DIV GRUPA d.o.o.

Annual report for the year ended 31 December 2020 together with the Independent Auditor's Report

CONTENTS:

Management Report	2
Responsibility for the separate financial statements	11
Independent Auditor’s Report	12
Separate statement of profit and loss and other comprehensive income	15
Separate statement of financial position	16
Separate statement of changes in equity	17
Separate statement of cash flows	18
Notes to the uncosolidated financial statements	19

Management Report

1. INTRODUCTION

The company DIV GRUPA d.o.o. achieved good business results and was profitable in 2020. The most significant business activities belong to the core activities of the Company.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2020

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 2020, the Company performed its business activities at the Company's address, in its Knin branch office, and the Company office in Zagreb, R.F.Mihanovića 9, Sky Office.

In 2020, 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 31.12.2020, the current assets amounted to HRK 757.025 thousand (2019: HRK 522.956 thousand), while non-current assets amounted to HRK 970.441 thousand (2019: 884.829 thousand). As at 31.12.2020, total Company assets amounted to HRK 1.727.819 thousand. The most significant share of non-current assets is that of buildings, infrastructure and plant and equipment amounting to HRK 843.656 (2019: HRK 758.173 thousand)

3.2. BUSINESS RESULTS FOR 2020

In 2020, the Company's profit after taxation amounted to HRK 40.497 thousand (2019: HRK 81.795 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 - a 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 through collateral and applies procedures ensuring sales to customers who have a sound and reliable credit history;
- LIQUIDITY 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.
- COMPETITION RISK – refers to the risk of unfair competition because of privileged treatment of competing companies by the countries in which they operate
- LACK OF FINANCING OPTIONS RISK – refers to the appearance in which domestic financial institutions (banks) reject any financial arrangement (credit, guarantees,letters of credit) or limit it to negligible values for the shipbuilding industry. The reasons are stated in the negative historical indicators of the large shipbuilding companies in Croatia.
- RISK OF NEGATIVE MEDIA ANNOUNCEMENTS – refers to media announcements aimed at compromising the Company operations, which cause significant attention to key business factors such as government institutions, customers, financiers, supply chains, by stopping or significantly slowing down regular business processes.

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 2020, the Company had 764 employees. An overview of employee qualifications as at 31 December 2020 is provided in below.

OVERVIEW OF EMPLOYEE QUALIFICATIONS IN 2020										
	NO. OF EMPLOYEES	**Low skilled worker**	**Unskilled worker**	**Skilled worker**	**Semi-skilled worker**	**High-school diploma**	**High-skilled worker**	**Vocational degree**	**University degree**	**Master's degree**
2020.	764	0	64	137	1	327	2	80	152	1
Share in %	100%	0%	8%	18%	0%	43%	0%	10%	20%	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 optimizing business processes, investing in human resources, research, development, and innovation, and conquering new markets and customers. We continue to strive to strengthen our presence with the EU market, which is dominant in other markets globally. The past year has been marked by the COVID-19 pandemic, which has greatly disrupted the full implementation of the plans. The Company's management has taken all necessary measures in time to minimize the negative impact and consequences of such a pandemic.

We have continued to optimize production processes, increase productivity as a basic prerequisite for reducing the cost per unit of product or the necessary time to create it, and increasing the quality and reliability of the process. The necessary working capital for the growth of production volume even in times of reduced demand, and in order to create stocks due to the demand that follows with the end of the pandemic, we have secured loan arrangements with banks and other financial partners, and by opening a framework for guarantees and letters of credit. We have done all the necessary preparatory work to decide on the imposition of anti-dumping duty for standard screw goods in the EU from which we expect significantly higher demand to grow our competitiveness in 2021.

We have increased our share in the project of construction of the railway line (1 new track and replacement of the old one) Dugo Selo-Križevci by HRK 155 million from consortium partner Zagreb Montaža d.d. and thus over the next multiannual period, we will earn significantly more revenue from the initially contracted ones.

As an umbrella company, we continue to strengthen our business relationship with Brodosplit group on the consolidation of individual procurement procedures, consolidation of quantities, to strengthen internal competitiveness in the placement of products and services necessary for the realization of shipbuilding projects. With this synergy, we further strengthen profitability, but also the possibility of realization of high-value projects within the planned deadlines, without depending on the availability of others.

In 2020, we contracted a number of encouraging projects in the field of development and research, thus realizing longer time-prepared complex projects. We highlight the largest CEKOM (competence center) in the Republic of Croatia where we are involved in 16 projects, of which 12 are as holders. In addition to the aforementioned CEKOM, we are working on the realization of contracted energy efficiency projects, research and development projects (so-called IRI).

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

On 20 July 2019, DIV GRUPA d.o.o. started the realization 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 33,469,396.92 was approved by the Ministry of Economy, Entrepreneurship, and Crafts on 31 January 2020, and will be implemented by 20 July 2022. The total possible amount of the reduction of the tax base per this project is HRK 41,836,746.15, while the amount of tax relief that can be used under this project is HRK 7,391,075.79.

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 Company continues to carry out experimental product development as part of the project **"Development and exploration of new locksmith welding positions"** which total HRK 15,105,424.56 approved by the Ministry of Economy, Entrepreneurship, and Crafts on 29.05.2020 and is implemented until 30.11.2022. The total amount of the reduction of the tax base per this project is a maximum of HRK 18,881,780.70, and the tax relief that can be used under this project is HRK 3,398,720.53. The aim of the project is to optimize technological processes while reducing production time and increasing the economics of the process itself in order to increase the competitiveness of products in the foreign market.

The expected outcomes of the implementation of the project are an innovative, advanced, and significantly improved production process, with the necessary reduction of costs and production time and provided that the final products meet the applicable standards.

Project **"Development and exploration of new surface protections"** was reported on 05.10.2020 to the Ministry of Economy and Sustainable Development (MINGOR). The project is in the total amount of HRK 18,111,239.88 approved by MINGOR on 29.01.2021 and is implemented until 30.09.2023. The total amount of tax base reduction that can be used in this project is HRK 22,639,049.85, and the amount of tax relief that can be used in this project is HRK 4,075,028.97.

The purpose of the project is to improve the knowledge and existing technological processes of surface protection with the aim of developing a significantly improved protective layer on the connecting elements, especially in the context of reliability and reducing the friction coefficient on the surfaces of the connecting elements on which the protective layer is applied.

The expected outcome of the project implementation is innovative, advanced, and significantly improved technological processes for applying surface protections that meet the EU and international standards according to which the connecting elements are defined and achieve a more reliable way of protecting the connecting elements. Ultimately, a more acceptable, functional, and sophisticated product with significantly improved properties that have the wide application can be offered to the market in this way.

Back on 03.06.2013, the investment project **began "Expansion of the capacity of the existing business unit and diversification of production - wire processing and production of threaded rods"** and was implemented until 03.06.2016 in the knin area. The project includes the investment of buying and equipping a new plant, which will be used for the manufacture of threaded rods, bolts, and other threaded products.

The project was approved by MINGOR on 19.03.2020. According to the approval, the eligible costs amounted to HRK 46,924,206.00. Of the above, the realized amount of the investment amounts to HRK 28,292,300.38 and the total tax incentives amount to HRK 11,893,206.00.

DIV GRUPA d.o.o. launched an investment project in the area of Šibenik-Knin County on 15.03.2016 according to the Investment Promotion Act: **"Expansion of production capacities- coupling elements".** The project carries out infrastructure work and procures equipment for the purpose of expanding the production of fasteners. Also, as part of this project, the quality of the production of fasteners is improved in parallel, and the efficiency of production increases based on investments.

