DIV d.o.o.

ANNUAL REPORT OF THE GROUP

31 DECEMBER 2016

DIV d.o.o. tvornica vijaka | DIV Ltd
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CONTENT

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Management report

1. INTRODUCTION

The Group DIV Ltd., Tvornica vijaka (Fasteners factory) has realized positive business results and positive financial results in the year 2016. The most significant business activities relate to the Groups's core activities.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2016

Reporting company name: DIV Ltd. Tvornica vijaka (Fasteners factory)
Legal form: Limited liability company
Founding state: Republic of Croatia
Company address: Bobovica 10a, 10430, Samobor
Branch: IV Gardijske brigade 44, 22300, Knin
Business operations: Production and trade of fasteners products

The company has conducted its business on the company's principal address in Samobor, the branch located in Knin and in the business premises located in Zagreb, R.F. Mihanovića 9, Sky Office.

During 2016, the company DIV d.o.o. was managed by the board of directors as follows:
Tomislav Debeljak, Chairman of the Board
Darko Pappo, Member of the Board
Dalibor Marijanović, Member of the Board

Management report (continued)

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1. GROUP ASSETS

At 31 December 2016, the total short-term assets amounted to HRK 992,065 thousand (2015: HRK 822,501 thousand) while total non-current assets amounted to HRK 1,129,342 thousand (2015: HRK 1,190,254 thousand). At 31 December 2016 the total Group assets amounted to HRK 2,121,407 thousand.

3.2. BUSINESS RESULTS FOR 2016

For the year 2016, Div Group has realized a net profit of HRK 69,484 thousand (2015: loss of HRK 119,063 thousand), which demonstrates the growth and stability of the DIV Group.

4. EXPOSURE AND RISK MANAGEMENT

The Company is exposed to various financial risks which relate to:

- PRICE RISK - prices of raw materials on the market,
- CAPITAL RISK - ratio of net debt and capital,
- CURRENCY RISK - currency movement of EUR and USD as the Group has foreign contracts mostly denominated in EUR and USD currency,
- CREDIT RISK - the ability of debtors to pay their debts to the Group. These relate to unfulfilled contracted obligations on the part of second parties. The Group protects itself from such risks by means of Payment Securities and applies procedures that ensure sales to customers who have a sound and reliable credit history,
- LIQUIDITY RISK - relates to cash receipts which will not be sufficient to cover current cash outflows. The Group is protected by monitoring planned and realized cash flows and monitoring financial assets and financial liabilities.

Risk management is explained in detail in note 29 to the Financial Statements.

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Management report (continued)

5. HUMAN RESOURCES

On 31 December 2016 the Group had 3,167 employees. When hiring new employees, a rigorous selection process is carried out through tests and interviews. Particular effort is dedicated towards selecting young and qualified individuals or highly qualified experienced staff.

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

Competence center's ("CEKOM's") vision for advanced mobility is to create a research platform made up of engineering, manufacturing and scientific resources of Croatia in the Transport and Mobility sector to ensure stronger involvement of the local economy in the global market of innovative, high quality products and high technology in the field of Transportation and Mobility.

In addition to the Competence Centers, DIV d.o.o. has registered a project for the research and development (R&D) of an elastic buckle for the rail system. Given that existing systems and elastic buckles currently on the market still show significant deficiencies during assembly, use, maintenance and dismantling, DIV, through communications and cooperation with scientific research institutions and existing business partners (national railways, companies working on railway construction and maintenance), has been able to identify possibilities for the development of better solutions and has initiated a process of research and development of a new system for bracing railway tracks to the base thresholds.

A significant portion of the R&D activities relate to the development of innovative products and services in line with the areas listed in the Strategy for Smart Specialization of the Republic of Croatia 2016-2020. The Company and the Group have been set up as a consortium representative with the aim of improving the innovation environment, intensifying R&D activities and increasing competitiveness through collaborative cooperation with business partners and scientific research institutions.
Effective collaboration on R&D projects has been established with four scientific research institutions (the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, the Faculty of Maritime Studies in Split and the Faculty of Civil Engineering, Architecture and Geodesy in Split). Through planned projects, we aim to reach the top of the world's / European manufacturers of sophisticated ships and floating structures with higher added value and to offer the market products meeting the highest standards in terms of their efficient use of energy and the impact on the environment. Furthermore, we have developed various models for ships aimed at significant fuel savings and reduced greenhouse gas emissions.

MBS 080127368 Trgovački sud u Zagrebu | by Commercial Court in Zagreb | IBAN HR8224840081100228260 SWIFT RZBHHR2X
MB 3659976 OIB 33890755814 EORI broj | number | HR33890755814 VAT broj | number | HR33890755814
Temeljni kapital 142.974.800,00 HRK uplaćen u cijelosti | Investment Capital in amount of 142.974.800,00 HRK has been fully paid | Uprava | Board of Directors | Tomislav Debeljak - predsjednik | president | Darko Pappo - član | member | Nadzorni odbor | Supervisory Board | Danijela Debeljak - predsjednik | president | V. Debeljak - zamjenik predsjednika | vice-president | V. Schoch - član | member | Prokurist | Procurator | Božidar Debeljak, M. Vrbančić, V. Schoch, M. Knežević

Management report (continued)

7. FUTURE BUSINESS DEVELOPMENT

The Group's main objective is to ensure long-term profitability and steady growth. DIV Group's overall development and growth is based on well considered investments in equipment and infrastructure, introducing new technologies, optimizing business processes, investing in human resources and conquering new markets. In addition to the well-known European market where there is still plenty of room for a more significant export result, 2017 should be the year of entry into the US market. Previous research of this market, analysis of customers, delivery of trial and test quantities provide indicators of successful pre-sales for a significant step forward in export to this demanding market. The diversification of this market with its demanding requirements will strengthen our position in negotiations, enable us to generate revenue in the currency in which we obtain raw material, and potentially enable us to sell units at higher prices than in Europe and other markets.

In addition to new markets, investing in a new industrial waste water purifier in Knin, the completion of which is expected in the third quarter of 2017, will enable the operation of larger capacity production facilities.

The future development of the Group is focused on the shipbuilding sector on the development and delivery of projects of various types of passenger ships of medium size of approximately 100-250 m in length (cruise ships, polar expeditions, ships / ferryboats for passenger transport, cars / trucks, mega yachts, etc.), as well as on the intensification of the project for a Coastal Patrol vessel in the Middle East market.

Besides shipbuilding, future development is focused on more extensive infrastructure projects in the Republic of Croatia and Europe such as the Pelješac Bridge, the LNG terminal in Ploče, the LNG terminal on Krk, etc.

After the end of the 2016 business year, work on project development has intensified, as have discussions with the buyer regarding the construction of a 60,000 GT cruise ship for a European Contractor. Potential contract signing is expected in September 2017.

