

**DIV GRUPA d.o.o
and subsidiaries
("Group")**



Note

These Parent company accounts form
part of Tradewind Voyages UK LTD
accounts for year ending 31st December 2020.

Company number 12450468

The agreement to exemption under section
479a can be found on page 75

Management report

1. INTRODUCTION

The DIV group ended FY 2020 with positive results and key indicators in line with expectations and plans. FY 2020 is very specific in many areas of business given the global outbreak of the COVID-19 virus pandemic and its impact on economic trends, supply, demand, logistical requirements, limited trends and direct contacts. Despite all the negative effects of the COVID-19 virus pandemic, positive results were achieved, a significant increase in results and the realization of new markets. We continued to diversify our operations, markets and sources of revenue in order to minimize and balance the overall impact of the risks that exist from each market separately. In the investment part of the business, we completed the planned investment in technological water treatment plants at the location of the Knin branch, and in the shipbuilding part, until the end of the arbitration dispute with the Original Buyer of NB. 483, we joined the vessel to our own fleet, and for the purpose of filling the capacity and using a vessel called Golden Horizon, we founded the company Tradewind Voyages Ltd, based in the United Kingdom, bringing together a team of experienced and proven staff in the industry with whom the process of gathering guests for planned trips has begun. We continued to invest in equipment and devices needed to improve the production process, process control or performance of individual works.

We continued to strengthen the construction of infrastructure facilities as an independent contractor or as a member of a consortium / subcontractor, which significantly expanded the range of products and services for the current domestic market with the ultimate goal of participating in similar projects in foreign markets.

In 2020 activities continued in the implementation of the financial exposure strategy at the level of the Group. Since the volume of active and announced projects is significantly increasing compared to previous periods, it is logical to try to secure the financing of these projects on the international financial market. Therefore, the intention in the forthcoming period is to finance projects of significant amounts primarily on the foreign market, with the participation of domestic banks within their limits. Considering that the business activities of companies from the Group include the frequent use of banking products such as guarantees and letters of credit, the assumption is that we will have this type of exposure covered in the local financial market. In accordance with the mentioned strategy, in 2020 a loan of EUR 32.0 mil related to the NB 485 project was realized on the foreign financial market. At the same time, the circle of banks with which short-term placements (letters of credit, guarantees, short-term loans have been agreed) has expanded on the domestic market.

Management report (continued)

2. ORGANISATION AND COMPANY MANAGEMENT IN 2020

Name of the company: DIV GRUPA d.o.o.

Legal form: Limited Liability Company

Founding state: Republic of Croatia

Company address: Bobovića 10/A, 10430, Samobor

Branch: IV Gardijske brigada 44, 22300, Knin

Business activity: Production and trade of fasteners products

In 2020 the Company performed its business at the location of the company's address, branch office in Knin and in the business office in Zagreb: R.F.Mihanovića 9- Sky Office.

The Supervisory Board consists of two members:

Darjea Debeljak - Chairman of the Supervisory Board

Vjera Debeljak - Deputy Chairman of the Supervisory Board

During 2020 the company DIV GRUPA d.o.o. was managed by the board of directors as followed:

Tomislav Debeljak, Chairman of the Board

Darko Pappo, Member of the Board

Management report (continued)

3. FINANCIAL STATUS AND BUSINESS RESULTS

3.1 COMPANY ASSETS

As at 31.12.2020, the current assets were HRK 2.021.934 thousand (2019: HRK 1.436.288 thousand), while non-current assets amounted to HRK 2.369.837 thousand (2019: HRK 2.206.274 thousand).

The most significant share of non-current assets is that of buildings, infrastructure and plant and equipment amounting to HRK 2.310.850 (2019: HRK 2.136.386 thousand)

3.2 BUSINESS RESULTS FOR 2020

In 2020, Group realized a consolidated net profit HRK 95.490 thousand (2019: HRK 73.218 thousand).

4. EXPOSURE AND RISK MANAGEMENT

The group is exposed to various financial risks related to:

- PRICE RISK – prices of raw materials on the market
- CAPITAL RISK – ratio of net debt and capital
- CURRENCY RISK – currency movement of EUR and USD because the Group has foreign contracts mostly denominated in EUR and USD currency
- CREDIT RISK – the ability of debtors to pay their debts to the Group. They refer to unfulfilled contracted obligations of second parties. The Group protects itself from such risks by means of Payment Securities and applies procedures that ensure sales to customers who have a sound and reliable credit history
- LIQUIDITY RISK – refers to the risk that cash receipts that will not be enough to cover current cash outflows. The Group is protected by monitoring planned and realized cash flows and monitoring of financial assets and financial liabilities.
- COMPETITION RISK - refers to the risk of unfair competition due to privileged treatment of competing companies by the countries in which they operate

Management report (continued)

4. EXPOSURE AND RISK MANAGEMENT (CONTINUED)

- **RISK OF FINANCING OPTIONS**- refers to the phenomenon in which domestic financial institutions (banks) reject any financial arrangement (credit, guarantees, letters of credit) or limit their negligible values for the Shipbuilding industry. The reason for refusal referred to negative financial indicators of other major shipbuilding companies in Croatia
- **RISK OF NEGATIVE MEDIA RELEASES** - refers to media releases aimed at compromising the Company's operations, and which cause significant attention to key business factors, such as government institutions, customers, financiers, supply chains, by stopping or significantly slowing down regular business processes

The above-mentioned is explained in detail in note 29 to the Financial statements.

5. HUMAN RESOURCES

As at 31 December 2020 the Group had 2,887 employees (2019: 3,234). When hiring new employees, a rigorous selection process is carried out through tests and interviews. Special attention is dedicated to selecting young and qualified individuals or highly qualified staff with experience.

6. FUTURE BUSINESS DEVELOPMENT

DIV GRIPA d.o.o. is committed to its business growth based on thoughtful investments in equipment and infrastructure, introducing new technologies, optimizing business processes, investing in human resources and winning new markets and customers. We continue to strengthen our presence with the EU market which is dominant for our business and also in other markets globally. Last year was marked by the COVID-19 virus pandemic, which greatly disrupted the execution of plans in full. The Company's management has taken all necessary measures in a timely manner to minimize the negative impact and consequences of pandemic.

Management report (continued)

6. FUTURE BUSINESS DEVELOPMENT (CONTINUED)

We continued to optimise production processes, increase productivity as a basic prerequisite for cost reductions per product unit or time needed to produce and increase the quality and reliability of the process. The working capital that we needed for the growth of production, even in times of reduced demand, in order to provide stocks for the demand that followed, we secured by credit engagement with banks and other financial partners. We have done all the necessary preparatory actions to make a decision on the introduction of anti-dumping duties for standard crew machine products in the EU, from which we expect significantly higher demand to increase our competitiveness during 2021.

We have increased our share in the project for the construction of the railway (1 new track and replacement of the old one) Dugo Selo-Križevci by HRK 155 million from the consortium partner Zagreb Montaže d.d. and thus we will earn significantly more than initially contracted.

We continue to strengthen the business relationship with the Brodosplit Group on the unification of individual procurement procedures, consolidation of quantities, to strengthen internal competitiveness in the products launching and services required for the implementation of shipbuilding projects.

With this synergy, we additionally strengthen profitability, but also the possibility of realizing high-value projects in the planned deadlines, regardless of the availability of others.

During 2020, we contracted a number of projects in the field of development and research, thus realizing projects that we have been preparing for a longer period of time. We emphasize the largest CEKOM (competence center) in the Republic of Croatia, where we are involved in 16 projects, and in 12 of the 16 projects we are involved as the holder of the project itself. In addition to the aforementioned CEKOM, we are working on the realization of contracted energy efficiency projects, research and development projects (so-called IRI).

In the part of shipbuilding activity, Brodosplit's order book includes ships with a total value of around EUR 604 million, signed letters of intent worth EUR 717.45 million, and projects with a high degree of pre-agreement worth EUR 120.85 million. In the part of non-shipbuilding activity, Brodosplit has contracted works worth EUR 9.2 million, and very promising projects with a high degree of pre-contracting worth EUR 64.97 million. 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 Ultramarine, a NB 487 passenger ship for polar expeditions and laid a keel for the NB 485. In addition, projects for the largest shipbuilding group Fincantieri and a project for the offshore wind farm market were completed.

Management report (continued)

7. FUTURE BUSINESS DEVELOPMENT (CONTINUED)

In 2020, Brodosplit signed a contract for the construction of a 240m long cable layer. 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. proved in 2020 that it can build the most complex vessels on time, with quality and 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 the employment of new labor force, both in the shipbuilding and non-shipbuilding markets,
- working on further improvements in the organization and productivity increase

Management report (continued)

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

On 20 July 2019 DIV GRUPA d.o.o. started the realisation project for an innovative screws manufacturing process in the area of Samobor and Knin, named: **"Research and development of new junction elements"** focusing on increasing cost-effectiveness, product quality, and feasibility of delivery deadlines, thus enabling the Company to comply with market demands. The project worth a total of HRK 33,469,396.92 was approved by the Ministry of Economy, Entrepreneurship and Crafts on 31 January 2020, and will be implemented by 20 July 2022. The total possible amount of tax base reduction under this project is HRK 41,836,746.15, while the amount of tax relief that can be used within this project is HRK 7,391,075.79. The project activities are performed in the area of experimental growth. The expected project outcome is an innovative and advanced production process decreasing the production time, improving the delivery dynamics in subsequent commercialization and increasing company competitiveness, conforming with the standards defining the product and, ultimately, placing a more accessible and affordable product on the market.

The Company continues to implement experimental product development as part of the project **"Research and development of new metalworking and welding positions"** which, in the total amount of HRK 15,105,424.56, is approved by the Ministry of Economy, Entrepreneurship and Crafts on 29 May 2020, and will be implemented by November 30, 2022. The total amount of tax base reduction for this project is HRK 18,881,780.70, and the tax relief that can be used within this project is HRK 3,398,720.53. The goal of the project is an innovative, advanced, and significantly improved production process, accompanied by a necessary reduction in production costs and duration in order to increase the competitiveness of products in foreign markets.

The project's estimated outcome is an innovative, advanced and significantly improved production process, with the necessary reduction of costs and production time, provided that the final products meet the applicable standards.

The project **"Development and research of new surface protections"** was reported on October 5, 2020, to the Ministry of Economy and Sustainable Development. The project in the total amount of HRK 18,111,239.88 was approved by Ministry of Economy and Sustainable Development on January 29, 2021, year and will be implemented by September 30 2023. The total amount of tax base reduction that can be used in this project is HRK 22,639,049.85, and the amount of tax relief that can be used in this project is HRK 4,075,028.97.

The purpose of the project is to improve the knowledge and existing technological processes of surface protection with the aim of developing a significantly improved protective layer on the connecting elements, especially in the context of reliability and reducing the friction coefficient on the surfaces of connecting elements on which the protective layer is applied.

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

The expected outcome of the project is innovative, advanced and significantly improved technological processes of surface protection that meet EU and international standards according to which the fasteners are defined and they have achieved a more reliable way of protecting the fasteners. Ultimately, in this way, a more acceptable, functional and sophisticated product, with significantly improved characteristics, can be offered to the market.

The project **"Expansion of the capacity of the existing business unit and diversification of production-wire processing and production of threaded rods"** started on June 3, 2013. and was implemented until June 3, 2016, in the Knin area. The project includes an investment of buying and equipping a new plant, which will be used for the production of threaded rods, bolts and other threaded products. The project was approved by Ministry of Economy and Sustainable Development on March 19, 2020. According to the approval, the eligible costs amounted to HRK 46,924,206.00. The realized amount of investment is HRK 28,292,300.38.

DIV GRUPA d.o.o. initiated, in the area of Šibenik-Knin County on March 15, 2016, investment project according to the Law on Investment Promotion: **"Expansion of production capacities - connectors"**. The project carries out infrastructure works and procures equipment for the purpose of expanding the production of connectors. Also, as part of this project, the quality of the production of connectors is being improved, and the efficiency of production is growing on the basis of investments.

In addition to research and development projects that using state aid, DIV GRUPA d.o.o. actively participates in and uses European funds for regional development and thus implements projects within the *Operational Program Competitiveness and Cohesion 2014-2020*.