In addition to R&D projects using state aid DIV GRUPA d.o.o. actively participates and uses European funds for regional development, thus implementing projects as part of the Operational Programme Competitiveness and Cohesion 2014-2020:

„Development of DIV elastic buckle", implemented in accordance with the Grant Agreement with a total project value of HRK 25,071,055.68, of which HRK 15,268,603.57 was granted a grant funded by the European Structural and Investment Funds in the financial period 2014-2020. ("Increasing the development of new products and services resulting from R&D activities" - Phase II. The R&D project is being implemented in sickening from 01.07.2018 to 31.12.2022. and aims to enable the development of a functional innovative product DIV elastic buckles and consequent placement and commercialization on the world market for the construction and maintenance of railway lines. The project directly contributes to increasing investment in R&D under the S3 Smart Specialisation Strategy, the "Transport and Mobility" thematic area, and the PTPP 1 sub-standard area. 'Production of high added value parts and systems for road and rolling stock' referred to as indicative IRI theme: more added value automotive and rail parts. The project is in the phase of industrial research in cooperation with the Faculty of Civil Engineering in Zagreb, which has achieved effective cooperation between the scientific and business sectors.

„Increasing energy efficiency in production suitable in Knin", which is implemented in accordance with the Contract from the grant of the total value of the project HRK 20,959,417.00, of which HRK 9,827,497.65 are granted. The purpose of the project is to increase the efficiency of energy use in the production process by using reactive energy, modernizing large energy consumers, and reducing energy losses.

As a continuation of efforts to achieve better energy efficiency with a view to introducing measures to use renewable energy sources, the Company competed with the project proposal DIV GRUPA - Sustainable production on-call KK.04.1.1.03 **"Increasing energy efficiency and the use of renewable energy sources in manufacturing industries"** submitted on 08.02.2021. The project proposal with a total value of HRK 45,566,118.84, of which HRK 19,993,861.90 is currently in the 3rd phase of evaluation. In addition to the savings planned by replacing obsolete machines and lighting, it is planned to install a solar power plant installed power of photovoltaic panels 5,482 kWp, which will budget on an annual basis reduce the total energy delivered in the amount of 7,122,349.60 kWh/year, while CO2 emissions will be lower by 2,350.38 tCO2/year. The results of the competition are expected by the end of July 2021.

Also, on 25.02.2021, the Company signed a Grant Agreement and started implementing the project **Development of zero-emission passenger sailing ship** according to the invitation: Increasing the development of new products and services arising from research and development activities - Phase II, operational program Competitiveness and Cohesion, European Regional Development Fund in cooperation with Brodosplit d.d., Marine and Energy Solutions DIV d.o.o., Faculty of Electronics, Computing and Information Technology from Osijek and Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture from Split. This project is in line with Priority Axis 1. Strengthening the economy through research and innovation and in accordance with the Smart Specialization Strategy of the Republic of Croatia for the period 2016-2020 and thematic priority areas.

1. "Transport and Mobility" - Sub-ground priority areas: Environmentally friendly transport solutions and Intelligent Transport Systems and Logistics
2. 'Energy and sustainable environment'- sub-chemical priority areas: Energy technologies, systems and equipment, and Environmentally friendly technologies, advanced materials

The aim of the project is to develop eco-innovation in the form of a passenger sailing ship for which alternative propulsion technologies will be worked on as part of research and development as a result of maximizing the use of renewable energy sources based on environmentally friendly design aimed at sustainable zero-emission mobility. The achievement of the project goals is planned through cooperation with scientific institutions with the aim of improving the interaction and transfer of knowledge and technology between industry and higher education institutions and public scientific research institutes, which benefit both companies and researchers from the public sector. The implementation of the project will acquire knowledge and develop an innovative product (sailing ship) that will

enable the applicant and partners to be more competitive in the global market for the design and construction of passenger ships (in the narrow sense of the market of small cruise vessels) by distinguishing the new end product from the competition for its technological superiority, which will eventually lead to a final product of higher quality and higher cost efficiency (both in construction and operational life of use).

Project Implementation Period is from 17.02.2020. to 17.08.2023. The total value of the Project is HRK 52,779,547.09 The total eligible costs of the project amount to HRK 42,520,975.46 and grants of HRK 28,913,221.79 are awarded.

As part of the same invitation, DIV GRUPA d.o.o. participates as a Project Partner: "**Development of multifunctional luxury, tourist and research submarine**" and "**Development of an autonomous idle multifunctional ship**", who have passed all stages of the evaluation and are on hold due to the retention of the allocation of funds under the fund. Funding decisions are expected by the end of May 2021 when implementation activities will intensify on these projects as well. All submitted projects are highly innovative with a focus on the development of advanced technologies in the field of maritime transport without adverse environmental impacts.

The aim of the development is a functional innovative product of a multifunctional tourist and research submarine in the shipyard BRODOSPLIT-SHIPYARD SPECIAL FACILITIES Ltd. (BSO), placement and commercialization of this product on the world market with the aim of strengthening the market position of the shipyard BSO based on submarine construction technology, and restoring the acquired knowledge and construction of submarines that have been completely neglected in the last 25 years. The goal of this research is developing a new, very complex product which one is partially result application of the latest Global knowledge and skill and partially represents new lunge in the area explorations and development. Product which one is result this research is new for Entrepreneurs and partners new national market and region and include will Croatia in the expensive only a few countries whose Offer civilian submarines on global market.

Partners on the project are Brodosplit - Shipyard of Special Facilities Ltd., DIV GRUPA d.o.o., Marine and Energy Solutions DIV d.o.o., and the University of Zagreb Faculty of Electrical Engineering and Computing.

Project Implementation Period is from 29.06.2020. to 29.06.2023. The total value of the Project is HRK 55.052.642,14. The total eligible costs of the project amount to HRK 44.522.022,01 and grants in the amount of HRK 29.673.177,57 are awarded.

Project "**Development of an autonomous idle multifunctional ship**" aims to develop and demonstrate a multifunctional ship capable of autonomous or remote guided navigation under real operating conditions. During the development, many previously unresolved technological challenges will be addressed with an emphasis on safety and reliability in navigation that assumes a fully cyber-protected system. The multifunctional ship is primarily planned to be used when mitigating the effects of potential environmental disasters such as oil spills into the sea or for cleaning solid surface waste, as well as a firefighting ship that

will participate in risky extinguishing in maritime accidents while protecting the lives of riot teams as well as increasing the efficiency of extinguishing due to the possibility of approaching the disaster hotspot. The applicant of the project is SHIPBUILDING INDUSTRY SPLIT d.d., and the partners on the project are: DIV GRUPA d.o.o. for services, Marine and Energy Solutions DIV d.o.o. for services, Brodosplit - Shipyard of special facilities Ltd. and University of Zagreb Faculty of Electrical Engineering and Computing.

This research aims to develop a new, very complex product that is partly the result of applying the latest global knowledge and skills and represents a new step forward in the field of research and development. The product resulting from this research is new for entrepreneurs and partners, new to the national market and region, and will include Croatia in a set of only a few countries that develop and offer technology of autonomous idle ships on the global market.

Project Implementation Period is from 29.06.2020. to 29.06.2023. The total value of the Project is 53.727.223,80 marten. The total eligible costs of the project amount to HRK 44.397.154,35 and grants in the amount of HRK 29.620.601,72 are awarded.

It is important to emphasize that R&D activities are almost entirely based on already existing competencies within the DIV GROUP, i.e. that research and development activities, as well as commercialization activities, continue on the company's existing business resources, organization, and business processes.

8. FUTURE PLANS

In addition to continuing activities on contracted development and research projects, from which we plan the commercial application of the obtained solutions and the placement of new products upon completion of the investment, we plan to actively National Recovery Plan resilience as a core program supported by the EU over a waking multiannual period.

