DIV GRUPA d.o.o.

Annual report for the year ended 31 December 2019 together with the Independent Auditor's Report

This version of the annual report and auditors' 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.

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Management Report

1. INTRODUCTION

The company DIV GRUPA d.o.o. achieved good business results and was profitable in 2019. The most significant business activities belong to the core activities of the Company.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2019

Name of the reporting company: DIV GRUPA d.o.o.
Legal form: Limited liability company
State of establishment: Republic of Croatia
Company address: Bobovica 10/A, 10430, Samobor
Branch: IV Gardijske brigade 44, 22300, Knin
Business activity: Production and trade of fasteners products

In 2019, the Company performed its business activities at the Company's address, in its Knin branch office, and in the Company office in Zagreb, R.F.Mihanovića 9, Sky Office.

In 2019, the Management Board of the Company DIV GRUPA d.o.o. had the following members:
Tomislav Debeljak, President of the Board
Darko Pappo, Member of the Board.

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1. COMPANY ASSETS

As at 31/12/2019, the current assets amounted to HRK 522,956 thousand (2018: HRK 597,240 thousand), while non-current assets amounted to HRK 884,829 thousand (2018: 747,147 thousand). As at 31/12/2019, total Company assets amounted to HRK 1,407.785 thousand. The most significant share of non-current assets is that of buildings, infrastructure and plant and equipment amounting to HRK 759,010 (2018: HRK 650,295 thousand)

3.2. BUSINESS RESULTS FOR 2019

In 2019, the Company's profit after taxation amounted to HRK 81,795 thousand (2018: HRK 84,862 thousand).

4. EXPOSURE AND RISK MANAGEMENT

The Company is exposed to different financial risks, in particular:

- PRICE RISK - prices of production materials on the market;
- CAPITAL RISK - gearing ratio;
- CURRENCY RISK - movement of the EUR and USD exchange rates, since the Company has contracts with foreign companies denominated in EUR and USD;
- CREDIT RISK - debtors' ability to settle their debts to the Company. It refers to the other contracting party's probability of default. The Company protects itself from such risks by means of collateral and applies procedures ensuring sales to customers who have a sound and reliable credit history;
- LIQUDITY RISK - refers to the risk that cash receipts will not suffice to cover current cash outflows. The Company protects itself from liquidity risk by monitoring planned and realized cash flows and monitoring financial assets and financial liabilities.

Risk management is further explained in Note 24 of the Notes to the financial statements.

5. HUMAN RESOURCES

In addition to its assets and acquired reputation, employees are the Company's most important resource.

As at 31 December 2019, the Company had 742 employees. An overview of employee qualifications as at 31 December 2019 is provided in Table 1 below.

Table 1

OVERVIEW OF EMPLOYEE QUALIFICATIONS IN 2019									
MONTH	**NO. OF EMPLOYEES**	**Unskilled worker**	**Skilled worker**	**Semi-skilled worker**	**High-school diploma**	**High-skilled worker**	**Vocational degree**	**University degree**	**Master's degree**
DEC 2019	742	57	139	1	327	2	78	137	1
Share in %	100%	8%	19%	0%	44%	0%	11%	18%	0%

6. FUTURE COMPANY OUTLOOK

DIV GRUPA d.o.o. is committed to its business growth and continues engaging in thoughtful investments, introducing new technologies, permanently optimising business processes, investing in human resources, research, development and innovation, and conquering new markets and customers. In addition to operating on our active markets, we continue increasing the placement of our products in the USA. In the prior year, as well as in the years preceding it, large global customers continued audits, thus achieving the prerequisites for the increase in sales through their channels and keeping the standard way of examining our ability to maintain quality (deadlines, quantity, and technical requirements). All of the relevant audits proved the required competence of DIV GRUPA d.o.o. By optimising our production processes, we increase our productivity as the main prerequisite for cutting unit production costs, i.e. the necessary time production, as well as quality and process reliability. Increasing our production volume requires higher working capital we ensured through credit arrangements with banks and other financial partners, and by establishing a framework for guarantees and letters of credit increasing our large projects market participation (for example, railway infrastructure). At the beginning of a new business year (2020), the entire business community faced an unforeseeable challenge, caused by the COVID-19 pandemic. The Management Board of the Company undertook all necessary measures in a timely manner in order to minimise the adverse impact and consequences of the pandemic. We believe that our main markets will stabilise after some time needed for their recovery and that their demand will increase after the visible stagnation. In order to be fully prepared for the future events, we have not suspended our production so as to be able to deliver our products once the market demand increases significantly.

7. COMPANY'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

On 20 July 2019, DIV GRUPA d.o.o. started the realisation project for an innovative screws manufacturing process in the area of Samobor and Knin, under the name "**Research and development of new junction elements**" focusing on increasing cost-effectiveness, product quality, and feasibility of delivery deadlines, thus enabling the Company to comply with market demands. The project worth a total of HRK 32,839,574.63 was approved by the Ministry of Economy, Entrepreneurship and Crafts on 31 January 2020, and will be implemented by 20 July 2022.

The project activities are performed in the area of experimental growth. The expected project outcome is an innovative and advanced production process decreasing the production time, improving the delivery dynamics in subsequent commercialization and increasing company competitiveness, conforming with the standards defining the product and, ultimately, placing a more accessible and affordable product on the market.

The government grant application for the research and development project "**Research and development of new metalworking and welding positions**" focusing on experimental research

(combining and composing existing scientific, technological and business knowledge) in the area of an innovative process and development of new metalworking and welding positions was registered with the Ministry of Economy, Entrepreneurship and Crafts on 05 December 2019. The aim of the project is to optimise technological processes while decreasing production time and increasing the cost-effectiveness of the process itself, in order to improve the products' competitiveness on the foreign market.

The project's implementation is to result in an innovative, advanced, and significantly improved production process, accompanied by a necessary reduction in production costs and duration. New metalworking and welding positions will be developed under the condition that the product complies with the applicable standards. The project's estimated costs amount to HRK 19,667,587.97. The project is planned to be finished on 30 November 2022. This project is still in the process of being approved by the Ministry of Economy, Entrepreneurship and Crafts.

In the period from 15/09/2019 to 15/12/2019, DIV GRUPA also realised a project of **training 83 employees** in the following programs:

- Screw forging fitters - 6 persons, grant amount: HRK 90,000.00
- Persons in charge of preparing metal raw materials - 8 persons, grant amount: HRK 144,000.00
- Laser machine operators - 4 persons, grant amount: HRK 40,000.00
- Welders - 22 persons, grant amount: HRK 330,000.00
- Cold forging operators- 45 persons, grant amount: HRK 810,000.00.

During the project, 4 persons participating in the training programme ceased to be Company employees and were thus excluded from the project. Government grants for employee training were granted by the Croatian Employment Service in Zagreb, and the training programme contracts were concluded on 14 October 2019.

In addition to the above, the following projects are being implemented:

1. **„Development of the DIV elastic clip"**, implemented in line with the Grant agreement for projects funded by the European Structural and Investment Fund in the financial period 2014-2020. ("Enhancing development of new products and services resulting from research and development activities" – RDI stage I). The research and development project will be implemented in the period from 01/07/2018 to 01/07/2022, with the aim of enabling the development of a functional and innovative DIV elastic clip and, consequently, its placement and commercialization on the world railway construction and maintenance market. The project directly contributes to increasing investment in research and development within the Smart Specialisation Strategy (S3), thematic area "Transport and mobility" and sub-thematic priority area (STPA) 1. "Production of parts and systems of high added value for road and rail vehicles", with an indicative RDI topic: road and rail vehicles of a higher added value. The project was

implemented in 2019 as a part of the industrial research conducted in cooperation with the Faculty of Civil Engineering in Zagreb.

2. "**Increasing energy efficiency in the Knin production plant**", implemented in line with the Grant agreement for projects funded by the European Structural and Investment Fund in the financial period 2014-2020, with the aim of increasing energy efficiency in the production process and transferring to renewable energy sources.

Furthermore, the Company is planning to implement a project from the Call for enhancing development of new products and services resulting from research and development activities – stage II under the 'Competitiveness and Cohesion' operational programme of the European Regional Development Fund, in cooperation with Brodograđevna industrija Split d.d., DIV Marine and Energy Solutions d.o.o., Faculty of Electrical Engineering, Computer Science and Information Technology in Osijek, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split. This is a project called "**Development of a zero-emission passenger sail boat**", in line with Priority axis 1 *Strengthening the Economy through Application of Research and Innovation* and in line with the Croatian Smart Specialisation Strategy 2016-2020 and the following thematic priority areas:

1. "Transport and mobility" – sub-thematic priority areas: Environmentally-friendly transport systems and Intelligent transport systems and logistics;
2. "Energy and sustainable environment" – sub-thematic priority areas: Energy technology, systems and equipment and Environmentally-friendly technology, equipment and advanced materials.

In the same call, DIV GRUPA d.o.o. intends to participate as a partner in the following projects: "**Development of multi-purpose rescue and tourist submarines**" and "**Development of an autonomous unmanned multi-purpose vessel**" with a focus on developing innovative technology in the area of maritime transport with no environmental impact.

We should stress the fact that development activities are almost entirely based on already existing competencies of the company DIV GRUPA d.o.o., i.e. that both R&D and commercialisation activities rely on existing business resources, organisation and processes of the Company.

8. FUTURE PLANS

The Company's future plans for 2020 and beyond include developing new projects whose thematic areas comply with the Croatian Smart Specialisation Strategy (S3), a strategic document requested by the European Commission from all EU member states as a prerequisite for the use of ESI funds in the area of research, technological development and innovation. The S3 Strategy defines goals and priorities concerning research, technological development and innovation, as well as certain thematic and sub-thematic priority areas of investment in the following 7 years within the 'Competitiveness and Cohesion' operational programme, Priority axis 1.

The projects DIV GRUPA d.o.o. will participate in include investing in research, development and innovation, strengthening the research capacities of applicants (research organizations) and partners (business sector), as well as fostering/increasing the cooperation of research organizations with enterprises.

