BRODOSPLIT
BRODOGRAĐEVNA INDUSTRIJA SPLIT, dioničko društvo

HR-21000 Split, Put Supavla 21, P.P. 517
T +385 21 392 202, +385 21 391 201
F +385 21 382 648 E uprava@brodosplit.hr
W www.brodosplit.hr

BRODOGRAĐEVNA INDUSTRIJA SPLIT
d.d. and its subsidiaries

Annual report for the Group
31 December 2017

Content

Management Report of the Group **1**

Responsibilities of Management for preparation and approval of the annual report.... **16**

Independent Auditor's Report on the consolidated financial statements **17**

Consolidated financial statements **20**

Consolidated statement of profit or loss and other comprehensive income *20*

Consolidated statement of financial position *21*

Consolidated statement of changes in equity.....*22*

Consolidated statement of cash flows *23*

Notes to the consolidated financial statements *24*

Management Report of the Group

1. ABOUT THE COMPANY

Brodograđevna industrija Split d.d. (Brodosplit d.d.) is the parent of the 47 subsidiaries (one in bankruptcy), and 22 subsubsidiaries.

The most important activity of the Group Brodosplit is shipbuilding production: constructing and equipping various types of ships for the merchant marine, special purpose ships, as well as various products in the field of marine technology.

Within the Group, different programs have been developed like diesel-engine production, casting gray and nodular cast iron, the production of various products of metallic and non-metallic marine equipment, corrosion protection and other services. Brodosplit in 2013 strongly stepped on to the market outside of shipbuilding, on which the company has been fully working in the coming years.

All the programs are implemented independently from contracting, design, production, testing to delivery.

The Company, through different organizational forms and under different names, has been operating since 1931. The many activity of the Company is shipbuilding.

2. SHARE CAPITAL AND OWNERSHIP STRUCTURE

The Company Brodosplit d.d, Split is registered in the register of the Commercial Court in Split under the registration number 060175040, OIB (PIN) 18556905592.

The General Assembly of the Company at 31 December 2017 has the following structure:

SHAREHOLDER	No. of shares	Percent
	Units	%
DIV BRODOGRADNJA D.O.O.	8,903,280	99.76
CROATIAN CHAMBER OF COMMERCE	11,637	0.13
UNIQA D.D.	5,894	0.07
Private persons	3,625	0.04
Croatia	1	0
TOTAL	**8,924,437**	**100%**

The share capital amounts to HRK 535.466.220,00, divided into 8.924.437 ordinary shares with a nominal value of HRK 60,00.

3. SUPERVISORY AND MANAGEMENT BOARD

Supervisory Board

According to Article 17 of Statute of the Company, the Supervisory board consists of 5 members.
The General Assembly elects three members. One member is appointed by the employees in accordance with labour legislation. One member is appointed by the CERP. The mandate of members is four years with the possibility of re-election.

In 2015, the Supervisory Board was composed of:

1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman
3 Tomislav Pokaz - Member

After Mr. Tomislav Pokaz resigned from membership in the Supervisory Board on 9 February 2016, the board is composed of:

1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman

At 21 July 2016 Saša Vladić was appointed by the court as a member of the Supervisory Board and the Supervisory Board acts in the following composition:

1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman
3 Saša Vladić - Member

At 29 July 2016, CERP appointed Darko Bandula as member of the Supervisory Board and the Supervisory Board acts in the following composition:

1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman
3 Saša Vladić - Member
4 Darko Bandula - Member

At 31 August 2016, the Assembly elected a new member of the Supervisory Board, Teuta Duletić . As new member of the Supervisory Board has been chosen, Saša Vladić ceased to act as member of Supervisory Board. Until 21 June 2017 Supervisory Board consisted of:

1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman
3 Darko Bandula
4 Teuta Duletić

Member of Supervisory Board Zdenko Šoš has been appointed again as a member on 21 June 2017 at Extraordinary General Assembly of the Company, due to expiration of the mandate, and the Supervisory Board acts in the following composition in the period:

from 21 June 2017 till 28 July 2017
1 Zdenko Šoš - Member
2 Željan Horvat - Deputy Chairman
3 Darko Bandula - Member
4 Teuta Duletić – Member.

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

Supervisory Board (continued)

At 28 July 2017, member of Supervisory Board, Zdenko Šoš was appointed as Chairman of Supervisory Board and the Board acts in the following composition in the period

from 28 July 2017 till 25 October 2017
1 Zdenko Šoš - Chairman
2 Željan Horvat - Deputy Chairman
3 Darko Bandula - Member
4 Teuta Duletić – Member.

At 25 October 2017, the Deputy Chairman Željan Horvat resigned from membershipin the Supervisory Board and the Board acts in the following composition in period:

from 25 October 2017 till 28 December 2017
1 Zdenko Šoš - Chairman
2 Darko Bandula - Member
3 Teuta Duletić – Member.

At 28 December 2017, the Extraordinary Assembly of the Company appointed Darko Pappo as a member of Supervisory Board and the Board acts in the following composition:

from 28 December 2017
1 Zdenko Šoš - Chairman
2 Darko Bandula - Member
3 Teuta Duletić - Member
4 Darko Pappo – Member.

During 2018. There was a change in Supervisory Board of Brododplit d.d.. From July 13 2018 Darko Bandula is no longer member of Supervisory Board.

Management Board

According to Article 14 of Statute of the Company, the Management Board consists of 1 to 7 members, which are appointed and recalled by Supervisory Board. One of the member of the Supervisory Board is appointed as Chairman of Management Board. All members of Management Board represents the Company individually and independently.
In 2017, the Management Board of Brodosplit d.d. consisted of the following members:

1 Tomislav Debeljak - Chairman of the Board since 2 May 2013
2 Darko Pappo - a Board member from 2 May 2013 until 26 October 2017
3 Vlatko Kvesić - a Board member from 21 May 2015 until 9 April 2018
4 Zoran Kunkera - a Board member from 22 September 2017 until 30 November 2017

During 2018. There was a chabge in Management Board of Brododplit d.d.. From March 15 2018 there is a new member of Management Board who represent company individually and independently.

4. ORGANIZATIONAL STRUCTURE

The Company is the parent company, which operate over below listed subsidiaries in which it has a 100% share interest:

1. Brodosplit - Brodogradilište specijalnih objekata d.o.o. - the main activity is the construction of ships;
2. Brodosplit - Metaloprema d.o.o. - in bankruptcy;
3. Brodosplit - Plovidba d.o.o. - core business in marine transportation;
4. Brodosplit - Tvornica dizel motora d.o.o. - core business is the production and modification of engines, turbines and power equipment;
5. Brodosplit - Boja d.o.o. - core business is the repair and maintenance of ships and boats;
6. Brodosplit - Blok d.o.o. - core business is the construction of ships and floating structures;
7. Brodosplit - Čelik d.o.o. - core business is the production of metal structures and their parts;
8. Brodosplit - Montaža d.o.o. - core business is the production of metal structures and their parts;
9. Brodosplit - Opremanje plovnih objekata d.o.o. - core business is the production of metal structures and their parts;
10. Brodosplit - Stroj d.o.o. - core business is machining;
11. Brodosplit - Transportna sredstva d.o.o. - core business is the rental and lease of other machinery, equipment and tangible goods;
12. Brodosplit - Trgovina d.o.o. - core business is the wholesale of other machinery and equipment;
13. Brodosplit - Trup d.o.o. - core business is the production of metal structures and their parts;
14. Brodosplit - Zaštita trupa od korozije d.o.o. - core business is the production of metal structures and their parts;

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

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

Management Report of the Group (continued)

The Company has 30% stake and management rights in the following companies:

1. Brodosplit - Alatnica d.o.o. - core business is machining;
2. Brodosplit - Atest d.o.o. Brodosplit - Atest d.o.o. - core business is service protection with the help of security systems;
3. Brodosplit - Automatizacija d.o.o. - core business is the management of computer facilities;
4. Brodosplit - Bravarija i limarija d.o.o. - core business is repair of metal products;
5. Brodosplit - Brodska i ostala oprema d.o.o. - core business is the production of metal structures and their parts;
6. Brodosplit - Cjevarska izrada d.o.o. - core business is iron casting;
7. Brodosplit - Čišćenje d.o.o. - core business is other cleaning activities;
8. Brodosplit - Gradnja d.o.o. - core business is the construction of various buildings;
9. Brodosplit - Informatika d.o.o. - core business is the management of computer facilities;
10. Brodosplit - Interijer i završni radovi d.o.o. - core business is the installation of carpentry;
11. Brodosplit - Istraživanje i razvoj d.o.o. - core business is research and experimental development on natural sciences and engineering;
12. Brodosplit - Izvor energije vjetroparkova d.o.o. - core business is the rental and lease of other machinery, equipment and tangible goods;
13. Brodosplit - Klimatizacija i ventilacija d.o.o. - core business is the installation of water, sewage, and gas installations for heating and air-conditioning;
14. Brodosplit - Korporativna zaštita d.o.o. - core business is private security;
15. Brodosplit - Laboratorij d.o.o. - core business is technical testing and analysis;
16. Brodosplit - Ljevaonica d.o.o. - core business is iron casting;
17. Brodosplit - Ljudski resursi d.o.o. - core business is providing human resources;
18. Brodosplit - Metalne konstrukcije d.o.o. - core business is the production of metal structures and their parts;
19. Brodosplit - Namještaj po mjeri d.o.o. - core business is the installation of carpentry;
20. Brodosplit - Oblaganje d.o.o. - core business is the construction of ships and floating structures;
21. Brodosplit - Održavanje d.o.o. - core business is repairing machines;
22. Brodosplit - Optimizacija i ekologija d.o.o. - core business is the remediation activities and other waste management services;
23. Brodosplit - Otpremništvo d.o.o. - core business is the other supporting activities for transportation;
24. Brodosplit - Plovne dizalice d.o.o. - core business is the rental and leasing of water transport equipment;
25. Brodosplit - Najam vozila d.o.o. - core business activity is renting and lease (leasing) of cars and light motor vehicles;
26. Brodosplit - Privremena energetika d.o.o. - core business is the production of electricity;
27. Brodosplit - Produkt plinske elektrane d.o.o. - core business is the installation of water, sewage, and gas installations for heating and air-conditioning;

4. ORGANIZATIONAL STRUCTURE (continued)

28. Brodosplit - Računovodstvo i financije d.o.o. - core business is accounting, bookkeeping and auditing activities, tax consultancy;
29. Brodosplit - Servis brodova d.o.o. - core business is the repair and maintenance of ships and boats;
30. Brodosplit - Skela d.o.o. - core business is the production of metal structures and their parts;
31. Div Cruises d.o.o. - core business is the production of electricity;
32. Brodosplit - Strojna obrada d.o.o. - core business is machining;
33. Brodosplit - Vjetrostupovi d.o.o. - core business is the production of metal structures and their parts;

A subsidiary, Brodosplit - Plovidba d.o.o. is the 100% owner of the following companies:

1 BS STAR SHIPPING INC.
2 BURIN WIND CRUISE SHIPPING INC.
3 GARBIN WIND CRUISE SHIPPING INC.
4 LEVANT WIND CRUISE SHIPPING INC.
5 MAESTRAL WIND CRUISE SHIPPING INC.
6 PULENAT WIND CRUISE SHIPPING INC.
7 GREEN4SEA SHIPPING 1 INC.
8 GREEN4SEA SHIPPING 2 INC.
9 GREEN4SEA SHIPPING 3 INC.
10 GREEN4SEA SHIPPING 4 INC.
11 DREAM ONE SHIPPING INC.
12 RIVER CRUISE SHIPPING INC.
13 POLAR EXPEDITIONS B.V., Nizozemska
14 POLAR EXPEDITIONS Inc., Marshall Islands
15 POLAR EXPLORER Inc.
16 XB AHTS COMPANION SHIPPING INC.
17 XB AHTS GUARDIAN SHIPPING INC.
18 XB AHTS HERO SHIPPING INC.
19 XB AHTS SUPPORTER SHIPPING INC.
20 POLARIS EXPEDITIONS INC.
21 POLARIS EXPLORATION INC.

