

DIV d.o.o.

Consolidated financial statements
31 December 2015

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

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RESPONSIBILITIES OF MANAGEMENT

Management is responsible for the preparation consolidated financial statements for each financial year which give a true and fair view of the financial position, results of operations and cash flows for the period in accordance with applicable accounting standard, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements and consolidated financial statements at any time. Management has a general responsibility for taking such steps which are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Management is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The consolidated financial statements set out on pages 4 to 49 were authorised by Management as signed below.

Tomislav Debeljak

DIV d.o.o.
Management Board
Tomislav Debeljak
President of the Management Board
Tel. 337-000, Fax. 3376-155, 3376-156
MB 3659976

Samobor, 25 July 2016



INDEPENDENT AUDITORS' REPORT TO THE OWNERS OF DIV D.O.O. GROUP

We have audited the accompanying consolidated financial statements of DIV d.o.o. (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

- 1 Because we were appointed as auditors of the Group during 2014, we were not able to observe the counting of the physical inventories at the beginning of that period and satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the Group's financial performance, we were unable to determine whether adjustments to the financial performance and opening retained earnings might be necessary for 2014. Our audit opinion on the consolidated financial statements for the year ended 31 December 2014 dated 2 March 2016 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.
- 2 *Other operating income* as further disclosed in Note 6 includes an amount of HRK 9,660 thousand within *Income from government grant* related to grants receivable for depreciable assets. The Group has recognised the grant receivable in comprehensive income in the full amount in the current 2015 year. In accordance with International Financial Reporting Standard IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the Group should recognise the grant in the comprehensive income over the periods and in proportion in which depreciation expense on those assets is recognised. Had the Group deferred the income over the remaining useful life of the underlying depreciable assets, net profit for the year ended 31 December 2015 and the equity as at 31 December 2015 would be decreased by HRK 9,660 thousand.

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



INDEPENDENT AUDITORS' REPORT TO THE OWNERS OF DIV D.O.O. GROUP
(continued)

Qualified Opinion

In our opinion, except for the possible effect on the corresponding figures for 31 December 2014 of the matter described in Paragraph 1 and except for the effects of the matter described in Paragraph 2 in the Basis for Qualified Opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as of 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17. kat
Ivana Lučića 2a
10000 Zagreb
Croatia

25 July 2016

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

<i>(in thousands of HRK)</i>	Note	2015	2014*
Revenue	5	763,173	778,056
Other income	6	44,171	27,684
Total operating income		807,344	805,740
Changes in inventories - work in progress and finished goods	*	156,492	73,119
Materials and consumables used	7*	(557,110)	(486,930)
Personnel expenses	8	(338,695)	(355,787)
Depreciation and amortisation		(45,885)	(43,883)
Other operating expenses	9	(114,382)	(63,277)
Total operating expenses		(899,580)	(876,758)
Operating loss		(92,236)	(71,018)
Financial income	10	26,154	23,794
Financial expenses	11	(56,761)	(73,091)
Net finance costs		(30,607)	(49,297)
Share of loss of joint venture	17	(386)	(390)
Loss before income tax		(123,229)	(120,705)
Income tax	12	4,166	6,359
Net loss for the year		(119,063)	(114,346)
Other comprehensive income			
Change in fair value of available for sale assets	16	110	(262)
Effect of foreign exchange		(397)	(2,364)
Total comprehensive loss		(119,350)	(116,972)
Profit/ (loss) attributable to			
Owners of the Company		(119,789)	(111,320)
Non-controlling interests		726	(3,026)
		(119,063)	(114,346)
Total comprehensive profit/ (loss) attributable to			
Owners of the Company		(120,076)	(113,945)
Non-controlling interests		726	(3,027)
		(119,350)	(116,972)

*Reclassified as explained in the note 2 (v)

Accompanying notes form an integral parts of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

<i>(in thousands of HRK)</i>	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Intangible assets	13	1,321	1,937
Property, plant and equipment	14	1,035,232	919,914
Investment property	15	5,102	5,281
Other investment	16	32,223	9,658
Investment in joint ventures	17	9,583	4,750
Trade and other receivables	18	100,958	222,332
Deferred tax assets	12	5,835	5,420
Total non-current assets		1,190,254	1,169,292
Current assets			
Inventories	19	507,065	399,708
Trade receivables	20	292,073	425,592
Prepaid expenses		2,979	770
Cash and cash equivalents	21	20,384	45,000
Total current assets		822,501	871,070
Total assets		2,012,755	2,040,362
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	22	245,737	245,737
Reserves	23	37,710	26,517
Accumulated losses		851,442	982,711
Non-controlling interests		4,840	4,114
Total equity		1,139,729	1,259,079
Non-current liabilities			
Liabilities towards banks and other financial institutions	24	91,931	117,022
Provisions	25	36,853	34,588
Deferred tax liabilities	12	52,410	56,944
Total non-current liabilities		181,194	208,554
Current liabilities			
Liabilities towards banks and other financial institutions	24	185,546	213,446
Provisions	25	17,311	33,071
Trade and other payables	26	452,001	295,912
Accrued expenses and deferred income	27	36,974	30,300
Total current liabilities		691,832	572,729
Total liabilities		873,026	781,283
Total liabilities and shareholders' equity		2,012,755	2,040,362

Accompanying notes form an integral parts of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

<i>(in thousands of HRK)</i>	<i>Note</i>	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total
As at 1 January 2014		142,975	3,151	1,222,784	1,368,910	7,141	1,376,051
Other comprehensive income		-	(261)	-	(261)	(1)	(262)
Effect of foreign exchange		-	(2,364)	-	(2,364)	-	(2,364)
Loss for the year		-	-	(111,320)	(111,320)	(3,026)	(114,346)
Total comprehensive income or loss		-	(2,625)	(111,320)	(113,945)	(3,027)	(116,972)
Transactions with owners							
Share capital from reinvested profits	22	102,762	-	(102,762)	-	-	-
Reinvestment of profits of subsidiaries	23	-	2,009	(2,009)	-	-	-
Transfer to legal reserves	23	-	25,310	(25,310)	-	-	-
Cover of losses from legal reserves	23	-	(1,328)	1,328	-	-	-
		102,762	25,991	(128,753)	-	-	-
As at 31 December 2014		245,737	26,517	982,711	1,254,965	4,114	1,259,079
Other comprehensive income		-	110	-	110	-	110
Effect of foreign exchange		-	(397)	-	(397)	-	(397)
Loss for the year		-	-	(119,789)	(119,789)	726	(119,063)
Total comprehensive income or loss		-	(287)	(119,789)	(120,076)	726	(119,350)
Transactions with owners							
Reinvestment of profits of subsidiaries	23	-	9,980	(9,980)	-	-	-
Transfer to legal reserves	23	-	1,500	(1,500)	-	-	-
		-	11,480	(11,480)	-	-	-
As at 31 December 2015		245,737	37,710	851,442	1,134,889	4,840	1,139,729

Accompanying notes form an integral parts of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(in thousands of HRK)

	Note	2015	2014
Net loss before tax		(123,229)	(120,705)
Adjustments for:			
Depreciation and amortisation		45,882	43,883
Impairment of property, plant and equipment		522	330
Net gain from sale of property, plant and equipment		(45)	7,726
Share in loss of joint venture		386	390
Impairment of available for sale assets		-	3,000
Financial income/ (expenses) realised - net		29,564	41,223
Unrealised foreign exchange differences		(1,256)	9,450
Changes in:			
- trade and other receivables		242,272	305,081
- inventories		(107,357)	70,632
- trade and other payables		156,253	(132,261)
- provisions		(13,495)	(62,951)
Cash generated from operating activities		229,497	165,798
Interest paid		(33,123)	(51,899)
Income tax paid		(378)	(652)
Net cash used in operating activities		195,996	113,247
Cash flow from investing activities			
Acquisition of property, plant and equipment		(167,250)	(63,368)
Proceeds from disposal of property, plant and equipment		2,454	219
Investment in joint venture		(5,219)	(5,140)
Loans and deposits received		647	1,096
Interest received		-	6,782
Net cash used in investing activities		(169,368)	(60,411)
Cash flow from financing activities			
Proceeds from loans and borrowings		332,752	320,851
Repayment of loans and borrowings		(383,996)	(387,406)
Net cash from financing activities		(51,244)	(66,555)
Net increase/(decrease) in cash and cash equivalents		(24,616)	(13,719)
Cash and cash equivalents at the beginning of the year		45,000	58,719
Cash and cash equivalents at the end of the year	21	20,384	45,000

Accompanying notes form an integral parts of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 1 – GENERAL INFO

DIV Group (the „Group“) includes the parent company DIV d.o.o. tvornica vijaka, DIV Brodogradnja d.o.o., Brodograđevna Industrija Split d.d., Split and 58 subsidiaries, MIN DIV Svrlijig d.o.o., TVIK DIV Valjevo d.o.o., DIV Betonski pragovi d.o.o., DIV Sarajevo d.o.o. and Shangai Vida, China as stated further in the notes.

The Company DIV d.o.o. is registered with the Commercial Court in Zagreb under Registration number (MBS): 080127368. The core business of the Company is the production of production of fasteners, screws, chains and springs. During 2013, a subsidiary DIV Brodogradnja d.o.o. acquired 99.78% shares of the company Brodograđevna industrija Split d.d., Split, so Group’s activities have been extended to shipbuilding. The Group is headquartered at Samobor, Bobovica 10A, Croatia. Share capital of the Group amounts to HRK 245,736,800.

