DIV GROUP Ltd and subsidiaries

ANNUAL FINANCIAL STATEMENT FOR THE GROUP

31 DECEMBER 2017

DIV GRUPA

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MANAGEMENT REPORT

1. INTRODUCTION

In 2017, DIV Group achieved a positive business result in all business segments. Business diversification is one of the largest forces of the DIV group (hereinafter referred to as "the Group") because it reduces dependence on a particular business branch, market and client. Namely, the segment of production and sales of fasteners has a base of more than 1,500 customers in Croatia, Europe, Africa and the USA. None of the clients participate in total revenue with a share of more than 10%. The segment associated with the renewal of the railway infrastructure represents a significant share in the Group's revenues, as over time, the role of the DIV group evolved from the production of fastening equipment to the production and trade of the wider railway range and also the contractor for significant projects. The production of specialized segments for end customers takes place in the locations of Samobor, Svrljig, Konjic and Valjevo, and positions the DIV Group as one of the few companies in the region that is able to perform complex operations of metal parts production and processing. Within the Brodosplit Group, the most important advances in the restructuring process have been made in finding market niches in which it is possible to maximize comparative advantages of location and human resources. This has resulted in the contracting of passenger ships and significant offshore construction projects, and the continuation of this trend is also visible in 2017 at the beginning of the construction of the New 484 and by contract engagement on the Čiovo Bridge project. As the most important business events in 2017 we can distinguish the continuation of the delivery and completion of the dam construction project for the Malamocco and Chioggia passages (the so-called Gate of Venice), which were issued by Brodosplit on the map of European large companies able to carry out such complex projects.

MANAGEMENT REPORT (continued)

2. ORGANISATION AND COMPANY MANAGEMENT IN 2017

Name of the Company: DIV GROUP Ltd
Legal form: Limited liability company
Founding state: Republic of Croatia
Company address: Bobovica 10a, 10430, Samobor
Branch: IV Gardijske brigade 44, 22300, Knin
Business activity: Production and trade of fasteners products

In 2017, the Company performed its business activities at the location of the company's address, branch office in Knin and in the business office in Zagreb, R. F. Mihanovića 9, Sky Office.

The Supervisory Board consists of two members:
Danijela Debeljak - Chairman of the Supervisory Board
Vjera Debeljak - Deputy Chairman of the Supervisory Board

In 2017, the company DIV GROUP Ltd 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'S ASSETS

As at 31 December 2017, the current assets amounted to HRK 1,260,478 thousand (in 2016: HRK 992,065 thousand), while tangible assets amounted to HRK 1,209,733 thousand (in 2016: HRK 1,129,342 thousand). As at 31 December 2017, the total assets of the Group amounted to HRK 2,470,211 thousand.

3.2. BUSINESS RESULTS FOR 2017

In 2017, the net income of Div Group amounted to HRK 103,876 thousand (in 2016: HRK 69,484 thousand), which points to the growth and stability of the group.

4. EXPOSURE AND RISK MANAGEMENT

The Group is exposed to various financial risks related to:

- PRICE RISK - prices of raw materials on the market;
- CAPITAL RISK - ratio of net debt and capital;
- CURRENCY RISK - currency movement or EUR and USD, as the Company has foreign contracts mostly denominated in EUR and USD;
- CREDIT RISK - the ability of debtors to pay their debts to the Company. They refer to unfulfilled contractual obligations 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;
- LIQUDITY RISK - refers to cash receipts that will not be enough to cover current cash outflows. The Group protects itself from liquidity risk by monitoring planned and realized cash flows and monitoring financial assets and financial liabilities.

Risk management is explained in detail in Notes to the Consolidated Financial Statements.

MANAGEMENT REPORT (continued)

5. HUMAN RESOURCES

At 31 December 2017, DIV Group had 3,104 employees. When hiring new employees, a rigorous selection process is carried out through tests and interviews. Special attention is dedicated to selecting young and qualified individuals or highly qualified staff with experience.

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

In the area of development and research, the strengthening of the cluster approach to the establishment of a development and research platform, as well as the implementation of development activities will continue.
Application on CEKOM for advanced mobility in 2017, aligned with the Center of Competence Comunity, the consortium between 4 entrepreneurs and 4 scientific organizations enrolled in the Register of Scientific Organizations that have effective co-operation on R&D projects. Pursuant to the Agreement on Effective Cooperation signed by the applicant and project partners, the applicant and the holder of CEKOM were designated DIV GROUP Ltd
The vision of the CEKOM for advanced mobility is to create a research platform made up of engineering, manufacturing and scientific resources in Croatia in the Transport and Mobility Sector in order to ensure stronger involvement of the domestic economy in the global market of innovative and high quality products and high technology in the field of transport and mobility.
In addition, CEKOM for advanced mobility is specialized in the research and development of systems, technologies and various components and materials that will have a direct impact on reducing production costs, saving energy and reducing emissions of pollutants in the traffic area.
The project includes a critical mass of businessmen and scientists who can contribute to significant scientific and technological advancements in the targeted thematic area of CEKOM.

In addition to the competence centres, DIV GROUP Ltd approved development and research project of elastic fastening buckle for rail system for joining slopes and rails. It is important to emphasize that the development activities are almost entirely based on the already existing competences of the Group, that development activities and commercialization activities continue to the existing business resources, organization and business processes of DIV GROUP Ltd and the companies and partner institutions with which cooperation has already been realized and that development activities will mostly be the continuation of already established cooperation, such as cooperation with our partner at the Faculty of Civil Engineering in Zagreb.

MANAGEMENT REPORT (continued)

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

It is important to note that DIV GROUP Ltd also approved the project **"Increasing energy efficiency in production suitable for Knin"**. The purpose of the project is to increase the efficiency of the energy used in the production process and to switch to renewable energy sources.

In addition to development research projects, DIV GROUP Ltd has developed a demonstration project for nature conservation by participating in the LIFE program, the EU's financial instrument for the environment and climate action. The general goal of the KRKA LIFE project is to reduce the impact of surface treatment and metal product protection by demonstrating an innovative water recycling system based on the combination of existing filtration and separation processes. Furthermore, the project seeks to achieve a reduction of wastewater discharges on average to 60%. In addition, it is planned to achieve the advancement of surface protection technology with a new generation of chemicals (based on polymers) that do not pose a hazard to the environment. Advantages of mechanical removal of lime (brushing or grinding) are placed above diarising with hydrochloric or sulphuric acid. The wastewater load and the amount of sludge produced should be significantly reduced in this case. In addition, consideration is given to the introduction of surface protection of polymers in the production process. The project will develop innovative water treatment and reuse solutions, which is particularly important because the project is being carried out in an area where there is currently no adequate control, treatment and sanitation system (Knin City), and will serve as an example of good practice and encourage the community to additional efforts are invested in smart technology with a focus on alternative water resources.

Center for Competence is fully in line with the Strategy of Smart Specialization of the Republic of Croatia 2016 - 2020, or its theme area Traffic and Mobility, i.e. under the theme area Ecologically Acceptable Traffic Solutions. Development projects under CEKOM, besides the mentioned TPP, also deal with researches identified in other thematic areas, in particular Energy and Sustainable Environment, Ecologically Acceptable Technologies, Equipment and Advanced Materials as well as KET development of mathematical modules.

MANAGEMENT REPORT (continued)

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

The project themes are the following:

- Development of composite structures for passenger ships, Optimization of vibro-acoustic properties of the ship,
- Advanced design of hydrodynamic and aerodynamic characteristics of passenger ships,
- Innovative propulsion solutions,
- Development of more efficient cooling systems,
- Development of LNG system for ships and LNG vessels for floating objects,
- Development of new construction and technological solutions for the backbone and bow part of the ship,
- An Innovative Approach to Ship Repairs by Extending Reality (AR),
- Development of marine engine monitoring system,
- Development of floating platforms.

The total value of projects carried by the DIV Group is at the level of HRK 173 million, of which the share of own funds of the Group amounts to HRK 65 million. The planned start of project implementation is the fourth quarter of 2018, and the planned duration of the project is 3 years.

The common goal of these research and development activities is to impose, to the world shipbuilding industry, new products and services in ship design and construction and related systems from the point of view of environmental impact and better resource utilization.

Apart from the mentioned projects reported to receive grants, employees are continually working on the development and upgrading of existing technologies and ways of working with the aim of achieving competitive advantage in the market.

MANAGEMENT REPORT (continued)

7. FUTURE BUSINESS DEVELOPMENT

In the following period, the plan of the DIV Group is to additionally strengthen its position on export markets by expanding its cooperation with existing clients, but also by actively creating new possibilities. The most significant step forward was signing a contract with IKEA, pursuant to which the supply volume will significantly increase in the following years. As far as railway infrastructure is concerned, we intend to increase our activities in Croatia and the region, through the sales of own products and execution of works.
In terms of shipbuilding, the Group will focus on developing and offering projects of different types of medium-sized passenger ships (approximately 100-250 m in length) - cruise ships, polar expedition ships, ships / ferries to transport passengers, cars / trucks, mega yachts etc. Other than passenger ships, the Group plans to intensify its approach to the global market (in particular, the Middle Eastern countries) with regard to the coastal patrol ship project.

In terms of markets which are not shipbuilding markets, future development focuses on more extensive infrastructure projects in Croatia and Europe, such as the Pelješac Bridge, Ploče LNG terminal, Krk LNG terminal, off-shore wind power plants along the coast of Scotland, the Netherlands and Belgium etc.

At the end of the 2017 business year, the work on project development intensified as well as talks with the buyer concerning the construction of a polar expedition ship of about 128 m in length and 200 passenger capacity, and the contract was signed at the end of March 2018. Negotiations with a few buyers concerning the construction of ships for polar expeditions and the construction of cruise ships and a luxurious yacht are currently in progress.

The Div Group will stay very active in the following period in terms of developing new projects under the competition "**Strengthening Capacities for Research, Development and Innovation**". The relevant projects DIV Group will participate in include investing in research, development and innovation, strengthening the research capacities of applicants (research organizations) and partners (business sector), and fostering / increasing the cooperation of research organizations with enterprises. Joint projects planned to be implemented in cooperation with 6 scientific research institutes (FEEMENA - Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, FMENA - Faculty of Mechanical Engineering and Naval Architecture in Zagreb, FCE - Faculty of Civil Engineering in Zagreb, FCET - Faculty of Chemical Engineering and Technology in Zagreb, Faculty of Maritime Studies in Split, Faculty of Metallurgy in Sisak) will be for the purpose of conducting collaborative research aimed at developing products / processes / services according to the definitions of industrial research.

