DIV GROUP

DIV GROUP Ltd and subsidiaries

ANNUAL FINANCIAL STATEMENT FOR THE GROUP

DECEMBER 31, 2018.

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

DIV GRUPA

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MANAGEMENT REPORT

1. INTRODUCTION

DIV Group has completed the business year of 2018 with positive results and key indicators are in line with expectations and plans.

The year of 2018 was very significant in the field of shipbuilding since the five year restructuring period of the Brodosplit group was successfully completed on 28.02.2018, which has allowed DIV Group to meet all the necessary conditions and manage Brodosplit to achieve its long term viable business in running the company. By fulfilling all obligations under the Contract on sale and transfer of shares of Brodosplit plc., Split cease all restraint from business partners, especially in the financial part of the business over the future of the group, in activities that throughout the year of 2018 have attracted the attention of the entire economic community not only in Croatia but also wider because of the problem with Uljanik group.

DIV Group has diversified its business, markets and sources of revenue over the past years to ensure that the impact of the risk for each market separately is minimized and balanced the overall result. In the investment part of our business, we continued investing in technological water treatment plants at the location of the subsidiary Knin, then in the construction of cruisers (60 m of Klara, sailing ship), and in a number of investments in equipment and equipment that is necessary to improve the production process, process control, or performing certain operations.

In the financial part of the business of the year of 2018, the most significant events were the restructuring of the balance of DIV GROUP ltd. with EBRD and Addiko Bank loans of approximately EUR 30 million, and a loan to the buyer of a ship (within DIV group system) amounting to approximately EUR 87 million. With EBRD and Addiko bank loans, they turned into long-term liabilities and reduced the pressure on regular business, with better financial terms and lower total short-term financial costs. Part of this loan was realized in the amount of current working capital and CAPEX, which created opportunities for further growth of DIV GROUP ltd. With the loan for the purchase and construction of the ship (newbuilding 487), it is possible to contract and sell a polar cruise ship worth about EUR 106 million, which makes Brodosplit stand out in production of increasingly demanding ships from that niche and gets meaningful references for ships with higher sales value and added value.

The growth achieved and the results in 2018 are the starting point for future periods in which we are planning to continue this trend, which strengthened us for free market positioning in all segments of business.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2018

Reporting company name: DIV GROUP LTD

Legal form: Limited company

Founding state: Republic of Croatia

Company address: Bobovica 10a, 10430, Samobor

Branch: IV Gardijske brigade 44, 22300, Knin

Business operations: Production and trade of fasteners products

In 2018, 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 2018, the company DIV GROUP LTD 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

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1 COMPANY ASSETS

As at 31 December 2018 current assets were HRK 1.592.920 thousand (2017: HRK 1.260.477 thousand), while long-term assets amounted to HRK 1.611.799 thousand. (2017: HRK 1.612.138 thousand)
As at 31 December 2018, total assets of the group amounted to HRK 3.204.719 thousand

3.2 BUSINESS RESULTS FOR 2018

In 2018, the Group realized a profit of HRK 75.389 thousand.

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 Company has foreign contracts mostly denominated in EUR and USD currency
- CREDIT RISK – the ability of debtors to pay their debts to the Company. They refer to unfulfilled contracted obligations of second parties. The Company protects its self 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 Company is protected by monitoring planned and realized cash flows and monitoring of financial assets and financial liabilities.

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

5. HUMAN RESOURCES

As at 31 December 2018, the Company had 3.073 employees. When hiring new employees, a rigorous selection process is carried out through tests and interviews. Special attention is dedicated to selecting young and qualified individuals or highly qualified staff with experience.

6. FUTURE BUSINESS DEVELOPMENT

DIV GROUP ltd will continue to grow 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, such as the European Union, where we are aiming to further expand the volume of products, we will also continue to strengthen exports to the USA where the potential of DIV is recognised after registering trade mark, which will eventually open the doors of a wide range of customers. Over the past year (2018), a series of large customer audits (Optimas, Bolhoff ...) have been conducted globally, so the preconditions are met for increasing sales through their channels. Over the past period, a range of equipment (machines and devices) has been introduced to optimize production processes, increasing productivity whose full use will result in lower cost per unit or time and consequently increase process quality and reliability. Increase in volume of production requires higher working capital, which is intensively negotiated with banks and other financial partners, especially by switching short-term lines to long-term and by contracting L/G and L/C limits, thus enabling participation in large market projects (e.g. railway infrastructure).

The main aim of the Brodosplit plc is to ensure an increase in income and profitability. The order book of the entire Group currently contains new-builds of the total worth of about 412 million EUR, and an additional 27.5 million EUR for other metal structures, including ship sections. Brodosplit has become a recognised shipbuilder known for its construction of the most complex ships. In 2018, we delivered a coastal patrol ship, ensuring a reference for the Company in the area of constructing military ships. In addition, he company Quark Expeditions contracted the construction of a luxurious ship for travelling the Polar areas. In the mega-construction niche, the construction of steel barriers to defend Venice from flooding has been completed.

In 2018, the Company signed multiple contracts with the Italian shipbuilding group Fincantieri on the construction of mega-blocks for large cruisers of weight 1000 t - 4000 t. The projects were contracted to harmonise the need for workers and ensure a full-time working capacity. The first mega-block was delivered in March 2019.

The future development of the Company and the Group is focused on shipbuilding, partly on developing and offering projects of different types of passenger ships, medium in size, approximately 100 to 200 m in length (cruise ships, polar expedition ships, ships / ferries to transport passengers, cars / trucks, mega yachts etc.), and on further developing and constructing military ships - coastal patrol ships and larger military ships.

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

DIV GROUP ltd. 08/17/2018. has signed a Grant Agreement for projects funded by the European Structural and Investment Funds in the 2014-2020 financial year. ("Increasing the development of new products and services arising from research and development activities"). The contract was signed by the Ministry of Economy, Entrepreneurship and Crafts and the Croatian Agency for Small Business, Innovation and Investment on the one hand and DIV GROUP ltd. as a beneficiary of the grant, on the other hand. The R & D project is being implemented in the period from 1st of July 2018 to 1st of July 2022. The R & D program aims to enable the development of a functional innovative DIV elastic buckle, and consequently placement and commercialization on the world market for the construction and maintenance of railway lines. The aim of the development project is to develop an elastic clasp that will be simplified and cost effective to provide simple, reliable and fast mounting and dismounting, which will provide a durable and reliable connection between the piles and the rails throughout their lifetime.

