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 2020

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 51 subsidiaries (one in bankruptcy), and 23 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 2020 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.

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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

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

Management Report of the Group (*continued*)

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

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

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

On 18 August 2020 Teuta Duletić resigned as a member of the Supervisory Board. On October 5, 2020, 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, Željko Debeljak.

List of members of the Supervisory Board as at 31 December 2020:
1. Zdenko Šoš, Chairman of the Supervisory Board
2. Željko Debeljak, member of the Supervisory Board
3. Darko Pappo, Deputy Chairman of the Supervisory Board
4. Vlado Šoić, member of the Supervisory Board

3. SUPERVISORY AND MANAGEMENT BOARD (continued)

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 Čorak.

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:

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

4. ORGANIZATIONAL STRUCTURE (continued)

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

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

4. ORGANIZATIONAL STRUCTURE (continued)

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.
22. Tropical Cruise Shipping Inc.

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.

Management Report of the Group (*continued*)

5. HUMAN RESOURCES

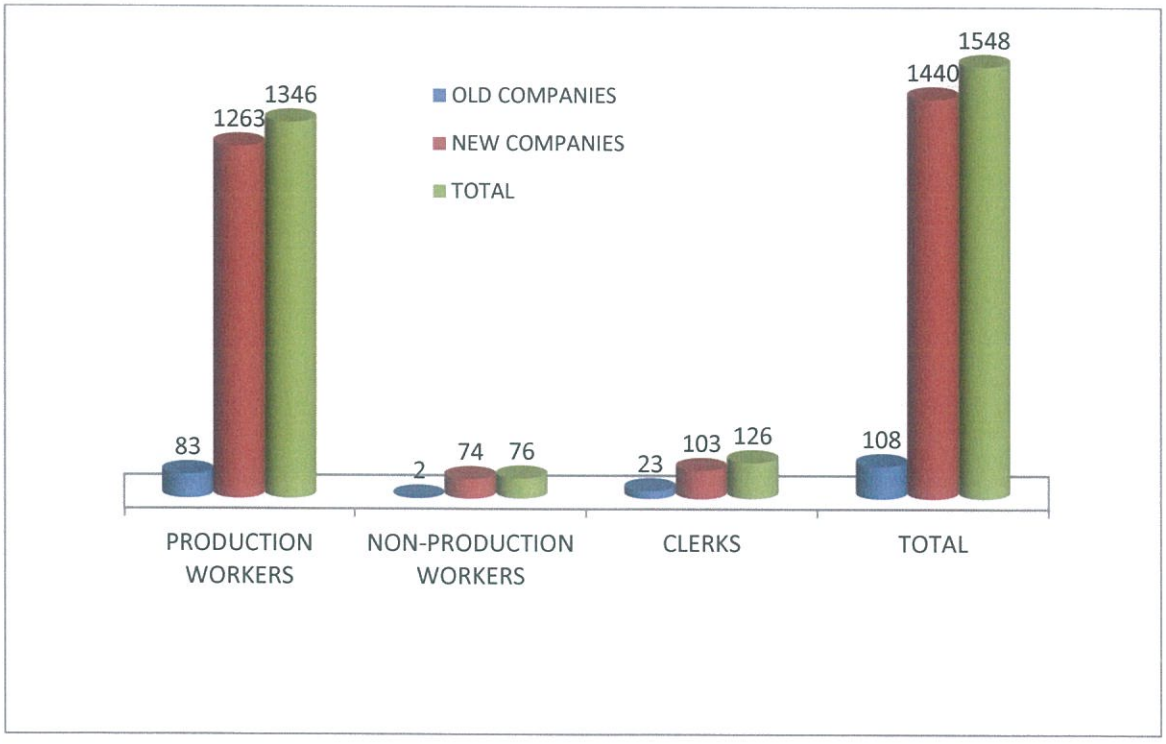
As at 31 December 2020, Brodosplit d.d. employs 1.548 workers. Of that, 108 employees are employed in the so-called "Old" companies (7%), and 1.440 employees in "new" companies. 130 employees have new contracts in the "old" companies, and the notice period is for another 4. There are 20 workers in protected 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 2020	Production workers		Non-production workers		Clerk		TOTAL	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
OLD COMPANIES BRODOSPLIT	83	5,36%	2	0,13%	23	1,49%	**108**	**6,98%**
NEW COMPANIES BRODOSPLITA	1.263	81,59%	74	4,78%	103	6,65%	**1.440**	**93,02%**
TOTAL	**1.346**	**87,0%**	**83**	**4,91%**	**126**	**8,14%**	**1.548**	**100,0%**

Number of employees in Group on 31 december 2020.



Management Report of the Group (*continued*)

5. HUMAN RESOURCES (continued)

Graph: Share of employee types in old and new companies

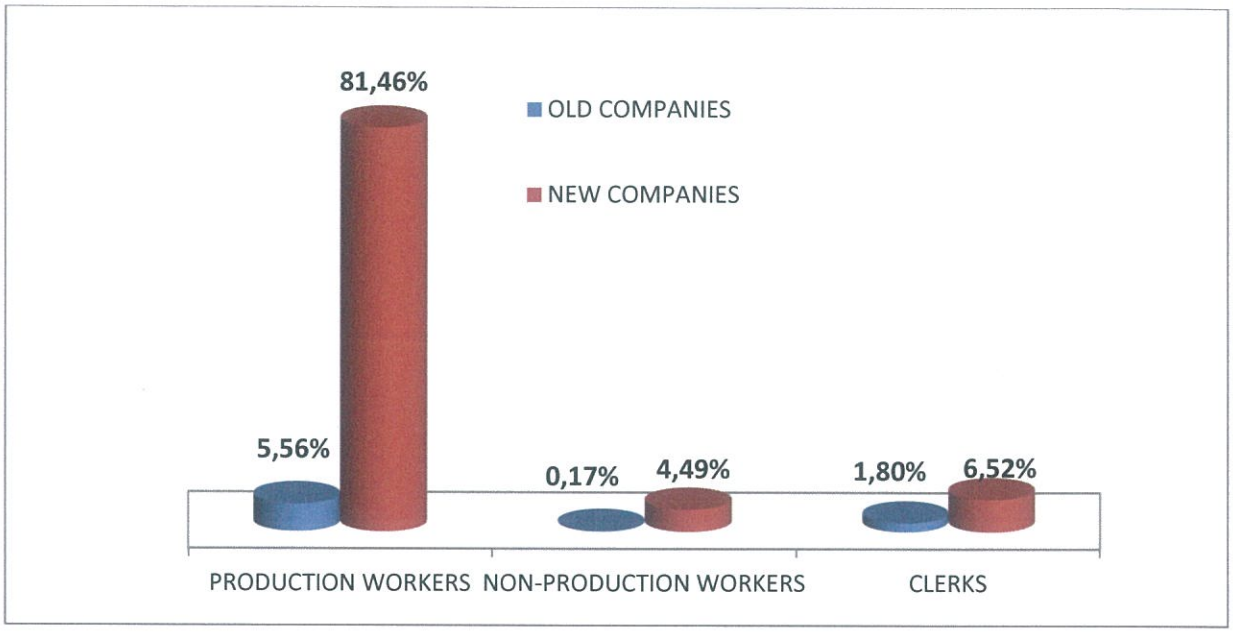


Table: overview of the movement of the number of employees

	new				resigned					
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	13	-	-	**13**	24	-	-	**24**	**-11**	1.769
02	9	-	-	**9**	23	-	-	**23**	**-14**	1.755
03	8	-	1	**9**	24	2	3	**29**	**-20**	1.735
04	-	-	-		23	-	-	**23**	**-23**	1.712
05	2	-	-	**2**	12	-	4	**16**	**-14**	1.698
06	3	-	-	**3**	16	-	1	**17**	**-14**	1.684
07	7	-	1	**8**	19	2	-	**21**	**-13**	1.671
08	4	-	-	**4**	25	-	1	**26**	**-22**	1.649
09	1	-	-	**1**	29	1	6	**36**	**-35**	1.614
10	7	-	1	**8**	45	-	10	**55**	**-47**	1.567
11	5	-	-	**5**	11	3	-	**14**	**-9**	1.558
12	2	-	-	**2**	12	-	-	**12**	**-10**	1.548
Total	**61**	-	**3**	**64**	**262**	**8**	**25**	**295**	**-232**	

Management Report of the Group (*continued*)

6. ACTUAL PRODUCTION CAPACITY

The following table states the realization of the production capacity of the main stages of building ships for the period from 2012 to 2019.