The Company plans to implement R&D projects in cooperation with scientific research institutions (Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, Faculty of Mechanical Engineering and Naval Architecture in Zagreb, Faculty of Civil Engineering in Zagreb, Faculty of Forestry in Zagreb, Faculty of Maritime Studies in Split, Faculty of Metallurgy in Sisak) with the goal of conducting collaborative research aimed at developing products / processes / services in line with the definitions of industrial research and experimental development.

Thematic priority areas (TPA) and sub-thematic priority areas (STPA) of the Croatian Smart Specialisation Strategy in which the Company plans to direct its R&D activities in the following years are TPA "Transport and mobility", STPA "Environmentally-friendly transport systems", STPA "Production of parts and systems of high added-value for road and rail vehicles", TPA "Energy and sustainable environment", STPA "Environmentally-friendly technology, equipment and advanced materials".

The indicative topics of future projects are R&D of new technologies and equipment for the reduction of CO2 emissions and optional equipment for vehicles with a more rational energy consumption, advanced trams and trains, decreasing environmental impact and noise, and new materials for the car and railway industry.

From 2020 onwards, the Company plans to participate in international projects through its related companies within the EU Research and Innovation programme – Horizon 2020, in the area of Smart, Green and Integrated Transport.

The Company's future plans also include developing new projects whose thematic areas comply with the Croatian Smart Specialisation Strategy (S3), a strategic document requested by the European Commission from all EU member states as a prerequisite for the use of ESI funds in the area of research, technological development and innovation. In particular, these projects refer to the following thematic areas: "Transport and mobility" and "Energy and sustainable environment" and are implemented under the 'Competitiveness and Cohesion' operational programme, Priority axis 1.

Projects the Company will participate in entail strengthening the Company's production capacities, increasing research capacities, developing human resources, and cooperating with other enterprises and organisations focusing on research and knowledge dissemination.

9. SUBSIDIARIES

Subsidiaries are presented in detail in the Notes to the financial statements.

10. INFORMATION ON THE REPURCHASE OF TREASURY SHARES

The Company has no treasury shares, nor did it have any in 2019.

Samobor, 12th June 2020

Tomislav Debeljak	Darko Pappo
President of the Managemeht Board	*Member of the Management Board*

DIV GRUPA d.o.o.
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OIB: 33890755814

Responsibility for financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the director is responsible for ensuring that financial statements are prepared for each financial year in accordance with Croatian Financial Reporting Standards ("the CFRSs"), as published by the Croatian Financial Reporting Standards Board, which give a true and fair view of the financial position and results of operations of DIV GRUPA d.o.o. (the "Company") for that period.
After making enquiries, the director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the director continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the director is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards and disclosing and explaining any material departure in the financial statements; and
- preparing the financial statements under the going concern principle unless it is inappropriate to presume that the Company will continue its business.

The director 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 director is also responsible for safeguarding the assets of the Company, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed by:

Tomislav Debeljak	Darko Pappo
President of the Management Board	*Member of the Management Board*

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Samobor, 12th June 2020

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of DIV GRUPA d.o.o., Samobor

Opinion

We have audited the separate financial statements of the company DIV GRUPA d.o.o., Samobor (the Company), which comprise the separate statement of financial position as at 31 December 2019, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate 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 separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and 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 described further in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our Independent Auditor's 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 have fulfilled our other 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.

Other Matters

Consolidated financial statements

The annual consolidated financial statements prepared in line with the International Financial Reporting Standards as adopted by the European Union for DIV GRUPA d.o.o. and the subsidiaries DIV GRUPA d.o.o. controls (the Group) have not yet been published. The annual consolidated financial statements will be published subsequently. In order to better understand the Group as a whole, users should read the consolidated financial statements together with these separate financial statements.

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The Company is registered at the Commercial Court in Zagreb under the registration number 030022053; with share capital of HRK 44,900.00; directors: Marina Tonžetić, Dražen Nimčević; commercial bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

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

In connection with our audit of the separate 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 regard to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include the examination of whether the Management Report includes required disclosures as set out in the Article 21 of the Accounting Act.

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

- Information included in the other information is, in all material respects, consistent with the attached financial statements;
- The Management Report has been prepared, in all material respects, in accordance with the Article 21.

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 the Management Board and Those Charged with Governance for the Separate Financial Statements

The Management Board is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs and for such internal control as the Management Board 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 separate financial statements, the Management Board 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 the Management Board 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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Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 the financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls 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 the Management Board;
- Conclude on the appropriateness of the Management Board'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 the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. 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 separate 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.

Marina Tonžetić
Director and Certified Auditor
Deloitte d.o.o.

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

Zagreb, 12th June 2020
Radnička cesta 80
10 000 Zagreb
Republic of Croatia

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UNCONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	2019	2018
Revenue	5	543,805	485,630
Other operating income	6	5,258	29,789
Total operating income		**549,063**	**515,419**
Changes in inventories - work in progress and finished goods	16	6,704	7,727
Material expenses	7	(323,864)	(309,797)
Employee costs	8	(89,395)	(85,023)
Amortisation expense	13	(19,996)	(18,814)
Other operating expenses	9	(28,457)	(19,023)
Total operating expenses		**(455,008)**	**(424,930)**
Financial income	10	5,111	7,205
Financial expenses	11	(18,873)	(14,823)
Net financial result		**(13,762)**	**(7,618)**
Profit before tax		**80,293**	**82,871**
Income tax	12	1,503	1,991
Profit for the current year		**81,796**	**84,862**
Other comprehensive income			
Gain on revaluation of property, plant and equipment	19b	-	-
Total comprehensive income		**81,796**	**84,862**

The following accounting policies and notes form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of HRK)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	759,010	650,295
Intangible assets	13	1,487	1,314
Non-current financial assets	14	123,700	94,876
Deferred tax assets	12	632	662
Total non-current assets		**884,829**	**747,147**
Current assets			
Inventories	16	257,238	255,698
Trade and other receivables	17	254,199	283,797
Current financial assets	15	8,444	41,674
Cash and cash equivalents	18	3,075	16,072
Total current assets		**522,956**	**597,241**
Total assets		**1,407,785**	**1,344,388**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19a	245,737	245,737
Revaluation reserves	19b	242,011	248,873
Other reserves	19c	6,553	471
Retained earnings	19d	325,168	253,317
Total equity		**819,469**	**748,398**
Non-current liabilities			
Liabilities towards banks and other financial institutions	20	191,064	237,120
Provisions	22	2,105	2,218
Deferred tax liabilities	12,19b	53,124	54,631
Total non-current liabilities		**246,293**	**293,969**
Current liabilities			
Trade and other payables	21	290,316	236,128
Liabilities towards banks and other financial institutions	20	51,707	65,893
Total current liabilities		**342,023**	**302,021**
Total liabilities		**588,316**	**595,990**
Total equity and liabilities		**1,407,785**	**1,344,388**

The following accounting policies and notes form an integral part of these separate financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 01 December 2018		**245,737**	**471**	**256,694**	**162,400**	**665,302**
Profit for the year		-	-	-	84,862	**84,862**
Decrease in revaluation reserves during depreciation of revalued assets (against retained earnings)		-	-	(7,821)	7,821	-
Impact of IFRS 9 application		-	-	-	(1,766)	(1,766)
Total comprehensive income		245,737	471	248,873	253,317	748,398
Balance at 31 December 2018		**245,737**	**471**	**248,873**	**253,317**	**748,398**
Decrease in retained earnings and increase in share capital		214,633	-	-	(214,633)	-
Decrease in share capital and increase in capital reserves and retained earnings		(214,633)	6,082	-	208,551	-
Profit for the year		-	-	-	81,796	81,796
Decrease in revaluation reserves during depreciation of revalued assets (against retained earnings)		-	-	(6,862)	6,862	-
Impact of IFRS 9 application		-	-	-	(29)	(29)
Profit distribution					(10,696)	(10,696)
Balance at 31 December 2019		**245,737**	**6,553**	**242,011**	**325,168**	**819,469**

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	**Note**	**2019**	**2018**
Profit before taxation		80,293	84,862
Adjusted by:			
Income tax	12	(1,503)	(1,991)
Depreciation and amortisation	13	19,996	18,814
Revaluation loss of property, plant and equipment	13	175	5,889
(Decrease) in provisions	22	(113)	(1,332)
Allowance for trade receivables	17	-	2,778
Write-off of liabilities from suppliers	6	-	(1,293)
Allowance for loans	15	-	601
Interest expense	11	15,335	10,951
Net exchange rate differences		(1,730)	(2,759)
Profit before changes in working capital		**112,453**	**116,520**
(Increase)/decrease in inventories		(1,540)	30,233
Decrease/(Increase) in trade and other receivables		2,600	(128,457)
Increase in trade and other payables		57,089	14,713
Cash flow from operating activities		**170,602**	**33,009**
Paid interest		(14,249)	(10,697)
Net cash flow from operating activities		**156,173**	**22,312**
Cash flow from investment activities			
Purchase of property, plant and equipment	13	(128,050)	(27,352)
Purchases of intangible assets	13	(1,010)	(1,154)
(Increase)/decrease in investments in subsidiaries	14	(1,824)	14
New given loans		(156,304)	(136,026)
Receipts of given loans		190,838	93,968
Net cash flow used in investment activities		**(96,350)**	**(70,550)**
Cash flow from financing activities			
Proceeds from borrowings		101,668	269,383
Repayment of borrowings		(162,516)	(206,629)
Decrease in other financial assets		(1,276)	328
Profit distribution		(10.696)	-
Net cash flow generated from / (used in) financial activities		**(72,820)**	**63,082**
Net (decrease)/increase in cash and cash equivalents		**(12,997)**	**14,844**
Cash and cash equivalents at the beginning of the year	18	**16,072**	**1,228**
Cash and cash equivalents at the end of the year	18	**3,075**	**16,072**

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

NOTE 1 - GENERAL INFORMATION

History and establishment

The company DIV Grupa d.o.o. (Company) is registered with the Commercial Court in Zagreb under the registration number (MBS) 080127368, in accordance with the Companies Act. The core business activity of the Company is the production of fasteners, screws, chains and springs. The Company is headquartered at Samobor, Bobovica, 10A, Croatia. The share capital of the Company amounts to HRK 245,736,800 thousand.

