BRODOSPLIT

BRODOGRAĐEVNA INDUSTRIJA SPLIT, dioničko društvo

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BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d. and its subsidiaries

Annual Report for the Group
31 December 2019

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

Brodograđevna industrija Split d.d. (Brodosplit d.d.) is the parent of the 50 subsidiaries (one in bankruptcy), and 22 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 structures and under different names, operates since 1931. The many activity of the Company is shipbuilding.

2. SHARE CAPITAL AND OWNERSHIP STRUCTURE

The Company Brodograđevna industrija Split d.d, is registered in the register of the Commercial Court in Split under the registration number: MBS: 060175040, OIB: 18556905592.

The General Assembly of the Company at 31 December 2019 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 535.466.220,00 HRK, divided into 8.924.437 ordinary shares with a nominal value of 60,00 HRK.

Management Report of the Group (*continued*)

3. SUPERVISORY AND MANAGEMENT BOARD

Supervisory Board

According to Article 17 of the Statute of the Company, the Supervisory Board consists of 5 members. The General Assembly elects three members. One member is appointed by the employees in accordance with the labour legislation as long as there are preconditions for the appointment of employee representatives to the Supervisory Board. One member is appointed by SPMA (State Property Management Agency) or its legal successor, as long as it has at least 1 (one) share in the Company. In the event of the alienation of shares by SPMA, the right to appoint a member of the Supervisory Board does not pass to a new shareholder. The appointment of this representative should be confirmed by the General Assembly of the Company, only if required by relevant regulations. The term of office of elected members of the Supervisory Board is four years, unless the General Assembly determines a shorter term during the election. Re-election is allowed.

In 2015, the Supervisory Board was composed of:

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

Since 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

On 21 July 2016, a court appointed Saša Vladić 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

On 29 July 2016, CERP appointed Darko Bandula 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
4. Darko Bandula - Member

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

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

Management Report of the Group (*continued*)

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

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

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

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

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

On 25 October 2017, Deputy Chairman Željan Horvat resigned from membership in the Supervisory Board and the Board acts in the following composition in the period

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

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

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

On 10 May 2018, Darko Bandula resigned from his position of a member of the Supervisory Board and the Board now acsts in the following composition:

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

Management Report of the Group (*continued*)

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

On 29 August 2018, pursuant to the Minutes of the Regular General Assembly which adopted the Decision on appointing a new member to the Supervisory Board, Tomislav Čorak, the Supervisory Board of Brodosplit d.d. now acts in the following composition:

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

On 04 July 2019, Tomislav Čorak resigned as a member of the Supervisory Board. On July 8, 2019, based on the Minutes from the Regular General Assembly of the Company, a decision was made to appoint a new member of the Supervisory Board of Vlado Šoić.

List of members of the Supervisory Board as of December 31, 2019:
1. Zdenko Šoš, Chairman of the Supervisory Board
2. Teuta Duletić, member of the Supervisory Board
3. Darko Pappo, Deputy Chairman of the Supervisory Board
4. Vlado Šoić, member of the Supervisory Board

Management Board

According to Article 14 of the Statute of the Company, Management Board consists of 1 to 7 members, which are appointed and recalled by the Supervisory Board. The term of office of the members of the Management Board lasts for a maximum of four years. One of the members of the Supervisory Board is appointed as Chairman of the Management Board. All members of the Management Board represent the Company individually and independently.

Management Board of Brodograđevna industrija Split d.d. in 2018 consists 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 to 9 April 2018
3. Zoran Kunkera - a Board member from 15 March 2018 to 16 May 2019

On 13 March 2018. Vlatko Kvesić resigned as a member of the Management Board.

On 16 May 2019 Zoran Kunkera resigned as a member of the Management Board.

On July 9, 2019, and based on the Minutes of the 40th session of the Supervisory Board, the Supervisory Board unanimously passed the Decision on the appointment of a member of the Management Board, Director of the Company Tomislav Čorko.

Management of Shipbuilding Industry Split, joint stock company on 31 December 2019 consists of the following members:

1. Tomislav Debeljak - President of the Management Board from 02 May 2013

2. Tomislav Čorak - Member of the Management Board since July 9, 2019.

Management Report of the Group (*continued*)

4. ORGANIZATIONAL STRUCTURE

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

Brodosplit - Brodogradilište specijalnih objekata d.o.o. - its core business is the construction of ships;

Brodosplit - Metaloprema d.o.o. - in bankruptcy;

Brodosplit - Plovidba d.o.o. - its core business is marine transportation;

Brodosplit - Tvornica dizel motora d.o.o. - its core business is the production and modification of engines, turbines and power equipment;

Brodosplit - Boja d.o.o. - its core business is the repair and maintenance of ships and boats;

Brodosplit - Blok d.o.o. - its core business is the construction of ships and floating structures;

Brodosplit - Čelik d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit - Montaža d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit - Opremanje plovnih objekata d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit - Stroj d.o.o. - its core business is machining;

Brodosplit - Transportna sredstva d.o.o. - its core business is the rental and lease of other machinery, equipment and tangible goods;

Brodosplit - Trgovina d.o.o. - its core business is the wholesale of other machinery and equipment;

Brodosplit - Trup d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit - Zaštita trupa od korozije d.o.o. - its core business is the production of metal structures and their parts.

4. ORGANIZATIONAL STRUCTURE (continued)

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

Brodosplit - Alatnica d.o.o. - its core business is machining;

Brodosplit - Atest d.o.o. - its core business is the service protection with the help of security systems;

Brodosplit - Automatizacija d.o.o. - its core business is the management of computer facilities;

Brodosplit - Bravarija i limarija d.o.o. - its core business is the repair of fabricated metal products;

Brodosplit – Brodska i ostala oprema d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit – Cjevarska izrada d.o.o. - its core business is casting of iron;

Brodosplit – Čišćenje d.o.o. - its core business are other cleaning activities;

Brodosplit – Gradnja d.o.o. - its core business is the construction of various buildings;

Brodosplit – Informatika d.o.o. - its core business is the management of computer facilities.

Brodosplit – Interijer i završni radovi d.o.o. - its core business is the installation of carpentry;

Brodosplit - Istraživanje i razvoj d.o.o. - its core business is the research and experimental development on natural sciences and engineering;

Brodosplit - Izvor energije vjetroparkova d.o.o. - its core business is the rental and lease of other machinery, equipment and tangible goods;

Brodosplit – Klimatizacija i ventilacija d.o.o. - its core business is the installation of water, sewage, and gas installations for heating and air-conditioning;

Brodosplit – Korporativna zaštita d.o.o. its core business is private security;

Brodosplit - Laboratorij d.o.o. - its core business is technical testing and analysis;

Brodosplit – Ljevaonica d.o.o. - its core business is casting of iron;

Brodosplit – Ljudski resursi d.o.o. - its core business is other human resources provision;

Brodosplit – Metalne konstrukcije d.o.o. - its core business is the production of metal structures and their parts;

Brodosplit – Namještaj po mjeri d.o.o. - its core business is the installation of carpentry;

Brodosplit – Oblaganje d.o.o. - its core business is the construction of ships and floating structures;

Brodosplit – Održavanje d.o.o. - its core business is the repair of machinery;

Brodosplit – Optimizacija i ekologija d.o.o. - its core business are remediation activities and other waste management services;

Brodosplit – Otpremništvo d.o.o. - its core business is the other support activities for transportation;

Brodosplit – Plovne dizalice d.o.o. - its core business is the rental and leasing of water transport equipment;

Brodosplit – Najam vozila d.o.o. - its core business is renting and lease (leasing) of cars and light motor vehicles;

4. ORGANIZATIONAL STRUCTURE (continued)

Brodosplit – Privremena energetika d.o.o. - its core business is the production of electricity;

Brodosplit – Produkt plinske elektrane d.o.o. - its core business is the installation of water, sewage, and gas installations for heating and air-conditioning;

Brodosplit – Računovodstvo i financije d.o.o. - its core business is accounting, book-keeping and auditing activities; tax consulting;

Brodosplit – Servis brodova d.o.o. - its core business is the repair and maintenance of ships and boats;

Brodosplit – Skela d.o.o. - its core business is the production of metal structures and their parts;

Power Voyages d.o.o. - its core business is the production of electricity;

Brodosplit – Strojna obrada d.o.o. - its core business is machining;

Brodosplit – Vjetrostupovi d.o.o. - its core business is the production of metal structures and their parts;

The 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., The Netherlands
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 EXPLORATIONS INC.

Management Report of the Group (*continued*)

4. ORGANIZATIONAL STRUCTURE (continued)

Brodograđevna industrija Split d.d. has a 50% stake in the company Kamen Dent, Bosnia and Hercegovina and a 100% stake and management rights in the company Brodosplit Italia s.r.l., Italy.

In 2018, Brodograđevna industrija Split d.d. established a branch office in Italy. In 2019, Brodosplit – Čelik d.o.o. established a branch office in Italy.

5. HUMAN RESOURCES

As at 31 December 2019, Brodosplit d.d. employs 1780 workers. Of that, 154 employees are employed in the so-called "Old" companies (8.6%), and 1626 employees in "new" companies. 130 employees have new contracts in the "old" companies, and the notice period is for another 4. There are 20 workers in protected categories.

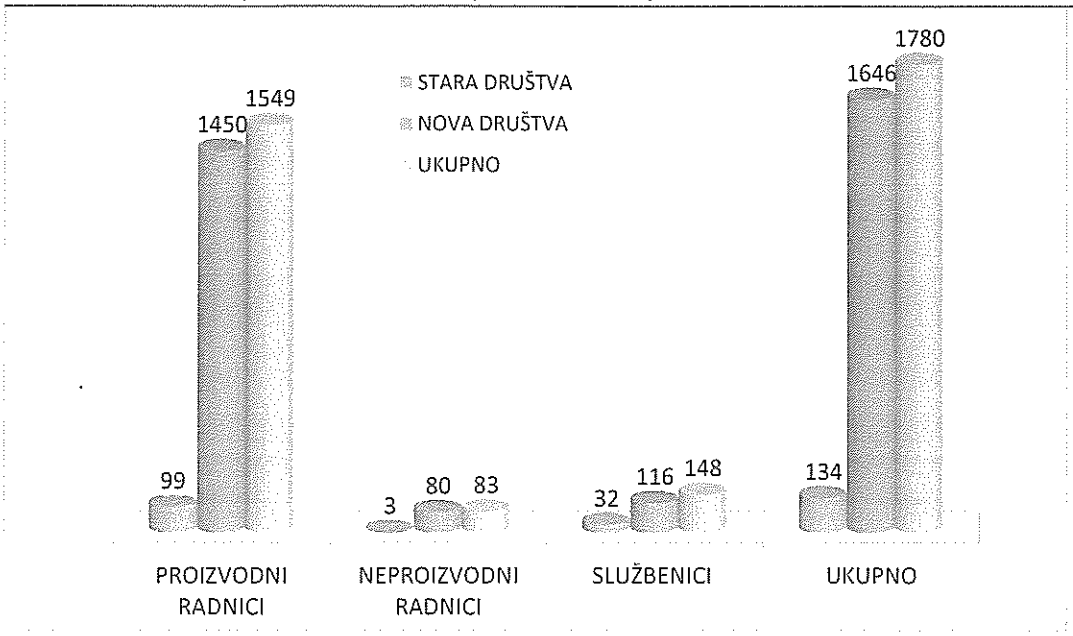
A total of 1549 production workers (87%), 83 non-production workers (5%) and 148 employees (8%) were employed.

