DIV GRUPA d.o.o.
and subsidiaries
("Group")

ANNUAL FINANCIAL STATEMENT FOR THE GROUP

31 DECEMBER 2019

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MANAGEMENT REPORT

1. INTRODUCTION

The DIV group ended FY 2019 with positive results and key indicators in line with expectations and plans. FY 2019 is very important in all areas of business, as significant growth of results and realization of new markets is planned, considering the previous restructuring of the Brodograđevna Industrija Split d.d. as one of the larger parts of the Group itself. We continued to diversify our operations, markets and sources of revenue in order to minimize and balance the overall impact of the risks that exist from each market separately. In the investment part of the business, we completed the planned investment in technological water treatment plants at the location of the Knin branch, and in the shipbuilding part, until the end of the arbitration dispute with the Original Buyer of NB 483, we joined the vessel to our own fleet. We continued to invest in equipment and devices needed to improve the production process, process control or performance of individual works.

In 2019 activities continued in the implementation of the financial exposure strategy at the level of the Group. Since the volume of active and announced projects is significantly increasing compared to previous periods, it is logical to try to secure the financing of these projects on the international financial market. Therefore, the intention in the forthcoming period is to finance projects of significant amounts primarily on the foreign market, with the participation of domestic banks within their limits. Considering that the business activities of companies from the Group include the frequent use of banking products such as guarantees and letters of credit, the assumption is that we will have this type of exposure covered in the local financial market. In accordance with the mentioned strategy, in 2019 a loan of EUR 50mil related to the NB 483 project was realized on the foreign financial market, and a mandate letter was signed to finance the NB 485 project in the amount of EUR 43mil. At the same time, the circle of banks with which short-term placements (letters of credit, guarantees, short-term loans have been agreed) has expanded on the domestic market.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2019

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

In 2019 the Company performed its business 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

During 2019 the company DIV GRUPA d.o.o. was managed by the board of directors as followed:
Tomislav Debeljak, Chairman of the Board
Darko Pappo, Member of the Board
Dalibor Marijanović, Member of the Board - up to May 2019

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1 COMPANY ASSETS

As at 31 December 2019 current assets were HRK 1,436,288 HRK (2018: HRK 1,592,920 thousand), while long-term assets amounted to HRK 2,206,274 thousand. (2018: HRK 1,611,799 thousand)

As at 31 December 2019 total assets of the group amounted to HRK 3,642,256 thousand (2018: 3,204,719 thousand).

3.2 BUSINESS RESULTS FOR 2019

In 2019 the Group realized a net profit of HRK 73,218 thousand.

The large effect on the results was due to a loss generated by the project NB 483 that amounts to HRK 192 million. After the shipbuilding contract with the buyer was terminated, the arbitration proceedings were initiated where Brodosplit claims EUR 37 million in losses from the buyer.

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 of EUR and USD because the Group has foreign contracts mostly denominated in EUR and USD currency
- CREDIT RISK – the ability of debtors to pay their debts to the Group. They refer to unfulfilled contracted 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 the risk that cash receipts that will not be enough to cover current cash outflows. The Group is protected by monitoring planned and realized cash flows and monitoring of financial assets and financial liabilities.

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

5. HUMAN RESOURCES

As at 31 December 2019 the Group had 3,234 employees (2018: 3,073). 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. FUTURE BUSINESS DEVELOPMENT

DIV GRUPA d.o.o. is committed to its business growth based on thoughtful investments in equipment and infrastructure, introducing new technologies, optimizing business processes, investing in human resources and winning new markets and customers. In addition to the already dominant export markets, we will also continue to strengthen exports to the USA. Over the past years a series of large customer audits have been conducted globally, so the preconditions are met for increasing sales through their channels and the usual way of checking our ability to maintain quality (deadlines, quantities and technical requirements) was maintained. All these audits showed the ability of DIV GRUPA d.o.o. By optimizing production processes, we increase productivity as a basic prerequisite for reducing the cost per unit of product or the time required for production and increase the quality and reliability of the process. The increase in production volume requires higher working capital, which we have secured through credit arrangements with banks and other financial partners, and by opening a framework for guarantees and letters of credit, which increases the share of participation in large projects (eg railway infrastructure). The start of a new business year (2020) placed the entire business community in a challenge that was impossible to predict, and which was caused by the global pandemic of the COVID-19 virus. The Group's management has taken all necessary measures in a timely manner to minimize the negative impact and consequences of such a pandemic. We estimate that the markets that are our main customers will also stabilize after the time needed for recovery and that demand will start after the stagnation that is visible. In order to be fully prepared, we continue with production in order to react with deliveries at the moment when the market is activated in a significat volume of demand.

The order book of the whole Group contains new-builds of the total worth of about EUR 447 million, and an additional EUR 1.2 bilion for other metal structures, including ship sections. In 2019 Brodosplit has become a recognised shipbuilder known for its construction of the most complex ships. In 2019 Brodosplit delivered 3 ships: Flying Clipper - the largest cross-sailing sailboat in the world, Hondius - the first passenger ship with the notation Polar Class 6 and Klara - a three-masted schooner.

Three projects for the largest shipbuilding group Fincantieri have been completed. The projects relate to the production of megablocks with a total mass of about 7,000 tons, and the largest section of the ship was 100m long.

In 2019 excellent results were also achieved in the offshore segment and steel structures, a contract was signed for the construction of parts of the wind turbine structure and the first delivery was made, and in the first quarter of 2020 the work is expected to be completed. A letter of intent was also signed for the construction of the foundations of offshore wind turbines in the amount of EUR 40 milion, and the final negotiations include the construction of wind turbine parts.

The future development of the company and the group is focused on further revenue growth by building passenger ships of 100 to 300 m in length and further development and construction of military ships - coastal patrol ships and larger warships. In the niche of offshore and steel structures, the goal is to improve the market position and contract new projects through more pronounced marketing and contracting the jobs described above, which will serve as important references. A greater increase in profitability will be achieved by further reorganization and improvement of business processes and synergy with other shipyards that will become part of the DIV Group and by contracting projects with the highest added value.

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

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

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

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

The project's implementation is to result in an innovative, advanced, and significantly improved production process, accompanied by a necessary reduction in production costs and duration. New metalworking and welding positions will be developed under the condition that the product complies with the applicable standards. The project's estimated costs amounts to HRK 19,667,587.97. The project is planned to be

finished on 30 November 2022. This project is still in the process of being approved by the Ministry of Economy, Entrepreneurship and Crafts.

In the period from 15.09.2019 to 15.12.2019, DIV GRUPA d.o.o. also realised a project of **training 83 employees** in the following programs:

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

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

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

1. „**Development of the DIV elastic clip**", implemented in line with the Grant agreement for projects funded by the European Structural and Investment Fund in the financial period 2014-2020. ("Enhancing development of new products and services resulting from research and development activities" – RDI stage I). The research and development project will be implemented in the period from 01.07.2018 to 01.07.2022, with the aim of enabling the development of a functional and innovative DIV elastic clip and, consequently, its placement and commercialization on the world railway construction and maintenance market. The project directly contributes to increasing investment in research and development within the Smart Specialisation Strategy (S3), thematic area "Transport and mobility" and sub-thematic priority area (STPA) 1. "Production of parts and systems of high added value for road and rail vehicles", with an indicative RDI topic: road and rail vehicles of a higher added value. The project was implemented in 2019 as a part of the industrial research conducted in cooperation with the Faculty of Civil Engineering in Zagreb.
2. "**Increasing energy efficiency in the Knin production plant**", implemented in line with the Grant agreement for projects funded by the European Structural and Investment Fund in the financial period 2014-2020, with the aim of increasing energy efficiency in the production process and transferring to renewable energy sources.

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

Economy through Application of Research and Innovation and in line with the Croatian Smart Specialisation Strategy 2016-2020 and the following thematic priority areas:

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

At the same time DIV GRUPA d.o.o. intends to participate as a partner in the following projects: "**Development of multi-purpose rescue and tourist submarines**" and "**Development of an autonomous unmanned multi-purpose vessel**" with a focus on developing innovative technology in the area of maritime transport with no environmental impact.
We should stress the fact that development activities are almost entirely based on already existing competencies of the company DIV GRUPA d.o.o., i.e. that both R&D and commercialisation activities rely on existing business resources, organisation and processes of the Company.

Employees of the **Brodograđevne industrije Split dioničko društvo (Brodosplit d.d.)** are continuously working on the development and improvement of existing technologies and methods of work with the aim of achieving a competitive advantage in the market.

The main goal of **Brodosplit d.d.** is to ensure revenue and profitability growth by contracting as many new buildings, ship sections and metal structures as possible. **Brodosplit d.d.** became a recognized shipyard for the construction of the most complex ships.

The future development of the company and the group is focused in the shipbuilding part on the development and offering of projects of different types of passenger ships of medium size from 100 to 200 meters in length (cruise ships, polar expeditions, ships / ferries for passenger and vehicle transport, mega yachts, etc.)

During 2019 Brodosplit d.d. reported two research and development projects "Development of an innovative luxury passenger three-masted sailing ship with low hull resistance" and **"Development of an innovative luxury research passenger ship for the polar regions with reinforced hull for ice navigation - polar code PC 6 "**for the use of state aid according to the State Aid Act for research and development projects (OG 64/2018).

The development of this type of innovative passenger ship with low consumption of fossil fuels during the navigation of the ship thanks to the synergy of the functional system of sails and low resistance of the ship will enable the shipyard Brodosplit d.d. strengthening competitiveness in the demanding passenger ship market.

Industrial research on the **project "Development of an innovative luxury research passenger ship for the polar regions with a reinforced hull for navigation on ice - polar code PC 6"** will lead to the acquisition of new knowledge and skills that will significantly improve the existing product (this type of passenger ship). The ship is an extremely complex system, so the research will include the improvement of its subsystems and assemblies, eg ship's hull, propulsion system, dynamic positioning and motion stabilization, power system, control and monitoring system, air conditioning and ventilation system, ship interior, etc. During industrial research and construction of the ship, all components of the ship will be inspected by tests on the slipway and equipment shore.