Members of the Supervisory Board during the reporting period were as follows:

Name	Surname	Function
Danijela	Debeljak	Chairman of the Supervisory Board
Vjera	Debeljak	Vice President of the Supervisory Board

Members of the Management Board during the reporting period were as follows:

Name	Surname	Function
Tomislav	Debeljak	President of the Management Board
Darko	Pappo	Member of the Management Board

Shareholder structure of the Company as at 31/12/2019:

	Share
Tomislav Debeljak	50%
Vjera Debeljak	25%
Vedrana Debeljak	25%
	100%

Number of employees:

As at 31 December 2019, the Company had 742 employees (2018: 742).

NOTE 2 - BASIS OF PREPARATION

Statement of compliance

The Company's separate financial statements have been prepared in accordance with the accounting regulations effective in the Republic of Croatia. The accounting regulations effective in the Republic of Croatia are defined in the Accounting Act (Official Gazette no. 109/07, 54/13, 121/14, 78/15, 120/16). The Company prepares and presents annual financial statements in accordance with International Financial Reporting Standards (IFRS), their amendments and related interpretations published by the European Union. The Company is obliged to draw up consolidated financial statements in line with Article 23 of the Accounting Act of the Republic of Croatia. The Company, as the parent, separately prepares consolidated financial statements. The consolidated financial statements shall be published subsequently.

Basis of measurement

These financial statements are prepared on a historical cost basis, except where otherwise disclosed. The values of land, property, plant and equipment of the Company have been measured at revalued amounts (Note 13) since 31 December 2017.

Functional and presentation currency

These financial statements are presented in the Croatian kuna ("HRK"), the Company's functional currency, rounded to the nearest thousand.

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

Going concern

These separate financial statements have been prepared on the going concern basis. The Company's ability to continue as a going concern is based on cash flow projections which, in the Management Board's view, support the assumption that the Company will have sufficient resources to continue its operation for at least 12 months from the reporting date. The preparation of cash flow projections includes a series of assumptions and significant estimates. The Management Board concluded that the range of possible outcomes considered did not give rise to material uncertainties concerning the events or conditions that might cast significant doubt on the Company's ability to continue as a going concern.

Considering that the process of reprogramming loans with banks is ongoing and if the planned inflow is less than anticipated, the Company has considered potential options and alternatives, including, but not limited to, sale of inventory of finished products with discount (still above purchase price) or disposals of non-core assets to secure additional funds if immediately required.

Application of new and revised International Financial Reporting Standards

Standards and interpretations effective for the current period

The following new standards and amended existing standards issued by the International Accounting Standards Committee (IASC) and interpretations published by the International Accounting Standards Board (IASB) and adopted by the European Union are in effect for the current reporting period:

- **IFRS 16 "Leases"**, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 01 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation, adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 01 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement, adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 01 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures, adopted by the EU on 08 February 2019 (effective for annual periods beginning on or after 01 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"**, adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

Impact of initial application of IFRS 16 Leases

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in line with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 01 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or amended on or after 01 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on lessee accounting

Former operating leases

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

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. a rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in profit or loss.

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

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The Company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review;
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

Impact on lessee accounting

Former operating leases

- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.
- At the date of initial application, the Company recorded the amounts of right-of-use assets and lease liabilities in the same amount.

Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption. The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 01 January 2019.

Leases

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately in Note 20.

Standards and interpretations issued by IASB and adopted by the European Union, but not yet effective

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 01 January 2020),
- **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 November 2020 (effective for annual periods beginning on or after 01 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 01 January 2020).

The Company has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates.

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

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

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

At present, IFRSs as adopted by the European Union 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 the EU as at the date of publication of the financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 01 January 2016) – the European Commission decided to delay the adoption of this transitional standard until the issue of its final version,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 01 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these separate financial statements are set out below. The Company used these accounting policies in a consistent manner for all periods which form a part of these statements.

3.1 Investments in subsidiaries and associates

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to control the financial and operating policies, which generally means more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment.

Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for initially at cost and subsequently at cost less impairment losses.

3.2 Foreign currency transactions

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at that date. 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 profit or loss.

Non-monetary assets and items denominated in foreign currencies that are measured at historical cost are not re-translated.

Foreign-currency denominated non-monetary assets and liabilities measured at historical cost are translated to the functional currency using the exchange rate list in effect at the transaction dates.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Property, plant and equipment

On 31 December 2017, the Company changed its accounting policy of asset valuation and decided to value its asset using a revaluation model.

Following the initial recognition at cost, property, plant and equipment are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Any impairment loss decreases revaluation reserve up to the amount of revaluation reserve of the specific asset.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be accumulated in equity under the heading of revaluation surplus and if the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense in profit or loss. Revaluation decrease shall reduce the revaluation reserve to the extent of any credit balance existing in respect of that asset.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. All other investment and maintenance costs are charged to the statement of comprehensive income in the financial period they incurred in. The cost of replacing parts of the property, plant and equipment is capitalised, and the carrying amount of replaced parts is written off.

Land and assets under construction are not depreciated. Depreciation of other assets is provided using the straight-line method so as to write down the cost of the asset over its estimated useful life as follows:

	2019	**2018**
Buildings	50 years	50 years
Tools, plant fittings and vehicles	10 years	10 years
Plants and equipment	5-25 years	5-25 years

Depreciation is calculated for each asset until the asset is fully depreciated or its residual values are significant. The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3.4 Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject of depreciation (such as land or goodwill) are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Financial assets

Financial assets and financial liabilities are recognised in the statement of financial position of the Company when the Company becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs which may be directly attributed to the acquisition or issuing of the financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets and financial liabilities at initial recognition, where appropriate. Transaction costs which may be directly attributed to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit and loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. All regular way purchases or sales represent purchases or sales of financial assets which require delivery in the framework established in regulations or market practice.

All recognised financial assets are subsequently entirely measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model and characteristics of contracted cash flows of financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is achieved by collecting 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.

Depreciated cost and effective interest method

The effective interest method is a method of calculating the depreciated cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, aside from purchased or incurred credit-impaired financial assets (i.e. assets which were credit-impaired during the initial recognition), the effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses, during the expected life of a debt instrument or, where appropriate, during a shorter period, to gross carrying amounts of the debt instrument at initial recognition. For purchased or incurred credit-impaired financial assets, the effective interest rate adjusted to the loan is calculated by discounting estimated future cash flows, including expected credit losses, to the depreciated cost of the debt instrument at initial measurement.

The depreciated cost of financial assets is the amount at which the financial instrument is measured at initial recognition, net of payments of principal and plus accumulated depreciation, using the effective interest method for any difference between the opening amount and amount at maturity, adjusted for any loss. Gross carrying amount of financial assets is the depreciated cost of financial assets before adjustments for any loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Financial assets (continued)

Interest income is recognised by applying the effective interest rate for debt instruments, which are subsequently measured at depreciated cost and FVTOCI.

For financial assets, other than purchased or incurred credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, aside for the financial assets which subsequently became credit-impaired.

For financial assets which subsequently became credit-impaired, interest income is recognised by applying the effective interest rate to the depreciated cost of financial assets. If, in the following reporting periods, the credit risk for the credit-impaired financial instrument improves in the way that the financial instrument is no longer credit-impaired, the interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial assets.

For the purchased or incurred credit-impaired financial assets, the Company recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

Interest income is recognised in profit and loss.

Impairment of financial assets

The Company recognises the provisions for expected credit losses from debt instruments measured at depreciated cost. The amount of expected credit losses is calculated at every reporting date in order to reflect the changes in the credit risk since the initial recognition of an individual financial instrument.

The Company always recognises life-long expected credit losses (ECL) for trade receivables based on a selected simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company 's historical credit loss experience, adjusted for debtor-specific factors. The Company currently does not adjust the loss rate for future macroeconomic conditions, since it has not performed an analysis of the impact of macroeconomic factors on historical loss rates, including the time value of money, where appropriate.

For all other financial instruments, the Company recognises the life-long ECL in case of a significant increase in credit risk since initial recognition. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition, the Company measures the loss for this financial instrument in the amount equal to a 12-month ECL. Life-long ECL represents expected credit losses resulting from all potential cases of default during the expected lifetime of the financial instrument.

By contrast, a 12-month ECL represents a part of the life-long ECL, on account of the probability of a default status in the 12 months following the reporting date.

Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Company compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Company considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagaments. In particular, the Company relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 360 days, then the Company assumes that there is a significant increase in credit risk.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Financial assets (continued)

Despite the aforementioned, we assume that the credit risk for the financial instrument has not significantly increased since the initial recognition if we determine that the financial instrument has a low credit risk at the reporting date. We conclude that the financial instrument has a low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong ability to settle his/her contractual obligations in the short term; and
- adverse changes in economic and business conditions in the long term may, but do not necessarily have to, decrease the lessee's ability to meet his/her contractual cash flow obligations.

However, the Company does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk. The Company regularly monitors the efficiency of criteria used to determine whether there has been a significant increase in credit risk and reviews them so that the criteria may identify a significant increase in credit risk before any default occurs.

Definition of default status

The following facts, which represent a case of default for internal credit risk management purposes are considered by the Company as a historical experience which proves that financial assets meeting any of the following criteria are in general not recoverable:

- if the debtor breached the financial clauses; or
- data developed internally or obtained from external sources point to the fact that it is highly unlikely that the debtor will pay their creditors, including the Company, in full (without considering any collateral held by the Company).

Despite the aforementioned analysis, the Company believes that default occurred if the financial assets are due more than 360 days and the relevant liabilities have not been settled, unless the Company disposes of reasonable and substantiated information to prove a more appropriate default criteria.

Credit-impaired financial assets

Financial assets are credit-impaired when one or more events with an adverse effect on estimated future cash flows and financial assets occurred. Proof of credit impairment of the financial asset includes data available on the following events:

- significant financial difficulties of the issuer or debtor;
- breach of contract, as default (defined above);
- when the issuer, due to the debtor's financial difficulties, grants the debtor a concession, which he would otherwise not consider;
- it becomes probable that the debtor will go into bankruptcy or undertake another type of financial restructuring;
- the disappearance of an active market for a specific financial asset because of financial difficulties.