Management Report (continued)

8. SUBSIDIARIES

Subsidiaries are detailed in the notes in the financial statements.

9. INFORMATION ON THE PURCHASE OF SHARES

The Company does not have its own shares, nor did it have any during 2017.

Tomislav Debeljak	Darko Pappo	Dalibor Marijanović
Chairman of the Management Board	*Member of the Management Board*	*Member of the Management Board*

DIV GRUPA d.o.o.
10430 SAMOBOR, Bobovica 10/A
Tel. 01 3377-000, Fax. 01 3376-155
OIB: 33890755814

Samobor, September 7, 2018

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT

Based on the applicable Croatian Accounting Act, the Management Board of DIV GROUP Ltd (hereinafter referred to as "the Group") is required to ensure that the consolidated financial statements for each financial year are prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union so as to provide a true and fair view of the financial position and results of the Company's operations for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to accept the going concern principle when preparing the consolidated financial statements.

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

- the selection and consistent application of the appropriate accounting policies,
- reasonable and prudent judgements and assessments,
- applying the applicable accounting standards,
- preparing financial statements on the going concern principle.

The Management Board is responsible for conducting the correct accounting records that will, at any time, reflect the financial position of the Group with acceptable accuracy as well as the compliance of the consolidated financial statements with the applicable Croatian Accounting Act. The Management Board is also responsible to safeguard the Group's assets and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed for and on behalf of the Management Board:

Tomislav Debeljak	Darko Pappo	Dalibor Marijanović
Chairman of the Management Board	*Member of the Management Board*	*Member of the Management Board*

Samobor, 7 September 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIV GROUP Ltd. and its subsidiaries

Report on the Audit of the consolidated financial statements

Audit opinion

We have audited the consolidated financial statements of DIV GROUP Ltd. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

Financial statements of the previous period.

Audit of consolidated financial statements of the Company for the year ended 31 December 2016 was conducted by another auditor who as at 23 August 2017 issued qualified opinion. The basis for expressing qualified opinion is the adjustment of initial balances as at 1 January 2016 due to the impairment of the claims for government grants.
Adjustment of initial balances to display the impairment of receivables in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" should be presented prospectively rather than as a restatement of initial balances.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

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

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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 21 and 24 of the Accounting Act.

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

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the consolidated financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

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

In preparing the consolidated financial statements, Management is responsible for assessing the Group'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 Group 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 auditor's 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 auditor's 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 financial statements, including the disclosures, and whether the 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.

Marina Tonžetić
Member of Board and certified auditor

Deloitte d.o.o.,

Zagreb, 7 September 2018

Radnička cesta 80,

10 000 Zagreb,

Republic of Croatia

CONSOLIDATED STATEMENT OF PROFIT OR LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2017

(in thousands of HRK)	Note	2017	2016
Sales income	5	1,020,319	923,449
Other operating income	6	35,796	91,582
Total operating income		**1,056,116**	**1,015,031**
Changes in inventories - work in progress and finished goods	19	113,144	94,109
Material costs	7	(576,114)	(558,123)
Staff costs	8	(343,208)	(326,442)
Depreciation cost	13, 14, 15	(53,610)	(49,365)
Other operating expenses	9	(70,513)	(88,124)
Total operating expenses		**(930,301)**	**(927,945)**
Operating income		**125,815**	**87,086**
Financial income	10	24,780	17,640
Financial costs	11	(54,788)	(46,819)
Net financial costs		**(30,007)**	**(29,179)**
Share in net income/(loss) of joint venture	17	161	(109)
Profit before taxation		**95,969**	**57,798**
Corporate income tax	12	7,907	11,686
Net profit		**103,876**	**69,484**
Other comprehensive income			
Changes in fair value of assets available for sale	16	37	7
Effect of changes in foreign exchange rates		3,702	(1,237)
Total comprehensive income		**107,615**	**68,254**
Profit/(loss) which belongs to:			
Company's owners		102,724	68,377
Non-dominant shares		1,152	1,107
		103,876	**69,484**
Total comprehensive profit which belongs to:			
Company's owners		106,463	67,147
Non-dominant shares		1,152	1,107
		107,615	**68,254**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(in thousands of HRK)	Note	31 December 2017	31 December 2016
ASSETS			
Non-current tangible assets			
Intangible assets	13	15,044	13,809
Property, plant and equipment	14	1,155,270	1,054,980
Investment property	15	4,306	4,472
Other investments	16	2,080	20,835
Investment in joint ventures	17	14,655	11,973
Non-current receivables	18	12,203	16,290
Deferred tax assets	12	6,176	6,983
Total non-current assets		**1,209,733**	**1,129,342**
Current assets			
Inventories	19	468,873	532,400
Trade and other receivables	20	767,636	408,574
Cash and cash equivalents	21	22,134	47,944
Prepaid costs for the future period		1,834	3,147
Total current assets		**1,260,477**	**992,065**
Total assets		**2,470,210**	**2,121,407**
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	22	245,737	245,737
Reserves	23	40,219	36,480
Retained profit		1,003,665	900,941
Non-dominant share		7,099	5,947
Total equity		**1,296,720**	**1,189,105**
Non-current liabilities			
Liabilities towards banks and other financial institutions	24	255,013	296,009
Provisions	25	17,099	23,986
Deferred tax liability	12	29,988	40,222
Total non-current liabilities		**302,100**	**360,217**
Current liabilities			
Liabilities towards banks and other financial institutions	24	356,161	162,683
Provisions	25	3,368	12,157
Trade and other payables	26	476,138	335,009
Deferred expenses and future income	27	35,723	62,236
Total current liabilities		**871,390**	**572,085**
Total liabilities		**1,173,490**	**932,302**
Total equity and liabilities		**2,470,210**	**2,121,407**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	Investment capital	Reserves	Retained profit	Total	Non-dominant share	Total equity
Balance 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 changes in foreign exchange rates	-	(1,237)	-	**(1,237)**	-	**(1,237)**
Profit/(loss) for the current year	-	-	68,377	**68,377**	1,107	**69,484**
Total comprehensive income/(loss)	**-**	**(1,230)**	**68,377**	**67,147**	**1,107**	**68,254**
Balance at 31 December 2016	**245,737**	**36,480**	**900,941**	**1,183,158**	**5,947**	**1,189,105**
Other comprehensive income	-	37	-	**37**	-	**37**
Effect of changes in foreign exchange rates	-	3,702	-	**3,702**	-	**3,702**
Annual income	-	-	102,724	**102,724**	1,152	**103,876**
Total comprehensive income/(loss)	-	3,739	102,724	**106,463**	1,152	**107,615**
Balance at 31 December 2017	**245,737**	**40,219**	**1,003,665**	**1,289,621**	**7,099**	**1,296,720**

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

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts in thousands of HRK)	Note	2017	2016
Profit before taxation		103,876	57,798
Adjusted by:			
Depreciation	13,14,15	53,609	49,365
Impairment of property, plant and equipment	14	12,954	438
Net gains from sales of property, plant and equipment		(145)	(84)
Share in loss of joint ventures	17	(161)	109
Financial income/(expenses) realised - net	10,11	35,129	25,918
Unrealised exchange differences		(5,121)	(8,707)
Changes in:			
- trade and other receivables		(354,764)	(42,335)
- inventories		(33,122)	(25,335)
- trade and other payables		25,708	(101,190)
- provisions	25	8,490	(18,021)
Cash flow from operating activities		**(153,547)**	**(62,044)**
Paid interest		(28,892)	(26,092)
Paid corporate income tax		(1,976)	(429)
Net cash flow from operating activities		**(184,415)**	**(88,565)**
Cash flow from investment activities			
Acquisition of property, plant and equipment	13, 14	(69,261)	(85,012)
Net gains from disposal of property, plant and equipment		1,619	823
Investments in joint ventures		(2,521)	(2,499)
Received loans and deposits		20,916	11,395
Interest received		1,035	142
Net cash flow from investment activities		**(48,212)**	**(75,151)**
Cash flow from financial activities			
Receipts from loans and borrowings		414,398	477,897
Repayments of loans and borrowings		(207,581)	(286,621)
Net cash flow from financial activities		**206,817**	**191,276**
Net increase/(decrease) in cash and cash equivalents		**(25,810)**	**27,560**
Cash and cash equivalents at the beginning of the year		47,944	20,384
Cash and cash equivalents at the end of the year	21	**22,134**	**47,944**

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

NOTE 1 - GENERAL INFORMATION

History and founding

DIV GROUP Ltd ("the Group") comprises the parent company DIV GROUP Ltd, DIV Brodogradnja Ltd, BRODOGRAĐEVNA INDUSTRIJA SPLIT plc, Split and 69 subsidiaries, MIN DIV Svrljig a.d., TVIK DIV Valjevo Ltd, DIV Betonski pragovi Ltd, DIV Sarajevo Ltd, Shangai Vida, China, DIV Cruises inc. USA and DIV Učilište Ltd.

The Company DIV GROUP Ltd is registered with the Commercial Court in Zagreb under the Registration number (MBS) 080127368, in accordance with the Companies Act. The core business activity of the Company is the production of production of fasteners, screws, chains and springs. In 2013, the subsidiary DIV Brodogradnja Ltd acquired 99.76% shares of the company Brodograđevna industrija Split plc, Split, and the Group's business activity was extended to shipbuilding. The Group is headquartered at Samobor, Bobovica, 10A, Croatia. The subscribed capital of the Group amounts to HRK 245,736,800.

The 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

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

Name	Surname	Function
Tomislav	Debeljak	Chairman of the Management Board
Darko	Pappo	Member of the Management Board
Dalibor	Marijanović	Member of the Management Board

NOTE 2 - BASIS OF PREPARATION

(i) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) which were adopted by the European Union.

(ii) Basis of measurement

These financial statements are prepared on a historical cost basis, except where otherwise disclosed.