Applying the expected anti-dumping rates for imports of screw goods from China to the EU will enable additional usability of available capacities at the Knin production facility in which we will invest additional funds in additional equipment and maintenance so that all resources can be in operation. In order to save on production costs and further direct to green production, we started the project of building a solar power plant in Knin with a power of approx. 5 MW, for which project documentation and obtaining the necessary consents and permits are being developed, and in addition, the project of using rainwater as an additional water resource necessary in the production process, and re-circulation of processed and purified technological water is being realized in order to reduce the need for the municipal water resource. With the end of both of these projects ultimately in addition to reducing the cost of production, DIV GRUPA d.o.o. will join the business world of green enterprises, with its own source of renewable electricity in self-sufficient quantities.

Further plans also include the development of new projects, which with their theme correspond to the Strategy of Smart Specialization of the Republic of Croatia (S3), a strategic document whose development has been requested by the European Commission from all member states of the European Union as a precondition for the use of ESI Funds in the field of research, technological development and innovation. This applies in particular to thematic areas: 'Transport and Mobility' and 'Energy and Sustainable Environment', implemented under the Competitiveness and Cohesion Operational Programme, Priority Axis 1.

The projects in which the Company will participate include strengthening the Company's production capacity, strengthening research capacities, developing human resources, and cooperating with other companies and research and knowledge dissemination organizations.

SUBSIDIARIES

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

9. INFORMATION ON THE REPURCHASE OF TREASURY SHARES

The Company has no treasury shares, nor did it have any in 2020.

Samobor,

20th July 2021

Tomislav Debeljak

President of the Management Board

Darko Pappo

Member of the Management Board

DIV GRUPA d.o.o.
10430 SAMOBOR, Bobovica 10/A
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4

Responsibility for financial statements

Pursuant to the current Croatian Accounting Act, DIV GRUPA d.o.o. management (hereinafter referred to as the "Company") is obliged to ensure that unconsolid financial statements for each financial year are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, so that they give a true and objective picture of the financial condition and results of the Company's operations for this period.

Management reasonably expects the Company to have adequate resources to continue operating for the foreseeable future. For this reason, the Management Board continues to accept the principle of business durability when producing financial statements.

When producing unconsolidated financial statements, the Management Board is responsible:

- for the selection and subsequently consistent application of the relevant accounting policies;
- for reasonable and cautious judgments and assessments and;
- to apply the applicable accounting standards;
- to prepare financial statements on the principle of business durability.

Management is responsible for keeping the correct accounting records, which at any time will reflect with acceptable accuracy the financial position of the Company, as well as the compliance of consolidated financial statements with the current Croatian Accounting Act. Management is also responsible for safeguarding the Company's assets, and therefore for taking reasonable measures to prevent and detect embezzlement and other illegalities.

Signed on behalf of and on behalf of the Management Board:

Tomislav Debeljak

President of the Management Board

Darko Pappo

Member of the Management Board

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4

Samobor, 20th July 2021

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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 ("Company"), which comprise the separate statement of financial position as at 31 December 2020, 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 2020, 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 further described in the *Auditor's Responsibilities for the Audit of the 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 ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to *Note 2 – Basis of preparation, Statement of compliance* to the separate financial statements which states that DIV GRUPA d.o.o. is the parent company of DIV group and that consolidated financial statements of DIV group prepared in accordance with IFRS will be issued separately. Our opinion is not modified in respect of this matter.

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

Management 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 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 respect 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;
- 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 Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

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 these 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the 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

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

Deloitte d.o.o.

Zagreb, 20th July 2021

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

UNCONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of HRK)	Note	2020	2019
Revenue	5	447,898	543,805
Other operating income	6	28,654	5,258
Total operating income		**476,552**	**549,063**
Changes in inventories - work in progress and finished goods	16	3,128	6,704
Material expenses	7	(285,434)	(323,864)
Employee costs	8	(85,350)	(89,395)
Amortisation expense	13	(30,487)	(19,996)
Other operating expenses	9	(27,240)	(28,457)
Total operating expenses		**(425,383)**	**(455,008)**
Financial income	10	12,288	5,111
Financial expenses	11	(24,782)	(18,873)
Net financial result		**(12,494)**	**(13,762)**
Profit before tax		**38,675**	**80,293**
Income tax	12	1,822	1,503
Profit for the current year		**40,497**	**81,796**
Other comprehensive income			
Gain on revaluation of property, plant, and equipment	19b	41,708	-
Total comprehensive income		**82,205**	**81,796**

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

UNOSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(in thousands of HRK)	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	13	845,858	760,497
Non-current financial assets	14	123,700	123,700
Deferred tax assets	12	883	632
Total non-current assets		**970,441**	**884,829**
Current assets			
Inventories	16	327,575	257,238
Trade and other receivables	17	291,380	254,199
Current financial assets	15	113,052	8,444
Cash and cash equivalents	18	25,018	3,075
Total current assets		**757,025**	**522,956**
Total assets		**1,727,466**	**1,407,785**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19a	245,737	245,737
Revaluation reserves	19b	283,720	242,011
Other reserves	19c	6,553	6,553
Retained earnings	19d	299,406	325,168
Total equity		**835,416**	**819,469**
Non-current liabilities			
Liabilities towards banks and other financial institutions	20a	216,935	191,064
Liabilities to related companies	20b	167,052	-
Provisions	22	2,333	2,105
Deferred tax liabilities	12	62,280	53,124
Total non-current liabilities		**448,600**	**246,293**
Current liabilities			
Trade and other payables	21	318,073	290,316
Liabilities towards banks and other financial institutions	20a	125,377	51,707
Total current liabilities		**443,450**	**342,023**
Total liabilities		**892,050**	**588,316**
Total equity and liabilities		**1,727,466**	**1,407,785**

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 2020

(in thousands of HRK)	Note	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 01 December 2019		**245,737**	**471**	**248,873**	**253,317**	**748,398**
Decrease in retained earnings and increase in share capital		214,633	-	-	(214,633)	-
Reduction of 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)
Total comprehensive income		245,737	6,553	242,011	325,168	819,469
Balance at 31 December 2019		**245,737**	**6,553**	**242,011**	**325,168**	**819,469**
Decrease in retained earnings and increase in share capital		-	-	-	-	-
Decrease in share capital and increase in capital reserves and retained earnings	19b	-	-	(8,298)	8,298	
Other harmonies					152	152
Profit for the year		-	-	-	40,497	40,497
Increase in the revaluation reserve	19b	-	-	50,007	-	50,007
Impact of IFRS 9 application		-	-	-	251	251
Profit distribution		-	-	-	(74,960)	(74,960)
Balance at 31 December 2020		**245,737**	**6,553**	**283,720**	**299,406**	**835,416**

(in thousands of HRK)	Note	2020	2019
Profit before taxation		**38,675**	**80,293**
Adjusted by:			
Income tax	12	(1,822)	(1,503)
Depreciation and amortisation	13	30,487	19,996
Revaluation loss of property, plant, and equipment	13	72	175
(Decrease) in provisions	22	228	(113)
Allowance for trade receivables	17	3,919	-
Interest expense	11	16,169	15,335
Net exchange rate differences		456	(1,730)
Profit before changes in working capital		**88,184**	**112,453**
(Increase)/decrease in inventories		(70,337)	(1,540)
Decrease/(Increase) in trade and other receivables		(41,099)	2,600
Increase in trade and other payables		123,558	57,089
Cash flow from operating activities		**100,306**	**170,602**
Paid interest		(12,895)	(14,429)
Net cash flow from operating activities		**87,411**	**156,173**
Cash flow from investment activities			
Purchase of property, plant and equipment	13	(54,918)	(128,050)
Purchases of intangible assets	13	(18)	(1,010)
(Increase)/decrease in investments in subsidiaries	14	-	(1,824)
New given loans		(234,497)	(156,304)
Receipts of given loans		129,889	190,838
Net cash flow used in investment activities		**(159,544)**	**(96,350)**
Cash flow from financing activities			
Proceeds from borrowings		133,389	101,668
Repayment of borrowings		(34,152)	(162,516)
Decrease in other financial assets		-	(1,276)
Profit distribution		(5,161)	(10,696)
Net cash flow generated from / (used in) financial activities		**94,076**	**(72,820)**
Net (decrease)/increase in cash and cash equivalents		**21,943**	**(12,997)**
Cash and cash equivalents at the beginning of the year	18	3,075	16,072
Cash and cash equivalents at the end of the year	**18**	**25,018**	**3,075**

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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.

