



VIKTORLENAC

ANNUAL REPORT 2012

April 2013



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➤ Foreword

The Management Board of the Viktor Lenac Shipyard j.s.c. presents its Annual Report for 2012 to all its shareholders, clients, employees, business partners and the entire public.

The Annual Report 2012 contains a detailed review of the financial results for the year, an assessment of the Company's situation, a review of the Company's business operations, revised consolidated and non-consolidated financial statements and the Auditor's Report. In a separate enclosure to this Report, the corporate governance rules applied by the Company are described.

➤ Annual Report in Croatian and English

The Viktor Lenac Shipyard's Annual Report 2012 has been issued both in Croatian and English. The Annual Report is submitted to the Company's shareholders at the General Assembly and is published on the Company's website.

➤ Legal Form

According to the Companies Act, Article 250.a and 250.b, in this document to the General Assembly the annual financial statements and report on the Company's situation are submitted, while the Supervisory Board's report to the General Assembly is submitted as a separate document.

The annual financial statements have been made in accordance with the Law on Accounting and International Financial Reporting Standards and have been revised according to the International Standards on Auditing.

This Annual Report has been made in accordance with the Law on Accounting and Companies Act and gives an objective assessment of the Company's situation and development with its business results as well as other important information for the Company.

➤ Subsidiary Company and Consolidation

Viktor Servisi d.o.o. Rijeka is an entity owned by the Viktor Lenac Shipyard. The consolidated and non-consolidated financial statements form an integral part of this Report. The difference between the consolidated and the non-consolidated financial statements is not significant in material terms, as the results and assets of the Company's subsidiary company (Viktor Servisi d.o.o. Rijeka) participate with less than 1% in the Group's results and assets. In this Annual Report, the emphasis is, therefore, put on the business results of the mother company - Viktor Lenac Shipyard.

➤ Abbreviations

In this Annual Report, the Viktor Lenac Shipyard j.s.c. is called the "Shipyard" or "Viktor Lenac" or the "Company" respectively, together with its subsidiary company, the "Group".

➤ Foreign Exchange Rates

The following foreign exchange rates were used for converting amounts from one currency to another (from Croatian Kuna to Euros):

1 EUR = HRK 7.545624 – representing the midpoint exchange rate by the Croatian National Bank on the 31st day of December 2012 (HRK 7. 530420 on 31st December 2011, HRK 7.385173 on 31st December 2010, HRK 7.306199 on 31st December 2009), applied for calculating amounts of assets, liabilities and equity;

1 EUR = HRK 7.526459 – representing the annual average of midpoint exchange rates by the Croatian National Bank (HRK 7. 441192 for 2011; HRK 7.292286 for 2010; HRK 7.339664 for 2009); applied for calculating amounts in the profit and loss statement.

President's Address to Shareholders

Dear Shareholders,

After having had positive financial results for four years in a row, Viktor Lenac finished 2012 with a 3.9 million EUR loss. In a very deep and long lasting crisis that has been bringing pressure to all business segments, despite all the efforts made, we have not succeeded to generate positive figures in 2012.

Consequences of low freight rates and surplus of shipping capacity have been felt for four years in a row bringing to the point where shipowners have financially drained resulting in limited shipowners' budgets and decreased demand for shiprepair works. Competition between the repair yards in the region has been increasing bringing to a state where repair jobs are contracted below break-even point. Viktor Lenac's specific geographical position that might be considered as an aggravating circumstance as its distance from the main maritime routes could mean a loss of several days comparing to the main competitors on the Mediterranean market, forces us to additionally lower our sales prices for shiprepair works.

2012 was characterized with considerable oscillation in the employment of our capacities where we recorded longer periods of lower occupancy rates comparing to the previous year. Moreover, in those periods fixed costs were not covered in whole, and higher occupancy rates in the following periods were not sufficient to compensate for produced losses.

After completing a major conversion project of the vessel *Sampson* in August 2012, there were no other important new projects in the conversion activity.

In the offshore activity, Viktor Lenac put all its efforts to win the tender invited by Croatia's INAGip for the construction of a gas production platform *Ika JZ*. It is my pleasure to point out that Viktor Lenac has won the contract in cooperation with Italy's Rosetti Marino. The contract was concluded at the end of the year, so this project has not had any significant influence to the financial results realized in 2012.