Write-off policy

The Company writes off financial assets when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return; for example, when the debtor has gone into liquidation or bankruptcy or when trade receivables are due more than 3 years, whatever happens first. Written-off financial assets can still be subject to enforcement activities within the Company recovery procedures, with regard to the relevant legal advice, where appropriate. As previously described, revenue from the collection of financial assets is recognised in profit or loss.

Measurement and recognition of expected credit losses

Measurement of expected credit losses is the function of Probability of Default (PD), Loss Given Default (LGD), i.e. size of loss in case of default, and Exposure at Default (EAD). Assessment of Probability of Default and Loss Given Default is based on historical data and information provided in previous paragraphs. In terms of exposure in the moment of default, for the financial assets it represents a gross carrying amount of the assets at the reporting date. When assessing the PD and LGD parameters, the Company relies on external investment rating agencies' publications.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Financial assets (continued)

For the financial assets, the expected credit loss is assessed as the difference between all contractual cash flows maturing in line with the contract and all expected cash flows, discounted at the original effective interest rate. If the Company measured provisions for expected loan losses for financial instruments in the amount equal to life-long ECL in the previous reporting period, but at the current reporting date it determined that the life-long ECL conditions are no longer met, the Company measure the loss in the amount equal to a 12-month ECL at the current reporting date, except for the assets for which a simplified approach was used (trade receivables).

The Company recognises impairment gains and losses in the profit and loss account for all financial instruments with the appropriate adjustment of the carrying amount through the loss provisions account.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and a related liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralised borrowing for the asset received.

In case of financial asset recognition measured at depreciated cost, the difference between the asset's carrying amount and the amount of the consideration received and receivable is recognised in profit or loss. Furthermore, when recognising debt investment measured at FVTOCI ceases, cumulative profit or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss, except in case of equity instruments for which the FVTOCI option has been selected.

Loans and receivables

The Company always reports the provisions for losses of trade receivables in the amount equal to the life-long ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference historical data, considering the past default experience of the debtor and the analysis of the debtor's current financial position. The Company recognised a 100% loss for all receivables 360 days past due for which the individual examination of the debtor's financial position showed that they were unrecoverable. There were no changes in the assessment techniques or material assumptions during the current reporting period.

The Company writes off financial assets when there is data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy or when trade receivables are due more than 3 years, whatever happens first. No written-of receivables are subject to enforcement activities. Since the experience of past credit loss of the Company does not demonstrate significantly different loss patterns for different client segments, loss provisions based on maturity date do not additionally differ among different user groups of the Company.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial liabilities

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company has no financial liabilities classified as fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings and loans, are initially measured at fair value less transaction costs.

Other financial liabilities are subsequently measured at depreciated cost using the effective interest method, where interest expense is recognized on the basis of the effective yield.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's liabilities are paid, cancelled or expired.

3.7 Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the terms attached to them and that the grant will be received. Consequently, the Company does not recognise government grants until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods required to match them with the related costs. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity without future related costs shall be recognized in profit or loss for the period in which the receivables were created. Grants related to tangible assets which are depreciated are usually recognised in profit or loss in periods and ratios in which the depreciation cost for the relevant asset is recognised. In the statement of financial position, government grants are recognized as a deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset.

3.8 Leases

a) Leases (accounting policy until 31 December 2018)

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease by reference to the lower of the fair value of the leased property or the present value of the minimum lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance charge is charged to profit or loss over the lease period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

b) Leases (accounting policy from 01 January 2019)

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets, less than HRK 30 thousand (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amount expected to be payable by the lessee under residual value guarantees;
- exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Leases (accounting policy from 01 January 2019) (continued)

The Company did not make any such adjustments during the periods presented. Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.
Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.
The right-of-use assets are presented as a separate line in the statement of financial position. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.
Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

3.9 Inventories

Inventories of finished goods and products for resale are stated at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average cost method and includes the purchase value of inventories and other costs associated with bringing them to their present location and to their present situation. Net realizable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and sale.

Raw materials and production materials are measured at purchase value, using the weighted average cost method. 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). Spare parts are measured at the lower of the purchase cost and net realisable value.

Value of obsolete and slow-moving inventories is charged to profit or loss for the current year.

3.10 Construction contracts

Contracts costs are recognised when incurred.

If the outcome cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company uses the percentage-of-completion method to determine the appropriate amount of revenue and expenses to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. Costs are presented as inventories, prepayments or other assets, depending on their nature.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Construction contracts (continued)

For all contracts in progress for which costs incurred and recognised gains (less recognised losses) exceed progress billings, the Company presents the gross amount receivable as an asset Progress billings not yet paid by customers and retained amounts are recognised in "Trade and other receivables".

For all contracts in progress for which progress billings exceed costs incurred and recognised profits (less recognised losses), the Company presents the gross amount due to customers as a liability.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Income tax

Income tax is calculated according to Croatian laws and regulations.

Income tax is based on taxable income for the financial year and comprises current and deferred tax. Income tax is recognised in profit or loss, except when it refers to items directly stated in the principal, in which case it is also stated in the principal

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets or liabilities that affects neither accounting nor taxable profit, as well as differences which refer to investing into subsidiaries when it is probable that the relevant situation will not change in the near future. Temporary differences are not recognised at initial recognition of goodwill. The measurement of deferred tax is based on the assumed manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates enacted at the reporting date.

Deferred tax assets are recognised when it is probable that sufficient taxable gains will exist against which deferred tax assets may be used. Deferred tax assets are reduced when it is no longer probable that taxable profits will be available.

3.13 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.14 Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. In future periods, borrowings are stated at amortized cost; all differences between receivables (minus transaction costs) and surrender value are recognized in the consolidated statement of comprehensive income over the period of the borrowing period using the effective interest rate method.

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

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

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

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 reporting date.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments 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.

(b) Termination benefits

Termination benefits are payable when the employment is terminated by the Company before the normal retirement date, or whenever an employee accepts redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

3.16 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in their settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The amount of provision increases in each period to reflect the passage of time. This increase is presented as interest expense.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the Company's activities. Revenue is reported in the amount net of value added tax, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company, and specific criteria for all activities have been met, as described below.

Sales of goods

Revenues from the sale of goods and services are generated from the production of rivets, screws, chains and springs.

Services revenue

The Company generates revenue from the provision of services. Revenue from services is recognised in the period in which services are provided, in proportion to the stage of their completion in relation to the total services to be provided.

Financial income

Financial income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Revenue from construction contracts

Revenue from construction contracts consists of initially agreed amount increased by deviations from contracted work, complaints and other incentives when it is probable that the contract will be profitable and the profits will be measurable. When the outcome of a construction contract can be estimated reliably, contract revenue and expenses related to the construction contract are recognised as revenue and expenses, based on the percentage of completion.

Percentage of completion is valued based on an overview of work done by the reporting date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred, which are likely to be recoverable. Expected loss from a construction contract is recognised in the profit or loss immediately. The Management Board believes this method to be appropriate for measuring progress towards complete satisfaction of these performance obligations in line with IFRS 15.

3.18 Value added tax

The Tax Authorities require the settlement of VAT 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.

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

Key estimates and judgements in applying accounting policies

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

The Company reassesses the estimated useful life of buildings, equipment, and vehicles. Based on its assessment and the fact that a capital investments programme was initiated in the previous period, the Company changed the useful life of the relevant assets on 1 January 2014 for the last time. 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.

Recoverable amount of trade and other receivables

The recoverable amount of trade and other receivables was estimated based on the present value of estimated future cash flows, discounted at the market interest rate at the measurement date. Current receivables without the relevant interest rate are measured based on the original account amount if the discount effect is not material. Non-impaired trade receivables over 365 days due mainly refer to related-party receivables for which interest is charged. Related parties in Serbia have contracted or are in the process of contracting a significant number of projects. The relevant receivables will be collected from the parent company according to the realisation dynamics of the relevant projects.

Impairment of inventories

Inventories are estimated separately at each reporting date and are impaired according to the assessment of probability of sale and ageing structure. The calculation of impairment of value of inventories is based on the date of the last sale and turnover. The Management Board defined categories of impairment allowance on inventories considering the age of individual products in order to determine individual impairment of inventories.

Legal claims and disputes

Provisions for legal claims and disputes are recorded based on the Management Board's best estimate of probable losses after consulting with a legal counsel.

Government grants

Government grants are recognised when there is reasonable assurance that the Company will comply with the applicable conditions and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Recognition of deferred tax assets

In determining future taxable profits and the amount of tax benefits that are likely to be utilized in the future, the Management Board makes judgements and estimates based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances. Deferred tax assets represent amounts of income tax recoverable based on future deductions of taxable profit and is reported in the statement of financial position. Deferred tax assets are recognised up to the amount of the tax revenue which is likely to be realised.

NOTE 5 – REVENUE

	2019	2018
		(in thousands of HRK)
Foreign sales income	130,950	177,398
Domestic sales income	250,674	215,207
Revenues from Construction services	162,181	93,025
	543,805	**485,630**

NOTE 6 - OTHER OPERATING INCOME

	2019	2018
		(in thousands of HRK)
Write-off of liabilities from suppliers	54	1,293
Income from subsequently collected claims	-	18,799
Other operating income	5,204	9,697
	5,258	**29,789**

NOTE 7 - MATERIAL EXPENSES

	2019	2018
	(in thousands of HRK)	
Material used	124,224	184,472
Fuel and energy	11,694	11,829
Small inventory and spare parts	1,135	953
Raw materials and supplies	**137,053**	**197,254**
Cost of sales	**107,963**	**70,487**
Intellectual services	5,747	6,791
Transport services	5,712	6,748
Treatment, preparation and processing	7,495	9,013
Utilities	1,542	1,882
Postage, telephone, internet et sim.	575	754
Other external expenses	57,777	16,868
Other expenses	**78,848**	**42,056**
Total material expenses	**323,864**	**309,797**

Other external expenses predominantly refer to subcontractor services worth HRK 51,507 thousand (2018: HRK 12,107 thousand) and rental expenses amounting to HRK 2,829 thousand (2018: HRK 1,905 thousand). Increase in 2019 subcontractor services is due to different projects of the Company (Dugo Selo-Križevci railroad track reconstruction, Rotor Zagreb, New-build 487 and 485).