(iii) Functional currency and reporting currency

These financial statements are presented in the Croatian kuna ("HRK"), which is the Group's 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 the Management Board'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. The Management Board concluded that the range of possible outcomes considered at arriving at this judgement does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

NOTE 2 - BASIS OF PREPARATION (*CONTINUED*)

(iv) Going concern (continued)

The Company started negotiations with commercial and development banks concerning the reprogramming of its due current financial debt. The Management Board expects to successfully close the negotiations with financial institutions and that the planned cash flow will suffice to settle liabilities towards financial institutions and suppliers.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Company 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 completely consolidated from the date on which the control was indeed transferred to the Group and are excluded from the consolidation from the date on which this control stops.

In consolidated financial statements, all transactions within the Group, as well as balances and unrealised gains and losses from transactions within the Group are eliminated. Where appropriate, the subsidiaries' accounting policies were amended in order to comply with the policies the Group applies.

(ii) Associates

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

(iii) Joint ventures

The Group's shares in a jointly controlled company are calculated by using the equity method, and are initially recognised at cost. The equity method requires the Group's share in profit and loss after acquisition be recognised in the profit and loss account, and the changes in other comprehensive income after acquisition be recognised in other comprehensive income. Total changes after acquisition are aligned with the investment carrying value.

3.2 Foreign currency transactions

Transactions and balances in foreign currencies

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 recognized in the income statement.

Non-monetary assets and liabilities that are valued at historical 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 currency transactions (*continued*)

Foreign currency transactions

Group members

Items included in the financial statements of each member of the Group are stated in currency of the primary economic surrounding where the Company operates (functional currency). The consolidated financial statements are presented in the Croatian kuna ("HRK"), which is the Group's functional currency.

Income and expenses and cash flows of foreign operations were translated into the functional currency of the Group using the exchange rate prevailing at the date of the transaction (average exchange rate for the month), and their assets and liabilities are translated using the exchange rate at the end of year. All exchange rate differences incurred from this translation are presented in a separate position in the principal.

3.3 Property, plant and equipment

Property, plant and equipment are reported in the statement of financial position at historical cost less the accumulated depreciation and impairment provisions, if necessary. The historical cost includes the cost directly related to asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset 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 large items of property, plant and equipment is capitalized, and the carrying amount of the 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
Plants and equipment	10-33 years

Depreciation is calculated for each asset until the asset is fully depreciated or its residual values if significant. The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset, 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. Residual values and useful lives of the operating assets are reviewed and adjusted if applicable at each reporting date.

In case the carrying amount of assets exceeds the estimated recoverable amount, the difference is written-off to the recoverable amount.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets

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

After the initial recognition, intangible assets are recorded at purchase value less the depreciation costs and contingent accumulated losses due to assets impairment. Internally generated intangible assets, excluding capitalized costs of development, are not capitalized and are recognized as an expense in profit and loss as incurred. Useful life of an intangible asset is assessed as a finite or an indefinite.

Intangible assets with a finite useful life is depreciated over the estimated useful life and is impaired if deemed necessary. Depreciation period and depreciation method of intangible assets with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of use of future economic benefits included in the assets are calculated by changing the depreciation period and method and sre treated as changes in accounting estimates.

Depreciation expense of an intangible assets with a finite useful life is recognized 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 flats that are held for long-term rental yields or appreciation. Investment property is treated 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 Company 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 Non-financial assets impairment

Assets that have an indefinite useful life and are not subject of depreciation (such as land or goodwill) are tested annually for impairment. Assets that are subject to 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 purposes 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 and 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 measured 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 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) Financial assets available for sale

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 that the securities are impaired. 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) Credits and receivables

Credits and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, except for assets which mature more than 12 months after the balance sheet date. Such assets are classified as non-current assets. Credits 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) Credits and receivables (continued)

Trade and credit receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less the 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 the 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 financial liabilities at fair value through profit or loss or other financial liabilities. The Group has no financial liabilities classified as fair value through profit or loss.

Other financial liabilities

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

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

The effective interest rate method represents a method used for calculating the depreciated cost of the financial liability and distributing the interest expenses throughout the relevant period. The effective interest rate is the rate pursuant to which the estimated future cash flows are discounted during the expected lifetime of the financial liability or, where applicable, during a shorter period.

End of financial liability recognition

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

3.9 Government grants

Government grants are recognized when there is reasonable assurance that the Group will comply with the terms 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 either the conditions attaching to them, and the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods required to match them with the related costs. 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 without future related costs shall be recognized in profit or loss for the period in which the receivable was created. Grants related to the depreciable assets are recognized in profit or loss over the periods and in the proportions in which the depreciation on those assets is recognized. In the statement of financial position, the government grant is recognized as a deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Leases

(a) Group as 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 capitalized at the commencement of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges to achieve a constant interest rate on the outstanding financial balance. The interest element of the financial costs is charged to the statement of comprehensive income over the lease period. Property, plant and equipment under finance leases are depreciated over the shorter of the useful life or the lease term.

Leases in which a significant portion of the 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) Group as 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 lower of cost and net realizable value. Cost is determined using the weighted average method and includes the costs incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Inventories of raw materials are recognized at cost using the weighted average method. The cost of work-in-process 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 the cost and the 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. If the outcome cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable.

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

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

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included in the "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, demand deposits and other highly liquid short-term instruments with maturity dates up to 3 months.

3.14 Subscribed capital

The subscribed capital is stated in HRK at nominal value.

3.15 Corporate income tax

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

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

The current tax represents the estimated tax liability calculated for the taxable amount of income for the year pursuant to tax rates valid on the reporting date and all corrections of the amount of the tax liability for previous periods.

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 in relation to investments in subsidiaries as far as they will likely not reverse in the foreseeable future. No temporary differences are recognized on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of the realization 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds of the transaction and the redemption value is recognized 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 qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, form part of the cost of that asset.

Revenues from investment of borrowings before their use are credited from borrowing costs eligible for capitalization.

Other borrowing costs are recognized as an expense.

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

3.18 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) Redundancy benefits

Redundancy 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 recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provisions due to the passage of time is recognised as interest expense. This increase is stated as an 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 shown 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 for all activities have been met, as described below.

(i) Sales of goods

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

(ii) Services

The Group generates revenue from the provision of services. Sales of services are recognized in the period in which the services are rendered according to the 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 deviations from contracted work, complaints and other incentives when it is probable that the contract will be profitable and the profits will be measurable. When the outcome of a construction contract can be estimated reliably, contract revenue and expenses related to the construction contract are recognised as revenue and expenses, based on the percentage of completion.

Percentage of completion is valued based on an overview of work done by the reporting date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred, which are likely to be recoverable. Expected loss from a construction contract is recognised in the profit or loss immediately.

(iv) Financial income

Financial income includes interest on invested funds, and changes in the fair value of financial assets and foreign exchange gains. Interest income is recognized on a time-share 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 Profit distribution

Profit distributions to the shareholders are recognised as a liability in the financial statements in the period in which the distributions are approved by the General Assembly.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Maritime domain and concessions

In accordance with the Resolution to change the "Resolution on concession of maritime domain" issued on 5 July 2007 and the Resolution issued on 2 August 2007, Brodograđevna industrija Split plc and its subsidiaries use land (580,589 m²) and sea (222,319 m²) under concession for the Companys' commercial use. The concession was given by the Republic of Croatia for a period of 32 years, starting as of 19 April 2000.

Issues regarding the maritime domain and concessions are regulated by Maritime Law, Law on Maritime Domain and Seaports, as well as the Croatian Government resolution on concession of maritime domain for the purpose of commercial exploitation of special purpose ports and the agreement between the concession grantor and the authorised concessioner regarding maritime concessions. There is a certain amount of uncertainty for Brodograđevna indrustrija Split Group regarding ownership and the treatment of maritime domain (the territory which boarders with the sea) which is currently owned by the Croatian government. Buildings located on the land represent maritime domain as well.

The general maritime domain concession agreement for the purpose of commercial exploitation of special purpose ports was concluded on 19 April 2000 (and subsequently updated on 2 August 2007 and 6 August 2007, Official Gazette No. 72/07 and 81/07) with the concession granter, the Croatian government, and contains the following elements:

Subject of the agreement

The concession grantor authorises the authorised concessioner the right to commercially use the maritime domain, the special purpose port, with a land surface in the amount of 563,549 m² and 222,319 m² of water surface, amounting to a total amount of 785,868 m² of maritime domain surfaces.

Right to use

The concession grants the right to commercially use the special purpose port - shipyard Split, located in the Splitsko-dalmatinska county along with adjacent buildings.

Concession service time

The concession is granted on a period of 32 years commencing on the agreement date. The general maritime domain concession agreement for the purpose of commercial exploitation of special purpose ports was concluded on 19 April 2000 (and subsequently updated on 2 August 2007 and 6 August 2007, Official Gazette No. 72/07 and 81/07) with the concession granter, the Croatian government, and contains the following elements:

Concession payment

The authorised concessioner must pay the concession grantor an annual fee which consist of two portions:

a) a fixed portion in the amount of HRK 0.50 per square meter of land used per annum;

b) a variable portion in the amount of 1% of the annual profits of the company, after tax.

The concession fee portions are paid as described below:

a) the fixed portion - in the first and last year the payments made are relative to the months the concession was used. For all other years, it is payable no later than 1 April for the current year;

b) the variable portion must be paid by 30 April for the previous year.

If the authorised concessioner forfeits the concession before the service time expires a fee in the amount of three years' worth of the fixed portion of the fee must be paid out to the concession granter.

Concession un-transferability

The authorised concessioner cannot transfer the concession rights, or part of said rights, to a third legal or physical entity without prior approval from the concession granter.

The concession for the use of maritime domain is calculated based on the conditions stated in the concluded agreements, beginning with the year 2000, and is charged to the operating expenses of the reporting periods.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Maritime domain and concessions (continued)

Changes to the maritime domain concession agreement

On 11 February 2011, Company and the concession granter, the Croatian Government, signed the Annex 1 of the Maritime concession agreement for the commercial use of the special purpose port – shipyard Split, by which the following changes were made:

Concession payment

The authorised concessioner must pay the concession grantor an annual fee which consist of two portions:

a) a fixed portion in the amount of HRK 3 per square meter of land used per annum;

b) a variable portion in the amount of 1% of the annual profits.

The concession fee portions are paid as described below:

a) The fixed portion of the fee for the current year is paid no later than 45 days of signing the Annex of the Concession agreement. The fixed portion for subsequent years is paid in advance, no later than 15 April for the current year;

b) The variable portion of the fee is paid for previous periods and in two instalments: no later than 30 September for the first half of the current year, till 30 April for the second half of the previous year.