Total revenues in 2012 amounted to 255.2 million Croatian Kuna or 33.9 million EUR, down by 28% comparing to the previous year. The expenses totalled 284.4 million Croatian Kuna or 37.8 million



EUR, down by 18% comparing to the previous year. Despite the efforts made to reduce operative expenses, which yielded results to some extent, a bigger drop in revenues with respect to expenses was the consequence of significantly decreased sales prices because of severe competition in the Mediterranean and Black Sea putting pressure on Viktor Lenac to lower its sales prices in order to keep its clients, and prevent from facing even larger loss on the account of unemployed capacities.

The operating revenues and expenses generated a loss of 29.2 million Croatian Kuna or 3.9 million EUR. In spite of the loss, the company fulfilled its liabilities towards the banks, state and employees, and its liabilities towards suppliers and subcontractors were paid regularly on deferred payment terms.

As a result of four successful years preceding 2012 where the company had achieved positive financial results, the company has maintained sufficient reserves to cover the loss generated in 2012. On 31 st December 2012, company's short-term liabilities were covered by short-term assets in whole, meaning that company's long-term assets were entirely covered from long-term sources of finance. The total equity surpassed company's total long-term and short-term liabilities for more than 30 million Croatian Kuna, in spite of an increase in long-term liabilities on the account of a credit granted for financing the investment cycle started in 2011.

Aimed at capacity development to increase its efficiency and flexibility in a changing business environment, in 2011 Viktor Lenac started a new phase of its investment cycle for technological renewal. The investment has been partly realized by use of credit funds, and a considerable part of the investment was realized by use of own funds, generated by an increase of the share capital by company's major shareholder Tankerska plovidba company in July 2011.



In July 2012, Viktor Lenac put into operation its new, third floating dock RI-38 having a capacity of 8,500 tlc. The dock was built by Ukraine's Kherson State Pallada and was tugged to Viktor Lenac in June 2012. Initially it was equipped with a 5.5 t crane. At the end of the year a second crane having a capacity of 7.5 t was installed. Total investment in new floating dock including the second crane amounted to 9.3 million EUR.

Effective, fast and safe cargo manipulation is of the most importance.

In the second half of the year, Viktor Lenac signed the contract for the purchase of a new crane for Dock 11 having a capacity of 25 t. The crane will be delivered and installed in the beginning of 2014. Its total value amounts to 2.6 million EUR.

Furthermore, in December 2012, Viktor Lenac signed the contract for the purchase of ultra-high pressure water blasting equipment to replace sand-blasting by new environmentally friendly technologies having a total value of 1.7 million EUR.



Besides major investment, the company invested in various production equipment. At the end of the year, Viktor Lenac signed the contract for the purchase of a static frequency converter that converts standard 380V/50Hz to 440V/60Hz, adopted for use onboard most commercial ships.

The investment plan also includes repair of the Berth 3 and upgrade of the Berth 9, including installation of a portal crane, for accommodation and repair of large-sized vessels, as well as other minor investment in HSE, energy efficiency and thermal energy management, and IT development.

Unfortunately, on the account of negative financial results generated in 2012 and situation on the world shipping market that is still unstable, the company's management has decided to postpone other investments until financial circumstances have been changed.

It is expected that unfavourable circumstances in our business environment will continue to the end of 2013, when the market is finally expected to re-continue growing. The objective of Viktor Lenac is to maintain and grow a sustainable business to maintain financial stability and prevent further losses. Viktor Lenac will continue to focus on business viability, efficiency increase and cost decrease for the benefit of our shareholders, clients, employees, suppliers and the entire community.