NOTE 8 - EMPLOYEE COSTS

	2019	2018
	(in thousands of HRK)	
Net salaries and wages	48,450	47,371
Taxes and contributions from salaries	17,836	17,312
Contributions on salaries	9,034	9,513
Other employee costs	14,075	10,827
	89,395	**85,023**

As at 31 December 2019, the Company had 742 employees (2018: 742).

NOTE 9 - OTHER OPERATING EXPENSES

	2019	2018
	(in thousands of HRK)	
Bank charges	4,666	6,945
Customs and import duties	-	111
Subsistence allowance	1,879	1,389
Insurance	521	557
Value adjustment of trade receivables and loans, provision cost	18,142	5,487
Other costs	3,249	4,534
	28,457	**19,023**

NOTE 10 - FINANCIAL INCOME

	2019	2018
	(in thousands of HRK)	
Foreign exchange gains	1,807	6,035
Interest income	3,155	969
Other financial income	149	201
	5,111	**7,205**

NOTE 11 - FINANCIAL EXPENSES

	2019	2018
	(in thousands of HRK)	
Interest cost	15,335	10,951
Foreign exchange losses	3,536	3,821
Other financial expenses	2	51
	18,873	**14,823**

NOTE 12 – INCOME TAX

	2019	2018
		(in thousands of HRK)
Profit before taxation	80,293	82,871
Corporate income tax at a rate of 18%	14,453	14,917
Effect of non-deductible expenses	23,167	612
Effect of non-taxable income	(1,147)	(87)
Effect of tax incentives (tax benefit)	(36,473)	(15,442)
Current tax	-	-

Tax incentives and temporary differences not recognized as deferred tax assets

The Company uses tax incentives in accordance with the Investment Promotion Act and has the status of an incentive promoter based on its investment. The grant in the form of a tax incentive for the new fasteners products factory in Knin amounted to HRK 151,100 thousand, and the grant in the form of a tax incentive for the threaded rods factory amounted to HRK 28,303 thousand. On 31 December 2019, the Company used up a total of HRK 122,303 thousand, of which HRK 103,597 thousand refers to the the impairment of the income tax liability.
The Company did not recognize deferred tax assets related to tax incentives and temporary differences, due to historical uncertainty.

In accordance with tax regulations, the Tax Administration may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may introduce additional tax liabilities and penalties. The Company's Management Board is not aware of any circumstances which may give rise to contingent material liabilities.

Movement of deferred tax assets was as follows:

	2019	2018
	(in thousands of HRK)	
Balance at 01 January	662	-
Impact of IFRS 9 to retained earnings	(30)	387
Additions		275
Balance at 31 December	**632**	**662**

Movement of deferred tax liability was as follows:

	2019	2018
	(in thousands of HRK)	
Balance at 01 January	**(54,630)**	**(56,347)**
Recognition (charged to capital)	-	-
Release (to profit or loss)	1,506	1,716
Balance at 31 December	**(53,124)**	**(54,631)**

	2019	2018
	(in thousands of HRK)	
Total income tax	**1,503**	**1,991**

The deferred tax liability arose on the revaluation of assets as described in notes 13 and 19b.

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Infrastructure	Vehicles	Tools	Computer and other equipment not mentioned	Plant, equipment and other plant fittings	Assets under construction and prepayments	Intangible assets	Total
Cost or valuation										
As at 01 January 2018	25,385	328,049	82,257	15,154	79	3,583	285,064	34,451	161	774,183
Additions		344	-	1,623	172	208	2,887	22,278	1,153	28,665
Revaluation	-	-	-	-	-	-	-	-	-	-
Disposals and retirement	(45)	-	-	(300)	-	(9)	(1,291)	(4,686)	-	(6,331)
As at 31 December 2018	**25,340**	**328,393**	**82,257**	**16,477**	**251**	**3,782**	**286,660**	**52,043**	**1,314**	**796,517**
As at 01 January 2019	25,340	328,393	82,257	16,477	251	3,782	286,660	52,043	1,314	796,517
Additions	-	4,547	2,384	3,373	301	113	156,376	(39,878)	173	129,069
Revaluation	-	-	-	-	-	-	-	-	-	0
Disposals and retirement	-	-	-	(1,359)	-	(4)	(53)	-	-	(1,416)
As at 31 December 2019	**25,340**	**334,620**	**84,641**	**18,491**	**552**	**3,891**	**442,983**	**12,165**	**1,487**	**924,170**
Accumulated depreciation										
As at 01 January 2018	-	**28,238**	**9,254**	**8,952**	**70**	**2,744**	**77,235**	-	-	**126,493**
Charge for the year	-	6,232	1,557	746	-	244	10,035	-	-	18,814
Disposals and retirement	-	-	-	(255)	(45)	(8)	(89)	-	-	(397)
As at 31 December 2018	-	**34,470**	**10,811**	**9,443**	**25**	**2,980**	**87,181**	-	-	**144,910**
As at 01 January 2019	-	**34,470**	**10,811**	**9,443**	**25**	**2,980**	**87,181**	-	-	**144,910**
Charge for the year		6,297	1,615	851	28	261	10,109	-	-	19,153
Depreciation of the right-of-use asset		843								843
Disposals and retirement	-			(1,204)		(15)	(14)	-		(1,233)
As at 31 December 2019	-	**41,610**	**12,426**	**9,090**	**53**	**3,226**	**97,268**	-	-	**163,673**
Net carrying amount										
As at 31 December 2018	25,340	**293,923**	**71,446**	**7,034**	**226**	**802**	**199,479**	**52,043**	**1,314**	**651,607**
As at 31 December 2019	25,340	**293,010**	**72,215**	**9,401**	**499**	**665**	**345,715**	**12,165**	**1,487**	**760,497**

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (continued)

Land, buildings and equipment of the Company with a net carrying amount of HRK 142,428 thousand (*2018: HRK 43,149 thousand*) are secured against bank loans received by the Company.

The carrying amount of the equipment under finance lease, for which the Company is a lessee, is as follows:

	31 December 2019	**31 December 2018**
		(in thousands of HRK)
Cost of equipment under finance lease	11,293	10,806
Accumulated depreciation	(954)	(939)
Net carrying amount	**10,339**	**9,867**

NOTE 14 – NON-CURRENT FINANCIAL ASSETS

	31 December 2019	**31 December 2018**
		(in thousands of HRK)
Investment in unsubscribed capital of the company DIV Brodogradnja d.o.o.	80,378	53,378
Investments in subsidiaries	43,298	41,464
Other investments	24	34
	123,700	**94,876**

NOTE 14 – NON-CURRENT FINANCIAL ASSETS (continued)

The following is a review of investments in subsidiaries

		Share of proprietary and voting rights	31 December 2019	31 December 2018
			(in thousands of HRK)	
MIN-DIV Svrljig a.d, Svrljig	Serbia	86.45%	30,651	30,651
DIV Betonski pragovi d.o.o., Svrljig	Serbia	100%	9,539	9,539
DIV CRUISES, INC.	USA	100%	1,853	17
SHANGHAI VIDA INDUSTRY & TRADING CO., LTD.	China	100%	659	659
TVIK-DIV d.o.o. Valjevo	Serbia	100%	179	179
MARINE CONSALTING d.o.o.	Croatia	50%	60	60
DIV d.o.o., Sarajevo	BiH	100%	31	31
DIV Brodogradnja d.o.o.	Croatia	100%	20	20
BRODOSPLIT ALATNICA d.o.o.	Croatia	70%	14	14
BRODOSPLIT ATEST d.o.o.	Croatia	70%	14	14
BRODOSPLIT AUTOMATIZACIJA d.o.o.	Croatia	70%	14	14
BRODOSPLIT BRAVARIJA I LIMARIJA d.o.o.	Croatia	70%	14	14
BRODOSPLIT CJEVARSKA IZRADA d.o.o.	Croatia	70%	14	14
BRODOSPLIT ČIŠĆENJE d.o.o.	Croatia	70%	14	14
BRODOSPLIT- INTERIJERI I ZAVRŠNI RADOVI d.o.o.	Croatia	70%	14	14
BRODOSPLIT KORPOR ATIVNA ZAŠTITA d.o.o.	Croatia	70%	14	14
BRODOSPLIT LABORATORIJ d.o.o.	Croatia	70%	14	14
BRODOSPLIT LJEVAONICA d.o.o.	Croatia	70%	14	14
BRODOSPLIT LJUDSKI RESURSI d.o.o.	Croatia	70%	14	14
BRODOSPLIT NAMJEŠTAJ PO MJERI d.o.o.	Croatia	70%	14	14
BRODOSPLIT OBLAGANJE d.o.o.	Croatia	70%	14	14
BRODOSPLIT ODRŽAVANJE d.o.o.	Croatia	70%	14	14
BRODOSPLIT OPTIMIZACIJA I EKOLOGIJA d.o.o.	Croatia	70%	14	14
BRODOSPLIT PLOVNE DIZALICE d.o.o.	Croatia	70%	14	14
BRODOSPLIT PRIVREMENA ENERGETIKA d.o.o.	Croatia	70%	14	14
BRODOSPLIT RAČUNOVODSTVO I FINANCIJE d.o.o.	Croatia	70%	14	14
BRODOSPLIT SKELA d.o.o.	Croatia	70%	14	14
BRODOSPLIT STROJNA OBRADA d.o.o.	Croatia	70%	14	14
BRODOSPLIT - Brodska i ostala oprema d.o.o.	Croatia	70%	14	14
MARINE AND ENERGY SOLUTIONS DIV d.o.o.	Croatia	50%	10	10
BRODOSPLIT ISTRAŽIVANJE I RAZVOJ d.o.o.	Croatia	70%	0	2
BRODOSPLIT SERVIS BRODOVA d.o.o.	Croatia	70%	1	1
DIV UČILIŠTE	Croatia	100%	1	1
			43,298	**41,464**

