DIV GRUPA d.o.o., Samobor

Annual report for the year ended 31 December 2017 together with the Independent Auditor's Report

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.

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DIV

DIV d.o.o. tvornica vijaka | DIV Ltd
HR-10430 Samobor, Bobovica 10A

+385 01 3377 000 +385 1 3376 155
div@divgroup.eu www.divgroup.eu

Management report

1. INTRODUCTION

Company DIV GRUPA d.o.o. achieved good business results in 2017, and a positive business result. The most significant business activities are from the area of core activities of the Company.

2. ORGANISATION AND COMPANY MANAGEMENT IN 2017

Reporting company name: DIV GRUPA d.o.o.
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 2017, 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, and Sky Office.

During 2017, the company DIV d.o.o. was managed by the board of directors as followed:
Tomislav Debeljak, Chairman of the Board
Darko Pappo, Member of the Board
Dalibor Marijanović, Member of the Board

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1. COMPANY ASSETS

As at 31 December 2017 current assets were HRK 447,984 thousand (2016: HRK 413,923 thousand), while long-term assets amounted to HRK 742,696 thousand. (2016: HRK 433,198 thousand) As at 31 December 2017, the total assets of the company amounted to HRK 1,190,680 thousand. The most significant share of long-term assets relates to construction facilities, infrastructure and equipment in the amount of HRK 580,643 thousand.

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3.2. STRUCTURE OF THE RECEIVABLES

The Company has made significant progress in collecting customer receivables from previous years, the increase in short-term receivables relates to receivables from a supplier based on a reclamation process. The Company plans to charge receivables from related companies for the next year, which will be settled based on concluded contracts of affiliated companies with third parties.

3.3. BUSINESS RESULTS FOR 2017

In 2017, the Company has realized a profit of HRK 58,581 thousand, after tax (2016: HRK 26,606 thousand).

4. EXPOSURE AND RISK MANAGEMENT

The Company is exposed to various financial risks related to:

- PRICE RISK – prices of raw materials on the market
- CAPITAL RISK – ratio of net debt and capital
- CURRENCY RISK – currency movement or EUR and USD 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 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 24 to the Financial statements.

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5. HUMAN RESOURCES

The Company's employees are, together with the Company's assets and gained reputation, greatest resource.

As at 31 December 2017, the Company had 759 employees, the qualification structure as at 31 December 2017 was given in Table 1.

Table 1.

EMPLOYEE'S QUALIFICATION STRUCTURE FOR YEAR 2017										
MONTH	**EMPLOYEE No.**	**NSS**	**NKV**	**KV**	**PKV**	**SSS**	**VKV**	**VŠS**	**VSS**	**MR**
Dec. 2017	759	1	58	138	5	363	2	76	115	1
Structure in %	100%	0%	8%	18%	1%	48%	0%	10%	15%	0%

The majority of the employee qualification is SSS which is a clear representation of the Company's requirement to realize its main activity - manufacturing of fasteners.

When hiring new employees, a rigorous selection process is carried out through tests and interviews. Great focus is dedicated to selecting young and qualified individuals or highly qualified staff with experience.

6. FUTURE BUSINESS DEVELOPMENT

DIV GRUPA d.o.o. 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 and South Africa, 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 (2017), 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 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).

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

In the research and development area, the strengthening of the cluster approach to the establishment of a development and research platform will continue as well as the implementation of development activities.

By signing CEKOM for advanced mobility in 2017, according to the model of the Center of Competence of the Community of Applicants between 4 Entrepreneurs and 4 Scientific Organizations enrolled in the Register of Scientific Organizations that have Effective Cooperation on Research and Development Projects.

CEKOM's vision for advanced mobility is to create a research platform made up of engineering, manufacturing and scientific resources in Croatia in the Transport and Mobility Sector in order to ensure stronger involvement of the domestic economy in the global market of innovative and high quality products and high technology in the field of transport and mobility.

CEKOM's Advanced Mobility will explore new technological niches of the Croatian and world traffic sectors in which our economy can compete in the global value chain. In order to achieve this, it is necessary to link all the relevant research capacities in the real-sector country, i.e. the manufacturing and engineering resources that have achieved market success. We expect that the establishment of CEKOM in the long term will lead to the transition of the entire Croatian transport sector from traditional and technologically obsolete forms of production to advanced production technologies and the introduction of innovative products that can compete in previously unexplored market niches at the global level.

In addition, CEKOM's advanced mobility is specialized in the research and development of systems, technologies and various components and materials that will have a direct impact on reducing production costs, saving energy and reducing emissions of pollutants in the transport sector.

The project includes a critical mass of businessmen and scientists who can contribute to significant scientific and technological advancements in the targeted thematic area of CEKOM.

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

In addition to the competence centres, DIV GROUP d.o.o. approved development and research project of elastic fastening buckle for rail system for joining slopes and rails. Given that existing systems and elastic clasps still show significant defects during assembly, exploitation, maintenance and dismantling, DIV has been able to identify, through contacts and in cooperation with scientific research institutions and existing business partners (national railways and companies working on railway construction and maintenance) to develop better solutions and initiate the process of research and development of a new system for fastening rail rails on thresholds. It is important to emphasize that the development activities are almost entirely based on the already existing competences of DIV GRUPA d.o.o. that development activities and commercialization activities continue to the existing business resources, organization and business processes of DIV GROUP and the companies and partner institutions with which cooperation has already been realized and that development activities will mostly be the continuation of already established cooperation, such as cooperation with our partner at the Faculty of Civil Engineering in Zagreb.

It is important to note that DIV GROUP d.o.o. also approved the project "**Increasing energy efficiency in production suitable for Knin**". The purpose of the project is to increase the efficiency of the energy used in the production process and to switch to energy-renewable energy 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 the oil 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 precipitated vapors as soon as the need for specific heating in the production areas for screws is substantially reduced. The same system will also purge oil purification, which will contribute to the quality of the working environment and to protect the health of employees.

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

In addition to development research projects, DIV GRUPA d.o.o. has developed a demonstration project for nature conservation by participating in the LIFE program, the EU's financial instrument for the environment and climate action. The objective of the LIFE program is to contribute to the implementation, updating and development of EU policies and legislation in the field of environment and climate through the co-financing of projects with a European added value. The project called "KRKA LIFE" will take place in the Šibenik-Knin County, a subsidiary of the screw factory in Knin, and is responsible for one of the List of topics published in this call, as it aims to develop a more efficient and innovative solution / plant production mode with emphasis on water recycling. The project is planning to develop a solution to ensure more efficient and smarter use of natural resources while reducing production costs.

This is a demonstration project in which an innovative solution will be developed with the potential of recycling industrial waste water, ie methods of resource control and cost-effective technologies will be developed to reduce pollutant emissions and pathogenicity in wastewater treatment systems. In this way, the company will develop an innovative concept of production in which alternative ways of managing water resources and wastewater will be utilized through recycling resources.

The general goal of the KRKA LIFE project is to reduce the impact of surface treatment and metal product protection by demonstrating an innovative water recycling system based on the combination of existing filtration and separation processes. Furthermore, the project seeks to achieve a reduction of wastewater discharges on average to 60%. In addition, it is planned to achieve the advancement of surface protection technology with a new generation of chemicals (based on polymers) that do not pose a hazard to the environment. Advantages of mechanical removal of lime (brushing or grinding) are placed above diarising with hydrochloric or sulphuric acid. The wastewater load and the amount of sludge produced should be significantly reduced in this case.