President of the Board

Robert Škifić



Business Environment

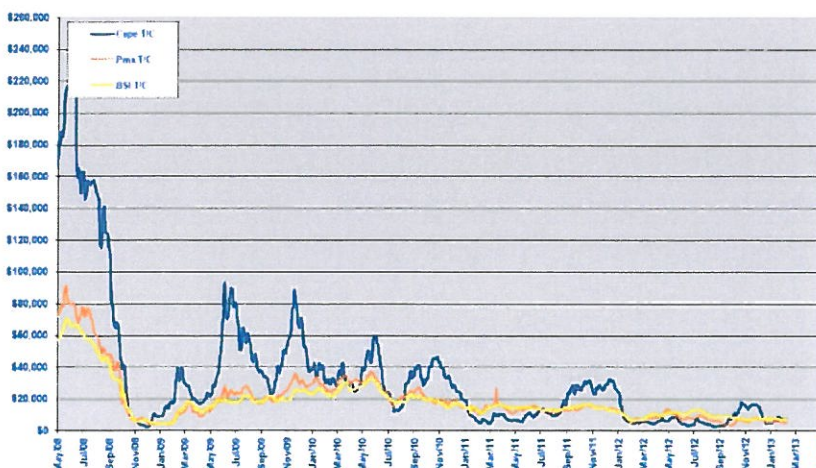
Shiprepair

Market Situation in 2012

- ▶ main ship types passing through the forth year of crisis (with the exception of chemical tankers and LNG ships)
- ▶ freight rates down by 20% comparing to 2011
- ▶ freight rates for larger vessels below operating costs
- ▶ positive changes on the spot market, occasionally, related to normal seasonal oscillation and increased demand for oil and coal
- ▶ decrease in newbuildings orders
- ▶ decreased shiprepair budget
- ▶ an increasing number of ever younger vessels intended for breaker's yards; disproportionate with new deliveries with a continued imbalance between demand and supply of shipping space with
- ▶ increase in ship resale indicating shipowners need financing of already ordered vessels, but might also be a sign of market recovery
- ▶ many shipping companies experiencing financial difficulties
- ▶ extending payment due dates for repairs

Competition

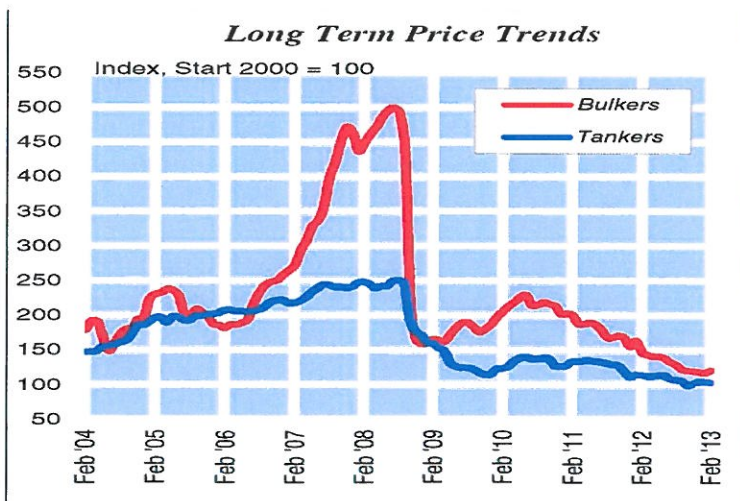
- ▶ severe competition between the shipyards in the region, with turkish shipyards steaming ahead
- ▶ dumping prices by Montenegro's shipyards to compensate for poor climate conditions in winter resulting in less contracts, with turkish shipyards countering the move bringing about more pressure on prices in 2012, especially at the end of the year
- ▶ due to poor economic situation in the neighbour EU countries, more contracts are awarded to domestic shipyards without a real market competition



The graph shows freight rate trends for bulk carriers. The freight rates were at the lowest level during the whole year with daily rates of only about 10,000 USD. A long-lasting and deep crisis has weakened financial capacity of many shipping companies affecting shiprepair volume and prices.

Today's freight rates have reached the lowest level in the past ten years.

Expectations for 2013



Positive influences:

- ▶ there is a larger number of ships delivered in 2008 that have to be dry docked and renew class at 5-years interval
- ▶ next in line are dry dockings postponed in 2012
- ▶ expected larger scope of repairs onboard ships of inferior quality built in chinese shipyards and scheduled for first dry docking in 2013
- ▶ greater awareness of environmental issues increases number of scrubbers and ballast water treatment systems installed onboard ships
- ▶ ships slowing the navigation down thereby reducing fuel consumption and emissions resulting in more employed ships and more repairs
- ▶ charterers have stricter and stricter requirements in terms of ship safety and reliability especially when speaking of large oil companies forcing shipowners to keep higher maintenance standards

Negative influences:

- ▶ due to a large number of new ships it is expected that average value of repairs and volume of repair works will be lower
- ▶ pricing pressure is likely to continue during 2013
- ▶ oscillation in employment, and lower occupancy rate likely to continue through this year
- ▶ due to weak financial position of shipowners and their low solvency, possible difficulties with debt collection may be expected and the shipyard might need to credit them
- ▶ recovery of freight rates might not have an immediate positive effect on repair prices

Offshore projects

There is a number of open offshore projects on the market in the Northern Sea and Mediterranean. Such projects, however, are too complex and demanding for Viktor Lenac to play alone against other competitors. In case of strategic interest for this kind of activity, the company will, therefore, need to take numerous preparatory steps, and make investments into organization and technology and search for strategic partners to be able to compete for such projects.

Investment activities have intensified in the Northern Adriatic gas fields. Viktor Lenac signed a contract for construction of an offshore production platform (Ika JZ) with option to contract a second platform (Ilena). Considering the plans for the exploration of oil and gas in the fields, more orders are likely to be expected.



*Sampson conversion contracted in 2011,
works commenced in November 2011
and were completed in July 2012*

Conversions

Most activities related to ship conversion projects are focused to the Northern Sea where the western shipyards are likely to benefit, or are closer to Far East shipyards. Despite of high oil price and other parameters expected to launch this market, there are very few inquiries for conversions.

Several projects are currently being analyzed in terms of feasibility and financing, but it is not expected that any contract may be concluded during the first half of the year.



Business Activities

Sales

Realized Revenues

HRK	2009	2010	2011	2012
Shiprepair	222.002.665	190.191.866	275.421.116	140.442.090
Conversions	23.557.569	93.754.850	57.374.612	90.077.043
Offshore	37.217.637	15.328.107		115.691
Realized revenues	282.777.872	299.274.822	332.795.729	230.634.824
Production in progress	4.538.878	-10.385.475	-1.710.526	1.485.152
Realized scope of works	287.316.750	288.889.347	331.085.203	232.119.976

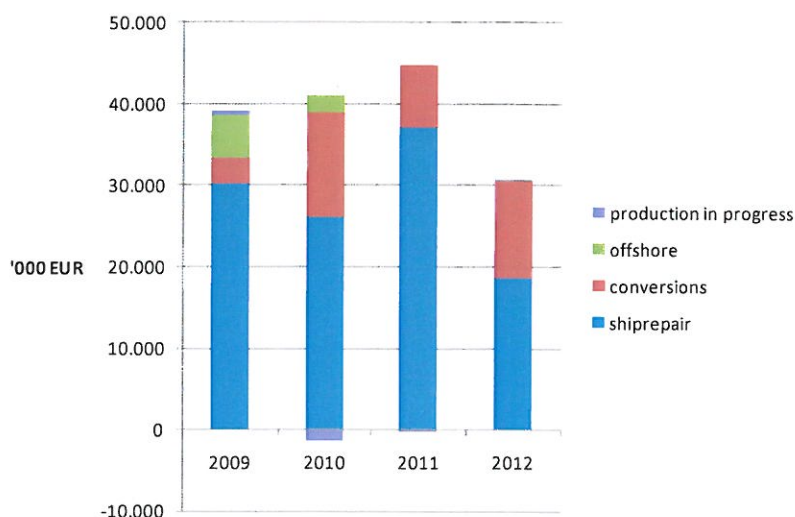
EUR	2009	2010	2011	2012
Shiprepair	30.246.979	26.080.908	37.013.037	18.680.734
Conversions	3.209.625	12.856.552	7.710.406	11.968.051
Offshore	5.070.755	2.101.935		15.450
Realized revenues	38.527.359	41.039.395	44.723.443	30.664.234
Production in progress	618.404	-1.424.155	-229.873	196.823
Realized scope of works	39.145.763	39.615.240	44.493.571	30.861.057

Realized projects:

5 repair jobs contracted in 2011
43 repair jobs contracted in 2012
Sampson conversion (started in 2011, completed in 2012)

Work in progress on 31 st December 2012:

5 repair jobs contracted in 2012
Construction of IKA JZ offshore production platform