Furthermore, at the end of 2016 and in early 2017 activities intensified on the construction of a 133 m luxury yacht for a Saudi Arabian contractor, and the signing of a letter of intent is expected soon, as well as the continuation of the project.

Brodosplit - Holding d.o.o. today has a total of 11 new construction items (container transport vessels, sailboats and cruise ships) on its order books, totaling about HRK 1.7 billion.

As far as markets besides shipbuilding are concerned, the construction of 21 steel doors has been contracted for the San Nicolo sea pass, totaling around 190 million kuna.

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Management report (continued)

8. SUBSIDIARIES

Subsidiaries are detailed in the notes to the Financial Statements.

9. INFORMATION ON THE PURCHASE OF SHARES

The Company does not have its own shares, nor did it have any during 2016.

In Samobor, 23 August 2017

Tomislav Debeljak

President of the Management Board

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management is responsible to prepare 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 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 and the Company will continue in business.

The Management Board is also responsible for the preparation and content of the Management report in accordance with Articles 21 and 24 of the Croatian Accounting Law.

The consolidated financial statements set out on pages 10 to 55 and the Management report set out on pages 1 to 5 were authorised for issue by Management.

Tomislav Debeljak
President of the Management Board

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Darko Pappo
Member of the Management Board

Dalibor Marijanović
Member of the Management Board

Samobor, 23 August 2017

Independent auditors' report to the owners of DIV d.o.o. Group

Qualified Opinion

We have audited the consolidated financial statements of DIV d.o.o. ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 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 ("EU IFRS").

Basis for Qualified Opinion

As disclosed in Note 2(v), during the year ended 31 December 2016, the Group assessed that HRK 18,878 thousand of *Receivables from the state for government grants and subsidies* should be fully impaired as uncollectible, due to the circumstances also disclosed in Note 2(v). The Group accounted for the impairment by restating the opening balances of the receivables as at 1 January 2016 in correspondence with retained earnings. In our view, the events that gave rise to the impairment loss only occurred during 2016, hence the adjustment represents a change in accounting estimate, which, in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors,* should be accounted for prospectively. In addition, our audit opinion dated 13 June 2016 on the consolidated financial statements for the year ended 31 December 2015 was qualified in respect of the amount of HRK 9,660 thousand of the government grant recognised immediately as income instead of being deferred and recognised in profit or loss systematically as the related assets were depreciated, as required by IAS 20: *Accounting for Government Grants and Disclosure of Government Assistance.* Had the above matters been accounted for in accordance with those respective Standards, retained earnings as at 31 December 2015 would have been decreased and deferred income would have been increased by HRK 9,660 thousand, and also net profit would have been decreased by HRK 9,218 thousand in the year ended 31 December 2016 and by HRK 9,660 thousand in the year ended 31 December 2015.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

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

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

KPMG

Independent auditors' report to the owners of DIV d.o.o. Group *(continued)*

Other Information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Except for the misstatements of the other information with respect to items where departures from IFRS have been identified, as described in the *Basis for Qualified Opinion* section, we have nothing to report in this respect.

With respect to the information in the Annual Report, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Annual report the disclosures required by Articles 21 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Annual Report.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion, and taking into account the fact that our audit opinion on the consolidated financial statements is qualified:

- The information given in the Annual Report, containing the information referred to in Article 21, of the Croatian Accounting Act for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements on which we have issued a qualified audit opinion.
- The information given in the Annual Report has been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in other information given in the Annual Report that we obtained prior to the date of this auditors' report. As described in the *Basis for Qualified Opinion* section above, the Group recorded impairment and cancelation of certain *Receivables from the State for government grants and subsidies* as a restatement to the opening retained earnings, and not prospectively as a change in an estimate as required by IAS 8. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Annual Report affected by the failure to properly account for the above matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, 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.

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

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

KPMG

Independent auditors' report to the owners of DIV d.o.o. Group *(continued)*

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb, Croatia
Zagreb, 23 August 2017

For and on behalf of KPMG Croatia d.o.o. za reviziju:

KPMG Croatia
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Tony Ilijanić
Management board member
Croatian Certified Auditor

This version of our report is a translation from the original, which was prepared in 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 translation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	***Note***	**2016**	**2015**
Revenue	***5***	923,449	763,173
Other income	***6***	91,582	44,171
Total operating income		**1,015,031**	**807,344**
Changes in inventories - work in progress and finished goods		94,109	156,492
Materials and consumables used	***7***	(558,123)	(557,110)
Personnel expenses	***8***	(326,442)	(338,695)
Depreciation and amortisation		(49,365)	(45,885)
Other operating expenses	***9***	(88,124)	(114,382)
Total operating expenses		**(927,945)**	**(899,580)**
Operating profit / (loss)		**87,086**	**(92,236)**
Financial income	***10***	17,640	26,154
Financial expenses	***11***	(46,819)	(56,761)
Net finance costs		**(29,179)**	**(30,607)**
Share of loss of joint venture	***17***	(109)	(386)
Profit / (loss) before income tax		**57,798**	**(123,229)**
Income tax	***12***	11,686	4,166
Net profit / (loss) for the year		**69,484**	**(119,063)**
Other comprehensive income			
Change in fair value of available for sale assets	***16***	7	110
Effect of foreign exchange		(1,237)	(397)
Total comprehensive profit / (loss)		**68,254**	**(119,350)**
Profit/ (loss) attributable to			
Owners of the Company		68,377	(119,789)
Non-controlling interests		1,107	726
		69,484	**(119,063)**
Total comprehensive profit/ (loss) attributable to			
Owners of the Company		67,147	(120,076)
Non-controlling interests		1,107	726
		68,254	**(119,350)**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(in thousands of HRK)	***Note***	**31 December 2016**	**31 December 2015**
ASSETS			
Non-current assets			
Intangible assets	***13***	13,809	1,321
Property, plant and equipment	***14***	1,054,980	1,035,232
Investment property	***15***	4,472	5,102
Other investment	***16***	20,835	32,223
Investment in joint ventures	***17***	11,973	9,583
Non-current receivables	***18***	16,290	100,958
Deferred tax assets	***12***	6,983	5,835
Total non-current assets		**1,129,342**	**1,190,254**
Current assets			
Inventories	***19***	532,400	507,065
Trade and other receivables	***20***	408,574	292,073
Prepaid expenses		3,147	2,979
Cash and cash equivalents	***21***	47,944	20,384
Total current assets		**992,065**	**822,501**
Total assets		**2,121,407**	**2,012,755**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	***22***	245,737	245,737
Reserves	***23***	36,480	37,710
Retained earnings		900,941	851,442
Non-controlling interests		5,947	4,840
Total equity		**1,189,105**	**1,139,729**
Non-current liabilities			
Liabilities towards banks and other finanacial institutions	***24***	296,578	91,931
Provisions	***25***	23,986	36,853
Deferred tax liabilities	***12***	40,222	52,410
Total non-current liabilities		**360,786**	**181,194**
Current liabilities			
Liabilities towards banks and other finanacial institutions	***24***	162,114	185,546
Provisions	***25***	12,157	17,311
Trade and other payables	***26***	335,009	423,633
Accrued expenses and deferred income	***27***	62,236	65,342
Total current liabilities		**571,516**	**691,832**
Total liabilities		**932,302**	**873,026**
Total liabilities and shareholders' equity		**2,121,407**	**2,012,755**

Accompanying notes form an integral parts of these financial statements.