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

In addition, consideration is given to the introduction of surface protection of polymers in the production process. The project will develop innovative water treatment and reuse solutions, which is particularly important because the project is being carried out in an area where there is currently no adequate control, treatment and sanitation system (Knin City), and will serve as an example of good practice and encourage the community to additional efforts are invested in smart technology with a focus on alternative water resources. It will also provide systematic approaches and ways of preventing water and energy losses in industrial production, as well as in the clean and wastewater management sector.

8. FURTHER PLANS

Further plans in 2018 and beyond are the development of new projects under the **"Strengthening Capacities for Research, Development and Innovation"**. These projects will include DIV GRUPA d.o.o. participation, including investing in research, development and innovation, strengthening the research capacities of applicants (research organizations) and partners (business sector), and fostering / increasing the cooperation of research organizations with enterprises. Joint projects planned to be implemented in cooperation with 6 scientific research institutes (FEEMENA - Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, FMENA - Faculty of Mechanical Engineering and Naval Architecture in Zagreb, FCE - Faculty of Civil Engineering in Zagreb, FCET - Faculty of Chemical Engineering and Technology in Zagreb, Faculty of Maritime Studies in Split, Faculty of Metallurgy in Sisak) will be for the purpose of conducting collaborative research aimed at developing products / processes / services according to the definitions of industrial research and experimental development.

9. SUBSIDIARIES

Subsidiaries are detailed in the notes in the financial statements.

10. INFORMATION ON THE PURCHASE OF SHARES

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

In Samobor, 15 June 2018:

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

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

Management responsibility for unconsolidated financial statements

Based on the applicable Croatian Accounting Act, the Management Board of DIV Group d.o.o. (hereinafter referred to as "the Company") is required to ensure that the 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.

Management reasonably expects the Company to have adequate resources to continue operations in the foreseeable future. For this reason, the Management Board continues to accept the principle of business continuity when preparing the financial statements.

When preparing the financial statements, the Management Board is responsible:

- for the selection and then consistent application of the appropriate accounting policies;
- for reasonable and prudent judgments and estimates;
- for applying the applicable accounting standards;
- for the preparation of financial statements on the principle of business continuity.

The Management Board is responsible for conducting the correct accounting records that will at any time reflect the financial position of the Company 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 for keeping the Company's assets and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed for and on behalf of the Management Board:

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

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

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Samobor, 15 June 2018

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DIV GRUPA d.o.o., Samobor

Opinion

We have audited the unconsolidated financial statements of DIV GRUPA d.o.o., Samobor (the Company), which comprise the statement of unconsolidated financial position as at 31 December 2017, and the unconsolidated income statement and other comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 matters

Audit of unconsolidated financial statements of the Company for the year ended 31 December 2016 was conducted by another auditor who as at 29 June 2017 issued qualified opinion. The basis for expressing qualified opinion is the adjustment of initial balances as at 1 January 2016 due to the impairment of the claims for government grants.
Adjustment of initial balances to display the impairment of receivables in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" should be presented prospectively rather than as a restatement of initial balances.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

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

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21.

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

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Article 21

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the audit of the unconsolidated financial statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated 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 taken together, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Certified auditor and member of the Board

Deloitte d.o.o.

Zagreb, 15 June 2018

Radnička cesta 80,

10 000 Zagreb,

Republic of Croatia

UNCONSOLIDATED INCOME STATEMENT AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

(in HRK thousand)	Note	2017	2016
Revenue	5	383,786	336,600
Other operating income	6	14,230	5,284
Total operating income		**398,016**	**341,884**
Changes in inventories - work in progress and finished goods		(1,445)	29,815
Material expenses	7	(231,447)	(239,877)
Employee costs	8	(65,759)	(56,097)
Depreciation and amortization	13	(18,100)	(13,544)
Other operating expenses	9	(10,572)	(15,957)
Total operating expenses		**(327,323)**	**(295,660)**
Financial income	10	7,589	7,969
Financial costs	11	(19,701)	(27,587)
Net financial result		**(12,112)**	**(19,618)**
Profit before tax		**58,581**	**26,606**
Income tax	12	-	-
Profit for the current year		**58,581**	**26,606**
Other comprehensive income			
Gains from revaluation of property, plant and equipment	19b	**256,694**	-
Total comprehensive income		**315,275**	**26,606**

The accompanying notes form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(in HRK thousand)	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	647,645	337,808
Intangible assets		161	209
Long term financial assets	14	94,890	95,181
Total non-current assets		**742,696**	**433,198**
Current assets			
Inventories	16	285,932	269,358
Trade and other receivables	17	159,731	138,432
Short-term financial assets	15	552	322
Cash and cash equivalents	18	1,228	5,176
Prepaid expenses		541	635
Total current assets		**447,984**	**413,923**
Total assets		**1,190,680**	**847,121**
EQUITY AND LIABILITIES			
Equity			
Share capital	19a	245,737	245,737
Revaluation reserves	19b	256,694	-
Other reserves	19c	471	-
Retained earnings	19d	162,400	103,952
Total equity		**665,302**	**349,689**
Non-current liabilities			
Liabilities towards banks and other financial institutions	20	119,767	144,843
Provisions	22	3,550	2,581
Deferred tax liability	19b	56,347	-
Total non-current liabilities		**179,664**	**147,424**
Current liabilities			
Trade and other payables	21a	222,455	206,865
Liabilities towards banks and other financial institutions	20	123,259	135,623
Deferred income	21b	-	7,520
Total current liabilities		**345,714**	**350,008**
Total liabilities		**525,378**	**497,432**
Total equity and liabilities		**1,190,680**	**847,121**

The accompanying notes form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

(in HRK thousand)	Note	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
1 January 2016		**245,737**	**-**	**-**	**77,346**	**323,083**
Profit for the year		-	-	-	26,606	26,606
Total comprehensive income		-	-	-	*26,606*	*26,606*
Balance at 31 December 2016		**245,737**	**-**	**-**	**103,952**	**349,689**
Profit for the year		-	-	-	58,581	58,581
Profit from revaluation of assets		-	-	*256,694*	-	*256,694*
Total comprehensive income		**-**	**-**	**256,694**	**58,581**	**315,275**
Changes in equity arising from the merger of Brodosplit - Project d.o.o.	19	-	471	-	(133)	338
Balance at 31 December 2017		**245,737**	**471**	**256,694**	**162,400**	**665,302**

The accompanying notes form an integral part of these unconsolidated financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(in HRK thousand)	Note	2017	2016
Profit before tax		58,581	26,606
Adjustment for:			
Depreciation and amortization	13	18,100	13,544
Net book value of written off tangible assets		187	348
Write off of property, plant and equipment	9	478	-
Change in provisions	22	969	24
Correction of receivables	9	335	4,416
Changes in inventory value due to turnover on net worth	6,9	(12,179)	2,490
Write off of liabilities from suppliers	6	(1,089)	(315)
Interest income	10	(78)	(144)
Interest expense	11	14,592	19,450
Net exchange rate differences	10,11	(2,552)	(560)
Profit before change in working capital		**77,344**	**65,859**
Increase in inventory	16	(4,395)	(88,873)
(Increase) / decrease in trade and other receivables	17	(23,119)	44,128
Increase / (decrease) in trade payables and other liabilities	21	27,953	(16,202)
(Decrease) / increase in advance payments	21	(1,226)	26,362
Decrease in prepaid expenses and deferred income		94	1,938
Cash flow from operating activities		**76,651**	**33,212**
Paid interest		(10,795)	(18,295)
Net cash flow from operating activities		**65,856**	**14,917**
Cash flow from investment activities			
Acquisition of property, plant and equipment	13	(15,512)	(13,393)
Acquisition of intangible assets		-	(209)
Increase in investments in subsidiaries		(17)	(343)
Decrease in investments in subsidiaries		98	-
New given loans		(95)	-
Return of given loans		4	6,762
Change in other financial assets		(145)	6,827
Net cash flow used in investment activities		**(15,667)**	**(356)**
Cash flow from financing activities			
Receipts from loans and borrowings		30,580	133,702
Repayments of loans and borrowings		(84,717)	(143,422)
Net cash flow used in financial activities		**(54,137)**	**(9,720)**
Net (decrease)/ increase in cash and cash equivalents		**(3,948)**	**4,841**
Cash and cash equivalents at the beginning of the year		5,176	335
Cash and cash equivalents at the end of the year	**18**	**1,228**	**5,176**

The accompanying notes form an integral part of these unconsolidated financial statements.