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

Name	Surname	Function
Danijela	Debeljak	Chairman of the Supervisory Board
Vjera	Debeljak	Deputy Chairperson 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 31.12.2020:

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

Number of employees:

As at 31 December 2020, the Company had 764 employees (2019: 742).

NOTE 2 - BASIS OF PREPARATION

Statement of compliance

The Company's unconsolidated financial statements are prepared in accordance with the accounting regulations applicable in the Republic of Croatia. Accounting regulations valid in the Republic of Croatia are determined by the Accounting Act (further "ZoR"). The Company draws up and presents annual financial statements using the International Financial Reporting Standards ("IFRS") and their amendments and related interpretations published by the European Union. The Company is obliged to consolidate in accordance with Article 23. Accounting Act of the Republic of Croatia. The Company prepares the consolidated financial statements as a parent company separately. The Company will also, in accordance with legal regulations, draw up consolidated financial statements as at December 31, 2020 in accordance with IFRS for the Company and its subsidiaries (Group). Consolidated financial statements of DIV Group prepared in accordance with International Financial Reporting Standards as adopted in the European Union will be issued separately.

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 2020.

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 financial statements of the Company have been prepared under the going concern assumption. The Management Board of the Company believes that there are adequate and sufficient funds to continue the Company's operations in the foreseeable future. Taking into account the global pandemic, and the economic situation in the markets where the Company operates, this year additional emphasis was placed by the Management Board on the assumption of business continuity. Further details, including the activities carried out and the conclusions are presented below.

In the period after the end of the business year, after 31 December 2020, activities were intensified with the aim of securing long-term sources of financing at the Group level. These goals have been partially achieved through several activities started in 2020, and will be continued through further activities in 2021.

Activities that began in late 2020, continued in 2021, relate to:

- approval of HBOR's COVID loan in the amount of HRK 40,000,000.00, on December 23, 2020
- approval of a loan from Sberbank in the amount of EURO 4,850,000.00, on December 22, 2020
- approval of COVID-loan of Podravska banka in the amount of HRK 20,000,000.00 on May 25, 2021.

These placements represent long-term sources of financing with interest costs ranging from 2 to 4% and minimal involvement of assets as collateral. In the first few months of 2021, current liabilities to financial institutions were settled in the total amount of HRK 38.5 million, thanks to strong growth in sales of screw goods and a significant increase in the average price compared to the previous year.

HBOR COVID loan was also realized in Brodosplit d.d. June 30, 2021, in the amount of HRK 250 million with an interest expense of 2%. The security instruments are bills of exchange, promissory notes, pledge on movables, pledge on the ship "Golden Horizon" and credit insurance policy. The loan will be used to finance current operations and settle short-term liabilities.

In the next few months, it is planned to realize long-term financing of Golden Horizon in the amount of up to EUR 80 million, which would be used to refinance the the existing short-term liability maturing on October 12, 2021. Negotiations are underway with several foreign financial institutions, and the timeframe is long enough to negotiate the most favorable option for the Brodosplit / DIV Group. In addition to the above activities, a Term sheet was received to refinance the existing long-term credit exposure of DIV Group d.o.o. under more favorable conditions, and a Term Sheet for the financial monitoring framework of Brodosplit in the amount of EUR 10m. The implementation of these transactions will ensure an appropriate maturity of financing while reducing interest costs at the Group level.

Regarding business activities, in 2021 activities on previously contracted projects continued (reconstruction of the Dugo Selo - Križevci railway, coastal patrol boats for the Ministry of Defense, Nov 485 for Oceanwide expeditions, Ston bridge and Prapratno viaduct). At the level of DIV Group, new significant contracts were signed, such as the reconstruction of the Širina intersection in Solin, the construction of the Konjsko tunnel, repair and partial refit of the ship for Waleforce Yachting, completion of the ship for Viterlef Management - total value of more than 35 million euros for all projects. Negotiations are underway for new projects as well.

Taking into account the above, the Management Board believes that the Company has sufficient liquidity in relation to financial borrowing opportunities to continue to operate in the foreseeable future, despite the uncertainties in the economic environment. The Management Board concludes that the previously mentioned and implemented activities are satisfactory, that the planned activities will be realized during 2021 and that there is no significant uncertainty related to the continuation of the Company's operations.

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

Application of new and revised International Financial Reporting Standards

In the current reporting period, the following amendments to existing standards published by the International Accounting Standards Board ("IASB") and adopted by the European Union are in force:

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

- **IFRS 16 "Leases"**, Rental benefits in the context of the COVID-19 pandemic (adopted in the European Union on 9 October 2020, effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020) *

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

The adoption of these amendments to existing standards did not lead to significant changes in the Company's financial statements.

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards published by the IASB and adopted in the European Union were published, but not in force:

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

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, IFRS, as adopted by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 31 March 2021 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 - 2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16, and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

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:

	2020	**2019**
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 criterion.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Financial assets (continued)

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.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

The Company did not make any such adjustments during the periods presented. Right-of-use assets comprise of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, reduced for 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.

The Company has not made such adjustments during the periods presented. Assets with right of use include the initial measurement of the lease liability in question, the lease payments on or before the commencement of the lease, less any incentives received to close the lease and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Assets with a right of use are depreciated over the lease term or useful life, whichever is shorter. If ownership of the related assets is transferred on a lease basis or if the cost of the used asset reflects that the Company will exercise the option to purchase, the used asset is depreciated over the useful life of the related asset. Depreciation begins on the lease start date.

Assets with the right of use are presented as a separate item in the statement of financial position. The Company applies IAS 36 to determine whether the value of an asset with a right of use is impaired or whether any impairment losses have been accounted for.

Variable rents that do not depend on an index or rate are not included in the measurement of a lease liability and an asset with a right of use. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments in question occurs.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Inventories

Inventories of finished goods and products for resale are valued at cost or net sales 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 sales value is the estimated selling price in the ordinary course of business, reduced for 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 of 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-turnover inventories is reduced at the expense of profit or loss for the current year.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise of 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)

3.11 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.

3.12 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.

3.13 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)

3.14 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 the 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.

3.15 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)

3.16 Revenue recognition

Revenue comprises of the fair value of the fee received or receivables for the sale of goods and services in the ordinary course of the Company's activities. Revenues are 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, when the Company will have future economic benefits and specific criteria for all activities have been fulfilled as described below.