"Development of the DIV elastic clip", implemented in line with the Grant agreement with a total project value of HRK 25,071,055.68, of which HRK 15,268,603.57 are funded by the European Structural and Investment Fund in the financial period 2014.-2020. ("Enhancing development of new products and services resulting from research and development activities" – RDI stage I). The research and development project will be implemented in the period from 01.07.2018. to 01.07.2022., with the aim of enabling the development of a functional and innovative DIV elastic clip and, consequently, its placement and commercialization on the world railway construction and maintenance market. The project directly contributes to increasing investment in research and development within the Smart Specialisation Strategy (S3), thematic area "Transport and mobility" and sub-thematic priority area (STPA) 1. "Production of parts and systems of high added value for road and rail vehicles", with an indicative RDI topic: road and rail vehicles of a higher added value. The project was

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

implemented in 2019 as a part of the industrial research conducted in cooperation with the Faculty of Civil Engineering in Zagreb.

„Increasing energy efficiency in the production facility in Knin ”, which is implemented in accordance with the Grant Agreement with a total project value of HRK 20,959,417.00, of which HRK 9,827,497.65 are grants. The purpose of the project is to increase the efficiency of energy use in the production process by using reactive energy, modernizing large energy consumers and reducing energy losses.

As a continuation of the efforts to achieve better energy efficiency with the aim of introducing measures for the use of renewable energy sources, the Company competed with the project proposal DIV GROUP - Sustainable Production at the invitation of KK.04.1.1.03 "Increasing energy efficiency and use of renewable energy sources in manufacturing industries" and the project proposal was submitted on 08.02.2021. The project proposal with a total value of HRK 45,566,118.84, of which HRK 19,993,861.90 are grants, is currently in the 3rd phase of evaluation. In addition to the savings that are planned to be achieved by replacing obsolete machines and lighting, it is also planned to install a solar power plant with an installed power of photovoltaic panels of 5,482 kWp, which will reduce the total delivered energy to 7,122,349.60 kWh / year. CO₂ emissions will be lower by 2,350.38 tCO₂ / year.

Furthermore, the Company is planning to implement a project from the Call for enhancing development of new products and services resulting from research and development activities – stage II under the 'Competitiveness and Cohesion' operational programme of the European Regional Development Fund, in cooperation with Brodograđevna Industrija Split d.d., Marine and Energy Solutions DIV d.o.o., Faculty of Electrical Engineering, Computer Science and Information Technology in Osijek, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split. This is a project called "Development of a zero-emission passenger sail boat", in line with Priority axis 1 *Strengthening the Economy through Application of Research and Innovation* and in line with the Croatian Smart Specialisation Strategy 2016-2020 and the following thematic priority areas:

1. "Transport and mobility" – sub-thematic priority areas: Environmentally-friendly transport systems and intelligent transport systems and logistics;
2. "Energy and sustainable environment" – sub-thematic priority areas: Energy technology, systems and equipment and Environmentally-friendly technology, equipment and advanced materials.

The aim of the project is to develop eco-innovation in the form of a passenger sailing vessel. This will require work on alternative propulsion technologies such as maximizing the use of renewable energy

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

sources based on an environmentally friendly design, geared towards sustainable zero-emission mobility. Achieving the project's objectives is planned in cooperation with scientific institutions, all with the aim of improving the transfer of knowledge and technology between industry and higher education institutions and public research institutes, which benefit both companies and researchers from the public sector. The implementation of this project will provide knowledge and develop an innovative product (sailing ship) that will enable the applicant and partners to be more competitive in the global market of design and construction of passenger ships (in the narrower sense, the market of small cruise ships).

The new product will stand out from the competition for its technological superiority which will ultimately lead to a final product of higher quality and higher cost efficiency (both in construction and in service life). The project implementation period is from 17.02.2020. to 17.08.2023. The total value of the Project amount to HRK 52,779,547.09. The total eligible costs of the project amount to HRK 42,520,975.46, and grants in the amount of HRK 28,913,221.79 are awarded.

At the same time DIV GRUPA d.o.o. intends to participate as a Partner in the following projects: **"Development of multi-purpose rescue and tourist submarines"** and **"Development of an autonomous unmanned multi-purpose vessel"** which have passed all stages of evaluation and are pending due to delays in the allocation of funds. Financing decisions are expected by the end of May 2021, when implementation activities on these projects will be intensified. All submitted projects are highly innovative with an emphasis on the development of advanced technologies in the field of maritime transport without adverse effects on the environment. The focus of development lies in a functional innovative product of a multi-purpose tourist and research submarine in the shipyard BRODOSPLIT-BRODOGRADILIŠTE SPECIJALNIH OBJEKATA d.o.o. (BSO), placement and commercialization of this product on the world market with the purpose of strengthening the market position of BSO shipyard based on submarine construction technology, and renewal of acquired knowledge and submarine construction that has been completely neglected in the last 25 years. This research aims to develop a new, very complex product that is partly the result of the application of the latest global knowledge and skills, and partly represents a new step forward in the field of research and development. The product that is the result of this research is new for entrepreneurs and partners, new for the national market and the region, and will include Croatia in the group of only a few countries that offer civilian submarines on the global market. The project partners are: Brodosplit - Shipyard of Special Facilities d.o.o., DIV GRUPA d.o.o. Marine and Energy Solutions DIV d.o.o. and the University of Zagreb, Faculty of Electrical Engineering and Computing. The project implementation period is: from 29.06.2020. to 29.06.2023. The

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

total value of the Project is in the amount of HRK 55,052,642.14. The total eligible costs of the project amount to HRK 44,522,022.01, and grants in the amount of HRK 29,673,177.57 are awarded.

The project **"Development of an autonomous unmanned multi-purpose ship"** aims to develop and demonstrate a multi-purpose vessel that will be capable of autonomous or remote-controlled navigation in real operational conditions. During the development, many unresolved technological challenges will be addressed, with an emphasis on safety and reliability in navigation, which presupposes a fully cyber-protected system. The multipurpose vessel is primarily planned to be used to mitigate the consequences of potential environmental disasters such as oil spills into the sea or to clean solid surface waste, as a firefighting vessel that will participate in risky firefighting in maritime accidents while protecting the lives of intervention teams and increase firefighting efficiency. The project applicant is BRODOGRAĐEVNA INDUSTRIJA SPLIT d.d., and the project partners are: DIV GRUPA d.o.o. for services, Marine and Energy Solutions DIV d.o.o. for services, Brodosplit - Brodogradilište specijalnih objekata d.o.o. and University of Zagreb, Faculty of Electrical Engineering and Computing. This research aims to develop a new, very complex product that is partly the result of the application of the latest global knowledge and skills and represents a new step forward in the field of research and development. The product that is the result of this research is new for entrepreneurs and partners, new for the national market and the region and will include Croatia in the group of only a few countries that develop and offer autonomous unmanned technology in the global market.

The project implementation period is from 29.06.2020. to 29.06.2023. The total value of the Project is in the amount of HRK 53,727,223.80. The total eligible costs of the project amount to HRK 44,397,154.35, and grants in the amount of HRK 29,620,601.72 are awarded.

It is important to emphasize that research and development activities are almost entirely based on existing competencies within the DIV Group, i.e. that research and development activities, but also commercialization activities continue on the existing business resources, organization and business processes of the Company.

Employees of the 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 Brodosplit d.d. reported two research and development projects "Development of an innovative luxury passenger three-masted sailing ship with low hull resistance" and **"Development of an innovative luxury research passenger ship for the polar regions with reinforced hull for ice navigation - polar code PC 6"** for the use of

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

state aid according to the State Aid Act for research and development projects. The development of this type of innovative passenger ship with low consumption of fossil fuels during the navigation of the ship thanks to the synergy of the functional system of sails and low resistance of the ship will enable the shipyard Brodosplit d.d. strengthening competitiveness in the demanding passenger ship market. 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, e.g. 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. In addition to students, Brodograđevna industrija Split d.d. organizes professional 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 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 can open the possibility of future employment.

BRODOGRAĐEVNI INSTITUT d.o.o.

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.

Research and development activities, along with other activities related to the introduction of innovations in economic entities, are necessary for each individual economy to become more competitive by increasing the 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 research and development is the low level of innovation capacity, low level of the potential

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

for research and development and limited interest in cooperation between economic entities and 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
- intensification of cooperation with other scientific research institutions in the country and abroad in order to transfer knowledge and technology
- intensification of cooperation with economic entities in the country and abroad, 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 industry 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 Scientific Activity and Higher Education Act, 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.

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)

Management report (continued)

THE GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

- 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 long-term development of the Institute and the successful implementation of a five-year program of scientific research by thematic areas and the achievement of strategic goals, the organizational structure of scientific research departments at the Institute will be adjusted to achieve the most effective coverage of 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 a mediator 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.

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
- Development of mobile multifunctional logistics/distribution navigable centers for connecting and revitalizing islands and coasts
- Development of a multi-purpose coastal patrol vessel with modular equipment concept
- Development of advanced coastal transport systems (SWATH vessels)
- Development of a network of small LNG floating plants for storage and transfer of LNG in Croatian ports

Management report (continued)

7. GROUP'S ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT (CONTINUED)

Projects within the NRS 2030 program, by the Shipbuilding Institute d.o.o., would be attended by scientific researchers whose involvement in the projects was achieved through a contract on scientific research cooperation.

In addition to the scientific research topics listed above, 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 vessel management systems
- Development of innovative vessel equipment design procedures
- Investigation of vessel 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 in order to jointly research selected topics, increase scientific productivity and scientific excellence Institute in the domestic and international scientific environment.

Subsidiaries are detailed in the notes in the financial statements

The Company does not have its own shares, nor did it have any during 2020.

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019. GRUPA d.o.o. and subsidiary 14

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT

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

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

In preparing those consolidated financial statements, the Management Board is responsible for:

- the selection and consistent application of the appropriate accounting policies,
- reasonable and prudent judgments and assessments,
- applying the applicable accounting standards,
- preparing consolidated 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 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 to safeguard the Group's assets and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed for and on behalf of the Management Board:

Tomislav Debeljak

Chairman of the Management Board

Darko Pango

Member of the Management Board

In Samobor, September 17 2021.

INDEPENDENT AUDITOR'S REPORT

To the Owners of DIV GRUPA d.o.o. and its subsidiaries

Opinion

We have audited the consolidated financial statements of DIV Grupa d.o.o. ("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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, 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.

The company was registered at Zagreb Commercial Court (M.O. 130622053), paid-in capital: HRK 14,000,000, Company Directors: Marina Bončina, Dražen Jurešević and Dobroslav Vukobratović, Bank: Privredna banka Zagreb d.o.o., Radnička cesta 50, 10 000 Zagreb, bank account no.: 54020911110098794, SWIFT Code: PBZGHR33IBAN: HR38221001910038294

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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 and Article 24 of the Accounting Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the consolidated financial statements, we have not identified material misstatements in the other information, except for the possible effects described in paragraph Basis for Qualified Opinion.

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.

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INDEPENDENT AUDITOR'S REPORT (continued)**Auditor's Responsibilities for the Audit of the consolidated Financial Statements**

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

Marina Tonžetić

Director and Certified Auditor

Deloitte d.o.o.