NOTE 1 – GENERAL INFORMATION

History and founding

The Company DIV d.o.o. („The Company') is registered with the Commercial Court in Zagreb under Registration number (MBS): 080127368 in accordance with the Company Law. The core business of the Company is the production of production of fasteners, screws, chains and springs. The Company is headquartered at Samobor, Bobovica, 10A, Croatia. Share capital of the Company amounts to HRK 245,736,800.

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	President of the Management Board
Darko	Pappo	Member of the Management Board
Dalibor	Marijanović	Member of the Management Board

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The Company's unconsolidated financial statements have been prepared in accordance with the accounting rules in force in the Republic of Croatia. The Company compiles and presents annual financial statements using the International Financial Reporting Standards ("IFRS") and their amendments and related interpretations published by the European Union. The Company is a consolidator in accordance with Article 23 of the Accounting Act of the Republic of Croatia. The Company as a parent company prepares consolidated financial statements separately. Consolidated financial statements will be disclosed subsequently.

(ii) Basis of measurement

These financial statements are prepared on a historical cost basis, except where otherwise disclosed. The values of property, plant and equipment of the Company are stated at revalued amounts (Note 13) as at 31 December 2017.

(iii) Functional and presentation currency

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

(iv) Going concern

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies, which were used during the preparation of these financial statements. These accounting policies were used in a consistent manner by the Company for all periods which are part of these statements.

3.1 Investment in subsidiaries and associates

(i) Subsidiaries

Subsidiaries are all entities (including entities with special purposes) 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 Company controls another entity. Investments in subsidiaries have been initially accounted for at cost and subsequently at cost reduced by impairment recognized.

(ii) Associates

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

3.2 Foreign currencies

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)*

3.3 Property, plant and equipment

On 31 December 2017, the Company changed the accounting policy of asset valuation and decided to evaluate the asset according to the revaluation model.

After initial recognition, tangible fixed assets are stated at a revalued amount that makes their fair value at the revaluation date less accumulated amortization and accumulated impairment losses. The impairment loss reduces the revaluation reserve to an amount not exceeding the amount of the revaluation reserve of this asset.

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. When the carrying amount of an asset increases as a result of revaluation, this increase is attributed to capital called revaluation reserve, and when the carrying amount is reduced due to revaluation, the decrease is recognized as an expense. Revaluation increases should be recognized as income to the extent that it reverses the revaluation reduction of the same asset previously recognized as an expense. Revaluation reduction should charge the revaluation reserve to the extent that this reduction does not exceed the amount that exists as a revaluation reserve for the same asset.

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

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

Buildings	40 years
Tools, furniture and transport equipment	10 years
Plant and equipment	5-10 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 Company 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 Company 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.

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

3.4 Impairment of non-financial assets

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

3.5 Financial assets

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

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

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

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

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

(b) Loans and receivables

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

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

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

3.6 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 method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate of the estimated future cash outflows that are discounted through the expected life of the financial liability, or a shorter period if applicable.

Derecognition of financial liabilities

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

3.7 Government grants

Government grants are recognized when there is reasonable assurance that the entity will comply with the terms attaching to it and that the grant will be received. Consequently, the Company does not recognize government grants until there is reasonable assurance that the Company will comply with the terms 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.

3.8 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 acquired 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 Company 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.

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

3.9 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-progress and finished goods includes raw materials, direct labor, 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.

3.10 Construction contracts

Contract costs are recognized when incurred.

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

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

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

The Company represents the gross amount due from customers for contract work for all contracts in progress for which the costs incurred plus recognized losses exceed the progress billings. Progress invoices not yet paid by customers and retention are included within 'trade and other receivables'.

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

3.11 Cash and cash equivalents

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

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

3.12 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.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences 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.

3.13 Trade and other payables

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

3.14 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

3.15 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

3.16 Provisions

Provisions are recognized when the Company 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 estimated reliably.

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 specific risks of the obligation. The increase in provision due to passage of time is recognized as interest expense.

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

3.17 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 Company's activities. Revenue is shown net of value-added tax, rebates and discounts.

The Company recognizes 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 are met for each of the Company's activities as described below.

(i) Sales of goods

Sales of goods are recognized when the Company 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 Company 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) 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. Dividends are recognized when they are declared.

(iv) Revenue from construction contracts

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

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

3.18 Value added tax

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

3.19 Changes in accounting policies and disclosures

ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS") AND INTERPRETATIONS

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

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

- **Amendments to IRFS 10 „Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 „Investments in Associates and Joint Ventures" -** Investment Entities: Applying the Consolidation Exemption - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 „Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 „Presentation of Financial Statements"** – Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 „Property, Plant and Equipment" and IAS 38 „Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 „Property, Plant and Equipment" and IAS 41 „Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016)

- **Amendments to IAS 19 „Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 „Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards „Improvements to IFRSs (cycle 2010 -2012)"** resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards and interpretations „Improvements to IFRSs (cycle 2012-2014)"resulting** from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

3.19. ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS") AND INTERPRETATIONS (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 financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments" -** adopted by the EU on 22 December 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 EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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 standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 19 April 2017 (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 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

3.19. ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (the „IFRS") AND INTERPRETATIONS (CONTINUED)

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

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The new and revised International Financial Reporting Standards issued by the IASB that have been adopted in the EU and take effect after the reporting period

- **IFRS 9 Financial Instruments** was published in July 2014 (effective for annual periods beginning on or after 1 January 2018 with earlier application permitted) is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

- **Classification and measurement** - IFRS 9 introduces a new approach to the classification of financial assets based on the characteristics of the cash flow and business model under which an item of financial assets is held. The new model also introduces a unique model of impairment which applies to all financial instruments.

- **Impairment** - IFRS 9 introduces a new model of impairment to expected losses, which will require more timely recording of expected credit losses.

- **Hedge accounting** - IFRS 9 introduces significantly altered model of hedge accounting, with expanded information that should be disclosed about the activities of risk management.

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

NOTE 4 – KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

Key accounting estimates and judgments on the application of accounting policies

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Below are 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.

Useful life of tangible assets

The Company reassesses the estimated useful life of tangible assets. Based on the assessment and the fact that technical innovations were initiated in the previous period, the Company has changed the useful life of the assets. The Company reassessed the estimated useful life of the aforementioned assets earlier on 1 January 2014. 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.