Table: Number of employees by groups

31 December 2019	Production workers		Non-production workers		Clerk		TOTAL	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
OLD COMPANIES BRODOSPLIT	99	5,6%	3	0,2 %	32	1,8 %	134	7,5%
NEW COMPANIES BRODOSPLITA	1450	81,5 %	80	4,5 %	116	6,5 %	1646	92,5%
TOTAL	1549	87,0 %	83	4,7 %	148	8,3 %	1780	100,0 %

Number of employees in Group on 31 december 2019.

Management Report of the Group (*continued*)



5. HUMAN RESOURCES (continued)

Graph: Share of employee types in old and new companies

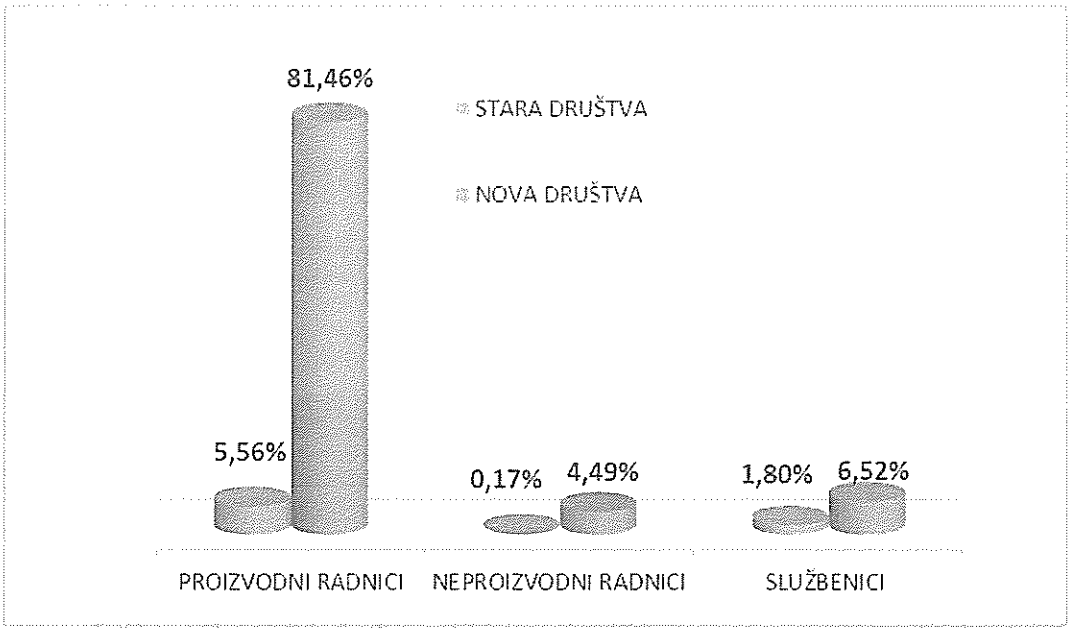


Table: overview of the movement of the number of employees

	new	resigned		

Management Report of the Group (*continued*)

Month	Production workers	Non – production workers	Clerk	Total	Production workers	Non-production workers	Clerk	Total	Diff	Number at the last day of the month
01	41		2	43	49		1	50	-7	1.910
02	47			47	37		1	38	9	1.919
03	32		2	34	29		3	32	2	1.921
04	42		5	47	52		4	56	-9	1.912
05	15			15	44		2	46	-31	1.881
06	25		2	27	56		2	58	-31	1.850
07	36		1	37	56	1	5	62	-25	1.825
08	10	1		11	17		1	18	-7	1.818
09	41		3	44	47	2	1	50	-6	1.812
10	44		1	45	43		4	47	-2	1.810
11	24			24	35		1	36	-12	1.798
12	22	1	1	24	38	3	1	42	-18	1.780
Total	379	2	17	398	503	6	26	535	-137	

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 2019.

DESCRIPTION	Realized							
	2012	2013	2014	2015	2016	2017	2018	2019
SHIPBUILDING								
Start of CM processing – pc	2	1	2	5	0	3	2	2
Keel laying – pc	2	0	1	6	0	4	2	1
Launching – pc	1	1	2	1	0	6	1	0
Handover – pc	1	0	1	1	1	4	1	3

During 2019, 2 new buildings were delivered: Nov. 484 - a ship for cruising the polar regions, the first in the world built in the class "LR PC6", length 107.6 m, capacity 198 passengers; New. 525 - 3-mast sailboat 62 m long, capacity 36 passengers and Nov. 483 - the largest passenger 5-mast sail boat in the world, 162 m long, with a capacity of 340 passengers.

In the 2020, 3 deliveries are expected: Nov. 487 - ship for cruising the polar regions, length 127 m, capacity 200 passengers; New. 780 - 106 m long coastal cruiser, capacity 159 passengers and modifications Nov. 814 - the largest passenger 5-mast sailing ship in the world, 162 m long, with a capacity of 340 passengers.

Management Report of the Group (*continued*)

Cooperation with the renowned Italian shipyard Fincantieri has continued on the construction of equipped "Grand Blocks" for mega cruisers, for which several deliveries are expected during 2020.

Shipbuilding industry Split, a joint stock company, significantly entered the non-shipbuilding market in 2015 and 2016, and in 2017 intensive work continued on the project of building steel dams to defend Venice from floods, and the project was completed in the first quarter of 2018.

During 2018 and 2019, we participated in several international tenders, and we expect to contract several projects in the non-shipbuilding niche in 2020.

Management Report of the Group (*continued*)

7. FINANCIAL OPERATIONS

The achieved business result of the Brodosplit Group for 2019 shows a total comprehensive profit in the amount of HRK 66 million, while the amounted to HRK 24 million in 2018.

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

In 2019, the Brodosplit Group generated operating profit in the amount of HRK 106.39 million (2018: HRK 32.23 million). The Group also incurred a loss from financial activities in 2019 in the amount of HRK 63.5 million (2018: HRK 11.6 million).

At 31 December 2019, the capital of the Brodosplit Group amounted to HRK 1,038 million (31 December 2018: HRK 1,051 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:

	2019	2018
Current assets	1,049,603	1,234,399
Current liabilities	459,519	599,401
Current ratio	**2.28**	**2.06**
Cash + receivables	849,432	1,074,248
Current liabilities	459,519	599,401
Quick ratio	**1.85**	**1.79**
Total liabilities	1,342,296	1,081,719
Total assets	2,379,813	2,132,533
Gearing ratio	**0.56**	**0.51**
Total revenue	940,227	705,321
Total assets	2,379,813	2,132,533
Turnover ratio of total assets	**0.40**	**0.33**
Sales	743,360	675,161
Trade receivables and accrued revenues	735,594	1,021,055
Turnover ratio of receivables	**1.01**	**0.66**

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

8. BUSINESS RISKS

Through its business, the Group is exposed to the following risks:

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

Capital risk management

The Group 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 Group's objectives when managing capital are to safeguard the Group'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.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity, which includes the registered capital and accumulated losses. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group 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.

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

(in thousands of HRK)	2019	2018
Debt (short-term credit)	(496,404)	(291,756)
Cash and cash equivalents	20,603	6,747
Net debt	(475,801)	(285,009)
Equity	1,037,517	1,050,814
Debt to equity ratio	46%	27%

Financial risk management

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

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

Management Report of the Group (*continued*)

8. BUSINESS RISKS (CONTINUED)

Credit risk

Credit risk refers to the risk of default of contracting parties, which will result in a financial loss for the Group. The Group has adopted a policy according to which it operates exclusively with creditworthy contracting parties, ensuring collateral as a means to minimize the risk of financial loss due to default. The Group's exposure and credit position of contracting parties is constantly monitored and the total amount of completed transactions is distributed between approved contracting parties.

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

Interest risk

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

Currency risk

The Group is exposed to a currency risk in case of contracted prices for raw materials pegged to foreign currencies. The currencies most exposed to this risk are EUR, NOK and USD. The Group is currently not protected against this risk.

The following table presents the carrying amounts of monetary assets and monetary liabilities denominated in foreign currencies as at the reporting date.

(in HRK thousand)	Liabilities		Assets	
	2019	2018	2019	2018
EUR	1,109,911	867,789	100,364	65,815
NOK	3,819	6,096	-	-
USD	3,689	1,661	4,922	4,085
GBP	84	339	315	295
PLN	-	-	0	696
SEK	-	-	-	-
Other currencies	320	163	0	73

As at 31 December 2019, if the EUR had weakened / strengthened by 1.00% against the HRK, with all other variables held constant, the loss for the reporting period would have been 1,012 thousand HRK lower / (higher), mainly as a result foreign exchange gains / (losses) on foreign exchange differences arising from the translation of receivables, payables, borrowings and foreign cash funds denominated 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.

Management Report of the Group (*continued*)

8. BUSINESS RISKS (CONTINUED)

Market risk

The Group and its operations are exposed to a significant price increase not only for ferrous metallurgy, but also prices of other raw materials. The Group has, for the most part, offset 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

Liquidity risk refers to cash receipts that will not be enough to cover current cash outflows. The Group manages its liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowed funds, continuously monitoring expected and actual cash flows, and by comparing maturity profiles of financial assets and liabilities.

Regulatory risk

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

9. RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

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

9. RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

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

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

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

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

In accordance with the Strategic Plan of the Ministry of Science and Education for the period from 2019 to 2021, and given the relatively low use of science for economic development and poor harmonization of scientific activities of scientific research organizations with the real needs of the economy and society, development measures will be focused on research activities aligned with the needs of the economy and activities related to technology transfer, and in particular through strengthening public-private partnerships.