Revenue arises from the regular activities of the Company. The 5-step approach in recognizing customer contract revenue is:

- Step 1: Establish contract(s) with the customer
- Step 2: Determine the obligation to perform from the contract
- Step 3: Determine the transaction price
- Step 4: Divide the transaction price into contractual performance obligations
- Step 5: Revenue is recognized when, or how, an entity fulfills its obligation to act

Under IFRS 15, an entity recognizes revenue when (or how) the performance obligation is fulfilled, ie when the “control” of the goods or services on which a particular performance obligation is based is transferred to the customer. Revenue is recognized for each individual performance obligation in the contract in the amount of the transaction price. The transaction price is the amount in the contract to which the Company is entitled in exchange for the goods or services it provides to the buyer. For contracts that contain more than one performance obligation (multiple arrangement), the Company allocates the transaction price to performance obligations based on the individual selling price. Individual selling price (PPC) is the price at which the Company sells goods or services individually to a customer.

Revenue is recognized when the obligation to act is transferred by transferring control from the goods or services to the customer. Control of the goods is transferred when the goods are delivered to the buyer, the buyer has full ownership of the goods and there are no outstanding obligations that could affect the acceptance of the goods by the buyer. Delivery occurs when the goods are delivered to a specific location, and the risk of delay and loss is transferred to the buyer. Control of goods is usually transferred at a certain point in time. Control of the services is transferred over time or at a particular time which affects when revenue is recognized. Revenue from the provision of services is recognized in the accounting period in which the services are provided.

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 of 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from construction contracts

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only in the amount of contract costs incurred that are expected to be realized.

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

The Company applies the stage of completion method to determine the appropriate amount of income and expenses for a particular period. The stage of completion is measured on the basis of contract costs up to the balance sheet date as a percentage of the total estimated costs for each contract. In determining the stage of completion, all costs incurred during the year that relate to future business activities under the contract are excluded and are reported as inventories, advances or other assets, depending on their nature.

For all ongoing contracts where the incurred costs and recognized profits (less recognized losses) exceed the amounts gradually charged, the Company presents the gross amount of receivables from the client as part of the assets. Gradually charged amounts that were not paid by the clients and retained amounts are stated within trade receivables and other receivables.

For all ongoing contracts where the amounts charged gradually exceed the incurred costs and recognized gains (less recognized losses), the Company presents the gross amount of liabilities to customers as part of liabilities.

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.

3.17 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 invoice 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 by itself does not 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

	2020	2019
		(in thousand's HRK)
Foreign sales income	115,303	130,950
Domestic sales income	158,067	250,674
Revenues from Construction services	174,528	162,181
	447,898	**543,805**

NOTE 6 - OTHER OPERATING INCOME

	2020	2019
		(*in thousand's HRK*)
Write-off of liabilities from suppliers	294	54
Income from grants - COVID	12,239	-
Other operating income	16,121	5,204
	28,654	**5,258**

NOTE 7 – MATERIAL COSTS

	2020	2019
		(in thousand's HRK)
Material used	88,846	123,959
Fuel and energy	13,248	11,694
Small inventory and spare parts	908	1,135
Raw materials and supplies	**103,001**	**136,788**
Raw materials and supplies	**68,166**	**107,963**
Intellectual services	7,766	4,079
Transport services	4,908	5,712
Treatment, preparation and processing	9,117	7,495
Utilities	1,376	1,542
Postage, telephone, internet et sim.	668	575
Other external expenses	90,431	59,709
Other expenses	**114,266**	**79,112**
Total material expenses	**285,434**	**323,864**

Other external expenses predominantly refer to subcontractor services worth HRK 77,808 thousand (2019: HRK 51,507 thousand). The increase in 2020 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

	2020	2019
		(*in thousands of HRK)*
Net salaries and wages	47,329	48,450
Taxes and contributions from salaries	16,807	17,836
Contributions on salaries	8,757	9,034
Other employee costs	12,457	14,075
	85,350	**89,395**

As at 31 December 2020, the Company had 764 employees (2019: 742).

NOTE 9 - OTHER OPERATING EXPENSES

	2020	2019
		(in thousands of HRK)
Bank charges	4,246	4,666
Customs and import duties	2,210	1,879
Insurance	536	521
Value adjustment of trade receivables and loans, provision cost	7,572	18,142
Other costs	12,676	3,249
	27,240	**28,457**

Other costs mostly relate to pre-invoiced costs in the amount of HRK 6,302 thousand, as well as costs of public benefits (membership fees, contributions and taxes to the state) and similar costs.

NOTE 10 - FINANCIAL INCOME

	2020	2019
		(in thousands of HRK)
Foreign exchange gains	6,397	1,807
Interest income	5,792	3,155
Other financial income	99	149
	12,288	**5,111**

NOTE 11 - FINANCIAL EXPENSES

	2020	2019
		(in thousands of HRK)
Interest cost	16,169	15,335
Foreign exchange losses	8,599	3,536
Other financial expenses	14	2
	24,782	**18,873**

NOTE 12 – INCOME TAX

	2020	2019
		(in thousands of HRK)
Profit before taxation	38,675	80,293
Corporate income tax at a rate of 18%	6,961	14,453
Effect of non-deductible expenses	2,173	23,167
Effect of non-taxable income	(6,674)	(277)
Effect of tax incentives (tax benefit)	(2,460)	(37,343)
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 promotor based on its investments. Based on the projects "Development and research of new fasteners", "Development and research of new locksmith welding positions" and "Development and research of new surface protections", the Company may use an incentive in the amount of HRK 83,554,179.40, which reduces the tax base by HRK 14,864,825.29 income tax. Based on the project "Expansion of production capacities of the factory in Knin, the company uses benefits in the amount of HRK 2,460,455,17 in 2020. Until 31.12.2020. company used an incentive in the amount of HRK 28,992,115.58 from "Research and development projects". In accordance with tax regulations, the tax administration may at any time review the books and records of the Company for a period of three years after the end of the year in which the tax liability is stated, and may impose additional tax liabilities and penalties. The Management Board of the Company is not aware of any circumstances that could lead to potential significant liabilities based on the performed inspections.

Movement of deferred tax assets was as follows:

	2020	2019
		(in thousands of HRK)
Balance at 01 January	632	662
Impact of IFRS 9 to retained earnings	251	(30)
Additions	-	-
Balance at 31 December	**883**	**632**

Movement of deferred tax liability was as follows:

	2020	2019
		(in thousands of HRK)
Balance at 01 January	**(53,124)**	**(54,630)**
Recognition (charged to capital)	(10,977)	-
Release (to profit or loss)	1,822	1,506
Balance at 31 December	**(62,280)**	**(53,124)**

	2020	2019
		(in thousands of HRK)
Total income tax	**1,822**	**1,503**

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	Assets with the right of use	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 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	1,680	301	113	156,376	(39,878)	173	129,069
Revaluation	-	-	-	-		-	-	-	-	-	-
Disposals and retirement	-	-	-	(1,359)		-	(4)	(53)	-	-	(1,416)
As at 31 December 2019.	25,340	332,940	84,641	18,491	1,680	552	3,891	442,983	12,165	1,487	924,170
As at 1 January 2020	**25,340**	**332,940**	**84,641**	**18,491**	**1,680**	**552**	**3,891**	**442,983**	**12,165**	**1,487**	**924,170**
Additions		3,506	2	540	881	-	20,492	33,423	(3,926)	18	54,936
Revaluation	(3,756)	23,196	-	-	-	-	-	41,544	-	-	60,984
Disposals and retirement	-	-	-	-	-	-	(6)	(489)	-	-	(495)
As at 31 December 2020	**21,584**	**359,642**	**84,643**	**19,031**	**2,561**	**552**	**24,377**	**517,461**	**8,239**	**1,505**	**1,039,595**
Accumulated depreciation											
As at 1 January 2019.	-	**34,470**	**10,811**	**9,443**	**-**	**25**	**2,980**	**87,181**	**-**	**-**	**144,910**
Charge for the year	-	6,297	1,615	851	843	28	261	10,101	-	-	19,996
Disposals and retirement	-	-	-	(1,204)		-	(15)	(14)	-	-	(1,233)
As at 31 December 2019	**-**	**40,767**	**12,426**	**9,090**	**843**	**53**	**3,226**	**97,268**	**-**	**-**	**163,673**
As at 1 January 2020	**-**	**40,767**	**12,426**	**9,090**	**843**	**53**	**3,226**	**97,268**	**-**	**-**	**163,673**
Charge for the year	-	5,967	1,629	1,094	1,021	55	1,924	18,797	-	-	30,487
Disposals and retirement	-	-	-	-		-	(5)	(418)	-	-	(423)
As at 31 December 2020	**-**	**46,734**	**14,055**	**10,184**	**1,864**	**108**	**5,145**	**115,647**	-	-	**193,737**
Net book value											
As at 31 December 2019	**25,340**	**292,173**	**72,215**	**9,401**	**837**	**499**	**665**	**345,715**	**12,165**	**1,487**	**760,497**
As at 31 December 2020	**21.584**	**312.908**	**70.588**	**8.847**	**697**	**444**	**19.232**	**401.814**	**8.239**	**1.505**	**845.858**