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. Unadjusted trade receivables over 365 days mainly relate to receivables from related companies on which interest is accrued. Subsidiaries in Serbia have contracted or are in the process of signing contracts for a significant number of projects, and the collection of receivables to the parent company is expected in accordance with the dynamics of realization of these projects.

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 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.

Legal claims and disputes

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

Government grants

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

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 judgments 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 represents 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 – REVENUE

	2017	2016
	(in HRK thousand)	
Foreign sales	177,313	158,542
Domestic sales	165,732	157,139
Revenues from construction services	40,741	20,919
	383,786	**336,600**

NOTE 6 – OTHER OPERATING INCOME

	2017	2016
	(in HRK thousand)	
* Revenue from subsequent cancellation of inventory write-off	12,179	-
Income from liabilities write-off	1,089	315
Other operating income	962	4,969
	14,230	**5,284**

* The Company's business policy is that at the end of each year the inventory value of inventories is reduced to net recoverable value. In 2017, revenue from subsequent write-off of inventories was recognized as a result of the increase in sales prices in certain markets.

NOTE 7 – MATERIAL EXPENSES

	2017	2016
	(in HRK thousand)	
Raw materials	123,637	144,497
Fuel and energy	11,794	12,853
Small inventory and spare parts	909	2,822
Raw materials and supplies	**136,340**	**160,172**
Cost of goods sold	**65,991**	**55,367**
Intellectual services	6,996	4,006
Transport services	6,631	5,490
Treatment preparation and processing	6,604	7,393
Utilities	2,012	1,561
Cost of postage, telephone, internet	721	735
Other external expenses	6,152	5,153
Other expenses	**29,116**	**24,338**
Total material expenses	**231,447**	**239,877**

Other external costs relate to subcontractor services for HRK 1,566 thousand (2016: HRK 233 thousand), rental expenses in the amount of HRK 1,920 thousand (2016: HRK 1,807 thousand).

NOTE 8 – EMPLOYEE COSTS

	2017	2016
	(in HRK thousand)	
Net salaries	38,210	31,937
Taxes and contributions from salaries	13,849	11,317
Contributions on salaries	7,313	6,624
Other staff costs	6,387	6,219
	65,759	**56,097**

As at 31 December 2017 the Company had 765 employees (2016: 587).

NOTE 9 – OTHER OPERATING EXPENSES

	2017	2016
	(in HRK thousand)	
Banking charges	2,637	3,066
Dependent costs of import duties	1,472	17
Field addition	1,431	607
Insurance	850	805
Loss of revaluation of land, property, plant and equipment	478	-
Impairment of trade receivables	335	4,416
Value adjustment of inventories	-	2,490
Other expenses	3,462	4,556
	10,572	**15,957**

NOTE 10 – FINANCIAL INCOME

	2017	2016
	(in HRK thousand)	
Foreign exchange gains	7,288	7,730
Interest income	78	144
Other finance income	223	95
	7,589	**7,969**

NOTE 11 – FINANCIAL COSTS

	2017	2016
	(in HRK thousand)	
Interest expense	14,592	20,030
Foreign exchange losses	4,736	7,170
Other finance expenses	373	387
	19,701	**27,587**

NOTE 12 – INCOME TAX

	2017	2016
	(in HRK thousand)	
Profit before tax	58,581	26,606
Income tax at the tax rate 18%/ (2016.:20%)	10,631	5,321
Non-deductible expenses	299	159
Effects of unrecognized temporary difference	(362)	(2,969)
Effect of incentives (tax benefit)	(10,568)	(2,511)
Tax income	-	-

Tax incentives and temporary differences not recognized as deferred tax assets

The Company uses tax incentives in accordance with Act on Investment incentives and has the status of incentive measures based on the investment in a new factory in Knin.

From the total amount of incentives received in the form of investment tax for HRK 151,100 thousand, the Company used a total of HRK 87,316 thousand by 31 December 2017, of which HRK 68,609 thousand relates to impairment of income tax liabilities. In the period from 1 January 2018 to 31 December 2019, the Company may use this subsidy up to a maximum of HRK 63,784 thousand.

The Company did not recognize deferred tax assets related to tax incentives and temporary differences.

In accordance with the tax regulations, the tax administration may at any time review general ledger and records of the Company for a period of three years after the expiration of the year in which the tax liability is reported and may impose additional tax liabilities and penalties.
The Management is not aware of any circumstances that could lead to significant obligations under supervised supervision.

Movement of deferred tax liability is as follows:

(in HRK thousand)	2017
1 January	-
Increase in period	56,347
31 December	**56,347**

Deferred tax liability was incurred on the basis of revaluation of assets as described in Notes 13 and 19b.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in HRK thousand)	Land	Buildings	Infrastructure	Transport	Tools	Eletronical equipment and other assets	Plant and equipment	Assets under construction and advances	Total
Cost or revalued value									
1 January 2016	9,050	107,646	79,897	13,459	933	3,122	122,001	97,962	434,070
Additions	-	-	-	769	29	322	8,691	3,582	13,393
Disposals	-	-	-	(696)	-	(5)	-	(271)	(972)
Transfer	-	42,834	2,360	-	-	-	25,491	(70,685)	-
31 December 2016	**9,050**	150,480	82,257	**13,532**	**962**	**3,439**	**156,183**	**30,588**	**446,491**
At 1 January 2017	9,050	150,480	82,257	13,532	962	3,439	156,183	30,588	446,491
Additions	-	-	-	2,210	-	156	9,121	4,025	15,512
Revalorisation	16,335	177,569	-	-	-	-	119,137	-	313,041
Disposals	-	-	(16)	(588)	(883)	(12)	-	-	(1,499)
At December 2017	**25,385**	**328,049**	**82,241**	**15,154**	**79**	**3,583**	**284,441**	**34,613**	**773,545**
Accumulated depreciation									
At 1 January 2016	-	21,683	5,770	8,918	873	2,336	56,183	-	95,763
Depreciation	-	2,788	1,458	565	10	176	8,547	-	13,544
Disposals	-	-	-	(619)	-	(5)	-	-	(624)
At 31 December 2016	**-**	**24,471**	**7,228**	**8,864**	**883**	**2,507**	**64,730**	**-**	**108,683**
At 1 January 2017	-	24,471	7,228	8,864	883	2,507	64,730	-	108,683
Depreciation	-	3,354	2,013	626	-	244	11,863	-	18,100
Decrease of assets based on revalorisation	45	413	-	-	-	-	20	-	478
Disposals	-	-	(3)	(538)	(813)	(7)	-	-	(1,361)
At 31 December 2017	**45**	**28,238**	**9,238**	**8,952**	**70**	**2,744**	**76,613**	**-**	**125,900**
Net book value									
At 31 December 2016	**9,050**	**126,009**	**75,029**	**4,668**	**79**	**932**	**91,453**	**30,588**	**337,808**
At 31 December 2017	**25,340**	**299,811**	**73,003**	**6,202**	**9**	**839**	**207,828**	**34,613**	**647,645**

On December 31, 2017, the Company carried out revaluation of land, property, plant and equipment. Revaluation was carried out on the basis of an assessment made by an authorized valuation company, Centar za vještačenje i proceed d.o.o., and experts Mr. Krešimir Kršul and Mr. Davor Savić. Estimates were based on market value. The total value of land, property, plant and equipment increased was HRK 313,041 thousand. Impairment of assets under revaluation estimates amounted to HRK 478 thousand and was presented as expense for the period in Note 9 in accordance with International Accounting Standard 16 "Property, Plant and Equipment".