DESCRIPTION	Realized								
	2012	2013	2014	2015	2016	2017	2018	2019	2020
SHIPBUILDING									
Start of CM processing – pc	2	1	2	5	0	3	2	2	4
Keel laying – pc	2	0	1	6	0	4	2	1	5
Launching – pc	1	1	2	1	0	6	1	0	1
Handover – pc	1	0	1	1	1	4	1	3	3

During 2020, due to the impact of the COVID-19 virus pandemic on the entire shipbuilding market, there were no deliveries of new constructions in the Brodosplit Group, however, 3 deliveries of equipped "Grand Blocks" for mega cruisers for the Fincantieri shipyard were made.

In the next 2021, 5 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; modifications Nov. 814 - the largest passenger 5-mast sailboat in the world, 162 m long, with a capacity of 340 passengers and Nov. 541/542 - two ships from the series of Coast Guard Boats 43.50 m for the needs of the Croatian Coast Guard within the Ministry of Defense of the Republic of Croatia.

Cooperation with the renowned Italian shipyard Fincantieri on the construction of equipped "Grand Blocks" for mega cruisers is currently at a standstill due to the poor state of the mega cruiser market due to the impact of the COVID-19 virus pandemic. With the recovery of the market, we expect the continuation of this long-term cooperation.

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. years.

During 2019 and 2020, we participated in several international tenders, and in 2021 we are expected to contract several projects from the non-shipbuilding niche.

Management Report of the Group (*continued*)

7. FINANCIAL OPERATIONS

The achieved business result of the Brodosplit Group for 2020 shows a total comprehensive profit in the amount of HRK 87 million, while in 2019 a profit in the amount of HRK 66 million was realized.

In 2020, the Brodosplit Group generated operating profit in the amount of HRK 98.43 million (2019: HRK 106.39 million). The Group also made a loss from financial activities in 2020 in the amount of HRK 23.37 million (2019: HRK 63.5 million). On 31.12.2020. The capital of the Brodosplit Group amounts to HRK 1.122 million (31 December 2019: HRK 1,038 million).

The COVID-19 pandemic that occurred in 2020 resulted in a reduction in global economic activity, as well as restrictions on trade in goods and services and isolation and quarantine measures to prevent the spread of infection, all of which affected the normal course of the Company's operations.

BRODOSPLIT GROUP consists of about forty companies that are individually specialized in certain jobs and thus cover a large part of the value chain in shipbuilding, starting from ship design, procurement of materials and equipment, production of hull and equipment, installation of equipment and systems, ship equipment, and various types of testing of ship equipment and systems. BRODOSPLIT places its products and services on the domestic market and on the world market. Most boat buyers are companies engaged in the provision of cruise services. The main suppliers of materials and equipment are EU members, China, Turkey and Ukraine.

The holder of most shipbuilding contracts is BRODOSPLIT d.d. who organizes and leads the performance of all necessary activities for the execution of obligations under the shipbuilding contract, and which is then subcontracted with other companies of the GROUP or with external suppliers and subcontractors. Most of the other companies of the GROUP work only with BRODOSPLIT d.d. and any disturbances in the business of BRODOSPLIT are immediately reflected in their business.

The sudden spread of coronavirus infection worldwide, but also global disruptions and shutdowns in the field of cruises, and all measures taken by the governments of all countries have led to major disruptions in supply chains, and a significant slowdown in sales as a result of large losses suffered by our customers.

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

	2020	2019
Current assets	1,418,426	1,049,603
Current liabilities	1,213,268	459,519
Current ratio	**1.17**	**2.28**
Cash + receivables	1,199,436	849,432
Current liabilities	1,213,268	459,519
Quick ratio	**0.99**	**1.85**
Total liabilities	1,897,928	1,342,296
Total assets	3,020,376	2,379,813
Gearing ratio	**0.63**	**0.56**
Total revenue	765,714	940,227
Total assets	3,020,376	2,379,813
Turnover ratio of total assets	**0.25**	**0.40**
Sales	724,954	743,360
Trade receivables and accrued revenues	1.117.219	735.594
Turnover ratio of receivables	**0.65**	**1.01**

7. FINANCIAL OPERATIONS (continued)

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)	**2020**	**2019**
Debt (short-term credit)	(606.987)	(496.404)
Cash and cash equivalents	26.140	20.603
Net debt	(580.847)	(475.801)
Equity	1.122.448	1.037.517
Debt to equity ratio	52%	46%

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.

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**	
	2020	**2019**	**2020**	**2019**
EUR	1,557,165	1,109,911	60,971	100
NOK	3,580	4	-	-
USD	4,821	4	3,708	5
GBP	754	84	-	315
SEK	24	-	-	-
Other currencies	314	320	-	-

As at 31 December 2020, 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 1,502 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.

During 2019, Brodograđevna industrija Split joint stock company announced 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 a reinforced hull for navigation on ice - polar code PC 6 "** for the use of state aid according to the Law on State Aid for Research and Development Projects. The development of this type of innovative passenger ship with low fossil fuel consumption during ship navigation, thanks to the synergy of a functional sailing system and low ship resistance, will enable the shipyard to strengthen its competitiveness in the demanding passenger ship market.

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.

9. RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

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 she focused research in one of the thematic and sub-thematic priority areas of the Smart Strategy specializations of the Republic of Croatia for the period from 2016 to 2020 (S3) in collaboration with several research organizations. In 9.2020, the DIV Group signed an agreement on the implementation of the Competence Center project and started the implementation of a project that will address the challenges in the field of Transport and Mobility, applying the latest technological advances in the development of new products.

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.

Shipbuilding Industry Split Joint Stock Company 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.

BRODOGRAĐEVNI INSTITUT d.o.o.

Brodograđevna industrija d.d .. On July 3, 2020, Brodograđevni institut d.o.o. was established in response to the growing challenges posed by the global market oriented to the maritime and technological sector, all with the aim of strengthening scientific research capacities and introducing new technologies and improving production processes.

Scientific research and development activities, along with other activities related to the introduction of innovations in economic entities, are necessary for each economy to become more competitive through increasing productivity of economic entities, accessing new markets with higher added value and achieving sustainable employment in fierce global competition.

The current needs and potential assessment indicates that the main obstacle to increasing private investment in scientific research and development is the low level of innovation capacity of companies and potential for scientific research and development, and limited interest in cooperation between economic entities and scientific research organizations. In this segment, the Institute can be a link that will direct education (outside the established and rigid mechanisms of institutionalized education) on new achievements in production (processing and processing technologies, work organization, etc.) from the professional-scientific sphere to business entities and their employees in production sector.

The general goal of establishing the Shipbuilding Institute d.o.o. is to increase the quantitative and qualitative contribution to scientific research through:

- improvement of research infrastructure;
- intensifying cooperation with other scientific research institutions in the country and abroad in order to transfer knowledge and technology;

9. RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

- intensification of cooperation with economic entities in the country and abroad, joint development of new products and technologies, application of new knowledge and technologies in production processes;

- increasing the level of knowledge and competencies of employees in the shipbuilding and marine technology sector, as well as in other related sectors;

- interdisciplinary connection with other engineering sectors (electrical engineering, electronics, automation, construction) in order to create an innovation platform.

- Pursuant to the provisions of the Companies Act and the Law on Scientific Activity and Higher Education, the Institute is registered in the court register of the Commercial Court in Split as a limited liability company, and work is underway to ensure the necessary conditions for registration in the Register of Scientific Research Organizations at the Ministry of Science and Education of the Republic of Croatia.

In the phase of establishing the Institute, the organization is primarily focused on finding and hiring scientific staff and raising the quality of scientific research.
Professional, administrative and support business functions are provided by using the services of specialized companies and services within the Group through cooperation agreements for business as follows:

- financial and accounting affairs;
- personnel and general affairs;
- legal affairs;
- informatics affairs;
- commercial affairs (procurement);
- quality management and certification;
- EU funds and consulting;
- laboratories.

The existing structure of human resources and flexible organizational structure in the Institute is in line with the mission, vision of development and established strategic goals of the Institute. However, for the needs of long-term development of the Institute and the successful implementation of a five-year program of scientific research in thematic areas and achieving strategic goals, will strive to adjust the organizational structure of scientific research departments at the Institute, the main goal of which will be to achieve the most effective coverage of the planned thematic areas.

Strategic program of scientific research of the Shipbuilding Institute for the period 2021-2026. clearly emphasizes the orientation of the Institute to applied scientific research, industrial development research, and related experimental development. Therefore, in the coming period, the Institute will strive to strongly support cooperation with economic entities in the country and abroad. In addition to the above, the cooperation of the Institute with the business sector will be expressed through the activities of analysis and problem solving and various forms of consulting activities that may be of interest to clients. The idea is to make the Institute a center that, even in situations where it will not be able to offer a solution on its own, will be an intermediary in finding a solution in cooperation with other external subcontractors.