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT (continued)

Land, buildings and equipment of the Company with a net carrying amount of HRK 175,041 thousand (*2019: HRK 142,428 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 2020	31 December 2019
		(in thousands of HRK)
Cost of equipment under finance lease	11,542	11,293
Accumulated depreciation	(958)	(954)
Net carrying amount	**10,584**	**10,339**

NOTE 14 – NON-CURRENT FINANCIAL ASSETS

	31 December 2020	31 December 2019
		(in thousands of HRK)
Investment in unsubscribed capital of the company DIV Brodogradnja d.o.o.	80,378	80,378
Investments in subsidiaries	43,298	43,298
Other investments	24	24
	123,700	**123,700**

NOTE 14 – NON-CURRENT FINANCIAL ASSETS (continued)

The following is a review of investments in subsidiaries

		Share of proprietary and voting rights	**31 December 2020**	**31 December 2019**
			(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	1,853
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
TRADEWIND VOYAGES UK ltd	GB	100%	0	0
BRODOSPLIT SERVIS BRODOVA d.o.o.	Croatia	70%	1	1
DIV UČILIŠTE	Croatia	100%	1	1
			43,298	**43,298**

NOTE 15 – CURRENT FINANCIAL ASSETS

	31 December 2020	31 December 2019
		(in thousands of HRK)
Given loans, deposits and similar	6,411	1,505
Given loans to related parties	108,029	6,951
Impairment of given loans	(1,388)	(12)
	113,052	**8,444**

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

	2020	2019
		(in thousands of HRK)
Balance at 01 January	**12**	**601**
Increase in expected credit losses (IFRS 9)	1.376	(589)
Balance at 31 December	**1.388**	**12**

NOTE 16 - INVENTORIES

	31 December 2020	31 December 2019
		(in thousands of HRK)
Trade goods	111,179	87,938
Impairment allowance	*(19,353)*	(20,063)
	91,826	**67,875**
Finished products	146,229	136,232
Impairment allowance	*(7,345)*	(6,655)
	138,885	**129,577**
Raw materials and supplies	37,099	23,929
Impairment allowance	*(578)*	**(485)**
	36,521	23,444
Advances for inventories	37,245	17,370
Work in progress	23,099	18,972
	327,575	**257,238**

NOTE 16 – INVENTORIES (continued)

Movements in impairment of inventories were as follows:

	2020	2019
		(in thousands of HRK)
Balance at 01 January	**27,203**	**19,285**
Increase	783	27,203
Decrease	(710)	(19,285)
Balance at 31 December	**27,276**	**27,203**

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
	(in thousands of HRK)	*(in thousands of HRK)*
Receivables from related parties	35,642	56,816
Trade receivables	42,380	31,896
Impairment allowance of trade receivables	(10,657)	(6,755)
	67,365	**81,957**
Receivables from construction contracts (Note 23)	189,853	107,469
Receivables acquired through cessions and assignments	2,688	5,355
Input tax receivables	-	35,765
Receivables for given guarantees and performance	16,326	14,833
Receivables for default interest	1,120	706
Receivables for government grants and subsidies	2,240	735
Other receivables	15,306	10,880
	227,533	**175,743**
Impairment of trade and other receivables in line with IFRS 9	(3,518)	(3,501)
	291,380	**254,199**

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

	2020	2019
	(in thousands of HRK)	*(in thousands of HRK)*
Balance at 01 January	**10,256**	**10,223**
Increase	3,926	522
Expected credit losses (IFRS 9) - initial application	-	-
Increase in expected credit losses (IFRS 9)	17	420
Collected previously written-off receivables	(24)	(909)
Write-off - FX gains/losses	-	-
Balance as at 31 December	**14,175**	**10,256**

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	**39,259**		**39,259**
Due			
Up to 30 days	4,798		4,798
31-90 days	9,515		9,515
91-180 days	1,553		1,553
181-365 days	5,430		5,430
Over 365 days	17,467	(10,657)	6,810
Total	**78,022**	**(10,657)**	**67,365**

NOTE 18 - CASH AND CASH EQUIVALENTS

	31 December 2020	**31 December 2019**
		(in thousands of HRK)
Cash at bank	24,976	3,047
Petty cash	43	28
	25,018	**3,075**

Cash at bank refers to cash accounts with commercial banks.

NOTE 19 - SHARE CAPITAL

19a Share capital

	31 December 2020	31 December 2019
		(in thousands of HRK)
Share capital	245,737	245,737
	245,737	**245,737**

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

19b Revaluation reserves

On 31 December 2020, the Company revalued its land, property and equipment. The revaluation was carried out on the basis of assessments made by the authorized appraisal company Hamzić consulting, market research craft, owned by Sejad Hamzić and court expert for construction and real estate appraisal Hrvoje Balija.

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 2020, and estimated value of land, property, plant and equipment.

The movement of the revaluation reserve is shown as follows:

	2020	2019
Balance at 01 January	**242,011**	**248,873**
Increase in revaluation reserve	50,007	-
Depreciation of revaluation	(8,298)	(6,862)
Balance at 31 December	**283,720**	**242,011**

19c Other reserves

Changes in other reserves	**2020**	**2010**
Balance at 01 January	**6,553**	**471**
Decrease in retained earnings and increase in capital reserves	-	6,083
Balance at 31 December	**6,553**	**6,553**

19d Retained earnings

Changes in retained earnings	**2020**	**2019**
Balance at 01 January	**325,168**	**253,317**
Decrease in profit and increase in share capital	-	(214,633)
Increase in retained earnings from capital reserves	-	208,550
Impact of IFRS 9 application	251	(30)
Depreciation of revaluation reserve	10,272	8,367
Profit distribution	(74,960)	(10,696)
Total comprehensive income for the year	38,675	80,292
Balance at 31 December	**299,406**	**325,168**

NOTE 20a - LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
		(in thousands of HRK)
Non-current liabilities to banks		
Bank loans	310,302	238,072
Current portion	(95,361)	(49,030)
Non-current liabilities to banks	**214,941**	**189,042**
Non-current liabilities to other financial institutions		
Finance lease	3,064	3,845
Current portion	(1,512)	(1,823)
Non-current portion of finance lease	**1,552**	**2,022**
Non-current liabilities of IFRS 16 lease		
IFRS 16 lease	745	854
Current portion	(303)	(854)
Non-current portion of IFRS 16 lease	**442**	**-**
Total non-current liabilities to banks and other financial institutions	**216,935**	**191,064**
Current liabilities to banks and other financial institutions		
Short-term bank loans	28,201	-
Current portion of long-term loans	95,361	49,030
Current portion of finance lease	1,512	1,823
Current portion of IFRS 16 lease	303	854
Total current liabilities to banks and other financial institutions	**125,377**	**51,707**
Total liabilities to banks and other financial institutions	**342,312**	**242,771**