September 17 2021

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

For signatures, please refer to the
original Croatian Auditor's Report
which precedes

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 PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE PERIOD ENDED 31 DECEMBER 2020**

(in thousands of HRK)	Note	2020	2019
Sales income	5	1,044,164	1,184,239
Other operating income	6	94,802	76,968
Total operating income		1,138,966	1,261,207
Changes in inventories - work in progress and Finished goods	19	24,492	160,344
Material costs	7	(517,502)	(714,702)
Staff costs	8	(303,828)	(312,167)
Depreciation cost	13, 14, 15	(53,498)	(47,622)
Other operating expenses	9	(159,464)	(200,994)
Total operating expenses		(1,009,800)	(1,115,141)
Operating income		129,166	146,066
Financial income	10	43,164	14,058
Financial costs	11	(79,039)	(92,021)
Net financial costs		(35,876)	(77,963)
Share in net income/(loss) of joint venture	17	8	(96)
Profit before taxation		93,298	68,007
Corporate income tax	12	2,192	5,211
Net profit		95,490	73,218
Other comprehensive income			
Revaluation of property, plant and equipment and intangible assets		60,521	33,523
Reconciliation of minority interest		3,482	-
Changes in fair value of assets available for sale	16	2	33
Effect of changes in foreign exchange rates		650	661
Total comprehensive income		160,145	107,434
Profit/(loss) attributable to:			
Company's shareholders		95,397	74,244
Non-controlling interest		93	(1,026)
		95,490	73,218
Total comprehensive income attributable to:			
Company's shareholders		156,579	107,220
Non-controlling interest		3,566	214
		160,145	107,434

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

(in thousands of HRK)	Note	31 December 2020	31 December 2019
ASSETS			
Non-current tangible assets			
Intangible assets	13	24,647	38,263
Property, plant and equipment	14	2,310,850	2,136,386
The right of use assets	14a	1,277	930
Investment property	15	4,448	3,536
Other investments	16	454	451
Investment in joint ventures	17	16,780	16,079
Non-current receivables	18	2,538	3,839
Deferred tax assets	12	8,843	6,790
Total non-current assets		2,369,837	2,206,274
Current assets			
Inventories	19	590,994	468,419
Trade and other receivables	20	139,193	201,443
Trade receivables for construction contracts	20a	1,227,898	714,930
Cash and cash equivalents	21	55,351	25,664
Prepaid expenses		8,497	25,832
Total current assets		2,021,934	1,436,288
Total assets		4,391,770	3,642,562
EQUITY AND LIABILITIES			
Equity			
Share capital	22	245,737	245,737
Reserves	23	429,997	381,428
Retained profit	22	1,106,098	1,097,375
Current year profit	23	95,490	73,218
Owner's equity:		1,877,322	1,797,758
Non-controlling interest		10,555	7,176
Total equity		1,887,878	1,804,934
Non-current liabilities			
Liabilities towards banks and other financial institutions	24	218,616	565,566
Provisions	25	10,680	16,294
Deferred tax liability	12	101,159	88,797
Other non-current liabilities	25a	661,069	481,972
Total non-current liabilities		991,524	1,152,629
Current liabilities			
Liabilities towards banks and other financial institutions	24	690,901	176,048
Provisions	25	1,580	1,835
Trade and other payables	26	777,202	463,818
Deferred expenses and future income	27	42,685	43,298
Total current liabilities		1,512,368	684,999
Total liabilities		2,503,893	1,837,628
Total equity and liabilities		4,391,770	3,642,562

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of EUR)

	Investment capital	Reserves	Retained earnings	Owner's equity	Non- controlling interest	Total equity
Balance at 1 January 2019	245,737	356,609	1,097,208	1,699,555	8,643	1,708,198
Effect of changes in foreign exchange rates	-	660	-	660	-	660
Profit for the year	-	-	74,243	74,243	(1,026)	73,217
Decrease in retained earnings and increase in investment capital	214,633	-	(214,633)	-	-	-
Decrease in investment capital and increase in reserves and retained earnings	(214,633)	6,082	208,551	-	-	-
Revaluation of assets	-	32,283	-	32,283	1,240	33,523
Other	-	33	-	33	-	33
Total comprehensive income	0	39,656	58,161	107,219	214	107,433
Expense of the previous tax period	-	-	1,681	1,681	(1,681)	-
Transfer	-	(14,239)	14,239	-	-	-
Reduction of revaluation reserve at amortization of revalued assets (in favour of retained earnings)	-	-	(10,696)	(10,696)	-	(10,696)
Balance at 31 December 2019	245,737	381,428	1,170,593	1,797,759	7,176	1,804,935
Effect of changes in foreign exchange rates	-	791	(133)	659	(9)	650
Profit for the year	-	-	95,397	95,397	93	95,490
Change of minority interest	-	-	-	-	3,482	3,482
Decrease in investment capital and increase in reserves and retained earnings	-	1,260	(1,260)	-	-	-
Revaluation of assets	-	60,521	-	60,521	-	60,521
Other	-	-	2	2	-	2
Total comprehensive income	-	62,592	93,986	156,579	3,566	160,145
Reduction of revaluation reserve at amortization of revalued assets (in favour of retained earnings)	-	(14,023)	14,023	-	-	-
Dividends	-	-	(74,960)	(74,960)	-	(74,960)
Other	-	-	(2,054)	(2,054)	(187)	(2,241)
Balance at 31 December 2020	245,737	429,997	1,201,588	1,877,323	10,555	1,887,878

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2020

(all amounts in thousands of HRK)	Note	2020	2019
Profit before taxation		95,490	73,217
Adjustment for:			
Income tax	12	(2,192)	(5,211)
Depreciation and amortization	13,14,15	53,498	47,622
Impairment of tangible and intangible assets		3,810	2,271
Net book value of written off property, plant and equipment		14,788	23,138
Share in loss of joint ventures	17	(8)	89
Financial income/(expenses) - net	10,11	35,875	74,652
Other non-monetary adjustments		(3,453)	2,262
Changes in:			
- trade and other receivables		(437,193)	(309,406)
- inventories		(122,575)	(49,207)
- trade and other payables		84,764	74,107
- provisions	25	(5,869)	(8,778)
Cash flow from operating activities		(283,065)	(75,244)
Paid interest		(101,312)	(39,804)
Paid corporate income tax		(2,053)	(96)
Net cash flow from operating activities		(386,430)	(115,144)
Cash flow from investment activities			
Acquisition of property, plant and equipment	13, 14	(149,032)	(114,927)
Investments in joint ventures		(693)	(954)
Received loans and deposits		1,298	3,121
Profit payment		(5,161)	-
Net cash flow from investment activities		(153,588)	(112,760)
Cash flow from financial activities			
Receipts from loans and borrowings		784,061	992,704
Repayments of loans and borrowings		(214,357)	(755,677)
Net cash flow from financial activities		569,704	(226,271)
Net increase/(decrease) in cash and cash equivalents		29,687	(1,633)
Cash and cash equivalents at the beginning of the year		25,664	27,297
Cash and cash equivalents at the end of the year	21	55,351	25,664

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 1 - GENERAL INFORMATION

History and founding

DIV GROUP ("the Group") comprises the parent company DIV GRUPA d.o.o., DIV Brodogradnja d.o.o., Brodosplit d.d., Split and 69 subsidiaries, MIN DIV Svrnjig a.d, TVIK DIV Valjevo d.o.o., DIV Betonski pragovi d.o.o, DIV Sarajevo d.o.o., Shanghai Vida Industry & Trading CO.LTD., China, DIV Cruises inc. SAD, Tradewind Voyages UK LTD, Efficient Powerful Successful d.o.o., DIV Shipbuilding Norway and DIV Učilište.

DIV GRUPA d.o.o. is registered with the Commercial Court in Zagreb under the Registration number (MBS) 080127368, in accordance with the Companies Act. The core business activity of the Company is the production of fasteners, screws, chains and springs. In 2013, the subsidiary DIV Brodogradnja d.o.o. acquired 99.76% shares of the company Brodosplit d.d., Split and the Group's business activity was extended to shipbuilding. The Group is headquartered at Samobor, Bobovica, 10/A, Croatia. The subscribed capital of the Group amounts to HRK 245,736,800.

The founders and owners of the Group are Tomislav Debeljak, Vjera Debeljak and Božidar Debeljak.

Members of the Supervisory Board during the reporting period were as follows:

Name	Surname	Function
Daniijela	Debeljak	President of the Supervisory Board
Vjera	Debeljak	Vice President of the Supervisory Board

Members of the Management Board during the reporting period were as follows:

Name	Surname	Function
Tomislav	Debeljak	Chairman of the Management Board
Darko	Pappo	Member of the Management Board

NOTE 2 - BASIS OF PREPARATION

(i) Statement of compliance

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

(ii) Basis of measurement

These consolidated financial statements are prepared on a historical cost basis, except for some tangible assets and financial instruments, which are presented in revalued amounts or at their fair value as is disclosed in the accounting policies as follows. Historical cost is usually based on fair value of compensation given for an asset

(iii) Functional currency and reporting currency

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

(iv) Going concern

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2 - BASIS OF PREPARATION (CONTINUED)

(iv) Going concern (continued)

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 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
- approval of a loan from Sberbank in the amount of EURO 4,850,000.00, on December 22, 2020
- approval of COVID-loan of Podravska banka in the amount of HRK 20,000,000.00 on May 25, 2021.

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.

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 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.

The Group considered potential options and alternatives, including, but not limited to, sale of inventory of finished products with a discount (still above purchase price) or sale of property to provide additional funds in the short term, if necessary.

The Group responded in a timely manner to the challenges of the Covid-19 pandemic, in all business segments. Conditions have been created for the safe continuation of production, in accordance with the measures and recommendations of the competent authorities, the supply of key raw materials has been ensured, and a postponement of loan principal payments has been agreed with financial institutions for the period within which market normalization is expected.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these consolidated financial statements are set out below. These accounting policies were used in a consistent manner for all periods which form a part of these statements.

3.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are completely consolidated from the date on which the control was indeed transferred to the Group and are excluded from the consolidation from the date on which this control stops.

In consolidated financial statements, all transactions within the Group, as well as balances and unrealised gains and losses from transactions within the Group are eliminated. Where appropriate, the subsidiaries' accounting policies were amended in order to comply with the policies the Group applies.

(ii) Associates

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

(iii) Joint ventures

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

3.2 Foreign currency transactions

Transactions and balances in foreign currencies

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

Non-monetary assets and liabilities are valued at historical cost and are not recalculated at new exchange rates.

Non-monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.2 Foreign currency transactions (continued)***Foreign currency transactions**Group members*

Items included in the consolidated financial statements of each member of the Group are stated in currency of the primary economic surrounding where the Company operates (functional currency). The consolidated financial statements are presented in the Croatian kuna ("HRK"), which is the Group's functional currency.

Income and expenses and cash flows of foreign operations were translated into the functional currency of the Group using the exchange rate prevailing at the date of the transaction (average exchange rate for the month), and their assets and liabilities are translated using the exchange rate at the end of year. All exchange rate differences incurred from this transaction are presented in a separate position in the principal.

3.3 Property, plant and equipment

Property, plant and equipment are initially recognized at cost which include the purchase price per supplier's invoice, customs and non-deductible taxes and all other costs that can be attributed directly to the asset's use and for the purpose for which it is intended. After initial recognition, tangible fixed assets are stated at their revalued amounts comprised of their fair value at the revaluation date less accumulated amortization and accumulated impairment losses. Revaluation should be carried out regularly enough so that the carrying amount is not significantly different from the one that would be determined by establishing the fair value at the balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of replacement of large items of property, plant and equipment is capitalized, and the carrying amount of the replaced parts is derecognized.

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

Buildings	20-100 years
Tools, furniture and transport equipment	10-33 years
Plants and equipment	10-33 years

There were no changes in depreciation rates in 2019. Depreciation is calculated for each asset until the asset is fully depreciated or its residual value is significant. The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Residual values and useful lives of the operating assets are reviewed and adjusted if applicable at each reporting date.

In case the carrying amount of assets exceeds the estimated recoverable amount, the difference is written-off to the recoverable amount.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets

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

After the initial recognition, project documentation is stated at their revalued amounts comprised of their fair value at the revaluation date less accumulated amortization and accumulated impairment losses.

IT software and other intangible assets are recorded at purchase value less the depreciation costs and contingent accumulated losses due to assets impairment. 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 depreciated over the estimated useful life and is impaired if deemed necessary. Depreciation period and depreciation method of intangible assets with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of use of future economic benefits included in the assets are calculated by changing the depreciation period and method and are treated as changes in accounting estimates.

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.

3.5 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 cost less accumulated depreciation and provision for impairment where required. Depreciation is calculated using the straight-line method to allocate cost over estimated useful life of 33 years.

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

3.6 Non-financial assets impairment

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial Assets and liabilities

Financial assets and financial liabilities are recognized in the statement of financial position of the Group when the Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that can be attributed directly to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added or deducted from the fair value of financial assets or financial liabilities, as required, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

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

(i) Classification of financial assets

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

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

(ii) Amortized cost and effective interest rate method

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

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

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

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

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

Interest income is recognized in the income statement.

(iii) Impairment of financial assets

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

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

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

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

Significant increase in credit risk

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

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

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

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

Definition of default status

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

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

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

Credit impairment financial assets

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

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

Write-off policy

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

Measuring and recognizing expected credit losses

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

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

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

Termination of recognition of financial assets

The Group cease to recognize financial assets only when contractual rights on cash flows expire or when it transfers financial assets, all risks and rewards associated with ownership of financial assets on another person.