NOTE 15 – CURRENT FINANCIAL ASSETS

	31 December 2019	31 December 2018
		(in thousands of HRK)
Given loans, deposits and similar	1,505	395
Given loans to related parties	6,951	41,880
Impairment of given loans	(12)	(601)
	8,444	**41,674**

Movements in impairment of receivables for given loans were as follows:

	2019	2018
		(in thousands of HRK)
Balance at 01 January	**601**	**-**
Increase in expected credit losses (IFRS 9)	(589)	601
Balance at 31 December	**12**	**601**

NOTE 16 - INVENTORIES

	31 December 2019	31 December 2018
		(in thousands of HRK)
Trade goods	87,938	89,746
Impairment allowance	*(20,063)*	*(11,027)*
	67,875	**78,719**
Finished products	136,232	108,992
Impairment allowance	*(6,655)*	*(7,051)*
	129,577	**101,941**
Raw materials and supplies	23,929	32,777
Impairment allowance	*(485)*	*(1,207)*
	23,444	**31,570**
Advances for inventories	17,370	24,545
Work in progress	18,972	18,923
	257,238	**255,698**

NOTE 16 – INVENTORIES (continued)

Movements in impairment of inventories were as follows:

	2019	2018
		(in thousands of HRK)
Balance at 01 January	**19,285**	**18,247**
Increase	27,203	19,285
Decrease	(19,285)	(18,247)
Balance at 31 December	**27,203**	**19,285**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
		(in thousands of HRK)
Receivables from related parties	56,816	167,277
Trade receivables	31,896	47,812
Impairment allowance of trade receivables	(6,755)	(7,142)
	81,957	**207,947**
Receivables from construction contracts (Note 23)	107,469	52,766
Receivables acquired through cessions and assignments	5,355	1,804
Input tax receivables	35,765	6,895
Receivables for given guarantees and performance	14,833	9,501
Receivables for default interest	706	485
Receivables for government grants and subsidies	735	123
Other receivables	10,880	7,357
	175,743	**78,931**
Impairment of trade and other receivables in line with IFRS 9	(3,501)	(3,081)
	254,199	**283,797**

Movements in impairment of trade and other receivables were as follows:

	2019	2018
		(in thousands of HRK)
Balance at 01 January	**10,223**	**5,310**
Increase	522	1,847
Expected credit losses (IFRS 9) - initial application	-	2,153
Increase in expected credit losses (IFRS 9)	420	931
Collected previously written-off receivables	-909	-10
Write-off - FX gains/losses	-	-8
Balance at 31 December	**10,256**	**10,223**

Impairment losses on trade receivables are disclosed in Note 9 *Other expenses*.

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

The ageing structure of trade receivables is as follows:

	Gross amount of receivables	Impairment of receivables	Net receivables
	(in thousands of HRK)		
Undue and recoverable	**40,757**		**40,757**
Due			
Up to 30 days	6,768		6,768
31-90 days	3,602		3,602
91-180 days	5,748		5,748
181-365 days	8,849		8,849
Over 365 days	22,988	**(6,755)**	16,233
Total	**88,712**	**(6,755)**	**81,957**

NOTE 18 - CASH AND CASH EQUIVALENTS

	31 December 2019	**31 December 2018**
		(in thousands of HRK)
Cash at bank	3,047	16,020
Petty cash	28	52
	3,075	**16,072**

Cash at bank refers to cash accounts with commercial banks.

NOTE 19 - SHARE CAPITAL

19a Share capital

	31 December 2019	31 December 2018
		(in thousands of HRK)
Share capital	245,737	245,737
	245,737	**245,737**

The ownership structure of the Company as at 31 December 2019 is as follows:

	Share
Tomislav Debeljak	50%
Vjera Debeljak	25%
Vedrana Debeljak	25%
	100%

19b Revaluation reserves

On 31 December 2017, the Company revalued its land, property and equipment. The revaluation was done based on the assessment of the authorised appraisal company Centar za vještačenje i procjene d.o.o. and court experts Mr Krešimir Kršul and Mr Davor Savić.

In line with the International Accounting Standard 16 "Property, plant and equipment" (IAS 16) and accounting policies of the Company, the revalued amount of land, property, plant and equipment constitutes the difference between the net carrying amount of land, property, plant and equipment as at 31 December 2017, and estimated value of land, property, plant and equipment.

Movement of the revaluation reserve is as follows:

	2019	2018
Balance at 01 January	**248,873**	256,694
Increase in revaluation reserve	-	-
Depreciation of revaluation	(6,862)	(7,821)
Balance at 31 December	**242,011**	**248,873**

19c Other reserves

Changes in other reserves	2019	2018
Balance at 01 January	**471**	**-**
Brought from merger of company Brodosplit-Projekti d.o.o.	-	471
Decrease in retained earnings and increase in capital reserves	6,082	-
Balance at 31 December	**6,553**	**471**

19d Retained earnings

Changes in retained earnings	**2019**	**2018**
Balance at 01 January	**253,317**	162,400
Decrease in profit and increase in share capital	(214,633)	-
Increase in retained earnings from capital reserves	208,550	-
Impact of IFRS 9 application	(29)	(1,766)
Depreciation of revaluation reserve	8,367	7,821
Profit distribution	(10,696)	-
Total comprehensive income for the year	80,292	84,862
Balance at 31 December	**325,168**	**253,317**

On 19 October 2017, the company Brodosplit-Projekti d.o.o. was merged with the company DIV GRUPA d.o.o. The company DIV GRUPA d.o.o. thus acquired other reserves worth HRK 471 thousand referring to the value of share capital of the company Brodosplit-Projekti d.o.o. minus the value of the shares reported in the balance sheet of the company DIV GRUPA d.o.o.

Retained earnings of the company DIV GRUPA d.o.o. are impaired by the value of accumulated transferred losses of the company Brodosplit-Projekti d.o.o. at the moment of the merger in the amount of HRK 133 thousand.

NOTE 20 - LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
		(in thousands of HRK)
Non-current liabilities to banks		
Bank loans	238,072	279,104
Current portion	(49,030)	(45,349)
Non-current liabilities to banks	**189,042**	**233,755**
Non-current liabilities to other financial institutions		
Finance lease	3,845	5,365
Current portion	(1,823)	(2,000)
Non-current portion of finance lease	**2,022**	**3,365**
Non-current liabilities of IFRS 16 lease		
IFRS 16 lease	854	-
Current portion	(854)	-
Non-current portion of IFRS 16 lease	**-**	**-**
Total non-current liabilities to banks and other financial institutions	**191,064**	**237,120**
Current liabilities to banks and other financial institutions		
Short-term bank loans	-	18,544
Current portion of long-term loans	49,030	45,349
Current portion of finance lease	1,823	2,000
Current portion of IFRS 16 lease	854	-
Total current liabilities to banks and other financial institutions	**51,707**	**65,893**
Total liabilities to banks and other financial institutions	**242,771**	**303,013**

NOTE 20 - LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Maturity of borrowings as at the reporting date is as follows:

	31 December 2019	**31 December 2018**
		(in thousands of HRK)
Maturity up to 6 months	26,279	41,218
Maturity from 6 months to 1 year	22,751	22,675
Maturity from 1 to 2 years	45,502	45,349
Maturity from 2 to 5 months	143,540	136,047
Maturity over 5 years	-	52,359
	238,072	**297,648**

Maturity of finance lease liabilities as at the reporting date is as follows:

	2019 *(in thousands of HRK)*		
	Equity	Interests	Total
Up to 1 year	1,823	133	1,956
1 to 2 years	1,062	64	1,126
2 to 5 years	960	37	997
	3,845	**234**	**4,079**

	2018 *(in thousands of HRK)*		
	Equity	Interests	Total
Up to 1 year	2,000	219	2,219
1 to 2 years	1,764	118	1,882
2 to 5 years	1,601	74	1,675
	5,365	**411**	**5,776**

Maturity of IFRS 16 lease liabilities as at the reporting date is as follows:

	2019 *(in thousands of HRK)*		
	Equity	Interests	Total
Up to 1 year	854	45	899
1 to 2 years	-	-	-
2 to 5 years	-	-	-
	854	**45**	**899**

	2018 *(in thousands of HRK)*		
	Equity	Interests	Total
Up to 1 year	-	-	-
1 to 2 years	-	-	-
2 to 5 years	-	-	-
	-	-	-

The carrying amount of the Company's borrowings is denominated in the following currencies:

	31 December 2019	**31 December 2018** *(in thousands of HRK)*
EUR	238,072	297,648
	238,072	**297,648**

As at 31 December 2019, the Company has a short-term credit limit with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 43,539 thousand (as at 31 December 2018: HRK 67,648 thousand) of which, as at 31 December 2019, HRK 14,168 thousand were unused (2018: HRK 4,467 thousand).

NOTE 20 - LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Bank loans

Bank loans amount to HRK 238,072 thousand, of which HRK 175,003 thousand with a variable interest rate and HRK 63,069 thousand with a fixed interest rate on an annual basis(2018: HRK 92,749 thousand for variable-rate borrowings and HRK 204,929 thousand for borrowings with a fixed rate).

Collateral

All banks have secured their loans with disclosed pledge over the Company's land and buildings, plants, and equipment, as disclosed in Note 13.