The research topics at the Institute are harmonized with the EU development priorities and with the national strategic priorities in science. The Shipbuilding Institute would provide key support in all scientific research projects in which group members would participate, either as applicants or partners.

9. RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

As part of the National Development Strategy 2030 (NRS 2030) program, the DIV Group intends to contribute by participating in the following research projects:

- Development of Intelligent Autonomous Mine Defense Systems at Sea
- Development of mobile multifunctional logistics / distribution shipping centers for connecting and revitalizing islands and coasts
- Development of a multi-purpose offshore patrol vessel with a modular equipment concept
- Development of advanced coastal transport systems (SWATH ships)
- Development of a network of small LNG floating plants for storage and transfer of LNG in Croatian ports

By the Shipbuilding Institute d.o.o. projects within the NRS 2030 program would involve scientific researchers whose involvement in the projects was achieved through a contract on scientific research cooperation.

In addition to the above scientific research topics, the Institute proposes the development of the following topics:

- Augmented reality and digitalization as a continuation of the development of topics started within CEKOM (assisted reality in the ship equipping phase) and Horizon 2020 projects (application of automated / robotic procedures in production);
- Application of new and hybrid drive systems in (LNG and H2, battery drives)
- Floating wind power systems
- Heating and cooling systems in shipbuilding
- Hull optimization by computer simulations
- Development of smart ship management systems
- Development of innovative ship equipment design procedures
- Investigation of ship vibroacoustic properties
- Research of sailing systems for the purpose of better energy efficiency of wind
- Research and development of welding, bending and anti-corrosion protection technologies applicable for the purpose of optimizing the technological process of production
- Research in the field of materials and surface engineering
- Innovative solutions in road construction

By participating in the implementation of current and planned future projects, it is reasonable to expect that Brodograđevni institut d.o.o. ensure sufficient employment of its scientific research capacities. By intensifying.

its involvement in the EU, EEA and national research and development projects, the Institute plans to provide additional sources of funding and new opportunities for cooperation with other scientific institutions within the European Research Area with the aim of joint research on selected topics, increasing scientific productivity and Institute in the domestic and international scientific environment.

Management Report of the Group (*continued*)

10. FUTHER DEVELOPMENT

Brodosplit's order book includes ships with a total value of around 545 million euros, and signed letters of intent worth 1.170 billion euros. In 2020, Brodosplit became recognized as a key player in the passenger ship market because it showed that it builds both in quality and within the agreed construction deadlines. In 2020, Brodosplit launched the Ultramarine, a newly built 487 passenger ship for polar expeditions, and laid the keel. In addition, projects for the largest shipbuilding group Fincantieri and a project for the offshore wind farm market have been completed.

In 2020, Brodosplit signed letters of intent to build a 300m-long luxury residential ship and a contract to build a 240m-long cable-laying cable. The contracts are planned to enter into force by the third quarter of 2021. In addition, Brodosplit continues to work on the development of the market for military ships - coastal patrol ships and larger warships that have shown exceptional characteristics. In the niche of offshore and steel structures, the goal is to improve the market position and contract new projects through more pronounced marketing.

In 2020, Brodosplit strongly entered the market of yacht construction and signed a letter of intent for the construction of a megayacht, and is in negotiations for 3 other projects in the same segment.

A greater increase in profitability will be achieved by further reorganization and improvement of business processes
Conclusion:

- Brodosplit d.d. completed in 2020 proved that it can build the most complex ships on time in quality and with profit

- turned to a very profitable segment of the construction of luxury ships and yachts in which it has already signed 2 letters of intent

- intensive work is being done on capacity employment, both in the shipbuilding and non-shipbuilding markets,

- We are working on further improvements in the organization of work and increase productivity

Management Report of the Group (*continued*)

11. MANAGEMENT OBJECTIVES FOR 2021

QUALITY:

1 Increase the share of own products and services in the final products of Brodosplit,

2 Conquer new markets and new customers,

3 Align integrated management systems with organizational change, the requirements of new editions of ISO standards and other variable regulations, and the requirements of stakeholders,

4 Improve the application of technical standards for the construction of new products, certification and integration with ISO management systems,

5 Conduct training of human resources for ISO standards,

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, 29 July 2021

Tomislav Debeljak
Chairman of the Board

Tomislav Čorak
Member of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT
d.d. Split

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 July 29, 2021

Tomislav Debeljak
Chairman of the Board

Tomislav Čorak
Member of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of the Company BRODOGRAĐEVNA INDUSTRIJA SPLIT D.D.

Qualified 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 2020, 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, 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 Qualified Opinion

During 2020, the Group revalued property, plant and equipment in accordance with the accounting policy for the subsequent measurement of assets. For a part of property, plant and equipment in the amount of HRK 142,726 thousand, we were unable to ascertain the assessment methods used, and during our audit we were unable to obtain sufficient appropriate audit evidence to assess the possible impact of the lack of audit evidence. In accordance with the above, we have not been able to determine whether, and to what extent, certain adjustments to the financial statements of the Group are required.

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 qualified 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.

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Marina Tonžetić, Dražen Nimčević i Domagoj Vuković; poslovna banka: Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294.

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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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report.

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.
29 July 2021

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 2020

(all amounts in thousands of HRK)	Note	2020	2019
Operating income	*5*	685,064	743,360
Other operating income	*6*	64,284	186,251
Changes in inventories - work in progress and finished goods	*20a*	20,234	31,041
Material costs	*7*	(382,700)	(473,240)
Cost of goods sold		(220)	(1,297)
Employee costs	*8*	(160,396)	(186,073)
Depreciation	*9*	(24,132)	(29,070)
Other operating expenses	*10*	(103,700)	(164,595)
Operating profit		**98,434**	**106,377**
Financial income	*11*	40,760	10,615
Financial expenses	*12*	(64,129)	(74,137)
Net financial expenses		**(23,369)**	**(63,522)**
Share of the net loss of the joint venture	*18*	(69)	(96)
Profit before tax		**74,996**	**42,759**
Income tax	*13*	1,475	5,423
Profit for the year		**76,471**	**48,182**
Statement of other comprehensive income			
Revaluation of intangible asset (net of tax)		10,512	17,814
Change in fair value of available-for-sale assets (net of tax)		2	33
Total comprehensive income		**86,985**	**66,029**
Profit that belongs			
Company's shareholders		85,968	48,118
Non-controlling interest		(9,497)	64
		76,471	**48,182**
Total comprehensive income/ (loss) due to:			
Company's shareholders		96,482	65,965
Non-controlling interest		(9,497)	64
		86,985	**66,029**

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	2020	2019
ASSETS			
Intangible assets	*14*	23,607	36,365
Property, plant and equipment	*15*	1,377,439	1,256,701
Right of use assets	*15*	9,354	11,448
Investment property	*16*	4,448	3,536
Long-term investment	*17*	429	427
Investment in joint venture	*18*	16,478	15,854
Long-term loans granted	*19*	167,052	-
Trade and other receivables	*20*	2,538	5,423
Deferred tax assets		605	456
Non-current assets		**1,601,950**	**1,330,210**
Inventories	*20*	218,990	200,171
Trade and other receivables	*21*	1,173,296	828,829
Cash and cash equivalents	*22*	26,140	20,603
Current assets		**1,418,426**	**1,049,603**
TOTAL ASSETS		**3,020,376**	**2.379.813**
EQUITY AND LIABILITIES			
Share capital	*24i)*	535,466	535,466
Reserves	*24ii), iii), iv)*	157,554	153,284
Retained earnings		436,774	346,616
		1,129,794	**1,035,366**
Non-controling interest		(7,346)	2,151
Equity	*24*	**1,122,448**	**1,037,517**
Provisions	*26*	7,758	12,390
Trade and other payables	*29*	661,971	484,301
Loans and borrowings	*28*	-	372,129
Deferred tax liability	*13*	14,931	13,957
Non-current liabilities		**684,660**	**882.777**
Provisions	*27*	261	1,887
Loans and borrowings – related parties	*28,30*	79,358	-
Loans and borrowings	*28*	606,987	124,275
Trade and other payables	*30*	526,662	333,357
Current liabilities		**1,213,268**	**459.519**
Total liabilities		**1,897,928**	**1,342,296**
TOTAL EQUITY AND LIABILITIES		**3,020,376**	**2,379,813**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