Through experimental development, testing and verification of the prototype at sea will be performed in real operating conditions, which will include the functioning of all ship subsystems and assemblies as well as the prototype ship as a whole. Based on the test results, further technical improvement of the ship will be made and thus the conditions for the presentation of the final product on the market and its commercialization will be met.

It is important to emphasize that development activities are almost entirely based on the existing competencies of Brodograđevna industrija Split d.d., respectively that research and development activities, but also commercialization activities continue on the existing business resources, organization and business processes of Brodograđevna industrija Split d.d.

It is important to note that Brodograđevna industrija Split d.d on June 18, 2018 also approved the project "Increasing energy efficiency in the project unit of the company Brodograđevna industrija Split d.d." Contract for projects financed from the European Structural and Investment Funds in the financial period 2014-2020 were signed by the Ministry of Environmental Protection and Energy, the Fund for Environmental Protection and Energy Efficiency on the one hand, and the Brodograđevna industrija Split d.d. as a grant beneficiary, on the other hand. The purpose of the project is to improve the efficiency of thermal energy use in production / work processes with the recovery of waste heat in processes, technological rationalization of energy consumption, change of process control and management procedures, load regulation and system regulation. Interventions are also carried out on: energy generators that reduce energy consumption by using waste heat or other technical/technological measures on generators and related equipment that directly contribute to reducing energy consumption, revitalization of electrical installations - efficient lighting systems (in accordance with HRN EN 12464) and replacing indoor lighting with more efficient ones. Activities within it are being implemented until the end of 2020.

In accordance with the Strategic Plan of the Ministry of Science and Education for the period from 2019 to 2021, and given the relatively low use of science for economic development and poor harmonization of scientific activities of scientific research organizations with the real needs of the

economy and society, development measures will be focused on research activities aligned with the needs of the economy and activities related to technology transfer, and in particular through strengthening public-private partnerships.

It is in this area that the parent company DIV GRUPA d.o.o. has achieved significant results in applied research through the phase of industrial research and experimental development, through the Call "**Strengthening the capacity for research, development and innovation**" and "**Support to the development of competence centers**" where it focused research in one of the thematic and sub-thematic priority areas of the Smart Strategy specialization of the Republic of Croatia for the period from 2016 to 2020 (S3) in collaboration with several research organizations. The establishment of the Center of Competence is the next development step in which the parent company DIV GRUPA d.o.o. together with its partners plans to develop a technology platform that will address the challenges in the field of **Transport and Mobility** by applying the latest technological advances in the development of new products. In this way, the competitiveness of the sector will increase, with the strengthening of the contribution to the development of Croatia through a cluster approach to the establishment of a research and development platform and the implementation of development activities. The project was awarded the PNI label by the HKK sector of electric power and production machines and technologies.

The establishment of CEKOM for advanced mobility is envisaged in accordance with model 1B of the establishment of CEKOM, ie the establishment of a competence center as a community of applicants between 4 entrepreneurs and 4 scientific organizations registered in the Register of Scientific Organizations that have effective cooperation on research and development projects. These are higher education institutions, among which the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, the Faculty of Mechanical Engineering, Naval Architecture and Electronics in Split, the Faculty of Maritime Studies in Split and the Faculty of Civil Engineering, Architecture and Geodesy in Split occupy a significant place. Pursuant to the Agreement on Effective Cooperation concluded by the applicant and the project partners, the parent company DIV GRUPA d.o.o., Samobor, has been designated as the applicant and holder of CEKOM. The CEKOM Assembly will be composed of representatives of all members of the consortium participating in research and development projects.

In the shipyard in Split, **Brodograđevna industrija Split d.d. performs internships for students in cooperation with scientific institutions in Split** such as: Faculty of Chemistry and Technology, Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University Department of Professional Studies and Faculty of Economics in Split. About 20 students pass the professional internship every year. In the practical part of teaching, mentors from teaching bases

transfer their knowledge, experience and skills to students and thus help students to connect theoretical knowledge with practice. By finding their student internship and connecting with employers, students are offered other opportunities because professional internships in the teaching base can open the possibility of future employment.

In addition to students, **Brodograđevna industrija Split d.d. organizes professional internships for students of the High School of Electrical Engineering and Crafts Technical School in Split.** About ten students complete their internship annually. During the summer, an industrial internship was organized for shipbuilding students from Zagreb for 20 working days, attended by a dozen students a year.

Brodograđevna industrija Split d.d. is a partner institution and teaching base for the entire University of Split, because the need to connect industry and faculties is necessary. Thus, on the day of teaching bases of the University of Split, which was held on April 20, 2018 at the Faculty of Economics in Split, **Brodograđevna industrija Split d.d. earned the award of the best teaching base, according to the selection of FESB students from Split.**

The company Brodograđevna industrija Split d.d is also a partner of the IAESTE organization for student exchange in the Erasmus program, through which the professional practice in Brodosplit d.d. already done by students from Germany and Belgium. In this way, with practice, students can achieve all the necessary conditions for the development of future professional careers in shipbuilding, said the human resources of the shipyard Brodosplit d.d.

Successful continuation of work on research and development projects will enable the company **Brodograđevna industrija Split d.d.** to master modern technologies and enter the very demanding and picky world market of marine technology and create cohesion with the research and professional community, as well as increase the competitiveness of Brodosplit d.d. and the Croatian economy by raising competencies in the field of shipbuilding and cyber security and building appropriate tools to be used during the design, construction and operational use of ships, thus making modern ships safer (in conditions of increasing use of ICT and increasing cyber threats).

8. FURTHER PLANS

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

These projects, in which DIV GRUPA d.o.o. will participate, involve investment in research, development and innovation, strengthening the research capacities of applicants (research organizations) and partners (business sector) and stimulating / increasing the cooperation of research organizations with enterprises.

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

Thematic priority areas (TPA) and sub-thematic priority areas (STPA) of the Croatian Smart Specialisation Strategy in which the Group plans to direct its R&D activities in the following years are TPA "Transport and mobility", STPA "Environmentally-friendly transport systems", STPA "Production of parts and systems of high added-value for road and rail vehicles", TPA "Energy and sustainable environment", STPA "Environmentally-friendly technology, equipment and advanced materials".
The indicative topics of future projects are R&D of new technologies and equipment for the reduction of CO2 emissions and optional equipment for vehicles with a more rational energy consumption, advanced trams and trains, decreasing environmental impact and noise, and new materials for the car and railway industry.

From 2020 onwards the Group through related parties plans to participate in projects at the international level within the European Union's research and innovation program - Horizon 2020, Smart, Green and Integrated Transport.
Further plans also include the development of new projects, which correspond to the Strategy of Smart Specialization of the Republic of Croatia (S3), a strategic document requested by the European Commission from all EU member states as a prerequisite for using ESI funds in research, technological development and innovation. This applies in particular to the thematic areas: "Transport and Mobility"

and "Energy and Sustainable Environment", which are implemented under the Operational Program for Competitiveness and Cohesion, Priority Axis 1.

Projects in which the Group will participate include strengthening the production capacities of the Group, strengthening research capacities, development of human resources and cooperation with other companies and organizations for research and dissemination of knowledge.

9. SUBSIDIARIES

Subsidiaries are detailed in the notes in the financial statements.

10. INFORMATION ON THE PURCHASE OF OWN SHARES

The Company does not have its own shares, nor did it have any during 2019.

Tomislav Debeljak
Chairman of the Board

Darko Pappo
Member of the Board

DIV GRUPA d.o.o.
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In Samobor, 11 August 2020.

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT

Based on the applicable Croatian Accounting Act, the Management Board of DIV GRUPA d.o.o. (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 consolidate 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
Chairman of the Management Board	*Member of the Management Board*

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Samobor, 11 August 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIV GRUPA d.o.o. and its subsidiaries

Opinion

We have audited the consolidated financial statements of DIV Grupa d.o.o ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit and loss and other comprehensive income, condsolidated 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 Company as at 31 December 2019, and its financial performance and its cash flows for the year that 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 consolidated 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.

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

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Directors: Marina Tonžetić 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 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 examining whether the Annual Report includes the required disclosures as set out in the Article 21 and Article 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 consolidated financial statements;
2. The Management Report has been prepared, in all material respects, in accordance with the Article 21 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

The Management Board 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board 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 the Management Board 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

For signature please refer to the original Croatian version.

