BRODOSPLIT

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BRODOGRAĐEVNA INDUSTRIJA SPLIT
d.d. and its subsidiaries

Annual report for the Group
31 December 2018

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

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Management Report of the Group

1. ABOUT THE COMPANY

Brodogradevna industrija Split d.d. (Brodosplit d.d.) is the parent of the 47 subsidiaries (one in bankruptcy), and 21 sub subsidiaries.

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 2018 has the following structure:

SHAREHOLDER	No. of shares	Percent
	Units	%
DIV BRODOGRADNJA D.O.O.	8,909,175	99.83
CROATIAN CHAMBER OF COMMERCE	11,637	0.13
Private persons	3,625	0.04
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 (five) 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 membership in 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.

At 10 May 2018, the Member Darko Bandula resigned from membership in the Supervisory Board and the Board acts in the following composition:

1 Zdenko Šoš - Chairman
2 Teuta Duletić - Member
3 Darko Pappo - Member.

At 29 August 2018, following the Minutes of Ordinary General Assembly, Tomislav Čorak was elected a new member of the Supervisory Board and the Board acts in the following composition:

1 Zdenko Šoš - Chairman
2 Teuta Duletić - Member
3 Darko Pappo - Member
4 Tomislav Čorak - Member.

Management Report of the Group (continued)

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

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 members of the Supervisory Board is appointed as Chairman of Management Board. All members of Management Board represent the Company individually and independently.

In 2018, the Management Board of Brodosplit d.d. consisted of the following members:

1 Tomislav Debeljak - Chairman of the Board since 2 May 2013
2 Vlatko Kvesić - a Board member from 21 May 2015 until 9 April 2018
3 Zoran Kunkera - a Board member from 13 March 2018 until 16 May 2019

Management Report of the Group (continued)

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

Brodogradevna industrija Split d.d. is the owner of Brodosplit- Metaloprema d.o.o. which is in bankruptcy.

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)

4. ORGANIZATIONAL STRUCTURE (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;

Management Report of the Group (continued)

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.

Brodogradevna industrija Split d.d. has 50% stake in company Kamen Dent, Bosna i Hercegovina and also is a 100% owner of and has management rights in company Brodosplit Italia s.r.l., Italy.

Brodogradevna industrija Split d.d. has established a subsidiary in Italy in 2018.

Management Report of the Group (continued)

5. HUMAN RESOURCES

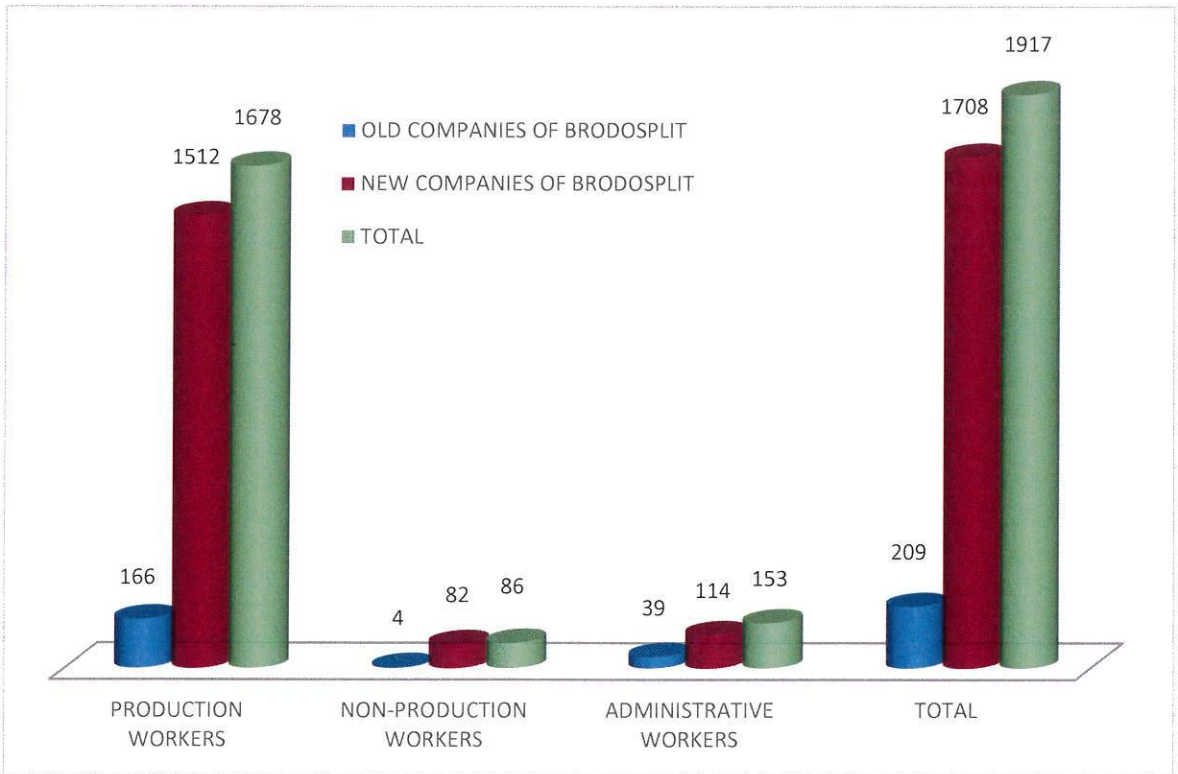
At 31 December 2018, the Group had 1,917 employees. Of that number, 214 employees work in the "old" companies, and 1,703 employees in "new companies". 163 employees have new contracts in "old" companies, 12 employees are working in their notice period.

There is total of 1,678 production workers (87.5%), 86 non-production workers (4.5%) and 153 administrative workers (8%).

Table: Number of employees per group

31/12/2018	PRODUCTION WORKERS		NON-PRODUCTION WORKERS		ADMINISTRATIVE WORKERS		TOTAL	
	NUMBER	%	**NUMBER**	%	**NUMBER**	%	**NUMBER**	%
OLD COMPANIES OF BRODOSPLIT	166	11.0%	4	4.9%	39	34.2%	**209**	12.2%
NEW COMPANIES OF BRODOSPLIT	1,512	90.1%	82	95.3%	114	74.5%	**1,708**	89.1%
TOTAL	**1,678**	**87.53%**	**86**	**4.49%**	**153**	**7.98%**	**1,917**	

Number of employees in the Group at 31/12/2018.