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

9. RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

In this way, the competitiveness of the sector will increase, with the strengthening of the contribution to the development of Croatia through a cluster approach to the establishment of a research and development platform and the implementation of development activities. The project was awarded the PNI label by the HKK sector of electric power and production machines and technologies.

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

In the shipyard in Split, **Brodograđevna industrija Split d.d. performs internships for students in cooperation with scientific institutions in Split** such as: Faculty of Chemistry and Technology, Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University Department of Professional Studies and Faculty of Economics in Split. About 20 students pass the professional internship every year. In the practical part of teaching, mentors from teaching bases transfer their knowledge, experience and skills to students and thus help students to connect theoretical knowledge with practice. By finding their student internship and connecting with employers, students are offered other opportunities because professional internships in the teaching base can open the possibility of future employment.

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

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

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

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

Management Report of the Group (*continued*)

10. FUTHER DEVELOPMENT

The order book of the entire group currently contains new-builds of the total worth of about 447 million euros, and signed letters of intent worth 1.2 billion euros. In 2019, Brodosplit has became a recognized key player in the market of passenger ships because it showed that it builds both in quality and within the agreed construction deadlines. In 2019, Brodosplit delivered 3 ships: Flying Clipper - the largest sailing ship with cross sails in the world, Hondius - the first passenger ship with the notation Polar Class 6 and Klara - three-masted schooner. In addition, 3 projects for the largest shipbuilding group Fincantieri have been completed. The projects refer to the production of megablocks with a total weight of about 7,000 tons, and the largest section of the ship was 100m long.

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

In 2019, the goal of further expansion through acquisitions of other shipyards in Croatia and Europe has been set, and the completion of this process is expected in the first quarter of 2020. The reasons are many, and the most important are the improvement of financing options for new construction and better market performance.

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

Conclusion:
- Brodosplit d.d. proved in 2019 that it can build the most complex ships on time in quality and with profit
- intensive work is being done on the employment of capacities, both in the shipbuilding and non-shipbuilding markets,
- We are working on further improvements in the organization of work and increasing productivity

Management Report of the Group (*continued*)

11. MANAGEMENT OBJECTIVES FOR 2019

QUALITY:

1 Increasing the share of own products and services in the final products of Brodosplit d.d.;

2 Attracting new customers and developing new products;

3 Harmonization of integrated management systems with organizational changes, requirements of new editions of ISO standards and other variable regulations, and requirements of stakeholders,

4 Introducing technical standards for constructing new products, and their certification and integration with ISPO management systems;

6 Reorganising and improving quality assurance and quality controls systems;

7 Human resources training;

8 Increasing the technological levels of processes with the improvement of infrastructure and working environment.

ENVIRONMENT:

1 Separately collecting and disposing various types of waste;

2 Reducing emissions of volatile organic compounds into the atmosphere to targeted emissions;

3 Cleaning underwater shipyard in labour-intensive areas;

4 Implementing the Company's waste water disposal requirements.

HEALTH AND SAFETY AT WORK:

1 Preventing work-related injuries;

2 Improve the coordination of simultaneous work of several professions in one area in order to improve their safety

3 Improving the fire protection systems in company buildings.

ENERGY:

1 Preventing inefficient and unnecessary use of energy;

2 Enhancing the monitoring of consumption and use of energy sources through aspects and variables that depend on energy performance;

3 Improving consumer energy efficiency.

Split, 10 August 2020

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
dioničko društvo, Split

Tomislav Čorak
Member of the Board

Responsibilities of the Management Board for the Preparation of the Annual Report

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

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

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

- the selection and consistent application of the appropriate accounting policies;
- reasonable and prudent judgements and assessments;
- applying the applicable accounting standards;
- preparing financial statements on the going concern principle.

The Management Board is responsible for conducting the correct accounting records that will, at any time, reflect the consolidated financial position of the Group with acceptable accuracy as well as the compliance of the consolidated financial statements with the applicable Croatian Accounting Act. The Management Board is also responsible for safeguarding the Group's assets and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed on behalf of the Management Board on August 10, 2020

Tomislav Debeljak
Chairman of the Board

Tomislav Čorak
Member of the Board

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dioničko društvo, Split

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company BRODOGRAĐEVNA INDUSTRIJA SPLIT D.D. and its subsidiaries

Opinion

We have audited the consolidated financial statements of BRODOGRAĐEVNA INDUSTRIJA SPLIT ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit and loss and other comprehensive income, condsolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year 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 consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

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

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

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

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

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

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

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

For signature please refer to the original Croatian version.

Marina Tonžetić

Director and Certified Auditor

Deloitte d.o.o.
10 August 2020

Radnička cesta 80
10 000 Zagreb
Republic of Croatia

TRANSLATION ONLY, CROATIAN ORIGINAL PREVAILS

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.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

(all amounts in thousands of HRK)	Note	2019	2018
Operating income	*5*	743,360	675,161
Other operating income	*6*	186,251	16,687
Changes in inventories - work in progress and finished goods	*20a*	31,041	23,678
Material costs	*7*	(473,240)	(361,374)
Cost of goods sold		(1,297)	(3,479)
Employee costs	*8*	(186,073)	(199,686)
Depreciation	*9*	(29,070)	(37,666)
Other operating expenses	*10*	(164,595)	(81,088)
Operating profit		**106,377**	**32,232**
Financial income	*11*	10,615	13,473
Financial expenses	*12*	(74,137)	(25,027)
Net financial expenses		**(63,522)**	**(11,554)**
Share of the net loss of the joint venture	*18*	(96)	(81)
Profit before tax		**42,759**	**20,598**
Income tax	*13*	5,423	3,576
Profit for the year		**48,182**	**24,174**
Statement of other comprehensive income			
Revaluation of intangible asset (net of tax)		17,814	-
Change in fair value of available-for-sale assets (net of tax)		33	14
Total comprehensive income		**66,029**	**24,188**
Profit that belongs			
Company's shareholders		48,134	23,974
Non-controlling interest		64	200
		48,182	24,174
Total comprehensive income/ (loss) due to:			
Company's shareholders		65,965	23,988
Non-controlling interest		64	200
		66,029	24,188

The following notes form an inseparable part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2019

(all amounts in thousands of HRK)	Note	2019	2018
ASSETS			
Intangible assets	*15*	36,367	14,162
Property, plant and equipment	*15*	1,256,701	857,322
Right of use assets	*15*	11,448	-
Investment property	*16*	3,536	4,275
Long-term investment	*17*	427	394
Investment in joint venture	*18*	15,854	14,996
Trade and other receivables	*19*	5,423	6,985
Non-current assets		**1,329,754**	**898,134**
Inventories	*20*	200,171	160,151
Trade and other receivables	*21*	828,829	1,067,501
Cash and cash equivalents	*22*	20,603	6,747
Current assets		**1,049,603**	**1,234,399**
Deferred tax asset		456	-
TOTAL ASSETS		**2,379,813**	**2,132,533**
EQUITY AND LIABILITIES			
Share capital	*24i)*	535,466	535,466
Reserves	*24ii), iii), iv)*	153,284	219,004
Retained earnings		346,616	292,576
		1,035,366	**1,047,046**
Non-controling interest		2,151	3,768
Equity	*24*	**1,037,517**	**1,050,814**
Provisions	*25*	12,390	15,603
Trade and other payables	*28*	484,301	432,452
Loans and borrowings	*27*	372,129	-
Deferred tax liability	*13*	13,957	32,263
Non-current liabilities		**882,777**	**482,318**
Provisions	*26*	1,887	3,012
Loans and borrowings – related parties		-	46,976
Loans and borrowings	*27*	124,275	244,780
Trade and other payables	*29*	333,357	304,633
Current liabilities		**459,519**	**599,401**
Total liabilities		**1,342,296**	**1,081,719**
TOTAL EQUITY AND LIABILITIES		**2,379,813**	**2,132,533**

The following notes form an inseparable part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

(all amounts in thousands of HRK)	Share capital	Legal reserves	Revaluation reserves	Reserves from exchange rate recalculation	Other reserves	Retained earnings	Total	Non-controling interest	Total equity
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 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
Depreciation transfer after revaluation - net effect	-	-	(17,242)		-	4,060	4,060		
Retained earnings (previous period expense under tax supervision)	-	-	(1,228)		-	1,228	-		
Balance at 31 December 2018	535,466	26,773	186,105	2	6,124	292,576	1,047,046	3,768	1,050,814
Balance at 1 January 2019	535,466	26,773	186,105	2	6,124	292,576	1,047,046	3,768	1,050,814
Profit for the year	-	-	-		-	48,134	48,134	64	48,198
Other comprehensive income	-	-	17,847	-	-	-	17,847	-	17,847
Total comprehensive income	-	-	17,847	-	-	48,118	65,965	64	66,029
Depreciation transfer after revaluation - net effect	-	-	(7,166)	-	7,166	-	-	-	-
Realization of revaluation reserve from sale of assets	-	-	(76,449)	-	-		(76,449)	-	(76,449)
Dividend payment	-	-	-	-	-	106	106	-	106
Transfer (NCI)	-	-	-	-	-	1,681	1,681	(1,681)	-
Retained earnings (previous period expense)	-	-	-	(2)	-	(2,981)	(2,983)	-	(2,983)
Balance at 31 December 2019	535,466	26,773	120,387	-	6,124	346,616	1,035,366	2,151	1,037,517

The following notes form an inseparable part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

(in thousand of HRK)	*Note*	2019	2018
Net gain		48,198	24,174
Adjustments for:			
- Depreciation of tangible assets	*9*	27.162	36,029
- Depreciation of right of use assets	*9*	497	-
- Depreciation of intangible assets	*9*	1.260	1,532
- Depreciation of investment property	*9*	171	171
- Loss due to the sale of subsidiary		1.471	-
- Collected written-off receivables	*6*	(1.636)	(25)
- Impairment of receivables	*10*	358	3,896
- Reversal of impairment of inventories		(1.536)	(357)
- Interest cost and discounted receivables	*12*	58.998	17,553
- Interest and dividend income	*11*	(398)	(565)
- Income from liabilities write-off	*6*	(28.952)	(113)
- Share in the net loss of the joint venture		96	80
- FX differences		4.021	(4,985)
- Income tax	*13*	(5.423)	(3,576)
- Net change in provisions	*11*	(3.981)	2,238
- Loss from contract termination		54,435	
- Net carrying amount of sold and disposed assets		56.820	7,141
		211,545	**83,194**
Changes in working capital			
- Inventories		(16.155)	9,270
- Trade and other receivables		(233,540)	(390,506)
- Trade and other payables		(2.871)	421,260
Cash generated from operating activities		**(41.021)**	**123,218**
Paid interest		(25.195)	(28,224)
Paid income tax		(96)	(188)
Net cash used in operating activities		**(66.312)**	**94,806**
Investment activities			
Acquisition of property, plant and equipment	*16*	(86.842)	(61,556)
Acquisition of intangible assets	*15*	(2.974)	(475)
Investment in joint ventures		(954)	(693)
Given loans and deposits		(30.316)	(5,864)
Loan collection		30.494	5,474
Net cash used in investment activities		**(90.592)**	**(63,114)**
Cash flow from financing activities			
Cash from credit liabilities		682.382	243,774
Repayment of credit liabilities		(511.622)	(288,108)
Net cash from financial activities		**170.760**	**(44,334)**
Net decrease in cash and cash equivalents		13.856	(12,642)
Cash and cash equivalents at the beginning of the period		6.747	19,389
Cash and cash equivalents at the end of the period	*22*	**20.603**	**6,747**

The following notes form an inseparable part of these consolidated financial statements.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 1 – GENERAL DATA

The Brodosplit Group (the "Group") includes the parent company Brodograđevna industrija Split joint stock company Split and 72 subsidiaries.