For successful realization of the proposed "DIV elastic buckle" project and the fulfillment of strategic goals, a high level of scientific, professional and managerial (management) team experience will be required to work on the project. It is particularly important to highlight the scientific and technological quality of the project and its innovation. The successful realization of this project would be a major contribution to Croatian science, technological development and innovation. The "Development of DIV elastic buckle" project contributes directly to increased investments in R & D within the S3 Strategies of smart specialization, the thematic area "Traffic and Mobility", and this sub-thematic area "PTPP 1. Production of high value added parts and systems for road and rail vehicles "within which the indicative IRI theme is listed: car and rail parts of more added value. Partner on the project is the Faculty of Civil Engineering, University of Zagreb.

It is important to emphasize that the development activities are almost entirely based on the already existing competences of DIV GROUP ltd. therefore the research and development activities as well as the commercialization activities build upon the existing business resources, organization and business processes of DIV GROUP.
It is also important to note that the project "Increasing energy efficiency in production suitable for Knin" was approved for DIV GROUP ltd. on 18th of June 2018. The purpose of the project is to increase the efficiency of the energy used in the production process and to switch to energy-renewable sources. The main objective of the project is to implement a system that will exploit waste heat, and focus on heating and cooling technology as well as production and office space. The energy currently used for heating and cooling technologies and manufacturing and office space is a heavy fuel (mazut). One of the goals of the project is the abolition of the boiler room on heavy fuel which would annul the greenhouse gas emissions and its adverse environmental impact. In addition to the benefits of reducing the amount of greenhouse gases, the transition to the heat pump system with the primary aim of exploiting the waste heat also represents significant savings in energy terms. It also reduces water consumption and the use of additives in the process. It is also worth mentioning the introduction of a system for the recovery of waste heat from the oil vapors which will reduce he need for heating in the production plant for screws. The same system will also purify oil vapors, which will contribute to the quality of the working environment and protection the health of employees.

8. FURTHER PLANS

The further plans in 2019 and beyond are the development of new projects that correspond with their theme with the Smart Specialization Strategy of the Republic of Croatia (S3), a strategic document which is required by the European Commission from all European Union member states as a prerequisite for the use of ESI funds in the field of research, technological development and innovation. Strategy S3 defines objectives and priorities related to research, technological development and innovation, as well as specific thematic and sub-thematic priority areas to be invested within the next 7 years under OPC, PriorityAxis.

These projects, in which DIV GROUP ltd. 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.

Research and development projects in cooperation with scientific research institutes (FESB - Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, FSB - Faculty of Mechanical Engineering and Naval Architecture in Zagreb, GFZ - Faculty of Civil Engineering in Zagreb, Faculty of Forestry in Zagreb, Faculty of Maritime Studies in Split , Faculty of Metallurgy in Sisak), for the purpose of conducting collaborative research aimed at developing products / processes / services according to the definitions of industrial research and experimental development.

The thematic priority areas (TPP) and the sub-thematic priority areas (PTPP) of the Smart Specialization Strategy of the Republic of Croatia, which the Company plans to direct in the coming years of its R & D activities are TPP. "Traffic and Mobility" PTPP. Ecologically acceptable traffic solutions, PTPP. Production of high value added parts and systems for road and rail vehicles as TPP "Energy and Sustainable Environment" PTPP. Ecologically acceptable technologies, equipment and advancedmaterials.

Indicative themes of future projects are the research and development of new technologies and equipment related to CO2 emission reduction and additional equipment for vehicles with more rational energy consumption, advanced trams and trains, reducing environmental impact and noise reduction, and new materials for the automotive and rail industry.

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 2018.

Tomislav Debeljak
Chairman of the Board

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

Darko Pappo
Member of the Board

In Samobor, 30 June 2019.

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT

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

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

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

- the selection and consistent application of the appropriate accounting policies,
- reasonable and prudent judgements and assessments,
- applying the applicable accounting standards,
- preparing 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
DIV GRUPA d.o.o.
10430 SAMOBOR, Bobovica 10/A
Tel. 01 3377-000, Fax 01 3378-155
Chairman of the Management Board

Darko Pappo
Member of the Management Board

Samobor, 30 June 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIV GROUP Ltd. and its subsidiaries

Report on the Audit of the consolidated financial statements

Audit opinion

We have audited the consolidated financial statements of DIV GROUP Ltd. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for opinion

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

Other matter

Financial statements of the previous period.

On 1 January 2018 the Group changed the accounting policy for property plant and equipment and intangible assets replacing the cost method with the revaulation method. The details and effects of this change in the financial statements for the year ended 31 December 2017 are presented in note 3.25 Changes in accounting policies.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report.
Our opinion on the consolidated financial statements does not cover the other information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Articles 21 and 24 of the Accounting Act.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements

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

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INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

Marina Tonžetić
Member of Board and certified auditor

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Deloitte d.o.o.

Zagreb, 30 June 2019

Radnička cesta 80,

10 000 Zagreb,

Republic of Croatia

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2018

(in thousands of HRK)	Note	2018	2017
Sales income	5	1,136,511	1,020,319
Other operating income	6	36,885	35,796
Total operating income		**1,173,396**	**1,056,116**
Changes in inventories - work in progress and finished goods	19	24,581	113,144
Material costs	7	(630,033)	(576,114)
Staff costs	8	(298,467)	(343,208)
Depreciation cost	13, 14, 15	(65,447)	(53,610)
Other operating expenses	9	(114,087)	(70,513)
Total operating expenses		**(1,083,453)**	**(930,301)**
Operating income		**89,943**	**125,815**
Financial income	10	20,143	24,780
Financial costs	11	(40,096)	(54,788)
Net financial costs		**(19,953)**	**(30,007)**
Share in net income/(loss) of joint venture	17	(81)	161
Profit before taxation		**69,909**	**95,969**
Corporate income tax	12	5,480	7,907
Net profit		**75,389**	**103,876**
Other comprehensive income			
Revaluation of property, plant and equipment and intangible assets		-	340,044
Changes in fair value of assets available for sale	16	-	37
Effect of changes in foreign exchange rates		(1,558)	3,284
Total comprehensive income		**73,831**	**447,241**
Profit/(loss) attributable to:			
Company's shareholders		75,124	102,724
Non-controlling interest		265	1,152
		75,389	**103,876**
Total comprehensive income attributable to:			
Company's shareholders		73,566	444,810
Non-controlling interest		265	2,431
		73,831	**447,241**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(in thousands of HRK)	Note	31 December 2018	31 December 2017
ASSETS			
Non-current tangible assets			
Intangible assets	13	15,057	15,508
Property, plant and equipment	14	1,563,499	1,557,070
Investment property	15	4,276	4,447
Other investments	16	404	2,064
Investment in joint ventures	17	15,214	14,671
Non-current receivables	18	6,985	12,203
Deferred tax assets	12	6,365	6,176
Total non-current assets		**1,611,799**	**1,612,138**
Current assets			
Inventories	19	419,211	468,873
Trade and other receivables	20	169,376	341,550
Trade receivables for construction contracts	20a	971,818	426,086
Cash and cash equivalents	21	27,297	22,134
Prepaid costs for the future period		5,218	1,835
Total current assets		**1,592,920**	**1,260,477**
Total assets		**3,204,719**	**2,872,615**
EQUITY AND LIABILITIES			
Equity			
Share capital	22	245,737	245,737
Reserves	23	356,609	378,566
Retained profit		1,097,208	1,003,665
Non-dominant share		8,643	8,378
Total equity		**1,708,198**	**1,636,346**
Non-current liabilities			
Liabilities towards banks and other financial institutions	24	241,027	255,013
Provisions	25	17,539	15,054
Deferred tax liability	12	87,139	92,767
Other non-current liabilities	25a	439,915	-
Total non-current liabilities		**785,620**	**362,834**
Current liabilities			
Liabilities towards banks and other financial institutions	24	311,892	356,161
Provisions	25	9,368	12,644
Trade and other payables	26	371,926	468,909
Deferred expenses and future income	27	17,715	35,721
Total current liabilities		**710,901**	**873,435**
Total liabilities		**1,496,521**	**1,236,269**
Total equity and liabilities		**3,204,719**	**2,872,615**