Founders and owners of the Group are Tomislav Debeljak, Vjera Debeljak and Božidar Debeljak.

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

Name	Surname	Function
Danijela	Debeljak	President of the Supervisory Board
Vjera	Debeljak	Vice president of the Supervisory Board
Vanja	Schoch	Member

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
Dalibor	Marijanović	Member

NOTE 2 – BASIS OF PREPARATION

(i) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

(ii) *Basis of measurement*

These financial statements have been prepared on the historical cost basis, except where otherwise disclosed.

(iii) *Functional and presentation currency*

These financial statements are presented in Croatian kuna (“HRK”), which is the Company’s functional currency, rounded to the nearest thousand.

(iv) *Going concern*

These consolidated financial statements have been prepared on the going concern basis, under the assumption that the Group will be able to refinance its current liabilities.

As at 31 December 2015 the Group had current loan liabilities of HRK 185,546 thousand, of which, by 31 June 2016 HRK 17,339 thousand of loan liabilities was repaid, mainly from its own liquidity. Accordingly, the total debt for the Group’s current and non-current loans as at 30 June 2016 was HRK 231,933 thousand. The Group has initiated negotiations with the business and development banks in respect of the current financial debt restructuring, optimisation of the maturity structure and raising of additional funds. Furthermore, during 2016 the Group is expecting cash inflows of HRK 26.4 million arising from government grants which are disclosed within Note 20 within *Receivables from the state for government grants and subsidies*.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 2 – BASIS OF PREPARATION (continued)

(iv) Going concern (continued)

Management believes that it will successfully complete negotiations with financial institutions and that the projected cash flows will be sufficient to meet liabilities towards financial institutions and other suppliers. As explained in Note 32 *Subsequent events*, liquidity requirements arising from supporting related party subsidiaries was eased with the approval of a Eur 20 million loan to Brodosplit-holding d.o.o. during June 2016.

Given the process in respect of loan refinancing and restructuring is ongoing and if for any reason cash inflows would be less than anticipated, the Group will consider the possibility to compensate the requirements for funds with commercial bank loans or for example disposal of non-core assets or the sale of finished inventory goods at discounted prices to secure additional funds if immediately required.

In the case that the Group will be unable to refinance its debt or secure alternative funds, the banks will have the possibility to exercise their contractual rights and activate mortgages over the Groups's properties (Note 14). The financial statements do not include the impact of adjustments if the Group would be unable to settle its debt and continue as a going concern.

(v) Changes in the presentation of financial statements for the year 2014

Statement of comprehensive income

In 2015, the Group changed classification within statement of comprehensive income related to presentation of Changes in inventories - work in progress and finished goods to be consistent among companies of DIV Group.

Effect of aforementioned reclassification on comparative information in the statement of comprehensive income of the Group is presented in the table below:

	<u>As previously reported</u>	<u>Reclassification</u> <i>(in HRK thousand)</i>	<u>Reclassified</u>
Group			
Changes in inventories - work in progress and finished goods	121,166	(48,047)	73,119
Material expenses	(534,977)	48,047	(486,930)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These significant accounting policies have been applied consistently to all periods presented in these financial statements.

3.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of 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 Group controls another entity. Subsidiaries are consolidated from the date on which control commences and are no longer consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated, unless there is evidence of impairment of transferred assets. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) 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. In the Group financial statements investments in associates have been initially accounted at cost and subsequently at cost reduced by impairment recognised. Impairment testing in investment in associates is preformed annually.

(iii) Joint ventures

The Group's interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. Under the equity method, the Group's share of post-acquisition profits or losses is recognised in the income statement, whereas its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

3.2 Foreign currencies

Transactions and balances in foreign currency

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

Non-monetary assets and liabilities that are valued at historic cost and are not recalculated at new exchange rates.

Non-monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances in foreign currency (continued)

Members of the Group

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Group's functional currency.

Gains and losses and foreign currency transactions are translated into the Group's functional currency using the exchange rates prevailing at the dates of the transactions (average monthly exchange rate) and its assets and liabilities using the year-end exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised separately in equity.

3.3 Property, plant and equipment

Property, plant and equipment is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of replaced parts is derecognized.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Buildings	20 - 100 years
Tools, furniture and transport equipment	10 - 33 years
Plant and equipment	10 - 33 years

Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant. The residual value of an asset is the estimated amount that the Group 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 Group expects to use the asset until the end of its physical life. The operating assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Intangible assets

Intangible assets relates to IT software initially recognized at cost and amortised at straight line basis over its estimated useful life.

After initial recognition, an intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised costs of development, are not capitalised and are recognised as an expense in profit or loss as incurred. Useful life of an intangible assets is assessed as a finite or an indefinite.

Intangible assets with a finite useful life is amortised over the estimated useful life up to 10 years and is impaired if deemed necessary. The amortisation period and the amortization method for an intangible assets with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the asset are reflected as change of the amortization method and the amortization period and are accounted for as changes in accounting estimates.

Amortisation expense of an intangible assets with a finite useful life is recognised as an expense in profit or loss in accordance with an intended use of the asset. An intangible asset with an indefinite useful life is not amortised, but is annually tested for impairment either on individual basis or on cash generating unit bases.

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for.

3.5 Investment property

Investment property mainly relates to apartments that are held for long-term rental yields or appreciation. Investment property is classified as a long-term investment unless it is intended to be sold in the next year and a buyer has been identified, in which case it is classified within current assets.

Investment property is carried at cost less accumulated depreciation and provision for impairment, where required. Depreciation is calculated using the straight-line method to allocate cost over estimated useful life of 33 years.

Subsequent costs are capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3.6 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land or goodwill) which are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation and 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)

3.7 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale financial assets, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets valued at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Financial assets in this category are classified as current assets.

Financial assets valued at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within the line item 'other (losses)/gains – net' in the period in which they arise.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value and the transaction costs are recorded in the income statement.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator of impairment. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in 'other operating expenses'.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the right to receive payment is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Financial assets (continued)

(c) Loans and receivables (continued)

Trade and loan receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "other operating expenses". Subsequent recoveries of the provision for impairment of trade receivables are recorded in the income statement within "other operating income".

3.8 Financial liabilities

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value in profit or loss or other financial liabilities. The Group has no financial liabilities classified at fair value through profit or loss.

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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 by which estimated future cash outflows are discounted through the expected life of the financial liability, or a shorter period if applicable.

Derecognition of financial liabilities

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

3.9 Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it and that the grant will be received. Consequently, the Group does not recognise government grants until there is reasonable assurance that the Group will comply with the conditions attaching to them, and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which the receivable was created. Grants related to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation on those assets is recognised. In the statement of financial position, government grant is recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Leases

(a) The Group is the lessee

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant interest rate on the finance balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life or the lease term.

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

(b) The Group is the lessor

Assets under an operating lease where the Group is the lessor are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term, even if the proceeds are not balanced, unless there is an alternative basis representing the time frame in which the benefits of the lease and the depreciation of the leased property are matched.

3.11 Inventories

Inventories of finished goods and goods for resale are stated at the lower of cost and net realisable value. Cost is determined using weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories of raw materials are recognised at cost, using the weighted average method.

The cost of work-in-progress and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Spare parts are stated at the lower of cost and net realisable value.

The value of slow moving and obsolete stock is reduced and charged to the current year profit or loss. Small inventory and tools are expensed when put into use.

3.12 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

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

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

3.14 Share capital

Share capital is stated in kuna (“HRK”) at nominal value.

3.15 Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. The tax base represents the difference between income and expenses, as determined by the applicable law. Management of the Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.17 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Revenues from investment of borrowings before their use are credited from borrowing cost eligible for capitalisation.

Other borrowing costs are recognised as an expense.

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

3.19 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred.

(b) Termination benefits

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

3.20 Provisions

Provisions are recognised when the Group 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 settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one 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 increase in the provision due to passage of time is recognised as interest expense.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented net of value-added tax, rebates and discounts.

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

(i) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Services

The Group generates revenues from the provision of services. Sales of services are recognised in the period in which the services are rendered, according to level of completion on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Revenue from construction contracts

Revenue from construction contracts consists of initially agreed amount increased by variations 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 construction contract are recognised as revenue and expenses based on percentage of completion.

Percentage of completion is determined based on 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 that are likely to be recoverable. Expected loss from construction contract is recognised in profit or loss immediately.

(iv) Financial income

Financial income comprises interest on invested funds, changes in the value of fair value through profit or loss financial assets and foreign exchange gains. Interest income is recognised on a time-proportion basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

3.22 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed 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.

3.23 Dividends

Dividends to the Company's stakeholders are recognised as a liability in the financial statements in the period in which the distribution is approved by the General Assembly.

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Maritime domain and concession

According to the Decision on amendment of the Decision on concession of maritime property of the 5 July 2007 and Decision of 2 August 2007 the Brodograđevna industrija Split d.d. and its subsidiaries in their operations use land area (580,589 m²) and sea (222,319 m²) given by the concessionaire - the Republic of Croatia on a period of 32 years starting from 19 April 2000.