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Foreign trade payables	82,202	80,976
Related-party payables	112,188	50,977
Domestic trade payables	33,267	32,002
Advances received	29,390	49,173
Accrued liabilities for goods in transfer	2,986	5,810
Loan liabilities towards owners	0	43
Payables to employees	5,234	4,404
Taxes, contributions and similar duties payable	5,217	7,459
Other current liabilities	19,832	5,284
	290,316	**236,128**

NOTE 22 – PROVISIONS

	As at 01 January 2019	Recognised in profit or loss	Used	As at 31 December 2019
		(in thousands of HRK)		
Legal actions	420	270	(420)	270
Other provisions	1,798	1,835	(1,798)	1,835
	2,218	**2,105**	**(2,218)**	**2,105**

NOTE 23 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	2019	2018
Costs incurred up to reporting date	271,899	129,758
Recognised losses up to the reporting date	(670)	(670)
	271,229	129,758
Less: invoicing in progress and advances received	(215,768)	(76,992)
	55,461	**52,766**
Receivables from the contracted party for the contracted work	**55,461**	**52,766**
Reclassified to accrued revenue	**55,461**	**52,766**
Revenue from construction contracts recognized by the reporting date	323,892	162,666
Less: revenue from construction contracts recognized in previous years	(162,666)	(74,164)
	161,226	**88,502**

NOTE 24 - RISK MANAGEMENT

Capital risk management

The ratio of net debt to capital (gearing ratio) on the reporting date was as follows:

	31 December 2019	31 December 2018
		(in thousands of HRK)
Debt	242,771	303,013
Cash and cash equivalents	(3,075)	(16,072)
Net debt	**239,696**	**286,941**
Equity	819,469	748,398
Debt-to-equity ratio	29%	38%

Debt is defined as long-term and short-term borrowings, as well as finance lease liabilities and factoring liabilities without related-party payables. Equity includes all capital and reserves.

The Company is exposed to the international market and is largely financed through loans denominated in EUR. Therefore, the Company is subject to the influence of changes in market prices and the effect of exchange rate differences and interest rate changes. The Company makes almost 50% of its revenue through the export of goods overseas, so foreign currency inflows are used as a natural hedge that covers foreign currency outflows for repurchase and repayment of denominated foreign currency loans. Furthermore, the average time from the order date to the delivery of goods is 10 days, so there is no significant risk of change in the production price in relation to the sales price. On average, the Company performs 100 deliveries per day that are dispersed to customers in all branches of the industry, thus making the market risk minimal. In terms of changes in production material prices, the market responds promptly to changes in these prices, and due to a consistent and constant inflow of customer orders, this risk is brought to a minimum. Strategic suppliers of production materials and the Company have agreed on commercial conditions allowing the Company to defer payment up to 180 days. Considering the fact that the price of production material is seasonal, the periods of lower price of production material are used for optimising purchase costs.

NOTE 24 - RISK MANAGEMENT (continued)

Capital risk management (continued)
Categories of financial instruments are as follows:

	31 December 2019	31 December 2018
		(in thousands of HRK)
Financial assets at depreciated cost		
Given loans	8,444	41,673
Trade and other receivables	281,198	283,798
Cash and cash equivalents	3,075	16,072
	292,717	**341,543**
Financial liabilities at depreciated cost		
Finance lease	3,845	5,365
Factoring liabilities	-	-
Loan liabilities	238,072	297,648
Trade and other payables	290,314	236,128
	532,231	**539,141**

Financial risk management

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the ordinary course of business are recorded at the lower of cost and net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.
As at 31 December 2019, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.
As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Management Board which has built an appropriate liquidity risk management framework to manage the Company's short, medium and long-term funding and liquidity requirements. The Company manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits.
The Company manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits.
In the opinion of the Management Board of the Company, the above-mentioned activities and the activities described in Note 2 *Going concern* should ensure sufficient liquidity for the repayment of future debt.

NOTE 24 - RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Liquidity risk analysis

The following tables detail the contractual maturity of the Company's financial liabilities and financial assets presented in the separate statement of financial position at the end of each reporting period. The tables were prepared based on the undiscounted cash outflows up to the maturity date. The interest rates are reported in Note 20.

Liabilities

As at 31 December 2019	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
(in thousands of HRK)						
Non-interest bearing liabilities						
Other liabilities	89,387	89,387	89,387	-	-	-
Trade payables	200,927	200,927	200,927	-	-	-
	290,314	**290,314**	**290,314**	**-**	**-**	**-**
Interest-bearing liabilities						
Finance lease liabilities	3,845	4,079	1,956	1,126	997	-
Factoring liabilities	-	-	-	-	-	-
Loan liabilities	238,072	266,758	57,923	52,990	155,845	-
	241,917	**270,837**	**59,879**	**54,116**	**156,842**	**-**
	532,231	**561,151**	**350,193**	**54,116**	**156,842**	**-**

As at 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
(in thousands of HRK)						
Non-interest bearing liabilities						
Other liabilities	72,240	72,240	72,240	-	-	-
Trade payables	163,888	163,888	163,888	-	-	-
	236,128	**236,128**	**236,128**	**-**	**-**	**-**
Interest-bearing liabilities						
Finance lease liabilities	5,365	5,777	2,219	1,882	1,676	-
Factoring liabilities	-	-	-	-	-	-
Loan liabilities	297,648	329,538	72,957	53,362	149,933	53,286
	303,013	**335,315**	**75,176**	**55,244**	**151,609**	**53,286**
	539,141	**571,443**	**311,304**	**55,244**	**151,609**	**53,286**

NOTE 24 - RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Assets

As at 31 December 2019	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
	(in thousands of HRK)					
Non-interest bearing interest						
Receivables acquired through cessions and assignments	5,355	5,355	5,355	-	-	-
Other receivables	154,848	154,848	154,848	-	-	-
Trade receivables	120,995	120,995	120,995	-	-	-
	281,198	**281,198**	**281,198**	**-**	**-**	**-**
Interest-bearing assets						
Given loans and deposits	8,444	8,444	8,444	-	-	-
Cash and cash equivalents	3,075	3,075	3,075	-	-	-
	11,519	**11,519**	**11,519**	**-**	**-**	**-**
	292,717	**292,717**	**292,717**	**-**	**-**	**-**

As at 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
	(in thousands of HRK)					
Non-interest bearing interest						
Receivables acquired through cessions and assignments	3,389	3,389	3,389	-	-	-
Other receivables	77,126	77,126	77,126	-	-	-
Trade receivables	203,283	203,283	203,283	-	-	-
	283,798	**283,798**	**283,798**	**-**	**-**	**-**
Interest-bearing assets						
Given loans and deposits	41,673	41,673	41,673	-	-	-
Cash and cash equivalents	16,072	16,072	16,072	-	-	-
	57,745	**57,745**	**57,745**	**-**	**-**	**-**
	341,543	**341,543**	**341,543**	**-**	**-**	**-**

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and variable interest rates. The Company currently has no loans nor finance leases based on EURIBOR.

The interest rate risk sensitivity analysis is based on the exposure to interest rate changes as at the reporting date. For variable rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on variable rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the Management Board's assessment of the reasonably possible change in interest rates.
The estimated effect of the reasonably possible change in interest rates on the Company's result before tax for the reporting periods is as follows:

The Company has no new loans in 2019.

NOTE 24 - RISK MANAGEMENT (continued)

Currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Liabilities		**Assets**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	305,756	353,626	57,070	68,918
USD	14,928	30,270	11,990	15,198
Other currencies	268	-	242	-
	320,952	**383,896**	**69,302**	**84,116**

Foreign currency risk sensitivity analysis

As previously explained, due to the fact that the majority of transactions with foreign customers are denominated in the EUR and the USD, the Company is mainly exposed to the fluctuations of the HRK against the EUR and the USD, but this risk is reduced by purchases in the same currencies.

The following table details the Company's sensitivity to a 1% increase in HRK against the EUR and a 10% increase against the USD as the estimated reasonably possible increase in the exchange rate of the respective currencies. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the period end for a percentage change in FX rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the HRK changes against the relevant currency by the percentage specified above. The weakening of the HRK against the relevant currency in the same percentage would result in an equal and opposite impact on profit.

	EUR impact	
	2019	**2018**
	(in thousands of HRK)	
Impact on net result	+/-2,487	+/-2,847

	USD impact	
	2019	**2018**
	(in thousands of HRK)	
Impact on net result	+/-294	+/-1,507

The Company does not use currency risk hedging instruments.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

NOTE 25 – RELATED-PARTY TRANSACTIONS

	2019	2018
		(in thousands of HRK)
Product and service sales		
Brodosplit d.d.	172,427	104,946
Proizvodno Trgovački Centar Krka Knin d.o.o.	750	1,155
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	3,307	5,488
TVIK - DIV d.o.o., Valjevo, Srbija	3,008	3,245
DIV Betonski pragovi d.o.o., Svrljig, Srbija	9,104	7,051
MIN - DIV a.d., Svrljig, Srbija	248	938
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	393	2,822
Brodosplit - Interijer i završni radovi d.o.o.	981	7
Marine and Energy Solutions d.o.o.	26	24
Maestral Wind Cruise Shipping	27	-
Brodosplit - Tvornica dizel motora d.o.o.	-	1
DIV Brodogradnja d.o.o.	2	2
Brodosplit – Namještaj po mjeri d.o.o.	61	43
Brodosplit Brodska i ostala oprema d.o.o.	58	35
Brodosplit plovidba d.o.o.	-	3
Brodosplit trup d.o.o.	302	2
Brodosplit zaštita trupa od korozije d.o.o.	-	7
Brodosplit oblaganje d.o.o.	53	12
Efficient Powerful Successful d.o.o.	155	-
DIV CRUISES d.o.o.	216	60
DIV CRUISES, INC	-	33
	191,118	**125,874**

	2019	2018
		(in thousands of HRK)
Sales of main assets		
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	-	194
	-	**194**

NOTE 25 – RELATED-PARTY TRANSACTIONS (continued)

	2019	2018
		(in thousands of HRK)
Financial income		
Brodosplit d.d.	1,727	741
DIV Brodogradnja d.o.o.	5	4
DIV CRUISES ltd	5	4
MIN - DIV a.d., Svrljig, Srbija	261	125
Proizvodno Trgovački Centar Krka Knin d.o.o.	544	26
	2,542	**900**