Management Report of the Group (continued)

5. HUMAN RESOURCES (CONTINUED)

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

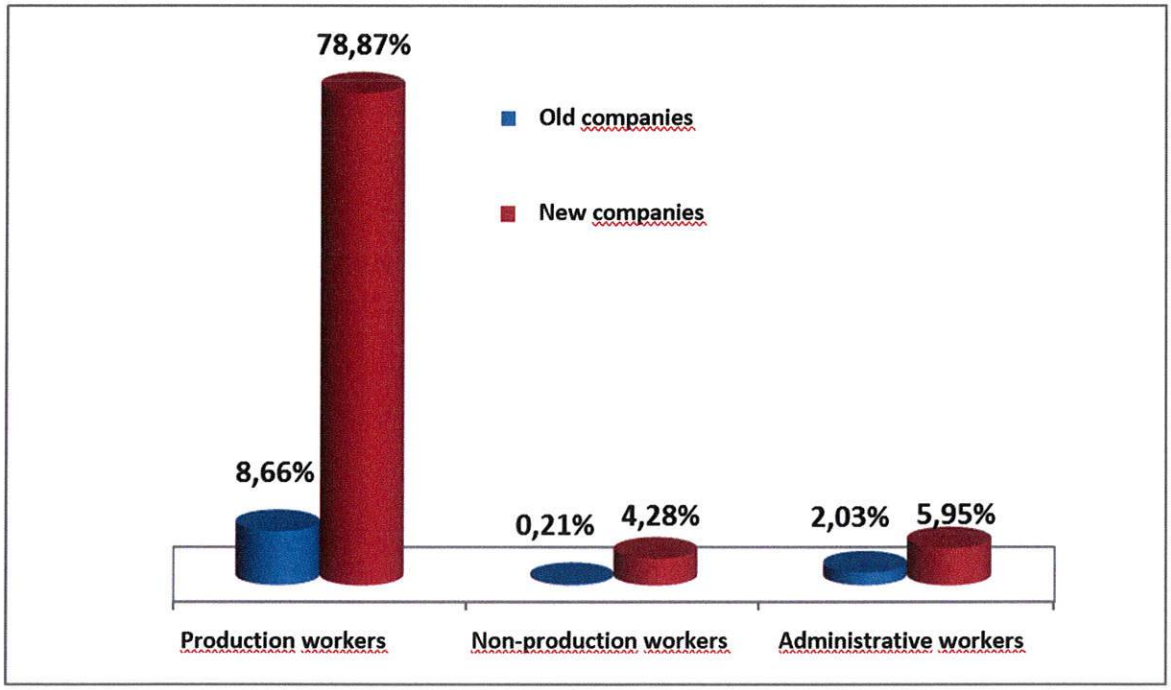


Table: overview of number of employees

2018	NEW			GONE				
YY/MM	PRODUCTION WORKERS	ADMINISTRATIVE WORKERS	**Grand Total**	PRODUCTION WORKERS	NON-PRODUCTION WORKERS	ADMINISTRATIVE WORKERS	**Grand Total**	Number at the last date of the month
201801	15		**15**	21	1	1	**23**	2007
201802	30	2	**32**	16	2	3	**21**	2018
201803	19		**19**	25		2	**27**	2010
201804	20	1	**21**	36	1	6	**43**	1988
201805	10		**10**	39		2	**41**	1957
201806	14	1	**15**	40	3	8	**51**	1921
201807	11	1	**12**	33	1	5	**39**	1894
201808	18		**18**	26	2	1	**29**	1883
201809	20	2	**22**	21		3	**24**	1881
201810	25	2	**27**	15			**15**	1893
201811	45	1	**46**	37			**37**	1902
201812	49		**49**	33	1		**34**	1917
Grand Total	**276**	**10**	**286**	**342**	**11**	**31**	**384**	

Management Report of the Group (continued)

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 2018.

DESCRIPTION	Realized 2012	Realized 2013	Realized 2014	Realized 2015	Realized 2016	Realized 2017	Realized 2018
SHIPBUILDING							
Start process CM - pc	2	1	2	5	0	3	2
Keel laying - pc	2	0	1	6	0	4	2
Launching - pc	1	1	2	1	0	6	1
Handover - pc	1	0	1	1	1	4	1

In 2018, one new-build was delivered: 540 – prototype of the Coastal Patrol Ship 43.50 m for the needs of the Coast Guard of the Republic of Croatia within the Ministry of Defence of the Republic of Croatia.

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.

In the next 2019, 4 new-builds are expected: New-build. 483 - the largest passenger 5-mast sail boat, 162 in length, 340-passenger capacity, for the company Star Clippers Ltd.; New-build no. 484 - Polar area cruise ship, first in the world in the "LR PC6" class, 107.6 m in length, 198-passenger capacity, for a Dutch contractor; New-build no. 525 - 3-mast sail boat, 62 m in length, 36-passenger capacity; New-build no. 780 - coastal cruiser, 106 m in length, 159-passenger capacity.

At the beginning of the year the cooperation with the well known Italian shipyard Fincantieri was continued with the construction of the equipped "Grand Blocks" for the mega cruisers, which are expected to be delivered in 2019.

Brodogradevna industrija Split d.d., has also stepped on the market outside of shipbuilding in 2015 and 2016, and in 2017 it continued to work intensively on the project to build steel dams to defend Venice from floods, and the project was completed in the first quarter of 2018.

In 2018, we participated in several international contests, and we expect to contract several projects in the non-shipbuilding area in 2019.

Management Report of the Group (continued)

7. FINANCIAL OPERATIONS

Actual operating result of the group Brodosplit d.d. for the year 2018 recorded profit in the amount of HRK 24 million, while the profit amounted to HRK 104 million in 2017.

Profit is derived from regular operations profit in the amount of HRK 32,23 million (2017: HRK 63,05 million) and loss from financial activities in the amount of HRK 11,6 million (2017: HRK 19 million).

At 31 December 2018, the capital of the Group amounted to HRK 1,051 million (2017: 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:

	2018	2017
Current assets	1,234,399	912,978
Current liabilities	599,401	587,417
Current ratio	**2.06**	**1.55**
Cash + receivables	1,074,248	743,932
Current liabilities	599,401	587,417
Quick ratio	**1.79**	**1.27**
Total liabilities	1,081,719	772,223
Total assets	2,132,533	1,800,182
Gearing	**0.51**	**0.43**
Total income	705,321	654,834
Total assets	2,132,533	1,800,182
Turnover ratio of total assets	**0.33**	**0.36**
Sales	675,161	608,127
Receivables and accrued revenues	1,021,055	487,736
Receivables turnover	**0.66**	**1.25**

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.

Management Report of the Group (continued)

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)	**2018**	**2017**
Debt (long-term and short-term credits)	(291,756)	(364,725)
Cash and cash equivalents	6,747	19,389
Net debt	(285,009)	(345,336)
Equity	1,050,814	1,027,959
Debt to equity ratio	(27%)	(34%)

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 non-fulfilment 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 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	
	2018	**2017**	**2018**	**2017**
EUR	867,789	509,461	65,815	71,372
NOK	6,096	-	-	-
USD	1,661	983	4,085	6,470
GBP	339	5	295	304
PLN	-	-	696	-
SEK	-	42	-	-
Other currencies	163	224	73	-

As at 31 December 2018, 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 8,051 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

In 2017, research and development activities included the planning and preparation of 12 innovative projects and their application for funding from the EU funds, and in 2018, we expected the funds to be allocated and the project to start; however, unfortunately, the decision on EU funds allocation has yet not been made.

In 2018, we directed our activities towards easier ship equipping projects (for example, project for streamlining the installation of electrical-power ducts) and new technology research projects in order to increase productivity.