(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 2019	535,466	26,773	186,105	2	6,124	292,576	1,047,046	3,768	1,050,814
Profit for the year	-	-	-	-	-	48,118	48,118	64	48,182
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	-	-	(7,116)	-	-	7,116	-	-	-
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**
Balance at 1 January 2020	535,466	26,773	120,387	-	6,124	346,616	1,035,366	2,151	1,037,517
Profit for the year	-	-	-	-	-	85,969	85,969	(9,498)	76,471
Other comprehensive income	-	-	10,514	-	-	-	10,514	-	10,514
Total comprehensive income	**-**	**-**	**17,847**	**-**	**-**	**48,118**	**65,965**	**64**	**66,029**
Depreciation transfer after revaluation - net effect	-	-	(6,245)	-	-	6,245	-	-	-
Retained earnings (previous period expense)	-	-	-	-	-	(2,054)	**(2,054)**	-	**(2,054)**
Balance at 31 December 2020	**535,466**	**26,773**	**124,656**	**-**	**6,124**	**436,775**	**1,129,795**	**(7,347)**	**1,122,448**

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 2020

(in thousand of HRK)	*Note*	**2020**	**2019**
Net gain		**48,182**	**48,182**
Adjustments for:			
- Depreciation of tangible assets	*9*	20,646	27,162
- Depreciation of right of use assets	*9*	2,421	497
- Depreciation of intangible assets	*9*	1,002	1,260
- Depreciation of investment property	*9*	147	171
- Loss due to the sale of subsidiary		-	1,471
- Impairment of fixed assets		781	-
- Collected written-off receivables	*6*	(203)	(1,636)
- Impairment of receivables	*10*	876	358
- Reversal of impairment of inventories		(307)	(1,536)
- Interest cost and discounted receivables	*12*	15,501	58,998
-Revenue from government grants	*6*	(31,594)	-
- Interest and dividend income	*11*	(5,897)	(398)
- Income from liabilities write-off	*6*	(2,342)	(28,952)
- Share in the net loss of the joint venture		69	96
- FX differences		10,323	4,021
- Income tax	*13*	(1,475)	(5,423)
- Net change in provisions	*10*	(6,258)	(3,981)
- Loss from contract termination	*10*	-	54,435
- Net carrying amount of sold and disposed assets	*15*	12,973	56,820
		93,134	**211,545**
Changes in working capital			
- Inventories		(18,630)	(16,155)
- Trade and other receivables		(340,432)	(233,540)
- Trade and other payables		98,738	(2,871)
Cash generated from operating activities		**(167,190)**	**(41,021)**
Paid interest		(88,273)	(25,195)
Paid income tax		(83)	(96)
Net cash used in operating activities		**(255,546)**	**(66,312)**
Investment activities			
Acquisition of property, plant and equipment	*15*	(131,947)	(86,842)
Acquisition of intangible assets	*14*	-	(2,974)
Investment in joint ventures		(692)	(954)
Given loans and deposits		(329,095)	(30,316)
Loan collection		166,601	30,494
Net cash used in investment activities		**(295,133)**	**(90,592)**
Cash flow from financing activities			
Cash from credit liabilities		819,949	682,382
Repayment of credit liabilities		(263,733)	(511,622)
Net cash from financial activities		**556,216**	**170,760**
Net decrease in cash and cash equivalents		5,537	13,856
Cash and cash equivalents at the beginning of the period		20,603	6,747
Cash and cash equivalents at the end of the period	*23*	**26,140**	**20,603**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 1 – GENERAL DATA

The Brodosplit Group (the "Group") includes the parent company Brodograđevna industrija Split joint stock company 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 entity MBS: 060175040, OIB: 18556905592.

The subscribed capital of the Company as at 31 December 2020 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 by HRK 10,000,080, by payment in cash 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 Company 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:

- Amendments to **IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of materiality, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after after 1 January 2020)

- Amendments to **IFRS 3 "Business Combinations"** - Definition of Operations, adopted in the European Union on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of funds that occur on or after the beginning of that period)

- 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 January 2020 (effective for annual periods beginning on or after 1 January 2020)

- Amendments to **IFRS 16 "Leases"** - Lease Relief in the Context of the COVID-19 Pandemic (adopted in the European Union on 9 October 2020, effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020). 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).

The adoption of new standards, amendments to existing standards and interpretations did not lead to significant changes in the financial statements other than the impact of the initial application of IFRS 16.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 IFRS 4 "Insurance Contracts" - Extension of the temporary exemption from the application of IFRS 9, adopted in the European Union on 16 December 2020 (the expiry date of the temporary exemption from the application of IFRS 9 has been moved from 1 January 2021. for annual periods beginning on or after 1 January 2023)

- 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 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),

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 standar.
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Short-Term and Long-Term Liabilities (effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 16 "Property, Plant and Equipment" - Revenue before Intended Use (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Harmful Contracts - Costs of Performing Contractual Obligations (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 "Business Combinations" – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to various standards due to "Revision of IFRS from the 2018-2020 cycle)", resulting from the project of annual revision of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily to eliminate inconsistencies and clarify the text (Amendments to IFRS 1, IFRS 9 and IAS 41 effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 is for illustrative purposes only and therefore does not specify the effective date.).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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".

These consolidated financial statements have been prepared on the going concern basis. The financial statements of the Company have been prepared under the going concern assumption. The Management Board of the Company believes that there are adequate and sufficient funds to continue the Company's operations in the foreseeable future. Taking into account the global pandemic, and the economic situation in the markets where the Company operates, this year additional emphasis was placed by the Management Board on the assumption of business continuity. Further details, including the activities carried out and the conclusions are presented below.
In the period after the end of the business year, after 31 December 2020, activities were intensified with the aim of securing long-term sources of financing at the DIV/Brodosplit Group level. These goals have been partially achieved through several activities started in 2020, and will be continued through further activities in 2021.

Activities that began in late 2020, continued in 2021, relate to:

- approval of HBOR's COVID loan in the amount of HRK 40,000,000.00, on December 23, 2020 to DIV Group d.o.o.
- approval of a loan from Sberbank in the amount of EURO 4,850,000.00, on December 22, 2020 to DIV Group d.o.o.
- approval of COVID-loan of Podravska banka in the amount of HRK 20,000,000.00 on May 25, 2021 to DIV Group d.o.o.

These placements represent long-term sources of financing with interest costs ranging from 2 to 4% and minimal involvement of assets as collateral. In the first few months of 2021, current liabilities to financial institutions were settled in the total amount of HRK 38.5 million, thanks to strong growth in sales of screw goods and a significant increase in the average price compared to the previous year.
HBOR COVID loan was also realized in Brodosplit d.d. June 30, 2021, in the amount of HRK 250 million with an interest expense of 2%. The security instruments are bills of exchange, promissory notes, pledge on movables, pledge on the ship "Golden Horizon" and credit insurance policy. The loan will be used to finance current operations and settle short-term liabilities.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

In the next few months, it is planned to realize long-term financing of Golden Horizon in the amount of up to EUR 80 million, which would be used to refinance the the existing short-term liability maturing on October 12, 2021. Negotiations are underway with several foreign financial institutions, and the timeframe is long enough to negotiate the most favorable option for the Brodosplit / DIV Group. In addition to the above activities, a Term sheet was received to refinance the existing long-term credit exposure of DIV Group d.o.o. under more favorable conditions, and a Term Sheet for the financial monitoring framework of Brodosplit in the amount of EUR 10m. The implementation of these transactions will ensure an appropriate maturity of financing while reducing interest costs at the Group level.

Regarding business activities, in 2021 activities on previously contracted projects continued (reconstruction of the Dugo Selo - Križevci railway, coastal patrol boats for the Ministry of Defense, Nov 485 for Oceanwide expeditions, Ston bridge and Prapratno viaduct). At the level of DIV Group, new significant contracts were signed, such as the reconstruction of the Širina intersection in Solin, the construction of the Konjsko tunnel, repair and partial refit of the ship for Waleforce Yachting, completion of the ship for Viterlef Management - total value of more than 35 million euros for all projects. Negotiations are underway for new projects as well.