Marina Tonžetić

Director and Certified Auditor

Deloitte d.o.o.
11 August 2020

Radnička cesta 80
10 000 Zagreb
Republic of Croatia

TRANSLATION ONLY, CROATIAN ORIGINAL PREVAILS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2019

(in thousands of HRK)	Note	2019	2018
Sales income	5	1,184,329	1,136,511
Other operating income	6	76,968	36,885
Total operating income		**1,261,207**	**1,173,396**
Changes in inventories - work in progress and finished goods	19	160,344	24,581
Material costs	7	(714,702)	(630,033)
Staff costs	8	(312,167)	(309,638)
Depreciation cost	13, 14, 15	(47,622)	(65,447)
Other operating expenses	9	(200,994)	(102,912)
Total operating expenses		**(1,115,141)**	**(1,083,453)**
Operating income		**146,066**	**89,943**
Financial income	10	14,058	20,143
Financial costs	11	(92,021)	(40,096)
Net financial costs		**(77,963)**	**(19,953)**
Share in net income/(loss) of joint venture	17	(96)	(81)
Profit before taxation		**68,007**	**69,909**
Corporate income tax	12	5,211	5,480
Net profit		**73,218**	**75,389**
Other comprehensive income			
Revaluation of property, plant and equipment and intangible assets		33,523	-
Changes in fair value of assets available for sale	16	33	-
Effect of changes in foreign exchange rates		661	(1,558)
Total comprehensive income		**107,434**	**73,831**
Profit/(loss) attributable to:			
Company's shareholders		74,244	75,124
Non-controlling interest		(1,026)	265
		73,218	**75,389**
Total comprehensive income attributable to:			
Company's shareholders		107,220	73,566
Non-controlling interest		214	265
		107,434	**73,831**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of HRK)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current tangible assets			
Intangible assets	13	38,263	15,057
Property, plant and equipment	14	2,136,386	1,563,499
The right of use assets	14a	930	-
Investment property	15	3,536	4,276
Other investments	16	451	404
Investment in joint ventures	17	16,079	15,214
Non-current receivables	18	3,839	6,985
Deferred tax assets	12	6,790	6,365
Total non-current assets		**2,206,274**	**1,611,799**
Current assets			
Inventories	19	468,419	419,211
Trade and other receivables	20	201,443	169,376
Trade receivables for construction contracts	20a	714,930	971,818
Cash and cash equivalents	21	25,664	27,297
Prepaid expenses		25,832	5,218
Total current assets		**1,436,288**	**1,592,920**
Total assets		**3,642,562**	**3,204,719**
EQUITY AND LIABILITIES			
Equity			
Share capital	22	245,737	245,737
Reserves	23	381,428	356,609
Retained profit		1,170,594	1,097,208
		1,797,759	**1,699,554**
Non-controlling interest		7,176	8,643
Total equity		**1,804,935**	**1,708,198**
Non-current liabilities			
Liabilities towards banks and other financial institutions	24	565,566	241,027
Provisions	25	13,522	17,539
Deferred tax liability	12	88,797	87,139
Other non-current liabilities	25a	481,972	439,915
Total non-current liabilities		**1,149,857**	**785,620**
Current liabilities			
Liabilities towards banks and other financial institutions	24	176,048	311,892
Provisions	25	4,607	9,368
Trade and other payables	26	463,818	371,926
Deferred expenses and future income	27	43,298	17,715
Total current liabilities		**687,771**	**710,901**
Total liabilities		**1,837,628**	**1,496,521**
Total equity and liabilities		**3,642,562**	**3,204,719**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of HRK)	Investment capital	Reserves	Retained profit	Total	Non-controlling interest	Total equity
Balance at 1 January 2018	**245,737**	**378,566**	**1.003,665**	**1,627,968**	**8,378**	**1,636,346**
Effect of changes in foreign exchange rates	-	(1,558)	-	**(1,558)**	-	**(1,558)**
Profit for the year	-	-	75,124	**75,124**	265	**75,389**
Total comprehensive income	-	(1,558)	75,124	**73,566**	265	**73,831**
Expense of the previous tax period	**-**	**-**	(1,333)	**(1,333)**	**-**	**(1,333)**
Transfer	**-**	5,345	(5,345)	**-**	**-**	**-**
Reduction of revaluation reserve at amortization of revalued assets (in favour of retained earnings)	-	(25,743)	25,743	-	-	-
Effect of application of IFRS 9	-	-	(646)	**(646)**	-	**(646)**
Balance at 31 December 2018	**243,737**	**356,609**	**1,097,208**	**1,699,555**	**8,643**	**1,708,198**
Effect of changes in foreign exchange rates	**-**	660		**660**		**660**
Profit for the year	**-**		**74,243**	**74,243**	**(1,026)**	73,217
Decerease in retained earnings and increase in investment capital	214,633	-	(214,633)	-	-	-
Decrease in investment capital and increase in reserves and retained earnings	(214,633)	6,082	208,551	-	-	-
Revaluation of assets	**-**	32,283	**-**	32,283	**1,240**	33,523
Other	**-**	33	**-**	33	**-**	33
Total comprehensive income	**-**	**39,058**	**68,162**	**107,220**	**214**	**107,434**
Decrease in non-controling interest	-		1,681	1,681	(1,681)	-
Reduction of revaluation reserve at amortization of revalued assets (in favour of retained earnings)	-	(14,239)	14,239	-		-
Dividends			(10,696)	(10,696)		(10,696)
Balance at 31 December 2019	**245,737**	**381,428**	**1,170,594**	**1,797,760**	**7,176**	**1,804,935**

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

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts in thousands of HRK)	Note	2019	2018
Profit before taxation		73,217	75,389
Adjustment for:			
Income tax	12	(5,211)	(5,480)
Depreciation and amortization	13,14,15	47,622	65,447
Impairment of tangible and intangible assets		2,271	3,140
Net book value of written off property, plant and equipment		23,138	13,081
Share in loss of joint ventures	17	89	53
Financial income/(expenses) realised - net	10,11	74,652	28,265
Other non monetary adjustments		2,262	304
Changes in:			
- trade and other receivables		(363,842)	(379,805)
- inventories		(49,207)	49,661
- trade and other payables		74,107	336,113
- loss from termination of contract		54,435	
- provisions	25	(8,778)	(790)
Cash flow from operating activities		**(75,244)**	**185,378**
Paid interest		(39,804)	(39,142)
Paid corporate income tax		(96)	(1,919)
Net cash flow from operating activities		**(115,144)**	**144,317**
Cash flow from investment activities			
Acquisition of property, plant and equipment	13, 14	(114,927)	(87,178)
Net gains from disposal of property, plant and equipment		-	-
Investments in joint ventures		(954)	(545)
Received loans and deposits		3,121	6,824
Interest received		-	-
Net cash flow from investment activities		**(112,760)**	**(80,899)**
Cash flow from financial activities			**540,801**
Receipts from loans and borrowings		992,704	(599,056)
Repayments of loans and borrowings		(755,677)	
Profit payment		(10,756)	-
Net cash flow from financial activities		**(226,271)**	**(58,255)**
Net increase/(decrease) in cash and cash equivalents		**(1,633)**	**5,163**
Cash and cash equivalents at the beginning of the year		27,297	22,134
Cash and cash equivalents at the end of the year	21	**25,664**	**27,297**

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

NOTE 1 - GENERAL INFORMATION

History and founding

DIV GROUP ("the Group") comprises the parent company DIV GRUPA d.o.o., DIV Brodogradnja d.o.o., Brodosplit d.d., Split and 69 subsidiaries, MIN DIV Svrljig a.d, TVIK DIV Valjevo d.o.o., DIV Betonski pragovi d.o.o, DIV Sarajevo d.o.o., Shangai Vida Industry & Trading CO.LTD., China, DIV Cruises inc. SAD and DIV Učilište.

DIV GRUPA d.o.o. is registered with the Commercial Court in Zagreb under the Registration number (MBS) 080127368, in accordance with the Companies Act. The core business activity of the Company is the production of fasteners, screws, chains and springs. In 2013, the subsidiary DIV Brodogradnja d.o.o. acquired 99.76% shares of the company Brodosplit d.d., Split and the Group's business activity was extended to shipbuilding. The Group is headquartered at Samobor, Bobovica, 10/A, 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 – up to May 2019

NOTE 2 - BASIS OF PREPARATION

(i) Statement of compliance

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

(ii) Basis of measurement

These consolidated financial statements are prepared on a historical cost basis, except for some tangible assets and financial instruments, which are presented in revalued amounts or at their fair value as is disclosed in the accounting policies as follows. Historical cost is usually based on fair value of compensation given for an asset.

(iii) Functional currency and reporting currency

These consolidated 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 Group considered potential options and alternatives, including, but not limited to, sale of inventory of finished products with a discount (still above purchase price) or sale of property to provide additional funds in the short term, if necessary.

The Group responded in a timely manner to the challenges of the Covid-19 pandemic, in all business segments. Conditions have been created for the safe continuation of production, in accordance with the measures and recommendations of the competent authorities, the supply of key raw materials has been ensured, and a postponement of loan principal payments has been agreed with financial institutions for the period within which market normalization is expected.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these consolidated 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 consolidated 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 initially recognized at cost which include the purchase price per supplier's invoice, customs and non-deductable taxes, and all other costs that can be attributed directly to the asset's use and for the purpose for which it is intended. After initial recognition, tangible fixed assets are stated at their revalued amounts comprised of their fair value at the revaluation date less accumulated amortization and accumulated impairment losses. Revaluation should be carried out regularly enough so that the carrying amount is not significantly different from the one that would be determined by establishing the fair value at the balance sheet date.

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 costs 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

There were no changes in depreciation rates in 2019. 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 and project documentation initially recognized at purchased cost and amortised at straight line basis over its estimated useful life.

After the initial recognition, project documentation is stated at their revalued amounts comprised of their fair value at the revaluation date less accumulated amortization and accumulated impairment losses.

IT software and other iintangible 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 and liabilities

Financial assets and financial liabilities are recognized in the statement of financial position of the Group when the Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that can be attributed directly to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added or deducted from the fair value of financial assets or financial liabilities, as required, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Purchase or sale of financial assets on a straight-line basis is recognized on a trading date. Regular purchases or sales are purchases or sales of a financial asset that requires the delivery of the asset within the time frame established by the regulation or practice on the market.
All recognized financial assets are subsequently fully measured at amortized cost, at fair value through other comprehensive income or fair value through profit or loss, depending on the business model and the characteristics of contracted cash flows.

(i) Classification of financial assets

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

- Financial assets are held within a business model whose purpose is to hold a financial asset for the purpose of collecting contractual cash flows; and
- Contractual terms of financial assets cause cash flows that are solely the payment of principal and interest on the remaining amount of principal at certain dates.

(ii) Amortized cost and effective interest rate method

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

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

For financial assets other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired.
For financial assets that have subsequently become credit impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in the income statement.

(iii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade receivables. The amount of expected credit losses is calculated at each reporting date to reflect changes in credit risk from the initial recognition of an individual financial instrument.

The Group always recognizes lifelong credit losses (ECL) for trade receivables based on the selected simplified approach. Expected credit losses on these financial assets are estimated using a provision matrix created on the basis of historical experience of the Group in terms of credit losses, aligned with factors that are specific to borrowers. The Group does not currently align the rate of loss for future macroeconomic conditions since it has not conducted an analysis of the impact of macroeconomic factors on historical losing rates, including the time value of the money where appropriate.