Apart from the mentioned projects applied for obtaining grants, employees are continuously working on the development and upgrading of existing technologies and ways of working with the aim of achieving competitive advantage in the market.

Management Report of the Group (continued)

10. FURTHER DEVELOPMENT

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

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

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

To conclude, the offshore and mega-construction niche resulted in the following:

- in 2018, the Company Brodosplit d.d. completed its restructuring process and continued its transformation to a European shipbuilding leader

- the Company is working intensively on its employment capacity, on the shipbuilding market as well as on the non-shipbuilding market

- the Company is working on further improving work flow organisation and increasing productivity.

Management Report of the Group (continued)

11. MANAGEMENT OBJECTIVES FOR THE YEAR 2019

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. Harmonising integrated management systems with the organisational changes and new ISO standards,
4. Introducing technical standards for constructing new products, and their certification and integration with ISPO management systems,
5. Reorganising and improving quality assurance and quality controls systems,
6. Human resources training,
7. 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. Improving the quality of individual protective equipment,
3. Improving the 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, 13 June 2019

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

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 as adopted by European Union (IFRS), 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 13 June 2019:

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company Brodogradevna industrija Split d.d. and its subsidiaries

Report on the Audit of consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

Our opinion on the 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 examining whether the Annual Report includes the required disclosures as set out in the Article 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. The Management Report has been prepared, in all material respects, in accordance with the Article 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

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

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

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

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

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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 judgement and maintain professional scepticism throughout the audit. We also:

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

Deloitte d.o.o.

13 June 2019

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

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

BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d. and its subsidiaries
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2018

(all amounts are in thousands of HRK)	Note	2018	2017
Sales	*5*	675,161	608,127
Other operating income	*6*	16,687	31,586
Changes in inventories - work in progress and finished goods	*20a*	23,678	42,071
Material expenses	*7*	(361,374)	(294,728)
Goods sold		(3,479)	(362)
Employee costs	*8*	(199,686)	(214,160)
Depreciation	*9*	(37,666)	(40,782)
Other operating expenses	*10*	(81,088)	(68,700)
Operating profit		**32,232**	**63,052**
Financial income	*11*	13,473	15,121
Financial expenses	*12*	(25,027)	(34,209)
Net financial expenses		**(11,554)**	**(19,088)**
Share in net loss of joint venture		(81)	(97)
Profit before taxation		**20,598**	**43,867**
Income tax	*13*	3,576	8,520
Net profit		**24,174**	**52,387**
Statement of comprehensive income			
Revaluation of property, plant and equipment (net of tax)		-	51,185
Change in fair value of available for sale financial assets (net of tax)		14	37
Total comprehensive income		**24,188**	**103,609**
Profit which belongs to:			
Company's shareholders		23,974	52,196
Non-controlling interest		200	190
		24,174	**52,387**
Total comprehensive income which belongs to:			
Company's shareholders		23,988	103,418
Non-controlling interest		200	191
		24,188	**103,609**

BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d. and its subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(these amounts are in thousands of HRK)	Note	2018	2017
ASSETS			
Intangible assets	*14*	14,162	15,219
Property, plant and equipment	*15*	857,322	838,936
Investment property	*16*	4,275	4,447
Long-term investments	*17*	394	380
Investment in joint ventures	*18*	14,996	14,383
Trade and other receivables	*19*	6,985	13,839
Non-current assets		**898,134**	**887,204**
Inventories	*20*	160,151	169,046
Trade and other receivables	*21*	1,067,501	724,543
Cash and cash equivalents	*22*	6,747	19,389
Current assets		**1,234,399**	**912,978**
TOTAL ASSETS		**2,132,533**	**1,800,182**
EQUITY AND LIABILITIES			
Share capital	*24 i)*	535,466	535,466
Reserves	*24 ii),iii),iv)*	219,004	236,232
Retained profit		292,576	252,693
		1,047,046	**1,024,391**
Non-controlling interest		3,768	3,568
Equity		**1,050,814**	**1,027,959**
Provisions	*25*	15,603	13,549
Other non-current liabilities	*28*	434,452	-
Loans and borrowings	*27*	-	135,246
Deferred tax liability	*13*	32,263	36,011
Non-current liabilities		**482,318**	**184,806**
Provisions	*26*	3,012	2,828
Loans and borrowings – related parties	*27*	46,976	-
Loans and borrowings	*27*	244,780	229,479
Trade and other payables	*29*	304,633	355,110
Current liabilities		**599,401**	**587,417**
Total liabilities		**1,081,719**	**772,223**
TOTAL EQUITY AND LIABILITIES		**2,132,533**	**1,800,182**

BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(these amounts 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 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
Other comprehensive income	-	-	51,222	-	-	-	**51,222**	-	51,222
Total comprehensive income	-	-	**51,222**	-	-	**52,197**	**103,419**	**190**	**103,609**
Transfer	-	-	-	-	(5,674)	5,809	**135**	(135)	-
Transfer of revaluation depreciation- net effect	-	-	(39,519)	-	-	39,519	-	-	-
Balance at 31 December 2017	**535,466**	**26,773**	**203,333**	**2**	**6,124**	**252,693**	**1,024,391**	**3,568**	**1,027,959**
Balance at 1 January 2018	535,466	26,773	203,333	2	6,124	252,693	**1,024,391**	3,568	1,027,959
Profit for the current year	-	-	-	-	-	23,974	**23,974**	200	24,174
Other comprehensive income	-	-	14	-	-	-	**14**	-	14
Total comprehensive income	-	-	**14**	-	-	**23,974**	**23,988**	**200**	**24,188**
Transfer of revaluation depreciation- net effect	-	-	(17,242)	-	-	17,242	-	-	-
Retained earnings (previous year expense after tax inspection)	-	-	-	-		(1,333)	**(1,333)**	-	(1,333)
Balance at 31 December 2018	**535,466**	**26,773**	**186,105**	**2**	**6,124**	**292,576**	**1,047,046**	**3,768**	**1,050,814**

BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d. and its subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	Note	2018	2017
Net gain		**24,175**	**52,387**
Adjustments for:			
- Depreciation of tangible assets	15	36,029	40,182
- Depreciation of intangible assets	14	1,532	434
- Depreciation of investment property	16	171	166
- Collected written-off receivables		(25)	(769)
- Impairment of receivables		3,896	
- Write-off of impaired inventories		(357)	(1,423)
- Interest expense and discount	12	17,553	20,955
- Income from interest and discount	11	(565)	(1.919)
- Income from write off of liabilities	6	(113)	(1.811)
- Share in net loss of joint venture		80	97
- Exchange rate differences		(4,985)	(1,248)
- Income tax	13	(3,576)	(8,520)
- Net change in provisions		2,238	(17,185)
- Net book value of sold property, plant and equipment		7,141	419
		83,194	**81,443**
Changes in working capital			
- Inventories		9,270	(5,805)
- Trade and other receivables		(390,506)	(238,170)
- Trade and other payables		421,260	24,921
Cash generated from operating activities		**123,218**	**(137,611)**
Paid interests		(28,224)	(18,097)
Paid income tax		(188)	(488)
Cash made in operating activities		**94,806**	**(156,196)**
Investment activities			
Acquisition of property, plant and equipment	15	(61,556)	(47,173)
Acquisition of intangible assets	14	(475)	(1,447)
Investment in joint ventures	18	(693)	(2,520)
Placement of loans and deposits		(5,864)	(98,041)
Payment of loans		5,474	22,608
Net cash used in investing activities		**(63,114)**	**(126,573)**
Cash flow from financing activities			
Received loans		243,774	383,818
Loan repayments		(288,108)	(122,864)
Net cash from financial activities		**(44,334)**	**260,954**
Net (decrease)/increase in cash and cash equivalents		(12,642)	(21,815)
Cash and cash equivalents at the beginning of the period	22	19,389	41,204
Cash and cash equivalents at the end of the period	**22**	**6,747**	**19,389**