Market share analysis 2012

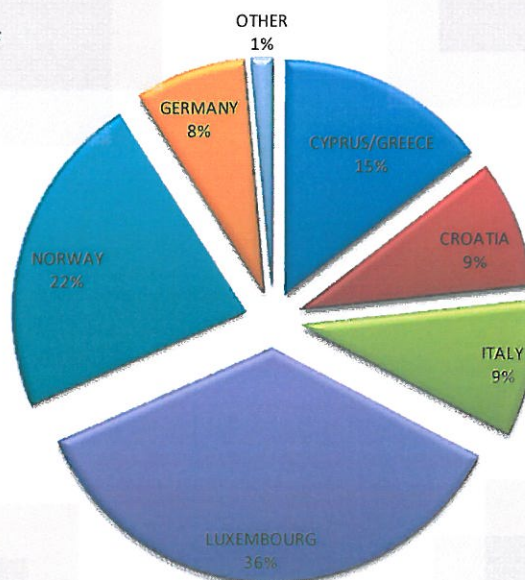
Market	Revenues '000 EUR
Cyprus/Greece	4.474
Croatia	2.681
Italy	2.849
Luxembourg	10.993
Norway	6.868
Germany	2.359
Other	440
Total	30.664

Croatia

*Tankerska plovdba, Jadrolinija,
dockings for domestic shipyards*

Cyprus/Greece

8 repair jobs, of which 4 for MSC



Norway

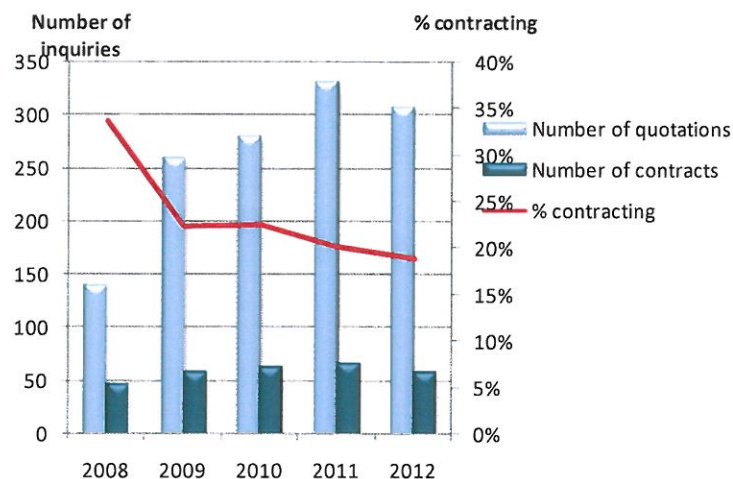
*a high market share on the
account of comprehensive
repairs carried out o/b Nordic
Hawk and scrubber installation
o/b Balder*

Luxembourg

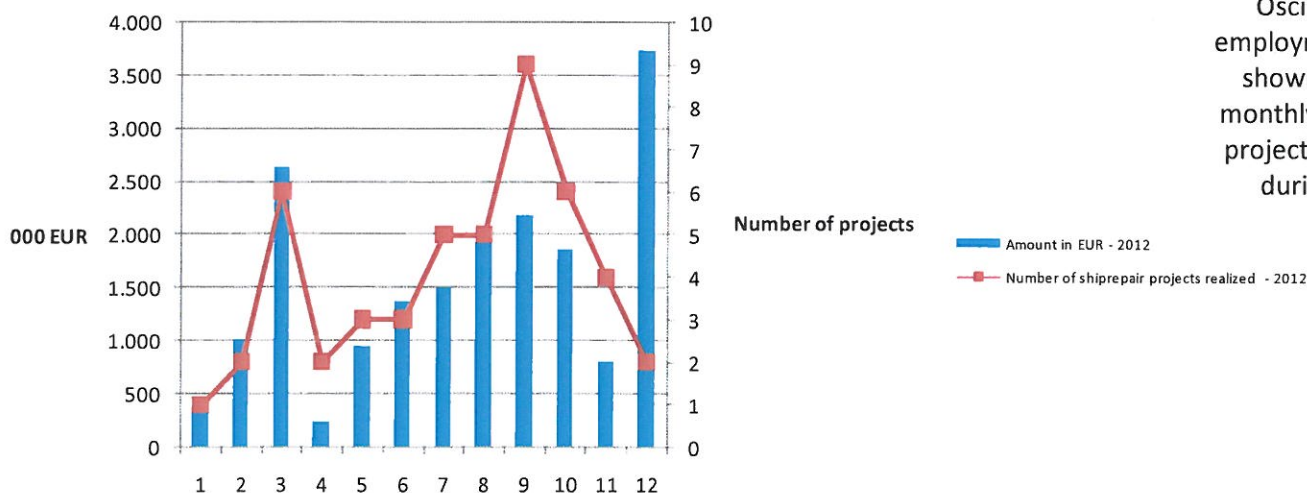
*Sampson conversion partly
included in 2011 respectively
2012*