However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Specifically, the Group rely on due days in evaluating significant credit risk deterioration. If the debtor is late for more than 360 days, then the Group assumes a significant increase in credit risk.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

However, the Group does not currently use simplification of low credit risk when assessing a significant increase in credit risk. The Group regularly monitors the effectiveness of the criteria used to determine whether there has been a significant increase in credit risk and revises them to ensure that the criteria can identify a significant increase in credit risk before payment delays occur.

Definition of default status

The Group consider the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 360 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit impairment financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measuring and recognizing expected credit losses

Measurement of expected credit losses is the function of the probability of default (PD), loss given default (LGD), i.e. the magnitude of loss if there is a default and exposure to default (EAD). An assessment of the probability of default and loss given default is based on the historical data and information provided in the preceding paragraphs. As for the exposure at default, for financial assets it represents the gross carrying amount of the asset at the reporting date. For estimating PD and LGD parameters, the Group relies on publications of external investment rating agencies.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that mature in accordance with the contract and all expected cash flows discounted at the original effective interest rate. If the Group measure the provision for expected credit losses for a financial instrument in the lifetime ECL in the previous reporting period, but on the current reporting date it determines that the lifelong ECL conditions are no longer met, the Group measure a loss in the amount of an equivalent 12-month ECL to the current reporting date, except for assets for which a simplified approach (customer receivables) was used.

The Group recognize an impairment loss or loss in the income statement for all financial instruments with an appropriate adjustment of the carrying amount through the provision of provisions for expected loan losses.

Termination of recognition of financial assets

The Group cease to recognize financial assets only when contractual rights on cash flows expire or when it transfers financial assets, all risks and rewards associated with ownership of financial assets on another person.
If the Company does not transfer and substantially discontinues all the risks and rewards associated with its ownership and continues to control the transferred assets, the Company recognizes its retained interest in the asset and the related obligation to the amounts that it may have to pay. If the Company retains all significant risks and rewards associated with the ownership of the transferred financial assets, the Company continues to recognize financial assets and also recognizes the received collateral for received assets.
In the event of a discontinued recognition of financial assets measured at amortized cost, the difference between the carrying amount and the amount of received remuneration and receivables is recognized in the income statement. Furthermore, at the end of the recognition of an investment in a debt instrument measured by FVOSD, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss, with the exception of equity instruments for which the FVOSD option is selected.

Loans and receivables

The Group always provide for the losses from receivables in the amount equal to life-long ECL. Expected credit losses on trade receivables are estimated on the basis of historical data, taking into account the historical experience of the debtors defaulting status and the current financial position of the debtor. The Group have recognized a 100% loss on all receivables that have matured over 360 days, and which were shown as irrecoverable by an individual assessment of the financial position of the debtor. There were no changes in valuation techniques or significant assumptions during the current reporting period.

The Group write off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Since the Group's historical credit loss experience does not show significantly different loss patterns for different segments of the customers, maturity-based impairment provisions do not differ between the different customer groups of the Group.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

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 Group's liabilities are paid, cancelled or expired.

3.8 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)

3.9 Leases

Policy valid from January 1, 2019

When concluding a contract, the Group assess whether the contract is or contains lease characteristics. That is, they assess whether the contract transfers the right to control the use of the property in question over time in exchange for compensation.

i. Group as lessor - finance lease

The lessor's accounting for finance leases remains largely unchanged from the requirements of IAS 17.

ii. Group as lessor - operating lease

Leases in which the Group do not substantially transfer substantially all the risks and rewards of ownership are classified as operating leases. Lease income is recognized on a straight-line basis over the term of the lease and, because of its business nature, is included in income in the income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are recognized over the term of the lease on the same basis as the lease income. Contingent rents are recognized as income in the period in which they are earned.

iii. Group as lessee - operating lease

For all leases, except short-term leases and leases of low-value assets, the Group apply a single approach to recognition and measurement. The Group recognize lease payments and the right to use the asset, which is the right to use the asset in question.

Assets with the right of use

The Group recognize assets with the right of use at the time of concluding the lease agreement (ie at the time when the subject property is available for use). Assets receivable are measured at cost less accumulated depreciation and impairment losses and are adjusted for remeasurement of lease obligations. The cost of an asset used includes the amount of recognized lease obligations, initial direct costs and lease payments made on or before the date of the contract, less any lease incentives received. Assets with the right of use are depreciated on a straight-line basis over the term of the lease.

Lease obligations

When entering into a lease, the Group recognize lease obligations, measured at the present value of future lease payments over the term of the lease. Lease payments include fixed payments (less all incentive claims), variable payments that depend on an index or rate, and amounts that are expected to be paid on a residual value guarantee basis. Lease payments may include the value of a purchase option that is expected to be exercised with reasonable certainty and the payment of a penalty for terminating the lease, if the terms of the contract provide for a termination option. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that conditions the payment occurs.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leases (continued)

Policy applicable before January 1, 2019

Leases are initially classified as finance leases or operating leases.

i. Group as lessor - finance lease

Leases in which the Group, as lessor, transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. When assets are leased under a finance lease, the present value of the lease payment is recognized as a receivable (within loans and receivables from customers). The difference between gross finance lease receivables and the present value of future collections of finance lease receivables represents unearned finance income. Initial direct costs incurred in negotiating and arranging a finance lease are added to the carrying amount of the leased asset and reduce the amount of revenue recognized over the term of the lease.

ii. Group as landlord - operating lease

Leases in which the Group do not transfer a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income is recorded as realized on the basis of contractual lease terms in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognized over the term of the lease on the same basis as the lease income. Contingent rents are recognized as income in the period in which they are earned.

iii. Group as lessee - operating lease

Leases that do not transfer substantially all the risks and rewards of ownership to the Group are operating leases. Operating lease payments are recognized as an expense in the income statement, on a straight-line basis over the term of the lease. Contingent rents are recognized as an expense in the period in which they are incurred.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. The cost is determined using the weighted average method and includes the cost of bringing inventory to their existing location and current condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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).

Raw materials and intermediate goods are valued at cost, using the weighted average method. The cost of work in progress and finished goods includes raw materials, direct labor costs, other direct costs and the related part of general production costs (based on normal regular production capacity). Spare parts are valued at the lower of cost and net realizable value.

The value of inventories that have a slow turnover and are obsolete is reduced by the profit or loss for the current year.

3.11 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.

For all ongoing contracts where the costs incurred and recognized gains (less any recognized losses) exceed the amounts accrued, the Group's gross amounts receivable from the counterparty are stated as assets. Gradually charged amounts not paid by the customers and retained amounts are reported as trade receivables and other receivables. For all ongoing contracts where the gradually charged amounts exceed the costs incurred and the recognized gains (less any recognized losses), the Group's gross amount of the liability to the counterparts is stated as a liability.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and other liquid short-term instruments with maturity dates up to 3 months.

3.13 Subscribed capital

The subscribed capital is stated in HRK at nominal value.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 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.

3.15 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 consolidated 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, BRODOSPLIT 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 Brodosplit 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.

Concession payment

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

1. a fixed portion in the amount of HRK 0.50 per square meter of land used per annum;
2. 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:

1. 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;
2. 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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Maritime domain and concessions (continued)

Non-transferability of the concession

The concessionaire may not, in whole or in part, transfer the concession on the maritime domain to another legal or natural person without the express consent of the grantor.

The concession for the use of maritime property is calculated according to the conditions from the concluded contracts starting from 2000 and is charged to the business expenses of the accounting periods.

Amendments to the Maritime Property Concession Agreement

The Company and the grantor of the concession were concluded by the Government of the Republic of Croatia on 11 February 2011. 1 of the Maritime Property Concession Agreement for the purpose of economic use of the special purpose port - Split shipyard, which changed:

Concession payment

The concession holder is obliged to pay the concession grantor an annual fee consisting of two parts:
permanent part in the amount of 3 kuna per square meter of occupied area per year
variable part of the fee in the amount of 1% of annual income

The concession fee is paid in the following way:

1. the permanent part of the fee for the current year shall be paid within 45 days from the day of concluding the Addendum to the concession agreement, for the following years in advance until April 15 of the current year
2. the variable part of the fee is paid backwards in two parts: by 30 September for the first half of the current year, until April 30 for the second half of last year.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

Initial application of new amendments to existing standards effective in the current reporting period

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

- **IFRS 16 "Leases**", adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Advances with Negative Compensation Features - Adopted in the European Union on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019).
- **Amendments to IAS 19 Employee Benefits** - Amendments, Reductions, or Disbursements from Remuneration Plans adopted in the European Union on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019))
- **Amendments to IAS 28 "Interests in Associates and Joint Ventures**" - "Long-term Investments in Associates and Joint Ventures" - adopted in the European Union on February 8, 2019 (effective for annual periods beginning on or after 1 January 2009). January 2019)
- **Amendments to various standards due to "IFRS Finances from the 2015-2017 Cycle"** arising from the IFRS Annual Finalization Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate inconsistencies and clarify text - adopted in the European Union on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty about the Application of Corporate Income Tax Rules**" - Adopted in the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to existing standards and interpretations did not result in a material change in the Group's financial statements.

Impact of initial application of IFRS 16 Leases

(a) Impact of the new lease definition

The Group have used the practical solutions available for the transition to IFRS 16 in order not to reassess whether it is a lease or whether it contains a lease. Consequently, the definition of a lease in accordance with IAS 17 and OTMFI 4 will continue to apply to leases entered into or amended before 1 January 2019.

The change in the definition of lease mainly relates to the notion of control. IFRS 16 determines whether a contract contains a lease under which the client has the right to control the use of the identified asset for a specified period in exchange for compensation. This differs from the focus on "risks and benefits" that characterizes IAS 17 and OTMFI 4.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

Impact of initial application of IFRS 16 Leases (continued)
The Group applies the definition of a lease and the related guidance contained in IFRS 16 to all leases entered into or amended on or after 1 January 2019 (regardless of whether it is a lessor or a lessee). The first application of IFRS 16 is disclosed in Note 16 “Assets entitled to use”.