NOTE 1 – GENERAL INFORMATION

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

The Company Brodogradevna 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 2018 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

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

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

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

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements. Details regarding the implementation of IFRS 9 are presented in Note 2, implementation of IFRS 15 from January 2018 did not have significant impact on the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Initial application of new amendments to existing standards effective in the current reporting period (continued)

Impact of initial application of IFRS 9 Financial Instruments

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

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

IFRS 9 introduced new requirements for:

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

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

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

a) *Classification and measurement of financial assets*

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

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

Specifically:

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 *Initial application of new amendments to existing standards effective in the current reporting period (continued)*

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

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

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

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 *Initial application of new amendments to existing standards effective in the current reporting period (continued)*

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

b) Impairment of financial assets

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

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

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

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

c) Classification and measurement of financial liabilities

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Initial application of new amendments to existing standards effective in the current reporting period (continued)

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

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

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

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

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

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

The Company and the Group have decided not to adopt these new standards and amendments to existing standards in advance of their effective dates.

The Company and the Group have not estimated the effect of the first adoption of IFRS 16 on the financial statements for the year ended 31 December 2018, up to the date of approval of these financial statements.

The Company and the Group do not expect that the adoption of these standards will have material impact on the financial statements in the period of their initial application.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** – "Plan Amendment, Curtailment or Settlement"(effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to Conceptual Framework for IFRS (effective for annual periods beginning on or after 1 January 2020).**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2.4 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 22 May 2019.

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)

2.4 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
	2018	
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)

2.4 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.

The company Brodosplit-Holding d.o.o was merged with Brodosplit d.d. as at 1 September 2017. On the merger date the Company Brodosplit d.d. has overtaken 50% stake and management rights in companies Kamen Dent, Bosna i Hercegovina and a 100% of ownership and management rights in company Brodosplit Italia s.r.l., Italija.

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 acquisition.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights and 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. In accordance with IFRS 10 the Company reassessed the conditions for consolidation of the subsidiaries. There were no changes in comparison to previous treatment.

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 is 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 is aligned with the investment carrying value.

2.6 Foreign currencies

(a) Functional and presentation currency

The consolidated financial statements are presented in thousand Croatian kuna (HRK), which is the Group'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)

2.7 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 last revaluation was made at 31 December 2017 which was made by Davor Savić, certified appraiser.
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 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	2018	2017
	Year	Year
Buildings	20 - 100	20 - 100
Investment property	16	16
Plant and machinery	10 - 33	10 - 33
Furniture, tools and other equipment	10 - 33	10 - 33

During 2017, the Group 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 useful life are reviewed at least at each reporting date.

Depreciation expense of 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.

2.9 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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

Purchase or sale of financial assets on a straight-line basis is recognized on a trading date. Regular purchases or sales are purchases or sales of a financial asset that requires the delivery of the asset within the time frame established by the regulation or practice on the market.

All recognized financial assets are subsequently fully measured at amortized cost, at fair value through other comprehensive income or fair value through profit or loss, depending on the business model and the characteristics of contracted cash flows.

Classification of financial assets

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

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

(i) Amortized cost and effective interest rate method

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

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

For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

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

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

Interest income is recognized in the income statement.

Impairment of financial assets

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

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

(i) Significant increase in credit risk

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

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

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

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

(ii) Definition of default status

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(iii) Credit impairment financial assets

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

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

(iv) Write-off policy

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

(v) Measuring and recognizing expected credit losses

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

For estimating PD and LGD parameters, the Company and the Group relies on publications of external investment rating agencies.

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

Termination of recognition of financial assets

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

2.12 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 and the Group does not recognise government grants until there is reasonable assurance that the Company and the Group will comply either the conditions attaching with 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.

2.13 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)

2.14 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.

2.15 Construction contracts

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.

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.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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.

Total incurred costs and gains and losses recognized under each contract are compared with payments by stages of completion by the end of the year. When the costs incurred and recognized gains (less recognized losses) are greater than the payments by the stage of completion, the balance is recognized as a recoverable amount by contract, in the form of receivables and prepayments. When payments are higher than the realized costs plus recognized gains (less any recognized losses), the balance is recognized as a liability to customers under contracts, as part of the obligation to receive advance payments.

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 and expenses from the contract are recognised when occur.

2.16 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)

2.17 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.

2.18 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.

2.19 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 nor 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 the Group 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)

2.20 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.

2.21 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 and the Group 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.

2.22 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)

2.23 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.

Revenue from services is recognised in profit or loss in accordance with IFRS 15 Revenue from contracts with customers.

Especially:

• if the execution obligation is met at a certain point ("at the time"), the related revenue is recognized in the income statement when the service is provided;

• if the execution obligation is met over time, the related income is recognized in the income statement in order to reflect the progress of the fulfilment of that obligation,

If the timetable of cashing is not consistent with the manner in which the obligation to execute is met, the Company and the Group shall calculate the contractual property or contractual liability for the part of the income that was incurred during that period or for a delay in the following periods.

(a) Revenue from construction contracts

The income and expense recognition policy of the revenue from construction contracts is described in the accounting policies in Note 2.12.

(b) Sales of goods

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

For contracts with customers that contain multiple deliveries, contracted revenue is allocated to each part, based on its relative fair value. Revenue for each portion is recognized in the period in which control is transferred to the customer.

The products are sold with a quantity discount and the customers are entitled to return defective goods. Sales revenue is expressed based on the price of the sales contract, reduced by estimated discounts and rebates. Discount estimates and refunds are determined on the basis of acquired experience.

(c) Interest income

Interest income is recognized when it is probable that economic benefits will flow into the Company and the Group and when the income can be measured reliably. Interest income is calculated on the principle of occurrence based on the outstanding principal and at the applicable effective interest rate, which is the rate at which estimated future cash inflows are discounted over the expected life of the financial asset up to its net book value determined at first recognition.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established under the condition that the flow of economic benefits to the Company and the Group and the revenue is measurable.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 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.

2.25 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.