Concession on maritime property is regulated by the Maritime Law, the Law on Maritime Property and Seaports, Croatian Government's decision on concession of maritime property for the purpose of commercial exploitation of special purpose ports and Agreement between the concessionaire and concession beneficiary regarding maritime property concession. There is uncertainty over the ownership of members of the Group Brodograđevna industrija Split and treatment of maritime property (an area that borders the sea), which is currently owned by the State. The buildings that were built on the land also represent the maritime property.

The main Agreement on maritime property concession for the purpose of commercial exploitation of special purpose port was agreed on 19 April 2000 (with amendments of Decision on the amendments from 02 August 2007, and from 06 August 2007, NN RH No 72/07 and 81/07) with the concession provider, Croatian Government and contains the following essential elements:

The subject of the contract

The concession grantor gives the concession beneficiary the authority for economic use of maritime property, special purpose port, an area of 580,589 m² land area and 222,319 m² of sea area, a total of 802,908 m² occupied maritime property.

The right to use

A concession gives the right to use special purpose port-shipyard in Split, Split - Dalmatia County with facilities.

Concession period

The concession is given for a period of 32 years from the date of signing the contract.

Concession payment

b) the variable part of remuneration in the amount of 1% per year the company's profit after tax.

The concession fee is to be paid in the following way:

a) a fixed part - in the initial year and the year in which the concession expires in proportion to the months of use, and for each subsequent year until April 1 of the current year,

b) the variable part of the compensation is paid by 30 April for the previous year.

When the concession beneficiary renounces the concession before the expiry of the concession period, he is obligated to pay the service concession fee in the amount equal to three-year fixed compensation.

Concession transfer

Without the approval of the concession grantor the concession beneficiary cannot fully or partially transfer the concession on maritime property to another party without the explicit consent of the concession grantor.

The concession for the use of the maritime property is calculated according to the terms of concluded contracts starting from 2000 and charged to income statement as operating expenses in respective accounting periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Maritime domain and concession (continued)

Changes to the Agreement on maritime property concession

Brodograđevna industrija Split d.d. and its subsidiaries and the concession grantor Croatian Government on 11 February 2011 signed the Annex 1 to the Agreement on maritime property concession for the purpose of commercial exploitation of special purpose ports - shipyards in Split, and made the following changes:

Concession payment

The concession beneficiary is obliged to pay the annual fee consisting of two parts:

- a) fixed portion in the amount of 3 HRK per square meter of occupied area per year
- b) the variable part of remuneration in the amount of 1% of annual income

The concession fee is paid in the following way:

- a) a fixed part of the fees for the current year shall be paid within 45 days of the conclusion of the Appendix to the Agreement on concession, for the following year in advance until 15 April in the current year
- b) the variable part of the compensation is paid in two parts: until 30 September for the first half of the current year, until 30 April for the second half of previous year.

3.25 Changes in accounting policies and disclosures

A number of new standards, amendments to standards and interpretations are effective but not mandatory for annual periods beginning on or after 1 January 2015 and earlier application is permitted, and have not been applied in preparing these financial statements. The application of new standards is not expected to have a significant influence on the financial statements of the Group and their early adoption is not planned.

NOTE 4– KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related 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 outlined below.

(a) Revenue recognition – percentage of completion

The Group uses the percentage-of-completion method in accounting for its revenue from construction contracts to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(b) Impairment of loans

The Group reviews the portfolio of loans on an annual basis to assess impairment. While assessing the recognition of impairment in the statement of comprehensive income, the Group assesses whether there is observable data indicating the existence of a measurable decrease in future cash flows of the portfolio of loans before establishing the impairment of certain loans in the stated portfolio.

(c) Work in progress and revenue

The revenues and costs reflected in the financial statements are based on the Company's engineering and financial best estimates of the stage of contract completion and profit to be realised upon completion. Construction work in progress is based on estimates of expected future costs and profit. As the project progresses, these estimates may change significantly should unexpected costs or unforeseen project difficulties occur.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 4– KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Useful life of property, plant and equipment

The Group reassesses the estimated useful life of tangible assets. Based on the assessment and the fact that technical innovations were started in the previous period, the Group has reassessed estimated useful life of aforementioned assets previously on 1 January 2014. The useful lives will be periodically reassessed if any changes in circumstances occur. Changes in estimate, if any, will be reflected prospectively through change in depreciation over the remaining useful life.

(e) Recoverable amount of trade and other receivables

Recoverable amount of receivables is estimated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Short term receivables without aforementioned rate are valued at original amount if discounting effect is not significant.

(f) Write-down of inventories

Inventories are estimated at each reporting date and are impaired based on estimated sales and ageing structure. The calculation of write-down of individual inventories is based on the date of the last sale and turnover. Management has determined impairment of individual inventory items with respect to the ageing structure.

(g) Legal claims and disputes

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

(h) Warranties

The Group recognises provision for warranties for all products under warranty at the reporting date. The provision is based on historical warranty data relating to repairs and defective products.

(i) Onerous contracts

The Group recognises provision for onerous contracts when the expected benefits of the contract are lower than unavoidable expenses of fulfilment of the contracted obligations.

(j) Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them; and the grants will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. Management believes that the receivables in respect of grants will be collected during 2016.

(k) Recognition of deferred tax assets

In determining future taxable profits and the amount of tax benefits that are likely to be utilised in the future, Management makes judgments and applies estimations 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 represents the amount of income tax recoverable through future deductions from taxable profits and is expressed in the statement of financial position. Deferred tax assets are recognised to the extent of tax benefit that is probable to be achieved. As disclosed in Note 12 *Income tax*, the Group has not recognised deferred tax asset in respect of tax incentives, tax losses and temporary differences amounting to HRK 200,352 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 5 – REVENUE

	2015	2014
	<i>(in thousands of HRK)</i>	
Revenue from sale of goods	485,784	511,384
Revenue from off shore and steel construction	163,965	36,641
Revenue from shipbuilding	106,244	228,158
Revenues from construction services	7,180	1,873
	763,173	778,056

Revenue from shipbuilding is calculated in accordance with IAS 11 – *Construction contracts*, where percentage of completion is calculated using cost model, by comparing total actual costs during the period and budgeted cost for each construction.

NOTE 6 – OTHER OPERATING INCOME

	2015	2014
	<i>(in thousands of HRK)</i>	
Income from government grant	17,828	2,142
Release of provisions	11,649	6,710
Other operating income	14,694	18,832
	44,171	27,684

Other operating income relate mainly to the liabilities written off, income from collection of previously written-off receivables and similar.

NOTE 7 - MATERIAL EXPENSES

	2015	2014*
	<i>(in thousands of HRK)</i>	
Raw materials	405,119	367,161
Fuel and energy	25,662	28,344
Small inventory and spare parts	6,729	7,359
Raw materials and supplies	437,510	402,864
Cost of goods sold	23,826	26,218
Transport	14,395	15,979
Intellectual services	20,475	13,463
Treatment, preparation and processing	9,412	9,884
Utilities	1,676	2,001
Telecommunications	1,066	1,278
Other external expenses	48,750	15,243
Other expenses	95,774	57,848
Total material expenses	557,110	486,930

*Reclassified as explained in the note 2 (v)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 8 – EMPLOYEE COSTS

	2015	2014
	<i>(in thousands of HRK)</i>	
Net salaries	194,192	213,325
Taxes and contributions from salaries	65,380	56,555
Contributions on salaries	45,627	47,878
Other staff costs	33,496	38,029
	338,695	355,787

Taxes and contribution from salaries include contributions paid into obligatory pension funds amounting to HRK 62,193 thousand. Contributions are calculated as a percentage of gross salaries. As at 31 December 2015 the Group had 3,211 employees (2014: 3,428). In 2015 termination benefits were paid out for 65 employees in the total amount of HRK 4,611 thousand and were recognised as an expense.

NOTE 9 – OTHER OPERATING EXPENSES

	2015	2014
	<i>(in thousands of HRK)</i>	
Bank charges	7,439	13,396
Impairment of current assets	43,177	9,849
Concession expense	6,585	6,653
Impairment of non-current assets	397	318
Provisions	13,343	-
Other expenses	43,441	33,061
	114,382	63,277

Other expenses are mainly related to donations and sponsorships, insurance expenses, receivables write-off, advertising expenses, licensing expenses, onerous contracts and similar.

NOTE 10 – FINANCE INCOME

	2015	2014
	<i>(in thousands of HRK)</i>	
Interest income	1,176	1,518
Foreign exchange gains	13,464	4,390
Other finance income	13	544
Income from unwinding of receivables discount	11,501	17,342
	26,154	23,794

NOTE 11 – FINANCE COSTS

	2015	2014
	<i>(in thousands of HRK)</i>	
Interest expense	42,112	56,754
Foreign exchange losses	14,507	12,464
Other finance expenses	142	3,873
	56,761	73,091

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 12 – INCOME TAX

<i>(in thousands of HRK)</i>	2015	2014
Current income tax	783	1,568
Deferred tax	(4,949)	(7,927)
	(4,166)	(6,359)

<i>(in thousands of HRK)</i>	2015	2014
Loss before tax	(123,229)	(120,705)
Income tax at the tax rate of 20%	(24,646)	(24,141)
Effect of tax rates in foreign subsidiaries	(440)	524
Non-deductible expenses	625	2,019
Non-taxable income and tax incentives	(7,576)	(12,929)
Temporary differences not recognised as tax assets-utilised	1,416	(5,941)
Tax losses not recognised as deferred tax assets	26,770	34,516
Utilised tax losses previously not recognised	(315)	(407)
Income tax	(4,166)	(6,359)
Effective tax rate	3%	5%

Tax incentives and temporary differences not recognized as deferred tax assets

The Group is utilising tax incentives in accordance with the Act on Investment Incentives which are related to investment in production facilities in Knin.