(in thousands of HRK)	***Note***	**Share capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
As at 1 January 2015		**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)**
Profit / (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		-	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**
As at 1 January 2016		**245,737**	**37,710**	**851,442**	**1,134,889**	**4,840**	**1,139,729**
Effect of restatement - Note ***2(v)***		**-**	-	**(18,878)**	**(18,878)**	**-**	**(18,878)**
Restated as at 1 January 2016		**245,737**	**37,710**	**832,564**	**1,116,011**	**4,840**	**1,120,851**
Other comprehensive income		-	7	-	**7**	**-**	**7**
Effect of foreign exchange		-	(1,237)	-	**(1,237)**	**-**	**(1,237)**
Profit for the year		-	-	68,377	**68,377**	**1,107**	**69,484**
Total comprehensive income or loss		**-**	**(1,230)**	**68,377**	**67,147**	**1,107**	**68,254**
As at 31 December 2016		**245,737**	**36,480**	**900,941**	**1,183,158**	**5,947**	**1,189,105**

Accompanying notes form an integral parts of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	Note	2016	2015
Net profit / (loss) before tax		57,798	(123,229)
Adjustments for:			
Depreciation and amortisation		49,365	45,882
Impairment of property, plant and equipment		438	522
Net gain from sale of of property, plant and equipment		(84)	(45)
Share in loss of joint venture		109	386
Financial income/ (expenses) realised - net		25,918	29,564
Unrealised foreign exchange differences		(8,707)	(1,256)
Changes in:			
- trade and other receivables		(42,335)	242,272
- inventories		(25,335)	(107,357)
- trade and other payables		(101,190)	156,253
- provisions		(18,021)	(13,495)
Cash generated/(used) from operating activities		**(62,044)**	**229,497**
Interest paid		(26,092)	(33,123)
Income tax paid		(429)	(378)
Net cash used in operating activities		**(88,565)**	**195,996**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(85,012)	(167,250)
Proceeds from disposal of property, plant and equipment		823	2,454
Investment in joint venture		(2,499)	(5,219)
Loans and deposits received		11,395	647
Interest received		142	-
Net cash used in investing activities		**(75,151)**	**(169,368)**
Cash flow from financing activities			
Proceeds from loans and borrowings		477,897	332,752
Repayment of loans and borrowings		(286,621)	(383,996)
Net cash from financing activities		**191,276**	**(51,244)**
Net increase/(decrease) in cash and cash equivalents		**27,560**	**(24,616)**
Cash and cash equivalents at the beginning of the year		20,384	45,000
Cash and cash equivalents at the end of the year	*21*	**47,944**	**20,384**

Accompanying notes form an integral parts of these financial statements.

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 74 subsidiaries, MIN DIV Svrljig a.d.., TVIK DIV Valjevo d.o.o., DIV Betonski pragovi d.o.o., DIV Sarajevo d.o.o., Brodosplit - Projekt 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 99.76% 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	Gajski	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 functional currency, rounded to the nearest thousand.

(iv) Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group will have sufficient resources to continue for a period of at least 12 months from the reporting date. The preparation of these forecasts incorporated a number of assumptions and significant judgment. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

As at 31 December 2016, the Group had current bank loan liabilities of HRK 153,976 thousand, of which, by 31 June 2017, it repaid HRK 27,825 thousand from its own liquidity. Following the repayment, the Group's total indebtedness under current and non-current loans as at 31 June 2017 was HRK 489,316 thousand (31 December 2016: HRK 448,747 thousand). The funds obtained from the loans enabled the Group to optimise its working capital, secure liquidity through the entire production process and to improve debt term structure.

NOTE 2 – BASIS OF PREPARATION *(continued)*

(iv) Going concern (continued)

The Group has initiated negotiations with the business and development banks in respect of the due current financial debt. Management believes that it will successfully complete negotiations with the financial institutions and that the projected cash flows will be sufficient to meet liabilities towards financial institutions and other suppliers.

Given the process in respect of loan refinancing is ongoing, in case cash inflows would be less than anticipated, the Group has considered alternatives and possibilities, including but not limited to, the sale of finished inventory goods at discounted prices (however still above cost) or disposal of non-core assets to secure additional funds if immediately required.

(v) Restatement of financial statements

Statement of financial position

Note 20 on Trade and Other receivables includes Receivables from the State for government grants and subsidies of HRK 161,398 thousand as at 31 December 2015, which includes amounts totaling HRK 18,878 thousand which have been recorded as an impairment. Whilst the Group believes it has an enforceable right to these receivables totaling HRK 18,878 thousand, it has determined to derecognize the receivable as a restatement as at 1 January 2016 within opening equity, given that there is sufficient uncertainty as to when the amounts will be recovered and related administrative difficulties.

The effect of aforementioned restatement on the financial statements as of 1 January 2016 and on the statement of financial position of the Group is presented in the table below:

	As previously reported 1.1.2016	Restatement	Restated 1.1.2016
		(in HRK thousand)	
Group			
Trade and other receivables	292,073	(18,878)	273,195
Retained earnings	(851,442)	18,878	(832,564)

Furthermore, to improve its presentation, as at 31 December 2015 the Group has reclassified HRK 28,368 thousand of *Deferred revenues* from *Trade and other payables* to *Accrued expenses and deferred income*.

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. 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.

(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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Foreign currencies (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 and is impaired if deemed necessary. The amortisation period and the amortisation 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 amortisation method and the amortisation 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.

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.

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.

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.

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 amounts 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).

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 Group provides for taxation liabilities in accordance with Croatian law and regulations.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. No temporary differences are recognised on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.16 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 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, which necessarily requires a considerable amount of time to be ready for intended use or sale, form part of the cost of that asset, until the asset is for the most part ready for intended use or sale.

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

Other borrowing costs are recognised as an expense in period when inccured.

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.

3.18 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.

3.19 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.

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 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) Finance income

Finance 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.

3.21 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.