2.26 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 m^2) and sea (222,319 m^2) under concession for the Company's 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 borders 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 m^2 and 222,319 m^2 of water surface, amounting to a total amount of 785,868 m^2 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)

2.26 Maritime domain and concessions (continued)

Concession payment

The authorised concessioner must pay the concession grantor an annual fee which consists 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 concessionaire is obliged to pay the concessionaire an annual fee consisting of two parts:

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 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 2018	31 December 2017
Financial Assets		
Trade receivables	102,003	83,169
Given loans and deposits (ii)	10,719	12,387
Cash and cash equivalents	6,747	19,389
Other receivables*	944,028	614,462
	1,063,497	**729,407**
**Other receivables refer to:*		
Accrued income (i)	919,052	404,567
Given advances	22,791	202,914
Other receivables	2,185	6,981
	944,028	**614,462**

(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.

(ii) Given loans and deposits include current and non-current receivables.

Financial assets do not include tax incentives.

(in thousands of HRK)	31 December 2018	31 December 2017
Bank loans	291,756	364,725
Trade liabilities	95,336	81,752
Liabilities towards related parties	134,920	50,215
Other liabilities*	450,779	175,153
	972,791	**671,845**
**Other liabilities refer to:*		
Received advances IAS 11	425,997	145,155
Liabilities towards employees	11,071	11,588
Calculated expenses	5,507	9,921
Other liabilities	8,204	8,489
	450,779	**175,153**

Finance liabilities do not include liabilities for taxes and contributions and long-term provisions.

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 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 Company's' 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	
	2018	2017	2018	2017
EUR	867,789	509,461	65,815	71,372
NOK	6,096	-	-	-
USD	1,661	983	4,085	6,470
GBP	339	5	295	304
PLN	-	-	696	-
SEK	-	42	-	-
Other currencies	163	224	73	-

As at 31 December 2018, 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 HRK 8,051 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

at 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities						
Trade payables	230,256	230,256	230,256	-	-	-
Other liabilities	25,925	25,925	25,925	-	-	-
	256,181	**256,181**	**256,181**	-	-	-
Interest-bearing liabilities						
Borrowings	291,756	302,486	302,486	-	-	-
Other non-current liabilities	424,854	515,694	14,494	44,246	169,633	287,322
	716,610	**818,181**	**316,980**	**44,246**	**169,633**	**287,322**
	972,791	**1,074,362**	**573,161**	**44,246**	**169,633**	**287,322**

Interest-bearing liabilities do not include liabilities for provisions or differed tax liability.

The average weighted interest rate amounts to 4.53%. If interest rate would have increase for 1% than interest bearing liabilities would increase for 26 million.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

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%.

Assets

at 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing interest						
Trade receivables	102,003	102,003	102,003	-	-	-
Other receivables	944,638	944,638	944,638			
	1,046,641	**1,046,641**	**1,046,641**	-	-	-
Interest-bearing assets						
Given loans and deposits	10,109	10,161	4,692	1,538	3,127	804
Cash and cash equivalents	6,747	6,748	6,748	-	-	-
	16,856	**16,910**	**11,441**	**1,538**	**3,127**	**804**
	1,063,497	**1,063,551**	**1,058,082**	**1,538**	**3,127**	**804**

Interest bearing assets include current and non-current trade and other receivables, together with cash and cash equivalents.

Interest-bearing assets include short-term and long-term receivables from customers and other receivables, as well as cash and cash equivalents.

The average weighted interest rate amounts to 0.53% for cash and cash equivalents.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

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	12,387	15,327	1,476	9,683	3,278	890
Cash and cash equivalents	19,389	19,408	19,408	-	-	-
	31,776	**34,735**	**20,884**	**9,683**	**3,278**	**890**
	729,407	**732,366**	**718,515**	**9,683**	**3,278**	**890**

The average weighted interest rate amounts to 0.01% for cash and cash equivalents.

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)	2018	2017
Debt (long-term and short-term credits)	(291,756)	(364,725)
Cash and cash equivalents	6,747	19,389
Net debt	(285,009)	(345,336)
Equity	1,050,814	1,027,959
Debt to equity ratio	(27%)	(34%)

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 2017 and 31 December 2018:

(in thousands of HRK)	Level 1	Level 2	Level 3	Total
31 December 2018				
Property, plant and equipment	-	-	857,322	857,322
Intangible assets	-	-	14,162	14,162
Investment property	-	-	4,275	4,275
Available-for-sale financial assets				-
Listed companies	217	-	-	217
Unlisted companies	-	177	-	177
Total	217	177	875,759	876,153

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)	2018	2017
Shipbuilding	490,453	376,687
Non-shipbuilding industry	122,506	192,725
Services	46,131	32,144
Other sales	16,070	6,571
	675,161	**608,127**

Revenue from shipbuilding and revenue from off shore and steel construction are calculated in accordance with IFRS 15, 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)	2018	2017
Income from long-term asset sale	8,944	-
Release of other provisions, net	3,308	3,199
Inventory surplus	1,452	571
Income from liabilities write-off	113	1,811
Income from collection of receivables	25	769
Release of warranty provision, net	-	8,003
Release of provision for court cases, net	-	6,879
Income from charged penalties	-	1,751
Income from additional rebates from suppliers	-	96
Other	2,845	8,506
	16,687	**31,586**

NOTE 7 - MATERIAL EXPENSES

(in thousands of HRK)	2018	2017
Raw materials and supplies	180,561	174,437
Energy	7,844	10,128
Small inventory, spare parts and tires		5,279
Raw materials and supplies	**191,735**	**189,844**
External cooperation and other production services	126,675	70,731
Management services	23,874	19,129
Repairs and maintenance	2,897	2,390
Security services	1,270	1,209
Transport	766	810
Other external expenses	14,157	10,615
Costs of services	**169,639**	**104,884**
Total material expenses	**361,374**	**294,728**

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 which are not capitalized in accordance with IAS 16..

NOTE 8 - EMPLOYEE COSTS

(in thousands of HRK)	2018	2017
Net wages	123,677	133,468
Taxes and contributions from salaries	43,488	45,970
Contributions on salaries	32,521	34,722
	199,686	**214,160**

Taxes and contribution from salaries include contributions paid into obligatory pension funds in the amount of HRK 33,336 thousand (in 2017: 40,177 thousand). Contributions are calculated as a percentage of gross salaries.

As at 31 December 2018 the Group had 1,917 employees (31 December 2017: 2,015 employees).