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (continued)

Land, buildings and equipment of the Company with a net book value of HRK 45,641 thousand (2016: HRK 52,850 thousand) are secured against bank loans received by the Company.

The equipment in finance lease where the Company is the lessee has the carrying amount as follows:

	31 December 2017	31 December 2016
	(in HRK thousands)	
Cost of equipment under finance leases	9,396	3,783
Accumulated depreciation	(921)	(615)
Net book value	**8,475**	**3,168**

NOTE 14 – LONG TERM FINANCIAL ASSETS

	31 December 2017	31 December 2016
	(in HRK thousands)	
Investment in unregistered capital of DIV Brodogradnja d.o.o.	53,378	53,378
Investment in subsidiaries	41,478	41,775
Other investments	34	28
	94,890	**95,181**

NOTE 14 – LONG TERM FINANCIAL ASSETS (continued)

The table below shows the Company´s investments in its subsidiaries:

		Share of Ownership and Voting Rights	31 December 2017	31 December 2016
			(in HRK thousand)	
MIN-DIV Svrljig d.o.o., Svrljig	Srbija	86.45%	30,651	30,651
DIV Betonski pragovi d.o.o., Svrljig	Srbija	100%	9,539	9,539
Shangai Vida	Kina	100%	659	659
TVIK-DIV d.o.o. Valjevo	Srbija	100%	179	179
MARINE CONSALTING d.o.o.	Hrvatska	50%	60	60
DIV d.o.o., Sarajevo	BiH	100%	31	31
DIV Brodogradnja d.o.o.	Hrvatska	100%	20	20
DIV CRUISES, INC.	SAD	100%	17	-
BRODOSPLIT ALATNICA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT ATEST d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT AUTOMATIZACIJA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT BRAVARIJA I LIMARIJA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT CJEVARSKA IZRADA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT ČIŠĆENJE d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT INFORMATIKA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT- INTERIJERI I ZAVRŠNI RADOVI d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT KORPOR ATIVNA ZAŠTITA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT LABORATORIJ d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT LJEVAONICA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT LJUDSKI RESURSI d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT NAMJEŠTAJ PO MJERI d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT OBLAGANJE d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT ODRŽ V NJE d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT OPTIMIZACIJA I EKOLOGIJA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT PLOVNE DIZALICE d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT PRIVREMENA ENERGETIKA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT RAČUNOVODSTVO I FINANCIJE d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT SKELA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT STROJNA OBRADA d.o.o.	Hrvatska	70%	14	14
BRODOSPLIT - Brodska i ostala oprema d.o.o.	Hrvatska	70%	14	14
MARINE AND ENERGY SOLUTIONS DIV d.o.o.	Hrvatska	50%	10	10
BRODOSPLIT ISTRAŽIVANJE I RAZVOJ d.o.o.	Hrvatska	70%	3	14
BRODOSPLIT SERVIS BRODOVA d.o.o.	Hrvatska	70%	1	8
BRODOSPLIT PROJEKT d.o.o.	Hrvatska	70%	-	216
BRODOSPLIT VJETROSTUPOVI d.o.o.	Hrvatska	70%	-	14
BRODOSPLIT - NAJAM VOZILA d.o.o.	Hrvatska	70%	-	14
BRODOSPLIT PRODUKT PLINSKE ELEKTRANE d.o.o.	Hrvatska	70%	-	11
DIV CRUISES d.o.o.	Hrvatska	70%	-	9
BRODOSPLIT GRADNJA d.o.o.	Hrvatska	70%	-	9
BRODOSPLIT KLIMATIZACIJA I VENTILACIJA d.o.o.	Hrvatska	70%	-	8
BRODOSPLIT METALNE KONSTRUKCIJE d.o.o.	Hrvatska	70%	-	8
BRODOSPLIT IZVOR ENERGIJE VJETROPARKOVA d.o.o.	Hrvatska	70%	-	7
			41,478	**41,775**

NOTE 15 – SHORT TERM FINANICAL ASSETS

	31 December 2017	31 December 2016
	(in HRK thousand)	
Given loans, deposits and similar	375	235
Given loans to related parties	177	87
	552	**322**

NOTE 16 – INVENTORIES

	31 December 2017	31 December 2016
	(in HRK thousand)	
Trade goods	105,154	79,858
Finished products	94,333	91,099
Advances for inventory	30,784	36,592
Raw materials and supplies	36,856	41,215
Work in progress	18,805	20,594
	285,932	**269,358**

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

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
	(in HRK thousand)	
Receivables from related parties	81,300	87,077
Trade receivables	29,278	31,912
Value adjustment of receivables	(5,310)	(5,266)
	105,268	**113,723**
Receivables from construction contracts (Note 23)	21,519	6,023
Receivables through cession and assignment	9,919	6,024
Receivables for pre tax	4,326	2,704
Receivables for given guarantees	3,760	1,727
Receivables for penalty interest	177	200
Receivables from state	-	7,520
Other receivables*	14,762	511
	54,463	**24,709**
	159,731	**138,432**

*Of the total value of other receivables, the amount of HRK 14,487 thousand relates to a claim against the Tianjin Textile Group supplier due to a significant delays in the delivery of the goods.

NOTE 17 – TRADE AND OTHER RECEIVABLES *(continued)*

Receivables acquired through cession and resignation relate to factoring contracts (receivables from customers sold by the Company to factoring companies) with recourse

Movements in impairment of trade receivables were as follows:

	2017	2016
	(in HRK thousand)	
1 January	**5,266**	**1,320**
Increase	100	4,415
Collected receivables which were value adjusted	(19)	-
Write off	(37)	(469)
31 December	**5,310**	**5,266**

Impairment losses on customer receivables are disclosed in Note 9 Other Expenses.

The ageing structure of trade receivables is as follows:

	Gross receivables	Impairment of receivables	Net receivables
	(in HRK thousand)		
Not due and not impaired	**21,635**		**21,635**
Past due:		**(5,310)**	
To 30 days	5,413		5,413
31 - 90 days	4,338		4,338
91-180 days	4,098		4,098
181-365 days	2,637		2,637
Above 365 days	72,457	**(5,310)**	67,147
Total	**110,578**	**(5,310)**	**105,268**

Trade receivables due more than 365 days, which were not impaired mainly, relate to inter company receivables and are subject to interest. Subsidiaries in Serbia have contracted or are in the process of signing contracts for a significant number of projects, and collection of receivables to the parent company is expected in the accordance with dynamics of these projects

NOTE 18 – CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
	(in HRK thousand)	
Cash at banks	1,172	5,129
Petty cash	56	47
	1,228	**5,176**

Cash at banks refers to cash accounts in commercial banks.

NOTE 19 – SHARE CAPITAL

19a Share capital

	31 December 2017	31 December 2016
	(in HRK thousand)	
Share capital	245,737	245,737
	245,737	**245,737**

The ownership structure is as follows:

	Share
Tomislav Debeljak	50%
Vjera Debeljak	25%
Božidar Debeljak	25%
	100%

19b Revaluation reserves

On December 31, 2017, the Company carried out revaluation of land, property and equipment. Revaluation was carried out based on an assessment made by an authorized valuation company, Centar za vještačenje i procjene d.o.o. and experts Mr. Krešimir Kršul and Mr. Davor Savić.

In accordance with International Accounting Standard 16 "Property, plant and equipment" (IAS 16) and the accounting policies of the Company, the revalued value of land, property, plant and equipment represents the difference between the net book value of land, real property, plant and equipment as of 31 December 2017 and the estimated value of land, property, plant and equipment.