(b) Impact on the lessee's accounting

(i) Past operating leases

IFRS 16 will change the way in which the Group calculate leases that were previously classified as operating leases under IAS 17, and which were off-balance sheet items. In applying IFRS 16, the Group for all leases (except for the leases listed below):

- report usable assets and lease liabilities in the statement of financial position, measured for the first time at the present value of future lease payments, with rights to use adjusted for the amount of prepaid or deferred lease payments in accordance with IFRS 16 : C8 (b) (ii)
- report the depreciation of used assets and interest on lease liabilities in the income statement;
- separate the total amount of money paid into a portion of the principal (shown in financing activities) and interest (shown in business activities) in the cash flow statement.
- lease incentives (eg the period for which the lessor has exempted the lessee from paying rent) are reported as part of the measurement of the right to use and the lease liability, while in accordance with IAS 17, rental incentives are recognized as straight-line depreciated as the amount of cost lease.
- in accordance with IFRS 16, for property, plant and equipment, examine value data in accordance with IAS 36.
- For all short-term leases (lease periods of 12 months or less) and leases of small assets (such as tablets and personal computers and office furniture and telephones).

The Group has decided to present rental expenses on a straight-line basis, as permitted by IFRS 16. This cost is reported as “Other external costs” in profit or loss.

The Group have used the following practical solutions in applying the cumulative approach to leases previously classified as operating leases under IAS 17.

- The Group have applied a single discount rate to a portfolio of leases with similar characteristics.
- The Group have reconciled the asset to use at the date of initial application for the amount of the provision for harmful leases stated in accordance with IAS 37 in the statement of financial position just before the date of initial application instead of performing an impairment assessment.
- The Group have decided not to disclose usable assets and lease obligations for leases that expire within 12 months from the date of initial application.
- The Group have omitted initial direct costs from the measurement of the right to use the asset at the date of initial application.
- Based on subsequent review, the Group have determined the lease term in the case of a contract with the possibility of extending or terminating the lease.

(ii) Past finance leases

In the case of leases classified as finance leases in accordance with IAS 17, the carrying amount of assets and liabilities under finance leases measured in accordance with IAS 17 immediately before initial application is reclassified to non-adjusting assets or lease liabilities, unless the Group have decided to apply the exception for the recognition of low value leases. Assets with a right of use and lease obligations are accounted for in accordance with IFRS 16 from 1 January 2019.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

Leases
The Group have applied IFRS 16 using a cumulative approach and therefore have not restated comparative information and disclosed it in accordance with IAS 17. Details of accounting policies in accordance with IAS 17 and IFRS 16 are presented separately below.

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

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

- Amendments **to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates of Errors"** - Definition of Significance, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020)
- Amendments to **IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Reform of Reference Interest Rates, adopted in the European Union on 15 November 2020 (effective for annual periods beginning on or after 1 January 2020),
- amendments to the reference to the Conceptual Framework in IFRS, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Group has chosen not to apply the new standards, amendments to existing standards and interpretations before the effective date. The Group expects that the application of these standards and amendments to existing standards do not lead to material changes in the financial statements in the period of the first application of the standards.

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

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards and amendments to existing standards, the adoption of which has not yet been decided by the European Union. the following are related to IFRSs issued by the IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- Amendments to **IFRS 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period).
- Amendments **to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

The Group expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Group's financial statements in the period of the first application of the standards.

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 consolidated 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 construction objects, equipment and transport equipment. 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

	2019	2018
	(in thousands of HRK)	
Sale of goods	376.735	430,528
Non-shipbuilding industry	222.183	122,506
Shipbuilding	422.301	490,454
Construction services	163.020	93,025
	1.184.239	**1,136,513**

Revenue from shipbuilding and revenue from off shore and steel construction are calculated in accordance with IFRS 15 - 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

	2019	2018
	(in thousands of HRK)	
Revenue from out of court settlement	32,585	-
Income from write-off of liabilities	28,952	-
Reversal of provisions	4,283	3,337
Revenue from post-paid claims	-	18,799
Subsidies and government grants	-	120
Other operating income	11,148	14,629
	76,968	**36,885**

Other operating income mostly refers to collected written-off receivables, sale of assets. income from arbitration et.

NOTE 7 - MATERIAL EXPENSES

	2019	2018
	(in thousands of HRK)	
Raw materials	362,312	384,809
Fuel and energy	25,530	24,403
Small inventory and spare parts	6,723	5,040
Raw materials and supplies	**394,565**	**414,252**
Goods sold	**118,612**	**76.751**
External co-operation services	79,522	57,506
Intellectual services	22,638	17,461
Transport services	15,655	15,449
Treatment preparation and processing	8,747	16,104
Utilities costs	3,442	2,200
Cost of postage, telephone, internet etc.	962	859
Other external costs	70,559	29,452
Other costs	**201,525**	**139,031**
Total material expenses	**714,702**	**630,033**

Other external costs mainly relate to the costs of the co-operation whose increase led to increased business activity of the Group during 2019 compared to 2018.

NOTE 8 - STAFF COSTS

	2019	2018
	(in thousands of HRK)	
Net wages and salaries	183,430	188,411
Taxes and contributions from salaries	65,201	67,453
Contributions on salaries	41,345	42,600
Other staff costs	22,191	11,174
	312,167	**309,638**

As at 31 December 2019 the number of employees in the Group was 3,234 (*2018: 3,073*).

NOTE 9 - OTHER OPERATING EXPENSES

	2019	2018
	(in thousands of HRK)	
Loss from contract termination	54,435	-
Other employee expenses	31,641	26,461
Value adjustment of assets	20,308	7,365
Banking charges	19,276	10,863
Intelectual services	13,696	6,292
Work contract expenses	10,812	9,415
Travel expenses	8,789	5,677
Insurance expenses	4,727	5,052
Fees and penalties	2,293	2,286
Concession	1,697	2,614
Provisions	1,637	2,253
Other costs	31,683	24,634
	200,994	**102,912**

Other costs mostly refer to donation and sponsorship, insurance, uncollected receivables, promotion, licences, court fees and similar.

NOTE 10 - FINANCIAL INCOME

	2019	2018
	(in thousands of HRK)	
Positive exchange differences	12,284	19,001
Interest income	989	117
Income from unwinding of discount	348	494
Other financial income	437	531
	14,058	**20,143**

NOTE 11 - FINANCIAL EXPENSES

	2019	2018
	(in thousands of HRK)	
Interest cost	72,740	27,828
Negative exchange differences	17,367	11,830
Other financial expenses	1,914	437
	92,021	**40,096**

NOTE 12 – CORPORATE INCOME TAX

	2019	2018
	(in thousands of HRK)	
Current tax	211	318
Deferred tax	(5,422)	(5,798)
	(5,211)	**(5,480)**

	2019	2018
	(in thousands of HRK)	
Profit before taxation	**68,006**	**69,909**
Corporate income tax at a rate of 18%	12,241	12,584
Effect of subsidiaries' different tax rates	1,936	9,085
Non-deductible tax expenses	58,889	296
Non-taxable income and tax incentives	(60,474)	(15,856)
Temporary differences not recognized as deferred tax assets	(196)	(157)
Tax loss for which deferred tax assets were not recognized	(19,200)	(11,856)
Previously unrecognised used tax losses	1,593	424
Tax income recognised in the statement of comprehensive income	**(5,211)**	**(5,480)**
Effective tax rate	**(8%)**	**(8%)**

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.

The Group uses tax relief under the Investment Incentive Act, and has the status of the holder of incentive measures based on investments in a new screw goods factory in the area of the city of Knin. DIV GRUPA d.o.o. uses tax reliefs under the Investment Promotion Act, and has the status of the holder of incentive measures based on investments. For a new screw goods factory in the city of Knin, the amount of aid received in the form of a tax incentive in the amount of HRK 151,100 thousand, and for an investment in a threaded rod factory, the amount of aid received in the form of a tax incentive in the amount of HRK 28,303 thousand. Until 31 December 2019 the Group used a total of HRK 122,303 thousand, of which HRK 103,597 thousand relates to the reduction of the obligation to pay income tax. Due to the historical uncertainty of taxable profit and the amount of future taxable profit, the Group did not recognize deferred tax assets related to support in the form of tax incentives and temporary differences.

In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Group'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 d.o.o., Bosnia and Herzegovina, with a tax rate of 10%, subsidiaries Min Div Svrljig a.d., TVIK DIV Valjevo d.o.o. and DIV Betonski pragovi d.o.o., Serbia, with a tax rate of 15%, and to the subsidiary Shangai Vida Industry and Trading CO.,LTD., China, with a tax rate of 25%.

Movement of deffered tax asset was as following:

	2019	2018
	(in thousands of HRK)	
As at 1 January	**6,365**	6,167
Decrease	-	-
Increase	425	198
As at 31 December	**6,790**	**6,365**

Movement of deffered tax liability was as following:

	2019	2018
	(in thousands of HRK)	
As at 1 January	**87,139**	**92,767**
Recognition (through Capital)	7,080	170
Dismissal (within profit and loss)	(5,422)	(5,798)
As at 31 December	**88,797**	**87,139**

	2019	2018
	(in thousands of HRK)	
Total Corporate income tax	**(5,211)**	**5,480**

Deffered Tax liability was incurred on the basis of revaluation of assets as described in Note 13 and Note 14.

