	10,088	47,254	1,905	58,248	-	117,495	6
Revaluation	1,907	(7,121)	-	-	-	-	(5,214)	-
Transfer to use	-	-	-	-	(60,192)	-	(60,192)	-
31 December 2019 (restatement)	30,673	74,472	114,485	7,221	2,803	152	229,806	220
Balance at 31 December 2019								
Cost or revaluation	30,673	177,248	242,206	12,752	2,803	152	465,834	953
Accumulated depreciation	-	(102,776)	(127,721)	(5,531)	-	-	(236,028)	(664)
Net carrying amount	30,673	74,472	114,485	7,221	2,803	152	229,806	220
For the year ended 31 December 2020								
Opening carrying amount, net	30,673	74,472	114,485	7,221	2,803	152	229,806	220
Depreciation expense	-	(3,853)	(17,903)	(1,314)	-	-	(23,070)	(77)
Impairment due to damages	-	(10)	(56)	(34)	-	-	(100)	-
Additions	17	1,855	7,855	2,704	12,517	-	24,948	440
Transfer to use	-	-	-	-	(12,383)	-	(12,383)	-
31 December 2020	30,690	72,464	104,381	8,577	2,937	152	219,201	583
Balance at 31 December 2020								
Cost or revaluation	30,690	179,055	247,280	15,316	2,937	152	475,430	1,386
Accumulated depreciation	-	(106,591)	(142,899)	(6,739)	-	-	(256,229)	(803)
Net carrying amount	30,690	72,464	104,381	8,577	2,937	152	219,201	583

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Impairment in amount of HRK 100 thousand (2019: 5,543 thousand) is recognised for buildings and equipment under IAS 16 because of damages during the year.

/i/ As at 31 December 2020, the net carrying amount of assets amounting to HRK 71,737 thousand (2019: HRK 91,928 thousand) refers to the assets pledged for ensuring the settlement of borrowings (Note 22).

/ii/ If the land was managed according to the cost method, the value on 31.12.2020 would be HRK 30,673 thousand (2019: HRK 30,673 thousand), and the value of buildings on 31.12.2020. would be HRK 79,585 thousand (2019: HRK 81,593 thousand).

/iii/ Fair 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 outside the fair value hierarchy level at the end of the reporting period. During 2019 and 2020, 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) **Estimation assumption and impact on fair value** - In the 2019 estimate, for the fair value assessment, 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 (NN 78/15) and the Ordinance on Real Estate Valuation Methods (NN 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 the statement of purchase prices (comparative prices vary between -11.59% and + 15.09%), and after the exclusion of unusual circumstances, the market value for the subject land 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.

Buildings - Taking into account market and business conditions, the cost method was used. The value is calculated as calculated as the product of the net usable area (NKP) and the unit cost of construction for 1.0 m² 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Buildings (continued)

Also, the matrix and its weights in relation to the dependent and independent variables were used in the assessment. The independent variables represent: location / market, building in general and the 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, mainly 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) **Assessment process** - The Company has hired an external, independent and qualified appraiser to determine the fair value of the 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)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Current receivables		
Trade receivables	12,686	14,610
Loans and deposits		
Cash	46,922	880
Given loans, deposits and similar	1,819	2,958
Financial assets		
Financial assets	48	48
	<u>61,475</u>	<u>18,496</u>
Financial liabilities		
Other financial liabilities		
Payables to suppliers	36,208	26,966
Borrowings	18,565	10,003
Non-current financial liabilities		
Borrowings	52,678	41,694
Payables to suppliers	1,201	1,201
	<u>108,652</u>	<u>79,864</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 16 - INVENTORIES

(in thousands of HRK)

	31.12.2020	31.12.2019
Finished products in warehouse	33,251	27,545
Raw materials	21,879	16,531
Work in progress	16,902	21,690
Trade goods	166	429
	72,198	66,195

NOTE 17 – ASSETS HELD FOR SALE

(in thousands of HRK)

	31.12.2020	31.12.2019
Property for sale	1,157	10,561
	1,157	10,561

NOTE 18 – CASH

(in thousands of HRK)

	31.12.2020	31.12.2019
Domestic currency (HRK) account balance	46,456	128
Foreign currency account balance	465	731
Petty cash	1	21
	46,922	880

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 19 – RECEIVABLES

(in thousands of HRK)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Current trade receivables		
Foreign trade receivables	7,509	6,790
Trade receivables	<u>6,871</u>	<u>10,076</u>
	14,380	16,886
Impairment allowance	<u>(1,694)</u>	<u>(2,256)</u>
Net trade receivables	12,686	14,610
Receivables from the State and other institutions	5,113	3,006
Other receivables	<u>4,286</u>	<u>6,194</u>
Receivables from employees	<u>19</u>	<u>66</u>
	<u>22,104</u>	<u>23,876</u>

The fair value of trade and other receivables approximates the carrying amounts. The most significant part of other receivables relates to receivables from the IRI project in the amount of HRK 1,880 thousand (2019: HRK 2,671 thousand) and receivables for advances in the amount of HRK 1,819 thousand (2019: HRK 2,958 thousand).