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

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

	31 December 2020	31 December 2019
		(in thousands of HRK)
Maturity up to 6 months	82,245	26,279
Maturity from 6 months to 1 year	41,316	22,751
Maturity from 1 to 2 years	69,356	45,502
Maturity from 2 to 5 months	140,585	143,540
Maturity over 5 years	5,000	-
	338,502	**238,072**

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

			2020
			(in thousands of HRK)
	Equity	Interests	Total
Up to 1 year	1,512	123	1,635
1 to 2 years	851	44	895
2 to 5 years	701	22	723
	3,064	**189**	**3,253**

			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**

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

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

			2020
			(in thousands of HRK)
	Equity	Interest	Total
Up to 1 year	303	7	310
1 to 2 years	412	26	438
2 to 5 years	30	3	33
	745	**36**	**781**

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

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

	31 December 2020	**31 December 2019**
	(In thousands of HRK)	*(In thousands of HRK)*
EUR	288.426	238.072
USD	10.076	-
HRK	40.000	-
	338.502	**238.072**

As at 31 December 2020, the Company has a short-term credit limit with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 13,943 thousand (as at 31 December 2019: HRK 43,539 thousand) of which, as at 31 December 2020, limit is totally used (2019: HRK 14,168 thousand).

The company also has a limit with the insurance company Zurich insurance in the amount of HRK 52,758 thousand, of which on 31.12.2020. used HRK 16,060 thousand.

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

Bank loans

Bank loans amount to HRK 338,502 thousand, of which HRK 177,221 thousand with a variable interest rate and HRK 161,281 thousand with a fixed interest rate on an annual basis(2019: HRK 175,003 thousand for variable-rate borrowings and HRK 63,069 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 20b - LONG - TERM LIABILITIES TO ASSOCIATED COMPANIES

	31 December 2020	31 December 2019
Long-term liabilities to associated companies	167.052	-
	167.052	**-**

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
	(in thousands of HRK)	
Foreign trade payables	69,205	82,202
Related-party payables	73,763	112,188
Domestic trade payables	37,423	33,267
Advances received	11,197	29,390
Accrued liabilities for goods in transfer	25,491	2,986
Loan liabilities towards owners	62,268	-
Payables to employees	5,515	5,234
Taxes, contributions and similar duties payable	24,620	5,217
Other current liabilities	8,591	19,832
	318,073	**290,316**

NOTE 22 – PROVISIONS

	As at 01 January 2020	Recognised in profit or loss	Used	As at 31 December 2020
				(in thousands of HRK)
Legal actions	270	693	-	963
Other provisions	1,835	(465)	-	1,370
	2,105	**228**	**-**	**2,333**

NOTE 23 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	2020	2019
Costs incurred up to reporting date	409,555	271,899
Recognised losses up to the reporting date	-	(670)
	409,555	271,229
Less: invoicing in progress and advances received	(219,703)	(215,768)
	189,852	**55,461**
Receivables from the contracted party for the contracted work	**189,852**	**55,461**
Reclassified to accrued revenue	**189,852**	**55,461**
Revenue from construction contracts recognized by the reporting date	476,585	323,892
Less: revenue from construction contracts recognized in previous years	(302,147)	(162,666)
	174,438	**161,226**

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 2020	31 December 2019
		(in thousands of HRK)
Debt	342.312	242.771
Cash and cash equivalents	(25.018)	(3.075)
Net debt	**317.294**	**239.696**
Equity	835.416	819.469
Debt-to-equity ratio	38%	29%

Debt is defined as long-term and short-term borrowings, as well as finance lease 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 the lower price of production material are used for optimising purchase costs.

Categories of financial instruments are as follows:

	31 December 2020	31 December 2019
		(in thousands of HRK)
Financial assets at depreciated cost		
Given loans	113,052	8,444
Trade and other receivables	298,721	254,199
Cash and cash equivalents	25,018	3,075
	436,791	**265,718**
Financial liabilities at depreciated cost		
Finance lease	3,064	3,845
Factoring liabilities	338,503	238,072
Loan liabilities	167,052	-
Trade and other payables	318,824	290,314
	827,443	**532,231**

NOTE 24 - RISK MANAGEMENT (continued)

Capital risk management (continued)

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 2020, 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 2020	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	141,961	141,961	141,961	-	-	-
Trade payables	176,863	176,863	176,863	-	-	-
	318,824	**318,824**	**318,824**	**-**	**-**	**-**
Interest-bearing liabilities						
Finance lease liabilities	3,064	3,253	1,634	895	724	-
Loan liabilities within group	167,052	175,504	5,635	169,869	-	-
Loan liabilities	338,503	363,015	134,950	76,015	147,001	-
	508,619	**541,772**	**142,219**	**246,779**	**147,725**	**-**
	827,443	**860,596**	**461,043**	**246,779**	**147,725**	**-**

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	-
Loan liabilities within group	-	-	-	-	-	-
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**	**-**

NOTE 24 - RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Assets

As at 31 December 2020	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	2,688	2,688	2,688	-	-	-
Other receivables	216,902	216,902	216,902	-	-	-
Trade receivables	79,142	79,142	79,142	-	-	-
	298,732	**298,732**	**298,732**	**-**	**-**	**-**
Interest-bearing assets						
Given loans and deposits	113,052	113,052	113,052	-	-	-
Cash and cash equivalents	25,018	25,018	25,018	-	-	-
	138,070	**138,070**	**138,070**	**-**	**-**	**-**
	436,802	**436,802**	**436,802**	**-**	**-**	**-**

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	93,996	93,996	93,996	-	-	-
	254,199	**254,199**	**254,199**	**-**	**-**	**-**
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**	**-**	**-**	**-**
	265,718	**265,718**	**265,718**	**-**	**-**	**-**

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:

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 2020	31 December 2019	31 December 2020	31 December 2019
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	356,114	305,756	57,583	57,070
USD	14,215	14,928	28,779	11,990
GBP	-	-	10,877	-
Other currencies	229	268	54	242
	370,558	**320,952**	**97,293**	**69,302**

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	
	2020	2019
	(in thousands of HRK)	
Impact on net result	+/-2,985	+/-2,487

	USD impact	
	2020	2019
	(in thousands of HRK)	
Impact on net result	+/-1,456	+/-294

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

	2020	2019
		(in thousands of HRK)
Product and service sales		
Brodograđevna industrija Split d.d.	142,605	172,427
P.T.C. Krka Knin d.o.o.	401	750
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	1,813	3,307
TVIK - DIV d.o.o., Valjevo, Srbija	3,348	3,008
DIV Betonski pragovi d.o.o., Svrljig, Srbija	1,246	9,104
MIN - DIV a.d., Svrljig, Srbija	-	248
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	2,767	393
Brodosplit - Interijer i završni radovi d.o.o.	1,807	981
Marine and Energy Solutions d.o.o.	12	26
Maestral Wind Cruise Shipping	-	27
DIV Brodogradnja d.o.o.	2	2
Brodosplit – Namještaj po mjeri d.o.o.	6	61
Brodosplit Brodska i ostala oprema d.o.o.	-	58
Brodosplit trup d.o.o.	9	302
Brodosplit zaštita trupa od korozije d.o.o.	-	-
Brodosplit oblaganje d.o.o.	4,091	53
Efficient Powerful Successful d.o.o.	222	155
Power Voyages d.o.o.	157	216
Brodosplit - Čelik d.o.o Italija	57	-
XB Ahts Hero Shipping inc.	7	-
	158,550	**191,118**