Taking into account the above, the Management Board believes that the Company has sufficient liquidity in relation to financial borrowing opportunities to continue to operate in the foreseeable future, despite the uncertainties in the economic environment. The Management Board concludes that the previously mentioned and implemented activities are satisfactory, that the planned activities will be realized during 2021 and that there is no significant uncertainty related to the continuation of the Company's operations.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 % 2020	Share in % 2019	Core business
Brodosplit - Plovidba d,o,o,	100	100	Sea and coastal water transport of freight
Brodosplit - Brodogradilište specijalnih objekata d,o,o,	100	100	Building of ships and floating structures
Brodosplit - Tvornica dizel motora d,o,o,	100	100	Manufacture of engines and turbines, except aircraft, vehicle and
Brodosplit - Trgovina d,o,o,	100	100	Wholesale of other machinery and equipment
Brodosplit - Zaštita brodskog trupa od korozije d,o,o,	100	100	Manufacture of metal structures and parts of structures
Brodosplit - Transportna sredstva d,o,o,	100	100	Renting and leasing of other machinery, equipment and tangible
Brodosplit - Čelik d,o,o,	100	100	Manufacture of metal structures and parts of structures
Brodosplit - Opremanje plovnih objekata d,o,o,	100	100	Manufacture of metal structures and parts of structures
Brodosplit - Trup d,o,o,	100	100	Manufacture of metal structures and parts of structures
Brodosplit - Stroj d,o,o,	100	100	General mechanical engineering
Brodosplit - Montaža d,o,o,	100	100	Manufacture of metal structures and parts of structures
Brodosplit - Boja d,o,o,	100	100	Repair and maintenance of ships and boats
Brodosplit - Blok d,o,o,	100	100	Building of ships and floating structures
Brodosplit - Računovodstvo i financije d,o,o,	100	30	Accounting, book-keeping and auditing activities; tax consultancy
Brodosplit - Informatika d,o,o,	30	30	Computer facilities management activities
Brodosplit - Laboratorij d,o,o,	30	30	Technical testing and analysis
Brodosplit - Atest d,o,o,	30	30	Security systems service activities
Brodosplit - Ljudski resursi d,o,o,	30	30	Other human resources provision
Brodosplit - Plovne dizalice d,o,o,	30	30	Renting and leasing of water transport equipment
Brodosplit - Privremena energetika d,o,o,	30	30	Production of electricity
Brodosplit - Čišćenje d,o,o,	30	30	Other cleaning activities
Brodosplit - Optimizacija i ekologija d,o,o,	30	30	Remediation activities and other waste management services
Brodosplit - Alatnica d,o,o,	30	30	General mechanical engineering
Brodosplit - Održavanje d,o,o,	30	30	Repair of machinery
Brodosplit - Skela d,o,o,	30	30	Manufacture of metal structures and parts of structures
Brodosplit - Cjevarska izrada d,o,o,	30	30	Casting of iron
Brodosplit - Bravarija i limarija d,o,o,	30	30	Repair of fabricated metal products
Brodosplit - Automatizacija d,o,o,	30	30	Computer facilities management activities
Power Voyaged d,o,o,	30	30	Travel agency
Brodosplit - Izvor energije vjetroparkova d,o,o,	30	30	Renting and leasing of other machinery, equipment and tangible
Brodosplit - Produkt plinske elektrane d,o,o,	30	30	Renting and leasing of other machinery, equipment and tangible
Brodosplit - Vjetrostupovi d,o,o,	30	30	Manufacture of metal structures and parts of structures
Brodosplit - Klimatizacija i ventilacija d,o,o,	30	30	Plumbing, heat and air conditioning installation
Brodosplit - Brodska i ostala oprema d,o,o,	30	30	Manufacture of metal structures and parts of structures
Brodosplit - Metalne konstrukcije d,o,o,	30	30	Manufacture of metal structures and parts of structures
Brodosplit - Namještaj po mjeri d,o,o,	30	30	Installation of carpentry
Brodosplit - Interijer i završni radovi d,o,o,	30	30	Installation of carpentry
Brodosplit - Strojna obrada d,o,o,	30	30	General mechanical engineering
Brodosplit - Ljevaonica d,o,o,	30	30	Casting of iron
Brodosplit - Istraživanje i razvoj d,o,o,	30	30	Other research and experimental development on natural scienc engineering
Brodosplit - Korporativna zaštita d,o,o,	30	30	Private security activities
Brodosplit - Gradnja d,o,o,	30	30	Construction of residential and non-residential buildings
Brodosplit - Otpremništvo d,o,o,	30	30	Other transportation support activities
Brodosplit - Najam Vozila d,o,o,	30	30	Renting and leasing of cars and light motor vehicles
Brodosplit - Oblaganje d,o,o,	30	30	Building of ships and floating structures
Brodosplit - Servis brodova d,o,o,	30	30	Repair and maintenance of ships and boats
Brodograđevni institut d.o.o.	-	100	Ostalo istraživanje i eksperimentalni razvoj u prirodnim, tehničkir znanostima

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

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, Tropical Cruise Shipping 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.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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.

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	2020	2019
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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 necessar 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 t 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 Cash and cash equivalents

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Share capital

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

2.15 Income tax

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

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income, The tax base represents the difference between income and expenses, as determined by the applicable law, The Management Board of the 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.

2.16 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)

2.17 Trade and other payables

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

2.18 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

Termination benefits are payable when 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.

2.19 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)

2.20 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

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.

(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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Revenue recognition (continued)

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.

2.21 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.

2.22 Value added tax

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Maritime domain and concessions

In accordance with the Resolution to change the "Resolution on concession of maritime domain" issued on 5 July 2007 and the Resolution issued on 2 August 2007, Brodograđevna industrija Split d,d, and its subsidiaries use land (580,589 m²) and sea (222,319 m²) 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 m² and 222,319 m² of water surface, amounting to a total amount of 785,868 m² of maritime domain surfaces.

Right to use

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

Concession service time

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Maritime domain and 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)

2.24 Leases

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.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

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)	2020	2019
Financial assets		
Trade receivables	68,942	128,133
Given loans and deposits (ii)	173,817	10,945
Cash and cash equivalents	26,140	20,603
Other receivables*	1,079,817	672,323
	1,348,716	**832,004**
**Other receivables relate to:*		
Overedue revenue collection (i)	1,048,277	607,461
Given prepayments	18,532	16,381
Other receivales	13,008	48,481
	1,079,817	**672,323**

(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)	2020	2019
Loan liabilities	686,345	496,404
Trade liabilities	129,860	130,571
Trade liabilities – related parties	29,307	20,792
Other liabilities*	970,093	575,719
	1,815,605	**1,223,486**
**Other liabilities related to:*		
Received prepayments	896,263	489,527
Liabilities to employees	9,822	10,249
Accrued expenses	17,638	14,625
Other liabilities	46,370	61,318
	970,093	**575,719**

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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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	
	2020	**2019**	**2020**	**2019**
EUR	1,557,165	1,109,911	60,971	100
NOK	3,580	4	-	-
USD	4,821	4	3,708	5
GBP	754	84	-	315
SEK	24	-	-	-
Other currency	314	320	-	-

As at 31 December 2020, 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 1,502 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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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 2020	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	159,167	159,167	159,167	-	-	-
Other liabilities	102,548	102,548	102,548	-	-	-
	261,715	**261,715**	**261,715**	**-**	**-**	**-**
Interest-bearing liabilities						
Loan liabilities	686,345	740,456	594,348	116,020	30,088	-
Other long-term liabilities	867,545	894,135	894,135			-
	1,553,890	**1,634,591**	**1,488,483**	**116,020**	**30,088**	**-**
	1,815,605	**1,896,306**	**1,750,198**	**116,020**	**30,088**	**-**

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

The weighted average interest rate is 5.84%, If the interest rate were to increase by 1%, the liabilities would be HRK 10 million higher.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3.2 Financial risk factors (continued)

Liquidity risk (continued)

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**

The average weighted interest rate amounts to 6,65%

Assets

At 31 December 2020	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	68,942	68,942	68,942	-	-	-
Other receivables	1,079,821	1,079,821	1,079,821	-	-	-
	1,148,763	**1,148,763**	**1,148,763**	-	-	-
Interest-bearing assets						
Given loans and deposits	173,813	182,387	9,967	170,883	1,457	80
Cash and cash equivalents	26,140	26,218	26,218	-	-	-
	199,953	**208,606**	**36,185**	**170,883**	**1,457**	**80**
	1,348,716	**1,357,369**	**1,184,948**	**170,883**	**1,457**	**80**

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 2.87% on cash and cash equivalents.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 3 - FINANCIAL RISK MANAGEMENT (continued)

3,2 Financial risk factors (continued)

Liquidity risk (continued)

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**

The average weighted interest rate amounts to 0.8% on cash and cash equivalent.