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 2018

(in thousands of HRK)	Investment capital	Reserves	Retained profit	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	**245,737**	**36,480**	**900,941**	**1,183,158**	**5,947**	**1,189,105**
Change in fair value of assets available for sale	-	37	-	**37**	-	**37**
Effect of changes in foreign exchange rates	-	3,284	-	**3,284**	-	**3,284**
Revaluation of property, plant and equipment and intangible assets	-	338,765	-	**338,765**	1,279	**340,044**
Other comprehensive income	-	342,086	-	**342,086**	1,279	**343,365**
Profit/(loss) for the current year	-	-	102,724	**102,724**	1,152	**103,876**
Total comprehensive income/(loss)	-	342,086	102,724	**444,810**	2,431	**447,241**
Balance at 31 December 2017	**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/(loss)	-	(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	**245,737**	**356,609**	**1,097,208**	**1,699,555**	**8,643**	**1,708,198**

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 2018

(all amounts in thousands of HRK)	Note	2018	2017
Profit before taxation		75,389	103,876
Adjustment for:			
Income tax	12	(5,480)	(7,907)
Depreciation and amortization	13,14,15	65,447	53,609
Impairment of tangible and intangible assets	14	3,140	12,954
Net book value of written off property, plant and equipment		13,081	(145)
Share in loss of joint ventures	17	53	(161)
Financial income/(expenses) realised - net	10,11	28,265	35,129
Other non monetary adjustments		304	(5,121)
Changes in:			
- trade and other receivables		(379,805)	(354,764)
- inventories		49,661	(33,122)
- trade and other payables		336,113	33,615
- provisions	25	(790)	8,490
Cash flow from operating activities		**185,378**	**(153,547)**
Paid interest		(39,142)	(28,892)
Paid corporate income tax		(1,919)	(1,976)
Net cash flow from operating activities		**144,317**	**(184,415)**
Cash flow from investment activities			
Acquisition of property, plant and equipment	13, 14	(87,178)	(69,261)
Net gains from disposal of property, plant and equipment		-	1,619
Investments in joint ventures		(545)	(2,521)
Received loans and deposits		6,824	20,916
Interest received		-	1,035
Net cash flow from investment activities		**(80,899)**	**(48,212)**
Cash flow from financial activities			
Receipts from loans and borrowings		540,801	414,398
Repayments of loans and borrowings		(599,056)	(207,581)
Net cash flow from financial activities		**(58,255)**	**206,817**
Net increase/(decrease) in cash and cash equivalents		**5,163**	**(25,810)**
Cash and cash equivalents at the beginning of the year		22,134	47,944
Cash and cash equivalents at the end of the year	21	**27.297**	**22,134**

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

NOTE 1 - GENERAL INFORMATION

History and founding

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

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

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

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

Name	Surname	Function
Danijela	Debeljak	President of the Supervisory Board
Vjera	Debeljak	Vice President of the Supervisory Board

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

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

During 2018, agreements were made on loan refinancing, balance sheet restructuration was carried out DIV GRUPA ltd. with EBRD credit, Addiko Bank and loan to the buyer of the ship.

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.

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

Depreciation is calculated for each asset until the asset is fully depreciated or its residual values if significant. The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Residual values and useful lives of the operating assets are reviewed and adjusted if applicable at each reporting date.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets

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

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

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

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

3.5 Investment property

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

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

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

3.6 Non-financial assets impairment

Assets that have an indefinite useful life and are not subject of depreciation (such as land or goodwill) are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial Assets

Financial assets and financial liabilities are recognized in the statement of financial position of the Company when the Company 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 (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 Company 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 (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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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 (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)

3.8 Financial liabilities

Financial liabilities

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

Other financial liabilities

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

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

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

End of financial liability recognition

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

3.9 Government grants

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Leases

(a) Group as the lessee

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

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

(b) Group as the lessor

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

3.11 Inventories

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

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

The value of slow moving and obsolete stock is reduced and charged to the current year profit or loss.

3.12 Construction contracts

Contract costs are recognised when incurred. If the outcome cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable.

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

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

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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 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.

3.14 Subscribed capital

The subscribed capital is stated in HRK at nominal value.

3.15 Corporate income tax

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

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

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

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

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

3.16 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Borrowing costs

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

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, form part of the cost of that asset.

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

Other borrowing costs are recognized as an expense.

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

3.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Redundancy benefits

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

3.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provisions due to the passage of time is recognised as interest expense. This increase is stated as an interest expense.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Revenue recognition

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

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

(i) Sales of goods

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

(ii) Services

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

(iii) Revenue from construction contracts

Revenue from construction contracts consists of initially agreed amount increased by deviations from contracted work, complaints and other incentives when it is probable that the contract will be profitable and the profits will be measurable. When the outcome of a construction contract can be estimated reliably, contract revenue and expenses related to the construction contract are recognised as revenue and expenses, based on the percentage of completion.

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

(iv) Financial income

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

3.21 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.22 Profit distribution

Profit distributions to the shareholders are recognised as a liability in the 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.