NOTE 9 - DEPRECIATION

(in thousands of HRK)	2018	2017
Tangible assets	36,029	40,182
Intangible assets	1,532	434
Investment property	171	166
Capitalised to assets	(66)	-
	37,666	**40,782**

NOTE 10 - OTHER OPERATING EXPENSES

(in thousands of HRK)	2018	2017
Other employee costs	26,461	17,632
Construction contracts	9,415	9,667
Intellectual services	6,292	4,245
Business trips	5,677	5,166
Insurance cost	5,052	5,552
Value adjustment of trade receivables	3,896	-
Bank fees and charges	3,340	3,294
Concession	2,614	6,837
Fines and penalties	2,286	2,325
Provisions for court cases	2,096	-
Utilities	1,805	1,989
Provisions for contracted losses	658	-
Termination benefits	637	744
Entertainment	278	488
Provisions for guarantee works	119	-
Value adjustment of inventories	-	1
Other	10,462	10,760
	81,088	**68,700**

NOTE 11 - FINANCIAL INCOME

(in thousands of HRK)	2018	2017
Foreign exchange income	12,904	13,201
Interest income	71	1,359
Income from unwinding of discount	494	560
Other financial income	4	1
	13,473	**15,120**

NOTE 12 - FINANCIAL EXPENSE

(in thousands of HRK)	2018	2017
Interest cost	17,553	20,954
Foreign exchange losses	7,474	13,255
	25,027	**34,209**

NOTE 13 – CORPORATE INCOME TAX

Income tax expense consists of:

(in thousands of HRK)	2018	2017
Current tax	172	155
Deferred income tax	(3,748)	(8,675)
Income tax expense	**(3,576)**	**(8,520)**

NOTE 13 - INCOME TAX (continued)

(in thousands of HRK)	2018	2017
Profit before tax	**20,598**	**43,867**
Tax effect at tax rate of 12/18%	8,007	7,896
Effect of non-deductible expenses	156	68
Effect of non-taxable income	(245)	-
Effect of tax incentives	(13)	(30)
Net temporary differences for which deferred tax assets were not recognized	(45)	1,897
Effect of tax losses for which deferred tax assets were not recognized	(11,856)	33
Effect of used tax losses for which deferred tax assets were not recognized	421	(18,384)
Income tax cost/(tax income)	**(3,576)**	**(8,520)**

In accordance with the legal criteria, some Companies in the Brodosplit Group belong to the category that has tax effect at a rate of 12% and others at a rate of 18%.

NOTE 13 - INCOME TAX (continued)

Tax losses carried forward

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

(in thousands kuna)

	2018
Tax loss from year 2014 - expires 31 December 2019	1,783
Tax loss from year 2015 - expires 31 December 2020	1,534
Tax loss from year 2016 - expires 31 December 2021	3,639
Tax loss from year 2017 - expires 31 December 2022	1,863
Tax loss from year 2018 - expires 31 December 2023	1,302
	10,121

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 2018	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2018
Property, plant and equipment	35,098	-	(3,619)	31,479
Intangible assets	113	-	(98)	15
Investment property	800	-	(31)	769
	36,011	**-**	**(3,748)**	**32,263**

NOTE 14 - INTANGIBLE ASSETS

(in thousands of HRK)	Software	Assets under construction	Total
Cost or valuation			
As at 01/01/2017	**2,247**	**12,750**	**14,997**
Intangible assets under construction	-	1,447	1,447
Transfer to Intangible assets	9,108	(9,108)	-
Revaluation	237	-	237
As at 31/12/2017	**11,592**	**5,089**	**16,681**
As at 01/01/2018	**11,592**	**5,089**	**16,681**
Purchases	-	475	475
Intangible assets under construction	250	(250)	-
Impairment	-	-	-
Revaluation	-	-	-
As at 31/12/2018	**11,842**	**5,314**	**17,156**
Accumulated depreciation			
As at 01/01/2017	**1,028**	-	**1,028**
Charge for the year	434	-	434
As at 31/12/2017	**1,462**	-	**1,462**
As at 01/01/2018	**1,462**	**-**	**1,462**
Charge for the year	1,532	-	**1,532**
As at 31/12/2018	**2,994**	-	**2,994**
Net carrying amount			
As at 31/12/2017	**10,130**	**5,089**	**15,219**
As at 31/12/2018	**8,848**	**5,314**	**14,162**

Intangible assets under construction refer to software.

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Investment property	Plant and equipment	Tools and vehicles	Ships	Other equipment	Assets under construction	Total
Cost or valuation									
As at 01/01/2017	**250**	**19,759**	**110,844**	**218,466**	**221,228**	**-**	**342**	**150,267**	**721,156**
Purchases	-	-	-	-	-	-	-	47,173	**47,173**
Transfer from inventory	-	-	-	-	-	-	-	96,649	**96,649**
Transfer	-	(26)	915	3,098	2,181	(11,441)	108	5,165	**-**
Sales	-	-	-	(987)	(458)	-	-	-	**(1,445)**
Impairment	-	(27)	-	(71)	(22)	-	-	-	**(120)**
Revaluation	-	1,198	5,838	2,815	6,518	37,453	-	-	**53,822**
As at 31/12/2017.	**248**	**20,737**	**123,120**	**228,663**	**234,534**	**134,160**	**447**	**238,172**	**980,081**
As at 01/01/2018	**248**	**20,737**	**123,120**	**228,663**	**234,534**	**134,160**	**447**	**238,172**	**980,081**
Purchases	-	218	1,249	862	8,042	7,728	-	43,457	**61,556**
Transfer	-	24	332	(2,168)	2,931	44,953	-	(46,072)	**-**
Sales	-	-	-	(34)	(7140)	-	-	(11)	**(7,185)**
As at 31/12/2018	**248**	**20,979**	**124,701**	**227,323**	**238,367**	**186,841**	**447**	**235,546**	**1,034,452**
Accumulated depreciation									
As at 01/01/2017	-	**817**	**7,033**	**49,815**	**42,455**	**1,869**	-	-	**101,989**
Charges for the year	-	275	7,168	12,726	15,464	4,549	-	-	**40,182**
Sales	-	-	-	(775)	(251)	-	-	-	**(1,026)**
As at 31/12/2017	**-**	**1,092**	14,201	**61,766**	**57,668**	**6,418**	**-**	**-**	**141,145**
As at 01/01/2018	**-**	**1,092**	**14,201**	**61,766**	**57,668**	**6,418**	**-**	**-**	**141,145**
Charges for the year	-	298	7,599	11,797	15,709	626	-	-	**36,029**
Sales	-	-	-	-	(44)	-	-	-	**(44)**
As at 31/12/2018	**-**	**1,390**	**21,800**	**73,563**	**73,333**	**7,044**	**-**	**-**	**177,130**
Net carrying amount									
As at 31/12/2017	**248**	**19,645**	**108,919**	**166,897**	**176,866**	**127,742**	**447**	**238,172**	**838,936**
As at 31/12/2018	**248**	**19,589**	**102,901**	**153,760**	**165,034**	**179,797**	**447**	**235,546**	**857,322**

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment in the amount of HRK 508,664 thousand (2017: HRK 431,123 thousand) are pledged as security based being a co-debtor for the parent company's loan.

NOTE 16 - INVESTMENT PROPERTY

(in thousands of HRK)	**Investment property**
Cost or valuation	
As at 01/01/2016	**5,034**
Revaluation	140
As at 31/12/2016	**5,174**
As at 01/01/2017	**5,174**
Revaluation	
As at 31/12/2017	**5,174**
Accumulated depreciation	
As at 01/01/2016	**562**
Charge for the year	166
As at 31/12/2016	**728**
As at 01/01/2017	**728**
Charge for the year	171
As at 31/12/2017	**899**
Net carrying amount	
As at 31/12/2016	**4,446**
As at 31/12/2017	**4,275**

NOTE 17 – LONG-TERM INVESTMENTS

(in thousands of HRK)	31 December 2018	31 December 2017
Available-for-sale financial assets	394	380
	394	**380**

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

(in thousands of HRK)	Available-for-sale financial assets
1 January 2018	380
Fair value changes	46
Value adjustments	(32)
31 December 2018	**394**

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)	2018	2017
Opening balance	14,383	11,960
Additional investments	693	2,520
Share in loss	(80)	(97)
Closing balance	**14,996**	**14,383**

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.	17,001	(143)	5	161

According to the contract on regulating mutual rights and obligations between the members and holders of business share of Kamen-Dent d.o.o., Brodosplit Holding d.o.o. during 2014, paid to Kamen Dent d.o.o. HRK 15,267 thousand for additional items classified as capital reserves by referred company.