Total incentive received via investment tax credits (in accordance with the Act on Investment Incentives) amounts to HRK 151,100 thousand and the DIV d.o.o. has utilised HRK 87,951 thousand up to the 31 December 2015, out of which HRK 55,542 thousand to settle current income tax liability. In period from 1 January 2016 to 31 December 2019, the Group has available investment tax credit incentives in the maximum amount of HRK 63,149 thousand. The Group has not recognised these investment tax credit incentives as deferred tax assets.

In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may impose additional tax assessments and penalties.

Effect of different rates in local countries apply to an investment in subsidiary DIV Sarajevo d.o.o., Bosnia and Herzegovina, where the tax rate is 10%, subsidiaries MIN DIV Svrlijig d.o.o., DIV TVIK Valjevo and DIV Betonski pragovi d.o.o., Serbia, where the tax rate is 15% and subsidiary Shangai Vida, China where the tax rate is 25%.

Temporary differences not recognized as deferred tax assets

As at 31 December 2015, the Group has not recognised temporary tax differences as deferred tax assets amounting to HRK 41,925 thousand which mainly relate to impairment of inventories and provisions.

Tax loss for which no deferred tax assets have been recognised amounts to HRK 95,278 thousand. Tax loss expires up to 2020.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 12 – INCOME TAX (continued)

<i>(in thousands of HRK)</i>	1 January 2015	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2015
Intangible assets	138	-	(26)	112
Property, plant and equipment	4,917	-	619	5,536
Inventories	365	-	(178)	187
Deferred tax assets	5,420	-	415	5,835
Property, plant and equipment	56,944	-	(4,534)	52,410
Deferred tax liability	56,944	-	(4,534)	52,410

NOTE 13 – INTANGIBLE ASSETS

<i>(In thousands of HRK)</i>	Software	Assets under construction	Total
Cost			
As at 1 January 2015	1,950	285	2,235
Additions	5	-	5
Impairment	-	(285)	(285)
As at 31 December 2015	1,955	-	1,955
Accumulated amortisation			
As at 1 January 2015	298	-	298
Charge for the year	336	-	336
As at 31 December 2015	634	-	634
Carrying value			
As at 1 January 2015	1,652	285	1,937
As at 31 December 2015	1,321	-	1,321

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

<i>(In thousands of HRK)</i>	Land	Buildings	Leasehold improvement	Plant and equipment	Tools and vehicles	Asset under construction	Total
Cost							
As at 1 January 2015	11,693	233,068	107,675	389,360	225,705	122,521	1,090,022
Additions	-	97	-	2,795	1,328	163,025	167,245
Transfers	-	7,023	-	19,005	6,304	(32,332)	-
Impairment	(14)	(5)	(7)	(46)	(165)	-	(237)
Disposal and write off	-	-	-	(2,490)	(2,184)	(3,575)	(8,249)
Translation differences	(89)	(392)	-	(390)	(328)	(35)	(1,234)
As at 31 December 2015	11,590	239,791	107,668	408,234	230,660	249,604	1,247,547
Accumulated depreciation							
As at 1 January 2015	-	43,459	4,419	88,952	33,278	-	170,108
Charge for the year	-	5,341	1,104	24,970	13,952	-	45,367
Disposal and write off	-	-	-	(630)	(2,184)	-	(2,814)
Translation differences	-	(202)	-	(50)	(94)	-	(346)
As at 31 December 2015	-	48,598	5,523	113,242	44,952	-	212,315
Carrying value							
As at 1 January 2015	11,693	189,609	103,256	300,408	192,427	122,521	919,914
As at 31 December 2015	11,590	191,193	102,145	294,992	185,708	249,604	1,035,232

In March 2013 the Group commenced a capital investment program. Assets under construction are mainly related to investment in plant for wire manufacturing and industrialisation and modernisation of Knin factory in the total amount of HRK 75,442 thousand. The project was reported to the Ministry of Economy under the Investment Promotion and Development of Investment Climate Act (NN 111/12). Project was finalized and activated on 6 March 2016. Furthermore, assets under construction amounting to HRK 150,267 thousand relates to own fleet.

Land, buildings and equipment with the book value of HRK 462,731 thousand are secured against bank loans.

The equipment in finance leases where the Group is the lessee has the carrying amount as follows:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Cost of equipment under finance leases	2,376	2,177
Accumulated depreciation	(593)	(521)
Net book value	1,783	1,656

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 15 – INVESTMENT PROPERTY

<i>(in thousands of HRK)</i>	Investment property
Cost	
As at 1 January 2015	5,463
Additions	-
As at 31 December 2015	5,463
Accumulated amortisation	
As at 1 January 2015	182
Charge for the year	179
As at 31 December 2015	361
Carrying value	
As at 1 January 2015	5,281
As at 31 December 2015	5,102

Fair value of investment property as of 31 December 2015 was HRK 5,381 thousand.

NOTE 16 – OTHER INVESTMENTS

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Available-for-sale financial assets	816	393
Deposits	24,927	9,246
Other investments	6,480	19
	32,223	9,658

Deposits include HRK 20,321 thousand which are secured against bank loan of the parent company and deposits for performance guarantee.

Movement in assets held-for-sale:

	Available-for- sale financial assets
1 January 2015	393
Additions	313
Disposals	-
Change in fair value	110
31 December 2015	816

Fair value adjustment of financial assets held-for-sale amounting to HRK 313 thousand was recognised in the income statement, while HRK 110 thousand was recognised in other comprehensive income. Among other investments HRK 6,205 thousand relates to the long-term deposits in banks, which bear interest of 0.71% -1.5% per annum.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 17 – INVESTMENTS IN JOINT VENTURES

	2015	2014
	<i>(in thousands of HRK)</i>	
At beginning of year	4,750	-
Additional investments	5,219	5,140
Share in losses	(386)	(390)
At end of year	9,583	4,750

During the year, the Group made additional investment in Kamen-Dent d.o.o. of HRK 5,219 thousand.

Financial information of investments in joint ventures can be summarized as follows:

<i>(in thousands of HRK)</i>	1 January 2015	Investments	Share in (losses)/gains	31 January 2015
Kamen-Dent	4,740	5,219	(399)	9,560
Marine and energy solutions	10	-	13	23
Marine consulting	-	-	-	-
	4,750	5,219	(386)	9,583

Summary of financial information on associated companies – 100 %:

<i>(in thousands of HRK)</i>	Assets	Liabilities	Income	Net profit/ (loss)
Kamen-Dent	11,016	712	137	(653)
Marine and energy solutions	1,483	1,436	5,017	26
Marine consulting	4,686	6,719	3,913	(1,613)
	17,185	8,867	9,067	(2,240)

NOTE 18 – NON-CURRENT RECEIVABLES

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Non-current receivables from the state	84,389	208,609
Non-current loan receivables from employees	11,940	13,723
Other non-current receivables	4,629	-
	100,958	222,332

Repayment schedule of non-current receivables from the state is as follows:

	31 December 2015
Year 2016	-
Year 2017	84,389
	84,389

- (i) Non-current receivables from the state are related to the non-current portion of receivables from government grants. Receivables are discounted using discount rate of 5.46%.
- (ii) Interest rate on loans to employees amounts to 1%-2%. Receivables are discounted using discount rate of 4.14%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 19 – INVENTORIES

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	191,938	166,050
Work in progress	132,107	27,686
Finished goods	95,810	87,890
Trade goods	59,800	62,087
Advances for inventories	27,410	55,995
	507,065	399,708

In 2014, inventories amounting to HRK 21,118 thousand have been recognised as income, within Material expenses based on the reversal of provisions for slow-moving inventory and write-down to the net market value from the previous years. Included in work in progress is an uncompleted vessel for which the contract has been terminated. The uncompleted vessel has been written down to an estimated net realizable value of HRK 99,255 thousand.

At 31 December 2015 inventories amounting to HRK 93,502 thousand are secured against loans of the Group.

NOTE 20 – TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Trade receivables	70,248	127,801
Impairment of trade receivables	(16,583)	(32,364)
Trade receivables – net	53,665	95,437
Receivables from the state for government grants and subsidies (i)	161,398	185,020
Accrued revenues (ii)	24,351	76,207
Receivables gained through cession and assignment (iii)	16,545	35,479
Loans receivables from employees	2,323	2,599
Receivables for penalty interest	5,621	3,642
Loans given, deposits and similar	2,314	1,637
Loans given to related parties	549	-
Other receivables	25,307	25,571
	292,073	425,592

- (i) Receivables from the state include current portion of receivables for government grants of HRK 135,000 thousand. Based on the verification of the Ministry of Economy on granting the status of the incentive measures carrier and the Investment Promotion Act and the Regulation on Investment Promotion, claims for government grants for investing projects were recognised for investment in a new factory in Knin in the amount of HRK 15,020 thousand, which is included within category Receivables from state for government grants and subsidies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 20 – TRADE AND OTHER RECEIVABLES (continued)

- (ii) Accrued revenues includes the amount of HRK 24,212 thousand that relate to receivables from customers for shipbuilding, as follows:

<i>(in thousands of HRK)</i>	Liabilities 2015	Receivables 2015	Total 2015
Contract costs incurred up to the reporting date	91,520	609,326	700,846
Recognized (losses)/gains till the reporting date	<u>11,745</u>	<u>(146,452)</u>	<u>(134,707)</u>
	103,265	462,874	566,139
Less: invoicing in progress and advances received	<u>(168,529)</u>	<u>(438,662)</u>	<u>(607,191)</u>
Receivables from / (liabilities to) the client for the contracted work	(65,264)	24,212	(41,052)
Reclassified to (accrued revenue)/advances received from suppliers	65,264	(24,212)	41,052

- (iii) Receivables gained through cession and assignment relates to the contracts on factoring (trade receivables which the Group has sold to the factoring companies) with recourse.