If the Company does not transfer and substantially discontinues all the risks and rewards associated with its ownership and continues to control the transferred assets, the Company recognizes its retained interest in the asset and the related obligation to the amounts that it may have to pay. If the Company retains all significant risks and rewards associated with the ownership of the transferred financial assets, the Company continues to recognize financial assets and also recognizes the received collateral for received assets.

In the event of a discontinued recognition of financial assets measured at amortized cost, the difference between the carrying amount and the amount of received remuneration and receivables is recognized in the income statement. Furthermore, at the end of the recognition of an investment in a debt instrument measured by FVOSD, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss, with the exception of equity instruments for which the FVOSD option is selected.

Loans and receivables

The Group always provides for the losses from receivables in the amount equal to life-long ECL. Expected credit losses on trade receivables are estimated on the basis of historical data, taking into account the historical experience of the debtors defaulting status and the current financial position of the debtor. The Group has recognized a 100% loss on all receivables that have matured over 360 days, and which were shown as irrecoverable by an individual assessment of the financial position of the debtor. There were no changes in valuation techniques or significant assumptions during the current reporting period.

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Since the Group's historical credit loss experience does not show significantly different loss patterns for different segments of the customers, maturity-based impairment provisions do not differ between the different customer groups of the Group.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial assets and liabilities (continued)

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities. The Group has no financial liabilities classified as fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value less costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest rate method represents a method used for calculating the depreciated cost of the financial liability and distributing the interest expenses throughout the relevant period. The effective interest rate is the rate pursuant to which the estimated future cash flows are discounted during the expected lifetime of the financial liability or, where applicable, during a shorter period.

End of financial liability recognition

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

3.8 Government grants

Government grants are recognized when there is reasonable assurance that the Group will comply with the terms attaching to it and that the grant will be received. Consequently, the Group does not recognise government grants until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leases

Policy valid from January 1, 2019

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

i. Group as lessor - finance lease

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

ii. Group as lessor - operating lease

Leases in which the Group does not 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 applies a single approach to recognition and measurement. The Group recognizes 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 recognizes assets with the right of use at the time of concluding the lease agreement (i.e. 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 recognizes 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
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leases (continued)

Policy applicable before January 1, 2020

Leases are initially classified as finance leases or operating leases.

i. Group as lessor - finance lease

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

ii. Group as landlord - operating lease

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

iii. Group as lessee - operating lease

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

3.10 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 and includes the cost of bringing inventory to their existing location and current condition. 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).

Raw materials and intermediate goods are valued at cost, using the weighted average method. The cost of work-in-progress and finished goods includes raw materials, direct labor costs, other direct costs and the related part of general production costs (based on normal regular production capacity). Spare parts are valued at the lower of cost and net realizable value.

The value of inventories that have a slow turnover and are obsolete is reduced by the profit or loss for the current year.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Construction contracts

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

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

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

For all ongoing contracts where the costs incurred and recognized gains (less any recognized losses) exceed the amounts accrued, the Group's gross amounts receivable from the counterparty are stated as assets. Gradually charged amounts not paid by the customers and retained amounts are reported as trade receivables and other receivables. For all ongoing contracts where the gradually charged amounts exceed the costs incurred and the recognized gains (less any recognized losses), the Group's gross amount of the liability to the counterparts is stated as a liability.

3.12 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and other liquid short-term instruments with maturity dates up to 3 months.

3.13 Subscribed capital

The subscribed capital is stated in HRK at nominal value.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Corporate income tax

The Company provides for taxation liabilities in accordance with Croatian law and regulations.

Profit or loss for the year includes current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

The current tax represents the estimated tax liability calculated for the taxable amount of income for the year pursuant to tax rates valid on the reporting date and all corrections of the amount of the tax liability for previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences in relation to investments in subsidiaries as far as they will likely not reverse in the foreseeable future. No temporary differences are recognized on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of the realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.15 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.

3.16 Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds of the transaction and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, form part of the cost of that asset.

Revenues from investment of borrowings before their use are credited from borrowing costs eligible for capitalization.

Other borrowing costs are recognized as an expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 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) Redundancy benefits

Redundancy benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The 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.

3.18 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the 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 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria for all activities have been met, as described below:

(i) Sales of goods

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

(ii) Services

The Group generates revenue from the provision of services. Revenue from the provision of the service is accounted for in order to incur a loss and 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 account in order to incur a loss when the service is provided;
- If the performance obligation is met over time, the related revenue is recognized in the account to incur a loss to reflect the progress of that obligation.

If the liquidation schedule is not in line with the manner in which the performance obligation has been met, the Group calculates the contractual asset or contractual obligation for a portion of the revenue generated in that period or for a deferral in subsequent periods.

(iii) Revenue from construction contracts

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

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

(iv) Financial income

Financial income includes interest on invested funds, and changes in the fair value of financial assets and foreign exchange gains. Interest income is recognized on a time-share basis using the effective interest method.

(v) Dividend income

Dividend income, i.e. profit sharing, is recognized when the shareholder's right to receive the dividend is voted, provided that the inflow of economic benefits to the Group is probable and that the income can be measured reliably.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 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.

3.21 Profit distribution

Profit distributions to the shareholders are recognised as a liability in the consolidated financial statements in the period in which the distributions are approved by the General Assembly.

3.22 Maritime domain and concessions

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

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

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

Concession service time

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Maritime domain and concessions (continued)

Concession payment

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

1. a fixed portion in the amount of HRK 0.50 per square meter of land used per annum;
2. 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:

1. 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;
2. 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 grantor.

Non-transferability of the concession

The concessionaire may not, in whole or in part, transfer the concession on the maritime domain to another legal or natural person without the express consent of the grantor.

The concession for the use of maritime property is calculated according to the conditions from the concluded contracts starting from 2000 and is charged to the business expenses of the accounting periods.

Amendments to the Maritime Property Concession Agreement

The Company and the grantor of the concession were concluded by the Government of the Republic of Croatia on 11 February 2011. Addendum 1 of the Maritime Property Concession Agreement for the purpose of economic use of the special purpose port - Split shipyard, which charged:

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Maritime domain and concessions (continued)

Concession payment

The concession holder is obliged to pay the concession grantor an annual fee consisting of two parts:
permanent part in the amount of HRK 3 per square meter of occupied area per year
variable part of the fee in the amount of 1% of annual income

The concession fee is paid in the following way:

1. the permanent part of the fee for the current year shall be paid within 45 days from the day of concluding the Addendum to the concession agreement, for the following years in advance until April 15 of the current year
2. the variable part of the fee is paid backwards in two parts: by 30 September for the first half of the current year, until April 30 for the second half of last year.

The Decree on Amendments to the Decree on the Procedure for Granting a Concession on a Maritime Property (OG RH No. 10/17) of 10 February 2017 defines the calculation of the variable part of the fee in the amount of 1% of annual income, with income being the portion of revenue that covers items in the Concessionaire's Profit and Loss Account as follows: staff costs, depreciation and period profit. If the business result of the period is a loss, the basis for calculating the concession fee is calculated only by summing the positions of staff costs and depreciation. The change in the calculation of the concession is applied from 11 February 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Changes in accounting policies and disclosures

Initial application of new amendments to existing standards effective in 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:

In the current reporting period, the following amendments to existing standards 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 1 January 2020)
- Amendments to IFRS 3 "Business Combinations" - Definition of Business, 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 occurring 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)
- 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 these amendments to existing standards did not lead to significant changes in the Company's financial statements.

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 these financial statements, the following amendments to existing standards published by the IASB and adopted in the European Union were published, 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 15 December 2020 (the expiry date of the temporary exemption from the application of IFRS 9 has been moved from 1 January 2021 to annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16: "Leases" - Reform of reference interest rates - Phase 2, adopted in the European Union on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Changes in accounting policies and disclosures

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 Items" (effective for annual periods beginning on or after 1 January 2016) - The European Commission has decided to postpone the adoption of this transitional standard until its final version is published
- IFRS 17 "Insurance Contracts", including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023)
- 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 Prior to 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 Fulfilling Contractual Obligations (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 "Business Combinations" - References to the Conceptual Framework with Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Interests in Associates and Joint Ventures" - Sale or investment of assets between an investor and its associate or joint venture and further amendments (the original effective date is deferred until the completion of the research project on the application of the share method)
- Amendments to various standards due to "Revision of IFRSs from the 2018-2020 cycle", resulting from the project of annual revision of IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily to eliminate inconsistencies and clarify the text IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 is for illustrative purposes only and does not specify the effective date.).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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) Income recognition – percentage of completion method

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

(b) Work in progress and revenue

The revenues and costs reflected in the consolidated financial statements are based on the Group'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 if unexpected costs or unforeseen project difficulties occur.

(c) Useful life of tangible assets

The Group reassesses the estimated useful life of construction objects, equipment and transport equipment. The useful lives will be periodically reassessed if any changes in circumstances occur. Changes in estimates, if any, will be reflected prospectively through the change in depreciation over the remaining useful life.

On 31 December 2020 DIV GRUPA d.o.o. and Brodosplit group revalued its land, property and equipment. The revaluation was carried out on the basis of assessments made by the authorized appraisal company Hamzić consulting, market research craft, owned by Sejad Hamzić and court expert for construction and real estate appraisal Hrvoje Balija.

(d) Recoverable amount of trade and other receivables

The recoverable amount of the receivables is estimated as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Short term receivables without the rate are valued at the original amount if the discounting effect is not significant.

NOTE 4 - KEY ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Impairment of inventories

Inventories are estimated at each reporting date and are impaired based on estimated sales and aging structure. The calculation of impairment of individual inventories is based on the date of the last sale and turnover. Management has determined impairment of individual inventory items with respect to the aging structure.

(f) Legal claims and disputes

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

(g) Repairs in the guarantee period

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

(h) Onerous contracts

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

(i) Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attached 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.

(j) Recognition of deferred tax assets

In determining future taxable profits and the amount of tax benefits that are likely to be utilized in the future, Management of the Company makes judgements and estimates based on taxable profits from previous years and expectations of future income that are believed to be reasonable under the existing circumstances. Deferred tax assets represent the taxable profit and is expressed in the statement of financial position. Deferred tax assets are recognized to the extent of tax benefit that is probable to be achieved.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 5 – SALES

	2020	2019
	<i>(in thousands of HRK)</i>	
Shipbuilding	575,189	422,301
Sale of goods	267,452	376,735
Construction services	175,786	163,020
Non-shipbuilding industry	25,737	222,183
	1,044,164	1,184,239

Revenue from shipbuilding and revenue from off shore and steel construction are calculated in accordance with IFRS 15 - Construction contracts, where percentage of completion is calculated using cost model, i.e. according to the ratio of realized costs in the observed period and total planned costs for the related new construction.

NOTE 6 - OTHER OPERATING INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Subsidies and government grants	50,842	-
Reversal of provisions	9,201	4,283
Income from write-off of liabilities	2,350	28,952
Revenue based on use of own products, goods and services	122	-
Revenue from out of court settlement	-	32,585
Other operating income	32,287	11,148
	94,802	76,968

Other operating income mostly refers to collected written-off receivables, sale of assets, income from arbitration etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 7 - MATERIAL EXPENSES

	2020	2019
	(in thousands of HRK)	
Raw materials	211,790	362,312
Fuel and energy	25,857	25,530
Small inventory and spare parts	6,066	6,723
Raw materials and supplies	243,713	394,565
Goods sold	87,003	118,612
Intellectual services	13,381	22,638
Transport services	9,676	15,655
Treatment preparation and processing	3,308	8,747
Utilities costs	1,471	3,442
Cost of postage, telephone, internet etc.	776	962
Other external costs	158,174	150,081
Other costs	186,786	201,525
Total material expenses	517,502	714,702

Other external costs mostly relate to subcontractor services, lease costs and ongoing maintenance costs.

NOTE 8 - STAFF COSTS

	2020	2019
	(in thousands of HRK)	
Net wages and salaries	179,463	183,430
Taxes and contributions from salaries	58,947	65,201
Contributions on salaries	39,242	41,345
Other staff costs	26,176	22,191
	303,828	312,167

As at 31 December 2020 the number of employees in the Group was 2,887 (2019: 3,234).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9 - OTHER OPERATING EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
Value adjustment of assets	27,316	20,308
Banking charges	6,327	19,276
Provisions	2,905	1,637
Concession	1,831	1,697
Other costs	121,085	158,076
	159,464	200,994

Other costs mostly refer to court and attorney's fees, insurance, uncollected receivables, promotion, licences, and similar.