A subsidiary, Brodosplit-Holding d.o.o has 50% stake and management rights in companies Kamen Dent, Bosna i Hercegovina and also is a 100% owner of and has management rights in company Brodosplit Italia s.r.l., Italija.By merging as of September 1 2017. Brodosplit– Holding d.o.o., Brodosplit d.d. has taken over the shares and management rights in these companies.

5. HUMAN RESOURCES

Management Report of the Group (continued)

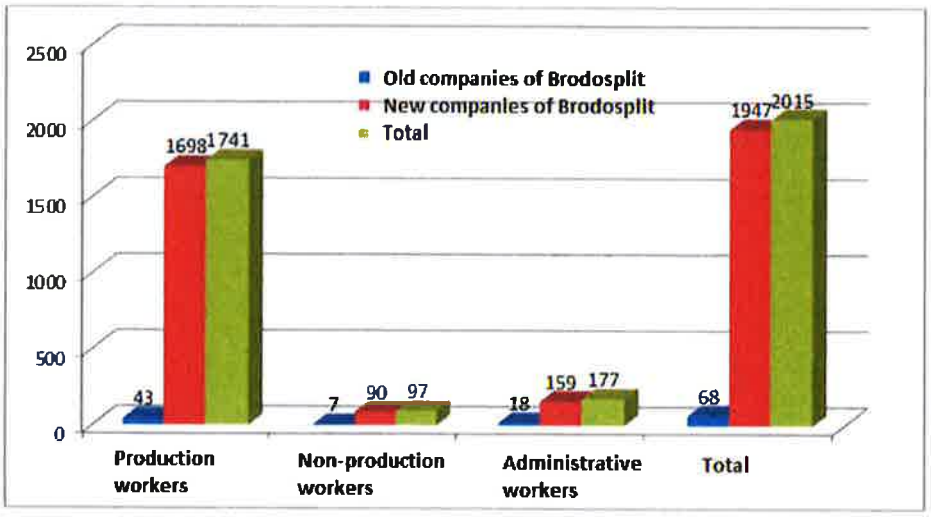
At 31 December 2017, the Group had 2,015 employees. Of that number, 68 employees work in the "old" companies, and 1,947 employees in "new companies". 163 employees have new contracts in "old" companies, 12 employees are working in their notice period.

There is total of 1,741 production workers (86%), 97 non-production workers (5%) and 177 administrative workers (9%).

Table: Number of employees per group

31/12/2017	PRODUCTION WORKERS		NON-PRODUCTION WORKERS		ADMINISTRATIVE WORKERS		TOTAL	
	NUMBER	%	**NUMBER**	%	**NUMBER**	%	**NUMBER**	%
OLD COMPANIES OF BRODOSPLIT	**43**	63%	**7**	10%	**18**	26%	**68**	3%
NEW COMPANIES OF BRODOSPLIT	**1,698**	87%	**90**	5%	**159**	8%	**1,947**	97%
TOTAL	**1,741**	**86%**	**97**	**5%**	**177**	**9%**	**2,015**	**100%**

Number of employees in the Group at 31/12/2017.



Management Report of the Group (continued)

5. HUMAN RESOURCES (CONTINUED)

Chart; Share of types of employees in old and new companies

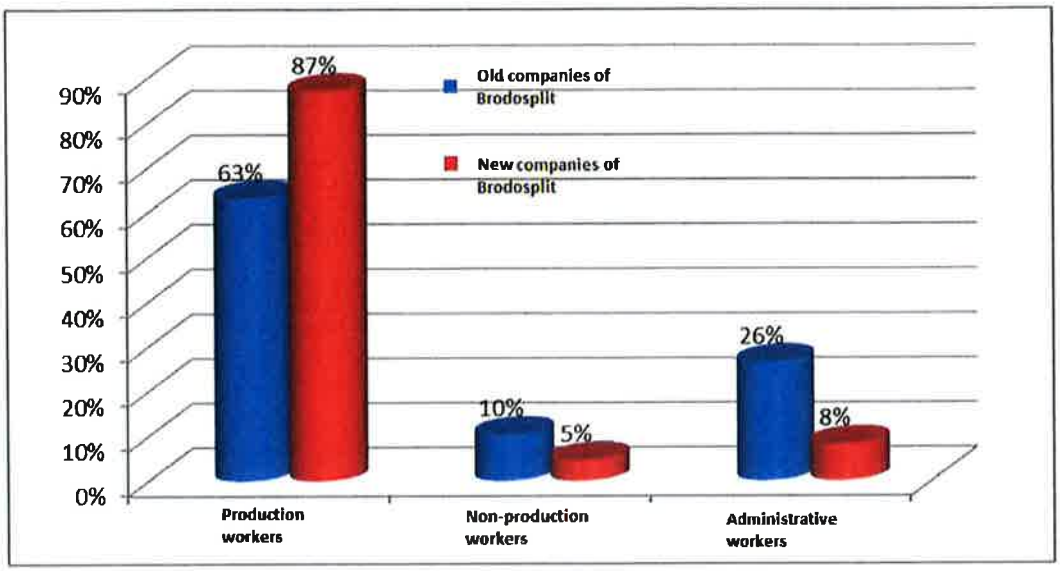


Table: overview of number of employees

	NEW				GONE				
YY/MM	PRODUCTION WORKERS	NON-PRODUCTION WORKERS	ADMINISTRATIVE WORKERS	**Grand Total**	PRODUCTION WORKERS	NON-PRODUCTION WORKERS	ADMINISTRATIVE WORKERS	**Grand Total**	Nuber at the last date of the month
201701	21			**21**	30		6	**36**	2027
201702	35	1	1	**37**	14		1	**15**	2047
201703	34			**34**	22	1	3	**26**	2053
201704	69	1		**70**	48	1	1	**50**	2067
201705	18		2	**20**	23	2	1	**26**	2060
201706	18		1	**19**	23	2	6	**31**	2047
201707	30			**30**	25	1	5	**31**	2046
201708	15			**15**	29	2		**31**	2030
201709	112	2	32	**146**	121		33	**154**	2020
201710	14			**14**	12	2		**14**	2020
201711	17			**17**	13	2	2	**17**	2018
201712	13			**13**	10	2	2	**14**	2015
Grand Total	396	4	36	**436**	370	15	60	**445**	

Chart: Share of types of employees in old and new companies

6. ACTUAL PRODUCTION CAPACITY

The following table states the realization of the production capacity of the main stages of building ships for the period from 2012 to 2017.

DESCRIPTION	Realized 2012	Realized 2013	Realized 2014	Realized 2015	Realized 2016	Realized 2017
SHIPBUILDING						
Start process CM - pc	2	1	2	5	0	3
Keel laying - pc	2	0	1	6	0	4
Launching - pc	1	1	2	1	0	6
Handover - pc	1	0	1	1	1	4

In 2017, four new-builds were delivered: 538, 545 i 546 – partially equipped hull and superstructure of yachts for cruising in the Adriatic approximately 50 m long and a new 486 - partially equipped hull and superstructure of yachts for a polar expedition of approximately 88.5 m long for a foreign buyer.

Brodosplit d.d. stepped on the market outside of shipbuilding in 2015 and 2016 and in 2017 continued intensive work on building the steel barrier to defend Venice from flooding where the completion of the project is planned in the first quarter of 2018.

Management Report of the Group (continued)

7. FINANCIAL OPERATIONS

Actual operating result of Brodosplit d.d. for the year 2017 recorded profit in the amount of HRK 104 million, while the profit amounted to HRK 34 million in 2016.

Profit is derived from regular operations profit in the amount of 63 million HRK and loss from financial activities in the amount of 19 million HRK.

At 31 December 2017, the capital of the Group amounted to HRK 1,028 million.

Based on the data on financial performance, certain performance indicators can be determined, of which the most important are shown in the table below:

	2017	2016
Current assets	912,978	707,293
Current liabilities	587,417	304,687
Current ratio	**1.55**	**2.32**
Cash + receivables	743,932	454,412
Current liabilities	587,417	304,687
Quick ratio	**1.27**	**1.49**
Total liabilities	772,223	532,178
Total assets	1,800,182	1,456,528
Gearing	**0.43**	**0.37**
Total income	654,834	648,119
Total assets	1,800,182	1,456,528
Turnover ratio of total assets	**0.38**	**0.44**
Sales	608,127	552,827
Receivables and accrued revenues	487,736	276,068
Receivables turnover	**1.25**	**2**

1. Current ratio = Current Assets / Current Liabilities
2. Quick ratio = Cash + Current Receivables / Current Liabilities, at least 1
3. Gearing = Total Liabilities / Total Assets shows the ratio in which the company is financed by foreign capital and how much by its own capital.
4. Asset turnover= Total Revenue / Total Assets shows how many times the total assets are converted into income. This shows the efficiency of the capital used to finance assets.
5. Receivables turnover = Sales Revenue / Receivables shows how many times a year the receivables are charged.

8. BUSINESS RISKS

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

- Credit risk
- Fair values of cash flow or interest rate risk
- Currency risk
- Market risk
- Liquidity risk
- Regulatory risk.

Capital risk management

The Group manages its capital by ensuring the continuity of its business with maximising the return on investment for its shareholders though optimising debt and capital. The Group aims to manage capital in such a way as to maintain the going concern and be able to provide a return on investment to its shareholders and benefits to all other interested parties. The company aims to maintain the optimal capital structure in order to reduce the cost of capital.

The capital structure of the Group consists of debt which includes loans and borrowings, cash and cash equivalents and equity. Equity includes share capital and losses carried forward. In order to maintain or harmonise the capital structure, the Group can change the dividend amount which is paid out to shareholders, provide a return on investment to its shareholders, issue new stocks or sell assets in order to reduce debt.

The Group controls capital through supervision of debt. This ratio is calculated as net debt divided by total capital. Net debt (borrowing) is calculated as total borrowings (including long-term and short-term in the balance sheet) less cash and cash equivalents and short-term deposits. Total capital is calculated in a way that net debt is added to capital and reserves shown in the balance sheet.