The Decree on Amendments to the Regulation on the Procedure of Granting a Concession on a Naval Land (Official Gazette No. 10/17) of 10 February 2017 defines the calculation of a variable part of the fee in the amount of 1% of the annual income, with the revenue being considered as the portion of the revenue that covers the positions of the Concessionaire's Profit and Loss Account as follows: staff costs, amortization and profit for the period. If the operating result of the period is a loss, the basis for calculating the concession fee is calculated only by adding staff costs and amortization positions. The change in the concession calculation is applied from 11 February 2017.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

First application of existing standards in force for the current reporting period

The following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union are effective for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows"** - "Disclosure Initiative", adopted by the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - "Recognition of Deferred Tax Assets for Unrealised Losses", adopted by the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

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

- **IFRS 9 "Financial instruments"**, adopted in the European Union on 22 November 2016 effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - "Applying IFRS 9 Financial Instruments with IFRS 4 'Insurance Contracts'", adopted in the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures (continued)

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

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which have still not been adopted by the EU (the effective dates stated below refer to IFRSs in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** - "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and clarify wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards and interpretations "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily with a view to remove inconsistencies and clarify wording (effective for annual periods beginning on or after 1 January 2019),
- Interpretation of **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- Interpretation of **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019),

The Group anticipates that the adoption of new accounting standards (as specified in the financial statements), except IFRS 15 and IFRSs16 and amendments to existing standards, will not materially affect their financial statements for the period of their first application. Adoption of IFRS 15 and IFRS 16 will have some impact on the financial statements during the period of their first application, but the Group has not yet assessed the financial statements at the date of these financial statements.

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

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) Income recognition – percentage of completion method

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 and receivables 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 and receivables before establishing the impairment of certain loans and receivables 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.

(d) Useful life of tangible assets

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

(e) Recoverable amount of trade and other receivables

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

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Impairment of inventories

Inventories are estimated at each reporting date and are impaired based on estimated sales and aging structure. The calculation of impairment 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 aging 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 a legal counsel.

(h) Repairs in the guarantee period

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

(i) Onerous contracts

The Group recognizes the 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 utilized in the future, Management of the Company makes judgements and estimates based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances. Deferred tax assets represent the taxable profit and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved.

NOTE 5 – SALES

	2017	2016
	(in thousands of HRK)	
Sale of goods	410,165	393,093
Non-shipbuilding industry	192,725	272,393
Shipbuilding	376,688	237,044
Construction services	40,741	20,919
	1,020,319	**923,449**

Revenue from shipbuilding and revenue from off shore and steel construction are calculated in accordance with IAS 11 - Construction contracts, where percentage of completion is calculated using cost model, i.e. according to the ratio of realized costs in the observed period and total planned costs for the related new construction.

NOTE 6 - OTHER OPERATING INCOME

	2017	2016
	(in thousands of HRK)	
Reversal of provisions	18,081	22,640
Subsidies and government grants	685	3,628
Other operating income	17,031	65,314
	35,797	**91,582**

Other operating income mostly refers to liabilities write-off, collected written-off receivables, income from arbitration et sim.

NOTE 7 - MATERIAL EXPENSES

	2017	2016
	(in thousands of HRK)	
Raw materials	378,193	429,787
Fuel and energy	25,465	27,323
Small inventory and spare parts	6,860	6,032
Raw materials and supplies	**410,518**	**463,142**
Goods sold	**58,207**	**5,964**
Transport services	13,044	9,648
Intellectual services	11,342	27,991
Treatment preparation and processing	7,641	8,910
Utilities costs	2,024	1,780
Cost of postage, telephone, internet et sim.	759	766
Other external costs	72,579	39,922
Other costs	**107,389**	**89,017**
Total material expenses	**576,114**	**558,123**

Other external costs relate mainly to the costs of the co-operation whose increase resulted in increased business activity of the Group during 2017 compared to 2016.

NOTE 8 - STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Net wages and salaries	195,067	185,292
Taxes and contributions from salaries	62,906	63,252
Contributions on salaries	50,552	42,822
Other staff costs	34,683	35,076
	343,208	**326,442**

At 31 December 2017 the number of employees in the Group was 3,104 (*2016: 3,167*).

NOTE 9 - OTHER OPERATING EXPENSES

	2017	2016
	(in thousands of HRK)	
Banking charges	6,248	7,179
Concession	6,837	6,964
Provisions	3,227	1,605
Value adjustment of assets	12,954	34,205
Other costs	41,247	38,171
	70,513	**88,124**

Other costs mostly refer to donation and sponsorship, insurance, uncollected receivables, promotion, licences, court fees, losses due to termination of contract and similar.

NOTE 10 - FINANCIAL INCOME

	2017	2016
	(in thousands of HRK)	
Positive exchange differences	23,745	8,954
Interest income	241	3,348
Other financial income	794	113
Income from unwinding of discount	-	5,225
	24,780	**17,640**

NOTE 11 - FINANCIAL EXPENSES

	2017	2016
	(in thousands of HRK)	
Interest cost	34,607	34,095
Negative exchange differences	18,624	12,215
Other financial expenses	1,557	509
	54,788	**46,819**

NOTE 12 – CORPORATE INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current tax	1,511	1,650
Deferred tax	(9,418)	(13,336)
	(7,907)	**(11,686)**

	2017	2016
	(in thousands of HRK)	
Profit before taxation	**95,969**	**57,798**
Corporate income tax at a rate of 18%	17,274	11,560
Effect of subsidiaries' different tax rates	502	(334)
Non-deductible tax expenses	386	580
Non-taxable income and tax incentives	(11,255)	(2,631)
Effect of tax rate change from 20% to 18%	-	(4,514)
Temporary differences not recognized as deferred tax assets	3,365	5,906
Tax loss for which deferred tax assets were not recognized	33	1,811
Previously unrecognised used tax losses	(18,212)	(24,064)
Tax income recognised in the statement of comprehensive income	**(7,907)**	**(11,686)**
Effective tax rate	**-8%**	**-20%**

NOTE 12 – CORPORATE INCOME TAX (CONTINUED)

Tax incentives and temporary differences not recognized as deferred tax assets

The Group uses tax incentives in accordance with the Investment Promotion Act and has the status of an incentive promoter based on the investment in a new factory in Knin.

From the total amount of incentives received in the form of investment tax in the amount of HRK 151,100 thousand, DIV GROUP Ltd used a total of HRK 87,316 thousand by 31 December 2017, of which HRK 68,609 thousand relates to the impairment of income tax liabilities. In the period from 1 January 2017 to 31 December 2019, DIV GROUP Ltd may use this subsidy up to a maximum of HRK 63,784 thousand. Due to historical uncertainty concerning taxable profit and height of future taxable profit, the Group did not recognize deferred tax assets related to tax incentives and temporary differences.

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 liabilities and penalties.

The effect of different rates in the Group's countries refer to the investment in the subsidiary DIV Sarajevo, Bosnia and Herzegovina, with a tax rate of 10%, subsidiaries Min Div Svrljig a.d., TVIK DIV Valjevo Ltd and DIV Betonski pragovi Ltd, Serbia, with a tax rate of 15%, and to the subsidiary Shangai Vida, China, with a tax rate of 25%.

	1 January 2017	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2017
		(in thousands of HRK)		
Intangible assets	86	-	-	**86**
Property, plant and equipment	6,670	-	(589)	**6,081**
Inventories	227	-	(227)	**-**
Deferred tax assets	**6,983**	**-**	**(816)**	**6,167**
Property, plant and equipment	40,222	-	(10,234)	**29,988**
Deferred tax liability	**40,222**	**-**	**(10,234)**	**29,988**

NOTE 13 - INTANGIBLE ASSETS

(in thousands of HRK)

	Software	Assets under construction	Total
Purchase cost			
As at 1/1/2016	**1,955**	**-**	**1,955**
Purchases	147	209	356
Impairment	(1)	-	(1)
Transfer from tangible assets	-	12,750	12,750
Exchange rate differences	(39)	-	(39)
As at 31/12/2016	**2,062**	**12,959**	**15,021**
As at 1/1/2017	**2,062**	**12,959**	**15,021**
Beginning balance correction	425	-	**425**
Reclassification	(85)	85	**-**
Purchases	15	1,447	**1,462**
Transfer	9,108	(9,108)	**-**
Sales and expenses	-	(48)	**(48)**
Exchange rate differences	(8)	-	**(8)**
As at 31/12/2017	**11,517**	**5,335**	**16,852**
Accumulated depreciation			
As at 1/1/2016	**634**	**-**	**634**
Annual cost	601	-	601
Exchange rate differences	(23)	-	(23)
As at 31/12/2016	**1,212**	**-**	**1,212**
As at 1/1/2017	**1,212**	**-**	**1,212**
Annual cost	601	-	**601**
Exchange rate differences	(6)	-	**(6)**
As at 31/12/2017	**1,807**	**-**	**1,807**
Net carrying amount			
As at 1/1/2017	**850**	**12,959**	**13,809**
As at 31/12/2017	**9,710**	**5,335**	**15,045**

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Leasehold property	Tools, furniture and vehicles	Plants and equipment	Ships	Assets under construction	Total
Purchase cost								
As at 1/1/2016	**11,590**	**239,791**	**107,668**	**230,660**	**408,234**	**-**	**249,604**	**1,247,547**
Purchases	10	-	-	1,913	852	-	81,609	**84,384**
Transfer	-	70,684	5,384	9,334	3,013	108,148	(196,563)	**-**
Transfer to intangible assets	-	-	-	-	-	-	(12,750)	**(12,750)**
Impairment	(2)	-	(3)	(348)	(84)	-	-	**(437)**
Sales and expenses	-	-	-	(40)	(3,919)	-	(338)	**(4,297)**
Exchange rate differences	(269)	(1,196)	-	(94)	(2,053)	-	(202)	**(3,814)**
As at 31/12/2016	**11,329**	**309,279**	**113,049**	**241,425**	**406,043**	**108,148**	**121,360**	**1,310,633**
Accumulated depreciation								
As at 1/1/2016	**-**	**48,598**	**5,523**	**44,952**	**113,242**	**-**	**-**	**212,315**
Annual cost	-	5,355	1,256	21,882	17,772	1,869	-	**48,134**
Sales and expenses	-	-	-	(9)	(3,550)	-	-	**(3,559)**
Exchange rate differences	-	(634)	-	(65)	(538)	-	-	**(1,237)**
As at 31/12/2016	**-**	**53,319**	**6,779**	**66,760**	**126,926**	**1,869**	**-**	**255,653**
Net carrying amount								
As at 31/12/2016	**11,329**	**255,960**	**106,270**	**174,665**	**279,117**	**106,279**	**121,360**	**1,054,980**