Concession un-transferability

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Maritime domain and concessions (continued)

Changes to the maritime domain concession agreement

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

Concession payment

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

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

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

The concession fee portions are paid as described below:

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

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

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

- **IFRS 9 "Financial Instruments"**, adopted by the European Union on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** - "Classification and Measurement of Share-based Payment Transactions", adopted by the European Union on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** – "Applying IFRS 9 'Financial Instruments' with IFRS 4 "Insurance Contracts'", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12, and IAS 28), primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives which right Group has used.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's unconsolidated financial statements are described below.

The Group has calculated the effect of initial application of IFRS 9 in accordance with the transition provisions set out in IFRS 9.

a) *Classification and measurement of financial assets*

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Changes in accounting policies and disclosures (Continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See paragraph (b) below.

Management of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have an impact on financial assets of the Group in respect of classification and measurement.

Based on analysis, Group has concluded that given loans do not contain clauses that would cause failure in cash flow test. Given loans have fixed interest rate and this interest reflects time value of money. Consequently, there are no loans that would be measured at fair value through profit or loss. More precisely, Group measures all financial assets based on amortized cost.

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortised cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contract assets; and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

3.24. Changes in accounting policies and disclosures (Continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. Group applies simplified approach for receivables.

Oveview of initial application of IFRS 9:

	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	IAS 39 1.1.2018. book value	Reclassification	Re-measurement	IFRS 9 book value	Impact on retained earnings
Financial assets	(in HRK thousand)	(in HRK thousand)	(in HRK thousand)	(in HRK thousand)	(in HRK thousand)
Amortised cost	-	-	-	-	-
Receivables	-	-	756	756	756
Impact of recognition of deferred taxes	-	-	(110)	(110)	(110)
Total					**646**

c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The Group has no financial liabilities that are measured at fair value through profit or loss.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Changes in accounting policies and disclosures (Continued)

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

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

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of IFRS 16 will not materially affect amounts reported within the Group's assets and liabilities. However, the effect of applying IFRS 16 cannot be estimated realistically until an exhaustive review has been completed. The Group does not expect that the Amendments to IFRS 9 and IFRIC 23, will have material impact on the consolidated financial statements in the period of their initial application.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 21 March 2019 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 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),

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Changes in accounting policies and disclosures (Continued)

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

- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** – "Plan Amendment, Curtailment or Settlement"(effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to Conceptual Framework for IFRS (effective for annual periods beginning on or after 1 January 2020).**

According to the Group's estimates, the adoption of relevant new accounting standards and amendments to existing standards would not materially affect their consolidated financial statements.

Hedge accounting in a portfolio of financial assets and liabilities whose policies have not been adopted in EU remains unregulated.

According to Group estimates, the application of hedge accounting of financial assets or liabilities in accordance with IAS 39: "Financial Instruments: Recognition and Measurement" would not have a significant impact on the consolidated financial statements if applied at the balance sheet date.

3.25 Change of accounting policy

During the previous years, individual companies within the Group applied the revaluation method as an accounting policy for measuring property, plant and equipment and intangible assets while other companies applied the cost method. The accounting policy used at the Group level was the cost method.
As from 31 December 2017, companies that previously applied the cost method made a revaluation of assets and the Group decided to apply the revaluation method as accounting policy of the Group as at 31 December 2017, as presented in these consolidated financial statements.
The overall impact of the adjustment to the consolidated financial statements as at 1 January 2018 was as follows:

The impact of the correction at the end of the comparative period (2017) was reflected as the increase of the initial value of the revaluation reserve in the amount of HRK 338,765 thousand and by the increase of tangible and intangible assets for the amount of HRK 402,405 thousand.

As a consequence of this adjustment, as at 31 December 2017, a deferred tax liability of HRK 62,779 thousand was posted.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Change of accounting policy (continued)

	Note	Originally stated	After correction	Impact of increase / (decrease)
Statement of financial position as at 31 December 2017				
Long-term tangible and intangible assets		1,174,620	1,577,025	402,405
Total long-term assets		1,174,620	1,577,025	402,405
TOTAL ASSETS		**1,174,620**	**1,577,025**	**402,405**
Deferred tax liability		29,988	92,767	62,779
Total long-term liabilities		**29,988**	**92,767**	**62,779**
Revaluation reserves		1,830	340,595	338,765
Non-dominant share		7,099	8,379	1,279
Fair value reserves		418	-	(418)
Total equity and reserves		**9,347**	**348,974**	**339,626**
TOTAL EQUITY AND RESERVES		**39,335**	**441,741**	**402,405**
Statement of comprehensive income for the year ended 31 December 2017				
Profit for the year		103.876	103.876	-
Other comprehensive income		3,739	343.365	339,626
Total comprehensive income		**107,615**	**447,241**	**339,626**

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. Based on the assessment and the fact that technical innovations were initiated in the previous period, the Group changed the useful life of the tangible assets as at 31 December 2017 for the last time. The useful lives will be periodically reassessed if any changes in circumstances occur. Changes in estimates, if any, will be reflected prospectively through the change in depreciation over the remaining useful life.

(e) Recoverable amount of trade and other receivables

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

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Impairment of inventories

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

(g) Legal claims and disputes

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

(h) Repairs in the guarantee period

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

(i) Onerous contracts

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

(j) Government grants

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

(k) Recognition of deferred tax assets

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

NOTE 5 – SALES

	2018	2017
	(in thousands of HRK)	
Sale of goods	430,526	410,165
Non-shipbuilding industry	122,506	192,725
Shipbuilding	490,454	376,688
Construction services	93,025	40,741
	1,136,511	**1,020,319**

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

	2018	2017
	(in thousands of HRK)	
Reversal of provisions	3,337	18,081
Subsidies and government grants	120	685
Revenue from post-paid claims	18,799	-
Other operating income	14,629	17,031
	36,885	**35,797**

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

NOTE 7 - MATERIAL EXPENSES

	2018	2017
	(in thousands of HRK)	
Raw materials	384,809	378,193
Fuel and energy	24,403	25,465
Small inventory and spare parts	5,040	6,860
Raw materials and supplies	**414,252**	**410,518**
Goods sold	**76,751**	**58,207**
Transport services	15,449	13,044
Intellectual services	17,461	11,342
Treatment preparation and processing	16,104	7,641
Utilities costs	2,200	2,024
Cost of postage, telephone, internet et sim.	859	759
Other external costs	86,958	72,579
Other costs	**139,031**	**107,389**
Total material expenses	**630,033**	**576,114**

Other external costs mainly relate to the costs of the co-operation whose increase led to increased business activity of the Group during 2018 compared to 2017.