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

(in thousands of HRK)	**2017**	**2016**
Debt (long-term and short-term credits)	(364,725)	(188,608)
Cash and cash equvalents	19,389	41,204
Net debt	(345,336)	(147,404)
Equity	1,024,391	920,837
Debt to equity ratio	-34%	-16%

Financial risk management

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

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

8. BUSINESS RISKS (CONTINUED)

Credit risk

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

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

Interest rate risk

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

Currency risk

The Group is exposed to a currency risk by contract prices for raw materials agreed in foreign currencies. The currency subject to risks is primarily EUR and USD. The Group is currently not protected against such risks.

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

(in thousands of HRK)	Liabilities		Property	
	2017	**2016**	**2017**	**2016**
EUR	509,461	239,831	71,372	88,497
USD	983	1,534	6,470	5,527
GBP	5	295	304	442
SEK	42	38	0	0
Other currencies	224	226	0	0

As at 31 December 2017, if the EUR would increase/decrease in value for 1.00% relative to the HRK, under the assumption that all other variables remain constant, the profit for the reporting date would be HRK 4,326 thousands smaller/(larger).This change would be a direct result of positive/(negative) exchange rate changes to the trade receivables, trade payables, borrowings and money deposits in EUR.

According to estimates made by management, the impact of changes in other currency has no significant impact on the Group's financial statements.

Market risk

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

8. BUSINESS RISKS (CONTINUED)

Liquidity risk

It refers to the risk that the proceeds will not be sufficient to cover current cash expenditures. The Group manages liquidity risk by maintaining appropriate reserves, bank and borrowed funds reserves as well as continuous monitoring of the expected and actual cash flows and comparing the maturity dates of financial assets and liabilities.

Regulatory risk

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

9. RESEARCH AND DEVELOPMENT ACTIVITIES

A large part of research and development activities comprises the development of innovative products and services in line with thematic areas stipulated in the Croatian Smart Specialisation Strategy 2016-2020. The Company and the Group were made the representatives of the consortium with the aim of improving the innovation environment, intensifying the research and development activities and increasing competitiveness through collaboration with business partners and scientific research institutions.

Efficient cooperation on research and development projects was established with 4 scientific research institutions (Faculty of Mechanical Engineering and Naval Architecture in Zagreb, Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split, Faculty of Maritime Studies in Split, Faculty of Civil Engineering, Architecture and Geodesy). Through planned projects, we aim to become one of the top world/European producers of sophisticated ships and crafts with high added value and to offer products in line with the highest standards in terms of energy efficiency and environment impact.

Furthermore, we developed more different models of ships with the aim to significantly save gas, i.e. cut greenhouse gases emissions.

As a research and development technological organisation with human and material resources, infrastructure and experience in research, development and the realisation of the most complex products and services for reputable clients, great attention is paid to innovation, research and development as the basis for gaining a competitive advantage and sustainable growth, but also for exchanging knowledge and experience with high-education organisations. The company employs highly educated shipbuilders and engineers of different technical areas of expertise, with a lot of experience in different types of shipbuilding projects.

10. FUTHER DEVELOPMENT

The main aim of the company Brodosplit d.d. is to ensure a long-term profitability and stable growth. Brodosplit group now has a total of thirteen new ships ordered, worth about 1,5 billion HRK. As for the market outside of shipbuilding, currently ordered is the construction of steel barriers to defend Venice from flooding.

The future development of the company and the Group is focused on shipbuilding. Part of it on developing and offering projects of different types of passenger ships, medium in size, approximately 100 to 250 m in length (cruise ships, polar expedition ships, ships / ferries to transport passengers, cars / trucks, mega yachts etc.), and on intensifying the bidding for the project "The coastal patrol ship" in the Middle Eastern markets.

The part which is focused on markets outside of shipbuilding, future development focuses on more extensive infrastructure projects in Croatia and Europe, such as the Pelješac Bridge, LNG terminal plates, Krk LNG terminal, etc.

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

Furthermore, in late 2017 and early 2018, activities have intensified on the project of constructing luxury yachts, 133 m in length, for a client from Saudi Arabia and the imminent signature of a letter of intent and the continued development of the project is expected.

Also, for the part aimed at outside of shipbuilding, the sales department is very active on the Pelješac bridge project.

According to the decision of the Board, Brodosplit-Holding d.o.o.was incorporated by Brodograđevna industrija Split d.d. at 1 September 2017. All rights and obligations of the incorporated company on the day of the merger are transferred to the acquiring company.

In conclusion:

- The Company Brodosplit d.d. has taken and is taking a series of actions to restructure the Group Brodosplit and is creating future profitable operations;
- The Company is working intensively on its employment capacity, in shipbuilding market as well as in market outside of shipbuilding;
- The Company has streamlined the number of employees and introduced a flexible organization.

11. MANAGEMENT OBJECTIVES FOR THE YEAR 2018

Management Report of the Group (continued)

QUALITY:

1. To increase the share of own products and services in the final products of Brodosplit d.d.,
2. To attract new customers and develop new products,
3. Transition and reintegration of the management system in line with the new releases of ISO standards, alignment with organizational changes and integration with technical standards,
4. Improvements of quality controls systems
5. Human resources training,
6. Increase in technological levels of processes with the improvement of infrastructure and working environment.

ENVIRONMENT:

1. Separate collection and disposal of various types of waste,
2. Reduction of emissions of volatile organic compounds into the atmosphere to targeted emissions,
3. Clean underwater shipyard in labour-intensive areas,
4. Arrangement of a disposal space for non-hazardous waste at the Point Šilo,
5. Implementation of Company waste water disposal obligations.

HEALTH AND SAFETY AT WORK:

1. Prevention of work-related injuries,
2. An increase in the level of security for new buildings through the procurement of "safety" equipment,
3. The introduction of the full use of the safety operating voltage when working in enclosed metal spaces,
4. Improvement of fire protection systems in company buildings.

ENERGY:

1. Prevention of inefficient and unnecessary use of energy,
2. Enhance the monitoring of consumption and use of energy sources through aspects and variables that depend on energy performance,
3. Improvement of consumer energy efficiency.

Split, 10 August 2018

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

Zoran Kunkera
Member of the Board

Responsibilities of the Management Board for preparation and approval of the Annual Report

Pursuant to the Croatian Accounting Law in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union, which gives a true and fair view of the financial position and results of the Group for that period.

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

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent,
- applicable accounting standards are followed; and;
- the financial statements are prepared on the going concern basis

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the currently valid Croatian Accounting Law. The Board is also responsible for safeguarding the assets of the Group hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board on 10 August 2018:

Tomislav Debeljak
President of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

Zoran Kunkera
Member of the Board

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 Brodograđevna industrija Split d.d. and its subsidiaries

Report on the Audit of the consolidated financial statements

Audit opinion

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

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

Basis for opinion

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

Other matter

Financial statements of the previous period.

The Group's financial statements for the year ended 31 December 2016 were audited by another auditor who expressed a positive opinion on the financial statements as at 21 August 2017.

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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/hr/about to learn more about our global network of member firms.

© 2018. For information, contact Deloitte Croatia.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

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

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

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

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

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

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

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

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

Marina Tonžetić
Member of Board and certified auditor

Deloitte d.o.o.,

Zagreb, 10 August 2018

Radnička cesta 80,

10 000 Zagreb,

Republic of Croatia

BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d. and its subsidiaries
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2017

(all amouts are in thousands of HRK)	Note	2017	2016
Sales	*5*	608,127	552,827
Other operating income	*6*	31,586	77,259
Changes in inventories - work in progress and finished goods		42,071	66,557
Material expenses	*7*	(294,728)	(298,493)
Goods sold		(362)	(5,979)
Employee costs	*8*	(214,160)	(224,385)
Depreciation	*9*	(40,782)	(32,453)
Other operating expenses	*10*	(68,700)	(105,413)
Operating profit		**63,052**	**29,920**
Financial income	*11*	15,121	18,033
Financial expenses	*12*	(34,209)	(27,086)
Net financial expenses		**(19,088)**	**(9,053)**
Share in net loss of joint venture	*18*	(97)	(99)
Profit before taxation		**43,867**	**20,768**
Income tax	*13*	8,520	8,286
Net profit		**52,387**	**29,054**
Statement of comprehensive income			
Revaluation of property, plant and equipment (net of tax)		51,185	4,739
Change in fair value of available for sale financial assets (net of tax)		37	7
Exchange rate differences		-	2
Total comprehensive income		**103,609**	**33,802**
Profit which belongs to:			
Company's shareholders		52,197	27,984
Non-controlling interest		190	1,070
		52,387	**29,054**
Total comprehensive income which belongs to:			
Company's shareholders		103,419	32,732
Non-controlling interest		190	1,070
		103,609	**33,802**

BRODOGRAĐEVNA INDUSTRIJA SPLITd.d. and its subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(these amouts are in thousands of HRK)	**Note**	**2017**	**2016**
ASSETS			
Intangible assets	*14*	15,219	13,969
Property, plant and equipment	*15*	838,936	682,013
Investment property	*16*	4,447	4,472
Long-term investments	*17*	380	343
Investment in joint ventures	*18*	14,383	11,960
Trade and other receivables	*19*	13,839	36,478
Non-current assets		**887,204**	**749,235**
Inventories	*20*	169,046	252,881
Trade and other receivables	*21*	724,543	413,208
Cash and cash equvalents	*22*	19,389	41,204
Current assets		**912,978**	**707,293**
TOTAL ASSETS		**1,800,182**	**1,456,528**
EQUITY AND LIABILITIES			
Share capital	*24 (i)*	535,466	535,466
Reserves	*24 (ii)*	236,232	230,203
Retained profit	*24 (iii)*	252,693	155,168
		1,024,391	**920,837**
Non-controlling interest		3,568	3,513
Equity		**1,027,959**	**924,350**
Provisions	*25*	13,549	21,405
Trade payables		-	13,226
Loans and borrowings	*27*	135,246	151,156
Deferred tax liability	*13*	36,011	41,704
Non-current liabilities		**184,806**	**227,491**
Provisions	*26*	2,828	12,157
Loans and borrowings - related	*27*	-	11,000
Loans and borrowings	*27*	229,479	26,452
Trade and other payables	*28*	355,110	255,078
Current liabilities		**587,417**	**304,687**
Total liabilities		**772,223**	**532,178**
TOTAL EQUITY AND LIABILITIES		**1,800,182**	**1,456,528**

BRODOGRAĐEVNA INDUSTRIJA SPLITd.d.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