Movement in provision for impairment of trade receivables is as follows:

	2015
Balance at 1 January	32,364
Increase of impairment	6,668
Receivables written-off	<u>(22,449)</u>
At 31 December	<u>16,583</u>

The cost of trade receivables impairment is included in the Impairment of current assets.

The ageing of trade receivables is as follows:

	Gross receivables	Impairment of receivables	Net receivables
	<i>(in thousands of HRK)</i>		
Neither past due nor impaired	21,435	-	21,435
Past due:	48,813	(16,583)	32,230
0 to 30 days	10,890	-	10,890
31 to 60 days	7,166	-	7,166
61 to 90 days	7,117	-	7,117
91 to 180 days	3,273	(11)	3,262
180 days up to 1 year	7,954	(4,557)	3,397
Over 1 year	12,413	(12,015)	398
Total	<u>70,248</u>	<u>(16,583)</u>	<u>53,665</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 20 – TRADE AND OTHER RECEIVABLES (continued)

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

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
HRK	40,269	60,952
EUR	17,830	53,539
Other	12,149	13,310
	70,248	127,801

NOTE 21 – CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Cast at banks	18,092	22,258
Petty cash	85	83
Deposits	2,207	22,659
	20,384	45,000

Cash at banks refers to the cash accounts in commercial banks with an average interest rate between 0.1% and 2% annually. Deposits are deposited on a period less than 3 months. During the year, the effective interest rates were between 0.5% and 2%.

NOTE 22 – SHARE CAPITAL

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Share capital	245,737	245,737
Reserves	37,710	26,517
Retained earnings/(accumulated losses)	971,231	1,094,031
Profit/(loss) for the year	(119,789)	(111,320)
Non-controlling interests	4,840	4,114
	1,139,729	1,259,079

In accordance with the owner's decision from 20 June 2014, share capital was increased from HRK 142,975 thousand by HRK 102,762 thousand to HRK 245,737 with transfer from Group's retained earnings. Subsidiaries have reinvested profits totalling to HRK 11,989 thousand. The distribution of these amounts in future periods may result in tax obligations given it is based on a tax incentive.

NOTE 23 – RESERVES AND NON-CONTROLLING INTERESTS

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Legal reserves	26,808	25,310
Foreign currency translation reserve	(2,888)	(2,491)
Other reserves	13,790	3,698
	37,710	26,517

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 23 – RESERVES AND NON-CONTROLLING INTERESTS (continued)

Legal reserves

The legal reserve is required under Croatian law and must be formed at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. During 2015 in accordance with General Assembly's decision, HRK 1,500 thousand was transferred from retained earnings to legal reserves in subsidiary. Legal reserves are not distributable.

Other reserves

Other reserves of HRK 11,989 thousand are created by transfer of prior year profits of certain subsidiaries based on utilisation of tax incentive by reinvestment of profits in prior year, and in accordance with General Assembly's decision. Remaining reserves relate to capital reserves of Group's subsidiary.

Non-controlling interests

Company	Country	NCI (%)	Net assets as at 31 December 2015 (i)	Net assets attributable to NCI
MIN DIV	Serbia	13.55%	13,314	1,804
Brodograđevna industrija Split	Croatia	0.24%	1,265,000	3,036
				4,840

(i) Net assets as at 31 December 2015 after consolidation adjustments.

NOTE 24 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Non-current liabilities towards banks and other financial institutions		
Borrowings	90,679	115,749
Finance lease	1,252	1,273
	91,931	117,022
Current liabilities towards banks and other financial institutions		
Borrowings	159,743	166,356
Finance lease	369	421
Factoring	25,434	46,669
	185,546	213,446
Total liabilities towards banks and other financial institutions	277,477	330,468

Maturities of borrowings are as follows:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Maturity up to six months	118,038	88,050
Maturity from six months up to 1 year	41,705	78,306
Maturity from 1 up to 2 years	21,946	25,920
Maturity from 2 up to 5 years	54,323	65,523
Maturity over 5 years	14,410	24,306
	250,422	282,105

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 24 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Maturities of finance leases are as follows:

	2015		
	<i>(in thousands of HRK)</i>		
	Principal	Interest	Total
Up to 1 year	369	77	446
1 - 2 years	368	57	425
2 - 5 years	884	53	937
Over 5 years	-	-	-
	1,621	187	1,808

	2014		
	<i>(in thousands of HRK)</i>		
	Principal	Interest	Total
Up to 1 year	421	94	515
1 - 2 years	331	71	402
2 - 5 years	925	96	1,021
Over 5 years	17	-	17
	1,694	261	1,955

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

	31. prosinca 2015.	31. prosinca 2014.
	<i>(u tisućama kuna)</i>	
Kune	74,729	84,393
EUR	175,546	197,712
Other	147	-
	250,422	282,105

As at 31 December 2015 the Group has short term limit with commercial bank regarding guarantee, overdraft and acreditives in the amount of HRK 19.088 thousand (2014: HRK 61,292 thousand) of which HRK 7,300 thousand has been unused as at 31 December 2015 (2014: HRK 31,200 thousand).

Bank loans

Bank loans in the amount of HRK 141,599 thousand have variable interest rate (2014: HRK 147,309 thousand). Variable interest rates were in the range from 4% to 7.5% on annual level (2014: from 4% to 7.5%).

Bank loans in the amount of HRK 108,873 thousand have fixed interest rate (2014: HRK 134,796 thousand). Fixed interest rates were in the range from 2% to 6.9% on annual level (2014: from 2% to 6.9%), of which HRK 62,440 thousand were at 2% interest rate.

Factoring

In situations where creditor demands payment before due date or upon completion of service, contract with creditor factoring is settled. Usually it relates to regular promissory note discount payable at the specific date. All cost are covered by creditor unless the liability is already overdue.

Average expense amount to 3M EURIBOR plus 6.5% and a fee in the range of 0.2-0.4% of contracted value.

Finance lease

Finance lease relates to motor vehicles. Average interest rate amount to 7.22%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 24 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Securities

All banks have secured their loans with a pledge over Group's land, buildings and equipment as explained in the Note 14 and over finished goods inventories as explained in the Note 19.

NOTE 25 – PROVISIONS

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Non-current		
Provisions for court cases	35,671	33,217
Other provisions	1,182	1,371
	36,853	34,588
Current		
Provision for loss making contracts	-	23,883
Warranty provision	12,702	3,632
Provisions for termination benefits	4,609	5,556
	17,311	33,071
Total provisions	54,164	67,659

Movement in non-current and current provisions is presented in the table below:

	As at 1 January 2015	Recognised in profit or loss	Used during year	31 December 2015
Provision for loss making contracts	23,883	-	(23,883)	-
Provisions for court cases	33,217	22,255	(19,801)	35,671
Provisions for termination benefits	5,556	125	(1,072)	4,609
Warranty provision	3,632	10,314	(1,244)	12,702
Other provisions	1,371	-	(189)	1,182
	67,659	32,694	(46,189)	54,164

NOTE 26 – TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Trade payables	193,779	138,057
Other payables	258,222	157,855
	452,001	295,912

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 26 – TRADE AND OTHER PAYABLES (continued)

Other payables:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Loan liabilities to owners	35,751	48,620
Liability for concession fee	30,892	24,307
Liabilities to employees	16,368	22,589
Liabilities for taxes, contributions and similar	26,719	21,505
Advances received	138,816	22,292
Other current liabilities	9,676	18,542
	258,222	157,855

Maturities of loan liabilities from owner's borrowings are as follows:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Maturity up to six months	-	-
Maturity from six months up to 1 year	35,751	-
Maturity from 1 up to 2 years	-	48,620
Maturity from 2 up to 5 years	-	-
Maturity over 5 years	-	-
	35,751	48,620

These are non-interest bearing loans.

NOTE 27 – ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Accrued expenses	20,056	12,364
Deferred income (government grants)	7,520	11,319
Accrued default interest	9,398	6,617
	36,974	30,300

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT

The Group's activities expose it to the following risks:

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the owner and to maintain an optimal capital structure to reduce the cost of capital.

Capital structure of the Group consists of debt, which includes loans and borrowings, cash and cash equivalents and equity, which includes share capital and accumulated losses.

Net debt to equity ratio (Gearing ratio) at the reporting date is as follows:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Debt (long- and short-term borrowings)	277,477	330,468
Cash and cash equivalents	(20,384)	(45,000)
Net debt	<u>257,093</u>	<u>285,468</u>
Equity	1,139,729	1,259,079
Net debt to equity ratio	23%	23%

Debt is defined as non-current and current loan liabilities. Equity includes the entire capital and reserves.