NOTE 10 - FINANCIAL INCOME

	2020	2019
	<i>(in thousands of HRK)</i>	
Positive exchange differences	41,946	12,284
Interest income	628	989
Income from unwinding of discount	442	348
Other financial income	148	437
	43,164	14,058

NOTE 11 - FINANCIAL EXPENSES

	2020	2019
	<i>(in thousands of HRK)</i>	
Negative exchange differences	57,555	17,367
Interest cost	21,385	72,740
Other financial expenses	99	1,914
	79,039	92,021

Borrowing costs in the amount of HRK 54,158 thousands have been capitalised from 1st January 2020, at which time the technical and administrative work associated with the project recommenced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – CORPORATE INCOME TAX

	2020	2019
	<i>(in thousands of HRK)</i>	
Current tax	654	211
Deferred tax	(2,846)	(5,422)
	(2,192)	(5,211)

	2020	2019
	<i>(in thousands of HRK)</i>	
Profit before taxation	93,298	68,006
Corporate income tax at a rate of 18%	16,794	12,241
Effect of subsidiaries' different tax rates	18,702	1,936
Non-deductible tax expenses	1,974	58,889
Non-taxable income and tax incentives	(49,909)	(60,474)
Temporary differences not recognized as deferred tax assets	(1,511)	(196)
Tax loss for which deferred tax assets were not recognized	(1,950)	(19,200)
Corrections for released DTL and temporary LT asset difference	(902)	-
Previously unrecognised used tax losses	14,611	1,593
Tax income recognised in the statement of comprehensive income	(2,192)	(5,211)
Effective tax rate	(2%)	(8%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 12 – CORPORATE INCOME TAX (CONTINUED)

Tax incentives and temporary differences not recognized as deferred tax assets

The Group benefits from tax incentives under the Investment Promotion Act and the Research and Development Projects Act, and has the status of the holder of investment-based incentive measures.

Based on the projects "Development and research of new fasteners", "Development and research of new locksmith welding positions" and "Development and research of new surface protections", the company DIV GRUPA d.o.o can use reliefs in the amount of HRK 83,554,179.40, which reduces the tax base by 14,864. HRK 825.29 income tax.

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

The effect of different rates in the Group's countries refer to the investment in the subsidiary DIV-Sarajevo d.o.o., Bosnia and Herzegovina, with a tax rate of 10%, subsidiaries Min Div Svrlijig a.d., TVIK DIV Valjevo d.o.o. and DIV Betonski pragovi d.o.o., Serbia, with a tax rate of 15%, and to the subsidiary Shangai Vida Industry and Trading CO.,LTD. China, with a tax rate of 25% DIV Norway with a tax rate of 22% and to the subsidiary Tradewind Voyages in the UK with the tax rate of 19%.

According to the legal criteria, some companies in the Brodospit group belong to the category with a profit tax rate of 12%, and others have a rate of 18%.

Movement of deferred tax asset was as following:

	2020	2019
	(in thousands of HRK)	
As at 1 January	6,790	6,365
Decrease	1	-
Increase	2,053	425
As at 31 December	8,843	6,790

Movement of deferred tax liability was as following:

	2020	2019
	(in thousands of HRK)	
As at 1 January	88,797	87,139
Recognition (through Capital)	12,850	7,080
Dismissal (within profit and loss)	(488)	(5,422)
As at 31 December	101,159	88,797

	2020	2019
	(in thousands of HRK)	
Total Corporate income tax	(2,192)	(5,211)

Deferred Tax liability was incurred on the basis of revaluation of assets as described in Note 13 and Note 14

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13 - INTANGIBLE ASSETS

(in thousands of HRK)

	Software	Project documentation	Development Expenditure	Assets under construction	Other intangible assets	Total
Purchase cost	12,231	-	1,154	5,550	-	18,395
As at 1/1/2019						
Purchases	321	1,148	173	363	1,698	3,703
Transfer	511	-	-	(511)	-	-
Sales and expenses	(65)	(230)	-	-	-	(295)
Revaluation	(22)	21,723	-	-	-	21,701
As at 31/12/2019	12,976	22,641	1,327	5,402	1,698	44,044
As at 1/1/2020						
Purchases	25	-	-	-	886	911
Transfer	255	-	-	465	(720)	-
Sales and expenses	(7,289)	-	-	(5,548)	-	(12,837)
Revaluation	486	-	-	-	-	486
As at 31/12/2020	6,453	22,641	1,327	319	1,864	32,604
Accumulated depreciation						
As at 1/1/2019						
Annual cost	3,878	-	-	-	-	3,878
Exchange rate differences	1,060	-	-	-	843	1,903
As at 31/12/2019	4,938	-	-	-	843	5,781
As at 1/1/2020						
Annual cost	4,938	-	-	-	843	5,781
As at 31/12/2020	1,061	94	-	-	1,021	2,176
As at 31/12/2020	5,999	94	-	-	1,864	7,957
Net carrying amount						
As at 1/1/2020	8,038	22,641	1,327	5,402	855	38,263
As at 31/12/2020	454	22,547	1,327	319	-	24,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land	Buildings	Leasehold property	Tools, furniture and vehicles	Plants and equipment	Ships	Assets under construction	Total
Purchase cost or estimated value								
As at 1/1/2019	29,157	507,863	121,396	401,163	421,479	187,040	277,822	1,945,924
Purchases	6,597	16,119	-	17,767	32,849	25,413	12,539	111,224
Transfer	-	1,041	-	1,887	169	47,336	(50,433)	-
Transfer from inventory	-	-	-	-	-	-	511,376	511,376
Revaluation	1,527	2,094	-	15,077	-	-	-	18,698
Exchange rate differences	(16)	(264)	-	(686)	(783)	-	-	(1,749)
Sales and expenditures	(6,075)	(5,516)	-	(228)	(1,629)	(16,208)	-	(29,656)
As at 31/12/2019	31,132	521,337	121,396	434,979	452,084	243,581	751,304	2,555,816
Accumulated Depreciation								
As at 1/1/2019	6,582	74,362	22,198	111,669	159,004	7,627	982	382,425
Correction of initial error	-	-	-	-	-	-	-	-
Annual cost	-	4,113	7,728	19,319	6,675	6,757	-	44,593
Transfer	-	(22)	-	22	-	-	-	-
Exchange rate differences	-	(76)	-	(63)	(66)	-	-	(205)
Value adjustment	-	-	-	-	(1,485)	(5,836)	-	(7,382)
Sales and expenditures	-	-	-	(81)	-	-	-	-
As at 31/12/2019	6,582	78,377	29,926	130,886	164,128	8,548	982	419,431
Net carrying amount								
As at 31/12/2019	24,550	442,960	91,470	304,093	287,956	235,033	750,322	2,136,386

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(in thousands of HRK)	Land	Buildings	Leasehold property	Tools, furniture and vehicles	Plants and equipment	Ships	Assets under construction	Total
Purchase cost or estimated value								
As at 1/1/2020	31,132	521,337	121,386	434,979	452,084	243,581	751,304	2,555,813
Purchases	-	27,775	814	2,160	48,333	-	69,039	148,121
Transfer	-	(13)	-	404	2,084	-	(2,475)	-
Exchange rate differences	-	-	-	-	-	-	972	-
Sales and expenditures	-	-	-	(259)	(1,270)	-	(344)	(1,873)
Revaluation	(3,756)	29,602	1	2,864	44,663	-	-	73,374
Decrease	(51)	(24)	-	(214)	(442)	(49)	-	(780)
As at 31/12/2020	27,325	578,676	122,211	439,934	545,453	243,532	818,496	2,775,627
As at 1/1/2020	6,582	78,377	29,926	130,886	164,128	8,548	982	419,429
Annual cost	-	9,100	7,744	6,858	25,165	1,095	-	49,962
Revaluation	-	593	-	-	-	-	-	593
Other adjustments from previous years	(4,506)	-	-	-	-	-	-	(4,506)
Sales and expenditures	-	-	-	(26)	(677)	-	-	(703)
As at 31/12/2020	2,076	88,070	37,670	137,717	188,616	9,643	982	464,775
Net carrying amount								
As at 31/12/2020	25,249	490,606	84,541	302,217	356,836	233,889	817,514	2,310,851

Land, buildings and equipment of the Group with a carrying amount of HRK 1,317,933 thousand (31 December 2019: HRK 529,750 thousand) are secured against bank loans received by the Group. Borrowing costs in the amount of HRK 54,158 thousands have been capitalised from 1 January 2020.

Brodospit Group activated assets under construction on June 30, 2021 - Ship "Gulden Horizon".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying amount of the equipment in financial lease, in case of which the Group is the lessee, is as follows

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Cost of equipment under financial lease	11,542	11,293
Accumulated depreciation	(958)	(954)
Net carrying amount	10,584	10,339

NOTE 14a - RIGHT TO USE ASSETS

Useful assets where the Group is the lessee under an operating lease have the carrying amount as follows:

<i>(in thousands of HRK)</i>	Building	Equipment	Total
January 1, 2020.	837	93	930
Increase	1,230	327	1,557
Depreciation	(1,088)	(122)	(1,210)
On December 31, 2020.	979	298	1,277

NOTE 15 - INVESTMENT PROPERTY

(in thousands of HRK)

	Investment property
Purchase cost	
As at 1/1/2019	5,174
Sales	(592)
As at 31/12/2019	4,582
As at 1/1/2020	4,582
Revaluation	1,059
As at 31/12/2020	5,641
Accumulated depreciation	
As at 1/1/2019	899
Annual cost	171
Sale	(24)
As at 31/12/2019	1,046
As at 1/1/2020	1,046
Annual cost	147
As at 31/12/2020	1,193
Net carrying amount	
As at 1/1/2020	3,536
As at 31/12/2020	4,448

At 31 December 2020 the fair value of investment property amounted to HRK 4,448 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 16 – OTHER INVESTMENTS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Financial assets available for sale	429	427
Other investments	25	24
	454	451

Movement of available-for-sale financial assets:

	Financial assets available for sale
<i>(in thousands of HRK)</i>	<i>(in thousands of HRK)</i>
1 January 2020	427
Fair value change	2
31 December 2020	429

The increase in the fair value and the value adjustment is recognized in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 17 - INVESTMENT IN JOINT VENTURES

	2020	2019
	<i>(in thousands of HRK)</i>	
Opening balance	16,079	15,214
Additional investments	693	954
Share in (loss)	8	(89)
Closing balance	16,780	16,079

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

	1 January 2020	Investment	Share in (loss)	31 December 2020
	<i>(in thousands of HRK)</i>			
Kamen-Dent d.o.o.	15,854	693	(69)	16,478
Marine and Energy Solutions DIV d.o.o.	225	-	77	302
	16,079	693	8	16,780

Overview of financial data of associates – 100%

	Assets	Liabilities	Income	Net profit/(loss)
	<i>(in thousands of HRK)</i>			
Kamen-dent d.o.o.	17,674	(147)	-	(138)
Marine and Energy Solutions DIV d.o.o.	1,963	(1,645)	5,534	153
	19,637	(1,792)	5,534	15

NOTE 18 – LONG-TERM RECEIVABLES

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Long-term loans receivables from employees	2,538	3,813
Other long-term receivables	-	26
	2,538	3,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 19 – INVENTORIES

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	201,595	177,892
Finished products	145,059	136,191
Trade goods	110,203	84,483
Advances for inventories	103,692	41,187
Production in progress	30,444	28,666
	590,994	468,419

NOTE 20 - TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Trade receivables	79,630	78,980
Value adjustment of trade receivables	(22,445)	(26,211)
Trade receivables - net	57,185	52,769
Receivables for given advances	-	16,381
Receivables for government grants and subsidies	26,378	69,251
Given loans, deposits and similar	8,833	22,022
Receivables - cession and assignation	2,688	5,355
Receivables for Loans given to employees	1,641	1,884
Given loans to related parties	380	-
Other receivables	45,586	37,343
Impairment of trade receivables and other receivables in accordance with IFRS 9	(3,518)	(3,562)
Receivables from employees	19	-
	139,193	201,443

Movements in impairment of trade receivables were as follows:

<i>(in thousands of HRK)</i>	2020	2019
Balance as at 1 January	29,773	27,502
(Decrease)/Increase	(3,475)	2,993
Increase of expected credit loss IFRS 9	(44)	693
Collected previously written off receivables	(291)	(1,415)
Balance as at 31 December	25,963	29,773

Impairment losses on customer receivables are disclosed in the item Value adjustment of current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20a – RECEIVABLES CONSTRUCTION CONTRACTS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Accrued revenue	1,227,898	714,930
	1,227,898	714,930

Accrued revenue includes amount of HRK 1,227,898 thousand which relates to customer receivables from construction contracts (Note 28).