NOTE 8 - STAFF COSTS

	2018	2017
	(in thousands of HRK)	
Net wages and salaries	188,411	195,067
Taxes and contributions from salaries	67,453	62,906
Contributions on salaries	62,600	50,552
Other staff costs	11,174	34,683
	309,638	**343,208**

As at 31 December 2018 the number of employees in the Group was 3,073 (*2017: 3,104*).

NOTE 9 - OTHER OPERATING EXPENSES

	2018	2017
	(in thousands of HRK)	
Banking charges	10,863	6,248
Concession	2,614	6,837
Provisions	2,253	3,227
Value adjustment of assets	7,365	12,954
Other costs	79,817	41,247
	102,912	**70,513**

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

NOTE 10 - FINANCIAL INCOME

	2018	2017
	(in thousands of HRK)	
Positive exchange differences	19,001	23,745
Interest income	117	241
Income from unwinding of discount	494	-
Other financial income	531	794
	20,143	**24,780**

NOTE 11 - FINANCIAL EXPENSES

	2018	2017
	(in thousands of HRK)	
Interest cost	27,828	34,607
Negative exchange differences	11,830	18,624
Other financial expenses	437	1,557
	40,096	**54,788**

NOTE 12 – CORPORATE INCOME TAX

	2018	2017
	(in thousands of HRK)	
Current tax	318	1,511
Deferred tax	(5,798)	(9,418)
	(5,480)	**(7,907)**

	2018	2017
	(in thousands of HRK)	
Profit before taxation	**69,909**	**95,969**
Corporate income tax at a rate of 18%	12,584	17,274
Effect of subsidiaries' different tax rates	9,085	502
Non-deductible tax expenses	296	386
Non-taxable income and tax incentives	(15,856)	(11,255)
Temporary differences not recognized as deferred tax assets	(157)	3,365
Tax loss for which deferred tax assets were not recognized	(11,856)	33
Previously unrecognised used tax losses	424	(18,212)
Tax income recognised in the statement of comprehensive income	**(5,480)**	**(7,907)**
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.

From the total amount of incentives received in the form of investment tax in the amount of HRK 151,100 thousand, DIV GROUP Ltd used a total of HRK 103,848 thousand by 31 December 2018, of which HRK 85,441 thousand relates to the impairment of income tax liabilities. In the period from 1 January 2018 to 31 December 2018, DIV GROUP Ltd may use this subsidy up to a maximum of HRK 47,252 thousand. Due to historical uncertainty concerning taxable profit and height of future taxable profit, the Group did not recognize deferred tax assets related to tax incentives and temporary differences.

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

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

Movement of deffered tax asset was as following:

	2018	2017
	(in thousands of HRK)	
As at 1 January	6,167	6,983
Decrease	-	(816)
Increase	198	-
As at 31 December	**6,365**	**6,167**

Movement of deffered tax liability was as following:

	2018	2017
	(in thousands of HRK)	
As at 1 January	**92,767**	**40,222**
Recognition (through Capital)	170	62,779
Dismissal (within profit and loss)	(5,798)	(10,234)
As at 31 December	**87,139**	**92,767**

	2018	2017
	(in thousands of HRK)	
Total Corporate income tax	**5,480**	**7,907**

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

NOTE 13 - INTANGIBLE ASSETS

(in thousands of HRK)

	Software	Development Expenditure	Assets under construction	Total
Purchase cost				
As at 1/1/2017	**2,062**	**-**	**12,959**	**15,021**
Correction of the initial amount	425	-	-	**425**
Reclassification	(85)	-	**85**	-
Revaluation	464	-	-	**464**
Purchases	15	-	1,447	**1,462**
Transfer from tangible assets	9,108	-	(9,108)	-
Sales and expense	-	-	(48)	**(48)**
Exchange rate differences	(8)	-	-	**(8)**
As at 31/12/2017	**11,981**		**5,335**	**17,316**
As at 1/1/2018	**11,981**	**-**	**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**
Accumulated depreciation				
As at 1/1/2017	**1,212**	**-**	**-**	**1,212**
Annual cost	601	-	-	601
Exchange rate differences	(5)	-	-	(5)
As at 31/12/2017	**1,808**	**-**	**-**	**1,808**
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**
Net carrying amount				
As at 1/1/2018	**10,173**	**-**	**5,335**	**15,508**
As at 31/12/2018	**8,353**	**1,154**	**5,550**	**15,057**

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 1/1/2017	**11,329**	**309,279**	**113,049**	**241,425**	**406,043**	**108,148**	**121,360**	**1,310,633**
Purchases	228	-	-	10,029	2,596	-	54,522	**67,375**
Transfer	-	2,631	928	3,966	2,467	(11,441)	1,449	**-**
Transfer from inventory	-	-	-	-	-	-	96,649	**96,649**
Sales and expenditures	-	(92)	-	(2,367)	(2,668)	-	-	**(5,128)**
Exchange rate differences	332	1,461	-	2,991	141	-	196	**5,121**
As at 31/12/2017	**11,889**	**313,279**	**113,977**	**256,044**	**408,579**	**96,707**	**274,176**	**1,474,650**
Correction								
Revaluation	17,441	189,062	5,838	145,489	6,518	37,453	-	**401,800**
As at 31/12/2017 after correction	**29,330**	**502,341**	**119,815**	**401,553**	**415,097**	**134,160**	**274,176**	**1,876,450**
Accumulated depreciation								
As at 1/1/2017	**-**	**53,319**	**6,779**	**66,760**	**126,926**	**1,869**	**-**	**255,653**
Annual cost	-	6,666	6,254	26,926	8,101	4,896	-	**52,842**
Sales and expenditures	45	420	-	(2,006)	(1,678)	-	-	**(3,219)**
Value adjustment	6,537	5,315	-	619	-	-	-	**12,471**
Exchange rate differences	-	817	-	743	73	-	-	**1,633**
As at 31/12/2017	**6,582**	**66,537**	**13,033**	**93,041**	**133,422**	**6,765**	**-**	**319,381**
Net carrying amount								
As at 31/12/2017	**22,748**	**435,803**	**106,783**	**308,492**	**281,674**	**127,395**	**274,175**	**1,557,070**

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 1/1/2018	**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**

Land, buildings and equipment of the Group with a carrying amount of HRK 551,813 thousand (31 December 2017: HRK 485,696 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 2018	31 December 2017
	(in thousands of HRK)	
Cost of equipment under financial lease	10,806	9,396
Accumulated depreciation	(939)	(921)
Net carrying amount	**9,867**	**8,475**

During 2018 DIV GROUP Ltd reviewed the estimated lifetime of use of construction objects and machinery and equipment and adjusted to new estimates of new life, resulting in a lower depreciation charge in 2018, in the amount of HRK 15,894 thousand.