(these amouts are in thousands of HRK)	Share capital	Legal reserves	Revaluation reserves	Reserves from currency translation	Other reserves	Retained profit	Total	Non-dominant share	Total equity
Balance at 1 January 2016	535,466	26,773	218,367	-	11,994	91,187	**883,787**	2,899	**886,686**
Profit for the current year	-	-	-	-	-	27,984	**27,984**	1,070	**29,054**
Total comprehensive income	-	-	(26,737)	-	-	35,997	**9,260**	-	**9,260**
Reserves from currency translation	-	-	-	2	-	-	**2**	-	**2**
Total comprehensive income	-	-	**(26,737)**	**2**	-	**63,981**	**37,246**	**1,070**	**38,316**
Sale of subsidiary	-	-	-	-	(196)	-	**(196)**	(456)	**(652)**
Total owners' contributions and distribution of profit to the owners of the Company, recognised directly in the equity	-	-	-	-	**(196)**	-	**(196)**	**(456)**	**(652)**
Balance at 31 December 2016	**535,466**	**26,773**	**191,630**	**2**	**11,798**	**155,168**	**920,837**	**3,513**	**924,350**
Balance at 1 January 2017	535,466	26,773	191,630	2	11,798	155,168	920,837	3,513	924,350
Profit for the current year	-	-	-	-	-	52,197	**52,197**	190	**52,387**
Total comprehensive income	-	-	11,703	-	-	39,519	**51,222**	-	**51,222**
Total comprehensive income	-	-	**11,703**	-	-	**91,716**	**103,419**	**190**	**103,609**
Transfer	-	-	-	-	(5,674)	5,809	**135**	(135)	-
Balance at 31 December 2017	**535,466**	**26,773**	**203,333**	**2**	**6,124**	**252,693**	**1,024,391**	**3,568**	**1,027,959**

BRODOGRAĐEVNA INDUSTRIJA SPLITd.d. and its subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	Note	2017	2016
Net gain		**52,387**	**29,054**
Adjustments for:			
- Depreciation of tangible assets	15	40,182	31,874
- Depreciation of intangible assets	14	434	387
- Depreciation of investment property	16	166	192
- Loss from sale of subsidiary		-	736
- Impairment of non-current assets		-	438
- Impairment of investment		-	7
- Collected written-off receivables		(769)	(922)
- Impairment of receivables		-	4,873
- Write-off of impaired inventories		(1,423)	-
- Impairment of inventories		-	1,381
- Interest expense and discount	12	20,955	22,360
- Income from interest and discount	11	(1.919)	(10,065)
- Income from write off of liablities	6	(1.811)	-
- Share in net loss of joint venture	18	97	99
- Exchange rate differences		(1,248)	1,350
- Income tax	13	(8,520)	(8,286)
- Net change in provisions	25,26	(17,185)	(18,045)
- Net book value of sold property, plant and equipment	15	419	327
		81,443	**55,760**
Changes in working capital			
- (Increase)/decrease in Inventories		(5,805)	33,078
- (Increase) in trade and other receivables		(238,170)	(10,297)
- Increase/(decrease) in trade and other payables		24,921	(104,411)
Cash generated from operating activities		**(137,611)**	**(26,197)**
Paid interests		(18,097)	(15,941)
Paid income tax		(488)	(429)
Cash made in operating activities		**(156,196)**	**(42,567)**
Investment activities			
Acquisition of property, plant and equipment	15	(47,173)	(69,943)
Acquisition of intangible assets	14	(1,447)	(65)
Investment in joint ventures		(2,520)	(2,499)
Profit from sales of equity shares (net of cash)		-	201
Placement of loans and deposits		(98,041)	-
Payment of loans		22,608	2,787
Net cash used in investing activities		**(126,573)**	**(69,522)**
Cash flow from financing activities			
Recived loans		383,818	319,839
Loan repayments		(122,864)	(185,149)
Net cash from financial activities		**260,954**	**134,690**
Net (decrease)/increase in cash and cash equivalents		(21,815)	22,931
Cash and cash equivalents at the beginning of the period	22	41,204	18,273
Cash and cash equivalents at the end of the period	**22**	**19,389**	**41,204**

NOTE 1 – GENERAL INFORMATION

The Group Brodosplit d.d. Comprises the parent company Brodosplit d.d., Split and 69 subsidiaries.

The Company Brodograđevna industrija Split d.d., Split (the „Company") is registered with the Commercial Court in Split under Registration number (MBS): 060175040, PIN: 18556905592.

Share capital as at 31 December 2017 amounts to HRK 535,466,220. In accordance with the General Assembly's decision as of 3 March 2015 share capital was increased from HRK 525,466,140 for the amount of HRK 10,000,080 by cash contribution of shareholder DIV BRODOGRADNJA d.o.o., Samobor, Bobovica 10/A, registration number, PIN: 44993645694, by issuance of 166,668 new shares as per series VI, with exclusion of purchase rights of other shareholders. After the increase, share capital amounts to HRK 535,466,220.00 and is divided on 8,924,437 regular shares each in nominal value of HRK 60.00.

The Company, through different organizational forms and under different names, has been operating since 1931. The many activity of the Company is shipbuilding.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these uncosolidated financial statements are set out below.

2.1 Basis of preparation

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

The consolidated financial statements were presented to the Company and its subsidiaries. The Company's unconsolidated financial statements have been prepared in accordance with IFRS and published separately on June 29 2018.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note "Key accounting estimates and judgements".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

List of investments in subsidiaries that are managed by the Company is as follows:

Name of subsidiary	Share in %	Business activity
	2017	
Brodosplit - Plovidba d.o.o.	100	Sea and coastal water transport of freight
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	100	Building of ships and floating structures
Brodosplit - Tvornica dizel motora d.o.o.	100	Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
Brodosplit - Trgovina d.o.o.	100	Wholesale of other machinery and equipment
Brodosplit - Zaštita brodskog trupa od korozije d.o.o.	100	Manufacture of metal structures and parts of structures
Brodosplit - Transportna sredstva d.o.o.	100	Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Čelik d.o.o.	100	Manufacture of metal structures and parts of structures
Brodosplit - Opremanje plovnih objekata d.o.o.	100	Manufacture of metal structures and parts of structures
Brodosplit - Trup d.o.o.	100	Manufacture of metal structures and parts of structures
Brodosplit - Stroj d.o.o.	100	General mechanical engineering
Brodosplit - Montaža d.o.o.	100	Manufacture of metal structures and parts of structures
Brodosplit - Boja d.o.o.	100	Repair and maintenance of ships and boats
Brodosplit - Blok d.o.o.	100	Building of ships and floating structures
Brodosplit - Računovodstvo i financije d.o.o.	30	Accounting, book-keeping and auditing activities; tax consultancy
Brodosplit - Informatika d.o.o.	30	Computer facilities management activities
Brodosplit - Laboratorij d.o.o.	30	Technical testing and analysis
Brodosplit - Atest d.o.o.	30	Security systems service activities
Brodosplit - Ljudski resursi d.o.o.	30	Other human resources provision
Brodosplit - Plovne dizalice d.o.o.	30	Renting and leasing of water transport equipment
Brodosplit - Privremena energetika d.o.o.	30	Production of electricity
Brodosplit - Čišćenje d.o.o.	30	Other cleaning activities
Brodosplit - Optimizacija i ekologija d.o.o.	30	Remediation activities and other waste management services
Brodosplit - Alatnica d.o.o.	30	General mechanical engineering
Brodosplit - Održavanje d.o.o.	30	Repair of machinery
Brodosplit - Skela d.o.o.	30	Manufacture of metal structures and parts of structures
Brodosplit - Cjevarska izrada d.o.o.	30	Casting of iron
Brodosplit - Bravarija i limarija d.o.o.	30	Repair of fabricated metal products
Brodosplit - Automatizacija d.o.o.	30	Computer facilities management activities
Div Cruises d.o.o.	30	Travel agency
Brodosplit - Izvor energije vjetroparkova d.o.o.	30	Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Produkt plinske elektrane d.o.o.	30	Renting and leasing of other machinery, equipment and tangible goods
Brodosplit - Vjetrostupovi d.o.o.	30	Manufacture of metal structures and parts of structures
Brodosplit - Klimatizacija i ventilacija d.o.o.	30	Plumbing, heat and air conditioning installation
Brodosplit - Brodska i ostala oprema d.o.o.	30	Manufacture of metal structures and parts of structures
Brodosplit - Metalne konstrukcije d.o.o.	30	Manufacture of metal structures and parts of structures
Brodosplit - Namještaj po mjeri d.o.o.	30	Installation of carpentry
Brodosplit - Interijer i završni radovi d.o.o.	30	Installation of carpentry
Brodosplit - Strojna obrada d.o.o.	30	General mechanical engineering
Brodosplit - Ljevaonica d.o.o.	30	Casting of iron
Brodosplit - Istraživanje i razvoj d.o.o.	30	Other research and experimental development on natural sciences and engineering
Brodosplit - Korporativna zaštita d.o.o.	30	Private security activities
Brodosplit - Gradnja d.o.o.	30	Construction of residential and non-residential buildings
Brodosplit - Otpremništvo d.o.o.	30	Other transportation support activities
Brodosplit - Najam Vozila d.o.o.	30	Renting and leasing of cars and light motor vehicles
Brodosplit - Oblaganje d.o.o.	30	Building of ships and floating structures
Brodosplit - Servis brodova d.o.o.	30	Repair and maintenance of ships and boats

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Through the subsidiary Brodosplit - Plovidba d.o.o., the Company also the following companies: BS STAR SHIPPING INC., BURIN WIND CRUISE SHIPPING INC., GARBIN WIND CRUISE SHIPPING INC.,

LEVANT WIND CRUISE SHIPPING INC., MAESTRAL WIND CRUISE SHIPPING INC, PULENAT WIND CRUISE SHIPPING INC., GREEN4SEA SHIPPING 1 INC., GREEN4SEA SHIPPING 2 INC., GREEN4SEA SHIPPING 3 INC., GREEN4SEA SHIPPING 4 INC., DREAM ONE SHIPPING INC., RIVER CRUISE SHIPPING INC., POLAR EXPEDITIONS B.V., Nizozemska POLAR EXPEDITIONS Inc., Marshall Islands POLAR EXPLORER Inc., XB AHTS COMPANION SHIPPING INC., XB AHTS GUARDIAN SHIPPING INC., XB AHTS HERO SHIPPING INC., XB AHTS SUPPORTER SHIPPING INC., POLARIS EXPEDITIONS INC., POLARIS EXPLORATION INC.

A subsidiary, Brodosplit-Holding d.o.o has 50% stake and management rights in companies Kamen Dent, Bosna i Hercegovina and also is a 100% owner of and has management rights in company Brodosplit Italia s.r.l., Italija.

By acquiring Brodosplit - Holding d.o.o., Brodograđevna industrija Split d.d. has taken over the shares and management rights in these companies.

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Additionally, subsidiaries are entities over which the Company has less than one half of the voting rights but still has control due to an ownership agreement. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassessed the conditions for consolidation of the subsidiaries. There were no changes in comparison to previous treatment.

(a) Subsidiaries (continued)

In consolidated financial statements, all transactions within the Group, as well as balances and unrealised gains from transactions within the Group are eliminated. Furthermore, unrealised losses are eliminated, unless there is proof of transferred assets impairment. Where appropriate, the subsidiaries' accounting policies were amended in order to comply with the policies the Group applies.

(b) Joint ventures

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

2.3 Foreign currencies

(a) Functional and presentation currency

The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and presentation currency.

(b) Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment

In financial statements property, plant and equipment include: land, buildings, leasehold improvements, plant, transport vehicles, tools, books and art that are recognised in the balance sheet of the Group when the following conditions are fulfilled:

- the Group owns and uses the asset in its business process (core business);
- assets are expected to be used during more than one period;
- when it is probable that future economic benefits associated with the item will flow to the Company;
- the cost of the item can be measured reliably.