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(in thousands of HRK)	Land	Buildings	Leasehold property	Tools, furniture and vehicles	Plants and equipment	Ships	Assets under construction	Total
Purchase cost								
As at 1/1/2017	**11,329**	**309,279**	**113,049**	**241,425**	**406,043**	**108,148**	**121,360**	**1,310,633**
Purchases	228	-	-	10,029	2,596	-	54,522	**67,375**
Transfer	-	2,631	928	3,966	2,467	(11,441)	1,449	**-**
Transfer from inventory	-	-	-	-	-	-	96,649	**96,649**
Sales and expenses	-	(92)	-	(2,367)	(2,668)	-	-	**(5,127)**
Exchange rate differences	332	1,461	-	2,991	140	-	196	**5,120**
As at 31/12/2017	**11,889**	**313,279**	**113,977**	**256,044**	**408,578**	**96,707**	**274,176**	**1,474,650**
Accumulated depreciation and value adjustment								
As at 1/1/2017	**-**	**53,319**	**6,779**	**66,760**	**126,926**	**1,869**	**-**	**255,653**
Annual cost	-	6,666	6,254	26,925	8,101	4,896	-	**52,842**
Sales and expenses	-	-	-	(2,006)	(1,696)	-	-	**(3,702)**
Value adjustment	6,582	5,733	-	619	20	-	-	**12,954**
Exchange rate differences	-	817	-	743	73	-	-	**1,633**
As at 31/12/2017	**6,582**	**66,535**	**13,033**	**93,041**	**133,424**	**6,765**	**-**	**319,380**
Net carrying amount								
As at 31/12/2017	**5,307**	**246,744**	**100,944**	**163,003**	**275,154**	**89,942**	**274,176**	**1,155,270**

Land, buildings and equipment of the Group with a carrying amount of HRK 485,696 thousand (31st December 2016: HRK 459,826 thousand) are secured against bank loans received by the Group

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

The carrying amount of the equipment in financial lease, in case of which the Group is the lessee, is as follows:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Cost of equipment under financial lease	9,396	3,783
Accumulated depreciation	(921)	(615)
Net carrying amount	**8,475**	**3,168**

NOTE 15 - INVESTMENT PROPERTY

(in thousands of HRK)	**Investment property**
Purchase cost	
As at 1/1/2016	**5,463**
Purchases	-
As at 31/12/2016	**5,463**
As at 1/1/2017	**5,463**
Purchases	-
As at 31/12/2017	**5,463**
Accumulated depreciation	
As at 1/1/2016	**361**
Annual cost	630
As at 31/12/2016	**991**
As at 1/1/2017	**991**
Annual cost	166
As at 31/12/2017	**1,157**
Net carrying amount	
As at 1/1/2017	**4,472**
As at 31/12/2017	**4,306**

At 31 December 2017, the fair value of investment property amounted to HRK 4,472 thousand.

NOTE 16 – OTHER INVESTMENTS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Financial assets available for sale	380	343
Deposits given	1,659	20,188
Other investments	41	304
	2,080	**20,835**

Movement of available-for-sale financial assets:

	Financial assets available for sale
(in thousands of HRK)	
1 January 2017	343
Fair value change	44
Value adjustment	(7)
31 December 2017	**380**

Adjustment of fair value of available-for-sale financial assets in the amount of HRK 7 thousand is recognised in the other comprehensive income.

NOTE 17 - INVESTMENT IN JOINT VENTURES

	2017	2016
	(in thousands of HRK)	
Opening balance	11,973	9,583
Additional investments	2,521	2,499
Share in profit/(loss)	161	(109)
Closing balance	**14,655**	**11,973**

The financial information concerning the investment in joint ventures can be summarised as follows:

(in thousands of HRK)	1 January 2017	Investment	Share in (loss)/profit	31 December 2017
Kamen-Dent Ltd	11,960	2,521	(97)	14,384
Marine and Energy Solutions DIV Ltd	13	-	258	271
	11,973	**2,521**	**161**	**14,655**

Overview of financial data of associates – 100%

(in thousands of HRK)	Property	Liabilites	Income	Net profit/(loss)
Kamen-dent Ltd	16,707	(634)	5	(194)
Marine and Energy Solutions DIV Ltd	1,308	(1,175)	5,873	516
	18,015	**(1,809)**	**5,878**	**322**

NOTE 18 – LONG-TERM RECEIVABLES

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Long-term loans receivables from employees	7,648	9,772
Other long-term receivables	4,555	6,518
	12,203	**16,290**

NOTE 19 – INVENTORIES

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Raw materials and supplies	175,014	173,755
Merchandise	122,426	95,581
Finished products	102,484	99,703
Current production	29,477	131,407
Advances for inventories	39,473	31,954
	468,873	**532,400**

At 31 December 2017, inventories in the amount of HRK 191,705 thousand (31st December 2016: HRK 116,850 thousand) were secured against the loans of the Group.

NOTE 20 - TRADE AND OTHER RECEIVABLES

		31 December 2017	31 December 2016
		(in thousands of HRK)	
Trade receivables		104,567	99,916
Value adjustment of trade receivables		(23,411)	(23,207)
Trade receivables - net		**81,156**	76,709
Receivables for given advances		202,979	-
Undue income payments	(i)	426,086	191,992
Receivables for government grants and subsidies		27,849	96,520
Receivables - cession and assignation		9,919	8,202
Loans receivables from employees		2,671	2,318
Given loans, deposits and similar		1,028	655
Given loans to related parties		-	1
Other receivables		15,948	32,177
		767,636	**408,574**

(i) The undue income payments entail the amount of HRK 426,086 thousand, which refers to trade receivables for construction contracts (note "Construction contracts").

Movements in impairment of trade receivables were as follows:

(in thousands of HRK)	2017	2016
Balance at 1 January	**23,207**	**16,583**
Increase	1,064	9,961
Write off	(860)	(3,337)
Balance at 31 December 2017	**23,411**	**23,207**

Impairment losses on customer receivables are disclosed in the item Value adjustment of current assets.

NOTE 21 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Cash at banks	21,573	47,184
Cash in hand	561	760
	22,134	**47,944**

Cash at banks includes cash in the amount of HRK 4,902 thousand (31st December 2016: HRK 2,269 thousand) that Group cannot use because these funds are moved to special bank account due to legal cases.

NOTE 22 - SHARE CAPITAL

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Share capital	245,737	245,737
Reserves	40,219	36,480
Retained profit	900,941	832,564
Annual result	102,724	68,377
Non-dominant share	7,099	5,947
	1,296,720	**1,189,105**

NOTE 23 – PROVISIONS AND NON-DOMINANT SHARES

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Legal reserves	26,808	26,808
Reserves from foreign currency translation	(423)	(4,125)
Other reserves	13,834	13,797
	40,219	**36,480**

Legal reserves

In line with Croatian laws, the legal reserve must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. In 2015, based on the decision of the Company's General Assembly, HRK 1,500 thousand were transferred to the legal reserves from the retained profit of the subsidiary. Legal reserves are not distributable.

Other reserves

Other reserves in the amount of HRK 11,989 thousand were built by distributing certain subsidiaries' income from the previous period by using a tax incentive based on profit reinvestment from the previous year, in line with the Assembly's decision. The remaining reserves refer to capital reserves of the subsidiary and the fair value reserve.

Non-dominant share

Name	Seat	Non-controlling interest (%)	Non-controlling interest
MIN DIV Svrljig a.d.	Serbia	13,55%	3,541
Brodograđevna industrija Split Plc	Croatia	0,24%	3,558
			7,099

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Non-current liabilities towards banks and other financial institutions		
Long-term bank loans	271,833	343,700
Current maturity of bank loans	(20,866)	(48,920)
Financial lease	5,733	2,400
Current term of financial lease	(1,687)	(1,171)
	255,013	**296,009**
Current liabilities towards banks and other financial institutions		
Short-term loans with banks	328,038	105,050
Current maturity of long-term loans	20,866	48,920
Short-term liabilities under financial leases	1,687	1,171
Factoring liabilities	5,570	7,542
Total short-term liabilities towards banks and other financial institutions	**356,161**	**162,683**
Total liabilities towards banks and other financial institutions	**611,174**	**458,692**

Maturity of borrowings is as follows:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Maturity up to 1 year	348,904	153,970
Maturity from 1-2 years	166,721	172,792
Maturity from 2-5 years	69,219	87,002
Maturity over 5 years	15,027	34,986
	599,871	**448,750**

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Maturity of financial lease liabilities is as follows:

	2017		
	(in thousands of HRK)		
	Equity	Interest	Total
Up to 1 year	1,687	258	1,945
1 to 2 years	1,740	168	1,908
2 to 5 years	2,306	103	2,409
	5,733	**529**	**6,262**

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

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

	31 December 2017	31 December 2016
	(in thousands of HRK)	
HRK	20,000	28,000
EUR	579,871	420,747
	599,871	**448,747**

As at 31 December 2017, the Group has a short-term facility with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 26,298 thousand (*in 2016: HRK 15,116 thousand*) of which, at 31 December 2017, HRK 10,091 thousand were unused (in 2015: HRK 9,876 thousand).

Loans from banks

Bank loans in the amount of HRK 236,559 thousand carry a variable interest rate (*in 2016: HRK 217,295 thousand*). Variable interest rates on bank loans ranged from 5% to 7.5% on an annual basis (in 2016: from 4% to 7.5%).

Bank loans in the amount of HRK 363,353 thousand carry a fixed interest rate (*in 2016: HRK 231,452 thousand*). Fixed interest rates on bank loans range from 2% to 5.5% on an annual basis (*in 2016: 2% to 4%*), of which HRK 42,541 thousand (in 2016.: HRK 52,299 thousand) is returned at an annual rate of 2%.