The company Brodograđevna industrija Split joint stock company, abbreviated Brodosplit d.d., (the "Company") is entered in the register of the Commercial Court in Split under the registration number of the subject MBS: 060175040, OIB: 18556905592.

The subscribed capital of the Company as at 31 December 2019 amounts to HRK 535,466,220. By the decision of the General Assembly of March 3, 2015, the share capital was increased from HRK 525,466,140 to HRK 10,000,080 by cash payment from the shareholders of DIV BRODOGRADNJA doo, Samobor, Bobovica 10 / A, MBS: 080812968, OIB: 44993645694, by issuing 166,668 new shares in the name of series VI. with the exclusion of the pre-emption rights of other shareholders. After the mentioned increase from 2015, the share capital amounts to HRK 535,466,220.00, divided into 8,924,437 ordinary shares each in the nominal amount of HRK 60.00.

The society has been operating since 1931 through various organizational forms and under different names. The main activity of the Group is shipbuilding.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Impact of initial application of IFRS 16 Leases

(a) Impact of the new lease definition

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(b) Impact on the lessee's accounting

(i) Past operating leases

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(ii) Past finance leases

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

2.2 Basis of preparation

These financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Consolidated financial statements are presented for the Group. Consolidated financial statements prepared in accordance with International Financing Reporting Standards (IFRS) adopted by the EU for Brodograđevna industrija Split d.d. and subsidiaries the Company manages, will be published within the envisaged legal deadline. For a better understanding of the Group as a whole, users should read the consolidated financial statements related to these consolidated financial statements.

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 Company'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)

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

2.2 Basis of preparation (continued)

The list of investments in associates managed by the parent Company is shown below.

Name of subsidiary	Share in %	Core business
	2019	
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
Power Voyaged 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)

2.2 Basis of preparation (continued)

Through the subsidiary Brodosplit - Plovidba d.o.o., the Company also manages 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., Netherland, 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 the company Brodosplit d.d. on September 1, 2017. On the date of the merger, Brodosplit d.d. took over 50% of the shares and management rights in the company Kamen Dent, Bosnia and Herzegovina and 100% of the shares and management rights in the company Brodosplit Italia s.r.l., Italy from the merged company Brodosplit Holding d.o.o.

Shipbuilding Industry Split Joint Stock Company has a 50% stake in Kamen Dent, Bosnia and Hercegovina.

Shipbuilding industry Split joint stock company in 2018. she founded a branch in Italy. Brodosplit - Celik d.o.o. in 2019 founded a branch in Italy.

During 2017, there was a merger of subsidiaries in which Brodosplit d.d. had a 100% share:

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: 01 October 2017
7. Brodosplit - Izolacija d.o.o., date of merger: 29 December 2017

All rights and obligations of the merged companies on the day of the merger are transferred to the acquiring company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidation

a) Subsidiaries

Subsidiaries are all companies over which the Group has control over financial and business policies, which typically includes more than half of the voting rights, and companies with a share below 50%, in which the Group has control under a transfer agreement. The existence and effect of potential voting rights that may be exercised or exchanged are considered in assessing whether the Company has control over another entity. The Company has reviewed the conditions for consolidating subsidiaries in accordance with IFRS 10. There were no changes compared to the previous treatment. All intra-group transactions, balances and unrealized gains on intra-group transactions are eliminated on consolidation. Unrealized losses are also eliminated, unless there is evidence of impairment of the transferred assets. Where necessary, the accounting policies of subsidiaries have been changed to bring them into line with the policies applied by the Group.

b) Joint ventures

The Group's interests in a jointly controlled entity are accounted for using the equity method and are initially recognized at cost. The equity method requires the Group's share of profit or loss after acquisition to be recognized in the income statement, while changes in other comprehensive income after acquisition are recognized in other comprehensive income. Total post-acquisition changes are adjusted to the carrying amount of the investment.

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Group using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 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 Group;
- 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. The revaluation 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. The revaluation decrease shall directly reduce the revaluation reserve up to the amount which does not exceed the amount of the revaluation reserve for the relevant asset. The last revaluation was conducted in 2017 by an independent 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 Group recognizes such parts as a separate assets with specific useful life and depreciation. Furthermore, in the event of major repairs and maintenance, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. All other repair and maintenance costs are charged to profit or loss when incurred.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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	2019	2018
Buildings	20 - 100	20 - 100
Investment property	16	16
Plant and equipment	10 - 33	10 - 33
Furniture, tools and other equipment	10 - 33	10 - 33

2.6 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 the initial recognition at cost, intangible assets 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. The impairment loss reduces the revaluation reserve to an amount not exceeding the amount of the revaluation reserve of this 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.
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. Revaluation increases should be recognized as income to the extent that it reverses the revaluation reduction of the same asset previously recognized as an expense. Revaluation decrease shall reduce the revaluation reserve to the extent of any credit balance existing in respect of that asset.

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

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

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

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

2.7 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 Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.8 Impairment of non-financial assets

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

2.9 Financial assets

The purchase or sale of financial assets on a regular basis is recognized and derecognised on the basis of the trade date. Regular purchases or sales are the purchase or sale of financial assets that require the delivery of assets within a time frame established by market regulations or practices.

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

Classification of financial asset

Debt instruments that meet the following conditions are subsequently measured at amortized cost:
- financial assets are held within a business model aimed at holding financial assets to collect contractual cash flows; and
- the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the outstanding amount of principal on certain dates

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

i) Amortized cost and effective interest method

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

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

For purchased or incurred impaired financial assets, the effective interest rate adjusted for the loan is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument at initial measurement.

The amortized cost of a financial asset is the amount at which the financial instrument is measured at initial recognition less principal repayments and cumulative amortization, using the effective interest method of any difference between that initial amount and the amount of maturity, adjusted for any loss. The gross carrying amount of a financial asset is the amortized cost of the financial asset before adjustment for any loss.

Interest income is recognized using the effective interest method for debt instruments that are subsequently measured at amortized cost and fair value through other comprehensive income.

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

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

For purchased or incurred impaired financial assets, the Group recognize interest income by applying the effective interest rate adjusted for credit risk to the amortized cost of financial assets at initial recognition. The calculation is not returned on a gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer impaired. Interest income is recognized in the income statement.

Impairment of financial assets

The Group recognize provisions for expected credit losses from investments in debt instruments measured at amortized cost and for trade receivables. The amount of expected credit losses is calculated at each reporting date to reflect changes in credit risk since the initial recognition of an individual financial instrument. The Group always recognize lifelong expected credit losses (ECL) for trade receivables based on the simplified approach chosen. Expected credit losses on these financial assets are estimated based on the arrears matrix created based on the historical experience the Group in terms of credit losses, adjusted for factors specific to debtors.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

The Group do not currently adjust the loss rate for future macroeconomic conditions as it has not conducted an analysis of the impact of macroeconomic factors on historical loss rates, including the time value of money where appropriate.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measure a loss for that financial instrument in the amount equal to the 12-month ECL. The lifelong ECL represents the expected credit losses that will result from all possible defaults during the expected life of the financial instrument.

In contrast, a 12-month ECL is part of a lifelong ECL due to the likelihood of default in the 12 months following the reporting date.

i) Significant increase in credit risk

In assessing whether credit risk on a financial instrument has increased significantly since initial recognition, the Group compare the risk of default at the reporting date with the risk of default at the date of initial recognition. In making this assessment, the Group take into account both quantitative and qualitative information that is reasonable and available, including historical experience, and that is available without undue expense or commitment.

In particular, the Group rely on default days in assessing significant credit risk deterioration. If the borrower is more than one year late, then the Group assume that there has been a significant increase in credit risk.
Notwithstanding the above, it is assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if it is determined that the financial instrument has low credit risk at the reporting date.

A financial instrument is found to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong ability to meet its contractual obligations in a short period of time, and
- Adverse changes in economic and business conditions in the long run may, but do not necessarily, reduce the borrower's ability to meet its contractual cash flow obligations.

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

(ii) Definition of default status

The following facts, which represent a case of default for the purposes of internal credit risk management, the Group consider historical experience to show that financial assets that meet any of the following criteria are generally not recoverable:

- when the debtor has breached financial clauses; or

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

- data developed internally or obtained from external sources indicates that the borrower is unlikely to repay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Notwithstanding the above analysis, the Group consider that there is a default when the financial assets are past due for more than 360 days and the liabilities are not paid, unless the Group have reasonable and substantiated information to demonstrate a more appropriate criterion for days of delays.

iii) Credit impairmed financial assets

Financial assets are credit impairmed when one or more events have occurred that have an adverse effect on the estimated future cash flows of those financial assets. Evidence that the financial asset is impaired includes available information on the following events:

- significant financial difficulties of the issuer or debtor;
- breach of contract, such as failure to fulfill an obligation (defined above);
- when the issuer grants to the debtor, due to the financial difficulties of the debtor, the same concession that it would not otherwise take into account;
- it becomes probable that the debtor will go bankrupt or other financial reorganization
- the disappearance of an active market for certain financial assets due to financial difficulties.