Sales

- 330 inquiries
- 308 quotations
- 58 shiprepair contracts
 - ✓ 43 realized in 2012
 - ✓ 5 started in 2012
 - ✓ 10 jobs contracted for 2013



The shipyard did not issue quotation to about 20 inquiries during the year because of unavailability of capacity at the requested period.

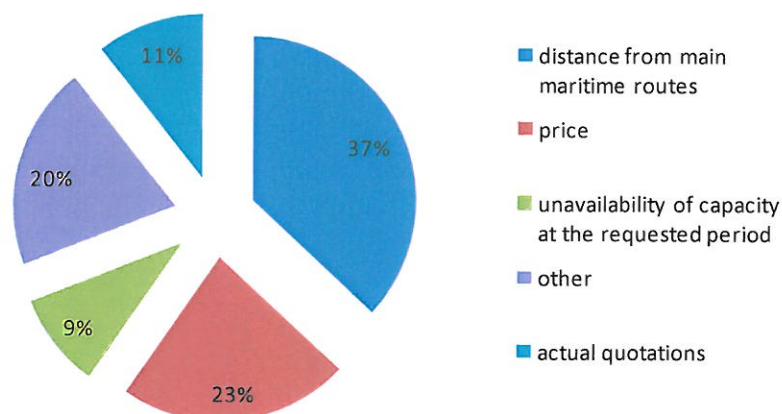


Oscillation in employment can be shown through monthly shiprepair project realization during 2012

	2008	2009	2010	2011	2012
Number of quotations	140	260	280	332	308
Number of contracts	47	58	63	67	58
% contracting	34%	22%	23%	20%	19%

The contracting trend indicates:

- ▶ an increasing number of shipyards competing for each open job
- ▶ that shipowners are looking for more options to select the best offer and reduce repair prices
- ▶ that, in 2012, the upward trend in inquiries has ceased



- ✚ Viktor Lenac's geographical position might be considered as an aggravating circumstance as its **distance from the main maritime routes** could mean a loss of several days comparing to the main competitors on the Mediterranean market. In fact, this was the main reason for rejecting Viktor Lenac and moreover Viktor Lenac was forced in many cases to adjust its offer in terms of price and redelivery term, in order to be more competitive. Not rarely, shipowners choose a shipyard that is situated near the port of loading or unloading in the Far East, North Europe, western Mediterranean, Black Sea, or they combine the Mediterranean route with a shipyard in Turkey.
- ✚ In many cases, during the past few years where shipowners' financial situation has weakened, **price** has been crucial. During 2012, Viktor Lenac's biggest competitors were shipyards from Turkey, Ukraine, Romania and Bulgaria. Shipowners also decide to go Chinese shipyards especially when they plan a large scope of steel works.
- ✚ The shipyard did not issue quotation to about 20 inquiries during the year because of **unavailability of capacity at the requested period**. Same number of contracts have not been concluded for the same reason.
- ✚ **Other** reasons for not concluding certain number of contracts include special owners' requests, changes in shipmanagement, withdrawal or suspension of docking, or sending a vessel to a breaker's yard.

A more aggressive marketing approach and ambitious sales targets are imposing expectations that more than 80 ships will be contracted in 2013, especially considering that in 2012 the shipyard's capacities have been increased with the third dock.