3.22 Dividends

Dividends to the 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)

3.23 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 563,549 m² land area and 222,319 m² of sea area, a total of 785.868 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

a) a fixed part of HRK 0.50 per square metre of occupied area per year

b) the variable part of remuneration in the amount of 1% per year of 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.

NOTE 3 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 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 HRK 3 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 Annex 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.

3.24 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 2016 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 Group’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.

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. Current 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.

(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 177,833 thousand due to uncertainty of the amounts of future taxable profits based on volatility past tax assessable income.

NOTE 5 – REVENUE

	2016	2015
	(in thousands of HRK)	
Revenue from sale of goods	393,093	485,784
Revenue from off shore and steel construction	272,393	163,965
Revenue from shipbuilding	237,044	106,244
Revenues from construction services	20,919	7,180
	923,449	**763,173**

Revenues from shipbuilding and off shore and steel construction are 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

	2016	2015
	(in thousands of HRK)	
Income from government grant	3,628	17,828
Release of provisions	22,640	11,649
Other operating income	65,314	14,694
	91,582	**44,171**

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

NOTE 7 - MATERIAL EXPENSES

	2016	2015
	(in thousands of HRK)	
Raw materials	429,787	405,119
Fuel and energy	27,323	25,662
Small inventory and spare parts	6,032	6,729
Raw materials and supplies	**463,142**	**437,510**
Cost of goods sold	**5,964**	**23,826**
Transport	9,648	14,395
Intellectual services	27,991	20,475
Treatment, preparation and processing	8,910	9,412
Utilities	1,780	1,676
Telecommunciations	766	1,066
Other external expenses	39,922	48,750
Other expenses	**89,017**	**95,774**
Total material expenses	**558,123**	**557,110**

NOTE 8 – EMPLOYEE COSTS

	2016	2015
	(in thousands of HRK)	
Net salaries	185,292	194,192
Taxes and contributions from salaries	63,252	65,380
Contributions on salaries	42,822	45,627
Other staff costs	35,076	33,496
	326,442	**338,695**

Taxes and contribution from salaries include contributions paid into obligatory pension funds amounting to HRK 55,856 thousand. Contributions are calculated as a percentage of gross salaries. As at 31 December 2016 the Group had 3,167 employees (*2015: 3,211*). In 2016 termination benefits were paid out for 28 employees in the total amount of HRK 1,297 thousand and were recognised as an expense.

NOTE 9 – OTHER OPERATING EXPENSES

	2016	2015
	(in thousands of HRK)	
Bank charges	7,179	7,439
Impairment of current assets	33,760	43,177
Concession expense	6,964	6,585
Impairment of non-current assets	445	397
Provisions	1,605	13,343
Other expenses	38,171	43,441
	88,124	**114,382**

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

NOTE 10 – FINANCE INCOME

	2016	2015
	(in thousands of HRK)	
Interest income	3,348	1,176
Foreign exchange gains	8,954	13,464
Other finance income	113	13
Income from unwinding of receivables discount	5,225	11,501
	17,640	**26,154**

NOTE 11 – FINANCE COSTS

	2016	2015
	(in thousands of HRK)	
Interest expense	34,095	42,112
Foreign exchange losses	12,215	14,507
Other finance expenses	509	142
	46,819	**56,761**

NOTE 12 – INCOME TAX

(in thousands of HRK)	**2016**	**2015**
Current income tax	1,650	783
Deferred tax	(13,336)	(4,949)
	(11,686)	**(4,166)**

(in thousands of HRK)	**2016**	**2015**
Profit / (loss) before tax	57,798	(123,229)
Income tax at the tax rate of 20%	11,560	(24,646)
Effect of tax rates in foreign subsidiaries	(334)	(440)
Non-deductible expenses	580	625
Non-taxable income and tax incentives	(2,631)	(7,576)
Effect of tax rates change from 20% to 18%	(4,514)	-
Temporary differences not recognised as deferred tax assets	5,906	2,292
Tax losses not recognised as deferred tax assets	1,811	26,709
Utilised tax losses previously not recognised	(24,064)	(1,130)
Income tax	**(11,686)**	**(4,166)**
Effective tax rate	**(20%)**	**3%**

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 amounts to HRK 151,100 thousand and the DIV d.o.o. has utilised HRK 76,749 thousand up to the 31 December 2016, out of which HRK 58,042 thousand to settle current income tax liability. In period from 1 January 2017 to 31 December 2019, the DIV d.o.o. has available investment tax credit incentives in the maximum amount of HRK 74,351 thousand. Based on the historical uncertainty in respect of the future taxable profits, the Group has not recognized investment tax credit incentives and temporary differences 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 Svrljig a.d., TVIK DIV Valjevo d.o.o. 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%.

As at 31 December 2016, the Group has not recognised temporary tax differences as deferred tax assets amounting to HRK 29,630 thousand which mainly relate to impairment of inventories and provisions.

Tax loss for which no deferred tax assets have been recognised amounts to HRK 73,852 thousand. Tax loss expires up to 2020.

As of 1 January 2017, the Amendments to the Profit Tax Act were enacted which reduced the income tax rate from 20% to 18%. Therefore, recognised and unrecognised deferred taxes as at 31 December 2016 were calculated at a rate of 18%, which is the rate expected to be applied in the periods when the deferred taxes will be realized.

NOTE 12 – INCOME TAX (*continued*)

(in thousands of HRK)	1 January 2016	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2016
Intangible assets	112	-	(26)	86
Property, plant and equipment	5,536	-	1,134	6,670
Inventories	187	-	40	227
Deferred tax assets	**5,835**	**-**	**1,148**	**6,983**
Property, plant and equipment	52,410	-	(12,188)	40,222
Deferred tax liability	**52,410**	**-**	**(12,188)**	**40,222**

NOTE 13 – INTANGIBLE ASSETS

(In thousands of HRK)	Software	Assets under constrution	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**
As at 1 January 2016	**1,955**	**-**	**1,955**
Additions	147	209	356
Impairment	(1)	-	(1)
Transfer from tangible assets	-	12,750	12,750
Translation differences	(39)	-	(39)
As at 31 December 2016	**2,062**	**12,959**	**15,021**
Accumulated amortisation			
As at 1 January 2015	**298**	**-**	**298**
Charge for the year	336	-	**336**
As at 31 December 2015	**634**	**-**	**634**
As at 1 January 2016	**634**	**-**	**634**
Charge for the year	601	-	**601**
Translation differences	(23)	-	**(23)**
As at 31 December 2016	**1,212**	**-**	**1,212**
Carrying value			
As at 1 January 2016	**1,321**	**-**	**1,321**
As at 31 December 2016	**850**	**12,959**	**13,809**