Liabilities toward factoring

If a supplier wants payment before the due date specified for the payment currency (construction sector) or immediately after the service (carriers), contract with creditor factoring is utilized. It is often a classic discount on a bills of exchange that is billed at a certain date when the Group reserves the funds on the giro account specified on the bills of exchange and bills of exchange are then billed. All costs are generally borne by the supplier except in cases where factoring contracts for already due obligations.

Average costs amount to 3M EURIBOR + 6.5%, and fees ranged from 0.2-0.4% of contract value.

Financial leases

Financial leases mostly refer to vehicle leases.

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Securities

All banks have secured their loans with disclosed pledge over Group´s lands and buildings, as disclosed in Note 14 and over inventories of finished products as explained in Note 19.

NOTE 25 – PROVISIONS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Long-term provisions		
Legal disputes	15,030	22,498
Other provisions	2,069	1,488
	17,099	**23,986**
Short-term provisions		
Repairs in the guarantee period	318	8,521
Redundancy benefits	3,050	3,636
	3,368	**12,157**
Total provisions	**20,467**	**36,143**

Movements in provisions during 2017 are shown in the table below:

	Balance at 1 January 2017	Recognised in profit or loss	Used	Balance at 1 December 2017
	(in thousands of HRK)			
Legal disputes	22,498	5,631	(13,099)	15,030
Redundancy benefits	3,636	540	(1,126)	3,050
Repairs in the guarantee period	8,521	250	(8,453)	318
Other provisions	1,488	2,069	(1,488)	2,069
	36,143	**8,490**	**(24,166)**	**20,467**

NOTE 26 - TRADE AND OTHER LIABILITIES

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Trade payables	193,356	173,541
Other liabilities	282,782	161,468
	476,138	**335,009**

NOTE 26 - TRADE AND OTHER LIABILITIES (CONTINUED)

Other liabilities:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Liabilities for prepayments	176,422	38,271
Taxes, contributions and similar duties payable	40,210	32,623
Liabilities towards employees	18,617	17,846
Concession fee liabilities	13,145	23,457
Loan liabilities towards owners	12,503	23,947
Other current term liabilities	21,885	25,324
	282,782	**161,468**

Maturity of loan liabilities from owner´s borrowings is as follows:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Maturity up to 1 year	-	23,947
Maturity from 1-2 years	12,503	-
	12,503	**23,947**

NOTE 27 – DEFERRED EXPENSES AND FUTURE INCOME

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Accrued expenses	33,430	27,739
Prepaid income	1,491	26,453
Accrued penalty interests	800	524
Future income	-	7,520
	35,721	**62,236**

NOTE 28 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	**2017**	**2016**
Contract costs incurred up to reporting date	732,349	654,522
Recognised (losses)/gains up to the reporting date	80,126	82,813
Less: invoicing in progress and advances received	(531,345)	(577,633)
Receivables from /(payables to) the customers for the contracted work	**281,129**	**159,702**
Reclassified to deffered revenue	426,086	191,992
Reclassified to advances received from suppliers and accrued revenue	(144,957)	(32,290)

NOTE 29 - RISK MANAGEMENT

The Group's operations are exposed to the following risks:

Capital risk management

The Group manages its capital by ensuring the continuity of its business with maximising the return on investment for its shareholders though optimising debt and capital.

The capital structure of the Group consists of debt which includes loans and borrowings received from financial institutions, cash and cash equivalents and equity which includes share capital and losses carried forward.

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

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Debt (long-term and short-term credits)	599,871	448,750
Cash and cash equivalents	(22,134)	(47,944)
Net debt	**577,737**	**400,806**
Equity	1,296,720	1,189,105
Debt to equity ratio	45%	34%

Debt is defined as long-term and short-term credit liabilities received from financial institutions. The principal includes all capital and all reserves.

The Group is exposed to the international market and is largely financed through loans denominated in EUR. As a result, the Group is subject to the influence of changes in market prices and the effect of exchange rate differences and interest rate changes. The Group achieves a significant amount of its revenue through the export of goods overseas, so foreign currency inflows are used as a natural hedge that covers foreign currency outflows for repurchase and repayment of denominated foreign currency loans. Furthermore, the average time from the order date to the delivery of the goods is 10 days, so there is no significant risk of changes in the cost of production compared to the selling price. On average, the Group performs 100 deliveries per day that are dispersed to customers in all branches of industry so that market risk is minimal. Regarding changes in raw material prices, the market responds promptly to changes in raw material prices, and because of consistent and constant customer acceptance, this risk is minimized. Strategic suppliers of reproduction materials have achieved commercial conditions that allow the Group to defer payment up to 180 days. Given that the price of raw material is seasonal, low-priced periods are used to optimize procurement costs.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management

The Group is predominantly exposed to the international market. Therefore, the Company is affected by price changes on the world market of the main raw materials, which are dependent on exchange rate fluctuations. In accordance with the aforementioned, the Company is substantially exposed to exchange rate changes.

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

The categories of financial instruments valued at cost are as follows:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Financial assets at amortized cost		
Trade receivables and other receivables	768,921	412,118
Given loans	10,918	12,746
Cash and cash equivalents	22,134	47,944
	801,973	**472,808**
Financial assets at depreciated cost		
Trade payables and other liabilities	468,954	335,009
Financial lease	5,733	2,400
Factoring liabilities	5,570	7,542
Borrowing	599,871	448,750
	1,080,128	**793,701**

Credit risk

Credit risk refers to the risk of a contracting party not paying the commitment and thus causing a financial loss to the Group. The Group has adopted the policy in which it conducts business exclusively with creditworthy contracting parties, ensuring collateral as a means to minimize the risk of financial loss due to the unfulfillment of contract agreements. The Group's exposure and credit position of contracting parties is constantly monitored and the total amount of completed transactions is distributed between approved contracting parties.

Contracting the construction of a ship with customers of unknown or with lack of creditworthiness, estimated by the Company, will be secured with so-called Payment guarantees from first class banks. The Group's policy is that significant advance payments are made to suppliers only after the issue of advance payments guarantees.

Trade receivables are accounted by a small number of buyers who are located in different geographical locations. The continuous valuation of receivables is carried out based on the financial position of the buyer and, when necessary, receivables guarantee is acquired or another financial instrument which ensures payment.

The credit risk of liquidity assets and derivative financial instruments is limited due to the fact that the contracting parties are represented by banks with high credit ratings defined by international credit risk determining agencies.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Interest risk

Most of the borrowings for which interests are calculated are contracted at fixed and variable interest rates. The risk is managed by maintaining a suitable combination between fixed and variable interest rates on borrowings. The Group is currently not protected against such risks.

Currency risk

Due to the currency structure of assets and their sources as well as the currency structure of future economic flows, the Group is exposed to a substantial risk of exchange rate fluctuations. In order to reduce this risk, the Group is attempting to establish a balance between currency inflows and outflows, and contract the sales prices of new-builds and junction elements in a currency basket (USD and EUR). In particular, since the predominant part of the exchange rate cost is reported in EUR, this decreases the conversion costs and negative exchange rate differences caused by changes in exchange rates when settling liabilities. The Group continuously follows the exchange rates and the currency structure of any planed outflows and arranges the currency credit funds accordingly.

The Group is exposed to a currency risk by contract prices for raw materials agreed in foreign currencies. The currencies most exposed to this risk are EUR and USD. The Group achieves more than 50% of its revenue through the export of goods overseas, so foreign currency inflows are used as a natural hedge that completely covers foreign currency outflows for repurchase and repayment of denominated foreign currency loans. The Group currently does not use financial instruments (forward transactions, FX options, currency swaps etc.) which are available today on both the domestic and foreign financial markets. The cost of such financial instruments would be included in the total costs of the ship. The Group plans to introduce more active policies of eliminating currency risks of high quality, by using the aforementioned financial instruments.

The following table shows the Group's carrying amounts of monetary assets and liabilities in foreign currency on the reporting date.

	Liabilites		Assets	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	784,835	510,154	155,443	91,263
USD	29,814	33,136	18,084	5,527
	814,650	**543,290**	**173,527**	**96,790**

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

The following table analyses the Group's sensitivity to increasing the exchange rate of the EUR by 1% against the EUR and 1% against the USD as an estimate of the realistic possible increase in the exchange rates of the above-mentioned currencies. The sensitivity analysis includes only outstanding foreign currency denominated items and their conversion at the end of the period based on the percentage change in exchange rates. Sensitivity analysis includes monetary assets and liabilities in the currency. The negative figure shows a decrease in profit if the HRK has changed in relation to the relevant currency for the above percentages. In the case of a reverse proportional change in the value of the HRK relative to the relevant currency, the impact on profit would be the same and the opposite.

	Impact of EUR	
	2017	**2016**
	(in thousands of HRK)	
Increase/(decrease) of net results	(6,294)	(4,189)

	Impact of USD	
	2017	**2016**
	(in thousands of HRK)	
Increase/(decrease) of net results	(117)	(2,761)

The Group does not use currency risk hedging instruments.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Market risk

The Group is exposed to a substantial rise in the prices of ferrous metallurgy as well as the prices of other raw materials. The Group has, for the most part, neutralized this risk by arranging a, so called, "safeguard clause for the ferrous metallurgy" which states that the income per ship delivered is increased by the amount of expenses incurred due to the rise of ferrous metallurgy between the delivery and the time the ship was ordered.

Liquidity risk

The Group manages liquidity risk by maintaining appropriate reserves, bank and borrowed funds reserves as well as continuous monitoring of the expected and actual cash flows and comparing the maturity dates of financial assets and liabilities.

The time mismatch of financial inflows and outflows is bridged by using credit funds and "borrowing" funds from other projects in order to minimize financial expenses related to the construction of individual projects.

Regarding changes in raw material prices, the market responds promptly to changes in raw material prices, and because of consistent and constant customer acceptance, this risk is minimized. Strategic suppliers of reproduction materials have achieved commercial conditions that allow the Company to defer payment up to 180 days. Given that the price of raw material is seasonal, low-priced periods are used to optimize procurement costs.

Regulatory risk

Republic of Croatia joining the European Union made the Group significantly exposed to regulatory risk, which is mostly related to changes in the areas of government grants regulations. In particular, since the Group utilized significant government grants to maintain the profitability and liquidity, this risk is considered significant and uncontrollable.

Fair value of financial instruments

IFRS 7 states that fair value evaluations must be presented in levels under the following hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs which do not represent quoted prices included in level 1 but represent observable inputs for assets or liabilities, be it directly (as a price) or indirectly (derived from price) (level 2).