Non-current material asset is initially recognised at cost that comprises purchase price, import duties and non-refundable purchase taxes and all other costs directly attributable to bringing the asset to the condition necessary for its intended use. Following the initial recognition at cost, property, plant and equipment are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Any impairment loss decreases revaluation reserve up to the amount of revaluation reserve of the specific asset. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be accumulated in equity under the heading of revaluation surplus and if the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense in profit or loss. Revaluation decrease shall reduce the revaluation reserve to the extent of any credit balance existing in respect of that asset.

The carrying amount of an item of property, plant and equipment shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from The derecognition of an item of property, plant and equipment shall be included in profit or loss as a difference between sale price and carrying value of the asset when the item is derecognized. If some significant parts of property, plant and equipment require replacement at regular intervals, the Company recognizes such parts as a separate assets with specific useful life and depreciation. Furthermore, in the event of major repairs and maintenance, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. All other repair and maintenance costs are charged to profit or loss when incurred. Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

DESCRIPTION	2017	2016
	Year	Year
Buildings	20 - 100	20 - 100
Investment property	16	50 - 100
Plant and machinery	10 - 33	10 - 33
Furniture, tools and other equipment	10 - 33	10 - 33

During 2017, company has estimated expected useful life of investment property in the way it reflects the useful life when perceived as the best estimation. Mentioned estimation is in use prospectively since 01 January 2017. If company continued to perform depreciation of tangible assets using estimates based on previous useful lives, depreciation costs would be lower for amount of 5,825 thousands HRK in comparison to depreciation costs recorded in 2017.

2.5 Intangible assets

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

Following initial recognition at cost, property, plant and equipment are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Any impairment loss decreases revaluation reserve up to the amount of revaluation reserve of the specific asset.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be accumulated in equity under the heading of revaluation surplus and if the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense in profit or loss. Revaluation decrease shall reduce the revaluation reserve to the extent of any credit balance existing in respect of that asset.

Internally generated intangible assets, excluding capitalized costs of development, are not capitalized and are recognized as an expense in profit and loss as incurred. Useful life of an intangible asset is assessed as a finite or an indefinite.

Intangible assets with a finite useful life is amortised over the useful life of 10 years and is impaired if deemed necessary. Depreciation period and method of intangible assets with a finite useflul life are reviewed at least at each reporting date.

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

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted when possible.

2.6 Investment property

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

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

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

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(b) Financial assets available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value and the transaction costs are recorded in the income statement.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in `other operating expenses`.

Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale securities are recognised in the income statement when the right to receive payment is established.

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Loans and receivables

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

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

2.9 Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it and that the grant will be received. Consequently, the Company does not recognise government grants until there is reasonable assurance that the Company will comply either the conditions attaching to them, and the grants will be received. Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

2.10 Leases

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Small inventory and tools are expensed when put into use.

2.12 Construction contracts

Contract costs are recognised when incurred.

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

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

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

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included in the "Trade and other receivables".

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

2.13 Cash and cash equivalents

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Share capital

Ordinary shares are classified as share capital. Proceeds from the issues of new shares or options are stated in the equity after deductions are made for income tax and the incremental costs directly attributable to the issue.

2.15 Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. The tax base represents the difference between income and expenses, as determined by the applicable law. The Management Board of the Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade and other payables

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

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The 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. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provisions due to the passage of time is recognised as interest expense. This increase is stated as an interest expense.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria for all activities have been met, as described below.

(a) Services

Revenue from services are recognised in profit or loss based on percentage of completion in relation to reporting date. Percentage of completion is determined based on review of work done.

(b) Revenue from construction contracts

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

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

(c) Sales of goods

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

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. The equal reversal of discount in future periods is recognised as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the General Assembly of the Company's shareholders.

2.22 Value added tax

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

2.23 Maritime domain and concessions

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

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

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

Subject of the agreement

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

Right to use

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

Concession service time

The concession is granted on a period of 32 years commencing on the agreement date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Maritime domain and concessions (continued)

Concession payment

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

a) a fixed portion in the amount of HRK 0,50 per square meter of land used per annum;

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

The concession fee portions are paid as described below:

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

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

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

Concession un-transferability

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

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

Changes to the maritime domain concession agreement

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

Concession payment

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

a) a fixed portion in the amount of HRK 3.00 per square meter of land used per annum;

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

The concession fee portions are paid as described below:

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

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

The Decree on Amendments to the Regulation on the Procedure of Granting a Concession on a Naval Land (Official Gazette No. 10/17) of 10/02/2017 defines the calculation of a variable part of the fee in the amount of 1% of the annual income, with the revenue being considered as the portion of the revenue that covers the positions of the Concessionaire's Profit and Loss Account as follows: staff costs, amortization and profit for the period. If the operating result of the period is a loss, the basis for calculating the concession fee is calculated only by adding staff costs and amortization positions.

The change in the concession calculation is applied from 11 February 2017.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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 issued by IASB and adopted by the EU are not yet effective:

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **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),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Group anticipates that the adoption of these new standards, amendments to the existing standards (which are stated in financial statemetns), except for IFRS 15 and IFRS 16 along with new interpretation of standards will have no material impact on the consolidated financial statements of the Group in the period of initial application.

Adoption of IFRS 15 and IFRS 16 will have certain effects on financial statements in the period of their initial application but at the date of this report the Group has not yet made its evaluation.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial instruments categories

Accounting policies for financial assets are adopted for items in advance:

(in thousands of HRK)	31 December 2017	31 December 2016
Trade receivables	83,169	90,099
Given loans and deposits	12,387	51,504
Cash and cash equivalents	19,389	41,204
Other receivables	614,462	196,446
	729,407	**379,253**
**Other receivables refer to:*		
Accrued income (i)	404,567	185,969
Given advances	202,914	-
Other receivables	6,981	10,477
	614,462	**196,446**

(i) Accrued income refers to amounts invoiced for executed works that the buyer has not yet paid on the basis of the construction contract and which are included in the consolidated statement of financial position as receivables from customers and other receivables.

Financial assets do not include tax incentives.

(in thousands of HRK)	31 December 2017	31 December 2016
Financial liabilities		
Bank loans	364,725	177,608
Trade liabilities	131,967	152,287
Liabilities towards related parties	-	11,000
Liabilities towards factoring	-	2,156
*Other liabilities	176,739	64,441
	673,431	**407,492**
*Other liabilities refer to:		
Received advances IAS 11	**145,165**	**5,837**
Liabilities towards employees	**11,588**	**12,213**
Calculated expenses	**11,497**	**16,520**
Other liabilities	**8,489**	**30,141**
	176,739	**64,441**

Finance liabilities do not include liabilities for taxes, liabilities towards employees, contributions and advance payments.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk factors

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

- Credit risk
- Fair values of cash flow or interest rate risk
- Currency risk
- Market risk
- Liquidity risk
- Regulatory risk.

Capital risk management

The Company manages its capital in a way that ensures business continuity, while maximizing the return to shareholders through the optimization of the balance of debt and equity.

The capital structure of the Company consists of debt, which includes borrowings, cash and cash equivalents and equity, which includes the registered capital and accumulated losses.

Financial risk management

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

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

Credit risk

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

The Company's exposure and the credit standing of counterparties are continuously monitored, and the total amount of the transaction is distributed among authorized parties. Contracting the construction of a ship with customers of unknown or with lack of creditworthiness, estimated by the Company, will be secured with so-called Payment guarantees from first class banks. The Group's policy is that significant advance payments are made to suppliers only after the issue of advance payments guarantees.

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

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Interest rate risk

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

Currency risk

Due to the currency structure of assets and their sources as well as the currency structure of future economic flows, the Group is exposed to a substantial risk of exchange rate fluctuations. In order to reduce this risk the Group is attempting to establish a balance between currency inflows and outflows. Additionally, sales conducted in recent years are agreed in a mixture of currencies (USD and EUR), this reduces the exchange rate loss and expenses when converting currencies in order to pay liabilities as most of the foreign expenses are in EUR. The Group continuously follows the exchange rates and the currency structure of any planed outflows and arranges the currency credit funds accordingly.

The Group is exposed to a currency risk by contract prices for raw materials agreed in foreign currencies. The currency subject to risks is primarily EUR and USD. The Group is currently not protected against such risks.

The Group plans to implement more active and better policies for eliminating currency risk. The Companys' plan is to use financial instruments (forward transactions, FX options, etc.) which are available today on both the domestic and foreign financial markets. The cost of such financial instruments would be included in the total costs of the ship.

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

(in thousands of HRK)	Liabilities		Assets	
	2017	**2016**	**2017**	**2016**
EUR	509,461	239,831	71,372	88,497
USD	983	1,534	6,470	5,527
GBP	5	295	304	442
SEK	42	38	0	0
Other currencies	224	226	0	0

As at 31 December 2017, if the EUR would increase/decrease in value for 1.00% relative to the HRK, under the assumption that all other variables remain constant, the gains for the reporting date would be HRK4,487 thousands smaller/(larger).This change would be a direct result of positive/(negative) exchange rate changes to the trade receivables, trade payables, borrowings and money deposits in EUR.

According to estimates made by management, the impact of changes in other currency has no significant impact on the Group's financial statements.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Market risk

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

Liquidity risk

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

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

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

Liabilities

Table 35

at 31 December 2017	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Trade payables	131,967	131,967	131,967	-	-	-
Other liabilities	176,739	176,739	176,739	-	-	-
	308,706	**308,706**	**308,706**	-	-	-
Interest-bearing liabilities						
Borrowing	364,725	412,002	250,029	18,495	52,488	90,990
	364,725	**412,002**	**250,029**	**18,495**	**52,488**	**90,990**
	673,431	**720,708**	**558,735**	**18,495**	**52,488**	**90,990**

The average weighted interest rate amounts to 4.53%. If interest rate would have increase for 1% than interest bearing liabilities would increase fo 9.2 million.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

at 31 December 2016	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
		(in thousands of HRK)				
Non-interest bearing liabilities						
Related parties liablities	11,000	11,000	11,000			
Trade payables	152,287	152,287	136,915	13,226	-	-
Other liabilities	64,441	64,441	64,441	-	-	-
	227,728	**227,728**	**214,502**	**13,226**	-	-
Interest-bearing liabilities						
Factoring liabilities	2,156	4,647	4,647	-	-	-
Borrowing	177,608	190,776	37,711	153,065	-	-
	179,764	**195,423**	**42,358**	**153,065**	-	-
	407,492	**423,151**	**256,860**	**166,291**	-	-

Assets

at 31 December 2017	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
		(in thousands of HRK)				
Non-interest bearing interest						
Trade receivables	83,169	83,169	83,169	-	-	-
Other receivables	614,462	614,462	614,462	-	-	-
	697,631	**697,631**	**697,631**	-	-	-
Interest-bearing assets						
Given loans and deposits	3,050	3,124	1,476	9,683	3,278	890
Cash and cash equivalents	19,389	19,408	19,408	-	-	-
	22,439	**22,533**	**20,884**	**9,683**	-	-
	729,407	**729,501**	**715,649**	**9,683**	**3,278**	**890**

The average weighted interest rate amounts to 0.01%.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

at 31 December 2016	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing interest						
Trade receivables	90,099	90,099	90,099	-	-	-
Other receivables	196,446	196,446	196,446	-	-	-
	286,545	**286,545**	**286,545**	-	-	-
Interest-bearing assets						
Given loans and deposits	51,504	50,096	20,316	4,060	31,042	1,678
Cash and cash equivalents	41,204	41,245	41,245	-	-	-
	92,708	**98,341**	**61,562**	**4.060**	**31,042**	**1,678**
	379,253	**384,886**	**343,907**	**4,060**	**31,042**	**1,678**
	51,504	50,096	20,316	4,060	31,042	1,678

Regulatory risk

Considering the Croatian accession to the European Union, the Company is significantly exposed to regulatory risk, which is for the most part realized in changes in the legislative sphere of state aid. Namely, that the Company used the state aid in amounts significant for maintaining profitability and liquidity, this risk is considered to be significant and yet uncontrollable.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt (borrowing) is calculated as total borrowings (including long-term and short-term in the balance sheet) less cash and cash equivalents and short-term deposits. Total capital is calculated in a way that net debt is added to capital and reserves shown in the balance sheet.