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

(In thousands of HRK)	Land	Buildings	Leasehold improvement	Tools and vehicles	Plant and equipment	Ships	Asset under construction	Total
Cost								
As at 1 January 2015	**11,693**	**233,068**	**107,675**	**225,705**	**389,360**	**-**	**122,521**	**1,090,022**
Additions	-	97	-	1,328	2,795	-	163,025	167,245
Transfers	-	7,023	-	6,304	19,005	-	(32,332)	-
Impairment	(14)	(5)	(7)	(165)	(46)	-	-	(237)
Disposal and write off	-	-	-	(2,184)	(2,490)	-	(3,575)	(8,249)
Translation differences	(89)	(392)	-	(328)	(390)	-	(35)	(1,234)
As at 31 December 2015	**11,590**	**239,791**	**107,668**	**230,660**	**408,234**	-	**249,604**	**1,247,547**
As at 1 January 2016	**11,590**	**239,791**	**107,668**	**230,660**	**408,234**	**-**	**249,604**	**1,247,547**
Additions	10	-	-	1,913	852	-	81,609	**84,384**
Transfers	-	70,684	5,384	9,334	3,013	108,148	(196,563)	**-**
Transfers to intangibles	-	-	-	-	-	-	(12,750)	**(12,750)**
Impairment	(2)	-	(3)	(348)	(84)	-	-	**(437)**
Disposal and write off	-	-	-	(40)	(3,919)	-	(338)	**(4,297)**
Translation differences	(269)	(1,196)	-	(94)	(2,053)	-	(202)	**(3,814)**
As at 31 December 2016	**11,329**	**309,279**	**113,049**	**241,425**	**406,043**	**108,148**	**121,360**	**1,310,633**
Accumulated depreciation								
As at 1 January 2015	**-**	**43,459**	**4,419**	**33,278**	**88,952**	**-**	**-**	**170,108**
Charge for the year	-	5,341	1,104	13,952	24,970	-	-	**45,367**
Disposal and write off	-	-	-	(2,184)	(630)	-	-	**(2,814)**
Translation differences	-	(202)	-	(94)	(50)	-	-	**(346)**
As at 31 December 2015	**-**	**48,598**	**5,523**	**44,952**	**113,242**	**-**	**-**	**212,315**
As at 1 January 2016	**-**	**48,598**	**5,523**	**44,952**	**113,242**	**-**	**-**	**212,315**
Charge for the year	-	5,355	1,256	21,882	17,772	1,869	-	**48,134**
Disposal and write off	-	-	-	(9)	(3,550)	-	-	**(3,559)**
Translation differences	-	(634)	-	(65)	(538)	-	-	**(1,237)**
As at 31 December 2016	**-**	**53,319**	**6,779**	**66,760**	**126,926**	**1,869**	**-**	**255,653**
Carrying value								
As at 1 January 2016	**11,590**	**191,193**	**102,145**	**185,708**	**294,992**	**-**	**249,604**	**1,035,232**
As at 31 December 2016	**11,329**	**255,960**	**106,270**	**174,665**	**279,117**	**106,279**	**121,360**	**1,054,980**

Assets under construction mainly relate to own shipping fleet amounting to HRK 69,862 thousand and investment in infrastructure and equipment (galvanization) in factory Knin amounting to HRK 29,765 thousand.

Land, buildings and equipment with the book value of HRK 459,826 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 2016	**31 December 2015**
	(in thousands of HRK)	
Cost of equipment under finance leases	3,783	2,376
Accumulated depreciation	(615)	(593)
Net book value	**3,168**	**1,783**

NOTE 15 – INVESTMENT PROPERTY

(in thousands of HRK)	**Investment property**
Cost	
As at 1 January 2015	**5,463**
Additions	-
As at 31 December 2015	**5,463**
As at 1 January 2016	**5,463**
Additions	-
As at 31 December 2016	**5,463**
Accumulated amortisation	
As at 1 January 2015	**182**
Charge for the year	179
As at 31 December 2015	**361**
As at 1 January 2016	**361**
Charge for the year	630
As at 31 December 2016	**991**
Carrying value	
As at 1 January 2016	**5,102**
As at 31 December 2016	**4,472**

Fair value of investment property as of 31 December 2016 was HRK 4,472 thousand.

NOTE 16 – OTHER INVESTMENTS

	31 December 2016	**31 December 2015**
	(in thousands of HRK)	
Available-for-sale financial assets	343	816
Deposits	20,188	24,927
Other investments	304	6,480
	20,835	**32,223**

Deposits include HRK 20,131 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
	(in thousands of HRK)
1 January 2016	816
Additions	7
Disposals	(473)
Change in fair value	(7)
31 December 2016	**343**

Fair value adjustment of financial assets held-for-sale amounting to HRK 7 thousand was recognised in other comprehensive income.

NOTE 17 – INVESTMENTS IN JOINT VENTURES

	2016	2015
	(in thousands of HRK)	
At beginning of year	9,583	4,750
Additional investments	2,499	5,219
Share in losses	(109)	(386)
At end of year	**11,973**	**9,583**

During the year, the Group made additional investment in Kamen-Dent d.o.o. of HRK 2,499 thousand.

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

(in thousands of HRK)	1 January 2016	Investments	Share in (losses)/gains	31 December 2016
Kamen-Dent	9,560	2,499	(99)	11,960
Marine and energy solutions	23	-	(10)	13
	9,583	**2,499**	**(109)**	**11,973**

Summary of financial information on associated companies – 100 %:

(in thousands of HRK)	Assets	Liabilities	Income	Net profit/ (loss)
Kamen-Dent	14,862	(1,265)	5	(198)
Marine and energy solutions	1,175	(1,558)	5,246	(436)
	16,037	**(2,823)**	**5,251**	**(634)**

NOTE 18 – NON-CURRENT RECEIVABLES

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Non-curent receivables from the state	-	84,389
Non-current loan receivables from employees	9,772	11,940
Other non-current receivables	6,518	4,629
	16,290	**100,958**

(i) Interest rate on loans to employees amounts to 1% - 2%. Receivables are discounted using discount rate of 4.14%.

NOTE 19 – INVENTORIES

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Raw materials and supplies	173,755	191,938
Work in progress	131,407	132,107
Finished goods	99,703	95,810
Trade goods	95,581	59,800
Advances for inventories	31,954	27,410
	532,400	**507,065**

In 2016, inventories amounting to HRK 28,624 thousand (2015: HRK 51,214 thousand) have been recognised as expense during the period. Included in work in progress is an uncompleted vessel for which the contract has been terminated in 2015. The uncompleted vessel has been written down to an estimated net realizable value of HRK 98,251 thousand (2015: HRK 99,255 thousand).

At 31 December 2016 inventories amounting to HRK 116,850 thousand are secured against loans of the Group.