NOTE 13 - INTANGIBLE ASSETS

(in thousands of HRK)	Software	Project documentation	Development Expenditure	Assets under construction	Other intangible assets	Total
Purchase cost						
As at 1/1/2018	**12,062**	**-**	**-**	**5.335**	**-**	**17.316**
Beginning balance correction	-		-	-		**-**
Reclassification	-	-	-	-	**-**	**-**
Purchases	-	-	1,154	465		**1,619**
Transfer	250		-	(250)	**-**	**-**
Sales and expenses	-	-	-	-	**-**	**-**
Exchange rate differences	-	-	-	-	**-**	**-**
As at 31/12/2018	**12,231**	**-**	**1,154**	**5,550**	**-**	**18,935**
As at 1/1/2019	**12,231**	**-**	**1,154**	**5,550**	**-**	**18,935**
Purchases	321	1,148	173	363	1,698	3,703
Transfer	511		-	(511)	-	-
Sales and expenses	(65)	(230)	-	-	-	(295)
Revaluation	(22)	21,723	-	-	-	21,701
As at 31/12/2019	**12,976**	**22,641**	**1,327**	**5,402**	**1,698**	**44,044**
Accumulated depreciation						
As at 1/1/2018	**1,808**		**-**	**-**		**1,808**
Annual cost	2,065		-	-		**2,065**
Exchange rate differences	6		-	-		**6**
As at 31/12/2018	**3,878**		**-**	**-**		**3,878**
As at 1/1/2019	**3,878**	**-**	**-**	**-**		**3,878**
Annual cost	**1,060**	**-**	**-**	**-**	843	**1,903**
As at 31/12/2019	**4,938**	**-**	**-**	**-**	**843**	**5,781**
Net carrying amount						
As at 1/1/2019	**8,353**	**-**	**1,154**	**5,550**	**-**	**15,057**
As at 31/12/2019	**8,038**	**22,641**	**1,327**	**5,402**	**855**	**38,263**

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 1/1/2018	**29,330**	**502,340**	**119,815**	**401,533**	**415,096**	**134,160**	**274,175**	**1,876,451**
Purchases	-	562	1,249	2,998	12,561	7,936	60,253	**85,559**
Transfer	-	5,764	332	(1,546)	2,333	44,953	(51,837)	**-**
Reduction due to sales of subsidiaries	-	-	-	(168)	-	-	-	**(168)**
Revaluation	-	-	-		-	-	-	
Exchange rate differences	(165)	(803)	-	(1,294)	(12)	-	(73)	**(2,346)**
Sales and expenditures	(6)	-	-	(361)	(8,499)	(9)	(4,697)	**(13,572)**
As at 31/12/2018	**29,159**	**507,863**	**121,396**	**401,163**	**421,479**	**187,040**	**277,822**	**1,945,924**
Accumulated depreciation and value adjustment								
As at 1/1/2018	**6,582**	**66,537**	**13,033**	**93,041**	**133,422**	**6,765**	**-**	**319,381**
Correction of initial state	-	260	-	-	-	-	-	**260**
Annual cost	-	7,888	9,166	19,516	25,772	870	-	**63,211**
Reduction due to sales of subsidiaries	-	-	-	(168)	-	-	-	**(168)**
Exchange rate differences	-	(322)	-	(415)	(12)	-	-	**(749)**
Value adjustment	-	-	-	-	-	-	982	**982**
Sales and expenditures	-	-	-	(305)	(178)	(8)	-	**(491)**
As at 31/12/2018	**6,582**	**74,362**	**22,198**	**111,669**	**159,004**	**7,627**	**982**	**382,425**
Net carrying amount								
As at 31/12/2018	**22,576**	**433,501**	**99,198**	**289,494**	**262,475**	**179,413**	**276,840**	**1,563,499**

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 1/1/2019	**29,159**	**507,863**	**121,396**	**401,163**	**421,479**	**187,040**	**277,822**	**1,945,924**
Purchases	6,537	16,119	-	17,767	32,849	25,413	12,539	111,224
Transfer	-	1,041	-	1,887	169	47,336	(50,433)	-
Reduction due to sales of subsidiaries	-	-	-	-	-	-	511,376	511,376
Revaluation	1,527	2,094	-	15,077	-	-	-	18,698
Exchange rate differences	(16)	(264)	-	(686)	(783)	-	-	(1,749)
Sales and expenditures	(6,075)	(5,516)	-	(228)	(1,629)	(16,208)	-	(29,656)
As at 31/12/2019	**31,132**	**521,337**	**121,396**	**434,979**	**452,084**	**243,581**	**751,304**	**2,555,816**
As at 1/1/2019	**6,582**	**74,362**	**22,198**	**111,669**	**159,004**	**7,627**	**982**	**382,425**
Correction of initial state								
Annual cost								
Reduction due to sales of subsidiaries	-	4,113	7,728	19,319	6,675	6,757	-	44,593
Exchange rate differences	-	(22)	-	22	-	-	-	-
Value adjustment	-	(76)	-	(63)	(66)	-	-	(205)
Sales and expenditures	-	-	-	(61)	(1,485)	(5,836)	-	(7,382)
As at 31/12/2019	**6,582**	**78,377**	**29,926**	**130,886**	**164,128**	**8,548**	**982**	**419,431**
Net carrying amount								
As at 31/12/2019	**24,550**	**442,960**	**91,470**	**304,093**	**287,956**	**235,033**	**750,322**	**2,136,386**

Land, buildings and equipment of the Group with a carrying amount of HRK 529,750 thousand (31 December 2018: HRK 551,813 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 2019	31 December 2018
	(in thousands of HRK)	
Cost of equipment under financial lease	11.293	10,806
Accumulated depreciation	(954)	(939)
Net carrying amount	**10.339**	**9,867**

NOTE 14a - RIGHT TO USE ASSETS

Useful assets where the Group is the lessee under an operating lease have the carrying amount as follows:

(in thousand of HRK)	Building	Equipment	Total
January 1, 2019.	-	-	-
Increase	1.680	205	**1.885**
Depreciation	(843)	(112)	**(955)**
On December 31, 2019.	**837**	**93**	**930**

NOTE 15 - INVESTMENT PROPERTY

(in thousands of HRK)	Investment property
Purchase cost	
As at 1/1/2018	**5,603**
Purchases	-
As at 31/12/2018	**5,603**
As at 1/1/2019	**5.603**
Purchases	(592)
As at 31/12/2019	**5.011**
Accumulated depreciation	
As at 1/1/2018	**1,157**
Annual cost	171
As at 31/12/2018	**1,328**
As at 1/1/2019	**1.328**
Annual cost	171
Sale	(24)
As at 31/12/2019	**1.475**
Net carrying amount	
As at 1/1/2019	**4,275**
As at 31/12/2019	**3.536**

At 31 December 2019 the fair value of investment property amounted to HRK 3,536 thousand.

NOTE 16 – OTHER INVESTMENTS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Financial assets available for sale	427	394
Given deposits	-	6
Other investments	24	4
	451	**404**

Movement of available-for-sale financial assets:

	Financial assets available for sale
(in thousands of HRK)	*(in thousands of HRK)*
1 January 2019	**394**
Fair value change	33
Value adjustment	-
31 December 2019	**427**

The increase in the fair value and the value adjustment is recognized in other comprehensive income.

NOTE 17 - INVESTMENT IN JOINT VENTURES

	2019	2018
	(in thousands of HRK)	
Opening balance	15,214	14,655
Additional investments	954	692
Share in (loss)	(89)	(133)
Closing balance	**16,079**	**15,214**

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

	1 January 2019	Investment	Share in (loss)	31 December 2019
(in thousands of HRK)				
Kamen-Dent d.o.o.	14,996	954	(96)	15,854
Marine and Energy Solutions DIV d.o.o.	218	-	7	225
	15,214	**954**	**(89)**	**16,079**

Overview of financial data of associates – 100%

	Assets	Liabilites	Income	Net profit/(loss)
(in thousands of HRK)				
Kamen-dent d.o.o.	16,955	(309)	249	(192)
Marine and Energy Solutions DIV d.o.o.	1,326	(1,285)	4,622	13
	18,281	**(1,594)**	**4,871**	**(179)**

NOTE 18 – LONG-TERM RECEIVABLES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Long-term loans receivables from employees	3,813	5,394
Other long-term receivables	26	1,591
	3,839	**6,985**

NOTE 19 – INVENTORIES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Raw materials and supplies	177,892	166,396
Trade goods	84,483	96,117
Finished products	136,191	105,509
Production in progress	28,666	18,558
Advances for inventories	41,187	32,642
	468,419	**419,221**

At 31 December 2019 there is no inventories (31 December 2018: HRK 74,855 thousand) were secured against the loans of the Group.

NOTE 20 - TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Trade receivables	78,980	112,135
Value adjustment of trade receivables	(26,211)	(26,394)
Trade receivables - net	**52,769**	**85,741**
Receivables for given advances	16,381	22,791
Receivables for government grants and subsidies	69,251	25,148
Receivables - cession and assignation	5,355	1,804
Receivables for Loans given to employees	1,884	1,967
Given loans, deposits and similar	22,022	1,228
Given loans to related parties	-	14,905
Other receivables	37,343	16,900
Impairment of trade receivables and other receivables in accordance with IFRS 9	(3,562)	(891)
Impairment of given loans in accordance with IFRS 9	-	(217)
	201,443	**169,376**

Movements in impairment of trade receivables were as follows:

(in thousands of HRK)	2019	2018
Balance as at 1 January	**27,502**	**23,411**
Increase	2,993	3,281
Expected credit loss (IFRS 9) – first application	-	891
Increase of expected credit loss IFRS 9	693	217
Collected previously written off receivables	(1,415)	(35)
Write off	-	(263)
Balance as at 31 December	**29,773**	**27,502**

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

NOTE 20a – RECEIVABLES CONSTRUCTION CONTRACTS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Accrued revenue	714,930	971,818
	714,930	**971,818**

Accrued revenue includes amount of HRK 714,930 thousand which relates to customer receivables from construction contracts (Note "Construction Contracts").

NOTE 21 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Cash in bank	24,768	26,750
Cash in hand	896	547
	25,664	**27,297**

Cash in bank includes cash in the amount of HRK 16,253 thousand (31 December 2018: HRK 3,999 thousand) that Group cannot use because these funds are moved to special bank account due to legal cases.