(iv) Write-off policy

The Group write off financial assets when there is evidence that the debtor is in serious financial difficulty and there is no realistic prospect of recovery, eg when the debtor is liquidated or in bankruptcy proceedings or in the case of trade receivables, when amounts due over three years, whichever comes first. Depreciated financial assets may still be subject to the collection activities of the Group, taking into account legal advice where appropriate. Income from the collection of previously written off financial assets is recognized in the income statement.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default (PD), loss in the event of default (LGD), ie the amount of loss if default occurs) and exposure to at the time of occurrence of the Exposure at Default (EAD) status. The assessment of the probability of default and loss due to default is based on historical data and the information provided in the previous paragraphs. As for the exposure at the time of default, for financial assets it represents the gross carrying amount of the asset at the reporting date.

To assess PD and LGD parameters, the Group rely on the publications of external investment rating agencies.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows maturing under the contract and all expected cash flows, discounted at the original effective interest rate. If the Group measures the provision for expected credit losses for a financial instrument in the amount of the lifelong ECL in the previous reporting period, but at the current reporting date determines that the conditions for the lifelong ECL are no longer met, the Group measure the loss in the amount of 12- monthly ECL at the current reporting date, except for assets for which simplified access has been used (trade receivables).
Group recognizes a gain or loss in the income statement for all financial instruments with an appropriate adjustment to the carrying amount through the provision for expected credit losses.

Derecognition of financial assets

Group derecognises financial assets only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial assets, all risks and rewards incidental to ownership of the financial assets to another person.

If the Group do not transfer and retain substantially all the risks and rewards of ownership and continue to control the transferred assets, the Group recognize their retained interest in the assets and the related liability for the amounts they may have to pay. If the Group retain any significant risks and rewards of ownership of the transferred financial assets, the Group continue to recognize the financial assets and also recognize the collateral received for the assets received.

In the event of derecognition of a financial asset measured at amortized cost, the difference between the carrying amount and the consideration received and receivable is recognized in the income statement. Furthermore, upon derecognition of an investment in a debt instrument measured by the fair value throught other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss, except for equity instruments for which the fair value throught other comprehensive income option is selected.

2.10 Government grants

State aid is recognized when there is a reasonable assurance that the Group will meet the conditions under which the aid is granted and a reasonable assurance that it will be received. Accordingly, the Group does not recognize the aid until there is sufficient assurance that the Group will meet the conditions required for the aid and that the aid will be received. Upon recognition of State aid, each of the related contingent liabilities and contingent assets is treated in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

State aid is recognized in profit or loss on a systematic basis over the period in which the costs for which the aid is intended are recognized. State aid receivables to compensate for expenses or losses already incurred, or for the purpose of providing current financial support to an entity without future related costs, are recognized in profit or loss in the period in which the receivable is incurred. Grants related to tangible assets are recognized in profit or loss in the periods and in which the depreciation expense of those assets is recognized. In the statement of financial position, the aid is presented as deferred income that is recognized in profit or loss over the useful life of the asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 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.

2.12 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, or net realisable value. The cost is determined using the weighted average method. 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.

2.13 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and expenses from a construction contract are recognized as income and expenses over the term of the contract. The Group applies the stage of completion method to determine the appropriate amount of income and expenses for a particular period. The degree of completion for revenue is measured according to the method of reviewing the work performed.

When the total contract costs are likely to exceed the total contract revenue, the expected loss is recognized immediately as the cost of the provision for expected construction losses.

In determining the costs incurred by the end of the year, any costs related to future activities under the contract are excluded and reported as an ongoing contract. The value of construction work in progress is stated at actual cost. Actual costs include direct and indirect construction costs.

The total incurred costs and gains and losses recognized under each contract are compared with payments by stages of realization until the end of the year. When the incurred costs and recognized gains (less recognized losses) are higher than the payments by stages of realization, the balance is stated as a recoverable amount under contracts, within receivables and advances. When payments by stages of realization are higher than incurred costs plus recognized gains (less recognized losses), the balance is stated as a liability to customers under contracts, within the liabilities for received advances.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only in the amount of contract costs incurred that are expected to be recoverable, and contract costs are recognized when incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 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.

2.15 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.

2.16 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 Group 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.

2.17 Deferred income tax

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

Deferred tax assets are recognised up to the amount of the future taxable profit which is likely to be available for the use of temporary differences.

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 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)

2.18 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.

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

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is more likely that an outflow of resources will be required to settle the obligation, and if the amount of the liability may be estimated with certainty.

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)

2.21 Revenue recognition

Operating income is generated by selling goods and providing services.

Revenue is measured at the fair value of the consideration received or receivable and is reduced by the estimated amounts of refunds from customers, quantity and similar discounts.

Revenue from the provision of services is accounted for in the income statement in accordance with the rules of "IFRS 15 Revenue from Contracts with Customers".

Especially:

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

• If the performance obligation is met over time, the related income is recognized in the income statement to reflect the progress of that obligation.

If the time schedule for realization is not in accordance with the manner in which the obligation to execute has been met, the Group calculate contractual assets or contractual obligations for the part of income generated in that period or for deferral in subsequent periods.

(a) Revenue from construction contracts
The policy for recognizing revenue and expenses from construction contracts is described in the accounting policy in Note 2.13.

(b) Sales of goods
Revenue from the sale of goods is recognized when the Group have transferred control of the goods to customers and are entitled to payment.

For contracts with customers that contain multiple deliveries, the contracted revenue is allocated to each portion, 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 at a quantity discount and customers have the right to return defective goods. Sales revenue is reported based on the price from the sales contract, less estimated quantity discounts and refunds. Estimates of discounts and refunds are determined based on experience gained.

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

(c) Interest income
Interest income is recognized when it is probable that the economic benefits will flow to the Group and the income can be measured reliably. Interest income is accrued on an accrual basis and at the applicable effective interest rate, which is the rate at which estimated future cash flows are discounted over the expected life of the financial asset to its net carrying amount determined on initial recognition.

(d) Dividend income

Dividend income is recognized when the shareholders' right to receive the dividend is voted on, provided that the inflow of economic benefits to the Group is probable and that the income can be measured reliably.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Dividend distributions

Dividend distributions to the Group'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.

2.23 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.

2.24 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, Brodograđevna industrija Split 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 the 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 Brodograđevna indrustrija Split Group regarding ownership and the treatment of maritime domain (the territory which boarders with the sea) which is currently owned by the Croatian government. Buildings located on the land represent maritime domain as well.

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

2.24 Maritime domain and concession (continued)

Concession payment

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

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

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

The concession fee portions are paid as described below:

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

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

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

Concession untransferability

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

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

Changes to the maritime domain concession agreement

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

Concession payment

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

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

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

The concession fee portions are paid as described below:

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

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

The *Decree on Amendments to the Regulation on the Procedure of Granting a Concession on a Naval Land* (Official Gazette No. 10/17) of 10/02/2017 defines the calculation of a variable part of the fee in the amount of 1% of the annual income, with the revenue being considered as the portion of the revenue that covers the positions of the Concessionaire's Profit and Loss Account as follows: staff costs, amortization and profit for the period. If the operating result of the period is a loss, the basis for calculating the concession fee is calculated only by adding staff costs and amortization positions.The change in the concession calculation is applied from 11 February 2017.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Leases

Policy valid from January 1, 2019

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

i. Group as lessor - finance lease

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

ii. Group as lessor - operating lease

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

iii. Group as lessee - operating lease

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

Assets with the right of use

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

Lease obligations

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Leases (continued)

Policy applicable before January 1, 2019

Leases are initially classified as finance leases or operating leases.

i. Group as lessor - finance lease

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

ii. Group as landlord - operating lease

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

iii. Group as lessee - operating lease

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

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial instruments per categories

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

(in thousands of HRK)	2019	2018
Financial assets		
Trade receivables	128,133	102,003
Given loans and deposits (ii)	10,945	10,719
Cash and cash equivalents	20,603	6,747
Other receivables*	672,323	944,028
	832,004	**1,063,497**
**Other receivables relate to:*		
Overedue revenue collection (i)	607,461	919,052
Given prepayments	16,381	22,791
Other receivales	48,481	2,185
	672,323	**944,028**

(i) Overdue revenue collection refers to amounts invoiced for work performed that the customer has not yet paid for under the construction contract and which are disclosed in the consolidated statement of financial position as part of trade receivables and other receivables.

(ii) Loans and deposits granted include short-term and long-term receivables.

Financial assets do not include tax receivables.

(in thousands of HRK)	2019	2018
Loan liabilities	496,404	291,756
Trade liabilities	130,571	95,336
Trade liabilities – related parties	20,792	134,920
Other liabilities*	575,719	450,779
	1,223,486	**972,791**
**Other liabilities related to:*		
Received prepayments	489,527	425,997
Liabilities to employees	10,249	11,071
Accrued expenses	14,625	5,507
Other liabilities	61,318	8,204
	575,719	**450,779**

NOTE 3 - FINANCIAL INSTRUMENTS PER CATEGORIES (continued)

3.2 Financial risk factors

Through its business, the Group is exposed to the following risks:

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

Capital risk management

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

Financial risks include 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 default of contracting parties, which will result in a financial loss for the Group. The Group has adopted the policy in which it conducts business exclusively with creditworthy contracting parties, ensuring collateral as a means to minimize the risk of financial loss due to the unfulfillment of contract agreements. The Group's exposure and credit position of contracting parties is constantly monitored and the total amount of completed transactions is distributed between approved contracting parties.

Contracting the construction of a ship with customers of unknown or with lack of creditworthiness, estimated by the Group, will be secured with so-called Payment guarantees from first class banks. In line with the Group 's policy, 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 risk

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

Currency risk

Due to the currency structure of assets and their sources as well as the currency structure of future economic flows, the Group is exposed to a substantial risk of exchange rate fluctuations. In order to reduce this risk, the Group is attempting to establish a balance between currency inflows and outflows, and has recently started to contract sales prices for new-builds in a currency cocktail (USD and EUR). 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 in case of contracted prices for raw materials pegged to foreign currencies. The currencies most exposed to this risk are EUR, NOK and USD. The Company is currently not protected against this risk.

The Group plans to implement more active and better policies for eliminating currency risk. The Group'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 presents the carrying amounts of monetary assets and monetary liabilities denominated in foreign currencies as at the reporting date.

(in thousands of HRK)	Liabilities		Asset	
	2019	2018	2019	2018
EUR	1,109,911	867,789	100,364	65,815
NOK	3,819	6,096	-	-
USD	3,689	1,661	4,922	4,085
GBP	84	339	315	295
PLN	-	-	0	696
SEK	-	-	-	-
Other currency	320	163	0	73

As at 31 December 2019, if the EUR had weakened / strengthened by 1.00% against the HRK, with all other variables held constant, the loss for the reporting period would have been 1,012 thousand HRK lower / (higher), mainly as a result foreign exchange gains / (losses) on foreign exchange differences arising from the translation of receivables, payables, borrowings and foreign cash funds denominated 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 and its operations are exposed to a significant price increase not only for ferrous metallurgy, but also for 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 its liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowed funds, continuously monitoring expected and actual cash flows, and by comparing maturity profiles 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.