NOTE 20 –TRADE AND OTHER RECEIVABLES

		31 December 2016	31 December 2015
		(in thousands of HRK)	
Trade receivables		99,916	70,248
Impairment of trade receivables		(23,207)	(16,583)
Trade receivables – net		76,709	53,665
Receivables from the state for government grants and subsidies	(i)	96,520	161,398
Accrued revenues	(ii)	191,992	24,351
Receivables gained through cession and assignment	(iii)	8,202	16,545
Loans receiveables from employees		2,318	2,323
Receivables for penalty interest		-	5,621
Loans given, deposits and similar		655	2,314
Loans given to related parties		1	549
Other receivables		32,177	25,307
		408,574	**292,073**

(i) Receivables from the state include current portion of receivables for government grants of HRK 89,000 thousand.

(ii) Accrued revenues includes the amount of HRK 191,992 thousand that relate to receivables from customers for construction contracts (note “ Construction contracts”).

(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.

NOTE 20 –TRADE AND OTHER RECEIVABLES (*continued*)

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

(in thousands of HRK)	**2016**	**2015**
Balance at 1 January	**16,583**	**32,364**
Increase of impairment	9,961	6,668
Receivables written-off	(3,337)	(22,449)
At 31 December	**23,207**	**16,583**

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**
	(in thousands of HRK)		
Neither past due nor impaired	**34,997**	**-**	**34,997**
Past due:	**64,919**	**(23,207)**	**41,712**
0 to 30 days	33,757	-	33,757
31 to 90 days	6,103	(2,788)	3,315
91 to 180 days	1,959	(1,046)	913
180 days up to 1 year	9,258	(5,629)	3,629
Over 1 year	13,842	(13,744)	98
Total	**99,916**	**(23,207)**	**76,709**

NOTE 20 – TRADE AND OTHER RECEIVABLES (*continued*)

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

	31 December 2016	31 December 2015
	(in thousands of HRK)	
HRK	51,185	40,269
EUR	38,443	17,830
Other	10,288	12,149
	99,916	**70,248**

NOTE 21 – CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Cast at banks	47,184	18,092
Petty cash	760	85
Deposits	-	2,207
	47,944	**20,384**

Cash at banks refers to the cash accounts in commercial banks with an average interest rate between 0.1% and 2% annually.
Cash at banks includes amount of HRK 2,269 thousand which is restricted due to the ongoing legal case (2015: HRK 626 thousand).

NOTE 22 – SHARE CAPITAL

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Share capital	245,737	245,737
Reserves	36,480	37,710
Retained earnings	832,564	971,231
Profit/(loss) for the year	68,377	(119,789)
Non-controlling interests	5,947	4,840
	1,189,105	**1,139,729**

In prior years, 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 2016	31 December 2015
	(in thousands of HRK)	
Legal reserves	26,808	26,808
Foreign currency translation reserve	(4,125)	(2,888)
Other reserves	13,797	13,790
	36,480	**37,710**

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 subsidirary and fair value reserve.

Non-controlling interests

Company	Country	NCI (%)	Net asets as at 31 December 2016 (i)	Net assets attributable to NCI
MIN DIV	Serbia	13.55%	19,218	2,604
Brodograđevna industrija Split	Croatia	0.24%	1,392,917	3,343
				5,947

(i) Net assets as at 31 December 2016 after consolidation adjustments.

NOTE 24 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Non-current liabilities towards banks and other financial institutions		
Borrowings	294,771	90,679
Finance lease	1,807	1,252
	296,578	**91,931**
Current liabilities towards banks and other financial institutions		
Borrowings	153,976	159,743
Finance lease	593	369
Factoring	7,545	25,434
	162,114	**185,546**
Total liabilities towards banks and other financial institutions	**458,692**	**277,477**

Maturities of borrowings are as follows:

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Maturity up to six months	116,707	118,038
Maturity from six months up to 1 year	37,269	41,705
Maturity from 1 up to 2 years	172,783	21,946
Maturity from 2 up to 5 years	87,002	54,323
Maturity over 5 years	34,986	14,410
	448,747	**250,422**

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

Maturities of finance leases are as follows:

	2016		
	(in thousands of HRK)		
	Principal	Interest	Total
Up to 1 year	593	123	716
1 - 2 years	578	88	666
2 - 5 years	1,229	87	1,316
Over 5 years	-	-	-
	2,400	**298**	**2,698**

	2015		
	(in thousands of HRK)		
	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**

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

	31 December 2016	**31 December 2015**
	(in thousands of HRK)	
HRK	28,000	46,633
EUR	420,747	203,642
Other	-	147
	448,747	**250,422**

As at 31 December 2016 the Group has short term limit with commercial bank regarding guarantee, overdraft and letters of credit in the amount of HRK 15,116 thousand *(2015: HRK 19,088 thousand)* of which HRK 9,876 thousand has been unused as at 31 December 2016 *(2015: HRK 7,300 thousand).*

Bank loans

Bank loans in the amount of HRK 217,384 thousand have variable interest rate *(2015: HRK 141,599 thousand).* Variable interest rates were in the range from 4% to 7.5% on annual level *(2015: from 4% to 7.5%).*

Bank loans in the amount of HRK 231,363 thousand have fixed interest rate *(2015: HRK 108,873 thousand).* Fixed interest rates were in the range from 2% to 4% on annual level *(2015: from 2% to 6.9%*), of which HRK 52,299 thousand were at 2% interest rate.

Factoring

In situations where creditor demands payment before due date(construction industry) or upon completion of service (transportation services), contract with creditor factoring is settled. Usually it relates to regular promissory note discount payable at the specific date when the Group reserves resources in the giro account specified on the promissory note which is then collected. 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 5.25-6.50%.

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

Securities

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

NOTE 25 – PROVISIONS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Non-current		
Provisions for court cases	22,498	35,671
Other provisions	1,488	1,182
	23,986	**36,853**
Current		
Warranty provision	8,521	12,702
Provisions for termination benefits	3,636	4,609
	12,157	**17,311**
Total provisions	**36,143**	**54,164**

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

	As at 1 January 2016	Recognised in profit or loss	Used during year	31 December 2016
Provisions for court cases	35,671	6,397	(19,570)	22,498
Provisions for termination benefits	4,609	36	(1,009)	3,636
Warranty provision	12,702	357	(4,538)	8,521
Other provisions	1,182	1,488	(1,182)	1,488
	54,164	**8,278**	**(26,299)**	**36,143**

NOTE 26 – TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Trade payables	173,541	193,779
Other payables	161,468	229,854
	335,009	**423,633**

NOTE 26 – TRADE AND OTHER PAYABLES (*continued*)

Other payables:

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Loan liabilities to owners	23,947	35,751
Liability for concession fee	23,457	30,892
Liabilities to employees	17,846	16,368
Liabilites for taxes, contributions and similar	32,623	26,719
Advances received	38,271	110,448
Other current liabilities	25,324	9,676
	161,468	**229,854**

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

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Maturity up to six months	23,947	-
Maturity from six months up to 1 year	-	35,751
Maturity from 1 up to 2 years	-	-
Maturity from 2 up to 5 years	-	-
Maturity over 5 years	-	-
	23,947	**35,751**

These are non-interest bearing loans.