NOTE 22 - SHARE CAPITAL

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Share capital	245,737	245,737
Revaluation reserves	331,062	313,022
Capital reserves	6,084	-
Other reserves	44,281	43,587
Retained profit	1,096,350	1,022,084
Profit for the year	74,244	75,124
Non-controlin interest	7,176	8,643
	1,804,934	**1,708,197**

NOTE 23 – PROVISIONS AND NON-DOMINANT SHARES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Legal reserves	29,921	29,896
Reserves from foreign currency translation	(2,495)	(2,321)
Capital reserves		
Other reserves	6,084	-
Revaluation reserves	16,856	16,012
	331,062	313,022
	381,428	**356,609**

Legal reserves

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

Other reserves

Other reserves in the amount of HRK 11,989 thousand were formed by distributing earnings from the previous period of certain subsidiaries or 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%	3,666
BRODOSPLIT d.d.	Croatia	0.17%	3,510
			7,176

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Non-current liabilities towards banks and other financial institutions		
Long-term bank loans	613,110	283,525
Current maturity of bank loans	(49,566)	(45,863)
Financial lease	3,845	5,365
Current maturity of financial lease	(1,823)	(2,000)
	565,566	**241,027**
Current liabilities towards banks and other financial institutions		
Short-term loans with banks	124,659	264,029
Current maturity of long-term loans	49,566	45,863
Short-term liabilities for financial leases	1,823	2,000
	176,048	**311,892**
Total liabilities towards banks and other financial institutions	**741,614**	**552,919**

Maturity of borrowings is as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Maturity up to 1 year	174,225	309,892
Maturity from 1-2 years	418,189	45,863
Maturity from 2-5 years	145,355	138,926
Maturity over 5 years	-	52,873
	737,769	**547,554**

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

Maturity of financial lease liabilities is as follows:

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

	2018		
	(in thousands of HRK)		
	Equity	Interest	Total
Up to 1 year	2,000	219	2,219
From 1 to 2 years	1,764	118	1,882
From 2 to 5 years	1,601	74	1,675
	5.365	**411**	**5.776**

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
HRK	30,000	-
EUR	707,769	547,554
	737,769	**547,554**

As at 31 December 2019, the Group has a short-term facility with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 129.873 thousand (*in 2018: HRK 89,085 thousand*) of which, at 31 December 2019, HRK 45.427 thousand were unused (in 2018: HRK 8,106 thousand). The Group also has a limit with the insurance company Zurich Insurance Group in the amount of HRK 52,098 thousand, of which HRK 51,678 thousand was unused as at 31 December 2019.

Loans from banks

Bank loans in the amount of HRK 674.701 thousand carry a fixed annual interest rate when HRK 63,069 thousand carry variable annual interest rates (in 2018: HRK 204,929 thousand).

There is also long term loan from HBOR for construction of NB 487 in the amount of EUR 87.883.511,68 (withdrawn EUR 63,829,795 as of 31.12.2019).

The loan repayment for NB 487 is in 113 monthly annuities (no later than March 1, 2030), of which the first annuity is due one month from the day of handing over the new building to the borrower. Bills of exchange and debentures of the subsidiary of the loan holder Polaris Exploration Inc are given as collateral, and co-debtors of Brodosplit d.d., guarantee from Ministry of finance, corporate guarantee from the owner of Charter and the pledge on new construction which is the subject of financing. Upon completion of construction and delivery of the ship to the charter, guarantee from Ministry of finance is changed by the credit insurance policy (ECA). The loan is repaid by Charterer by directly paying the rent in the Bank.

The loan was reclassified as long-term advances under the bareboat charter agreement, as the loan is intended to finance the construction of a NB 487. During construction, the loan amount is classified as long-term advances and represents the obligation of the shipbuilder. Upon completion of construction, the advance is no longer the obligation of the shipbuilder because he has fulfilled all his obligations under the contract but the obligation passes to the end customer. In the case that the end customer does not make the payment, the builder is insured in the form of a loan insurance policy and corporate guarantee from the charter owner.

Financial leases

Financial leases mostly refer to vehicle leases.

Securities

Bank received loans are secured with the pledge over Group´s lands and buildings, as disclosed in Note 14.

Reveived loans are secured with ECA policy and corporate guarantee from the charter owner.

NOTE 25 – PROVISIONS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Long-term provisions		
Legal claims	13,522	16,881
Other provisions	-	658
	13,522	**17,539**
Short-term provisions		
Repairs in the guarantee period	-	412
Redundancy benefits	4,607	8,956
	4,607	**9,368**
Total provisions	**18,129**	**26,908**

Movements in provisions during 2019 are presented in the table below:

	Balance at 1 January 2019	Recognised in profit or loss	Used	Balance at 31 December 2019
	(in thousands of HRK)			
Legal claims	16,881	3,543	(6,902)	13,522
Redundancy benefits	8,956	1,835	(6,184)	4,607
Repairs in the guarantee period	412	-	(412)	-
Other provisions	658	-	(658)	-
	26,907	**5,378**	**(14,156)**	**18,129**

NOTE 25a – LONG TERM LIABILITIES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Received advances for ships (i)	475,058	424,853
Liabilities for taxes and contributions	-	9,599
Other liabilities (ii)	6,914	5,463
	481,972	**439,915**

(i) Contains a long-term loan for the NB 487 reclassified from the long-term bank loans (Note 24) because the Management believes that the presentation reflects the progress of shipbuilding activities.

(ii) Other long-term liabilities include lease liabilities in the amount of HRK 854 thousand.

NOTE 26 - TRADE AND OTHER LIABILITIES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Trade payables	255,340	227,146
Other liabilities	208,495	144,780
	463,818	**371,926**

NOTE 26 - TRADE AND OTHER LIABILITIES (CONTINUED)

Other liabilities:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Liabilities for received advances	32,634	28,478
Taxes, contributions and similar duties payable	93,396	62,458
Liabilities to banks for fees and interest	25,853	941
Liabilities towards employees	19,188	18,634
Concession fee liabilities	3,078	326
Loan liabilities towards owners	-	43
Loan liabilities	11,900	25,320
Other short term liabilities	22,446	8,580
	208,495	**144,780**

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Maturity up to 1 year	-	43
Maturity from 1 to 2 years	-	-
	-	**43**

NOTE 27 – DEFERRED EXPENSES AND FUTURE PERIOD INCOME

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Accrued expenses	13,290	6,840
Prepaid income	17,632	-
Future period income (Government supports)	12,376	10,875
	43,298	**17,715**

NOTE 28 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	**2019**	**2018**
Contract costs incurred up to reporting date	1,139,813	1,419,516
Recognised (losses)/gains up to the reporting date	124,105	49,149
Less: invoicing in progress and advances received	(602,602)	(498,367)
Receivables from /(payables to) the customers for the contracted work	**661,316**	**970,298**
Reclassified to deffered revenue	714,930	971,818
Reclassified to advances received from suppliers and accrued revenue	(53,614)	(1,520)

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 2019	**31 December 2018**
	(in thousands of HRK)	
Debt (long-term and short-term credits)	1,212,827	971,400
Cash and cash equivalents	(25,664)	(27,297)
Net debt	**712,105**	**519,250**
Equity	1,804,934	1,708,198
Debt to equity ratio	66%	55%

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 Group 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 Group 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 2019	31 December 2018
	(in thousands of HRK)	
Financial assets at amortized cost		
Trade receivables and other receivables	934.634	1.137.487
Given loans	7.576	15.910
Cash and cash equivalents	25.664	27.297
	967.874	**1.180.694**
Financial assets at depreciated cost		
Trade payables and other liabilities	559.547	387.995
Financial lease	3.845	5.365
Factoring liabilities	737.769	546.547
Loans liabilities	475.058	424.853
	1.776.219	**1.364.760**

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 Group, 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.

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 as EURIBOR values have been at historically low levels for several past years. A hedging option is planned to be considered for the next period.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	1,418,844	867,229	179,023	76,159
USD	21,430	5,926	29,342	4,283
NOK	3,819	6,069	-	-
GBP	84	339	315	295
PLN	-	-	-	696
SEK	-	-	-	-
Other currencies	588	163	242	73
	1,444,765	**879,726**	**208,922**	**81,506**

As explained above, 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	
	2019	**2018**
	(in thousands of HRK)	
(Decrease) of net results	+/- 12,398	+/-7,910

	Impact of USD	
	2019	**2018**
	(in thousands of HRK)	
(Decrease) of net results	+/- 79	+/- 16

The Group does not use currency risk hedging instruments.

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial 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 2019				
Available-for-sale financial assets				
Listed companies	248			248
Unlisted companies		179		179
Total	**248**	**179**		**427**

(in thousands of HRK)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2018				
Available-for-sale financial assets				
Listed companies	217	-	-	217
Unlisted companies	-	177	-	177
Total	**217**	**177**	**-**	**394**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Fair value of financial instruments (continued)

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

- The fair value of financial assets and financial liabilities 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 2018 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 2018, the refinancing of the existing credit lines of the DIV Grupa d.o.o. is repliced with long-term credit, which further reduced the liquidity risk since the short-term one-off loan maturity was converted into amortized repayment over 5 years. In addition, this arrangement provides an additional amount of funds for CAPEX and working capital. Also, the financial construction for the construction of NB 487 was secured, and banks had inadequate limits for off-balance sheet products.

In 2019, the short-term loan for the construction of NB 483 was refinanced in such a way that the maturity was harmonized with the expected completion of the arbitration procedure. In addition, a mandate letter was signed with a foreign financial institution to finance NB 485, which transaction was realized in 2020, after the approval of the guarantee by the Ministry of Finance. Also, negotiations have begun on the foreign financial market to finance new projects, but also the potential refinancing of existing credit exposures. In this way, potentially, the entire credit exposure would be placed on the foreign financial market with higher capacities, while on the domestic market the focus would be on financial monitoring frameworks from which products such as guarantees, letters of credit and possibly short-term loans would be used.