The total value of land, property, plant and equipment increased was HRK 313,041 thousands. At the value of the increase, the tax rate of 18% was calculated, in accordance with the Croatian Income Tax Act, which represents the value of the deferred tax liability in the amount of HRK 56,347 thousand. The remaining value is recognized as a revaluation reserve in the amount of HRK 256,694 thousand in accordance with IAS 16 and the accounting policies of the Company.

19c Other reserves

Changes in other reserves	**2017**
1 January	-
Obtained with merger with Brodosplit – Projekti d.o.o.	471
31 December	**471**

19d Retained earnings

Changes in retained earnings	**2017**
1 January	103,952
Obtained with merger with Brodosplit- Projekti d.o.o.	(133)
Total other comprehensive income for 2017	58,581
31 December	**162,400**

On 19 October 2017, the company Brodosplit-Projekti d.o.o. joined the company DIV GRUPA d.o.o. By joining the company DIV GRUPA, d.o.o. has obtained other reserves of HRK 471 thousands related to the value of the share capital of Brodosplit-Projekti d.o.o. decreased by the value of the share reported in the balance sheet of the company DIV GRUPA d.o.o.

Retained earnings of the company DIV GRUPA d.o.o. was decreased for the value of accumulated losses attributable to Brodosplit-Projekti d.o.o. at the time of the merger for HRK 133 thousands.

NOTE 20 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
	(in HRK thousand)	
Non-current liabilities towards banks		
Borrowings	136,587	166,089
Current share of long term borrowings	(20,866)	(22,475)
Non-current liabilities toward banks	**115,721**	**143,614**
Non-current liabilities toward other financial institutions		
Finance lease	5,733	2,400
Current share of finance lease	(1,687)	(1,171)
Non-current liabilities of finance lease	**4,046**	**1,229**
Total non-current liabilities towards banks and other financial institutions	**119,767**	**144,843**
Current liabilities towards banks and other financial institutions		
Current liabilities toward banks	95,136	104,523
Current share of long term borrowings	20,866	22,475
Factoring liabilities	5,570	7,454
Current share of finance lease	1,687	1,171
Total current liabilities towards banks and other financial institutions	**123,259**	**135,623**
Total liabilities towards banks and other financial institutions	**243,026**	**280,466**

Maturity of borrowings is as follow:

	31 December 2017	31 December 2016
	(in HRK thousand)	
Maturity up to 6 months	85,523	116,183
Maturity from 6 months to 1 year	30,479	10,815
Maturity from 1 year to 2 years	31,475	21,627
Maturity from 2 years to 5 years	69,219	87,002
Maturity over 5 years	15,027	34,985
	231,723	**270,612**

NOTE 20 – LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Maturity of finance lease is as follow:

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

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

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

	31 December 2017	31 December 2016
	(in HRK thousand)	
EUR	215,521	242,612
Kune	20,000	28,000
	235,521	**270,612**

As at 31 December 2017, the Company has a short-term facility with commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 26,298 thousand (31 December 2016: HRK 15,116 thousand) of which at 31 December 2017 unused value is HRK 10,031 thousand (31 December 2016: HRK 9,876 thousand).

Bank loans

Bank loans in the amount of HRK 12,592 thousand carry variable interest rate (2016: HRK 39,157 thousand). Variable interest rates on bank loans range from 3% to 5% on an annual basis. Bank loans in the amount of HRK 219,131 thousand carry a fixed interest rate (2016: HRK 231,455 thousand). Fixed interest rates on bank loans range from 2% to 4% on an annual basis (2016: 2% to 4%), of which HRK 42,541 thousand is returned at an annual rate of 2% (2015: 52,299 thousand kuna).

Liabilities toward factoring

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

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

Finance lease

Finance lease relates to motor vehicles and equipment

Securities

All banks have secured their loans with disclosed pledge over Company´s land, buildings, plant and equipment as disclosed in the note 13 and over trading goods – inventories as explained in the note 16.

NOTE 21 a – TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
	(in HRK thousand)	
Trade payables foreign	67,976	35,635
Trade payables to related parties	59,922	62,023
Trade payables domestic	22,758	19,200
Received advances	30,518	31,744
Accrued liabilities for goods in transit	16,874	19,375
Loan liabilities towards owners	12,503	12,947
Liabilities toward employees	4,309	3,042
Liabilities for taxes, contributions and similar	3,495	2,921
Loan liabilities toward related parties	-	18,805
Other short term liabilities	4,100	1,173
	222,455	**206,865**

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

	31 December 2017	31 December 2016
	(in HRK thousand)	
Maturity up to six months	-	12.947
Maturity from six months up to 1 year	12.503	-
	12.503	**12.947**

Borrowings are contracted out of interest for a period of more than a year. Loan contracts were concluded in 2014.

NOTE 21 b – DEFFERED INCOME

	31 December 2017	31 December 2017
	(in HRK thousand)	
Government grant	-	7.520
	-	**7.520**

NOTE 22 – PROVISIONS

	1 January 2017	Recognized in profit and loss	Used during	31 December 2017
		(in HRK thousand)		
Legal cases provisions	1,093	1,481	(1,093)	1,481
Other provisions	1,488	2,069	(1,488)	2,069
	2,582	**3,550**	**2,581**	**3,550**

NOTE 23 – CONSTRUCTION CONTRACTS

(in HRK thousand)	2017	2016.
Contract cost incurred up to reporting date	64,708	38,376
Recognized losses till the reporting date	(670)	(670)
	64,038	37,706
Less: Invoicing in progress and advances received	(42,519)	(31,683)
	21,519	**6,023**
Receivables from the customers for contracted work	**21,519**	**6,023**
Reclassified to accrued revenue	**21,519**	**6,023**
Revenue from construction contracts recognized till reporting date	74,164	33,423
Less: Revenues from construction contracts recognized in previous period	(33,423)	(12,504)
	40,741	**20,919**

NOTE 24 – RISK MANAGEMENT

Capital risk management

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

	31 December 2017	31 December 2016
	(in HRK thousand)	
Debt	243.026	280.466
Cash and cash equivalents	(1.228)	(5.176)
Net debt	**241.798**	**275.290**
Equity	665.301	349.689
Debt to equity ratio	36%	79%

The debt is defined as a liability for long-term and short-term loans, financial leases and factoring without debt to affiliated parties. The principal includes all capital and all reserves.

The Company is exposed to the international market and is largely financed through loans denominated in EUR. As a result, the Company is subject to the influence of changes in market prices and the effect of exchange rate differences and interest rate changes. The Company achieves almost 50% 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 company 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 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.

NOTE 24 – RISK MANAGEMENT (continued)

Capital risk management (continued)

Financial instruments are presented by category in the table below:

	31 December 2017	31 December 2016
	(in HRK thousand)	
Financial assets at amortized cost		
Given loans	552	322
Trade receivables and other receivables	159,731	138,432
Cash and cash equivalents	1,228	5,176
	161,511	**143,930**
Financial liabilities at amortized cost		
Finance lease	5,733	2,400
Factoring	5,570	7,454
Borrowings	231,723	270,612
Trade and other payables	222,455	206,847
	465,481	**487,313**

Financial risk management

Fair value of financial instruments

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

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

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

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

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

NOTE 24 – RISK MANAGEMENT (continued)

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 Company manages the liquidity risk by following the net short term position and addressing the expected liquidity deficits.

The above-mentioned activities of the activities described in Note 2 on Timing Unrestricted Business, in the opinion of the Management should be sufficient to provide sufficient liquidity for the repayment of future debt.