The tables below show the contractual maturities of financial liabilities and financial assets of the Group as reported in the statement of financial position at the end of each reporting period. Calculations are based on undiscounted cash flows up to their maturity and include cash flows from principal and interest.

Liabilities

At 31 December 2019	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 year	2-5 year	Over 5 years
				(in thousands of HRK)		
Non-interest bearing liabilities						
Trade payables	151,363	151,363	151,363	-	-	-
Other liabilities	100,661	100,661	100,661	-	-	-
	252,024	**252,024**	**252,024**	-	-	-
Interest-bearing liabilities						
Loan liabilities	496,404	560,121	172,088	388,033	-	-
Other long-term liabilities	475,058	592,038	35,484	69,779	196,018	290,757
	971,462	**1,152,159**	**207,572**	**457,812**	**196,018**	**290,757**
	1,223,486	**1,404,183**	**459,596**	**457,812**	**196,018**	**290,757**

Interest-bearing liabilities do not include provisions for provisions, nor deferred tax liability.

The weighted average interest rate is 6.55%. If the interest rate were to increase by 1%, the liabilities would be HRK 32 million higher.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

At 31 December 2018	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 year	2-5 year	Over 5 years
					(u tisućama kuna)	
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						
Loan liabilities	291,756	302,486	302,486	-	-	-
Other long-term 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**

The average weighted interest rate amounts to 4.35%.

Assets

At 31 December 2019	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			(in thousands of HRK)			
Non-interest-bearing assets						
Trade receivables	128,133	128,133	128,133	-	-	-
Other receivables	672,323	672,323	672,323	-	-	-
	800,456	**800,456**	**800,456**	**-**	**-**	**-**
Interest-bearing assets						
Given loans and deposits	10,945	10,950	5,481	1,538	3,127	804
Cash and cash equivalents	20,603	20,624	20,624	-	-	-
	31,548	**31,574**	**26,105**	**1,538**	**3,127**	**804**
	832,004	**832,030**	**826,561**	**1,538**	**3,127**	**804**

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

The weighted average interest rate is 0.8% on cash and cash equivalents.

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

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 assets						
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**

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

Regulatory risk

Considering the Croatian accession to the European Union, the Group is significantly exposed to regulatory risk, which is for the most part realized in changes in the legislative sphere of state aid. Namely, since the Group 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 Group 's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group 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.

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

(in thousands of HRK)	2019	2018
Debt (short-term credit)	(496,404)	(291,756)
Cash and cash equivalents	20,603	6,747
Net debt	(475,801)	(285,009)
Equity	1,037,517	1,050,814
Debt to equity ratio	46%	27%

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

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's assets per fair value level at 31 December 2018 and 31 December 2019:

(in HRK thousand)	Level 1	Level 2	Level 3	Total
31 December 2018				
Property, plant and equipment	-	-	1,298,125	1,298,125
Intangible assets	-	-	28,672	28,672
Investment property	-	-	3,536	3,536
Listed companies	248	-	-	248
Unlisted companies	-	179	-	179
Total	**248**	**179**	**1,330,333**	**1,330,760**

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 as reference to the contract costs incurred up to the balance sheet date as a percentage of the 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 Group's management 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 2017 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 the Management Board's best estimate of probable losses after consultation with legal counsel.

(g) Warranties

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.

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(h) Onerous contracts

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

(i) Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them; and the grants will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. 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)	2019	2018
Revenue from shipbuilding	422,301	490,453
Revenu from non-shipbuilding industry	222,183	122,506
Revenue from services	51,819	46,131
Other sales revenue	47,057	16,070
	743,360	**675,161**

Revenue from shipbuilding and revenue from off shore and steel construction are calculated in accordance with IFRS 15 - "Revenue from Contracts with Customers", whereas the percentage of completion is calculated using the 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".

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 6 - OTHER OPERATING INCOME

(in thousand of HRK)	2019	2018
Income from sale of tangible assets	78,871	8,944
Income from additional rebates from suppliers	33,817	-
Proceeds from out-of-court settlements	32,585	-
Income from liabilities write-off	28,952	113
Reversal of provisions for court cases	3,213	-
Income from collected written-off receivables	1,600	-
Inventory surplus	806	1,452
Reversal of other provisions	658	3,308
Reversal of warranty provisions	412	-
Income from charged penalties	83	-
Income from liabilities write-off	36	25
Other	5,218	2,845
	186,251	**16,687**

NOTE 7 - MATERIAL EXPENSES

(in thousands of HRK)	2019	2018
Raw material and supplies	181,842	180,561
Energy	5,769	7,844
Small inventory, spare parts and tires	4.684	3,330
Cost of raw materials and supplies	**192,295**	**191,735**
External cooperation and other production services	200,333	126,675
Management services	16,743	23,874
Repairs and maintenance	4,297	2,897
Security services	1,219	1,270
Transport	5,255	766
Other external costs	53,098	14,157
Cost of services	**280,945**	**169,639**
Total material costs	**473,240**	**361,374**

The costs of external cooperation and other production services relate to external and internal cooperation services from the initial stage of construction to the launching of the ship which are not capitalized in accordance with the guidelines of IAS 16.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 8 - EMPLOYEE COSTS

(in thousands of HRK)	2019	2018
Net wages	116,511	123,677
Taxes and contributions from and on salaries	41,483	43,488
Contributions on salaries	28,079	32,521
	186,073	**199,686**

Taxes and contribution from and on salaries include contributions paid into obligatory pension funds in the amount of 31,968 thousand HRK (in 2018: 33,336 thousand HRK). Contributions are calculated as a percentage of gross salaries. As at 31 December 2019 the Group had 1,780 employees (31 December 2018: 1,917 employees).

NOTE 9 - DEPRECIATION

(in thousands of HRK)	2019	2018
Tangible assets (note 15)	27,161	36,029
Intangible assets (note 14)	1,261	1,532
Right of use asset (note 15a)	497	-
Investment property (note 16)	171	171
Capitalised to assets in construction	(20)	(66)
	29,070	**37,666**

NOTE 10 - OTHER OPERATING EXPENSES

(in thousands of HRK)	2019	2018
Loss from contract termination	54,435	-
Other employee costs	31,641	26,461
Bank fees and charges	14,048	3,340
Intellectual services	13,696	6,292
Contract of works	10,812	9,415
Sale of tangible assets	10,208	-
Business trips	8,789	5,677
Insurance cost	4,727	5,052
Fines and penalties	2,293	2,286
Concession	1,697	2,614
Utility charges	1,166	1,805
Value adjustment of trade receivables	358	3,896
Provisions for severance pay and unused vacation	302	-
Representation	256	278
Severance pay	54	637
Provisions for court cases	-	2,096
Provision for contracted losses	-	658
Provisions for warranty work	-	119
Other	10,113	10,462
	164,595	**81,088**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 11 - FINANCIAL INCOME

(in thousands of HRK)	2019	2018
Foreign exchange income	10,216	12,904
Income from unwinding of discount	338	494
Interest income	60	71
Other financial income	1	4
	10,615	**13,473**

NOTE 12 - FINANCIAL EXPENSES

(in thousands of HRK)	2019	2018
Interest cost	58,998	17,553
Foreign exchange losses	13,668	7,474
Other financial expense	1,471	-
	74,137	**25,027**

NOTE 13 – INCOME TAX

Income tax expense consists of:

(in thousands of HRK)	2019	2018
Current tax	89	172
Deferred income tax	(5,512)	(3,748)
Income tax (benefit)	**(5,423)**	**(3,576)**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 13 - INCOME TAX (continued)

(in thousands of HRK)	2019	2018
Profit before taxation	**42,759**	**20,598**
Income tax at tax rate of 18%	13,971	8,007
Effect of non-deductible expenses	139	156
Effect of non-taxable income	(9,592)	(245)
Effect of previously non-deductible tax loss	(1,251)	(13)
The effect of tax incentives	(196)	(45)
Net temporary differences for which deferred tax assets are not recognized	76	-
Net temporary differences for which deferred tax assets are recognized	594	421
The effect of tax losses for which no deferred tax assets are recognized	(9,164)	(11,856)
The effect of used tax losses for which no deferred tax assets were recognized		
Income tax benefit	**(5,423)**	**(3,576)**

According to the legal criteria, some companies in the Brodosplit group belong to the category that taxes profits at a rate of 12%, and others at a rate of 18%.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 13 - INCOME TAX (continued)

Tax losses carried forward

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

(in thousands of HRK)	2019
Tax loss from year 2015 - expires on 31 December 2020	250
Tax loss from year 2016 - expires on 31 December 2021	15
Tax loss from year 2017 - expires on 31 December 2022	653
Tax loss from year 2018 - expires on 31 December 2023	32
Tax loss from year 2019 - expires on 31 December 2024	583
Total tax losses	**1.533**

Due to the historical uncertainty of taxable profit and the amount of future taxable profit, the Group did not recognize deferred tax assets.

In accordance with the regulations in force in the Republic of Croatia, the Tax Administration may at any time inspect the books and records of the Company and its subsidiaries operating in Croatia for a period of 3 years after the end of the year in which the tax liability is stated.

Deferred tax liability

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

Movement in deferred tax liability

(in thousands of HRK)	01 January 2019	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2019
Property, plant and equipment	31,479	(16,777)	(1,359)	13,343
Intangible assets	15	3,906	(3,942)	(21)
Investment property	769	-	(134)	635
	32,263	**(12,871)**	**(5,435)**	**13,957**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 14 - INTANGIBLE ASSETS

(in thousands of HRK)	Software	Projects documentation	Assets under construction	Total
Cost or valuation				
As at 1/1/2018	**11,592**	-	**5,089**	**16,681**
Purchases	-	-	475	475
Intangible assets under construction	250	-	(250)	-
As at 31/12/2018	**11,842**	**-**	**5,314**	**17,156**
As at 01/01/2019	**11,842**	**-**	**5,314**	**17,156**
Purchases	79	2,296	599	**2,974**
Revaluation	(22)	21,723	-	**21,701**
Transfer	511	-	(511)	-
Sale	(65)	(230)	-	**(295)**
As at 31/12/2019	**12,345**	**23,789**	**5,402**	**41,536**
Accumulated depreciation				
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**
As at 01/01/2019	**2,994**	-	-	**2,994**
Charge for the year	1,031	230	-	**1,261**
Sale	(2)	(230)	-	**(232)**
From the previous period (retained earnings)	-	1,148	-	**1,148**
As at 31/12/2019	**4,023**	**1,148**	-	**5,171**
Net carrying amount				
As at 01/01/2018	**10,130**	**-**	**5,089**	**15,219**
As at 31/12/2018	**8,848**	**-**	**5,314**	**14,162**
As at 01/01/2019	**8,848**	**-**	**5,314**	**14,162**
As at 31/12/2019	**8,322**	**22,641**	**5,402**	**36,365**

Intangible asset under construction relate to software.