The Group operates internationally and is mainly financed by loans denominated in EUR. As a result, the Group is exposed to the change in market prices, the impact of foreign exchange differences and to the change in interest rates. Over 50% of the Group's revenues is derived from exports and so thus created inflows in foreign currencies are used as a natural hedging that covers outflows in foreign currencies for the purchase of raw materials and repayment of loans denominated in foreign currencies. Furthermore, the average time from the date of order to the date of delivery is 10 days so there is no significant risk of a change in cost of production in relation to the selling price. The Group makes 100 deliveries a day on average, which are dispersed between customers in all industries, therefore the market risk is minimal. With regard to changes in prices of raw materials, the market promptly responds to changes in prices of raw materials therefore the risk is minimised due to uniform and constant receipt of orders by customers. With strategic suppliers of raw materials commercial conditions have been achieved that enable the Group to defer payment up to 180 days. Given that the price of raw materials is seasonal, the periods of lower prices are used to optimize procurement costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management

The Group is mainly exposed to international market, i.e. the Group is exposed to changes in prices of the main raw materials on the international market, which are dependent on the movement in foreign exchange rates. Because of this the Group is significantly exposed to the impact of exchange rate differences.

Financial risks include market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk.

Financial instruments measured at cost are presented by category in the table below:

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Financial assets at amortised cost		
Trade receivables	53,665	95,437
Accrued income	24,351	76,207
Loans given	5,186	4,236
Investments	46,908	19,689
Other receivables	25,307	25,571
Cash and cash equivalents	20,384	45,000
	175,801	266,140
Financial liabilities at amortised cost		
Trade payables	193,779	138,057
Finance lease	1,621	1,694
Factoring	25,434	46,669
Borrowings	250,422	282,105
Other payables	258,222	157,855
	729,478	626,380

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will not pay the commitment and will thus cause a financial loss to the Group. The Group has a credit policy in place under which it operates only with solvent counterparties, ensuring as necessary the excess of insurance in order to minimize the risk of financial loss due to non-fulfilment of contractual obligations. Group's exposure and credit situation of its counterparties are monitored on an ongoing basis and the total amount of transactions concluded are divided among approved contracting parties.

Contracts for construction of ships with customers of unknown or insufficient creditworthiness are followed by the issue of 'Payment guarantees' from first-class banks. Under the Group's policy advances of large amounts are only given to suppliers after the issue of advance payment guarantees.

Trade receivables relate to a small number of customers, spread over different geographical areas. Continuous assessment of receivables is based on the financial position of customers and, when necessary, receivables are secured by obtaining guarantees or other financial instruments.

Credit risk of liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings, which are determined by international credit ranking agencies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Interest risk

Majority of interest-bearing borrowings are agreed with fixed and floating interest rates. Risk is managed by maintaining an appropriate mix between fixed and floating interest rates on borrowings. The Group does not hedge exposure to interest rate risk.

Currency risk

Considering the current currency structure of assets and their sources as well as the currency composition of future economic flows, there is a significant exposure of the Group to the risk of changes in currency relations. In order to reduce this risk the Group tries to match EUR and USD currency inflows, outflows and selling prices in construction contracts. Namely, given that the largest share of foreign currency costs is denominated in EUR, in this way costs of conversion and foreign exchange losses caused by currency fluctuations when settling obligations are minimized. The Group continuously monitors the movement in exchange rates and currency structure of the planned outflow of funds and according to this agrees the currency in which loans will be denominated.

The Group is exposed to exchange rate risk with contract-defined raw material prices fixed to a foreign currency. Currencies that are subject to risks are primarily EUR and USD. Over 50% of the Group's revenues come from exports and so thus created inflows in foreign currencies are used as a natural hedging that fully covers outflows in foreign currencies for the purchase of raw materials and repayment of loans denominated in foreign currencies. The Group currently does not use financial instruments (forward transactions, FX options, currency swaps, etc.) that are available either in the domestic or global financial markets, and whose price would be included in the total cost of the product. Group in the future plans to introduce a more active and improved policies to eliminate exchange rate risk using mentioned financial instruments.

Carrying amounts of monetary assets and non-monetary liabilities denominated in foreign currencies at the reporting date are presented in the table below:

	Liabilities		Assets	
	31 December 2015	December 2014	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
EUR	235,941	218,263	50,428	72,233
USD	38,036	14,706	6,729	36,026
Other currencies	971	2,301	476	1,630
	274,948	235,270	57,633	109,889

At 31 December 2015, if the EURO had weakened/strengthened by 1% against the HRK, with all other variables held constant, the loss for the year would have been HRK 163 thousand higher/(lower) mainly as a result of foreign exchange gains/(losses) on translation of EURO denominated trade receivables, trade payables, borrowings and foreign cash funds denominated in EUR.

The Management estimates that the impact of changes in other currencies does not have a significant influence on the Group's financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Market risk

In its operations the Group is exposed to a significant increase in prices, not only in ferrous metallurgy, but also in prices of other raw materials. By contracting the so-called safeguard clause for ferrous metallurgy based on which the inflows from the delivery of the ship are increased by the amount for which costs of ferrous metallurgy exceed estimated costs in the moment of contracting construction of the ship, the Group has relatively secured price risks.

Liquidity risk

The Group's liquidity risk management includes maintaining sufficient reserves, cash and working capital and borrowings, continuous analysis of projected and real cash flows and by comparing maturities of financial assets and liabilities.

Maturity mismatch of inflows and outflows is bridged using loan facilities and, „borrowing“ funds from project to project in order to minimize the financial costs of construction of individual projects.

Regarding changes in prices of raw materials, the market promptly responds and because of uniform and constant receipt of orders by customers the risk is minimal. Commercial terms have been achieved with strategic suppliers of raw materials which allow the Company to defer payment up to 180 days. As the price of raw materials is seasonal, periods of lower cost are used to optimize procurement costs.

Regulatory risk

Considering the Croatian admission to the EU, the Group has significant exposure to regulatory risk, which is mostly realized in changes in the legislative sphere of government grants. Due to the fact that the Group has used significant amounts of grants to maintain profitability and liquidity, this risk is considered significant and yet uncontrollable.

Fair value of financial instruments

IFRS 7 requires disclosure of fair value measurements by level according to the following hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
31. prosinca 2015.				
Financial assets available for sale				
<i>Listed companies</i>	205	-	-	205
<i>Unlisted companies</i>	-	138	-	138
Total	205	138	-	343

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Fair value of financial instruments (continued)

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

- The fair value of financial assets and financial liabilities which are traded in active liquid markets, under standard conditions, is determined by the prices quoted on the market
- Fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and prices offered for similar instruments

In the normal course of business financial instruments held to maturity are carried at cost or at net amount less portion repaid. Fair value is defined as the amount for which an asset could be exchanged between willing parties in an arm's length basis, except in the case of a forced sale or liquidation. The fair value of a financial instrument is the quoted market price, or the one that is obtained using the discounted cash flow.

On 31 December 2015, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of these assets and liabilities, and due to the fact that most of current assets and current liabilities carry variable interest rate.

At the reporting dates, the carrying value of bank loans and other loans approximate their fair value since the majority of these loans carry variable interest rates or a fixed interest rates which approximates the current market interest rates.

Liquidity risk management

The liquidity risk management is responsibility of the Management, which sets the appropriate framework for liquidity risk management to manage short, medium and long-term funding and liquidity management. The Group manages liquidity risk by following a net short position and addressing the expected current liquidity deficits.

To further improve the working capital and liquidity management, during 2015 the Group has defined new commercial terms and conditions with the key customers negotiating annual contracts starting from 2016. Furthermore, for 2016, the Group has agreed annual contracts with foreign suppliers with substantially better commercial terms of payment for steel wire, key raw material.

In the opinion of the Group's Management the above and mentioned activities in Note 2 on *Going concern* should be sufficient to ensure an adequate level of liquidity necessary to repay future due debt.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Analysis of liquidity risk

The tables below show the contractual maturities of financial liabilities and financial assets reported in the consolidated statement of financial position at the end of each reporting period. Tables below have been prepared based on undiscounted cash flows to maturity and include both interest and principal.