	2020	2019
		(in thousands of HRK)
Financial income		
Brodograđevna industrija Split d.d.	4,595	1,727
DIV Brodogradnja d.o.o.	289	5
DIV CRUISES ltd	1	5
MIN - DIV a.d., Svrljig, Srbija	236	261
P.T.C. Krka Knin d.o.o.	20	544
Tradewind Voyages UK ltd	157	-
	5,298	**2,542**

	2020	2019
		(in thousands of HRK)
Financial expenses		
Brodograđevna industrija Split d.d.	5,518	1,727
Efficient Powerful Successful d.o.o.	1	5
	5,519	**1,732**

NOTE 25 – RELATED PARTY TRANSACTIONS (continued)

	2020	2019
		(in thousands of HRK)
Purchase of goods and services		
P.T.C. Krka Knin d.o.o.	5,826	6,636
DIV Betonski pragovi d.o.o., Svrljig, Srbija	6,499	9,691
TVIK - DIV d.o.o., Valjevo, Srbija	210	3,647
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	1,486	1,871
MIN - DIV a.d., Svrljig, Srbija	2,892	1,660
Brodosplit - Oblaganje d.o.o.	-	14
Brodograđevna industrija Split d.d.	31,935	48,786
Brodosplit - Interijer i završni radovi d.o.o.	7,433	803
Brodosplit - Otpremništvo d.o.o.	89	96
Power Voyages d.o.o.	-	276
Efficient Powerful Successful d.o.o.	3,263	526
Shanghai Vida industry&Co	305	257
Marine and Energy Solutions DIV d.o.o.	25	-
Brodosplit zaštita trupa od korozije d.o.o.	91	-
Brodosplit namještaj po mjeri d.o.o.	1,786	-
	61,840	**74,263**

	2020	2019
		(in thousands of HRK)
Purchase of main assets and investment property		
Brodograđevna industrija Split d.d.	47,918	107,247
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	-	17,402
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	445	-
P.T.C. Krka Knin d.o.o.	484	-
Marine and Energy Solutions DIV d.o.o.	12	-
	48,859	**124,649**

	2020	2019
		(in thousands of HRK)
Trade receivables (Note 17)		
DIV Brodogradnja d.o.o.	307	6,765
MIN - DIV a.d., Svrljig, Srbija	17,935	10,310
Brodograđevna industrija Split d.d.	12,950	17,632
TVIK - DIV d.o.o., Valjevo, Srbija	6,510	5,669
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	6,506	7,646
DIV Betonski pragovi d.o.o., Svrljig, Srbija	3,635	8,792
DIV Cruises inc.	1	-
Marine consulting d.o.o.	-	2
Tradewind Voyages UK ltd	157	-
	48,000	**56,816**

NOTE 25 – RELATED PARTY TRANSACTIONS (continued)

	2020	2019
		(in thousands of HRK)
Receivables for given loans (Note 15)		
DIV Cruises inc.	36	-
DIV Brodogradnja d.o.o.	11,010	132
Brodograđevna industraija Split d.d.	79,358	-
MIN - DIV a.d., Svrljig, Srbija	6,905	6,819
Tradewind Voyages UK ltd	10,720	-
	108,029	**6,951**

	2020	2019
		(in thousands of HRK)
Trade payables (Note 21)		
Brodograđevna industrija Split d.d.	58,843	111,428
P.T.C. Krka Knin d.o.o.	6,018	276
Efficient Powerful Successful d.o.o.	1,339	484
Brodosplit - Interijer i završni radovi d.o.o.	9,291	-
Brodosplit – Namještaj po mjeri d.o.o.	2,232	-
Brodosplit - Otpremništvo d.o.o.	112	-
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	1,767	-
Brodosplit zaštita trupa od korozije d.o.o.	114	-
Marine and Energy Solutions DIV d.o.o.	30	-
Shanghai Vida industry&Co	65	-
	79,811	**112,188**

	2020	2019
		(in thousands of HRK)
Liabilities for accepted borrowings (Note 21)		
Brodograđevna industrija Split d.d.	167,052	-
Citizens	755	-
Ownership	61,513	-
	229,320	**-**

Remuneration to key management

The Company's key management comprises the Management Board consisting of 2 members (2019: 2 members). In 2020, remuneration paid to the members of the Management Board amounted to HRK 473 thousand (2019: HRK 477 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 the 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 the 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 of 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.

The final audit reports were submitted to the Ministry, on the basis of which it was determined that all obligations had been fulfilled. In January 2020, security instruments for good performance were returned.

As of December 31, 2020, the company DIV Betonski pragovi had 287 employees, and approximately EUR 0.2 million was invested in the necessary fixed assets. Company MIN DIV SVRLJIG a.d. as of 31.12.2020. had 10 employees.

Exposure per legal dispute DIV Betonski pragovi d.o.o. Svrljig

As at 31 December 2020, the Company is involved in a number of legal actions as the defendant, arising from litigation with former employees.

The Company's exposure to court cases with former employees as at 31 December 2020 amounts to approximately EUR 35,000 (based on lawsuits related to ongoing proceedings). The Management Board believes that these disputes will not result in additional losses for the Company.

Based on consultation with legal counsel, the Management Board applied the judgment as described in more detail in Note 4 and assessed that the legal proceedings in which the Company is involved should not result in additional significant losses.

Exposure per legal dispute MIN DIV SVRLJIG a.d. Svrljig

As at 31 December 2020, the Company is involved in a number of legal actions as the defendant, arising from litigation with former employees.

The Company's exposure to court cases with former employees as at 31 December 2020 amounts to approximately EUR 87,000 (based on lawsuits related to ongoing proceedings). The Management Board believes that these disputes will not result in additional losses for the Company.

Guarantees

As at 31 December 2020, the Company had HRK 61,499 thousand of issued guarantees, of which HRK 3,814 thousand was covered by a deposit (31 December 2019: HRK 81,780 thousand). Furthermore, as at 31 December 2020, the Company had HRK 1,176,240 thousand of promissory notes issued (31 December 2019: HRK 1,170,127 thousand).

Review and exposure status of debentures

Balance at 31 December 2020	Amount	Exposure
(in thousands of HRK)		
Debentures to suppliers	83,154	18,913
Debentures to financial institutions	1,093,086	350,521

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

DIV GRUPA d.o.o. has settled its liability to Zagrebačka banka d.d., which was in maturity during The Company agreed to take over part of contract on the DSK project from Zagreb Montaža. Thus, in addition to increasing the share in the project (by approximately HRK 150 million), we actually enable ourselves to perform the work from our part (originally contracted) .

A new project has been contracted for the construction of the crossroads "Širine" in Solin in the value of approximately EUR 20 million, which gives additional meaning to the procurement of equipment for construction and new employment and increase staff costs.

ISO 28000 was introduced as the first in Croatia (security system), which additionally positioned the Company towards some key customers.

The spread of coronavirus has had a detrimental effect on economies around the world in terms of declining business volumes and branch closures. The situation with the Covid-19 pandemic also had a significant impact on the business activities of DIV GRUPA d.o.o. in 2020 and early 2021.

The Company continues to take all measures to minimize the negative impact and consequences of such pandemic and to ensure safe working environment. Given the market situation, the Company have provided sufficient quantities of raw materials to continue the production process. The Company has done all the necessary preparatory actions to make a decision on the introduction of anti-dumping duties for standard screw goods in the EU, and it is expected significantly higher demand to increase Company’s competitiveness during 2021.

NOTE 28 - AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 20th July 2021.

Signed for and on behalf of the Management Board on 20th July 2021 by:

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

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4