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

(in thousands of HRK)	2017	2016
Debt (long-term and short-term credits)	(364,725)	(188,608)
Cash and cash equivalents	19,389	41,204
Net debt	(345,336)	(147,404)
Equity	1,024,391	920,837
Debt to equity ratio	-34%	-16%

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation

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

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

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

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

The following table shows Group assets per fair value level at 31 December 2016 and 31 December 2017:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
31 December 2017				
Property, plant and equipment	-	-	838,936	838,936
Intangible assets	-	-	15,219	15,219
Investment property	-	-	4,447	4,447
Available-for-sale financial assets				
Listed companies	228	-	-	228
Unlisted companies	-	152	-	152
Total	228	152	858,602	858,982

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its revenue from construction contracts to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(b) Impairment of loans and receivables

The Group reviews the portfolio of loans and receivables on an annual basis to assess impairment. While assessing the recognition of impairment in the statement of comprehensive income, the Group assesses whether there is observable data indicating the existence of a measurable decrease in future cash flows of the portfolio of loans and receivables before establishing the impairment of certain loans and receivables in the stated portfolio.

(c) Work in progress and revenue

The revenues and costs reflected in the financial statements are based on the Company's engineering and financial best estimates of the stage of contract completion and profit to be realised upon completion. Construction work in progress is based on estimates of expected future costs and profit. As the project progresses, these estimates may change significantly should unexpected costs or unforeseen project difficulties occur.

(d) Useful life of property, plant and equipment

The Companies' Management Board determines and reassesses the useful lives and related depreciation charge for tangible assets. This assessment is based on the estimated remaining useful life of assets and could significantly change as a result of technical innovation and activities of competitors. Management will increase the depreciation charge if it assesses that the useful life of assets is lower than prior to estimates, or it will write off obsolete and discarded property.

(e) Revaluation

Valuation of property, plant and equipment, intangible assets and investment property was conducted on 31 December 2016 by an independent appraiser. The estimate was made on the basis of market value and determining the cost of the assets replacement. Revaluation surplus decreased by relating deferred tax liability is recognized as revaluation reserve within equity.

(f) 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.

(g) Guarantees

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

(h) Onerous contracts

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

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) Government grants

Government grants are recognised when there is reasonable assurance that the Company will comply with the conditions attaching to them; and the grants will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. Income arising on grants for restructuring that are received based on the Restructuring programme depends on conditions defined in Contract on sale and transfer of shares. The Management Board believes that the defined conditions will be fulfilled and thus income from government grants for restructuring in prior periods.

NOTE 5 - SALES

(in thousands of HRK)	2017	2016
Shipbuilding	376,688	237,044
Non-shipbuilding industry	192,725	272,393
Services	32,144	31,285
Other sales	6,570	12,105
	608,127	**552,827**

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

NOTE 6 - OTHER OPERATING INCOME

(in thousands of HRK)	2017	2016
Release of warranty provision, net	8,003	3,138
Release of provision for court cases, net	6,879	14,248
Relaease of other provisions, net	3,199	4,730
Income from liabilities write-off	1,811	-
Income from charged penalties	1,752	1,699
Income from collection of receivables	769	922
Inventory surplus	571	2,096
Income from additional rebates from suppliers	96	1,934
Income from arbitration	-	46,156
Other	8,506	2,336
	31,586	**77,259**

NOTE 7 - MATERIAL EXPENSES

(in thousands of HRK)	2017	2016
Raw materials and supplies	174,437	237,880
Energy	10,128	10,691
Small inventory, spare parts and tires	5,279	2,744
Raw materials and supplies	**189,844**	**251,315**
External cooperation and other production services	70,731	13,276
Management services	19,129	13,347
Repairs and maintenance	2,390	2,082
Security services	1,209	1,140
Transport	810	445
Other external expenses	10,615	16,888
Costs of services	**104,884**	**47,178**
Total material expenses	**294,728**	**298,493**

The cost of external cooperation and other production services relate to services by external and internal cooperation provided since the initial phase of development to the launching of the ship. The above mentioned services include drafting of the project, anticorrosion protection, carpentry work, galvanizing and other similar services.

NOTE 8 - EMPLOYEE COSTS

(in thousands of HRK)	2017	2016
Net wages	133,468	139,596
Taxes and contributions from salaries	45,970	48,591
Contributions on salaries	34,722	36,198
	214,160	**224,385**

Taxes and contribution from salaries include contributions paid into obligatory pension funds in the amount of HRK 41,381 thousand (in 2016: HRK 40,177 thousand). Contributions are calculated as a percentage of gross salaries.

As at 31 December 2017, the Group had 2,015 employees (31 December 2016: 2,044 employees).

NOTE 9 - DEPRECIATION

(in thousands of HRK)	**2017**	**2016**
Tangible assets (note 15)	40,182	31,874
Intangible assets (note 14)	434	387
Investment property (note 16)	166	192
	40,782	**32,453**

NOTE 10 - OTHER OPERATING EXPENSES

(in thousands of HRK)	**2017**	**2016**
Other employee costs	17,632	20,339
Construction contracts	9,667	5,626
Concession	6,837	6,964
Insurance cost	5,552	2,394
Business trips	5,166	3,553
Intellectual services	4,245	10,500
Bank fees and charges	3,294	3,519
Fines and penalties	2,325	1,958
Utilities	1,989	1,989
Termination benefits	744	6,236
Entertainment	488	944
Value adjustment of inventories	1	1,381
Value adjustment of work in progress	-	24,407
Value adjustment of trade receivables	-	4,873
Damages	-	2,006
Loss due to the sale of subsidiary	-	736
Value adjustment of property, plant and equipment	-	438
Value adjustment of investment in shares	-	7
Provisions for court cases	-	1,605
Other	10,760	5,938
	68,700	**105,413**

NOTE 11 - FINANCIAL INCOME

(in thousands of HRK)	**2017**	**2016**
Foreign exchange income	13,201	7,965
Interest income	1,359	4,840
Income from unwinding of discount	560	5,225
Other financial income	1	3
	15,121	**18,033**

NOTE 12 - FINANCIAL RISK MANAGEMENT

(in thousands of HRK)	**2017**	**2016**
Interest cost	20,954	22,360
Foreign exchange losses	13,255	4,726
	34,209	**27,086**

NOTE 13 – CORPORATE INCOME TAX

Income tax expense consists of:

(in thousands of HRK)	**2017**	**2016**
Current tax	155	713
Deferred income tax	(8,675)	(8,999)
Income tax expense	**(8,520)**	**(8,286)**

NOTE 13 - INCOME TAX (continued)

(in thousands of HRK)	**2017**	**2016**
Profit before tax	**43,867**	**20,768**
Tax effecr at tax rate of 18%	7,896	4,154
Effect of non-deductible expenses	68	184
Effect of non-taxable income	-	(1)
Effect of tax incentives	(30)	(119)
Net temporary differences for which deferred tax assets were not recognized	1,897	8,344
Effect of tax losses for which deferred tax assets were not recognized	33	1,342
Effect of used tax losses for which deferred tax assets were not recognized	(18,384)	(22,190)
Income tax cost/(tax income)	**(8,520)**	**(8,286)**

NOTE 13 - INCOME TAX (continued)

Tax losses carried forward

Unrecognized deferred tax asset by losses carried forward is as follows:

(in thousands of HRK)	2017
Tax loss from year 2013 - expires 31 December 2018	-
Tax loss from year 2014 - expires 31 December 2019	18,444
Tax loss from year 2015 - expires 31 December 2020	24,079
Tax loss from year 2016 - expires 31 December 2021	3,392
Tax loss from year 2017 - expires 31 December 2022	30
	45,946

The Group did not recognize deferred tax assets related to tax incentives and temporary differences, due to historical uncertainty.

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

The amendments to the Income Tax Act, which decreased the tax rate from 20% to 18%, entered into force in the beginning of 2017. Therefore, the taxes unrecognised at 31 December 2016, were calculated based on a rate of 18%, which is expected to be applied in the period when the deferred taxes are to be realised.

Deferred tax liability

In 2017, the Group recognized deferred tax liability on revaluation of the assets. Movement in deferred tax liability is shown in the following table.

Considering the changes in the legal tax rate, the deferred tax liability at 31 December 2016 was calculated based on a rate of 18%, which is expected to be applied in the period when the deferred taxes are to be realised.

NOTE 13 - INCOME TAX (continued)

Movement in deferred tax liability

(in thousands of HRK)	1 January 2017	Recognised in other comprehensive income	Recognised in profit or loss	Corrected from previous period	31 December 2017
Property, plant and equipment	40,763	2,946	(8,579)	(32)	35,098
Intangible assets	136	43	(66)		113
Investment property	805	25	(30)		800
	41,704	**3,014**	**(8,675)**	**(32)**	**36,011**

NOTE 14 - INTANGIBLE ASSETS

(in thousands of HRK)	Software	Assets under construction	Total
Cost or valuation			
As at 01/01/2016	2,102	-	2,102
Purchases	68	-	68
Intangible assets under construction	-	12,750	12,750
Impairment	(1)	-	(1)
Revaluation	78	-	78
As at 31/12/2016	**2,247**	**12,750**	**14,997**
As at 01/01/2017	**2,247**	**12,750**	**14,997**
Intangible assets under construction	-	1,287	1,287
Transfer to intangible assets	9,108	(9,108)	-
Revaluation	237	-	237
As at 31/12/2017	**11,592**	**4,929**	**16,681**
Accumulated depreciation			
As at 01/01/2016	**637**	-	**637**
Charge for the year	391	-	**391**
As at 31/12/2016	**1,028**	-	**1,028**
As at 01/01/2017	**1,028**	-	**1,028**
Charge for the year	434	-	434
As at 31/12/2017	**1,462**	-	**1,462**
Net carrying amount			
As at 01/01/2016	**1,465**	-	**1,465**
As at 31/12/2016	**1,219**	**12,750**	**13,969**
As at 01/01/2017	**1,219**	**12,750**	**13,969**
As at 31/12/2017	**8,248**	**4,929**	**15,219**

Intangible assets under construction refer to software.