Liabilities

<i>as at 31 December 2015</i>	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
	<i>(in thousands of HRK)</i>					
<i>Non-interest bearing liabilities</i>						
Other payables	258,222	258,222	258,222	-	-	-
Trade payables	193,779	193,779	193,779	-	-	-
	452,001	452,001	452,001	-	-	-
<i>Interest-bearing liabilities</i>						
Finance lease	1,621	1,808	446	425	937	-
Factoring	25,434	25,434	25,434	-	-	-
Borrowings	250,422	264,442	167,691	24,562	57,524	14,665
	277,477	291,684	193,571	24,987	58,461	14,665
	729,478	743,685	645,572	24,987	58,461	14,665
 <i>as at 31 December 2014</i>						
	<i>(in thousands of HRK)</i>					
<i>Non-interest bearing liabilities</i>						
Other payables	157,855	157,855	157,855	-	-	-
Trade payables	138,057	138,057	138,057	-	-	-
	295,912	295,912	295,912	-	-	-
<i>Interest-bearing liabilities</i>						
Finance lease	1,694	1,955	515	402	1,021	17
Factoring	46,669	46,669	46,669	-	-	-
Borrowings	282,105	299,281	176,213	30,144	67,945	24,979
	330,468	347,905	223,397	30,546	68,966	24,996
	626,380	643,817	519,309	30,546	68,966	24,996

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Analysis of liquidity risk (continued)

Assets

<i>as at 31 December 2015</i>	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
	<i>(in thousands of HRK)</i>					
<i>Non-interest earning assets</i>						
Factoring receivables	16,518	16,518	16,518	-	-	-
Other receivables	216,704	216,704	120,622	86,712	8,314	1,056
Trade receivables	53,665	53,665	53,665	-	-	-
	286,887	286,887	190,805	86,712	8,314	1,056
<i>Interest earning assets</i>						
Non-current receivables	100,958	100,958	16,569	84,389	-	-
Loans given and deposits	5,186	5,186	5,186	-	-	-
Cash and cash equivalents	20,384	20,384	20,384	-	-	-
	126,528	126,528	42,139	84,389	-	-
	413,415	413,415	232,944	171,101	8,314	1,056
<i>as at 31 December 2014</i>	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
	<i>(in thousands of HRK)</i>					
<i>Non-interest earning assets</i>						
Factoring receivables	34,970	34,970	34,970	-	-	-
Other receivables	325,919	325,919	325,919	-	-	-
Trade receivables	95,437	95,437	95,437	-	-	-
	456,326	456,326	456,326	-	-	-
<i>Interest earning assets</i>						
Non-current receivables	222,332	223,257	134,679	88,578	-	-
Loans given and deposits	4,236	4,475	4,475	-	-	-
Cash and cash equivalents	45,000	45,113	45,113	-	-	-
	271,568	272,845	184,267	88,578	-	-
	727,894	729,171	640,593	88,578	-	-

The Group is exposed to interest rate risk since it borrows at both fixed as well as variable interest rates. Variable interest rates applicable to the relevant part of the Group's borrowings at the reporting date are based on the following:

	2015	2014
	<i>(in thousands of HRK)</i>	
Bank loans based on EURIBOR	140,347	130,964
Finance leases based on EURIBOR	1,252	460
	141,599	131,424

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Interest risk sensitivity analysis

The sensitivity analysis below is based on the exposure to interest rates changes at the reporting date. For variable interests, the analysis is prepared in the way that effect of a possible increase in interest rates for debt is reasonably calculated with variable interest rates on the expected contractual cash flows in relation to those which are calculated using a rate applicable at the end of the current reporting period. For internal reporting interest rate risk to key management, increase / decrease of 50 basis points is used, which is a reasonable change in interest rates according to the estimate of the Board.

The estimated effect of reasonably possible changes in interest rates on the Group's result before tax for the reporting periods is as follows:

	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
<i>as at 31 December 2015</i>					
		<i>(in thousands of HRK)</i>			
According to the current interest rates	14,020	7,948	2,616	3,201	255
According to the current interest rates + 0.5%	14,089	7,987	2,629	3,217	256
The effect of interest rate increase by 0.5%	(69)	(39)	(13)	(16)	(1)
 <i>as at 31 December 2014</i>					
		<i>(in thousands of HRK)</i>			
According to the current interest rates	17,176	9,871	4,210	2,422	673
According to the current interest rates + 0.5%	18,178	10,296	4,450	2,759	673
The effect of interest rate increase by 0.5%	(1,002)	(425)	(240)	(337)	-

Majority of the interest bearing loans were contracted at fixed and variable interest rate. Risk is managed by maintaining an appropriate mix between fixed and variable interest rate. At the moment, the Group is not protecting itself from these risks.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 28 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Currency risk exposure analysis

As explained above, due to the fact that the majority of transactions with foreign customers are denominated the euro and the US dollar, the Group is mainly exposed to the fluctuations of the Croatian kuna against the euro and the US dollar.

The following table details the Group's sensitivity to an increase in the Croatian kuna exchange rate of 1% against the euro and 10% against the US dollar as a realistic assessment of the potential increase of the value of those currencies. The sensitivity analysis includes only outstanding monetary items in foreign currency and their conversion at the end of the period as percentage changes in exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number indicates a decrease in profit where Croatian kuna changed for the above specified percentage against the relevant currency. For a weakening of Croatian kuna against the relevant currency, the impact on profits would be equal and opposite.

	The impact of EUR currency	
	2015	2014
	<i>(in thousands of HRK)</i>	
The increase/(decrease) in net result	(18,551)	(14,603)

	The impact of USD currency	
	2015	2014
	<i>(in thousands of HRK)</i>	
The increase/(decrease) in net result	(3,131)	2,132

The Group currently does not use instruments to protect itself against currency risk.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 29 – INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

List of investments in subsidiaries, associates and joint ventures that are controlled by the Company is as follows:

Name	Country	Share in % Business Activity
BRODOGRAĐEVNA INDUSTRIJA SPLIT D.D.	Croatia	99.76% Shipbuilding
Brodosplit - Plovidba d.o.o.	Croatia	99.76% Sea and coastal water transport of freight
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	Croatia	99.76% Building of ships and floating structures
Brodosplit - Metalna oprema i konstrukcije d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Dizalice d.o.o.	Croatia	99.76% Manufacture of lifting and handling equipment
Brodosplit - Nemetalna oprema d.o.o.	Croatia	99.76% Manufacture of other builders' carpentry and joinery
Brodosplit - Armature d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Tvornica dizel motora d.o.o.	Croatia	99.76% Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
Brodosplit - Antikorozivna zaštita d.o.o.	Croatia	99.76% Treatment and coating of metals
Brodosplit - Izolacija d.o.o.	Croatia	99.76% Other construction installation
Brodosplit - Trgovina d.o.o.	Croatia	99.76% Wholesale of other machinery and equipment
Brodosplit - Zaštita broskog trupa od korozije d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Transportna sredstva d.o.o.	Croatia	99.76% Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Čelik d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Opremanje plovnih objekata d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Trup d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Stroj d.o.o.	Croatia	99.76% General mechanical engineering
Brodosplit - Montaža d.o.o.	Croatia	99.76% Manufacture of metal structures and parts of structures
Brodosplit - Boja d.o.o.	Croatia	99.76% Repair and maintenance of ships and boats
Brodosplit - Holding d.o.o.	Croatia	99.76% Building of ships and floating structures
Brodosplit - Blok d.o.o.	Croatia	99.76% Building of ships and floating structures
Brodosplit - Računovodstvo i financije d.o.o.	Croatia	99.93% Accounting, book-keeping and auditing activities; tax consultancy
Brodosplit - Projekt d.o.o.	Croatia	99.93% Building of ships and floating structures
Brodosplit - Informatika d.o.o.	Croatia	99.93% Computer facilities management activities
Brodosplit - Laboratorij d.o.o.	Croatia	99.93% Technical testing and analysis
Brodosplit - Atest d.o.o.	Croatia	99.93% Security systems service activities
Brodosplit - Ljudski resursi d.o.o.	Croatia	99.93% Other human resources provision
Brodosplit - Plovne dizalice d.o.o.	Croatia	99.93% Renting and leasing of water transport equipment
Brodosplit - Privremena energetika d.o.o.	Croatia	99.93% Production of electricity
Brodosplit - Čišćenje d.o.o.	Croatia	99.93% Other cleaning activities
Brodosplit - Optimizacija i ekologija d.o.o.	Croatia	99.93% Remediation activities and other waste management services
Brodosplit - Alatinica d.o.o.	Croatia	99.93% General mechanical engineering
Brodosplit - Održavanje d.o.o.	Croatia	99.93% Repair of machinery
Brodosplit - Skela d.o.o.	Croatia	99.93% Manufacture of metal structures and parts of structures
Brodosplit - Cjevarska izrada d.o.o.	Croatia	99.93% Casting of iron
Brodosplit - Bravarija i limarija d.o.o.	Croatia	99.93% Repair of fabricated metal products
Brodosplit - Automatizacija d.o.o.	Croatia	99.93% Computer facilities management activities
Brodosplit - Snaga energije d.o.o.	Croatia	99.93% Production of electricity
Brodosplit - Izvor energije vjetroparkova d.o.o.	Croatia	99.93% Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Produkt plinske elektrane d.o.o.	Croatia	99.93% Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Vjetrostupovi d.o.o.	Croatia	99.93% Manufacture of metal structures and parts of structures
Brodosplit - Klimatizacija i ventilacija d.o.o.	Croatia	99.93% Plumbing, heat and air conditioning installation
Brodosplit - Brodska i ostala oprema d.o.o.	Croatia	99.93% Manufacture of metal structures and parts of structures
Brodosplit - Metalne konstrukcije d.o.o.	Croatia	99.93% Manufacture of metal structures and parts of structures
Brodosplit - Namještaj po mjeri d.o.o.	Croatia	99.93% Joinery installation
Brodosplit - Interijer i završni radovi d.o.o.	Croatia	99.93% Joinery installation
Brodosplit - Strojna obrada d.o.o.	Croatia	99.93% General mechanical engineering
Brodosplit - Ljevaonica d.o.o.	Croatia	99.93% Casting of iron
Brodosplit - Istraživanje i razvoj d.o.o.	Croatia	99.93% Other research and experimental development on natural sciences and engineering
Brodosplit - Korporativna zaštita d.o.o.	Croatia	99.93% Private security activities
Brodosplit - Gradnja d.o.o.	Croatia	99.93% Construction of residential and non-residential buildings
Brodosplit - Otpremništvo d.o.o.	Croatia	99.93% Other transportation support activities
Brodosplit - Najam Vozila d.o.o.	Croatia	99.93% Renting and leasing of vehicles
Brodosplit - Oblaganje d.o.o.	Croatia	99.93% Building of ships and floating structures
Brodosplit - Servis brodova d.o.o.	Croatia	99.93% Repair and maintenance of ships and boats
DIV Betonski pragovi d.o.o., Svrlijig	Serbia	100% Production of concrete sleepers
DIV Brodogradnja d.o.o.	Croatia	100% Production of metal structures
Brodosplit-Italija srl.	Italia	100% Production of metal structures
DIV d.o.o., Sarajevo	BiH	100% Distribution of screws
Kamen-Dent d.o.o.	BiH	50% Wind power
MARINE AND ENERGY SOLUTIONS DIV d.o.o.	Croatia	50% Ship designing
MARINE CONSULTING d.o.o.	Croatia	50% Ship designing
MIN-DIV Svrlijig d.o.o., Svrlijig	Serbia	86.45% Production of railway track sets
Shangai Vida	China	100% Procurement management
TVIK-DIV d.o.o. Valjevo	Serbia	100% Minting, turning and trade