Inputs for assets or liabilities that are not based on observable market data (invisible inputs) (level 3).

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2017				
Available-for-sale financial assets				
Listed companies	228	-	-	228
Unlisted companies	-	152	-	152
Total	**228**	**152**	**-**	**380**

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2016				
Available-for-sale financial assets				
Listed companies	211	-	-	211
Unlisted companies	-	132	-	132
Total	**211**	**132**	**-**	**343**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit 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 traded on active liquid markets, under standard conditions, is determined at the prices quoted on the market;
- The fair value of other financial assets and other financial liabilities is determined in accordance with pricing models based on the analysis of discounted cash flows using prices from well-known market transactions and prices offered for similar instruments.

Financial instruments held to maturity in the normal course of business are recognized at cost or the net amount decreased for the repayment period. Fair value is determined as the amount by which the financial instrument can be traded between voluntary expertise parties under market conditions, except in the case of forced or liquidation. The fair value of a financial instrument is the one quoted on the securities market or the one obtained by using the discounted cash flow method.

As at 31 December 2017, the reported amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments correspond to their market value because of the short-term nature of these assets and liabilities and because most current assets and current liabilities carries variable interest rates.

At reporting dates, the book value of bank and other loans is approximate to their fair value since most of these loans carry a variable interest rate or a fixed interest rate that approximates current market interest rates.

Liquidity risk management

The liquidity risk management is responsibility of the Management, which sets the appropriate liquidity risk management framework, with the aim of managing short, medium and long-term financing and liquidity requirements. The Group manages the liquidity risk by following the net short term position and addressing the expected liquidity deficits.

In order to improve liquidity and optimise the time necessary from the supply of reproduction materials to the payment from the end customer, the Group reported in its balance sheet credits for encouraging export, and a credit for the construction of Nov 484 in 2017.

The project for the construction of floodgates in Venice is financed on the principle of factoring, and the relevant transactions enabled the company to ensure liquidity throughout the manufacturing process and to regularly settle current liabilities. In 2017, insurance policies were renewed for foreign and domestic receivables, which additionally affected the regularity of the customers' inflow.

The Group's large storage enables it to promptly react to the customer's needs and reduce delivery times, which places it in a very favourable position in relation to its competition, and also enables it to react in times of reduced liquidity and, for example, sell storage space at lower prices, but still with a significant margin. Furthermore, the Group contracts big projects by requesting advance payments in order to enable the initial purchase of materials.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Liquidity risk management

Contractual maturity of financial liabilities and financial assets of the Group from the consolidated statement of financial position at each period end are shown below. Calculations are based on undiscounted cash flows up to their maturity and include cash flows from principal and interest.

Liabilities

At 31 December 2017	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
		(in thousands of HRK)				
Non-interest bearing liabilities						
Trade payables	193,356	193,356	193,356	-	-	-
Other liabilities	282,782	282,782	282,782	-	-	-
	476,138	**476,138**	**476,138**	**-**	**-**	**-**
Interest bearing liabilities						
Finance lease	5,733	6,262	1,945	1,908	2,409	-
Factoring liabilities	5,570	5,570	5,570	-	-	-
Borrowing	599,871	669,812	363,000	47,839	129,987	128,986
	611,174	**681,644**	**370,515**	**49,747**	**132,396**	**128,986**
	1,087,312	**1,157,782**	**846,653**	**49,747**	**132,396**	**128,986**

At 31 December 2016	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
		(in thousands of HRK)				
Non-interest bearing liabilities						
Other liabilities	161,468	161,468	161,468	-	-	-
Trade payables	173,541	173,541	173,541	-	-	-
	335,009	**335,009**	**335,009**	**-**	**-**	**-**
Interest bearing liabilities						
Finance lease	2,400	2,698	716	666	1,316	-
Factoring liabilities	7,542	7,545	7,545	-	-	-
Borrowing	448,750	484,022	173,299	179,535	94,993	36,195
	458,692	**494,265**	**181,560**	**180,201**	**96,309**	**36,195**
	793,701	**829,274**	**516,569**	**193,426**	**96,309**	**36,195**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Liquidity risk analysis (continued)

Assets

At 31 December 2017	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest bearing assets						
Receivables - cession and assignation	9,919	9,919	9,919	-	-	-
Trade receivables	81,156	81,156	81,156	-	-	-
Other receivables	677,846	677,846	673,291	4,555	-	-
	768,921	**768,921**	**764,366**	**4,555**	**-**	**-**
Interest bearing assets						
Given loans and deposits	10,918	10,918	3,270	7,648	-	-
Cash and cash equivalents	22,134	22,134	22,134	-	-	-
	33,052	**33,052**	**25,404**	**7,648**	**-**	**-**
	801,973	**801,973**	**789,770**	**12,203**	**-**	**-**

At 31 December 2016	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest bearing assets						
Receivables - cession and assignation	8,202	8,202	8,202	-	-	-
Trade receivables	76,709	76,709	76,709	-	-	-
Other receivables	327,207	327,207	320,689	6,518	-	-
	412,118	**412,118**	**405,600**	**6,518**	**-**	**-**
Interest bearing assets						
Given loans and deposits	12,746	12,746	2,974	9,772	-	-
Cash and cash equivalents	47,944	47,944	47,944	-	-	-
	60,690	**60,690**	**50,918**	**9,772**	**-**	**-**
	472,808	**472,808**	**456,518**	**16,290**	**-**	**-**

The Group is exposed to interest rate risk since it is borrowing both at fixed and variable interest rates. Variable interest rates that were applicable to the relevant portion of the Group's borrowings at the reporting date are based on the following:

	2017	**2016**
	(in thousands of HRK)	
Bank loans based on EURIBOR	236,518	217,295
Financial leases based on EURIBOR	41	89
	236,559	**217,384**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Interest risk sensitivity analysis

The sensitivity analysis below is based on exposure to interest rate risk at the reporting date. For variable interest rates, the analysis was prepared in such a way as to calculate the effect of a reasonably possible increase in interest rates on borrowing with variable interest rates on the expected contractual cash flows of such borrowings in relation to those calculated using the interest rate applicable at the end of the current reporting period. In internal reporting of interest rate risk to key management, an increase / decrease of 50 base points is used, which represents a realistic change in interest rates according to the Management Board's estimates.

The estimated effect of a realistic change in interest rates on the Group's profit before tax for the reporting period is as follows:

	Increase / Decrease of variable interest rate	Effect on change in pre-tax profit in thousands of HRK
2017		
HRK	+/-0.5	+/-1,183
2016		
HRK	+/-0.5	+/-1,086

Most of the borrowings for which interests are calculated are contracted at fixed and variable interest rates. The risk is managed by maintaining a suitable combination between fixed and variable interest rates on borrowings. The Group is currently not protected against such risks.

NOTE 30 – SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Below is a review of subsidiaries, associates and joint ventures:

Name of subsidiary	Country	Share in %	Business activity
Brodograđevna industrija Split plc	Croatia	99.76	Shipbuilding
Brodosplit - Plovidba Ltd	Croatia	99.76	Sea and coastal water transport of freight
Brodosplit - Brodogradilište specijalnih objekata Ltd	Croatia	99.76	Building of ships and floating structures
Brodosplit - Tvornica dizel motora Ltd	Croatia	99.76	Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
Brodosplit - Trgovina Ltd	Croatia	99.76	Wholesale of other machinery and equipment
Brodosplit - Zaštita brodskog trupa od korozije Ltd	Croatia	99.76	Manufacture of metal structures and parts of structures
Brodosplit - Transportna sredstva Ltd	Croatia	99.76	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Čelik Ltd	Croatia	99.76	Manufacture of metal structures and parts of structures
Brodosplit - Opremanje plovnih objekata Ltd	Croatia	99.76	Manufacture of metal structures and parts of structures
Brodosplit - Trup Ltd	Croatia	99.76	Manufacture of metal structures and parts of structures
Brodosplit - Stroj Ltd	Croatia	99.76	General mechanical engineering
Brodosplit - Montaža Ltd	Croatia	99.76	Manufacture of metal structures and parts of structures
Brodosplit - Boja Ltd	Croatia	99.76	Repair and maintenance of ships and boats
Brodosplit - Blok Ltd	Croatia	99.76	Building of ships and floating structures
Brodosplit - Računovodstvo i financije Ltd	Croatia	99.93	Accounting, book-keeping and auditing activities; tax consultancy
Brodosplit - Informatika Ltd	Croatia	99.93	Computer facilities management activities
Brodosplit - Laboratorij Ltd	Croatia	99.93	Technical testing and analysis
Brodosplit - Atest Ltd	Croatia	99.93	Security systems service activities
Brodosplit - Ljudski resursi Ltd	Croatia	99.93	Other human resources provision
Brodosplit - Plovne dizalice Ltd	Croatia	99.93	Renting and leasing of water transport equipment
Brodosplit - Privremena energetika Ltd	Croatia	99.93	Production of electricity
Brodosplit - Čišćenje Ltd	Croatia	99.93	Other cleaning activities
Brodosplit - Optimizacija i ekologija Ltd	Croatia	99.93	Remediation activities and other waste management services
Brodosplit - Alatnica Ltd	Croatia	99.93	General mechanical engineering
Brodosplit - Održavanje Ltd	Croatia	99.93	Repair of machinery
Brodosplit - Skela Ltd	Croatia	99.93	Manufacture of metal structures and parts of structures
Brodosplit - Cjevarska izrada Ltd	Croatia	99.93	Casting of iron
Brodosplit - Bravarija i limarija Ltd	Croatia	99.93	Repair of fabricated metal products
Brodosplit - Automatizacija Ltd	Croatia	99.93	Computer facilities management activities
Div Cruises Ltd	Croatia	99.93	Travel agency
Brodosplit - Izvor energije vjetroparkova Ltd	Croatia	99.93	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Produkt plinske elektrane Ltd	Croatia	99.93	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Vjetrostupovi Ltd	Croatia	99.93	Manufacture of metal structures and parts of structures
Brodosplit - Klimatizacija i ventilacija Ltd	Croatia	99.93	Plumbing, heat and air conditioning installation
Brodosplit - Brodska i ostala oprema Ltd	Croatia	99.93	Manufacture of metal structures and parts of structures
Brodosplit - Metalne konstrukcije Ltd	Croatia	99.93	Manufacture of metal structures and parts of structures
Brodosplit - Namještaj po mjeri Ltd	Croatia	99.93	Installation of carpentry
Brodosplit - Interijer i završni radovi Ltd	Croatia	99.93	Installation of carpentry
Brodosplit - Strojna obrada Ltd	Croatia	99.93	General mechanical engineering
Brodosplit - Ljevaonica Ltd	Croatia	99.93	Casting of iron
Brodosplit - Istraživanje i razvoj Ltd	Croatia	99.93	Research and experimental development on natural sciences and engineering
Brodosplit - Korporativna zaštita Ltd	Croatia	99.93	Private security activities
Brodosplit - Gradnja Ltd	Croatia	99.93	Construction of residential and non-residential buildings
Brodosplit - Otpremništvo Ltd	Croatia	99.93	Other transportation support activities
Brodosplit - Najam Vozila Ltd	Croatia	99.93	Renting and leasing of cars and light motor vehicles
Brodosplit - Oblaganje Ltd	Croatia	99.93	Building of ships and floating structures
Brodosplit - Servis brodova Ltd	Croatia	99.93	Repair and maintenance of ships and boats
DIV Betonski pragovi Ltd, Svrljig	Serbia	100	Production of concrete thresholds
DIV Brodogradnja Ltd	Croatia	100	Production of metal structures
DIV Ltd, Sarajevo	BiH	100	Production of metal structures
Kamen-dent Ltd	BiH	50	Wind power plants
Marine and Energy Solutions DIV Ltd	Croatia	50	Ship design
Marine Consulting Ltd	Croatia	50	Ship design
MIN-DIV Svrljig a.d., Svrljig	Serbia	86.45	Production of railway track fixtures
Shanghai Vida	China	100	Purchase mediation
TVIK-DIV Ltd Valjevo	Serbia	100	Forging, turning and trade
DIV Cruises, INC	SAD	100	Travel agency