Insurance policies for foreign and domestic receivables were renewed, which further affected the regularity of inflows from customers.

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)

Financial risk management (continued)

Liquidity risk analysis

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 2019	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Trade payables	254,447	254,447	254,447			
Other liabilities	216,303	216,303	216,303			
	470,517	**470,517**	**470,517**			
Interest bearing liabilities						
						-
Finance lease	3,845	4,079	1,956	1,126	997	
Liabilities for loans	737,769	830,845	231,112	441,676	158,058	-
Other long-term liabilities	475,058	592,038	35,543	73,686	198,884	290,757
	1,216,672	**1,426,962**	**268,611**	**516,488**	**357,939**	**290,757**
	1,687,189	**1,897,479**	**739,128**	**516,488**	**357,939**	**290,757**

At 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Other liabilities	227,146	227,146	227,146	-	-	-
Trade payables	160,849	159,840	150,242	9,598	-	-
	387,995	**386,986**	**377,388**	**9,598**	-	-
Interest bearing liabilities						
Finance lease	5,365	5,776	2,219	1,882	1,675	
Liabilities for loans	546,547	582,635	322,206	54,066	152,374	53,989
Other long-term liabilities	424,853	515,695	14,494	44,246	169,633	287,322
	976,765	**1,104,106**	**324,425**	**100,194**	**323,682**	**341,311**
	1,364,760	**1,491,092**	**701,813**	**109,792**	**323,682**	**341,311**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk analysis (continued)

Assets

At 31 December 2019	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	5,355	5,355	5,355			
Trade receivables	100,057	100,057	100,057			
Other receivables	829,221	829,221	829,221			
	934,633	**934,633**	**934,633**			
Interest bearing assets						
Given loans and deposits	7,576	7,576	7,576	-	-	-
Cash and cash equivalents	25,664	25,664	25,664			
	33,240	**33,240**	**33,240**			
	967,873	**967,873**	**967,873**	**-**	**-**	**-**

At 31 December 2018	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	3,389	3,389	3,389	-	-	-
Trade receivables	114,739	114,739	114,739	-	-	-
Other receivables	1,019,359	1,019,359	1,019,359	-	-	-
	1,137,487	**1,137,487**	**1,137,487**	-	-	-
Interest bearing assets						
Given loans and deposits	15,910	15,910	15,910			
Cash and cash equivalents	27,297	27,297	27,297	-	-	-
	43,207	**43,207**	**43,207**	-	-	-
	1,180,694	**1,180,694**	**1,180,694**	**-**	**-**	**-**

The Group is exposed to interest rate risk since it is borrowing both at fixed and variable interest rates. This risk is not significant at this time, given the historically low levels of EURIBOR and the announcement of retention of these values in the coming period. Variable interest rates that were applicable to the relevant portion of the Group's borrowings at the reporting date are based on the following:

	2019	**2018**
	(in thousands of HRK)	
Bank loans based on EURIBOR		244,780
Financial leases based on EURIBOR	-	-
	-	**244,780**

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial 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
2019		
HRK	+/-0.5	-
2018		
HRK	+/-0.5	+/-1,244

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

Through the subsidiary Brodosplit - Plovidba d.o.o., 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 BRODOSPLIT, the Group also manages Brodosplit Italia.

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

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

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

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

On 19 October 2017, the company Brodosplit-Projekti d.o.o. was merged with the company DIV GRUPA d.o.o.

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

NOTE 31 - RELATED PARTY TRANSACTIONS

	2019	2018
	(in thousands of HRK)	
Revenue from sale of goods and service		
Proizvodno Trgovački Centar Krka Knin d.o.o.	1,304	1,163
Marine and Energy Solutions DIV d.o.o.	64	42
Kamen dent d.o.o.	248	-
	1,616	**1,205**

	2019	2018
	(in thousands of HRK)	
Purchase of goods and services		
Proizvodno Trgovački Centar Krka Knin d.o.o.	8,856	8,695
Marine and Energy Solutions DIVd.o.o.	3,320	4,213
	12,176	**12,908**

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Trade receivables		
Marine and Energy Solutions DIV d.o.o.	-	14
Marine Consulting d.o.o.	2	-
Proizvodno Trgovački Centar Krka Knin d.o.o.	-	150
	2	**164**

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Trade payables		
Proizvodno Trgovački Centar Krka Knin d.o.o.	1.257	1,600
Marine and Energy Solutions DIV d.o.o.	-	1,121
	1.257	**2,721**

NOTE 31 - RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Liabilities for accepted borrowings		
Owners	-	43
Proizvodno Trgovački Centar Krka Knin d.o.o.	13,579	25,000
	13,579	**25,043**

Remuneration to key Management

The key management of the Group comprises 39 employees *(in 2018.: 41 employees)*. In 2019, a total of HRK 10,210 thousand was paid as remuneration to the members of the Management Board *(in 2018:* HRK 9,769 *thousand)* based on gross salary.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS

Brodosplit d.d.

Company through DIV Brodogradnja d.o.o. 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. The Company maintained the above mentioned measures until the reporting date and achieved a viability condition in accordance with the Agreement.

In addition, the buyer (DIV Brodogradnja d.o.o.) 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 d.o.o.

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. Regarding the possible outcome, DIV GRUPA d.o.o. or must announce a public offering or dispose of shares over 25%. The subject of the dispute is the redemption price per share that will be offered to minority shareholders. On 31.12.2019. the shares were quoted at a price of RSD 645 and on the order of DIV GRUPA d.o.o. an assessment made by the auditing company and the price of one share is 600 RSD.

Furthermore, DIV GRUPA d.o.o. and DIV betonski pragovi d.o.o. During the takeover, they undertook to meet certain conditions, and in November 2019 the Agreement on the allocation of funds for direct investments with the Ministry of Finance of the Republic of Serbia was successfully implemented, on the basis of which funds for direct investments in the amount of EUR 2,400,000.00 were obtained.

DIV betonski pragovi d.o.o. as of December 31, 2018, it had invested EUR 12.7 million and had 315 employees, and as of December 31, 2019, an additional EUR 0.2 million and had 303 employees.

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

Exposure to court disputes

As of 31 December 2019, the Group 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 2019, the Group has issued guarantees in the total amount of HRK 243,697 thousand (31 December 2018: HRK 275,323 thousand).

Overview and debenture exposure:

DIV GRUPA d.o.o. as at 31 December 2019 has issued bonds in the total nominal amount of HRK 1,170,127 thousand. The amount of the debt issued by the Group for its own placements in nominal amount is HRK 647,796 thousand, for suppliers HRK 41,824 thousand while the Group has issued a bond for related parties in the nominal amount of HRK 480,507 thousand.

DIV GRUPA d.o.o as at 31 December 2018 has issued bonds in the total nominal amount of HRK 1,132,880 thousand. The amout of the indebtedness issued by the Group for the nominal amount of the company's own capital amounts to HRK 717,145 thousand, for the suppliers HRK 35,790 thousand while the Group has issued a bond for related parties in the nominal amount of HRK 379,745 thousand.

The Company and the Group keep records of issued bonds at nominal values in accordance with the contracts. The aggregate amount of the nominal amount does not represent the maximum contingent liability due to the fact that according to certain contracts, the Company or Group is obliged to issue several debentures which are individually in the amount of the total original obligation.

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

NOTE 33 – SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

The overall situation resulting from the COVID-19 pandemic significantly affected the business activities of the company DIV GRUPA d.o.o. in the first 4 months of 2020. The impact of measures introduced due to the COVID-19 pandemic in our country and other countries where we market our products is reflected in our sales segment and increase in inventories. This is due to the closure of factories in Europe and worldwide and extremely poor transport arrangements. In order to advance our talent recruitment, we undertook several actions focusing on ensuring a secure working environment and inputs necessary for keeping the production process alive. Regarding government measures, the Group received grants from the government in the amount of HRK 4,984 thousand.
DIV GRUPA was one of the first companies in Croatia to introduce strict measures for preventing the spread of COVID-19 in its facilities. The relevant measures entail checking the employees' temperature before they enter the premises, regular cleaning and disinfection of shared spaces, dividing the production process into two shifts to reduce the number of people working in the plant simultaneously, and establishing a remote work platform for most administrative workers. At the end of April, voluntary COVID-19 testing was organised for all employees.
Having determined that we were able to organise a secure production process, we focused on ensuring sufficient quantities of raw materials, predominantly for the production of standard fasteners products. This is due to the fact that we plan to produce a sufficient quantity of junction elements in line with international standards, for which there is constant demand and which do not have an expiration date, and we believe we will most definitely sell them mainly in the European market. Once transport normalises, we will have a significant advantage in comparison with Eastern producers in terms of necessary delivery times.

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

In 2020, after months of analysis, DIV GRUPA d.o.o successfully closed the negotiations with owners and creditors regarding the acquisition of the 100% share in the company KLEVEN Verft AS in Norway. This acquisition will strengthen our overall shipbuilding potential for constructing cruise ships and ad to the already existing credentials of Brodosplit in the off-shore market and the sector of catching and processing fish at sea. However, shortly after the formal takeover of the company, the closure of the economy caused by the COVID-19 pandemic occurred, and the start of the KLEVEN integration process was delayed. Additionally, as a consequence of the pandemic, significant shipbuilding contracts were canceled in KLEVEN, on which the positive assessment of the acquisition for the DIV group was based, and some substitutes were contracted by the inherited management under rather unfavorable conditions. In an effort to improve KLEVEN's position, a decision was made to replace the management, but despite of all efforts, a model acceptable to stakeholders was not found, and a request to initiate bankruptcy proceedings was submitted in early July. The bankruptcy of KLEVEN did not leave any negative consequences on the operations of other companies from the DIV Group at the date of publication of these financial statements.

NOTE 34 - APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 11th August 2020.

Signed for and on behalf of the Group Management Board on August 11, 2020.

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

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