NOTE 27 – ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Accrued expenses	27,739	20,056
Deferred revenues	26,453	28,368
Deferred income (government grants)	7,520	7,520
Accrued default interest	524	9,398
	62,236	**65,342**

NOTE 28 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	**2016**	**2015**
Contract costs incurred up to the reporting date	654,522	718,918
Recognized (losses)/gains till the reporting date	82,813	(135,820)
	737,335	583,098
Less: invoicing in progress and advances received	(577,633)	(624,150)
Receivables from/(liabilities to) the customers for the contracted work	**159,702**	**(41,052)**
Reclassified to accrued revenue	191,992	24,212
Reclassified to advances received	(32,290)	(65,264)
Receivables from/(liabilities to) the customers for the contracted work	**159,702**	**(41,052)**
Revenues from construction contracts recognised till the reporting date	690,753	483,207
Less: revenues from construction contracts recognised in previous periods	(179,740)	(269,018)
	511,013	**214,189**

NOTE 29 – 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 2016	**31 December 2015**
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	458,692	277,477
Cash and cash equivalents	(47,944)	(20,384)
Net debt	410,748	257,093
Equity	1,189,105	1,139,729
Net debt to equity ratio	35%	23%

Debt is defined as non-current and current loan liabilities and bonds. 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. Significant amount 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.

NOTE 29 – 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 2016	31 December 2015
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	76,709	53,665
Accrued income	191,992	24,351
Loans given	2,974	5,186
Investments	37,280	46,908
Other receivables	32,177	25,307
Cash and cash equivalents	47,944	20,384
	389,076	**175,801**
Financial liabilities at amortised cost		
Trade payables	173,541	193,779
Finance lease	2,400	1,621
Factoring	7,545	25,434
Borrowings	448,747	250,422
Other payables	161,468	229,854
	793,701	**701,110**

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.

NOTE 29 – 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 monetary liabilities denominated in foreign currencies at the reporting date are presented in the table below:

	Liabilities		Assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	510,154	235,941	91,263	50,428
USD	33,136	38,036	5,527	6,729
Other currencies	5,114	971	13,384	476
	548,404	**274,948**	**110,174**	**57,633**

As explained above, due to the fact that the majority of transactions with foreign customers are denominated in 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 risk is reduced by purchases in the same currencies.

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	
	2016	2015
	(in thousands of HRK)	
The increase/(decrease) in net result	(4,189)	(1,855)

	The impact of USD currency	
	2016	2015
	(in thousands of HRK)	
The increase/(decrease) in net result	(2,761)	(3,131)

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

NOTE 29 – 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 December 2016				
Financial assets available for sale				
Listed companies	211	-	-	211
Unlisted companies	-	132	-	132
Total	**211**	**132**	**-**	**343**

NOTE 29 – 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 2016, 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. In order to improve liquidity and optimize the time required from the purchase of raw materials to the receipt of payment from the final customer, in 2016 the Group received two loans from the HBOR (Croatian Bank for Reconstruction and Development) Export Promotion Program, each in the amount of EUR 10,000 thousand, one with long-term repayment with a two-year grace period, and the other short-term with a revolving option each year. These funds enabled the Group to secure liquidity through the entire production process and through regular cash inflows to repay short-term liabilities to financial institutions that were at less favourable terms and their maturity dates had negative impact on the daily liquidity of the Group. It is necessary to note that in 2016 insurance policies for foreign and domestic receivables were concluded, which improved the inflows from customers. Larger inventory levels will enable the Group to better reaction to customers’ requests by shortening delivery times, placing them in a favourable position compared to the competition, and also allow for reactive measures in periods of low liquidity, such as sales at slightly lower prices but still with a significant margin. Furthermore, the Group concludes large project contracts with the withdrawal of a portion of the funds in advance to enable initial uninterrupted procurement of 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 a adequate level of liquidity necessary to repay future due debt.

NOTE 29 – 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

as at 31 December 2016	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Other payables	161,468	161,468	161,468	-	-	-
Trade payables	173,541	175,945	162,720	13,225	-	-
	335,009	**337,413**	**324,188**	**13,225**	**-**	**-**
Interest-bearing liabilities						
Finance lease	2,400	2,698	716	666	1,316	-
Factoring	7,545	7,545	7,545	-	-	-
Borrowings	448,747	484,022	173,299	179,535	94,993	36,195
	458,692	**494,265**	**181,560**	**180,201**	**96,309**	**36,195**
	793,701	**831,678**	**505,748**	**193,426**	**96,309**	**36,195**

as at 31 December 2015	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Other payables	229,854	229,854	229,854	-	-	-
Trade payables	193,779	193,779	193,779	-	-	-
	423,633	**423,633**	**423,633**	**-**	**-**	**-**
Interest-bearing liabilities						
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**
	701,110	**715,317**	**617,204**	**24,987**	**58,461**	**14,665**

NOTE 29 – RISK MANAGEMENT ***(continued)***

Financial risk management (continued)

Analysis of liquidity risk (continued)

Assets

as at 31 December 2016	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest earning assets						
Non-current receivables	16,290	16,290	16,290	-	-	-
Factoring receivables	8,077	8,077	8,077	-	-	-
Other receivables	320,814	320,814	320,538	50	110	116
Trade receivables	76,709	76,709	76,709	-	-	-
	421,890	**421,890**	**421,614**	**50**	**110**	**116**
Interest earning assets						
Loans given and deposits	23,162	23,185	3,041	11	20,133	-
Cash and cash equivalents	47,944	47,944	47,944	-	-	-
	71,106	**71,129**	**50,985**	**11**	**20,133**	**-**
	492,996	**493,019**	**472,599**	**61**	**20,243**	**116**

as at 31 December 2015	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest earning assets						
Non-current receivables	100,958	100,958	16,569	84,389	-	-
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	-	-	-
	387,845	**387,845**	**207,374**	**171,101**	**8,314**	**1,056**
Interest earning assets						
Loans given and deposits	30,113	30,113	30,113	-	-	-
Cash and cash equivalents	20,384	20,384	20,384	-	-	-
	50,497	**50,497**	**50,497**	**-**	**-**	**-**
	438,342	**438,342**	**257,871**	**171,101**	**8,314**	**1,056**

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:

	2016	**2015**
	(in thousands of HRK)	
Bank loans based on EURIBOR	217,295	140,347
Finance leases based on EURIBOR	89	1,252
	217,384	**141,599**

NOTE 29 – 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 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 interest rates of 10% 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:

as at 31 December 2016	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
		(in thousands of HRK)			
According to the current interest rates	16,395	13,126	2,892	377	-
According to the current interest rates + 10%	18,035	14,439	3,181	415	-
The effect of interest rate increase by 10%	**(1,640)**	**(1,313)**	**(289)**	**(38)**	**-**

as at 31 December 2015	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Over 5 years
		(in thousands of HRK)			
According to the current interest rates	14,020	7,948	2,616	3,201	255
According to the current interest rates + 10%	15,423	8,743	2,878	3,521	281
The effect of interest rate increase by 10%	**(1,403)**	**(795)**	**(262)**	**(320)**	**(26)**

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.