Liquidity risk management

The tables below show the contractual maturities of financial liabilities and financial assets of the Company as reported in the statement of financial position at the end of each reporting period. The tables are made on the basis of undiscounted cash flows to maturity and include cash flows by principal and interest rates. The interest rate is shown in Note 20.

Liabilities

As at 31 December 2017	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest bearing liabilities						
Other liabilities	71,799	71,799	71,799	-	-	-
Trade payables	150,656	150,656	150,656	-	-	-
	222,445	**222,445**	**222,445**	**-**	**-**	**-**
Interest bearing liabilities						
Finance lease	5,733	6,262	1,945	1,908	2,409	-
Factoring	5,570	5,570	5,570	-	-	-
Borrowing	231,723	247,513	122,860	34,946	74,401	15,306
	243,026	**259,345**	**130,375**	**113,664**	**92,116**	**15,306**
	465,481	**481,790**	**352,820**	**113,664**	**92,116**	**15,306**

As at 31 December 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest bearing liabilities						
Other liabilities	89,989	89,989	89,989	-	-	-
Trade payables	116,858	116,858	116,858	-	-	-
	206,847	**206,847**	**206,847**	**-**	**-**	**-**
Interest bearing liabilities						
Finance lease	2,400	2,698	716	666	1,316	-
Factoring	7,454	7,454	7,454	-	-	-
Borrowing	270,612	292,677	135,019	26,470	94,993	36,195
	280,466	**302,829**	**143,189**	**27,136**	**96,309**	**36,195**
	487,313	**509,676**	**350,036**	**27,136**	**96,309**	**36,195**

NOTE 24 – RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Assets

As at 31 December 2017	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest earning assets						
Receivables – cession and assignation	9,919	9,919	9,919	-	-	-
Other receivables	44,544	44,544	44,544	-	-	-
Trade receivables	105,268	105,268	105,268	-	-	-
	159,731	**159,731**	**159,731**	**-**	**-**	**-**
Interest earning assets						
Given loans	552	552	552	-	-	-
Cash and cash equivalents	1,228	1,228	1,228	-	-	-
	1,780	**1,780**	**1,780**	**-**	**-**	**-**
	161,511	**161,511**	**161,511**	**-**	**-**	**-**

As at 31 December 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
			(in HRK thousand)			
Non-interest earning assets						
Receivables – cession and assignation	6,024	6,024	6,024	-	-	-
Other receivables	18,485	18,485	18,485	-	-	-
Trade receivables	113,923	113,923	113,923	-	-	-
	138,432	**138,432**	**138,432**	**-**	**-**	**-**
Interest earning assets						
Given loans	322	322	322	-	-	-
Cash and cash equivalents	5,176	5,176	5,176	-	-	-
	5,498	**5,498**	**5,498**	**-**	**-**	**-**
	143,930	**143,930**	**143,930**	**-**	**-**	**-**

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

	2017	**2016**
	(in HRK thousand)	
Bank loans based on EURIBOR	12,592	39,157
Finance lease based on EURIBOR	41	89
	12,633	**39,246**

NOTE 24 – RISK MANAGEMENT (continued)

Interest risk management

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 basis points is used which represents a realistic change in interest rates according to the Board's estimates.

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

	Increase / Decrease variable interest rate	Effect of change on profit before tax in HRK thousand
2017		
HRK	+/-0.5	+/-63
2016.		
HRK	+/-0.5	+/-85

The Company does not currently hedge against interest rate risk as the estimate of the potential effect of interest rate change is not considered significant.

NOTE 24 – RISK MANAGEMENT (continued)

Currency risk management

Certain transaction of the Company are executed in foreign currency in accordance to this the Company is exposed to exchange rate risks. Carrying amounts of monetary assets and non-monetary liabilities denominated in foreign currencies at the reporting date are presented in the table below:

	Liabilities		Assets	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	(in HRK thousand)			
EUR	260,030	271,112	77,878	70,063
USD	22,844	31,602	11,614	13,826
Other currencies	-	-	-	10
	282,874	**302,714**	**89,492**	**83,899**

Currency risk exposure analysis

Due to the fact that the majority of transactions with foreign customers are denominated in the euro and the US dollar, the Company is mainly exposed to the fluctuations of the Croatian kuna against the euro and the US dollar, the risk is reduced by purchases in the same currencies.

The following table analyses the Company's sensitivity to increasing the exchange rate of the euro by 1% against the euro and 10% against the US dollar 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 Croatian kuna 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 Croatian kuna relative to the relevant currency, the impact on profit would be the same and the opposite.

	Impact of EUR	
	2017	2016
	(in HRK thousand)	
Effect on net result	+/-1,822	+/-2,010

	Impact of USD	
	2017	2016
	(in HRK thousand)	
Effect on net result	+/-1,123	+/- 1,778

The Company does not use currency risk hedging instruments.

NOTE 24 – RISK MANAGEMENT (continued)

Credit risk management

Credit risk is the risk of non-payment or non-fulfilment of contractual obligations by the Company's buyers, which affects the Company's possible financial loss.

NOTE 25 – RELATED PARTY TRANSACTIONS

	2017	2016
	(in HRK thousand)	
Revenue from sale of goods and service		
Brodograđevna industrija Split dd	25,787	18,890
P.T.C. Krka Knin d.o.o.	10,108	43,963
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	6,236	5,988
Brodosplit Holding d.o.o.	5,072	4,266
TVIK - DIV d.o.o., Valjevo, Srbija	3,948	4,513
DIV Betonski pragovi d.o.o., Svrljig, Srbija	2,967	520
MIN - DIV a.d., Svrljig, Srbija	779	2,918
Brodosplit - Brodogradilište specijalnih objekata doo	566	287
Brodosplit - Antikorozivna zaštita d.o.o.	82	425
Brodosplit - Metalna oprema i konstrukcije d.o.o.	61	31
Brodosplit - Interijer i završni radovi d.o.o.	31	2
Marine and Energy Solutions d.o.o.	28	27
Brodosplit - Tvornica dizel motora d.o.o.	17	150
Dream one shipping inc.	10	-
Brodosplit - Nemetalna oprema d.o.o.	9	39
DIV Brodogradnja d.o.o.	2	1
Brodosplit - Izolacija d.o.o.	1	4
Brodosplit - Projekt d.o.o.	1	4
Brodosplit – Namještaj po mjeri d.o.o.	1	-
Brodosplit - Istraživanje i razvoj d.o.o.	-	1
	55,706	**82,029**

	2017	2016
	(in HRK thousand)	
Income from sale of fixed assets		
DIV Betonski pragovi d.o.o., Svrljig, Srbija	45	-
TVIK - DIV d.o.o., Valjevo, Srbija	23	-
Brodosplit- Tvornica dizel motora d.o.o.	-	330
	68	**330**

NOTE 25 – RELATED PARTY TRANSACTIONS *(continued)*

	2017	2016
	(in HRK thousand)	
Financial income		
Brodograđevna industrija Split d.d.	14	-
Brodosplit Holding d.o.o.	13	-
DIV Brodogradnja d.o.o.	3	1
DIV CRUISES ltd	3	
MIN - DIV a.d., Svrljig, Srbija	-	751
	33	**752**