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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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)	**2020**	**2019**
Debt (short-term credit)	(606,987)	(496,404)
Cash and cash equivalents	26,140	20,603
Net debt	(580,847)	(475,801)
Equity	1,122,448	1,037,517
Debt to equity ratio	52%	46%

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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 2020:

(in HRK thousand)	Level 1	Level 2	Level 3	Total
31 December 2019				
Property, plant and equipment	-	-	1,256,701	1,256,701
Intangible assets	-	-	36,365	36,365
Investment property	-	-	3,536	3,536
Listed companies	248	-	-	248
Unlisted companies	-	179	-	179
Total	**248**	**179**	**1,296,602**	**1,297,029**

(in HRK thousand)	Level 1	Level 2	Level 3	Total
31 December 2020				
Property, plant and equipment	-	-	1,377,439	1,377,439
Intangible assets	-	-	23,607	23,607
Investment property	-	-	4,448	4,448
Listed companies	245	-	-	245
Unlisted companies	-	184	-	184
Total	**245**	**184**	**1,405,494**	**1,405,923**

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 2020 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.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

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)	**2020**	**2019**
Revenue from shipbuilding	575,189	422,301
Revenu from non-shipbuilding industry	25,737	222,183
Revenue from services	41,217	51,819
Other sales revenue	42,921	47,057
	685,064	**743,360**

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".

NOTE 6 - OTHER OPERATING INCOME

(in thousand of HRK)	**2020**	**2019**
Revenue from grants	31,594	32,585
Income from sale of tangible assets	12,937	78,871
Reversal of provisions for court cases	4,862	3,213
Reversal of other provisions	4,281	658
Income from liabilities write-off	2,342	28,952
Income from charged penalties	1,682	83
Inventory surplus	228	806
Income from collected value-adjusted receivables	203	36
Income from additional rebates from suppliers	-	33,817
Income from collected written-off receivables	-	1,600
Reversal of warranty provisions	-	412
Other	6,155	5,218
	64,284	**186,251**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 7 - MATERIAL EXPENSES

(in thousands of HRK)	**2020**	**2019**
Raw material and supplies	239,954	181,842
Energy	7.857	5,769
Small inventory, spare parts and tires	3,915	3,330
Cost of raw materials and supplies	**251,726**	**192,295**
External cooperation and other production services	65,747	200,333
Management services	19,856	16,743
Repairs and maintenance	3,871	4,297
Security services	1,285	1,219
Transport	4,171	5,255
Other external costs	36,044	53,098
Cost of services	**130,974**	**280,945**
Total material costs	**382,700**	**473,240**

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.

NOTE 8 - EMPLOYEE COSTS

(in thousands of HRK)	**2020**	**2019**
Net wages	101,987	116,511
Taxes and contributions from and on salaries	34,192	41,483
Contributions on salaries	24,217	28,079
	160,396	**186,073**

Taxes and contribution from and on salaries include contributions paid into obligatory pension funds in the amount of 30,151 thousand HRK (in 2019: 31,968 thousand HRK). Contributions are calculated as a percentage of gross salaries. As at 31 December 2020 the Group had 1,548 employees (31 December 2019: 1,780 employees),

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 9 - DEPRECIATION

(in thousands of HRK)	2020	2019
Tangible assets (note 15)	20,646	27,161
Intangible assets (note 14)	1,001	1,261
Right of use asset (note 15a)	2,421	497
Investment property (note 16)	147	171
Capitalised to assets in construction	(83)	(20)
	24,132	**29,070**

NOTE 10 - OTHER OPERATING EXPENSES

(in thousands of HRK)	2020	2019
Other employee costs	29,513	31,641
Loss under construction contracts	18,394	-
intellectual services	11,996	13,696
Contracts of work	11,128	10,812
Insurance cost	3,922	4,727
Agency provision	2,904	-
State guarantee premium	2,633	2,017
Business travel expenses	2,623	8,789
Penalties and penalties	2,261	2,293
Expenses per tax decision	1,951	2,535
Concession cost	1,831	1,697
Expenses according to court judgments	1,807	1,474
Bank fees and commissions	1.549	-
Utility charges	1,289	1,166
Severance pay	1,200	54
Value adjustment of trade receivables	876	358
Provisions for litigation	226	-
National team	223	256
Provisions for severance pay and unused vacation	-	302
Expenses from sale of fixed assets	-	10,208
Loss from contract termination	-	54,435
Other	7,374	4,087
	103,700	**164,595**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 11 - FINANCIAL INCOME

(in thousands of HRK)	2020	2019
Foreign exchange income	34,863	10,216
Income from unwinding of discount	258	338
Interest income	5,639	60
Other financial income	-	1
	40,760	**10,615**

NOTE 12 - FINANCIAL EXPENSES

(in thousands of HRK)	2020	2019
Interest cost	15,501	58,998
Foreign exchange losses	48,628	13,668
Other financial expense	-	1,471
	64,129	**74,137**

NOTE 13 – INCOME TAX

Income tax expense consists of:

(in thousands of HRK)	2020	2019
Current tax	8	89
Deferred income tax	(1,483)	(5,512)
Income tax (benefit)	**(1,475)**	**(5,423)**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 13 - INCOME TAX (continued)

(in thousands of HRK)	2020	2019
Profit before taxation	**74,996**	**42,759**
Income tax at tax rate of 18%	22,108	13,971
Effect of non-deductible expenses	123	139
Effect of non-taxable income	(370)	(9,592)
Effect of previously non-deductible tax loss	(36,020)	(1,251)
The effect of tax incentives	(1,511)	(196)
Net temporary differences for which deferred tax assets are not recognized	-	76
Net temporary differences for which deferred tax assets are recognized	14,611	594
The effect of tax losses for which no deferred tax assets are recognized	(416)	(9,164)
The effect of used tax losses for which no deferred tax assets were recognized		
Income tax benefit	**(1,475)**	**(5,423)**

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 2020

NOTE 13 - INCOME TAX (continued)

Tax losses carried forward

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

(in thousands of HRK)	2020	2019
Tax loss from year 2015 - expires on 31 December 2020	-	250
Tax loss from year 2016 - expires on 31 December 2021	14	15
Tax loss from year 2017 - expires on 31 December 2022	357	357
Tax loss from year 2018 - expires on 31 December 2023	28	32
Tax loss from year 2019 - expires on 31 December 2024	368	583
Tax loss from year 2019 - expires on 31 December 2025	17,621	-
Total tax losses	**18,388**	**1,237**

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 2017 the Group recognized a deferred tax liability after the revaluation of assets. The movement of deferred tax assets is shown below.

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**

(in thousands of HRK)	01 January 2020	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2020
Property, plant and equipment	13,313	2,030	(1,307)	14,036
Intangible assets	9	87	(1)	95
Investment property	635	191	(26)	800
	13,957	**2,308**	**(1,334)**	**14,931**

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 14 - INTANGIBLE ASSETS

(in thousands of HRK)	Software	Projects documentation	Assets under construction	Total
Cost or valuation				
As at 1/1/2019	**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**
As at 01/01/2020	**12,345**	**23,789**	**5,402**	**41,536**
Revaluation	486	-	-	**486**
Transfer	190	-	(190)	-
Sale	(7,188)	-	(5,054)	**(12,242)**
As at 31/12/2020	**5,833**	**23,789**	**158**	**29,780**
Accumulated depreciation				
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**
As at 01/01/2020	**4,023**	**1,148**	-	**5,171**
Charge for the year	907	94	-	**1,001**
Sale	-	-	-	-
As at 31/12/2020	**4,930**	**1,242**	-	**6,172**
Net carrying amount				
As at 01/01/2019	**8,848**	-	**5,314**	**14,162**
As at 31/12/2019	**8,322**	**22,641**	**5,402**	**36,365**
As at 01/01/2020	**8,322**	**22,641**	**5,402**	**36,365**
As at 31/12/2020	**902**	**22,547**	**158**	**23,607**

Intangible asset under construction relate to software.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

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 01/01/2019	**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**
As at 01/01/2020	**248**	**20,973**	**124,701**	**142,920**	**162,631**	**243,382**	**545**	**758,969**	**1,454,369**
Procurement	-	-	814	953	1,156	-	-	128,697	**131,621**
Transfer	-	(13)	-	57	404	-	-	(448)	**-**
Revaluation	-	5,291	1	3,119	2,864	-	-	-	**11,275**
Decrease in value	(51)	(24)	-	(442)	(214)	(49)	-	-	**(781)**
Sale	-	-	-	(601)	(259)	-	-	-	**(861)**
As at 31/12/2020	**197**	**26,226**	**125,516**	**146,006**	**166,583**	**243,333**	**545**	**887,219**	**1,595,623**
Accumulated depreciation and value adjustment									
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	-	-	-	(437)	(350)	(5,836)	-	-	**(6,623)**
As at 31/12/2019	**-**	**1,697**	**29,517**	**79,397**	**79,092**	**7,965**	**-**	**-**	**197,668**
As at 01/01/2020	**-**	**1,697**	**29,517**	**79,397**	**79,092**	**7,965**	**-**	**-**	**197,668**
Charge for the year	-	305	7,744	5,737	5,766	1,095	-	-	**20,646**
Sold and disposed assets	-			(103)	(26)		-	-	**(130)**
As at 31/12/2020	**-**	**2,002**	**37,261**	**85,031**	**84,831**	**9,060**	**-**	**-**	**218,184**
Net carrying amount									
As at 31/12/2019	**248**	**19,276**	**95,184**	**63,523**	**83,539**	**235,417**	**545**	**758,969**	**1,256,701**
As at 31/12/2020	**197**	**24,224**	**88,255**	**60,975**	**81,751**	**234,273**	**545**	**887,219**	**1,377,439**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (continued)
Right of use assets

(in thousands HRK)	Right of use assets
1 January 2019	-
Increase	11,945
Depreciation	(497)
31 December 2019	**11,448**
1 January 2020	11,448
Increase	327
Depreciation	(2,421)
31 December 2020	**9.354**

Property, plant and equipment under pledge amounts to HRK 1,142,892 thousand (2019: 1,045,138).