NOTE 19 – LONG-TERM RECEIVABLES

(in thousands of HRK)	31 December 2018	31 December 2017
Loans receivables from employees (i)	5,393	7,648
Deposits (ii)	1,592	1,636
Other receivables (iii)	-	4,555
	6,985	**13,839**

(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%.

(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.

NOTE 20 - INVENTORIES

(in thousands of HRK)	31 December 2018	31 December 2017
Raw materials and supplies	129,126	128,840
Current production	4,292	3,528
Advances for inventories	22,953	31,131
Trade goods	3,495	5,262
Finished products	285	285
	160,151	**169,046**

At 31 December 2018 (31 December 2017) inventories that are pledged as security for bank loan amounted to HRK 74,855 thousand.

Impairment of inventories represents impairment of production in progress and impairment of finished products achieved in one year by comparing the initial and final balance of the said positions.

20a Changes in work in progress and finished products

(in thousands of HRK)	2018	2017
Cost of internal ships	13,751	37,483
Difference in internal revenue and costs (i)	9,163	5,815
Change in production value in progress	764	(1,502)
Remainder of the value of changes in finished products	-	275
Total	**23,678**	**42,071**

During 2018, 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 2018	31 December 2017
Trade receivables	50,662	50,090
Trade receivables - unrelated companies	69,233	47,188
Less: Impairment of trade receivables	(17,892)	(14,109)
Trade receivables - net	102,003	83,169
Undue income payments (ii)	919,052	404,567
Given advances	-	202,868
Given advances to related parties	22,791	45
Receivables from the state	17,979	27,849
Receivables from employees loans	1,967	2,109
Given loans to related parties (i)	1,156	994
Prepaid expenses	497	207
Deposits	611	420
Receivables from employees	395	445
Income tax overpayment	151	515
Other receivables	899	1,355
	1,067,501	**724,543**

(i) Loans to related parties have been issued with a 4.55% (2017.: loans to related parties have been issued with a 4.97% interest).

(ii) Undue income payments relate to unrealised income by IFRS 15 based on construction contract, and which are not collected.

NOTE 21 - CURRENT TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	2018	2017
Balance at 1 January	14,109	14,890
Collected	(25)	(769)
Written off	(88)	(12)
Increase	3,896	-
Balance at 31 December	**17,892**	**14,109**
	-	-

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

(in thousands of HRK)	2018	2017
0-90 days	26,724	16,765
91-180 days	5,845	2,878
Over 181 days	58,484	63,526
Balance at 31 December	**91,053**	**83,169**

NOTE 22– CASH AND CASH EQUIVALENTS

(in thousands of HRK)	31 December 2018	31 December 2017
Cash at bank	6,261	18,884
Deposits	611	420
Cash in hand	486	505
	6,747	**19,389**

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

NOTE 23 - WORK IN PROGRESS

(in thousands of HRK)	Note	2018	2017
Costs incurred up to reporting date		1,289,758	667,641
Recognised (losses)/gains up to the reporting date		49,819	80,796
		1,339,577	748,437
Less: Invoicing in progress and advances received		(421,375)	(488,827)
Receivables from/(payables to) the customers for the contracted work			
Reclassified to accrued revenue		**918,202**	**259,610**
Costs incurred up to reporting date	21	919,052	404,567
Reclassified to received advances from suppliers (Note 29)		(850)	(144,957)

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 2018 the shareholder structure is as follows:

Shareholder	Number of shares	Share amount
	units	%
DIV - Brodogradnja d.o.o.	8,909,175	99.83%
Croatian chamber of commerce	11,637	0.13%
Private persons	3,625	0.04%
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 2018 amounts to HRK 26,773 thousand (2017: 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 2018	201,504	48	1,781	**203,333**
Depreciation transfer to retained earnings - gross	(20,990)	-	-	**(20,990)**
Depreciation transfer to retained earnings - tax effect	3,748	-	-	**3,748**
Change in AFS fair value	-	14	-	**14**
31 December 2018	**184,262**	**62**	**1,781**	**186,105**

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)	2018	2017
Balance at 1 January	13,549	21,405
Incurred during period	6,348	4,150
Utilized during year	(2,813)	(977)
Released during period	(1,481)	(11,029)
Balance at 31 December	**15,603**	**13,549**

NOTE 26 – CURRENT PROVISIONS

(in thousands of HRK)	Warranty	Termination benefits	Losses on contracted works	Total
Balance at 1 January 2018	318	2,510	-	2,828
Recognized during period	127	50	658	835
Released during period	(33)	(618)	-	(651)
Balance at 31 December 2018	**412**	**1,942**	**658**	**3,012**

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
	-	**135,246**
Short-term loans		
Bank loans	244,780	229,479
Loans liabilities – related	46,976	-
	291,756	**229,479**

NOTE 27– LOANS AND BORROWINGS (continued)

Loan and borrowings movement is shown below:

(in thousands of HRK))	Long-term borrowings	Short-term borrowings	Loans to related parties
Balance at 1 January 2018.	135,246	229,479	-
Increase	289,607	265,101	140,944
Decrease	(424,853)	(249,800)	(93,968)
Balance at 31 December 2018	**-**	**244,780**	**46,976**

Long-term liabilities to banks relate to HBOR long-term loan for financing of shipbuilding: NOV 484 in the amount of EUR 37,147,869.16 at an interest rate of 3.7% and EUR 487 in the amount of EUR 87,883,511.68 with an interest rate of 4.4% per annum.
Loan repayment for NOV 484 is in 108 monthly instalments (no later than 15 May 2028), of which the first instalment is due one month from the day the new loan is given to the beneficiary of the loan. Borrowers and Borrowing Company Holders of Credit Polar Expeditions Inc., and co-owners: Div Grupa d.o.o., Brodosplit d.d., Credit Insurance, Min. finance of the Republic of Croatia, a pledge for newbuilding that is the subject of financing.
Loan repayment for NOV 487 is 113 monthly annuities (no later than 01 March 2030), of which the first annuity is due one month from the day the new loan is given to the beneficiary of the loan. Borrowings and debentures of the Polaris Exploration Inc, Brodosplit d.d. co-broker, credit insurance, Min. finance of the Republic of Croatia, a pledge for newbuilding that is the subject of financing.

Loans have been reclassified to long-term advance commitments on bareboat charter because the loans are intended to finance the construction of new 484 and 487. During construction, loan amounts are based on long-term advance payments and represent a shipbuilder's obligation. After completion of the construction, the advance is no longer a shipbuilder's obligation since he has fulfilled all his obligations under the contract, but the obligation passes to the final buyer.
In case the end customer does not make the payment, the builder is insured in the form of a loan insurance policy.