Notes to the consolidated Financial Statements (continued)

for the year ended 31 December 2019

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Investment property	Plant and equipment	Tools, furniture and vehicles	Ships	Other equipment	Assets under construction	Total
Purchase cost or valuation									
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)	-
Sold and disposed assets	-	-	-	(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
As at 01/01/2019	248	20,979	124,701	227,323	238,367	186,841	447	235,546	1,034,452
Purchases	-	15		552	1,112	25,413	67	59,683	86,842
Transfer	-	-	-	131	138	47,336	31	(47,636)	-
Transfer from inventory	-	-	-	-	-	-	-	511,376	511,376
Transfer to assets held for sale (Note 20)	-	-	-	(5,924)	(16,356)	-	-	-	(22,280)
Reduction of revaluation	-	(13)	-	(36,924)	(56,273)	-	-	-	(93,210)
Sold and disposed assets	-	(8)	-	(42,238)	(4,357)	(16,208)	-	-	(62,811)
As at 31/12/2019	248	20,973	124,701	142,920	162,631	243,382	545	758,969	1,454,369
Accumulated depreciation and value adjustment									
As at 01/01/2018	-	1,092	14,201	61,766	57,668	6,418	-	-	141,145
Charge for the year	-	298	7,599	11,797	15,709	626	-	-	36,029
Sold	-	-	-	-	(44)	-	-	-	(44)
As at 31/12/2018	-	1,390	21,800	73,563	73,333	7,044	-	-	177,130
As at 01/01/2019	-	1,390	21,800	73,563	73,333	7,044	-	-	177,130
Charge for the year	-	307	7,717	6,271	6,109	6,757	-	-	27,161
Sold and disposed assets	-	-	-	(437)	(350)	(5,836)	-	-	(6,623)
As at 31/12/2018	-	1,697	29,517	79,397	79,092	7,965	-	-	197,668
Net carrying amount									
As at 31/12/2018	248	19,589	102,901	153,760	165,034	179,797	447	235,546	857,322
As at 31/12/2019	248	19,276	95,184	63,523	83,539	235,417	545	758,969	1,256,701

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment pledged were sold to Div Grupa d.o.o. Pledge on 31 December 2018 based on co-debt on loans of the parent company amounted to HRK 508,664 thousand.

Right of use assets

(in thousands HRK)	Right of use assets
1 January 2019	-
Increase	11,945
Depreciation	(497)
31 December 2019	**11.448**

NOTE 16 - INVESTMENT PROPERTY

(in thousands of HRK)	Investment property
Cost or valuation	
As at 01/01/2018	5,174
	-
As at 31/12/2018	5,174
As at 01/01/2019	5,174
Sale	(592)
As at 31/12/2019	4,582
Accumulated depreciation	
As at 01/01/2018	728
Charge for the year	171
As at 31/12/2018	899
As at 01/01/2019	899
Charge for the year	171
Sale	(24)
As at 31/12/2019	1,046
Net carrying amount	
As at 01/01/2018	4,446
As at 31/12/2018	4,275
As at 01/01/2019	4,275
As at 31/12/2019	3,536

NOTE 17 – NON-CURRENT INVESTMENTS

(in thousands of HRK)	2019	2018
Financial assets available for sale	427	394
	427	**394**

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

(in thousands HRK)	Finacial assets available for sale
1 January 2019	394
Change in fair value	33
Value adjustment	-
31 December 2019	**427**

The increase in the fair value of available-for-sale financial assets as well as the value adjustment is recognized in other comprehensive income.

NOTE 18 – INVESTMENT IN JOINT VENTURE

(in thousands HRK)	2019	2018
At the begining ogf the year	14,996	14,383
Additional investment	954	694
Share in loss	(96)	(81)
At the end of the year	**15,854**	**14,996**

The group in the company Kamen-Dent d.o.o., Bosnia and Herzegovina has a 50% stake.

The financial information of joint ventures can be summarized as follows:

(in thousands HRK)	Assets	Liabilities	Revenue	Net loss
Kamen-dent d.o.o.	16,955	(309)	249	192

According to the concluded agreement on the regulation of mutual rights and obligations between members and holders of business shares of the company Kamen-Dent d.o.o., Brodosplit Holding d.o.o. paid to the account of Kamen Dent d.o.o. in 2014. HRK 15,267 thousand of additional activities classified as capital reserves in the said company.

NOTE 19 - NON-CURRENT RECEIVABLES

(in thousands of HRK)	2019	2018
Loans receivables from employees (i)	3,813	5,393
Deposits (ii)	1,610	1,592
	5,423	**6,985**

(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 1-2 years. During the year, the effective interest rates were between 0.05% and 0.1%.

NOTE 20 - INVENTORIES

(in thousands of HRK)	2019	2018
Raw materials and supplies	143,826	129,126
Current production	3,425	4,292
Advances for inventories	27,944	22,953
Trade goods	2,411	3,495
Final products	285	285
Assets held for sale	22,280	-
	200,171	**160,151**

The change in the value of inventories represents the change in the value of production in progress and the change in the value of finished products realized in one year by comparing the opening and closing balance of these balance sheet items.

20a Changes in the value of work in progress and finished goods inventories

(in thousands HRK	2019	2018
Price of internal ships	31,263	13,751
Difference between internal revenue and cost	645	9,163
Change in value of production in progress	(867)	764
Total	**31,041**	**23,678**

During 2019, the Group capitalized on internally incurred costs incurred during the construction of ships, which are included in certain cost categories (cost price of internal ships), given that their own professional resources were used. Also, at the Group level, unrealized gains were made by capitalizing sold inventories between companies within the group (difference in internal revenues and expenses), which was eliminated in intercompany relations in accordance with the principles of preparation of consolidation reports.

NOTE 21 - CURRENT TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	2019	2019
Receivables from related parties	88,826	50,662
Trade receivables - unrelated companies	58,066	69,233
Decreased by: impairment of trade receivables	(18,759)	(17,892)
Trade receivables - net	128,133	102,003
Overdue revenue collection (ii)	607,461	919,052
Receivables from the state	22,851	17,979
Other receivables form related parties	22,627	-
Given advances to related parties	16,381	22,791
Deposits	3,127	611
Loans receivables from employees	1,693	1,967
Given loans	700	-
Receivables from employees	191	395
Overpaid income tax	74	151
Given loans to related parties (i)	2	1,156
Prepaid expenses	-	497
Other receivables	25,589	899
	828.829	**1,067,501**

(i) Loans to related parties have been issued with a 3.96% interest (in 2018: loans to related parties were issued with a 4.55% interest).

(ii) Overdue revenue collection relates to realized revenues under IFRS 15 under the Construction Contract that have not been collected.

NOTE 21 - CURRENT TRADE AND OTHER RECEIVABLES (continued)

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

(in thousands of HRK)	2019	2018
Balance at 1 January	17,892	14,109
Collected (note 6)	(36)	(25)
Written-off	(1,561)	(88)
Increase (note 10)	425	3,896
Increase (from previous period)	2,039	-
Balance at 31 December	**18,759**	**17,892**

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

(in thousands of HRK)	2019	2018
0-90 days	86,270	26,724
91-180 days	4	5,845
Over 181 days	33,224	58,484
Balance at 31 December	**119,498**	**91,053**

NOTE 22 - CASH AND CASH EQUIVALENTS

(in thousands of HRK)	2019	2018
Cash at bank	19,736	6,261
Cash in hand	867	486
	20,603	**6,747**

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

NOTE 23 - WORK IN PROGRESS

(in thousands of HRK)	Note	2019	2018
Contractual costs incurred up to reporting date		858,914	1,289,758
Recognised gains up to the reporting date		124,775	49,819
		983,689	1,339,577
Less: invoicing in progress and advances received		(386,834)	(421,375)
Receivables from the customers for the contracted work		**596,855**	**918,202**
Reclassified to accrued revenue	21	607,461	919,052
Reclassified to advances received from supplier		(10,606)	(850)

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 525,466,140 HRK by the amount of 10,000,080 HRK by a cash contribution of shareholder DIV BRODOGRADNJA d.o.o., Samobor, Bobovica 10/A, registration number (MBS): 080812968, PIN (OIB): 44993645694, by issuing 166,668 new shares as per series VII, with exclusion of purchase rights of other shareholders. After the relevant increase, share capital amounts to 535,466,220.00 HRK and is divided into 8,924,437 regular shares, each of nominal value of 60.00 HRK.

As at 31 December 2019 the shareholder structure is as follows:

	Number of shares	Share
Shareholder	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 2017 amounts to HRK 26,773 thousand (2016: 26,773 thousand HRK). Legal reserves are not distributable.

iii) Revaluation reserves

(in thousands of HRK)	Revaluation of assets	Fair value of assets available for sale	Other	Total
At 1 January 2019	184,262	62	1,781	186,105
Revaluation - gross	(49,807)	-	-	(49,807)
Revaluation - tax effect	8,984	-	-	8,984
Depreciation transfer to retained earnings - gross	(8,053)	-	-	(8,053)
Depreciation transfer to retained earnings - tax effect	1,419	-	-	1,419
Transfer to retained earnings - gross for assets sold and disbursed	(22,310)	-	-	(22,310)
Transfer to retained earnings - tax effect for assets sold and disbursed	4,016	-	-	4,016
Change in the fair value of available-for-sale assets	-	33	-	33
31 December 2019	**118,511**	**95**	**1,781**	**120,387**

NOTE 24 - SHARE CAPITAL AND RESERVES (continued)

iv) **Other reserves** - refer to other reserves based on capital from tax exemption. In 2016, companies that made a profit reinvested profits in the amount of HRK 6,125 thousand. By merging Brodosplit Holding d.o.o., a 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 court cases. Movement in provision is shown in table below.