In 2021, according to project 487, the Group realized a total of HRK 817,016 thousand, while for project 485 and DSK project it realized HRK 5,622 and 7,192 thousand. In 2021, the Group realized a total of HRK 829,830 thousand.

NOTE 21 - CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Cash in bank	54,405	24,768
Cash in hand	946	896
	55,351	25,664

Cash in bank includes cash in the amount of HRK 8,627 thousand (31 December 2018: HRK 16,253 thousand) that Group cannot use because these funds are moved to special bank account due to legal cases.

NOTE 22 - SHARE CAPITAL

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Retained profit	1,106,098	1,096,350
Revaluation reserves	378,025	331,062
Share capital	245,737	245,737
Profit for the year	95,490	73,218
Other reserves	45,889	44,281
Non-controlling interest	10,555	7,176
Capital reserves	6,083	6,084
	1,887,878	1,804,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 23 – PROVISIONS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Revaluation reserves	378,025	331,062
Legal reserves	28,508	29,921
Other reserves	19,460	16,856
Capital reserves	6,083	6,084
Reserves from foreign currency translation	(2,079)	(2,495)
	429,997	381,428

Legal reserves

In line with Croatian laws, the legal reserve should be formed at a minimum of 5% of the profit for the year until the total legal reserve reaches 5% of the Company's share capital. In 2015, based on the decision of the Company's General Assembly, HRK 1,500 thousand were transferred to the legal reserves from the subsidiary's retained earnings. Legal reserves are not distributable.

Other reserves

Other reserves in the amount of HRK 11,989 thousand were formed by distributing earnings from the previous period of certain subsidiaries or by using a tax incentive based on profit reinvestment from the previous year, in line with the Assembly's decision. The remaining reserves refer to capital reserves of the subsidiary and the fair value reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Non-current liabilities towards banks and other financial institutions		
Long-term bank loans	312,979	613,110
Current maturity of bank loans	(95,915)	(49,566)
Financial lease	3,064	3,845
Current maturity of financial lease	(1,512)	(1,823)
	218,616	565,566
Current liabilities towards banks and other financial institutions		
Short-term loans with banks	593,474	124,659
Current maturity of long-term loans	95,915	49,566
Short-term liabilities for financial leases	1,512	1,823
	690,901	176,048
Total liabilities towards banks and other financial institutions	909,517	741,614

Maturity of borrowings is as follows:

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Maturity up to 1 year	689,389	174,225
Maturity from 1-2 years	69,932	418,189
Maturity from 2-5 years	142,132	145,355
Maturity over 5 years	5,000	-
	906,453	737,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Maturity of financial lease liabilities is as follows:

2020			
<i>(in thousands of HRK)</i>			
	Equity	Interest	Total
Up to 1 year	1,512	123	1,635
From 1 to 2 years	851	44	895
From 2 to 5 years	701	22	723
	3,064	189	3,253

2019			
<i>(in thousands of HRK)</i>			
	Equity	Interest	Total
Up to 1 year	1,823	133	1,956
From 1 to 2 years	1,062	64	1,126
From 2 to 5 years	960	37	997
	3,845	234	4,079

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

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
EUR	856,377	707,769
USD	10,076	-
HRK	40,000	30,000
	906,453	737,769

As at 31 December 2020, the Group has a short-term facility with a commercial bank regarding guarantees, overdrafts and letters of credit in the amount of HRK 27,736 thousand (in 2019: HRK 129,873 thousand) of which, at 31 December 2020, HRK 12,488 thousand were unused (in 2019: HRK 45,427 thousand). The Group also has a limit with the insurance company Zurich Insurance Group in the amount of HRK 52,758 thousand, of which HRK 29,932 thousand was unused as at 31 December 2020 (2019: HRK 51,678 thousand).

Loans from banks

Bank loans in the amount of HRK 611,882 thousand (2019: HRK 674,701 thousand) carry a fixed annual interest rate when HRK 294,571 thousand carry variable annual interest rates (in 2019: HRK 63,069 thousand).

There is also long term loan from HBOR and VTB which have been reclassified as liabilities for advances.

- Long-term liabilities to HBOR for financing the construction of the ship NB 487 in the amount of EUR 87,883,511.68 (EUR 85,106,393.00 was used on 31 December 2020)
Date of delivery of the ship is 01.04.2021, when the long-term loan was entirely settled.
- Short-term liability to VTB for financing the construction of the ship NB 485 in the amount of EUR 32,000,000.00 (EUR 31,500,000.00 was used on 31 December 2020).
VTB loan for NB 485 is classified as a short-term advance in the amount of HRK 226,106,940.00.

The loan repayment for NB 487 is in 113 monthly annuities (no later than March 1, 2030), of which the first annuity is due one month from the day of handing over the new building to the borrower. Bills of exchange and debentures of the subsidiary of the loan holder Polaris Exploration Inc. are given as collateral, and co-debtors of Brodosplit d.d., guarantee from Ministry of finance, corporate guarantee from the owner of Charterer and the pledge on new construction which is the subject of financing. Upon completion of construction and delivery of the ship to the charter, guarantee from Ministry of finance is changed by the credit insurance policy (ECA). The loan is repaid by Charterer by directly paying the rent in the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24 - LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

The loan was reclassified as long-term advances under the bareboat charter agreement, as the loan is intended to finance the construction of a NB 487. During construction, the loan amount is classified as long-term advances and represents the obligation of the shipbuilder. Upon completion of construction, the advance is no longer the obligation of the shipbuilder because he has fulfilled all of his obligations under the contract but the obligation passes to the end customer.

In case that the end customer does not make the payment, the Bank is insured in the form of a loan insurance policy and a corporate guarantee from the Charterer owner. Charterer also has the option to purchase the boat at any time after delivery, and the obligation to purchase no later than 10 years.

Financial leases

Financial leases mostly refer to vehicle leases.

Securities

Bank received loans are secured with the pledge over Group's lands and buildings, as disclosed in Note 14.

Received loans are secured with ECA policy and corporate guarantee from the Charterer owner.

NOTE 25 - PROVISIONS

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Long-term provisions		
Legal claims	9,656	13,522
Other provisions	1,024	2,772
	10,680	16,294
Short-term provisions		
Unused vacation days	1,580	1,835
	1,580	1,835
Total provisions	12,260	18,129

Movements in provisions during 2020 are presented in the table below:

	Balance at 1 January 2020	Recognised in profit or loss	Used	Balance at 31 December 2020
	<i>(in thousands of HRK)</i>			
Legal claims	13,522	2,977	(6,843)	9,656
Redundancy benefits	2,114	1,887	(3,635)	366
Repairs in the guarantee period	1,835	-	-	1,835
Unused vacation days	658	(255)	-	403
	18,129	4,609	(10,478)	12,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 25a – LONG TERM LIABILITIES

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Received advances for ships (i)	641,438	475,058
Liabilities for taxes and contributions	13,338	-
Other liabilities (ii)	6,293	6,914
	661,069	481,972

(i) Contains a long-term loan for the NB 487 from the long-term bank loans (Note 24), which was delivered on 01.04.2021, and the long-term loan was entirely settled.

(ii) Other long-term liabilities include lease liabilities in the amount of HRK 854 thousand.

NOTE 26 - TRADE AND OTHER LIABILITIES

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Trade payables	265,045	255,340
Other liabilities	512,157	213,212
	777,202	468,552

Other liabilities:

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Liabilities for received advances	272,258	32,634
Taxes, contributions and similar duties payable	81,789	93,396
Loan liabilities towards owners	62,268	-
Loan liabilities	44,782	11,900
Liabilities towards employees	17,927	19,188
Concession fee liabilities	850	3,078
Lease liabilities from IFRS 16	271	-
Liabilities to banks for fees and interest	-	25,853
Other short term liabilities	32,012	22,446
	512,157	208,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 27 – DEFERRED EXPENSES AND FUTURE PERIOD INCOME

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Accrued expenses	29,815	13,290
Prepaid income	11,485	17,632
Future period income (Government supports)	1,384	12,376
	42,685	43,298

NOTE 28 – CONSTRUCTION CONTRACTS

<i>(in thousands of HRK)</i>	2020	2019
Contract costs incurred up to reporting date	1,687,396	1,139,813
Recognised (losses)/gains up to the reporting date	176,429	124,105
Less: invoicing in progress and advances received	(778,246)	(602,602)
Receivables from /(payables to) the customers for the contracted work	1,085,579	661,316
Reclassified to deferred revenue	1,227,898	714,930
Reclassified to advances received from suppliers and accrued revenue	(142,319)	(53,614)

NOTE 29 - RISK MANAGEMENT

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

Capital risk management

The Group manages its capital by ensuring the continuity of its business with maximising the return on investment for its shareholders through optimising debt and capital.

The capital structure of the Group consists of debt which includes loans and borrowings received from financial institutions, cash and cash equivalents and equity which includes share capital and losses carried forward.

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

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Debt (long-term and short-term credits)	906,453	737,769
Cash and cash equivalents	(55,351)	(25,664)
Net debt	851,102	712,105
Equity	1,877,323	1,804,934
Debt to equity ratio	46%	39%

Debt is defined as long-term and short-term credit liabilities received from financial institutions. The principal includes all capital and all reserves.

The Group is exposed to the international market and is largely financed through loans denominated in EUR. As a result, the Group is subject to the influence of changes in market prices and the effect of exchange rate differences and interest rate changes. However, this risk is mitigated by the fact that revenues are also denominated in EUR. The most significant credit exposure of the Group is related to the NB 487 project, in which the loan is repaid by Charterer by direct rent payments to the credit lot. The Group achieves a significant amount of its revenue through the export of goods overseas, so foreign currency inflows are used as a natural hedge that covers foreign currency outflows for repurchase and repayment of denominated foreign currency loans. Furthermore, the average time from the order date to the delivery of the goods is 10 days, so there is no significant risk of changes in the cost of production compared to the selling price. Regarding changes in raw material prices, the market responds promptly to changes in raw material prices, and because of consistent and constant customer acceptance, this risk is minimized. The Group have achieved commercial conditions with strategic suppliers of reproduction that allow the Group to defer payment up to 180 days. Given that the price of raw material is seasonal, low-priced periods are used to optimize procurement costs.

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. Since the majority of revenues are generated on foreign markets, this risk is not significant.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

The categories of financial instruments valued at cost are as follows:

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Financial assets at amortized cost		
Trade receivables and other receivables	1.367.273	934.634
Given loans	10.854	7.576
Cash and cash equivalents	55.351	25.664
	1.433.478	967.874
Financial assets at depreciated cost		
Trade payables and other liabilities	809.094	559.547
Financial lease	3.064	3.845
Loans liabilities	906.453	737.769
Other long-term liabilities	641.438	475.058
	2.360.049	1,776,219

Credit risk

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

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

Trade receivables are accounted by a small number of buyers who are located in different geographical locations. The continuous valuation of receivables are 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.

Interest risk

Most of the borrowings for which interests are calculated are contracted at fixed and variable interest rates. The risk is managed by maintaining a suitable combination between fixed and variable interest rates on borrowings. The Group is currently not protected against such risks as EURIBOR values have been at historically low levels for several past years. A hedging option is planned to be considered for the next period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

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 not 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 contract the sales prices of new-builds and junction elements in a currency basket (USD and EUR). In particular, since the predominant part of the exchange rate cost is reported in EUR, this decreases the conversion costs and negative exchange rate differences caused by changes in exchange rates when settling liabilities. The Group continuously follows the exchange rates and the currency structure of any planned outflows and arranges the currency credit funds accordingly.

The Group is exposed to a currency risk by contract prices for raw materials agreed in foreign currencies. The currencies most exposed to this risk are EUR and USD. The Group achieves more than 50% of its revenue through the export of goods overseas, so foreign currency inflows are used as a natural hedge that completely covers foreign currency outflows for repurchase and repayment of denominated foreign currency loans. The Group currently does not use financial instruments (forward transactions, FX options, currency swaps etc.) which are available today on both the domestic and foreign financial markets, because most liabilities denominated in foreign currency are covered by inflows in the same currency.