NOTE 30 – 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 brodskog 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 - 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 - Alatnica 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
Brodosplit - Projekt d.o.o.	Croatia	100%	Building of ships and floating structures
DIV Betonski pragovi d.o.o., Svrljig	Serbia	100%	Production of concrete sleepers
DIV Brodogradnja d.o.o.	Croatia	100%	Production of metal structures
Brodosplit-Italija srl.	Italia	99.76%	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 Svrljig a.d., Svrljig	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

Through subsidiary Brodosplit - Plovidba d.o.o., Company has control over: BS STAR SHIPPING Inc, BURIN WIND CRUISE SHIPPING Inc, GARBIN WIND CRUISE SHIPPING Inc, LEVANT WIND CRUISE SHIPPING Inc, MAESTRAL WIND CRUISE SHIPPING Inc, PULENAT WIND CRUISE SHIPPING Inc, GREEN4SEA SHIPPING 1 Inc, GREEN4SEA SHIPPING 2 Inc, GREEN4SEA SHIPPING 3 Inc, GREEN4SEA SHIPPING 4 Inc, DREAM ONE SHIPPING Inc, RIVER CRUISE SHIPPING, POLAR EXPEDITIONS B.V. Netherland, POLAR EXPEDITIONS Inc Marshall Islands, POLAR EXPLORER Inc, XB AHTS COMPANION SHIPPING Inc, XB AHTS GUARDIAN SHIPPING Inc, XB AHTS HERO SHIPPING Inc and XB AHTS SUPPORTER SHIPPING Inc. Through subsidiary Brodosplit – Holding d.o.o., Company has control over Brodosplit Italia.

NOTE 31 – RELATED PARTY TRANSACTIONS

	2016	2015
	(in thousands of HRK)	
Revenue from sale of goods and services		
Marine and Energy Solutions	232	4
P.T.C. Krka Knin	43,968	32,005
	44,200	**32,009**

	2016	2015
	(in thousands of HRK)	
Purchase of goods and services		
Marine and Energy Solutions	4,938	4,859
P.T.C. Krka Knin	54,226	38,018
Marine Consulting d.o.o.	159	-
	59,323	**42,877**

	2016	2015
	(in thousands of HRK)	
Purchase of fixed assets		
P.T.C. Krka Knin	-	19,544
	-	**19,544**

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Trade receivables		
Marine and Energy Solutions	281	301
Marine Consulting	2	58
Kamen dent	587	-
	870	**359**

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Loan receivables		
Marine Consulting d.o.o.	-	549
	-	**549**

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Trade payables		
Marine and Energy Solutions d.o.o.	1,073	891
P.T.C. Krka Knin	10,561	7,778
	11,634	**8,669**

NOTE 31 – RELATED PARTY TRANSACTIONS *(continued)*

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Loan payables		
To owners	23,947	38,519
	23,947	**38,519**

Key management remuneration

Key management of the Group consists of 47 members (2015: 49 members). During 2016, total of HRK 15,290 thousand of compensation was paid to the members of the Board (*2015: HRK 10,526 thousand*) on the basis of gross salary.

NOTE 32 – 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. and its subsidiaries 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 was 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. European Commission has to approve achieved sustainability, and in the case that sustainability is not achieved it can request the repayment of received subsidies.

Non-compliance 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 32 – CONTINGENT LIABILITIES AND ASSETS *(continued)*

Investment in Min Div Svrljig a.d. and Div betonski pragovi d.o.o.

In the period from 2006 to 2009, the Company has increased its ownership in a subsidiary Min Div a.d. 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 offered to minority shareholders. The stock market trade was at RSD 390 and there is still an order to sell at RSD 390, but there are no interested parties. If the purchase of shares would be held at a price of RSD 390, at 31 December 2016 the total purchase price would amount to HRK 3,159 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, DIV betonski pragovi d.o.o. received funds in the amount of EUR 1.8 million. The remaining amount of EUR 600 thousand DIV betonski pragovi d.o.o. has received upon employment of 300 workers and completed investments totalling EUR 11.9 million until 17 November 2016. Until 31 December 2016 the Company DIV betonski pragovi d.o.o. invested EUR 12.2 million and had 303 employees and until 24 May 2017 invested EUR 12.2 million and had 302 employees. Completion of the above mentioned conditions is subject to review of government authorities which can demand the return of the EUR 2,4 milion amount. If the Company does not comply with aforementioned obligations, it will have 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 abovementioned obligations within the legal deadline.

Court cases

As at 31 December 2016, 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 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 2016 amounting HRK 102,315 thousand will be activated during 2017. 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 shipping 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 2015: HRK 7,520 thousand),* based on and Law on Investment Incentives (Official gazete 111/12, 28/13) and Act on Investment Incentives (Official gazete 40/13).

Financial guarantees

As at 31 December 2016 the Group has issued financial guarantees in the amount of HRK 200,157 thousand *(31 December 2015: HRK 151,832 thousand)* and promissory notes of HRK 1,978,816 thousand *(31 December 2015: HRK 1,217,341 thousand).*

NOTE 33 – SUBSEQUENT EVENTS

On 3 April 2017, a long-term loan from a financial institution in the amount of EUR 37 million was approved for the affiliated company Polar expeditions Inc., to fund recently contracted construction of a ship. Construction of the ship will be carried out by a subsidiary, Brodograđevina industrija Split d.o.o., which, along with DIV d.o.o., is a co-debtor for the loan. In accordance with the approved conditions, the affiliated company is required to make a payment of at least HRK 9 million in favor of the subsidiary during 2017.

On 5 April 2017, an agreement was signed for a short-term loan in the amount of EUR 4.2 million. The loan was approved for the financing of working capital. The parent company Brodosplit d.d. and the ultimate parent DIV d.o.o. are co-debtors for the loan.

In accordance with a Management Board decision, the subsidiary Brodosplit-Holding d.o.o. shall be merged with the subsidiary Brodograđevna industrija Split d.o.o. during 2017. All rights and obligations of the merged company shall be transferred to the acquiring company on the date of the merger.