(in thousands of HRK)	2019	2018
Balance at 1 January	15,603	13,549
Recognized during period	3,543	6,348
Utilized during period	(5,838)	(2,813)
Released during period	(918)	(1,481)
Balance at 31 December	**12,390**	**15,603**

NOTE 26 – CURRENT PROVISIONS

(in thousands HRK)	Warranty works	Severance	Losses on contracted business	Total
At 1 Januray 2019	412	1,942	658	3,012
Recognized during period	-	-	-	-
Released during period	(412)	(55)	(658)	(1,125)
At 31 December 2019	**0**	**1,887**	**0**	**1,887**

NOTE 27– LOANS AND BORROWINGS

(in thousands of HRK)	2018	2017
Long-term liabilities to banks and other financial institutions		
Long-term liabilities to banks	372,129	-
	372,129	**-**
Short-term loans		
Bank loans (i)	124,275	244,780
Related party advances (ii)	-	46,976
	124,275	**291,756**

NOTE 27– LOANS AND BORROWINGS (continued)

Movement of loans is shown in the table below.

(in thousands of HRK)	Long term bank loans	Short term bank loans	Related party advances
At 1 January 2019	-	244,780	46,976
Increases	372,129	203,543	121,639
Decreases	-	(324,048)	(168,615)
At 31 December 2019	**372,129**	**124,275**	-

Long-term liabilities to banks relate to long-term loans of HBOR to finance the construction of the ship NOV 487 in the amount of EUR 87,883,511.68 with an interest rate of 4.4% per annum (EUR 31,829,795 was used on 31 December 2019) and VTB Bank loan in the amount of EUR 50,000,000. (return deadline 12 April 2021).

The loan repayment for NOV 487 is in 113 monthly annuities (no later than March 1, 2030), of which the first annuity is due one month from the day of handing over the new building to the borrower. As collateral loans given are bills of exchange and debentures of the subsidiary of the loan holder Polaris Exploration Inc, and co-debtors of Brodosplit d.d., loan insurance policy, Guarantee Min. finance of the Republic of Croatia, pledge on new construction which is the subject of financing.
The loan was reclassified as long-term advances under the Bareboat Charter, as the loan is intended to finance the construction of a new 487. During construction, the loan amount is on long-term advances and represents the obligation of the shipbuilder. Upon completion of construction, the advance is no longer the obligation of the shipbuilder because he has fulfilled all his obligations under the contract but the obligation passes to the end customer.
In the event that the end customer does not make the payment, the builder is insured in the form of a loan insurance policy.
Short-term loan of Podravska banka in the amount of HRK 30,000 thousand. Interest rate 4.75% per annum.
Erste Bank's counter-guarantee in the amount of EUR 15,570 thousand. Interest rate 8.30% per annum.

NOTE 28 – OTHER LONG-TERM LIABILITIES

(in thousands HRK)	2019	2018
Liabilities for taxes and contributions	-	9,599
Long-term lease liabilities	9,243	-
Advances received (i)	475,058	424,853
	484,301	**434,452**

(i) In this item, a long-term loan is reclassified to a new 487 from a loan liability item (Note 27).

NOTE 28 - TRADE AND OTHER LIABILITIES

(in thousands of HRK)	2018	2017
Trade payables - unrelated	130,262	95,016
Taxes, contributions and similar duties payable	83,224	51,457
Liabilities towards banks and other financial institutions	27,845	941
Liabilities towards related parties	20,792	134,920
Deferred payment of costs for court proceedings	18,314	-
Accrued expenses	14,624	5,507
Advances received under IFRS 15	10,606	850
Liabilities towards employees	10,249	11,071
Other current liabilities	4,461	294
Advances	3,863	
Liabilities from court decisions	3,403	930
Concession fee liabilities	3,078	326
Long-term lease obligation - short-term part	2,243	-
Liabilities to entities related to the participating interest	309	320
Income tax liability	88	97
	333,357	**304,633**

Advances received relate to advances received from customers for construction contracts (Note "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, if it is under joint 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:

Revenue

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	35,372	12,487
Efficient Powerful Successful d.o.o.	865	-
Debeljak Industrija Vijaka d.o.o., Sarajevo	413	1,734
Kamen dent	135	163
Marine and Energy Solutions DIV d.o.o.	38	18
PTC Krka Knin	10	8
Div učilište	9	9
Total	**36,842**	**14,419**

Other operating income

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	94,058	8,944
Div Brodogradnja d.o.o.	33,750	-
Kamen dent	113	-
Total	**127,921**	**8,944**

NOTE 29 - RELATED PARTY TRANSACTIONS (continued)

Purchased material

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	82,859	36,039
Debeljak Industrija Vijaka d.o.o., Sarajevo	921	1,724
Shanghai Vida	141	387
Total	**83,921**	**38,150**

Cost of goods sold

(in thousands of HRK)	2019	2018
Debeljak Industrija Vijaka d.o.o., Sarajevo	406	296
DIV Grupa d.o.o.	41	65
Marine and Energy Solutions DIV d.o.o.	19	-
PTC Krka Knin	-	4
Total	**466**	**365**

Service cost

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	112,123	71,272
Efficient Powerful Successful d.o.o.	12,449	-
Debeljak Industrija Vijaka d.o.o., Sarajevo	518	1,372
Marine and Energy Solutions DIV d.o.o.	3,320	4,213
Shanghai Vida	356	332
Total	**128,766**	**77,189**

Other operating expense

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	601	41
Efficient Powerful Successful d.o.o.	17	-
Total	**618**	**41**

Purchase of fixed assets

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	1,243	612
Total	**1,243**	**612**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Financial revenue

(in thousands of HRK)	2019	2018
Div Cruises, Inc.	103	-
Shanghai Vida	2	10
DIV SARAJEVO DEBELJAK INDUSTRIJA VIJAKA D.O.O.	1	8
DIV Grupa d.o.o.	-	96
Total	**106**	**114**

Financial expense

(in thousands of HRK)	2019	2018
DIV Grupa d.o.o.	1,727	741
PTC Krka Knin	946	44
DIV SARAJEVO DEBELJAK INDUSTRIJA VIJAKA D.O.O.	3	12
Shanghai Vida	4	3
Div Cruises, Inc.	-	1
Total	**2,680**	**801**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Trade receivables

(in thousands of HRK)	2019	2018
Div Grupa d.o.o.	105,091	72,068
Div Cruises Inc.	91	266
Div učilište	25	14
Debeljak industrija vijaka d.o.o. Sarajevo	-	1,002
Shanghai Vida Industry&Trading Co. ltd	-	97
Proizvodno trgovački centar Krka Knin d.o.o.	-	6
Total	**105,207**	**73,453**

Given loans

(in thousands of HRK)	2019	2018
Div učilište	2	1
Div Cruises Inc.	-	1,155
Total	**2**	**1,156**

Trade payables

(in thousands of HRK)	2019	2018
Proizvodno trgovački centar Krka Knin d.o.o.	14,561	44
Efficient Powerful Successful d.o.o.	5,539	-
Debeljak industrija vijaka d.o.o. Sarajevo	609	584
Shanghai Vida Industry &Trading Co. ltd	83	35
Div Grupa d.o.o.	-	99,386
Div Brodogradnja d.o.o.	-	33,750
Marine and Energy Solutions Div d.o.o.	-	1,121
Total	**20,792**	**134,920**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Loan liabilities

(in thousands of HRK)	2019	2018
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 2019 amounted to 8,909 thousand HRK and related to 33 employees (in 2018: 8,395 thousand HRK and relates to 36 employees).

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 50 million HRK by the dynamics of 20 million HRK in 2013, 20 million HRK in 2014 and 10 million HRK in 2015 (Note Equity)

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 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. According to the opinion of the Management Board and legal advisers, the provision was made for the disputes which will result in loss and in cases when the losses could have been assessed (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 contingent liabilities arising from issued warranties in the amount of 138,145 thousand HRK (in 2017: 108,532 thousand HRK). Warranties are related to advance payments and security for the quality of work performed.

NOTE 32 - SUBSEQUENT EVENTS AFTER THE REPORTING DATE

Loan agreement

Brodosplit d.d., Polaris Exeditions and VTB BANK (EUROPE) SE on 27/05/2020 signed a 32 million EUR loan contract with the possibility of contracting additional 11 million EUR. On 03/06/2020 first two tranches of the loan in the amount of 20 mil EUR were withdraw.

Pandemic of coronavirus COVID-19

The COVID-19 pandemic in the first quarter of 2020 resulted in a decrease in global economic activities, limited circulation of goods and services, and lock-down and self-isolation measures aimed at preventing the spread of the disease, which then altogether affected the Group's normal course of business.

BRODOSPLIT GRUPA consists of cca 40 companies which cover a substantial part of the shipbuilding value chain, ranging from ship design, purchase of material and equipment, hull and equipment production, equipment and system installation, and equipping ships to different types of equipment and ship system tests. BRODOSPLIT places its products and services on domestic and foreign markets. Most ship buyers are cruise lines. The main materials and equipment suppliers are EU member states, China, Turkey and Ukraine.

The contracting party cited in most shipbuilding contracts is BRODOSPLIT d.d., in charge of organising and managing all activities necessary for meeting the shipbuilding contract obligations, which it then subcontracts to other companies in the GROUP or external suppliers or subcontractors. Most of the companies in the GROUP cooperate only with BRODOSPLIT d.d. and any disruption in BRODOSPLIT's operations are reflected immediately in their operations.

The rapid spread of COVID-19 worldwide, especially in China, in the EU, our country and Europe, i.e. our largest supplier markets, as well as global market disturbances and suspended business activity of cruise lines and all of the measures undertaken by all national governments, resulted in supply chain disruptions and significant slow-down in sales activities due to significant losses suffered by our customers.

Since shipbuilding includes many interdependent activities, activity schedules and material supply deadlines are meticulously planned. Now, on account of the disruptions caused by COVID-19, we are not able to obtain necessary shipbuilding materials in a timely manner or at all.

The uncertainty surrounding the future course of the pandemic and the inability to estimate its impact on the global economic situation represents a risk for the future financial position of the Group and its related liquidity risk. However, the Management Board is using the measures and grants of the Croatian government and undertaking business rationalisation activities. Thus, the Management Board believes that the adverse impact of the COVID-19 pandemic will not cast significant doubt on the Group's ability to continue as a going concern.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2019

NOTE 32 - SUBSEQUENT EVENTS AFTER THE REPORTING DATE (continued)

The further development of the COVID-19 virus may result in assumptions and estimates requiring revisions, which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage the Management Board is not able to reliably estimate the impact as events are unfolding day-by-day.

NOTE 33 - APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were adopted by the Management Board and authorized for issue on August 10, 2020.

Signed for and on behalf of the Group:

Tomislav Debeljak
Chairman of the Board

Tomislav Čorak
Member of the Board