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

	Liabilities		Assets	
	31 December 2020.	31 December 2019.	31 December 2020.	31 December 2019.
	(in thousands of HRK)		(in thousands of HRK)	
EUR	1.933.783	1.418.844	124.525	179.023
USD	24.915	21.430	32.487	29.342
NOK	3.580	3.819	-	-
GBP	754	84	10.877	315
Other currencies	567	588	54	242
	1.963.599	1.444.765	167.943	208.922

As explained above, due to the fact that the majority of transactions with foreign customers are denominated in the EUR and the USD, the Group is mainly exposed to the fluctuations of the HRK against the EUR and the USD, the risk is reduced by purchases in the same currencies.

The following table analyses the Group's sensitivity to increasing the exchange rate of the HRK by 1% against the EUR and 1% against the USD as an estimate of the realistic possible increase in the exchange rates of the above-mentioned currencies. The sensitivity analysis includes only outstanding foreign currency denominated items and their conversion at the end of the period based on the percentage change in exchange rates. Sensitivity analysis includes monetary assets and liabilities in the currency. The negative figure shows a decrease in profit if the HRK has changed in relation to the relevant currency for the above percentages. In the case of a reverse proportional change in the value of the HRK relative to the relevant currency, the impact on profit would be the same and the opposite.

	Impact of EUR	
	2020	2019
	(in thousands of HRK)	
Increase/(Decrease) of net results	+/- 18.093	+/- 12.398
	Impact of USD	
	2020	2019
	(in thousands of HRK)	
Increase/(Decrease) of net results	+/- 76	+/- 79

The Group does not use currency risk hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risk

The Group is exposed to a substantial rise in the prices of ferrous metallurgy as well as the prices of other raw materials. The Group has, for the most part, neutralized this risk by arranging a, so called, "safeguard clause for the ferrous metallurgy" which states that the income per ship delivered is increased by the amount of expenses incurred due to the rise of ferrous metallurgy between the delivery and the time the ship was ordered. In addition, the share of ferrous metallurgy in the total value of ships under construction is at levels around 5-8%, so a change in price does not pose a significant risk.

Liquidity risk

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

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

Regarding changes in raw material prices, the market responds promptly to changes in raw material prices, and because of consistent and constant customer acceptance, this risk is minimized. The Group have achieved commercial conditions with strategic suppliers of reproduction that allow the Group to defer payment up to 180 days. Given that the price of raw material is seasonal, low-priced periods are used to optimize procurement costs.

Regulatory risk

Republic of Croatia joining the European Union made the Group significantly exposed to regulatory risk, which is mostly related to changes in the areas of government grants regulations.

Fair value of financial instruments

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).

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
31 December 2020				
Available-for-sale financial assets				
Listed companies	245			245
Unlisted companies		184		184
Total	245	184		429

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
31 December 2019				
Available-for-sale financial assets				
Listed companies	248			248
Unlisted companies		179		179
Total	248	179		427

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Fair value of financial instruments (continued)

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

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

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

As at 31 December 2020 the reported amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments correspond to their market value because of the short-term nature of these assets and liabilities and because most current assets and current liabilities carries variable interest rates.

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

Liquidity risk management

The liquidity risk management is responsibility of the Management, which sets the appropriate liquidity risk management framework, with the aim of managing short, medium and long-term financing and liquidity requirements. The Group manages the liquidity risk by following the net short term position and addressing the expected liquidity deficits.

Insurance policies for foreign and domestic receivables were renewed, which further affected the regularity of inflows from customers.

The Group's large storage enables it to promptly react to the customer's needs and reduce delivery times, which places it in a very favourable position in relation to its competition, and also enables it to react in times of reduced liquidity and, for example, selling stock at lower prices, but still with a significant margin. Furthermore, the Group contracts big projects by requesting advance payments in order to enable the initial purchase of materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk analysis

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

Liabilities

At 31 December 2020	Net carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
(in thousands of HRK)						
<i>Non-interest bearing liabilities</i>						
Trade payables	265,045	265,045	265,045	-	-	-
Other liabilities	317,942	317,942	317,942	-	-	-
	582,987	582,987	582,987	-	-	-
<i>Interest bearing liabilities</i>						
Finance lease	3,064	3,253	1,634	895	724	-
Liabilities for loans	906,463	974,549	742,275	78,063	149,161	5,050
Other long-term liabilities	867,545	894,135	894,135	-	-	-
	1,777,062	1,871,937	1,638,044	78,958	149,885	5,050
	2,360,049	2,454,924	2,221,031	78,958	149,885	5,050

The average interest rate for 2020 is 5.04%.

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)						
<i>Non-interest bearing liabilities</i>						
Other liabilities	254,447	254,447	254,447	-	-	-
Trade payables	305,100	305,100	305,100	-	-	-
	559,547	559,547	559,547	-	-	-
<i>Interest bearing liabilities</i>						
Finance lease	3,845	4,079	1,956	1,126	997	-
Liabilities for loans	737,769	830,845	231,112	441,676	158,058	-
Other long-term liabilities	475,058	592,038	35,543	73,686	198,884	290,757
	1,216,672	1,426,962	268,611	516,488	357,939	290,757
	1,776,219	1,986,509	828,158	516,488	357,939	290,757

The average interest rate for 2019 is 4.56%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk analysis (continued)

Assets

At 31 December 2020	Net carrying amount	Contractual cash flows	Up to 1 year (in HRK thousand)	1-2 years	2-5 years	Over 5 years
<i>Non-interest bearing assets</i>						
Receivables - cession and assignment	2.688	2.688	2.688	-	-	-
Trade receivables	79.630	79.630	79.630	-	-	-
Other receivables	1.284.955	1.284.955	1.284.955	-	-	-
	1.367.273	1.367.273	1.367.273	-	-	-
<i>Interest bearing assets</i>						
Given loans and deposits	10.854	10.951	10.951	-	-	-
Cash and cash equivalents	55.351	55.351	55.351	-	-	-
	66.205	66.302	66.302	-	-	-
	1.433.478	1.433.575	1.433.575	-	-	-
<i>At 31 December 2019</i>						
At 31 December 2019	Net carrying amount	Contractual cash flows	Up to 1 year (in HRK thousand)	1-2 years	2-5 years	Over 5 years
<i>Non-interest bearing assets</i>						
Receivables - cession and assignment	5.355	5.355	5.355	-	-	-
Trade receivables	100.057	100.057	100.057	-	-	-
Other receivables	829.221	829.221	829.221	-	-	-
	934.633	934.633	934.633	-	-	-
<i>Interest bearing assets</i>						
Given loans and deposits	7.576	7.576	7.576	-	-	-
Cash and cash equivalents	25.664	25.664	25.664	-	-	-
	33.240	33.240	33.240	-	-	-
	967.873	967.873	967.873	-	-	-

The Group is exposed to interest rate risk since it is borrowing both at fixed and variable interest rates. This risk is not significant at this time, given the historically low levels of EURIBOR and the announcement of retention of these values in the coming period. Variable interest rates that were applicable to the relevant portion of the Group's borrowings at the reporting date are based on the following:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 29 - RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest risk sensitivity analysis

The sensitivity analysis below is based on exposure to interest rate risk at the reporting date. For variable interest rates, the analysis was prepared in such a way as to calculate the effect of a reasonably possible increase in interest rates on borrowing with variable interest rates on the expected contractual cash flows of such borrowings in relation to those calculated using the interest rate applicable at the end of the current reporting period. In internal reporting of interest rate risk to key management, an increase / decrease of 50 base points is used, which represents a realistic change in interest rates according to the Management Board's estimates.

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

	Increase / Decrease of variable interest rate	Effect on change in pre-tax profit in thousands of HRK
2020		
HRK	+/-0.5	+/- 5.164
2019		
HRK	+/-0.5	+/- 6.927

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 30 – SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Below is a review of subsidiaries, associates and joint ventures:

Name of subsidiary	Country	Share in %	Business activity
Brodograđevna industrija Split dioničko društvo	Croatia	99,76	Shipbuilding
Brodosplit - Plovidba d.o.o.	Croatia	99,76	Sea and coastal water transport of freight
Brodosplit - Brodogradilište specijalnih objekata d.o.o.	Croatia	99,76	Building of ships and floating structures
Brodosplit - Tvornica dizel motora d.o.o.	Croatia	99,76	Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
Brodosplit - Trgovina d.o.o.	Croatia	99,76	Wholesale of other machinery and equipment
Brodosplit - Zaštita broskog trupa od korozije d.o.o.	Croatia	99,76	Manufacture of metal structures and parts of structures
Brodosplit - Transportna sredstva d.o.o.	Croatia	99,76	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Čelik d.o.o.	Croatia	99,76	Manufacture of metal structures and parts of structures
Brodosplit - Opremanje plovih objekata d.o.o.	Croatia	99,76	Manufacture of metal structures and parts of structures
Brodosplit - Trup d.o.o.	Croatia	99,76	Manufacture of metal structures and parts of structures
Brodosplit - Stroj d.o.o.	Croatia	99,76	General mechanical engineering
Brodosplit - Montaža d.o.o.	Croatia	99,76	Manufacture of metal structures and parts of structures
Brodosplit - Boja d.o.o.	Croatia	99,76	Repair and maintenance of ships and boats
Brodosplit - Blok d.o.o.	Croatia	99,76	Building of ships and floating structures
Brodosplit - Računovodstvo i financije d.o.o.	Croatia	99,93	Accounting, book-keeping and auditing activities; tax consultancy
Brodosplit - Informatika d.o.o.	Croatia	99,93	Computer facilities management activities
Brodosplit - Laboratorij d.o.o.	Croatia	99,93	Technical testing and analysis
Brodosplit - Atest d.o.o.	Croatia	99,93	Security systems service activities
Brodosplit - Ljudski resursi d.o.o.	Croatia	99,93	Other human resources provision
Brodosplit - Plovne dizalice d.o.o.	Croatia	99,93	Renting and leasing of water transport equipment
Brodosplit - Privremena energetika d.o.o.	Croatia	99,93	Production of electricity
Brodosplit - Čišćenje d.o.o.	Croatia	99,93	Other cleaning activities
Brodosplit - Optimizacija i ekologija d.o.o.	Croatia	99,93	Remediation activities and other waste management services
Brodosplit - Alatinica d.o.o.	Croatia	99,93	General mechanical engineering
Brodosplit - Održavanje d.o.o.	Croatia	99,93	Repair of machinery
Brodosplit - Skela d.o.o.	Croatia	99,93	Manufacture of metal structures and parts of structures
Brodosplit - Cjevarska izrada d.o.o.	Croatia	99,93	Casting of iron
Brodosplit - Bravarinja i limarija d.o.o.	Croatia	99,93	Repair of fabricated metal products
Brodosplit - Automatizacija d.o.o.	Croatia	99,93	Computer facilities management activities
Power Voyages d.o.o.	Croatia	99,93	Travel agency
Brodosplit - Izvor energije vjetroparkova d.o.o.	Croatia	99,93	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Produkt plinske elektrane d.o.o.	Croatia	99,93	Renting and leasing of machinery, equipment and tangible goods
Brodosplit - Vjetrostupovi d.o.o.	Croatia	99,93	Manufacture of metal structures and parts of structures
Brodosplit - Klimatizacija i ventilacija d.o.o.	Croatia	99,93	Plumbing, heat and air conditioning installation
Brodosplit - Brodska i ostala oprema d.o.o.	Croatia	99,93	Manufacture of metal structures and parts of structures
Brodosplit - Metalne konstrukcije d.o.o.	Croatia	99,93	Manufacture of metal structures and parts of structures
Brodosplit - Namještaj po mjeri d.o.o.	Croatia	99,93	Installation of carpentry
Brodosplit - Interijer i završni radovi d.o.o.	Croatia	99,93	Installation of carpentry
Brodosplit - Strojna obrada d.o.o.	Croatia	99,93	General mechanical engineering
Brodosplit - Ljevaonica d.o.o.	Croatia	99,93	Casting of iron
Brodosplit - Istraživanje i razvoj d.o.o.	Croatia	99,93	Research and experimental development on natural sciences and engineering
Brodosplit - Korporativna zaštita d.o.o.	Croatia	99,93	Private security activities
Brodosplit - Gradnja d.o.o.	Croatia	99,93	Construction of residential and non-residential buildings
Brodosplit - Otpremništvo d.o.o.	Croatia	99,93	Other transportation support activities
Brodosplit - Najam Vozila d.o.o.	Croatia	99,93	Renting and leasing of cars and light motor vehicles
Brodosplit - Oblaganje d.o.o.	Croatia	99,93	Building of ships and floating structures
Brodosplit - Servis brodova d.o.o.	Croatia	99,93	Repair and maintenance of ships and boats
DIV Betonski pragovi d.o.o., Svrlijg	Serbia	100	Production of concrete thresholds
DIV Brodogradnja d.o.o.	Croatia	100	Production of metal structures
DIV d.o.o., Sarajevo	BiH	100	Production of metal structures
Kamen-Derit d.o.o.	BiH	50	Wind power plants
MARINE AND ENERGY SOLUTIONS DIV d.o.o.	Croatia	50	Ship design
MARINE CONSULTING d.o.o.	Croatia	50	Ship design
MIN-DIV Svrlijg a.d., Svrlijg	Serbia	86,45	Production of railway track fixtures
Shangai Vida Industry & Trading Co, Ltd	China	100	Purchase mediation
TVIK-DIV d.o.o., Valjevo	Serbia	100	Forging, turning and trade
DIV Cruises, INC	SAD	100	Travel agency
DIV Učilište d.o.o.	Croatia	100	Other education and teaching
Tradewind Voyages UK LTD	UK	100	Travel agency
Efficient Powerful Successful d.o.o	Croatia	100	Building of ships and floating structures
DIV Shipbuilding Norway AS	Norway	100	Own shares and other participations
Brodograđevni institute d.o.o	Croatia	100	Other research and experimental development on natural sciences and engineering