NOTE 15 - INVESTMENT PROPERTY

(in thousands of HRK)	**Investment property**
Purchase cost	
As at 1/1/2017	**5,463**
Purchases	**140**
As at 31/12/2017	**5,603**
As at 1/1/2018	**5,603**
Purchases	-
As at 31/12/2018	**5,603**
Accumulated depreciation	
As at 1/1/2017	**991**
Annual cost	166
As at 31/12/2017	**1,157**
As at 1/1/2018	**1,157**
Annual cost	171
As at 31/12/2018	**1,328**
Net carrying amount	
As at 1/1/2018	**4,447**
As at 31/12/2018	**4,276**

At 31 December 2018, the fair value of investment property amounted to HRK 4,276 thousand.

NOTE 16 – OTHER INVESTMENTS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Financial assets available for sale	394	380
Given deposits	6	1,643
Other investments	4	41
	404	**2,064**

Movement of available-for-sale financial assets:

	Financial assets available for sale
(in thousands of HRK)	*(in thousands of HRK)*
1 January 2018	**380**
Fair value change	46
Value adjustment	(32)
31 December 2018	**394**

NOTE 17 - INVESTMENT IN JOINT VENTURES

	2018	2017
	(in thousands of HRK)	
Opening balance	14,655	11,973
Additional investments	692	2,521
Share in (loss)/profit	(133)	161
Closing balance	**15,214**	**14,655**

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

	1 January 2018	Investment	Share in (loss)	31 December 2018
(in thousands of HRK)				
Kamen-Dent Ltd	14,384	692	(80)	14,996
Marine and Energy Solutions DIV Ltd	271	-	(53)	218
	14,655	**692**	**(133)**	**15,214**

Overview of financial data of associates – 100%

	Assets	Liabilites	Income	Net profit/(loss)
(in thousands of HRK)				
Kamen-dent Ltd	17,001	(143)	5	(161)
Marine and Energy Solutions DIV Ltd	1,360	(1,333)	4,877	(106)
	18,361	**(1,476)**	**4,882**	**(267)**

NOTE 18 – LONG-TERM RECEIVABLES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Long-term loans receivables from employees	5,394	7,648
Other long-term receivables	1,591	4,555
	6,985	**12,203**

NOTE 19 – INVENTORIES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Raw materials and supplies	166,396	175,014
Trade goods	96,117	122,426
Finished products	105,509	102,484
Production in progress	18,558	29,477
Advances for inventories	32,642	39,473
	419,221	**468,873**

At 31 December 2018, inventories in the amount of HRK 74,855 thousand (31st December 2017: HRK 191,705 thousand) were secured against the loans of the Group.

NOTE 20 - TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Trade receivables	112,135	104,567
Value adjustment of trade receivables	(26,394)	(23,411)
Trade receivables - net	**85,741**	**81,156**
Receivables for given advances	22,791	202,979
Receivables for government grants and subsidies	25,148	27,849
Receivables - cession and assignation	1,804	9,919
Receivables for Loans given to employees	1,967	2,671
Given loans, deposits and similar	1,228	1,028
Given loans to related parties	14,905	-
Other receivables	22,118	15,948
Impairment of trade receivables and other receivables in accordance with IFRS 9	(891)	-
Impairment of given loans in accordance with IFRS 9	(217)	-
	174,594	**341,550**

Movements in impairment of trade receivables were as follows:

(in thousands of HRK)	2018	2017
Balance as at 1 January	**23,411**	**23,207**
Increase	3,281	1,064
Expected credit loss (IFRS 9) – first application	891	-
Increase of expected credit loss IFRS 9	217	-
Collected previously written off receivables	(35)	-
Write off	(263)	(860)
Balance as at 31 December	**27,502**	**23,411**

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

NOTE 20a – RECEIVABLES CONSTRUCTION CONTRACTS

	31 December 2018	31 December 2017
	(u tisućama kuna)	
Undue income	971,818	426,086
	971,818	**426,086**

Undue income includes amount of HRK 971,818 thousand which relates to customer receivables fro construction contracts (Note "Construction Contracts").

NOTE 21 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Cash in bank	26,750	21,573
Cash in hand	547	561
	27,297	**22,134**

Cash in bank includes cash in the amount of HRK 3,999 thousand (31st December 2017: HRK 4,902 thousand) that Group cannot use because these funds are moved to special bank account due to legal cases.

NOTE 22 - SHARE CAPITAL

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Share capital	245,737	245,737
Revaluation reserves	313,022	340,594
Other reserves	43,587	37,972
Retained profit	1,022,084	900,941
Profit for the year	75,124	102,724
Non-dominant share	8,643	8,378
	1,708,197	**1,636,346**

NOTE 23 – PROVISIONS AND NON-DOMINANT SHARES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Legal reserves	29,896	26,770
Reserves from foreign currency translation	(2,321)	(205)
Other reserves	16,012	11,406
Revaluation reserves	313,022	340,594
	356,609	**378,566**

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%	3,555
BRODOSPLIT Plc	Croatia	0.17%	5,088
			8,643

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Non-current liabilities towards banks and other financial institutions		
Long-term bank loans	283,525	271,833
Current maturity of bank loans	(45,863)	(20,866)
Financial lease	5,365	5,733
Current maturity of financial lease	(2,000)	(1,687)
	241,027	**255,013**
Current liabilities towards banks and other financial institutions		
Short-term loans with banks	264,029	328,038
Current maturity of long-term loans	45,863	20,866
Short-term liabilities for financial leases	2,000	1,687
Factoring liabilities	-	5,570
Total short-term liabilities towards banks and other financial institutions	**311,892**	**356,161**
Total liabilities towards banks and other financial institutions	**552,919**	**611,173**

Maturity of borrowings is as follows:

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Maturity up to 1 year	309,892	348,904
Maturity from 1-2 years	45,863	166,721
Maturity from 2-5 years	138,926	69,219
Maturity over 5 years	52,873	15,027
	547,554	**599,871**

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

Maturity of financial lease liabilities is as follows:

	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**

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

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

	31 December 2018	31 December 2017
	(in thousands of HRK)	
HRK	90,277	20,000
EUR	297,648	579,871
	387,925	**599,871**

As at 31 December 2018, the Group has a short-term facility with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 89,085 thousand (*in 2017: HRK 26,298 thousand*) of which, at 31 December 2018, HRK 8,106 thousand were unused (in 2017: HRK 10,091 thousand).