NOTE 16 - INVESTMENT PROPERTY

(in thousands of HRK)	Investment property
Cost or valuation	
As at 01/01/2019	**5,174**
Sale	(592)
As at 31/12/2019	**4,582**
As at 01/01/2020	**4,582**
Revaluation	1,059
As at 31/12/2020	**5,641**
Accumulated depreciation	
As at 01/01/2019	**899**
Charge for the year	171
Sale	(24)
As at 31/12/2019	**1,046**
As at 01/01/2020	**1,046**
Charge for the year	147
As at 31/12/2020	**1,193**
Net carrying amount	
As at 01/01/2019	**4,275**
As at 31/12/2019	**3,536**
As at 01/01/2020	**3,536**
As at 31/12/2020	**4,448**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 17 – NON-CURRENT INVESTMENTS

(in thousands of HRK)	2020	2019
Financial assets available for sale	429	427
	429	**427**

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

(in thousands HRK)	Finacial assets available for sale
1 January 2020	427
Change in fair value	2
Value adjustment	-
31 December 2020	**429**

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)	2020	2019
At the begining ogf the year	15,854	14,996
Additional investment	693	954
Share in loss	(69)	(96)
At the end of the year	**16,478**	**15,854**

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.	17,674	(147)	-	138

BILJEŠKA 19 – LONG - TERM LOANS GRANTED

(in thousands of HRK)	2020	2019
Long - term loans granted to affiliated companies	167.052	-
	167.052	**-**

The mentioned long-term loan was approved to the company Div Grupa d.o.o., with a repayment period of 15.06.2022. year, with an interest rate of 3.42% per annum that was valid at the time of signing the loan agreement between related parties.

NOTE 20 - NON-CURRENT RECEIVABLES

(in thousands of HRK)	2019	2018
Loans receivables from employees (i)	2,538	3,813
Deposits (ii)	-	1,610
	2,538	**5,423**

(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 21 - INVENTORIES

(in thousands of HRK)	**2020**	**2019**
Raw materials and supplies	153,144	143,825
Current production	4,369	3,425
Advances for inventories	59,814	27,944
Trade goods	1,378	2,411
Final products	285	285
Assets held for sale	-	22,281
	218,990	**200,171**

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.

21a Changes in the value of work in progress and finished goods inventories

(in thousands HRK	**2020**	**2019**
Price of internal ships	18,227	31,263
Difference between internal revenue and cost	1,064	645
Change in value of production in progress	943	(867)
Total	**20,234**	**31,041**

During 2020, 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 22 - CURRENT TRADE AND OTHER RECEIVABLES

(in thousands of HRK)	**2020**	**2019**
Receivables from related parties	43,759	88,826
Trade receivables - unrelated companies	44,648	58,066
Decreased by: impairment of trade receivables	(19,465)	(18,759)
Trade receivables - net	68,942	128,133
Overdue revenue collection (iii)	1,038,046	607,461
Other accrued income	10,231	-
Receivables from the state (s)	20,310	22,851
Advances given to affiliates	18,532	16,381
Other receivables from related companies	5,710	22,627
Deposits	2,015	3,127
Receivables for loans to employees	1,508	1,693
Given loans	700	700
Receivables from employees	193	191
Overpaid income tax	141	74
Prepaid costs	109	-
Loans granted to affiliates (ii)	4	2
Other receivables	6,855	25,589
	1,173,296	**828,829**

(i) Loans to related parties have been issued with a 3,42% interest (in 2019: loans to related parties were issued with a 3,96% interest).

(ii) Overdue revenue collection relates to realized revenues under IFRS 15 under the Construction Contract that have not been collected. NOV 487 is realized in April 2021.

NOTE 22 - 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	18,759	17,892
Collected (note 6)	(204)	(36)
Written-off	-	(1,494)
Impairment of customers IFRS 9	876	358
Increase (exchange rate differences)	34	-
Increase (from previous period)	-	2,039
Balance at 31 December	**19,465**	**18,759**

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

(in thousands of HRK)	**2020**	**2019**
0-90 days	18,850	86,270
91-180 days	12,529	4
Over 181 days	22,408	33,224
Balance at 31 December	**53,787**	**119,498**

NOTE 23 - CASH AND CASH EQUIVALENTS

(in thousands of HRK)	**2020**	**2019**
Cash at bank	25,214	19,736
Cash in hand	926	867
	26,140	**20,603**

Cash at bank includes cash in the amount of 8,627 thousand HRK that the Group cannot use because these funds are moved to special bank account due to legal cases (in 2019: 16,253 thousand HRK).

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 24 - WORK IN PROGRESS

(in thousands of HRK)	Note	2020	2019
Contractual costs incurred up to reporting date		1,277,841	858,914
Recognised gains up to the reporting date		176,429	124,775
		1,454,270	983,689
Less: invoicing in progress and advances received		(558,543)	(386,834)
Receivables from the customers for the contracted work		**(895,727)**	**596,855**
Reclassified to accrued revenue	22	1,038,046	607,461
Reclassified to advances received from supplier	30	(142,319)	(10,606)

NOTE 25 - 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, HRK and is divided into 8,924,437 regular shares, each of nominal value of 60,00 HRK,

As at 31 December 2020 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**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

(in thousands of HRK)

	Revaluation of assets	Fair value of assets available for sale	Revaluation of tools and small inventory	Other	Total
At 1 January 2020	118,511	95	-	1,781	**120,387**
Revaluation - gross	12,819	-	-	-	**12,819**
Revaluation - tax effect	(2,307)	-	-	-	**(2,307)**
Depreciation transfer to retained earnings - gross	(7,316)	-	-	-	**(7,316)**
Depreciation transfer to retained earnings - tax effect	1,286	-	-	-	**1,286**
Transfer to retained earnings - gross for assets sold and disbursed	(262)	-	-	-	**(262)**
Transfer to retained earnings - tax effect for assets sold and disbursed	47	-	-	-	**47**
Change in the fair value of available-for-sale assets	-	2	-	-	**2**
31 December 2020	**122,778**	**97**	**-**	**1,781**	**124,656**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 25 - 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 26 – NON-CURRENT PROVISIONS

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

(in thousands of HRK)	2020	2019
Balance at 1 January	12,390	15,603
Recognized during period	2,284	3,543
Utilized during period	(6,464)	(5,838)
Released during period	(452)	(918)
Balance at 31 December	**7,758**	**12,390**

NOTE 27 – CURRENT PROVISIONS

(in thousands HRK)	Warranty works	Severance	Losses on contracted business	Total
At 1 Januray 2020	-	1,887	-	1,887
Recognized during period	-	-	-	-
Released during period	-	(1,626)	-	(1,626)
At 31 December 2020	**-**	**261**	**-**	**261**

NOTE 28– LOANS AND BORROWINGS

(in thousands of HRK)	2020	2019
Long-term liabilities to banks and other financial institutions		
Long-term liabilities to banks	-	372,129
	-	**372,129**
Short-term loans		
Bank loans (i)	564,884	124,275
Related party advances (ii)	79,358	-
Borrowing liabilities - unrelated	42,103	-
	686,345	**124,275**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 28 – 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	Borrowing liabilities - unrelated
At 1 January 2020	372,129	124,275	-	13,579
Increases	-	206,289	171,602	60,004
Reclassification	(372,129)	372,129	-	-
Decreases	-	(137,809)	(92,244)	(31,480)
At 31 December 2020	**-**	**564,884**	**79,358**	**42,103**

Long-term liabilities in 2019 according to the banks, they refer to a loan from VTB Bank in the amount of EUR 50,000,000. (return deadline 12.10.2021). In 2021, the loan was reclassified as a short-term loan.
Short-term loan of Podravska banka in the amount of HRK 13,423 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.
Liabilities to banks also include loans from HBOR and VTB, which have been reclassified as liabilities for advances.