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Investment property	Plant and equipment	Toolsand vehicles	Ships	Other equipment	Assets under construction	Tota
Cost or valuation									
As at 01/01/2016	**250**	**19,759**	**110,844**	**218,466**	**221,228**	**-**	**342**	**150,267**	**721,15**
Purchases	-	-	-	-	-	-	-	69,943	**69,94**
Transfer	-	-	5,384	2,727	2,016	108,148	-	(118,275)	
Transfer to intangible assets	-	-	-	-	-	-	-	(12,750)	**(12,750**
Sales	-	-	-	(329)	-	-	-	-	**(329**
Impairment	(2)	-	(3)	(84)	(345)	-	(3)	-	**(437**
Revaluation	-	(167)	142	3,028	3,416	-	-	-	**6,41**
As at 31/12/2016	**248**	**19,592**	**116,367**	**223,808**	**226,315**	**108,148**	**339**	**89,185**	**784,00**
As at 01/01/2017	**248**	**19,592**	**116,367**	**223,808**	**226,315**	**108,148**	**339**	**89,185**	**784,00**
Purchases	-	-	-	-	-	-	-	47,173	**47,17**
Transfer from inventory	-	-	-	-	-	-	-	96,649	**96,64**
Transfer	-	(26)	915	3,098	10,983	(11,441)	108	5,165	
Sales	-	-	-	(987)	(46,826)	-	-	-	**(1,445**
Impairment	-	(27)	-	(71)	(22)	-	-	-	**(120**
Revaluation	-	1,198	5,838	2,815	6,518	37,453	-	-	**53,82**
As at 31/12/2017	**248**	**20,625**	**123,120**	**228,663**	**196,968**	**134,160**	**447**	**238,172**	**980,08**
Accumulated depreciation									
As at 01/01/2016	**-**	**541**	**5,696**	**35,713**	**28,167**	**-**	**-**	**-**	**70,11**
Charge for the year	-	276	1,337	14,104	14,288	1,869	-	-	**31,87**
Sales	-	-	-	(2)	-	-	-	-	**(2**
As at 31/12/2016	**-**	**817**	**7,033**	**49,815**	**42,455**	**1,869**	**-**	**-**	**101,98**
As at 01/01/2017	**-**	**817**	**7,033**	**49,815**	**42,455**	**1,869**	**-**	**-**	**101,98**
Charge for the year	-	275	7,168	12,726	15,464	4,549	-	-	**40,18**
Sale	-	-	-	(775)	(251)	-	-	-	**(11,026**
As at 31/12/2017	**-**	**1,092**	**14,201**	**61,766**	**57,668**	**6,418**	**-**	**-**	**141,14**
Net carrying amount									
As at 31/12/2016	**248**	**18,775**	**109,334**	**173,993**	**183,860**	**106,279**	**339**	**89,185**	**682,01**
As at 31/12/2017	**248**	**19,645**	**108,919**	**166,897**	**176,866**	**127,742**	**447**	**238,172**	**838,93**

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment in the amount of HRK 431,123 thousand (2016: HRK 263,324 thousand) are pledged as security based being a co-debtor for the parent company's loan. Assets under construction refer to its own fleet.

NOTE 16 - INVESTMENT PROPERTY

(in thousands of HRK)	**Investment property**
Cost or valuation	
As at 01/01/2016	**5,751**
Revaluation	(717)
As at 31/12/2016	**5,034**
As at 01/01/2017	**5,034**
Revaluation	141
As at 31/12/2017	**5,175**
Accumulated depreciation	
As at 01/01/2016	**370**
Charge for the year	192
As at 31/12/2016	**562**
As at 01/01/2017	**562**
Charge for the year	166
As at 31/12/2017	**728**
Net carrying amount	
As at 31/12/2016	**4,472**
As at 31/12/2017	**4,447**

NOTE 17 – LONG-TERM INVESTMENTS

(in thousands of HRK)	31 December 2017	31 December 2016
Available-for-sale financial assets	380	343
	380	**343**

Movement of long-term investments is shown in table below.

(in thousands of HRK)	Available-for-sale financial assets
1 January 2017	343
Fair value changes	44
Value adjustments	(7)
31 December 2017	**380**

Increase in fair value of available-for-sale financial assets, as well as impairment, is recognised in the other comprehensive income.

NOTE 18 - INVESTMENT IN JOINT VENTURES

(in thousands of HRK)	**2017**	**2016**
Opening balance	11,960	9,560
Additional investments	2,520	2,499
Share in loss	(97)	(99)
Closing balance	**14,383**	**11,960**

The Group has a 50% share in the Company Kamen-Dent d.o.o., Bosnia and Hercegovina.

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

(in thousands of HRK)	**Assets**	**Liabilities**	**Income**	**Net loss**
Kamen-dent d.o.o.	16,707	(634)	5	194

NOTE 19 – LONG-TERM RECEIVABLES

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Loans receivables from employees (i)	7,648	9,772
Deposits (ii)	1,636	20,188
Other receivables (iii)	4,555	6,518
	13,839	**36,478**

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

(ii) Deposits are deposited for a period 3-4 years. During the year, the effective interest rates were between 0.05% and 0.1%. Deposits are pledged as a security for bank loans for the parent company in the amount of HRK 18,547 thousand and a performance guarantee in the amount of HRK 1,584 thousand.

(iii) Other receivables in the amount of HRK 4,555 thousand refer to receivables from Fincantieri S.P.A. for the delivery of ship sections. The relevant receivable matures in 2019.

NOTE 20 - INVENTORIES

(in thousands of HRK)	31 December 2017	31 December 2016
Raw materials and supplies	128,840	125,424
Advances for inventories	31,131	19,681
Trade goods	5,262	4,477
Current production	3,528	103,291
Finished products	285	8
	169,046	**252,881**

At 31 December 2016, the current production included an uncompleted vessel for which the contract has been terminated in 2015. In 2017, the vessel was reclassified to investment in progress part of property, plant and equipment note due to the fact that Group will use the ship when completed.

As at 31 December 2017 inventories that are pledged as security for bank loan amounted to HRK 74,855 thousand (as at 31 December 2016 there are no inventories that are pledged as security for bank loan).

20a Changes in work in progress and finished products

(in thousands of HRK)	2017	2016
Cost of internal ships	37,483	64,040
Difference in internal revenue and costs (i)	5,815	1,408
Change in production value in progress	(1,502)	1,109
Remainder of the value of changes in finished products	275	-
Total	**42,071**	**66,557**

During 2017, the Group capitalized internally realized costs incurred during the construction of ships that were included in certain categories of costs (the cost of internal shipments), given that their own expert resources were used. Also, at Group level, there was an unrealized gain on capitalization of inventories sold between companies within the group (the difference in internal income and expenses) which, in accordance with the principles of preparation of the consolidation reports, was eliminated in intercompany transactions.

NOTE 21 - CURRENT TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	31 December 2017	31 December 2016
Trade receivables (note 29)	50,090	50,473
Trade receivables - unrelated companies	47,188	54,516
Less: Impairment of trade receivables	(14,109)	(14,890)
Trade receivables - net	83,169	90,099
Undue income payments (Note 23) (iv)	404,567	185,969
Given advances (iii)	202,868	-
Receivables for government grants and subsidies (i)	27,849	111,046
Loans receivables from employees	2,109	2,318
Given loans to related parties (ii)	994	18,806
Income tax overpayment	515	591
Receivables from employees	445	305
Deposits	420	420
Prepaid expenses	207	1,115
Advances given to related parties (Note 29)	45	-
Other receivables	1,355	2,539
	724,543	**413,208**

(i) In the item Receivables for government grants and subsidies, the amount of HRK 89,000 thousand which referred to the short-term share of receivables for grants in 2016 was completely collected in 2017.

(ii) Loans to related parties have been issued with a 4.97% interest rate (in 2016: loans to related parties have been issued with a 5.14% interest).

(iii) Given advances refer to advances for Polar Expeditions Inc. for shipbuilding of nov.484.

(iv) Undue income payments relate to work performed but not yet collected from costumers according to the construction contract

NOTE 21 - CURRENT TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	**2017**	**2016**
Balance at 1 January	14,890	11,516
Collected	(769)	(922)
Writen off	(12)	(577)
Increase	-	4,873
Balance at 31 December	**14,109**	**14,890**

The ageing of due trade receivables that have not been impaired is as follows:

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
0-90 days	16,765	37,278
91-180 days	2,878	1,388
Over 181 days	63,526	51,433
Balance at 31 December	**83,169**	**90,099**

NOTE 22 - CASH AND CASH EQUIVALENTS

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Cash at bank	18,884	40,495
Cash in hand	505	709
	19,389	**41,204**

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

NOTE 23 - WORK IN PROGRESS

(in thousands of HRK)	**2017**	**2016**
Costs incurred up to reporting date	667,641	616,146
Recognised (losses)/gains up to the reporting date	80,796	83,483
	748,437	699,629
Less: Invoicing in progress and advances received	(488,826)	(545,950)
Receivables from/(payables to) the customers for the contracted work	**259,610**	**153,679**
Reclassified to accrued revenue	404,567	185,969
Reclassified to advances received from suppliers	(141,957)	(32,290)

NOTE 24 - SHARE CAPITAL AND RESERVES

i) Share capital

In accordance with the General Assembly's decision as of 3 March 2015 share capital was increased from HRK 525,466,140 for the amount of HRK 10,000,080 by cash contribution of shareholder DIV BRODOGRADNJA d.o.o., Samobor, Bobovica 10/A, registration number, PIN: 44993645694, by issuance of 166,668 new shares as per series VI, with exclusion of purchase rights of other shareholders. After the increase, the share capital amounts to HRK 535.466.220,00, divided into 8.924.437 ordinary shares with a nominal value of HRK 60,00.

As at 31 December 2017 the shareholder structure is as follows:

	Number of shares	Share amount
Shareholder	units	%
DIV - Brodogradnja d.o.o.	8,903,280	99.76%
Croatian chamber of commerce	11,637	0.13%
Uniqa d.d.	5,894	0.07%
Private persons	3,625	0.04%
Croatia	1	0.00%
TOTAL	**8,924,437**	**100%**

ii) Legal reserves

The legal reserve is required under Croatian law and must be built up at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. Legal reserve in 2017 amounts to HRK 26,773 thousand (2016: HRK 26,773). Legal reserves are not distributable.

iii) Revaluation reserves

(in thousands of HRK)	Revaluation of assets	Fair value of assets available for sale	Other	Total
1 January 2017	189,838	11	1,781	**191,630**
Revaluation - gross	54,200			**54,200**
Revaluation - tax effect	(3,014)	-	-	**(3,014)**
Depreciation transfer to retained earnings - gross	(22,258)	-	-	**(22,258)**
Depreciation transfer to retained earnings - tax effect	4,006	-	-	**4,006**
Transfer to retained profit – gross for sold and disposed assets	(25,937)			**(25,937)**
Transfer to retained profit – tax effect for sold and disposed assets	4,669	-	-	**4,669**
Change in AFS fair value	-	37	-	**37**
31 December 2017	**201,504**	**48**	**1,781**	**203,333**

NOTE 24 - SHARE CAPITAL AND RESERVES (continued)

iv) Other reserves relate to other reserves based on the basis of tax exemption. In 2016, profitable companies reinvested profits in the amount of 11,798 thousand. By acquiring Brodosplit Holding d.o.o. part of the reinvested profit was recorded through retained earnings in Brodosplit d.d.