As at 31 December 2020, trade receivables in the amount of HRK 2,928 thousand (2019: HRK 3,382 thousands) are due, but not impaired.

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

(in thousands of HRK)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Up to 2 months	2,352	3,064
2 to 6 months	189	233
More than 6 months	<u>387</u>	<u>85</u>
	<u>2,928</u>	<u>3,382</u>

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)

	<u>31.12.2020</u>	<u>31.12.2019</u>
HRK	14,595	17,086
EUR	<u>7,509</u>	<u>6,790</u>
	<u>22,104</u>	<u>23,876</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 19 – TRADE AND OTHER RECEIVABLES (continued)

Movements in impairment allowance for trade receivables:

<i>(in thousands of HRK)</i>	31.12.2020	31.12.2019
Balance at 1 January	2,256	59,995
Value adjustment during the year (Note 9)	-	641
Write-off and other trends	(562)	(58,380)
Balance at 31 December	1,694	2,256

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 2020 and 2019 was as follows:

31 December 2020

Shareholder	Total number of shares	Nominal value	Equity share %
QUAESTUS PRIVATE EQUITY d.o.o.	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20 – EQUITY AND RESERVES (continued)

31 December 2019

Shareholder	Total number of shares	Nominal value	Equity share %
QUAESTUS PRIVATE EQUITY d.o.o.	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.

Revaluation reserves

	31.12.2020	31.12.2019
		restatement
Land	17,409	17,409
Buildings	19,837	21,405
	37,246	38,814

The decrease in the amount of revaluation reserves is based on the depreciation of buildings during 2020 in the amount of HRK 1,568 thousand. The decrease in revaluation reserves on construction facilities refers to the derecognition of recognized revaluation reserves for assets that are no longer owned by the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21 – BORROWINGS

(in thousands of HRK)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Long-term loans		
Bank loans	52,678	41,694
Short-term loans		
Current portion of long-term loans	18,565	10,003
Total borrowings	<u>71,243</u>	<u>51,697</u>

Borrowings refer to loans received from business banks.

The annual effective interest rates were as follows:

	<u>2020</u>	<u>2019</u>
Bank loans	1.5% - 2.65%	1.5% -2.65%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

<i>(in thousands of HRK)</i>	31.12.2020	31.12.2019
1 month or less	18,564	11,373
3 months	52,679	40,324
	71,243	51,697

Maturity of long-term borrowings:

<i>(in thousands of HRK)</i>	31.12.2020	31.12.2019
From 1 to 2 years	18,564	10,169
From 2 to 5 years	32,502	28,541
Over 5 years	1,613	2,984
	52,679	41,694

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 71,737 thousand (Note 14).

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

<i>(in thousands of HRK)</i>	31.12.2020	31.12.2019
HRK	17,570	20,849
EUR	53,673	30,848
	71,243	51,697

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 22 – PROVISIONS

<i>(in thousands of HRK)</i>	Provisions for jubilee awards	Provisions for termination benefits	Legal disputes	Total
As at 1 January 2019	988	849	-	1,837
Changes in provisions	(65)	259	-	194
Balance at 31 December 2019	923	1,108	-	2,031
Analysis of total provisions				
Long-term portion	923	1,108	-	2,031
Short-term portion	-	-	-	-
As at 1 January 2020	923	1,108	-	2,031
Changes in provisions	(160)	(21)	2,118	1,938
Balance at 31 December 2020	763	1,088	2,118	3,969
Analysis of total provisions				
Long-term portion	763	1,088	2,118	3,969
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.

Provisions for litigation

Provisions in 2020 in the amount of HRK 2,118 thousand relate to provisions for initiated litigation from employment in the amount of HRK 1,353 thousand and for initiated litigation with Krajcar d.o.o. Županja in the amount of HRK 765 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 23 – TRADE AND OTHER PAYABLES

(in thousands of HRK)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Non-current trade payables		
Domestic trade payables	1,201	1,202
Current trade payables		
Domestic trade payables	34,023	24,887
Foreign trade payables	2,185	2,079
	<u>36,208</u>	<u>26,966</u>
Other current liabilities		
Amounts due to employees	4,497	4,562
Taxes, contributions and similar duties payable	2,679	1,645
Other liabilities	916	720
Deferred income	-	959
Other non-financial liabilities /i/	-	9,404
	<u>8,092</u>	<u>16,811</u>
	<u>45,501</u>	<u>44,978</u>