- HBOR's long-term loan to finance the construction of the NOV 487 in the amount of EUR 87,883,511.68 with an interest rate of 4.4% per annum (EUR 85,106,393 was used on 31 December 2020).

  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 the new building is handed over to the borrower. Bills of exchange and promissory notes 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 an obligation for advances under the bareboat charter agreement, because the loans are intended to finance the construction of a new 487. During construction, the loan amount is on the advances for 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 from VTB to finance the construction of the NOV 485 in the amount of EUR 32,000,000 with an interest rate of 3% per annum (EUR 31,500,000 was used on 31 December 2020). Deadline 15.10.2021.

NOTE 29 – OTHER LONG-TERM LIABILITIES

(in thousands HRK)	**2020**	**2019**
Liabilities for taxes and contributions	13,338	-
Long-term lease liabilities	7,195	9,243
Advances received (i)	641,438	475,058
	661,971	**484,301**

(i) In this item, a long-term loan is reclassified to a new 487 from a loan liability item (Note 28).

NOTE 30 - TRADE AND OTHER LIABILITIES

(in thousands of HRK)	**2020**	**2019**
Advances received under IFRS 15	-	10,606
Advances received	28,718	3,863
Trade payables - unrelated	129,010	130,262
Liabilities to related companies	29,307	20,792
Liabilities for taxes, contributions and similar benefits	46,035	83,220
Obligations for concession fee	133	3,078
Obligations to employees	9,822	10,249
Liabilities to entrepreneurs related to the participating interest	850	309
Accrued costs	17,638	14,624
Other current liabilities	6,089	4,461
Deferred payment of costs for court proceedings	-	18,314
Prepaid income	5,099	-
Long-term lease liabilities - short-term part	2,357	2,243
Liabilities for advances received (ii)	226,107	-
Obligations under court judgments	2,333	3,403
Income tax liabilities	10	88
Liabilities to banks and similar institutions	23,154	27,845
	526,662	**333,357**

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

(ii) In this item, a long-term loan is reclassified to a new 487 from a loan liability item (Note 28).

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 31 - 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)	2020	2019
DIV Grupa d.o.o.		
Efficient Powerful Successful d.o.o.	41,392	35,372
Debeljak Industrija Vijaka d.o.o., Sarajevo	4,333	865
Marine and Energy Solutions DIV d.o.o.	114	413
Tradewind Voyages UK Ltd	20	38
Div učilište	15	-
Proizvodno trgovački centar Krka Knin d.o.o.	9	9
Kamen dent, BIH	3	10
DIV Grupa d.o.o.	-	135
Total	**45,886**	**36,842**

Other operating income

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	12,911	94,058
Proizvodno trgovački centar Krka Knin d.o.o.	13	-
Efficient Powerful Successful d.o.o.	1	-
Div Brodogradnja d.o.o.	-	33,750
Kamen dent, BIH	-	113
Total	**12,925**	**127,921**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Purchased material

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	110,296	82,859
Debeljak Industrija Vijaka d.o.o., Sarajevo	113	921
Shanghai Vida Industry &Trading Co. ltd	412	141
Total	**110,821**	**83,921**

Cost of goods sold

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	146	41
Debeljak Industrija Vijaka d.o.o., Sarajevo	42	406
Marine and Energy Solutions DIV d.o.o.	-	19
Total	**188**	**466**

Service cost

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	40,157	112,123
Efficient Powerful Successful d.o.o.	27,606	12,449
Marine and Energy Solutions DIV d.o.o.	2,277	3,320
Shanghai Vida Industry &Trading Co. ltd	324	356
Debeljak Industrija Vijaka d.o.o., Sarajevo	-	518
Total	**70,364**	**128,766**

Other operating expense

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	551	601
Efficient Powerful Successful d.o.o.	217	17
Total	**768**	**618**

Purchase of fixed assets

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	1,586	1,243
Total	**1,586**	**1,243**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Financial revenue

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	5.518	-
Shanghai Vida Industry &Trading Co. ltd	21	2
DIV Brodogradnja d.o.o.	6	-
Div Cruises, Inc.	-	103
Debeljak Industrija Vijaka d.o.o., Sarajevo	-	1
Total	**5.545**	**106**

Financial expense

(in thousands of HRK)	2020	2019
DIV Grupa d.o.o.	4,595	1,727
Proizvodno trgovački centar Krka Knin d.o.o.	288	946
Debeljak Industrija Vijaka d.o.o., Sarajevo	11	3
Shanghai Vida Industry &Trading Co. ltd	5	4
Efficient Powerful Successful d.o.o.	1	-
Total	**4,900**	**2,680**

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Trade receivables

(in thousands of HRK)	2020	2019
Div Grupa d.o.o.	62,210	105,091
Div učilište	36	25
Debeljak Industrija Vijaka d.o.o., Sarajevo	27	-
Tradewind Voyager Ltd	16	-
DIV brodogradnja d.o.o.	2	-
Shanghai Vida Industry&Trading Co. Ltd	-	91
Total	**62,291**	**105,207**

Given loans

(in thousands of HRK)	2020	2019
Div učilište	4	2
Total	**4**	**2**

Trade payables

(in thousands of HRK)	2020	2019
Efficient Powerful Successful d.o.o.	14,991	5,539
Div Grupa d.o.o.	12,950	-
Proizvodno trgovački centar Krka Knin d.o.o.	1,266	14,561
Shanghai Vida Industry &Trading Co. ltd	100	83
Debeljak industrija vijaka d.o.o. Sarajevo	-	609
Total	**29,307**	**20,792**

NOTE 30 - RELATED PARTY TRANSACTIONS (continued)

Loan liabilities

(in thousands of HRK)	**2020**	**2019**
Div Grupa d.o.o.	79.358	-
Total	**79.358**	-

Key management transactions

Key management remuneration for 2020 amounted to 8,428 thousand HRK and related to 36 employees (in 2019: 8,909 thousand HRK and relates to 33 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 2020, the Group is exposed to contingent liabilities arising from issued warranties in the amount of 36,798 thousand HRK (in 2019: 151,212 thousand HRK), Warranties are related to advance payments and security for the quality of work performed.

Notes to the consolidated Financial Statements (continued)
for the year ended 31 December 2020

NOTE 32 - SUBSEQUENT EVENTS AFTER THE REPORTING DATE

On 15 February 2021, an arbitral tribunal in the dispute between BRODOSPLIT d.d. and Star Clippers Ltd. reached an arbitration award which declined Star Clippers Ltd. claim aimed at delivery of the ship, but ordered BRODOSPLIT d.d. to pay Star Clipper Ltd. € 13,750,925.47 based on the purchase price for masts, sailboats, owner's deliveries and costs. As BRODOSPLIT d.d. considers that the arbitral tribunal applied the wrong law in its arbitration award, BRODOSPLIT d.d. initiated annulment proceedings before the competent court in the Netherlands.

The mortgage on the ship Star Clippers Ltd. amounts to EUR 6,933,812.52. Brodosplit does not dispute this amount, and has offered payment on several occasions. Star Clippers Ltd. has, nevertheless, decided to exercise its right to arrest the ship to which we have responded by paying the requested funds. Since the bank transactions were not completed on the same day, the ship spent the night (July 15, 2021) in Dover. By paying the requested amount, the conditions for deleting the mortgage have been created, which is expected in the coming weeks.

Delivery

Date 01.04.2021. a new building 487 was delivered - a ship for cruising the polar regions.

New contracts

One of the most significant projects in 2021 is the project - "Reconstruction of the width of Solin" whose contractor is DIV GRUPA d.o.o. BRODOSPLIT d.d. participates in this project as a subcontractor and it is planned to build 14 segments of the main bridge girder, with a total weight of 2000 tons.

COVID 19

Uncertainty about the further course of the pandemic still poses a risk to the future financial position of the Group and the associated liquidity risk. However, the Management Board uses the measures and supports from the Government of the Republic of Croatia and activities are undertaken to streamline operations. Therefore, the Management Board believes that the negative effects caused by the influence of COVID 19 will not lead the Group into significant uncertainty in the ability to operate on the going concern principle. Further development of the virus may lead to the need to change assumptions and estimates, which in turn may result in significant adjustments to the carrying amount of assets and liabilities in the next financial year. At this point Management is unable to reliably estimate the impact due to the daily development of the above events.

NOTE 33 - APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were adopted by the Management Board and authorized for issue on July 29, 2021

Signed for and on behalf of the Group:

Tomislav Debeljak
Chairman of the Board

BRODOGRAĐEVNA INDUSTRIJA SPLIT

Tomislav Čorak
Member of the Board