Tradewind Voyages UK LTD company number 12450468 that is 100% owned subsidiary of DIV Group at year ending 31st December 2020. DIV Group agrees under section 479a to an audit exemption for financial year ending 31st December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 30 – SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (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, POLAR EXPEDITIONS B.V. The Netherlands, POLAR EXPEDITIONS Inc Marshall Islands, POLAR EXPLORER Inc, POLARIS EXPEDITIONS Inc, POLARIS EXPLORATION Inc, TROPICAL CRUISE SHIPPING Inc, XB AHTS COMPANION SHIPPING Inc, XB AHTS GUARDIAN SHIPPING Inc, XB AHTS HERO SHIPPING Inc i XB AHTS SUPPORTER SHIPPING Inc. Through the subsidiary BRODOSPLIT, the Group also manages Brodosplit Italia.

On 1 September 2017, the company Brodosplit-Holding d.o.o. was merged with the company Brodosplit d.d. On the date of the merger, the company Brodosplit d.d. took over 50% of shares and management rights in companies Kamen-dent d.o.o., Bosna i Hercegovina and also a 100% shares and management rights in the Brodosplit Italia s.r.l., Italy from the company Brodosplit-Holding d.o.o.

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

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

On 19 October 2017, the company Brodosplit-Projekti d.o.o. was merged with the company DIV GRUPA d.o.o.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31 - RELATED PARTY TRANSACTIONS

	2020	2019
	<i>(in thousands of HRK)</i>	
Revenue from sale of goods and service		
Proizvodno Trgovački Centar Krka Knin d.o.o.	453	1,304
Marine and Energy Solutions DIV d.o.o.	32	64
Kamen dent d.o.o.	-	248
	485	1,616

	2020	2019
	<i>(in thousands of HRK)</i>	
Purchase of goods and services		
Proizvodno Trgovački Centar Krka Knin d.o.o.	6,658	8,856
Marine and Energy Solutions DIV d.o.o.	3,026	3,320
	9,684	12,176

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Trade receivables		
Marine Consulting d.o.o.	-	2
	-	2

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Trade payables		
Proizvodno Trgovački Centar Krka Knin d.o.o.	11,702	1,257
Marine and Energy Solutions DIV d.o.o.	897	-
	12,599	1,257

NOTE 31 - RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2020	31 December 2019
	<i>(in thousands of HRK)</i>	
Liabilities for accepted borrowings		
Owners	62,268	-
Proizvodno Trgovački Centar Krka Knin d.o.o.	-	13,579
	62,268	13,579

Remuneration to key Management

The key management of the Group comprises 44 employees (in 2019: 39 employees). In 2020, a total of HRK 11,113 thousand was paid as remuneration to the members of the Management Board (in 2019: HRK 10,210 thousand) based on gross salary.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS

Brodosplit d.d.

Company through DIV Brodogradnja d.o.o. has 99.83% stake in Brodosplit d.d. pursuant to the Sale and Transfer Agreement of Brodosplit plc, the contractual obligations relating to the implementation of the restructuring program have been defined as of 28 February 2013. Particularly important parts of the restructuring program are considered: the share of its own contribution in total restructuring costs, adjustment of production shipbuilding capacities of the Company, restriction of production of ships to CGT (compensated gross tonnage) and achieving sustainability; whose non-fulfilment may result in an order to Brodosplit d.d. and its subsidiaries for the repayment of all grants received after 1 March 2006, plus statutory default interest

The share of own contribution implies the obligation of the Company Brodosplit d.d. and subsidiaries in accordance with the restructuring program, accounting for 40% of total restructuring costs. Part of the total costs was also related to the obligation to increase the share capital by HRK 50 million in the amount of HRK 20 million in 2013, HRK 20 million in 2014 and HRK 10 million in 2015. The stated obligation to increase the share capital is fully met. The Company commissioned a study of its own contribution by experts from Brussels in the area of EU law and government grants, which showed that its own contribution to restructuring accounts for more than 40% of total restructuring costs and proved that the company was settling its liabilities.

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 in September 2017, maintaining a minimum amount of steel at a defined level by September 2017, maintaining the position of capital and reserves at the end of the year, at the end of 2017 at a defined level, and a positive consolidated business at the end of 2016 and 2017. The Company maintained the above mentioned measures until the reporting date and achieved a viability condition in accordance with the Agreement.

In addition, the buyer (DIV Brodogradnja d.o.o.) based on the Sale and Transfer Agreement is entitled to terminate the Contract in the event of hidden obligations for which the Purchaser did not know at the time of the conclusion of the Contract. In this case, the Seller shall return to the Purchaser the paid purchase price and the amount of paid up capital increase, totalling HRK 53,700 thousand all plus interest at the expense rate of the Croatian National Bank on the day of termination of the contract, increased by 2%.

NOTE 32 - CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

Investment in Min Div Svrlijig a.d. and DIV Betonski pragovi d.o.o.

In the period from 2006 to 2009, the Company increased its share of ownership in the subsidiary company Min Div Svrlijig a.d. in the recapitalization from 77.50% to 86.46%. Due to the increase in ownership, the Company had an obligation to make a public bid for the remaining 128,372 shares. The deadline for the offer for the purchase of shares expired in 2010 and the Company paid a fine for not fulfilling this obligation. There is no new legal deadline for the Company to bid. Regarding the possible outcome, DIV GRUPA d.o.o. or must announce a public offering or dispose of shares over 25%. The subject of the dispute is the redemption price per share that will be offered to minority shareholders. On December 31 2019 the shares were quoted at a price of RSD 645 and on the order of DIV GRUPA d.o.o. an assessment made by the auditing company and the price of one share is RSD 600).

Furthermore, DIV GRUPA d.o.o. and DIV Betonski pragovi d.o.o. during the takeover, they undertook to meet certain conditions, and in November 2019 the Agreement on the allocation of funds for direct investments with the Ministry of Finance of the Republic of Serbia was successfully implemented, on the basis of which funds for direct investments in the amount of EUR 2,400,000.00 were obtained.

DIV Betonski pragovi d.o.o. as of December 31, 2019, had invested EUR 12.9 million and had 303 employees, and as of December 31, 2020, an additional EUR 0.172 million and had 287 employees.

The final audit reports were submitted to the Ministry, on the basis of which it was determined that all obligations had been fulfilled. In January 2020, security instruments for good performance were returned.

Exposure to court disputes

As of 31 December 2020, the Group is involved in a series of legal disputes in the ordinary course of operations and court cases with former employees. Based on consultation with legal advisers, the Management Board applied the judgement and estimated that legal proceedings in which the Group is involved should not result in additional significant losses. In addition to those court cases, for which provision has been made, there are other legal disputes that will not result in significant losses.

Issued warranties

As at 31 December 2020, the Group has issued guarantees in the total amount of HRK 106,314 thousand (31 December 2019: HRK 243,697 thousand).

Overview and debenture exposure:

DIV GRUPA d.o.o. as at 31 December 2020 has issued bonds in the total nominal amount of HRK 1,176,240 thousand (31 December 2019: HRK 1,170,127 thousand). The amount of the debt issued by the Group for its own placements in nominal amount is HRK 350,521 thousand, for suppliers HRK 18,913 thousand

The Company and the Group keep records of issued bonds at nominal values in accordance with the contracts. The aggregate amount of the nominal amount does not represent the maximum contingent liability due to the fact that according to certain contracts, the Company or Group is obliged to issue several debentures which are individually in the amount of the total original obligation.

As at 31 December 2020 (in thousands of HRK)	Amount	Condition
Debentures towards suppliers and the state	41,824	18,913
Debentures towards financial institutions	1,093,086	350,521

NOTE 33 – SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

DIV GRUPA d.o.o. has closed its liability to Zagrebačka banka d.d. and Addiko bank (EBRD) which was due in 2020. Brodosplit d.d. has closed its liability to Podravska bank and Erste bank.

It was agreed to take over part of the work on the reconstruction of the existing and construction of the second track of the railway on the section Dugo Selo - Križevci project from Zagreb Montaža d.o.o. This, except that it increases the share in the project (by approximately HRK 150 million), actually enables the performance of work from a part of the Company (originally contracted).

A new project has been contracted for the construction of the crossroads "Širine" in Solin in the value of approximately EUR 20 million, which gives additional meaning to the purchase of equipment for construction, new employment and increase staff costs.

For the first time in Croatia, ISO 28000 (security system) was adopted, which additionally positioned the Company towards some key customers.

The spread of Coronavirus has had a detrimental effect on economies around the world in terms of declining business volumes and branch closures. The situation with the Covid-19 pandemic also had a significant impact on the business activities of DIV GRUPA d.o.o. in 2020 and early 2021.

The Group has made all the necessary preparations to make a decision related to the introduction of anti-dumping duties for standard screw goods in the EU, which is expected to significantly increase demand and increase the competitiveness of the Company during 2021.

On 15 February 2021, an arbitral decision was made in a dispute between BRODOSPLIT d.d. and Star Clippers Ltd. in the amount of € 13,750,925.47. At the same time, a court case was initiated to annul the arbitral decision. Star Clippers Ltd. initiated the procedure of recognizing the Final verdict of the arbitral decision. The Commercial Court ruled to stay the proceedings until the conclusion of the proceedings for annulment of the arbitral decision before a court in Netherlands. Star Clippers Ltd. has filed an appeal with the High Commercial Court of the Republic of Croatia.

Star Clippers Ltd. entered a mortgage on the ship for the customer's delivery in the amount of EUR 6,933,612.52. Brodosplit does not dispute this amount, and has offered payment on several occasions, provided that a statement on deletion is presented. 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, after which the voyage continued. By paying the requested amount, the conditions for deleting the mortgage have been created, which is expected in the coming weeks.

On April 1, 2021, a new ship 487 was delivered - a ship for cruising the polar regions.

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.

Company Tradewind Voyages continues booking for Golden Horizon, and in 2021 the first tourist tours in the UK began.

COVID 19

Uncertainty about the further course of the pandemic continues to pose a risk to the Group's future financial position and the associated liquidity risk. However, the Management Board is using Government support measures, and business rationalization activities are being undertaken. Therefore, the Management Board believes that the adverse effects caused by the impact of COVID 19 will not lead to significant uncertainty in the Group's ability to operate in the future. 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 time, the Management Board is not able to reliably assess the impact given the daily development of these events.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

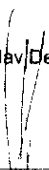
NOTE 34 - APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

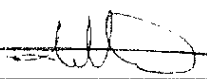
These financial statements were approved by the Management Board and authorised for issue on September 17 2021.

Signed for and on behalf of the Group Management Board on September 17, 2021.

Tomislav Debeljak

Darko Pappo


Chairman of the Management Board


Member of the Management Board

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