	2017	2016
	(in HRK thousand)	
Purchase of goods and services		
P.T.C. Krka Knin d.o.o.	18,140	54,226
DIV Betonski pragovi d.o.o., Svrljig, Srbija	10,699	1,490
TVIK - DIV d.o.o., Valjevo, Srbija	2,493	-
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	1,836	165
MIN - DIV a.d., Svrljig, Srbija	1,690	18,368
Brodograđevna industrija Split d.d.	1,055	763
Brodosplit - Tvornica dizel motora d.o.o.	146	1,303
Brodosplit - Otpremništvo d.o.o.	104	95
Marine and Energy Solutions d.o.o.	11	-
Brodosplit – Antikorozivna zaštita d.o.o.	7	-
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	7	9
Brodosplit Holding d.o.o.	2	138
Brodosplit - Plovidba d.o.o.	-	70
	36,190	**76,627**

NOTE 25 – RELATED PARTY TRANSACTIONS *(continued)*

	2017	2016
	(in HRK thousand)	
Financial expense – interest		
Brodograđevna industrija Split d.d.	615	2,179
Brodosplit Holding d.o.o.	542	788
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	-	59
MIN - DIV a.d., Svrljig, Srbija	-	4,169
DIV Betonski pragovi d.o.o., Svrljig, Srbija	-	596
TVIK - DIV d.o.o., Valjevo, Srbija	-	628
	1,157	**8,419**

	31 December 2017	31 December 2016
	(in HRK thousand)	
Trade receivables (note 7)		
DIV Brodogradnja d.o.o.	33,754	33,753
MIN - DIV a.d., Svrljig, Srbija	17,062	20,694
Brodograđevna industrija Split d.d.	15,851	17,497
TVIK - DIV d.o.o., Valjevo, Srbija	8,921	11,332
Debeljak industrija vijaka d.o.o., Sarajevo, BIH	4,274	3,519
DIV Betonski pragovi d.o.o., Svrljig, Srbija	1,319	-
DIV Cruises inc.	119	-
Brodosplit Holding d.o.o.	-	190
Brodosplit - Antikorozivna zaštita d.o.o.	-	44
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	-	26
Marine and Energy Solutions d.o.o.	-	16
Brodosplit - Izolacija d.o.o.	-	4
Marine consulting d.o.o.	-	2
	81,300	**87,077**

	31 December 2017	31 December 2016
	(in HRK thousand)	
Given loans (note 15)		
DIV Cruises inc.	90	-
DIV Brodogradnja d.o.o.	87	87
	177	**87**

NOTE 25 – RELATED PARTY TRANSACTIONS *(continued)*

	31 December 2017	31 December 2016
	(in HRK thousand)	
Trade payables (note 21a)		
Brodograđevna industrija Split d.d.	49,375	49,384
P.T.C. Krka Knin d.o.o.	10,547	10,561
MIN - DIV a.d., Svrljig, Srbija	-	1,851
Brodosplit Holding d.o.o.	-	99
Brodosplit - Otpremništvo d.o.o.	-	59
Brodosplit - Plovidba d.o.o.	-	69
	59,922	**62,023**

	31 December 2017	31 December 2016
	(in HRK thousand)	
Borrowings (note 21a)		
Owners	12,503	-
Brodosplit Holding d.o.o.	-	18,805
	12,503	**18,805**

Key management remuneration
The key management of the Company consists of a Board, which consists of three members (2016: 3 members). During 2017 a total of HRK 944 thousand was paid to members of the Management (2016: HRK 924 thousand) based on gross salary.

NOTE 26 – CONTINGENT LIABILITIES AND ASSETS

Investment in Brodosplit d.d.

Company through DIV Brodogradnja d.o.o. has 99.76% stake in Brodosplit d.d.

Brodosplit d.d. sales and transfer agreement the contractual obligations relating to the implementation of the restructuring program of Brodosplit dd 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 d.d. 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 d.d. 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.

Adjustment of production capacities and tonnage-dependent production constraints is defined by the restructuring program and the Agreement on restriction of production. Production levels up until 31 December 2022 may not exceed agreed levels.

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 as at 9 June 2017, maintaining a minimum amount of steel at a defined level on 9 June 2017, maintaining the position of capital and reserves at the end of the year, at the end of 2017 at a defined level, and a positive consolidated business at the end of 2016 and 2017. Evaluation of sustainability is provided by the competent authority (European Commission) which, if it considers that no sustainability has been achieved, may order the Company to refund the received subsidies.

Failure to fulfil the obligations of the implementation of the restructuring program may result in the termination of the sales contract and result in an order to Brodosplit d.d. and its subsidiaries to recover all state subsidies from Brodosplit d.d. received from March 1, 2006. Furthermore, the DIV Group d.o.o. as a solidary guarantor, has guaranteed a sum of HRK 50 million in case of non-fulfilment of the restructuring obligation. By fulfilling the obligation to increase the share capital for HRK 50 million in 2015, the Company's obligation as a solidary guarantor was abolished. The shareholder has so far not submitted any objections to the fulfilment of the conditions by the Shareholder or the Restructuring Company.
In addition, the buyer (DIV Brodogradnja d.o.o.) based on the Sale and Transfer Agreement is entitled to terminate the Contract in the event of hidden obligations for which the Buyer 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%.

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

In the period from 2006 to 2009, the Company increased its share of ownership in the subsidiary company Min Div d.o.o. in the recapitalization. from 77.50% to 86.46%. 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 Div Grupa d.o.o. or must announce a public offer or divest shares over 25%. The dispute is the redemption price per share that will be offered to minority shareholders. Stock market activity has emerged in the past few months, which could be the basis for calculating the market price. If the purchase of shares at a price of RSD 430 would be done, what would be the current price the total purchase price would amount to HRK 3,483 thousand.

NOTE 26 – CONTINGENT LIABILITIES AND ASSETS (continued)

Furthermore, DIV Group d.o.o. and DIV betonski pragovi d.o.o. during the takeover, they committed to fulfill certain conditions in order to receive funds from state in the amount of EUR 2.4 million. DIV concrete pragovi d.o.o. received funds in the amount of EUR 1.8 million. The remaining amount of EUR 600 thousand DIV betonski pragovi d.o.o. has received upon employment of 300 workers were employed and completed the investments made in the total amount of EUR 11.9 million to 17 November 2016. Until 31 December 2016, DIV betonski pragovi d.o.o. invested EUR 12.2 million and had 303 employees and by 31 December 2017 additional EUR 0.1 million was invested and company had 300 employees.

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

Court cases

As of 31 December 2017, the Company is involved in a series of legal disputes in the ordinary course of operations and court cases with former employees.

Exposure of the Company to court cases with suppliers on 31 December 2017 amounts to approximately HRK 1,481 thousand (on the basis of the claims related to ongoing proceedings). The Management believes that these disputes will not result in additional losses to the Company.

Based on consultation with legal advisors, the Management Board applied the judgment as described in more detail in Note 4 and estimated that legal proceedings in which the Company is involved should not result in additional significant losses.

Guarantees

As of 31 December 2017 the Company had HRK 97,358 thousands of issued guarantees (31 December 2016: HRK 80,518 thousand). Furthermore, as at 31 December 2017 the Company had 1,385,005 thousand of issued promissory notes (31 December 2016: HRK 771,738 thousand).

Liabilities for capital commitments

Assets under constructions as at 31 December 2017 was activated during 2018.

NOTE 27 – SUBSEQUENT EVENTS

There were no significant events after the date of the financial position that would require changes in the financial statements.

NOTE 28 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted and approved by the Management on 15 June 2018.

Signed on behalf of the Management as at 15 June 2018:

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

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