Short-term liabilities to banks relate to Zagrebačka banka's interest on EUR 33 million, maturing on 31 March 2019.

Loans of affiliated companies include loans of HRK 46,976 thousand (2017: HRK 0 thousand) given at the interest rate at the rate at the CNB discount rate.

NOTE 28 -OTHER LIABILITIES

(in thousands of HRK)	31 December 2018	31 December 2017
Liabilities for taxes and contributions	9,599	-
Received advances (i)	424,853	-
	434,452	-

(i) This position consists of reclassified long-term borrowings for NOV 484 and NOV 487 from position liabilities for received borrowings (Note 27).

NOTE 29 - TRADE AND OTHER LIABILITIES

(in thousands of HRK)	31 December 2018	31 December 2017
Advances received IFRS 15(i)	850	143,466
Advances received	294	1,689
Trade liabilities – unrelated	95,016	81,593
Related-party trade payables	134,920	50,215
Taxes, contributions and similar duties payable	51,457	34,831
Liabilities for concession fee	326	13,144
Liabilities towards employees	11,071	11,588
Liabilities toward joint ventures	320	159
Accrued expenses	5,507	11,507
Other current liabilities	2,904	3,766
Prepaid revenues	-	1,491
Accrued penalty interests	-	800
Liabilities from court decisions	930	723
Income tax liabilities	97	118
Liabilities towards banks and other financial institutions	941	20
	304,633	**355,110**

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

NOTE 30 - 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)	2018	2017
DIV Grupa d.o.o.	12,487	1,123
Debeljak Industrija Vijaka d.o.o., Sarajevo	1,734	270
Marine and Energy Solutions DIV d.o.o.	18	186
Div učilište	9	2
Proizvodno trgovački centar Krka Knin d.o.o.	8	4
Div Cruises, Inc.	-	193
Brodosplit - Projekt d.o.o.	-	52
Total	**14,256**	**1,830**

Other operating income

(in thousands of HRK)	2018	2017
DIV Grupa d.o.o.	8,944	17
Brodosplit - Projekt d.o.o.	-	2,425
Debeljak industrija vijaka d.o.o. Sarajevo	-	333
Total	**8,944**	**2,775**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Material expenses

(in thousands of HRK)	2018	2017
DIV Grupa d.o.o.	36,039	10,657
Debeljak industrija vijaka d.o.o. Sarajevo	1,724	-
Shanghai Vida	387	148
Total	**38,150**	**10,805**

Goods sold

(in thousands of HRK)	2018	2017
Debeljak Industrija Vijaka d.o.o., Sarajevo	296	41
DIV Grupa d.o.o.	65	85
Proizvodno trgovački centar Krka Knin d.o.o.	4	9
Brodosplit - Projekt d.o.o.	-	13
Marine and Energy Solutions DIV d.o.o.	-	2
Total	**365**	**150**

Costs of services

(in thousands of HRK)	2018	2017
DIV Grupa d.o.o.	71,272	20,778
Debeljak industrija vijaka d.o.o. Sarajevo	1,372	348
Marine and Energy Solutions DIV d.o.o.	4,213	5,227
Shanghai Vida Industry &Trading Co. ltd	332	144
Brodosplit - Projekt d.o.o.	-	16,143
Total	**77,189**	**42,640**

Other operating costs

(in thousands of HRK))	2018	2017
DIV Grupa d.o.o.	41	187
Shanghai Vida Industry & Trading Co. ltd	-	164
Total	**41**	**351**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Financial income

(in thousands of HRK)	2018	2017
DIV Grupa d.o.o.	96	1,157
Shanghai Vida Industry & Trading Co. ltd	10	3
Debeljak industrija vijaka d.o.o. Sarajevo	8	15
Div Cruises, Inc.	-	19
Total	**114**	**1.194**

Financial expenses

(in thousands of HRK)	2018	2017
DIV Grupa d.o.o.	741	27
Proizvodno trgovački centar Krka Knin d.o.o.	44	-
Debeljak industrija vijaka d.o.o. Sarajevo	12	7
Shanghai Vida Industry & Trading Co. ltd	3	5
Div Cruises, Inc.	1	41
Total	**801**	**80**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Trade receivables

(in thousands of HRK)	31 December 2018	31 December 2017
Div grupa d.o.o.	72,069	49,375
Debeljak industrija vijaka d.o.o. Sarajevo	1,002	486
Div Cruises Inc.	266	207
Shanghai Vida Industry & Trading Co. ltd	97	46
Div učilište	14	3
Proizvodno trgovački centar Krka Knin d.o.o.	6	-
Marine and energy Solutions Div d.o.o.	-	19
Total	**73,454**	**50,136**

Given loans

(in thousands of HRK)	31 December 2018	31 December 2017
Div Cruises Inc.	1,155	994
Div učilište	1	0
Total	**1,156**	**994**

Trade payables

(in thousands of HRK)	31 December 2018	31 December 2017
Div grupa d.o.o.	99,386	15,851
Div Brodogradnja d.o.o.	33,750	33,750
Marine and Energy Solutions Div d.o.o.	1,121	614
Debeljak industrija vijaka d.o.o. Sarajevo	584	-
Proizvodno trgovački centar Krka Knin d.o.o.	44	-
Shanghai Vida Industry &Trading Co. ltd	35	-
Total	**134,920**	**50,215**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Liabilities for accepted borrowings

(in thousands of HRK)	31 December 2018	31 December 2017
Div grupa d.o.o.	21,976	-
Proizvodno trgovački centar Krka Knin d.o.o.	25,000	-
Total	**46,976**	-

Key management transactions

Key management remuneration for 2017 amounted to HRK 8,395 thousand and was paid to 36 persons (2017: HRK 12,204 thousand paid to 40 persons).

NOTE 31 - 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 2018, the Group is exposed to potential liabilities arising from issued warranties in the amount of HRK 138,145 thousand (2017: HRK 140,619 thousand). Warranties are related to advance payments and performance guarantees.

NOTE 32 - SUBSEQUENT EVENTS AFTER REPORTING DATE

Brodosplit d.d. and VTB BANK (EUROPE) SE on 12 April 2019 signed a loan agreement in the amount of EUR 50 million.
Maturity of the loan is 6 months from the date of signing the agreement, that is, until 12 October 2019.

26 April 2019 the first tranche of the loan, amounting to EUR 33 million, was withdrawn to the account of Zagrebačka banka for the disbursement of a loan amounting to EUR 33 million, issued by Brodosplit d.d. rose funding for the NOV 483.

Second tranche, in amount of EUR 17 mil was withdrawn on 30 April 2019.

The contract is not out of regular financing has already been requested due to the delay of NOV.483 by the Customer.

22 May 2019 NOV 484 is delivered on long-term lease to lessee of the ship.

NOTE 33 - APPROVAL OF FINANCIAL STATEMENTS

These financial statements were adopted and approved by the Management Board on 13 June 2019.

Signed for and on behalf of the Group:

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split