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 30 – RELATED PARTY TRANSACTIONS

	2015	2014
	<i>(in thousands of HRK)</i>	
Revenue from sale of goods and services		
Marine and Energy Solutions	4	79
Marine Consulting	-	199
P.T.C. Krka Knin	32,005	39,495
	32,009	39,773
	2015	
	2014	
	<i>(in thousands of HRK)</i>	
Purchase of goods and services		
Marine and Energy Solutions	4,859	1,458
P.T.C. Krka Knin	38,018	46,670
Schoch savjetovanje	-	4
	42,877	48,132
	2015	
	2014	
	<i>(in thousands of HRK)</i>	
Purchase of fixed assets		
Marine and Energy Solutions	-	280
P.T.C. Krka Knin	19,544	-
	19,544	280
	31 December	
	2015	
	2014	
	<i>(in thousands of HRK)</i>	
Trade receivables		
Marine and Energy Solutions	301	51
Marine Consulting	58	253
P.T.C. Krka Knin	-	8,359
	359	8,663
	31 December	
	2015	
	2014	
	<i>(in thousands of HRK)</i>	
Loan receivables		
Marine Consulting d.o.o.	549	189
	549	189
	31 December	
	2015	
	2014	
	<i>(in thousands of HRK)</i>	
Trade payables		
Marine and Energy Solutions d.o.o.	891	563
P.T.C. Krka Knin	7,778	14,733
	8,669	15,296

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)**

NOTE 30 – RELATED PARTY TRANSACTIONS (continued)

	31 December 2015	31 December 2014
	<i>(in thousands of HRK)</i>	
Loan payables		
To owners	38,519	48,620
	38,519	48,620

Key management remuneration

Key management of the Group consists of 49 members (2014: 47 members). During 2015, total of HRK 10,526 thousand of compensation was paid to the members of the Board (2014: HRK 11,728 thousand) on the basis of gross salary.

NOTE 31 – CONTINGENT LIABILITIES AND ASSETS

Brodosplit d.d.

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

Agreement on the sale and transfer of shares of the company Brodosplit d.d. concluded on 28 February 2013, defines the contractual obligations relating to the implementation of the restructuring program. Particularly significant parts of the restructuring program are considered: the share of its own contribution to the overall restructuring costs, adjustment of production shipbuilding capacity of the Company, limiting the production of ships in CGT (compensated gross tonnage) and achieving sustainability; whose failure can result in repayment of all incentives plus statutory default interest that the company Brodosplit d.d. and its subsidiaries received after 1 March 2006.

The share of own contribution implies a liability of the company Brodosplit d.d. in accordance with the restructuring program, which amounts to 40% of the total restructuring costs. Part of the total cost refers to the liability of the increase of share capital in the total amount of HRK 50 million by the dynamics of HRK 20 million in 2013, HRK 20 million in 2014 and HRK 10 million during 2015. The stated commitment to increase the share capital is fulfilled completely.

Reconciliation of production capacity and production limits, depending on the tonnage, is defined by the restructuring program and Agreement on the limitation of production after which in the period to 31 December 2022 may not generate production higher than agreed.

Achieving sustainability includes the following measures: maintaining at least 2,000 employees in the Brodosplit d.d. and its subsidiaries at the end of each month during the implementation of the restructuring program, maintaining a minimum number of hours at defined levels ending September 2017, maintaining a minimum quantity of processed steel at a defined level ending September 2017, maintaining the position of capital and reserves at the end of the year, ending 2017 at defined levels and a positive consolidated operations at the end of 2016 and 2017.

Noncompliance with obligations to implement the restructuring program may result in the termination of the sales contract and in return of all government grants that the company Brodosplit d.d. and its subsidiaries received from 1 March 2006. Furthermore, the Company DIV d.o.o. as solidarity guarantor guaranteed to the amount of HRK 50 million in the case of not fulfilling the obligations of the restructuring. Fulfilling the commitment to increase the share capital in the amount of HRK 50 million in 2015, abolished the Company's obligations as a solidarity guarantor.

In addition, the buyer (DIV Brodogradnja d.o.o.) pursuant to the Agreement on the sale and transfer of shares has the right to terminate the Agreement in the event of hidden liabilities of which the buyer was not aware at the moment of signing. In this case the seller is obliged to return the buyer the purchase price paid and the amount of the paid share capital increase, which amounts to a total of HRK 53,700 thousand, plus interest at the discount rate of the Croatian National Bank on the day of termination of the contract increased by 2% (two percent).

NOTE 31 – CONTINGENT LIABILITIES AND ASSETS (continued)

Investment in Min Div Svrlijig d.o.o. and Div betonski pragovi d.o.o.

In the period from 2006 to 2009, the Company has increased its ownership in a subsidiary Min Div d.o.o. from 77.50% to 86.45% by increasing share capital. Due to increase in ownership, the Company had the obligation to provide a public offer to purchase the remaining 128,372 shares. The deadline for the offer to purchase shares expired in 2010 and due to noncompliance with the imposed obligation the Company paid a fine. There is no new legal time limit within which the Company should issue a bid. Regarding the possible outcome, the Company Div d.o.o. must make a public offer to acquire or sell the 26,166 new shares (from debt to equity swap). The subject of the dispute is the purchase price per share that should be offered to minority shareholders. The stock market trade was at RSD 390 and there is still an order to sell at 390, but there are no interested parties. If the purchase of shares would be held at a price of RSD 390, at 31 December 2014 the total purchase price would amount to HRK 3,179 thousand.

Furthermore, during acquisition Div d.o.o. and Div betonski pragovi d.o.o. have committed to the fulfilment of certain conditions in order to receive funding from the state in the amount of EUR 2.4 million. Up to date, Min Div received funds in the amount of EUR 1.8 million. To receive the remaining amount of EUR 600 thousand Div betonski pragovi d.o.o. must employ 300 workers and make investments totalling EUR 11.9 million until 17 November 2016. Until 19 October 2015 the Company Div betonski pragovi d.o.o. invested EUR 8.8 million and had 143 employees.

If the Company does not comply with aforementioned obligations, it will have to repay all of the received funds together with default interest, but in accordance with the approved plans of operations, the Company plans to fulfil aforementioned obligations within the legal deadline.

Also, the Group has presented deferred income from government grants based on the Investment Promotion Act in the amount of HRK 11,319 thousand at the reporting date.

Court cases

As at 31 December 2015, the Group was plaintiff and defendant in several legal disputes in the ordinary course of operations and court cases with former employees. Based on legal advice, the Management Board has made a judgement as described in more detail in Note 4 and estimated that legal proceedings in which the Group is involved should not result in additional significant losses. In addition to disputes for which the provision is created, there are legal disputes which, in the opinion of Management Board and legal counsel, will not result in significant losses.

Capital commitments

Assets under construction as at 31 December 2015 amounting HRK 97,962 thousand was activated during 2016. Capital investment projects will be continued after refinancing. The Group has not concluded new capital commitments up to the signing of these financial statements. Remaining assets under construction mainly relate to capital investment in own fleet in Brodograđevna industrija Split.

Government grants

At the balance sheet date, the Group reported deferred income from government grants of HRK 7,520 thousand (31 December 2014: HRK 11,319 thousand), based on and Law on Investment Incentives (Official gazete 111/12, 28/13) and Act on Investment Incentives (Official gazete 40/13).

Warranties

As at 31 December 2015 the Group has issued warranties in the amount of HRK 320,424 thousand.

NOTE 32 – SUBSEQUENT EVENTS

During June 2016 the Company's indirect subsidiary Brodosplit-Holding d.o.o. was granted a loan facility of EUR 20 million. DIV d.o.o. has provided a co-guarantee for this loan.

On 27 June 2016 a final arbitration decision was reached with respect to a dispute over termination of a shipbuilding contract for a boat, whereby the Group received payment of a previously disputed installment of EUR 1 million during the beginning of July 2016. Management is currently reviewing the strategic option and optimum solution for the boat in question. These decisions may affect the financial statements for an undetermined amount which management believe would be positive for the Group in any case. At the reporting date at 31 December 2015, advances received amounted to HRK 38,807 thousand and work in progress in of HRK 99,255 thousand related to the boat are recognized in the financial statements.