Loans from banks

Bank loans in the amount of HRK 204,929 thousand carry a fixed interest rate of 3.5% annualy, HRK 96,837 thousand carry a fixed interest rate of 4% annualy and HRK 244,780 thousand carry variable interest rates of 5% with 3 month EURIBOR (In 2017: HRK 236,559 thousand).

Bank loans in the amount of HRK 301,766 thousand carry a fixed interest rate (*in 2017: HRK 363,353 thousand*). Fixed interest rates on bank loans were in range from 3.5% to 4% annualy (*in 2017: 2% to 5.5%*).

Financial leases

Financial leases mostly refer to vehicle leases.

Securities

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

NOTE 25 – PROVISIONS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Long-term provisions		
Legal claims	16,881	15,029
Other provisions	658	25
	17,539	**15,504**
Short-term provisions		
Repairs in the guarantee period	412	293
Redundancy benefits	8,956	12,351
	9,368	**12,644**
Total provisions	**26,908**	**27,698**

Movements in provisions during 2018 are presented in the table below:

	Balance at 1 January 2018	Recognised in profit or loss	Used	Balance at 31 December 2018
		(in thousands of HRK)		
Legal claims	15,030	4,664	(2,813)	16,881
Redundancy benefits	3,050	6,524	(618)	8,956
Repairs in the guarantee period	318	94	-	412
Other provisions	2,069	659	(2,069)	658
	20,467	**11,941**	**(5,500)**	**26,908**

NOTE 25a – LONG TERM LIABILITIES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Received advances for ships	424,853	-
Liabilities for taxes and contributions	9,599	-
Other liabilities	5,463	-
	439,915	**-**

NOTE 26 - TRADE AND OTHER LIABILITIES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Trade payables	227,146	193,356
Other liabilities	144,780	282,782
	371,926	**476,138**

NOTE 26 - TRADE AND OTHER LIABILITIES (CONTINUED)

Other liabilities:

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Taxes, contributions and similar duties payable	62,458	40,210
Liabilities for received advances	28,478	176,422
Liabilities for loans	25,320	-
Liabilities towards employees	18,634	18,617
Concession fee liabilities	326	13,145
Loan liabilities towards owners	43	12,503
Other current term liabilities	9,521	21,885
	144,780	**282,782**

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

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Maturity up to 1 year	43	-
Maturity from 1 to 2 years	-	12,503
	43	**12,503**

NOTE 27 – DEFERRED EXPENSES AND FUTURE PERIOD INCOME

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Accrued expenses	6,840	33,430
Prepaid income	-	1,491
Accrued penalty interests	-	800
Future period income (Government supports)	10,875	-
	17,715	**35,721**

NOTE 28 – CONSTRUCTION CONTRACTS

(in thousands of HRK)	2018	2017
Contract costs incurred up to reporting date	1,419,516	732,349
Recognised (losses)/gains up to the reporting date	49,149	80,126
Less: invoicing in progress and advances received	(498,367)	(531,345)
Receivables from /(payables to) the customers for the contracted work	**970,298**	**281,129**
Reclassified to deffered revenue	971,818	426,086
Reclassified to advances received from suppliers and accrued revenue	(1,520)	(144,957)

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 2018	31 December 2017
	(In thousands of HRK)	
Debt (long-term and short-term credits)	546,547	599,871
Cash and cash equivalents	(27,297)	(22,134)
Net debt	**519,250**	**577,737**
Equity	1,708,200	1,296,720
Debt to equity ratio	30%	45%

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

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

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management

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

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

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

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Financial assets at amortized cost		
Trade receivables and other receivables	1,147,011	768,921
Given loans	1,228	10,918
Cash and cash equivalents	27,297	22,134
	1,175,536	**801,973**
Financial assets at depreciated cost		
Trade payables and other liabilities	811,841	468,954
Financial lease	5,365	5,733
Factoring liabilities	-	5,570
Loans liabilities	546,547	599,871
	1,363,753	**1,080,128**

Credit risk

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

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

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

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

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.

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 2018	31 December 2017	31 December 2018	31 December 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
EUR	867,229	784,835	76,159	155,443
USD	5,926	29,814	4,283	18,084
NOK	6,069	-	-	-
GBP	339	-	295	-
PLN	-	-	696	-
SEK	-	-	-	-
Other values	163	-	73	-
	879,726	**814,650**	**81,506**	**173,527**

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	
	2018	2017
	(in thousands of HRK)	
(Decrease) of net results	(7,905)	(6,294)

	Impact of USD	
	2018	2017
	(in thousands of HRK)	
(Decrease) of net results	(1,643)	(117)

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 2018				
Available-for-sale financial assets				
Listed companies	217	-	-	217
Unlisted companies	-	177	-	177
Total	**217**	**177**	**-**	**394**

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

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 Group ltd. 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 Nov 487 was secured, and banks had inadequate limits for off-balance sheet products.

In order to improve liquidity and optimise the time necessary from the supply of reproduction materials to the payment from the end customer, the Group reported in its balance sheet credits for encouraging export, and a credit for the construction of Nov 483

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

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

NOTE 29 - RISK MANAGEMENT (CONTINUED)

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 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						
Trade payables	227,146	227,146	227,146	-	-	-
Other liabilities	584,695	675,535	164,736	53,844	169,633	287,322
	811,841	**902,681**	**391,882**	**53,844**	**169,633**	**287,322**
Interest bearing liabilities						
Finance lease	**5,365**	**5,776**	2,219	1,882	1,675	-
Factoring liabilities	-	-	-	-	-	-
Liabilities for loans	**546,547**	**582,635**	322,206	54,066	152,374	53,989
	551,912	**588,411**	**324,425**	**55,948**	**154,049**	**53,989**
	1,363,753	**1,491,092**	**716,307**	**109,792**	**323,682**	**341,311**

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

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk analysis (continued)

Assets

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	1,028,883	1,028,883	1,028,883	-	-	-
	1,147,011	**1,147,011**	**1,147,011**	-	-	-
Interest bearing assets						
Given loans and deposits	1,228	1,228	1,228	-	-	-
Cash and cash equivalents	27,297	27,297	27,297	-	-	-
	28,525	**28,525**	**28,525**	-	-	-
	1,175,536	**1,175,536**	**1,175,536**	-	-	-