	2019	2018
		(in thousands of HRK)
Purchase of goods and services		
Proizvodno Trgovački Centar Krka Knin d.o.o.	6,636	8,691
DIV Betonski pragovi d.o.o., Svrljig, Srbija	9,691	9,440
TVIK - DIV d.o.o., Valjevo, Srbija	3,647	1,912
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	1,871	3,318
MIN - DIV a.d., Svrljig, Srbija	1,660	9,150
Brodosplit - Oblaganje d.o.o.	14	-
Brodosplit d.d.	48,786	28,377
Brodosplit - Interijer i završni radovi d.o.o.	803	-
Brodosplit - Otpremništvo d.o.o.	96	87
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	-	3
DIV CRUISES d.o.o.	276	47
Efficient Powerful Successful d.o.o.	526	-
SHANGHAI VIDA INDUSTRY & TRADING CO., LTD.	257	311
	74,263	**61,336**

	2019	2018
		(in thousands of HRK)
Purchase of main assets and investment property		
Brodosplit d.d.	107,247	-
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	17,402	-
	124,649	**-**

NOTE 25 – RELATED-PARTY TRANSACTIONS (continued)

	2019	2018
		(in thousands of HRK)
Trade receivables (Note 17)		
DIV Brodogradnja d.o.o.	6,765	33,757
MIN - DIV a.d., Svrljig, Srbija	10,310	11,300
Brodosplit d.d.	17,632	99,357
TVIK - DIV d.o.o., Valjevo, Srbija	5,669	10,141
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	7,646	6,760
DIV Betonski pragovi d.o.o., Svrljig, Srbija	8,792	5,602
DIV Cruises, inc.	-	165
Marine and Energy Solutions d.o.o.	-	14
Marine consulting d.o.o.	2	2
DIV CRUISES d.o.o.	-	29
Proizvodno Trgovački Centar Krka Knin d.o.o.	-	150
	56,816	**167,277**

	2019	2018
		(in thousands of HRK)
Receivables for given loans (Note 15)		
DIV Cruises inc.	-	113
DIV Brodogradnja d.o.o.	132	93
Brodosplit d.d.	-	21,976
MIN - DIV a.d., Svrljig, Srbija	6,819	4,798
Proizvodno Trgovački Centar Krka Knin d.o.o.	-	14,900
	6,951	**41,880**

	2019	2018
		(in thousands of HRK)
Trade payables (Note 21)		
Brodosplit d.d.	111,428	49,375
Proizvodno Trgovački Centar Krka Knin d.o.o.	276	1,556
Efficient Powerful Successful d.o.o.	484	-
SHANGHAI VIDA INDUSTRY & TRADING CO., LTD.	-	46
	112,188	**50,977**

NOTE 25 – RELATED-PARTY TRANSACTIONS (continued)

	2019	2018
		(in thousands of HRK)
Liabilities for accepted borrowings (Note 21)		
Ownership	-	43
	-	**43**

Remuneration to key management

The Company's key management comprises the Management Board consisting of 2 members *(2018: 3 members)*. In 2019, remuneration paid to the members of the Management Board amounted to HRK 477 thousand *(2018:* HRK 949 *thousand)* based on their gross salary.

NOTE 26 - CONTINGENT LIABILITIES AND ASSETS

Investment in Brodosplit d.d.

Through DIV Brodogradnja d.o.o., the Company holds a 99.76% share in Brodosplit d.d.

The contract on the sale and transfer of shares of Brodosplit d.d. dated 28 February 2013 defined the contractual obligations relating to the implementation of the restructuring programme of the company Brodosplit d.d. The particularly significant aspects of the restructuring programme are the following: the share of own contribution in the overall restructuring costs, adjustment of shipbuilding production capacity of the Company, limiting of the production of ships in CGT (compensated gross tonnage) and achievement of sustainability; the failure of which may result in an order to the company Brodosplit d.d. and its subsidiaries to return all government grants received after 01 March 2006, increased by the statutory penalty interest.

The share of the own contribution implies the obligation of the company Brodosplit d.d. and its subsidiaries in accordance with the restructuring programme, and it amounts to 40% of the total restructuring costs. A part of total cost also referred to the obligation to increase share capital in the total amount of HRK 50 million in the following dynamics: HRK 20 million in 2013, HRK 20 million in 2014, and HRK 10 million in 2015. The relevant obligation to increase share capital has been met completely.

Adjustment of production capacity and production limit depending on the tonnage defined by the restructuring program and the agreement on the limitation of production for the period until 31 December 2022 in which the production cannot be higher than agreed.

Achieving sustainability includes the following measures: maintaining at least 2,000 employees in the Company and subsidiaries at the end of each month during the implementation of the restructuring programme, maintaining a minimum number of effective hours at the level defined on 9 June 2017, maintaining a minimum amount of processed steel at a level defined by September 2017, maintaining the position of capital and reserves at the end of the year at a defined level, up to and including 2017, as well as a positive consolidated operation at the end of 2016 and 2017.

The Company implemented the aforementioned measures by the reporting date and achieved the sustainability condition in line with Contract.

NOTE 26 - CONTINGENT LIABILITIES AND ASSETS (continued)

Investment in MIN DIV SVRLJIG a.d. and Div betonski pragovi d.o.o.

In the period from 2006 to 2009, the Company increased its ownership share in the subsidiary company MIN DIV SVRLJIG a.d. from 77.50% to 86.46% through recapitalisation. On account of the increase in its share, the Company was required to make a public buy-back offer for the remaining 128,372 shares. The deadline for making a public buy-back offer expired in 2010 and the Company had to pay a fine for its non-compliance with the relevant requirement. There is no new legal deadline within which the Company should issue an offer. As far as the prospective outcome is concerned, the Company Div Grupa d.o.o. must either announce a public offer or dispose more than 25% shares. The buy-back price per share to be offered to minority shareholders is still being discussed. As at 31 December 2019, the quoted price of the shares was RSD 645. As per the request of Div Grupa d.o.o., an audit company conducted an assessment of the share price and concluded that it should amount to RSD 600.

Furthermore, DIV Grupa d.o.o. and DIV betonski pragovi d.o.o. committed to fulfil certain conditions during the acquisition and thus in November 2019 successfully realised a Grant Agreement for Direct Investments with the Ministry of Finance of the Republic of Serbia granting direct investment funds amounting to EUR 2,400,000.00. By 31 December 2018, the Company DIV betonski pragovi d.o.o. invested EUR 12.7 million and had 315 employees; by 31 December 2019, it invested an additional EUR 0.2 million and had 303 employees.

The final audit reports were submitted to the Ministry, which then established that all obligations have been met. In January 2020, collateral was returned due to good performance.

Exposure per legal dispute

As at 31 December 2019, the Company is a defendant in a series of legal disputes resulting from the ordinary course of operations and court cases with former employees.

The Company's exposure to legal disputes with suppliers as at 31 December 2019 amounts to approximately HRK 270 thousand (based on claims in ongoing proceedings). The Management Board believes that the relevant disputes will not result in additional losses for the Company.

Based on its consultation with legal advisers, the Management Board applied the judgement detailed in Note 4 and estimated that legal proceedings in which the Company is involved should not result in additional significant losses.

Guarantees

As at 31 December 2019, the Company had HRK 81,780 thousand in issued guarantees (as at 31 December 2018: HRK 137,178 thousand). Furthermore, as at 31 December 2019, the Company had HRK 1,170,127 thousand in issued debentures (as at 31 December 2018: HRK 1,128,708 thousand).

Overview and balance of debenture exposure:

Balance at 31 December 2019	Amount	Exposure
(in thousands of HRK)		
Debentures to suppliers	41,824	n/a
Debentures to financial institutions	647,796	388,736
Debentures issued to related parties	480,507	449,291

Capital investment liabilities

Assets under construction as at 31 December 2019 are put into use in 2020.

NOTE 27 - SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

The overall situation resulting from the COVID-19 pandemic significantly affected the business activities of the company DIV GRUPA d.o.o. in the first 4 months of 2020. The impact of measures our country and other countries where we market our products introduced due to the COVID-19 pandemic is reflected in our sales segment and increase in inventories. This is due to the closure of factories in Europe and worldwide and extremely poor transport arrangements. In order to advance our talent recruitment, we undertook several actions focusing on ensuring a secure working environment and inputs necessary for keeping the production process alive. Regarding government measures, the Company received grants from the government in the amount of HRK 4,984 thousand.

DIV Grupa was one of the first companies in Croatia to introduce strict measures for preventing the spread of COVID-19 in its facilities. The relevant measures entail checking the employees' temperature before they enter the premises, regular cleaning and disinfection of shared spaces, dividing the production process into two shifts to reduce the number of people working in the plant simultaneously, and establishing a remote work platform for most administrative workers. At the end of April, voluntary COVID-19 testing was organised for all employees.

Having determined that we were able to organise a secure production process, we focused on ensuring sufficient quantities of raw materials, predominantly for the production of standard fasteners products. This is due to the fact that we plan to produce a sufficient quantity of junction elements in line with international standards, for which there is constant demand and which do not have an expiration date, and we believe we will most definitely sell them mainly in the European market. Once transport normalises, we will have a significant advantage in comparison with Eastern producers in terms of necessary delivery times.

As previously mentioned, in order to act on our plan, we must ensure working capital, as our cash inflow significantly decreased due to the COVID-19 pandemic. This is why we are negotiating with many financial institutions to provide us with working capital funds which would cover the costs of raw materials and fixed production costs before the market at least somewhat normalises. We also turned to existing creditors requesting moratorium on our payments in the following 6 months. So far we received positive feedback from all our creditors.

After months of analyses in the second semester of 2019, DIV GRUPA d.o.o successfully closed the negotiations with owners and creditors regarding the acquisition of the 100% share in the company KLEVEN vef. in Norway. This acquisition will strengthen our overall shipbuilding potential for constructing cruise ships and ad to the already existing credentials of Brodosplit in the off-shore market and the sector of catching and processing fish at sea. The acquisition of KLEVEN will maximise the resource utilisation for steel processing in Brodosplit and increase the insufficient equipment capacity. The synergy of potential for financing shipbuilding projects in both Croatian and Norway will give us a competitive advantage, as we are able to offer a complete "from idea to delivery" package including funding and related guarantees.

NOTE 28 - AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 12th June 2020.

Signed for and on behalf of the Management Board on 12th June 2020 by:

Tomislav Debeljak	Darko Pappo
President of the Management Board	*Member of the Management Board*

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