Through the subsidiary Brodosplit - Plovidba Ltd, the Company also the following companies: 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. The Netherlands, POLAR EXPEDITIONS Inc Marshall Islands, POLAR EXPLORER Inc, XB AHTS COMPANION SHIPPING Inc, XB AHTS GUARDIAN SHIPPING Inc, XB AHTS HERO SHIPPING Inc i XB AHTS SUPPORTER SHIPPING Inc. Through the subsidiary Brodograđevna industrija Split, the Company also manages Brodosplit Italia.

NOTE 30 – SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

On 1 September 2017, the company Brodosplit-Holding Ltd merged with the company Brodosplit plc. On the date of the merger, the company Brodosplit plc took over 50% of shares and management rights in companies Kamen-dent Ltd, Bosna i Hercegovina and also a 100% shares and management rights in the Brodosplit Italia s.r.l., Italy from the company Brodosplit-Holding Ltd.

In 2017, there were mergers of subsidiaries in which Brodosplit plc has a 100% share:

- Brodosplit - Armature Ltd, date of merger: 28 December 2017
- Brodosplit - Dizalice Ltd, date of merger: 29 December 2017
- Brodosplit - Metalna oprema i konstrukcije Ltd, date of merger: 29 December 2017
- Brodosplit - Nemetalna oprema Ltd, date of merger: 28 December 2017
- Brodosplit - Antikorozivna zaštita Ltd, date of merger: 29 December 2017
- Brodosplit - Holding Ltd, date of merger: 1 September 2017
- Brodosplit - Izolacija Ltd, date of merger: 29 December 2017

On 19 October 2017, the company Brodosplit-Projekti Ltd was merged with the company DIV GROUP Ltd.

All rights and obligations of acquired companies pass to acquiring company with the date of acquisition.

NOTE 31 - RELATED PARTY TRANSACTIONS

	2017	2016
	(in thousands of HRK)	
Revenue from sale of goods and service		
P.T.C. Krka Knin Ltd	10,112	43,968
Marine and Energy Solutions DIV Ltd	214	232
	10,326	**44,200**

	2017	2016
	(in thousands of HRK)	
Purchase of goods and services		
P.T.C. Krka Knin Ltd	18,149	54,226
Marine and Energy Solutions DIV Ltd	5,238	4,938
Marine Consulting Ltd	-	159
	23,387	**59,323**

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Trade receivables		
Marine and Energy Solutions DIV Ltd	19	281
Kamen-dent Ltd	-	587
Marine Consulting Ltd	-	2
	19	**870**

	2017	2016
	(in thousands of HRK)	
Trade payables		
P.T.C. Krka Knin Ltd	10,547	10,561
Marine and Energy Solutions DIV Ltd	614	1,073
Kamen-dent Ltd	159	-
	11,320	**11,634**

NOTE 31 - RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Liabilities for accepted borrowings		
Owners	12,503	23,947
	12,503	**23,947**

Remuneration to key Management

The key management of the Group comprises 44 employees *(in 2016.: 47 employees)*. In 2017, a total of HRK 13,573 thousand was paid as remuneration to the members of the Management Board *(in 2016: HRK 15.290 thousand)* based on gross salary.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS

Brodosplit plc

Company through DIV Brodogradnja Ltd has 99.83% stake in Brodosplit plc

Pursuant to the Sale and Transfer Agreement of Brodosplit plc, the contractual obligations relating to the implementation of the restructuring program have been defined as of 28 February 2013. Particularly important parts of the restructuring program are considered: the share of its own contribution in total restructuring costs, adjustment of production shipbuilding capacities of the Company, restriction of production of ships to CGT (compensated gross tonnage) and achieving sustainability; whose non-fulfilment may result in an order to Brodosplit plc and its subsidiaries for the repayment of all grants received after 1 March 2006, plus statutory default interest

The share of own contribution implies the obligation of the Company Brodosplit plc and subsidiaries in accordance with the restructuring program, accounting for 40% of total restructuring costs. Part of the total costs was also related to the obligation to increase the share capital by HRK 50 million in the amount of HRK 20 million in 2013, HRK 20 million in 2014 and HRK 10 million in 2015. The stated obligation to increase the share capital is fully met. The Company commissioned a study of its own contribution by experts from Brussels in the area of EU law and government grants, which showed that its own contribution to restructuring accounts for more than 40% of total restructuring costs and proved that the company was settling its liabilities.

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

Achieving sustainability includes the following measures: maintaining at least 2,000 employees in the Company and subsidiaries at the end of each month during the implementation of the restructuring program, maintaining a minimum number of effective hours at a defined level in September 2017, maintaining a minimum amount of steel at a defined level by September 2017, maintaining the position of capital and reserves at the end of the year, at the end of 2017 at a defined level, and a positive consolidated business at the end of 2016 and 2017. Evaluation of sustainability is provided by the competent authority (European Commission) which, if it considers that no sustainability has been achieved, may order the Company to refund the received subsidies.

Failure to fulfil the obligations of the implementation of the restructuring program may result in the termination of the sales contract and result in an order to Brodosplit plc and its subsidiaries to recover all state subsidies from Brodosplit plc received from March 1, 2006. Furthermore, the Company DIV GROUP Ltd, as a solidary guarantor, has guaranteed a sum of HRK 50 million in case of non-fulfilment of the restructuring obligation. By fulfilling the obligation to increase the share capital for HRK 50 million in 2015, the Company's obligation as a solidary guarantor was abolished.

In addition, the buyer (DIV Brodogradnja Ltd) based on the Sale and Transfer Agreement is entitled to terminate the Contract in the event of hidden obligations for which the Purchaser did not know at the time of the conclusion of the Contract. In this case, the Seller shall return to the Purchaser the paid purchase price and the amount of paid up capital increase, totalling HRK 53,700 thousand all plus interest at the expense rate of the Croatian National Bank on the day of termination of the contract, increased by 2%.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

Investment in Min Div Svrljig a.d. and DIV betonski pragovi Ltd

In the period from 2006 to 2009, the Company increased its share of ownership in the subsidiary company Min Div Svrljig a.d. in the recapitalization from 77.50% to 86.45%. Due to the increase in ownership, the Company had an obligation to make a public bid for the remaining 128,372 shares. The deadline for the offer for the purchase of shares expired in 2010 and the Company paid a fine for not fulfilling this obligation. There is no new legal deadline for the Company to bid. As far as the prospective outcome is concerned, the Company DIV GROUP Ltd. must announce a public offer or divest 26,166 new shares made through recapitalization. The dispute is the redemption price per share that will be offered to minority shareholders. Given the recent stock market activity in the past few months, conditions for setting up a public bid or creating sufficient demand for the alienation of 26,166 shares could soon be met.

Furthermore, DIV GROUP Ltd and DIV betonski pragovi Ltd during the takeover, they committed to fulfil certain conditions in order to receive funds from state in the amount of EUR 2.4 million. If the above obligations are not met, the Company will have to repay all the received funds together with the default interest, but according to the adopted business plans, the Company plans to meet these obligations within the statutory deadline.

Court cases

As of 31 December 2017, the Company is involved in a series of legal disputes in the ordinary course of operations and court cases with former employees. Based on consultation with legal advisers, the Management Board applied the judgement and estimated that legal proceedings in which the Group is involved should not result in additional significant losses. In addition to those court cases, for which provision have been made, there are other legal disputes that will not result in significant losses.

Issued warranties

As at 31 December 2017, the Group is exposed to contingent liabilities arising from issued warranties in the amount of HRK 353,796 thousand, of which counter-warranties for subsidiaries amount to HRK 112,750 thousand. Warranties are related to advance payments and performance guarantees.

NOTE 33 – SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

The Croatian Bank for Reconstruction and Development and Polaris Exploration Inc are about to sign a Credit Agreement No. KK 18/18 in the amount of EUR 87,883,511.68. According to the relevant Agreement, Brodosplit plc shall be the co-debtor and Brodosplit – Plovidba the debtor. The credit shall become repayable on the day of delivery of Nov 487, and on 1 October 2020 the latest. The credit shall be repaid by 1 March 2030 in 113 monthly annuities.

Other than the aforementioned, there were no significant events after the financial position date which would require amendments to the financial statements.

NOTE 34 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted by the Management Board and authorized to be issued on September 7, 2018.

Signed for and on behalf of the Group Management Board on September 7, 2018:

Tomislav Debeljak	Darko Pappo	Dalibor Marijanović
Chairman of the Management Board	*Member of the Management Board*	*Member of the Management Board*

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