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

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

	2018	**2017**
	(in thousands of HRK)	
Bank loans based on EURIBOR	244,780	236,518
Financial leases based on EURIBOR	-	41
	244,780	**236,559**

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
2018		
HRK	+/-0.5	+/-2,877
2017		
HRK	+/-0.5	+/-1,183

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

Through the subsidiary Brodosplit - Plovidba Ltd, the Company also the following companies: BS STAR SHIPPING Inc, BURIN WIND CRUISE SHIPPING Inc, GARBIN WIND CRUISE SHIPPING Inc, LEVANT WIND CRUISE SHIPPING Inc, MAESTRAL WIND CRUISE SHIPPING Inc, PULENAT WIND CRUISE SHIPPING Inc, GREEN4SEA SHIPPING 1 Inc, GREEN4SEA SHIPPING 2 Inc, GREEN4SEA SHIPPING 3 Inc, GREEN4SEA SHIPPING 4 Inc, DREAM ONE SHIPPING Inc, RIVER CRUISE SHIPPING, POLAR EXPEDITIONS B.V. The Netherlands, POLAR EXPEDITIONS Inc Marshall Islands, POLAR EXPLORER Inc, XB AHTS COMPANION SHIPPING Inc, XB AHTS GUARDIAN SHIPPING Inc, XB AHTS HERO SHIPPING Inc i XB AHTS SUPPORTER SHIPPING Inc. Through the subsidiary BRODOSPLIT, the Company also manages Brodosplit Italia.

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

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

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

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

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

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

NOTE 31 - RELATED PARTY TRANSACTIONS

	2018	2017
	(in thousands of HRK)	
Revenue from sale of goods and service		
P.T.C. Krka Knin Ltd	1,163	10,112
Marine and Energy Solutions DIV Ltd	42	214
	1,205	**10,326**

	2018	2017
	(in thousands of HRK)	
Purchase of goods and services		
P.T.C. Krka Knin Ltd	8,695	18,149
Marine and Energy Solutions DIV Ltd	4,213	5,238
	12,908	**23,387**

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Trade receivables		
Marine and Energy Solutions DIV Ltd	14	19
	14	**19**

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Trade payables		
P.T.C. Krka Knin Ltd	1,600	10,547
Marine and Energy Solutions DIV Ltd	1,121	614
Kamen-dent Ltd	-	159
	2,721	**11,320**

NOTE 31 - RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Liabilities for accepted borrowings		
Owners	43	12,503
P.T.C. Krka Knin Ltd	25,000	-
	25,043	**12,503**

Remuneration to key Management

The key management of the Group comprises 41 employees *(in 2017.: 44 employees)*. In 2018, a total of HRK 9,769 thousand was paid as remuneration to the members of the Management Board *(in 2017: HRK 13,573 thousand)* based on gross salary.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS

Brodosplit plc

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

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

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

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

Achieving sustainability includes the following measures: maintaining at least 2,000 employees in the Company and subsidiaries at the end of each month during the implementation of the restructuring program, maintaining a minimum number of effective hours at a defined level in September 2017, maintaining a minimum amount of steel at a defined level by September 2017, maintaining the position of capital and reserves at the end of the year, at the end of 2017 at a defined level, and a positive consolidated business at the end of 2016 and 2017. 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 Ltd) based on the Sale and Transfer Agreement is entitled to terminate the Contract in the event of hidden obligations for which the Purchaser did not know at the time of the conclusion of the Contract. In this case, the Seller shall return to the Purchaser the paid purchase price and the amount of paid up capital increase, totalling HRK 53,700 thousand all plus interest at the expense rate of the Croatian National Bank on the day of termination of the contract, increased by 2%.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

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

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

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

Exposure to court disputes

As of 31 December 2018, the Company is involved in a series of legal disputes in the ordinary course of operations and court cases with former employees. Based on consultation with legal advisers, the Management Board applied the judgement and estimated that legal proceedings in which the Group is involved should not result in additional significant losses. In addition to those court cases, for which provision have been made, there are other legal disputes that will not result in significant losses.

Issued warranties

As at 31 December 2018, the Group has issued guarantees in the total amount of HRK 275,323 thousand (31 December 2017: HRK 237,977 thousand).

Overview and debenture exposure:

Company DIV GROUP as at 31 December 2018 has issued bonds in the total nominal amount of HRK 1,132,880 thousand. The amount of the debt issued by the Company for its own placements in nominal amount is HRK 717,145 thousand, for suppliers HRK 35,790 thousand while the Company has issued a bond for affiliated companies in the nominal amount of HRK 379,745 thousand.

Company DIV GROUP as at 31 December 2017 has issued bonds in the total nominal amount of HRK 1,469,492 thousand. The amout of the indebtedness issued by the Company for the nominal amount of the company's own capital amounts to HRK 472,910 thousand, for the suppliers HRK 32,094 thousand while the Company has issued a bond for affiliated companies in the nominal amount of HRK 964,488 thousand.

The Company and Div 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 Div Group is obliged to issue several debentures which are individually in the amount of the total original obligation.

As at 31 December 2018	Amount	Condition
Exposure		
(in thousands of HRK)		
Debentures towards suppliers	35,790	n/a
Debentures towards financial institutions	717,145	450,762
Debentures towards related parties	375,773	317,612

NOTE 33 – SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

As at 12 April 2019 Brodosplit plc. signed a loan agreement of EUR 50 million with corporate bank.
The term of the loan repayment is 6 months from the date of signature of the contract, ie until 12 October 2019. As at 26 April 2019 the first tranche of the loan, amounting to EUR 33 million, was disbursed and used for settling the already existed loan amounting to EUR 33 million, which Brodosplit plc. raised for funding the NOV 483.
The second tranche of EUR 17 million was withdrawn on 30 April 2019.
The contract relate to project NOV 483 that has suffered delays, and so due to date
The contract referes to the project NOV 483 where the customer's delivery delay was delayed, and due to the move of the handover, and so it was necessary to round up the financial structure of the project.

As at 22 May 2019. NOV 484 was delivered to long-term leasing by the lessee. In addition, there were no other significant events after the date of the financial position that would require changes in the consolidated financial statements.

NOTE 34 - APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were adopted by the Management Board and authorized to be issued on 30 June, 2019.

Signed for and on behalf of the Group Management Board on 30 June, 2019:

Tomislav Debeljak	Darko Pappo
DIV GRUPA d.o.o. 10430 SAMOBOR, Bobovica 10/A Tel. 01 3377-000, Fax. 01 3376-155 OIB: 33890756814	
Chairman of the Management Board	*Member of the Management Board*