NOTE 25 – NON-CURRENT PROVISIONS

Non-current provisions relate to provisions for fines and court cases. Movement in provision is shown in table below.

(in thousands of HRK)	**2017**	**2016**
Balance at 1 January	21,405	34,296
Incurred during period	4,150	5,304
Utilized during year	(977)	(1,761)
Released during period	(11,029)	(16,434)
Balance at 31 December	**13,549**	**21,405**

NOTE 26 – CURRENT PROVISIONS

(in thousands of HRK)	**Warranty**	**Termination benefits**	**Total**
Balance at 1 January 2017	8,521	3,636	12,157
Recognized during period	250	-	250
Released during period	(8,453)	(1,126)	(9,579)
Balance at 31 December 2017	**318**	**2,510**	**2,828**

NOTE 27– LOANS AND BORROWINGS

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Non-current liabilities towards banks and other financial institutions		
Non-current liabilities towards banks	135,246	151,156
	135,246	**151,156**
Short-term loans		
Bank loans	229,479	26,452
Loans liabilities – related	-	11,000
	229,479	**37,452**

Non-current liabilities towards banks refer to the long-term credit of HBOR for financing the building of a vessel in the amount EUR 37,147,869.16 with an interest rate of 3.7% p.a. The credit is to be paid

NOTE 27– LOANS AND BORROWINGS (continued)

in 108 monthly annuities (by 15 May 2028), with the first annuity maturing one month from the delivery of the new-build to the credit user. Bills of exchange and debentures of the subsidiary Polar Expeditions Inc and the co-debtors Div d.o.o., Brodosplit d.d., credit insurance policy, a guarantee of the Ministry of Finance of the Republic of Croatia, pledge on the new-build, which is the subject of financing, were used as collateral.

Current liabilities towards banks refer to the following bank loans:

a) a short-term loan from the bank to fund shipbuilding in the amount of EUR 20 million with an interest rate of 3M EURIBOR + 5% p.a. Loan repayment is on one-time basis at delivery of the ship and no later than 31 March 2018. The new-build, which is the subject of financing, two vessels owned by the Group and one debenture from the Company Brodosplit d.d., holder of the loan, (which became the holder of the loan by acquiring the subsidiary Brodosplit - Holding d.o.o.) and the co-debtors: DIV d.o.o., Brodosplit d.d. and Brodosplit - Brodogradilište specijalnih objekata d.o.o. were used as collateral;

b) a short-term revolving loan from Zagrebačka banka in the amount of EUR 9 million with an interest rate of 3M EURIBOR + 5% p.a. One debenture from the subsidiary of the Company Brodosplit d.d., holder of the loan, (which became the holder of the loan by acquiring the subsidiary Brodosplit - Holding d.o.o.) and the co-debtor DIV d.o.o., and a yacht were used as collateral. The deadline for the credit repayment is 3 months from every advance payment, and by 31 January 2018 the latest;

c) a short-term loan from the Slatinska bank in the amount of EUR 739,154.00 million with an interest rate of 5.5% p.a. One debenture from the subsidiary of the Company Brodosplit d.d., holder of the loan and the co-debtor DIV grupa d.o.o., and a boat owned by the Group were used as collateral. The loan repayment needs to be one-off, until 30 January 2018.

NOTE 28 - TRADE AND OTHER LIABILITIES

(in thousands of HRK)	**31 December 2017**	**31 December 2016**
Advances received IAS 11 (i)	143,466	5,837
Trade liabilities – unrelated	81,593	82,410
Related-party trade payables (Note 29)	50,214	56,651
Taxes, contributions and similar duties payable	34,831	25,661
Concession fee liabilities	13,144	23,457
Liabilities towards employees	11,588	12,213
Calculated costs	11,497	16,520
Other current liabilities	3,766	3,993
Other received advances	1.689	-
Prepaid income	1,491	26,453
Accrued penalty interests	800	524
Liabilities from court decisions	723	982
Liabilities toward joint ventures	159	-
Income tax liabilities	118	302
Liabilities towards banks and other financial institutions	20	75
	355,110	**255,078**

(i) Advances received relate to advances received from customers for construction contracts (Note 23 "Work in progress").

NOTE 29 - RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one of the parties has the power to exercise control over the other party, is under common control or if it has significant influence over the other party's operations.

Total amounts of related party transactions, receivables and payables at year end and related party expenses and income are as follows:

Sales

(in thousands of HRK)	**2017**	**2016**
DIV Grupa d.o.o.	1.123	1.369
Debeljak Industrija Vijaka d.o.o., Sarajevo	270	1,088
Div Cruises, Inc.	193	-
Marine and Energy Solutions DIV d.o.o.	186	205
Brodosplit - Projekt d.o.o.	52	12
PTC Krka Knin	4	5
Div učilište	2	-
Total	**1,830**	**2,679**

Other operating income

(in thousands of HRK)	**2017**	**2016**
DIV Grupa d.o.o.	17	2
Debeljak Industrija Vijaka d.o.o., Sarajevo	333	94
Brodosplit - Projekt d.o.o.	2,425	424
Total	**2,775**	**520**

NOTE 29 - RELATED PARTY TRANSACTIONS (continued)

Material expenses

(in thousands of HRK)	2017	2016
Debeljak Industrija Vijaka d.o.o., Sarajevo	-	2,022
DIV Grupa d.o.o.	10,657	6,437
Shanghai Vida	148	31
Total	**10,805**	**8,490**

Goods sold

(in thousands of HRK)	2017	2016
Debeljak Industrija Vijaka d.o.o., Sarajevo	41	23
DIV Grupa d.o.o.	85	116
Marine Consulting d.o.o.	-	159
Marine and Energy Solutions DIV d.o.o.	2	-
PTC Krka Knin	9	-
Brodosplit - Projekt d.o.o.	13	9
Total	**150**	**307**

Costs of services

(in thousands of HRK)	2017	2016
DIV Grupa d.o.o.	20,778	14,495
Debeljak Industrija Vijaka d.o.o., Sarajevo	348	1,226
Marine and Energy Solutions DIV d.o.o.	5,227	4,926
Shanghai Vida	144	-
Brodosplit - Projekt d.o.o.	16,143	5,389
Total	**42,640**	**26,036**

Other operating costs

(in thousands of HRK)	2017	2016
DIV Grupa d.o.o.	187	383
Marine and Energy Solutions DIV d.o.o.	-	12
Shanghai Vida	164	192
Brodosplit - Projekt d.o.o.	-	673
Total	**351**	**1,260**

NOTE 29 - RELATED PARTY TRANSACTIONS (continued)

Financial income

(in thousands of HRK)	**2017**	**2016**
DIV Grupa d.o.o.	1,157	2,967
Debeljak Industrija Vijaka d.o.o., Sarajevo	15	25
Shanghai Vida	3	2
Div Cruises, Inc.	19	-
Total	**1,194**	**2,994**

Financial expenses

(in thousands of HRK)	**2017**	**2016**
DIV Grupa d.o.o.	27	-
Debeljak Industrija Vijaka d.o.o., Sarajevo	7	14
Shanghai Vida	5	2
Div Cruises, Inc.	41	
Total	**80**	**16**

NOTE 29 - RELATED PARTY TRANSACTIONS (continued)

Trade receivables

(in thousands of HRK)	31 December 2017	31 December 2016
Marine and Energy Solutions DIV d.o.o.	19	265
Kamen Dent d.o.o.	-	587
DIV Grupa d.o.o.	49,375	49,611
Debeljak Industrija Vijaka d.o.o., Sarajevo	486	-
Div učilište	3	-
Div Cruises, Inc.	207	-
Shanghai Vida	45	-
Brodosplit - Projekt d.o.o.	-	10
Total	**50,135**	**50,473**

Given loans

(in thousands of HRK)	31 December 2017	31 December 2016
DIV Grupa d.o.o.	-	18,806
Div Cruises, Inc.	994	-
Total	**994**	**18,806**

Trade payables

(in thousands of HRK)	31 December 2017	31 December 2016
DIV Brodogradnja d.o.o.	33,750	33,750
DIV Grupa d.o.o.	15,851	18,370
Brodosplit - Projekt d.o.o.	-	3,448
Debeljak Industrija Vijaka d.o.o., Sarajevo	-	10
Marine and Energy Solutions DIV d.o.o.	614	1,073
Total	**50,215**	**56,651**

Liabilities for accepted borrowings

(in thousands of HRK)	31 December 2017	31 December 2016
Božidar Debeljak	-	4,000
Vjera Debeljak	-	4,000
Vedrana Debeljak	-	1,500
Danijela Debeljak	-	1,500
Total	**-**	**11,000**

Key management transactions

Key management remuneration for 2017 amounted to HRK 12,204 thousand and was paid to 40 people (in 2016: HRK 13,369 thousand paid to 44 people).

NOTE 30 - CONTINGENT LIABILITIES

Government grants

The contract on the sale and transfer of shares defined particularly important parts of the restructuring program; the share of own contribution to the overall restructuring costs, adjustment of shipbuilding production capacity of the Company, limiting of the production of ships in CGT (compensated gross tonnage) and achievement of sustainability; whose failure can result in an order to the Company and its subsidiaries for the return of all government grants received after 1 March 2006, increased by statutory penalty interest.

The share of the own contribution implies the obligation of the buyer (DIV Brodogradnja d.o.o.), Company and subsidiary in accordance with the restructuring program, which amounts to 40% of the total restructuring costs. Part of the total cost refers to the obligation of the share capital increase in the total amount of HRK 50 million by the dynamics of HRK 20 million in 2013, HRK 20 million in 2014 and HRK 10 million in 2015 (Note "Share capital").

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

Achieving sustainability includes the following measures: Maintaining at least 2,000 employees in the Company and subsidiaries at the end of each month during the implementation of the restructuring program, maintaining a minimum number of effective hours at a defined level 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.

Court cases

In the ordinary course of operations, the Group was plaintiff and defendant in several legal disputes. Based on Management Board and legal counsel believes, provision have been created for those court cases that will result with losses and were those losses can be estimated (note 26). In addition to those court cases, for which provision have been made, there are other legal disputes that will not result in significant losses.

Issued warranties

As at 31 December 2017, the Group is exposed to potential liabilities arising from issued warranties in the amount of HRK 140,619 thousand (in 2016: HRK 131,862 thousand). Warranties are related to advance payments and performance guarantees.

NOTE 31 - SUBSEQUENT EVENTS AFTER REPORTING DATE

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

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

NOTE 32 - APPROVAL OF FINANCIAL STATEMENTS

These financial statements were adopted and approved by the Management Board on 10 August 2018.

Signed for and on behalf of the Group:

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

Zoran Kunkera
Member of the Board