The currency analysis of current payables to suppliers:

(in thousands of HRK)

	<u>31.12.2020</u>	<u>31.12.2019</u>
Payables to suppliers		
HRK	34,023	24,887
EUR	2,185	2,079
	<u>36,208</u>	<u>26,966</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24 – DEFERRED TAX LIABILITY

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

<i>(in thousands of HRK)</i>	Revaluation of land and buildings
Balance at 1 January 2019	9,938
Impairment of assets (depreciation)	(348)
Impairment of assets (expense, gain, loss)	(131)
Impairment of assets (revaluation, capital)	(1,282)
Increase in value of assets (revaluation, capital) (restatement)	343
Balance at 31 December 2019 (restatement)	8,520
Impairment of assets (depreciation, gain, loss)	(344)
Balance at 31 December 2020	8,176

NOTE 25 – RELATED-PARTY TRANSACTIONS

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

In July 2013, after the Company's recapitalisation, QUAESTUS PRIVATE EQUITY d.o.o. 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:

<i>(in thousands of HRK)</i>	2020	2019
Owner with significant interest		
Received loan payables	-	202
Interest cost for received loans	-	202

Key management remuneration

In 2020, key management remuneration (comprising the cost of salaries) paid by the Company amounted to HRK 2,079 thousand (2019: HRK 2,989 thousand). As at 31 December 2020, key management comprises three persons (2019: 3 persons).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 and 31 December 2019 is provided below:

2020	EUR	HRK	Total
Financial assets			
Financial assets	-	48	48
Trade and other receivables	7,509	10,528	18,037
Given loans and deposits	44	1,775	1,819
Cash and cash equivalents	465	46,457	46,922
	8,018	58,808	66,826
Financial liabilities			
Borrowings	53,673	17,570	71,243
Payables to suppliers	2,185	34,023	36,208
Other liabilities	710	7,382	8,092
	56,568	58,975	115,543
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

As at 31 December 2020, if the EUR would weaken/strengthen against the HRK by 1% (2010: 1%), with all other variables held constant, the net profit for the reporting period would have been HRK 257 thousand higher/lower (2019: HRK 157 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, if the borrowing interest rates would increase/decrease by 50 p. p. (2019: 50 p. p.), under the assumption that all other variables remain unchanged, net profit for the year would be HRK 6 thousand lower/higher (2019: 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.

2020			
Category	Net	Impairment	Gross
Undue		-	17,443
0-30	2,157	-	2,157
31-60	195	-	195
61-180	189	-	189
181-365	343	-	343
>365	44	1,694	1,738
Total		1,694	22,065
2019			
Category	Net	Impairment	Gross
Undue		-	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		2,256	26,132

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

<i>(in thousands of HRK)</i>	Less than 1 year	2-5 years	Over 5 years	Total
31 December 2020				
Payables to suppliers	26,966	2,073	1,201	37,409
Borrowings	19,538	52,453	1,613	73,614

<i>(in thousands of HRK)</i>	Less than 1 year	1-5 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

(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.

<i>(in thousands of HRK)</i>	2020	2019 restatement
Total borrowings (Note 21)	71,243	51,697
Net of: Cash and cash equivalents (Note 18)	(46,922)	(880)
Net borrowings	24,321	50,817
Equity and reserves	233,323	224,360
Total capital and net borrowings	257,644	275,177
Indebtness indicator	10%	23%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

There were no significant events after the balance sheet date. During the economic crisis caused by the COVID-19 pandemic in the observed 2020, the Company achieved a result in the last quarter of 2020, which resulted in total sales for 2020, which is 6% less than sales revenues in 2019. Given the situation with COVID 19 throughout 2020, Management Board of Spačva has constantly invested in marketing and sales improvement activities.

The end of 2020 was greeted with optimism, and in accordance with the achieved results, the Management Board of Spačva is convinced of the successful start of operations in 2021. This economic event did not jeopardize the unlimited continuation of the Company's operations.

According to the achieved results for the period 01.01. - 28.02.2021, revenues from the sale of own products amount to HRK 41,982 thousand, and compared to the plan which amounted to HRK 35,340 thousand, they are higher by 19%. Compared to the same period in 2020, the realized revenues from the sale of own products are higher by 16%.

Revenue from the sale of own products in the amount of HRK 29,669 thousand was generated on the foreign market, which accounts for 70.67% of total sales revenue. Compared to the same period in 2020, its growth is 25.23%.

The analysis of the realized turnover by customers shows that the first 15 customers in the period 01.01.- 28.02.2021. year, with turnover they participate 49.46% in the total realized income from the sale of own products, which is an indicator of safe product placement. The same indicator for 2020 was 46.77%.

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

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

NOTE 28 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board on 19 April 2021.

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