Production

Production Activities

During 2012 Viktor Lenac realized 50 various projects that included the following types of vessel:

- ✓ 17 tankers (oil tankers, chemical tankers, LPG tankers)
- ✓ 7 container ships
- ✓ 6 bulk carriers
- ✓ 4 passenger ships
- ✓ 4 general cargo

In July 2012, Viktor Lenac has completed a major conversion contract involving the Heavy Lift Construction vessel Samson, owned by CVI Global Lux Oil and Gas 4 S.A.R.L., which has had a pipe-laying capability installed. The conversion commenced in November 2011.

Sampson has been converted from an offshore gas and oil field installation vessel, built in 2010, 180 m long and 32

m wide, carrying a crane of 1.600 ton capacity, into a crane and pipelay vessel. This is one more conversion on Viktor Lenac's respectable reference list of complex projects in conversion and offshore among which Helix Producer I, Seminole, Kommandor 3000 and others, establishing its position as one of the few specialized shipyards for ship conversions and gas platform construction in the entire region of the Mediterranean.

The Aft cargo holds have been converted into two Engine rooms with 3 Gensets each, and Fresh water tanks have been converted into two Thruster rooms with Retractable Azimuth Thrusters. The Forward cargo hold has been converted into an A&R winch room. The Void space has been converted into a Drive room with Variable Frequency Drive units, Transformers and other electrical equipment. Three 125 tonne capacity Tensioners, two 100 tonne Track supports, two 60 tonne Tracks supports and other Remacut pipelay equipment have been installed. A new pipelay enclosure was fabricated, installed and outfitted, and 700 m of Monorails and rails for Welding Trolleys was installed. An A-Frame as well as 50 m long stinger and associated equipment was fabricated, installed and outfitted. The DP reference system has been relocated. The existing vessel swimming pool has been converted into Gymnasium, and Accommodation have underwent modifications. The existing Fuel oil tanks have been modified to create Fuel oil settling tanks. HVAC systems have been installed in all new spaces. HP compressed air system has been installed and modified. Gas service piping was installed. New built-in steel (without Stinger) totalled 1,300 t.



In 2012, Viktor Lenac made its debut into the specialised exhaust gas cleaning (scrubber) market with a contract from Croatia's Tankerska Plovidba, Zadar, involving the crude tanker Kornati. The vessel was the first to be fitted with a LMB/Saacke scrubber unit, which the shipyard will be marketing over the coming years. LMB is based in Zagreb, Croatia and together with Germany's Saacke will be manufacturing the unit. The design, equipment supply and installation cost will be considerably less than competitive systems.

According to new IMO regulations, all ships that use cheaper HFO with increased content of sulphur will have to have installed exhaust gas cleaning systems. In certain areas in the world such as Baltic, English Channel and US and Canada coast such restrictions are already in force and in those areas ships are not allowed to use HFO that is much cheaper than MDO. Full implementation of restrictions in ECA will be in force from beginning of 2015 or 2020 in the rest of the world or latest 2025.

Viktor Lenac has a LMB/Saacke unit built in the shipyard's boiler room aimed at reducing emissions and decreasing costs using cheaper heavy fuel.



Earlier in 2012 Viktor Lenac carried out a scrubber installation operation on-board the Klaveness-owned bulk carrier Balder - however, the system was supplied by Norway's Cleanmarine. The job consisted of replacing the existing funnel and installing a complete new one with the scrubber. Conversion of the exhaust gas system also included installation of periphery equipment such as cooling pumps, control and supervision system etc. The new-installed system will reduce gases or sulphur by more than 98%, in accordance with IMO regulations, and will enable satellite control during navigation. Besides environmental benefits, installation of such equipment is cost-effective on account of possibility of using cheaper fuel.

This job opens to Viktor Lenac a new and large market niche in conversions.



STEEL WORKS

- installed total 880 tons of steel onboard vessels
- installed total 122 tons of steel on own docks



SURFACE PREPARATION & COATING

- 700,000 m2 F/C
- 200,000 m2 T/C
- 442,000 m2 HP washing
- 140,000 m2 gritblasting



SCAFFOLDING

- 123,000 m3 pipe scaffolds
- 55,000 m3 fast scaffolding

Other repair projects consisted of typical works mainly steel renewal and surface preparation and coating.

At the end of the year, Viktor Lenac started with initial activities for the construction of offshore production platform IKA JZ for Croatia's INAGIP in cooperation with Italy's Rosetti Marino and their Croatia's branch Rosetti from Rijeka.

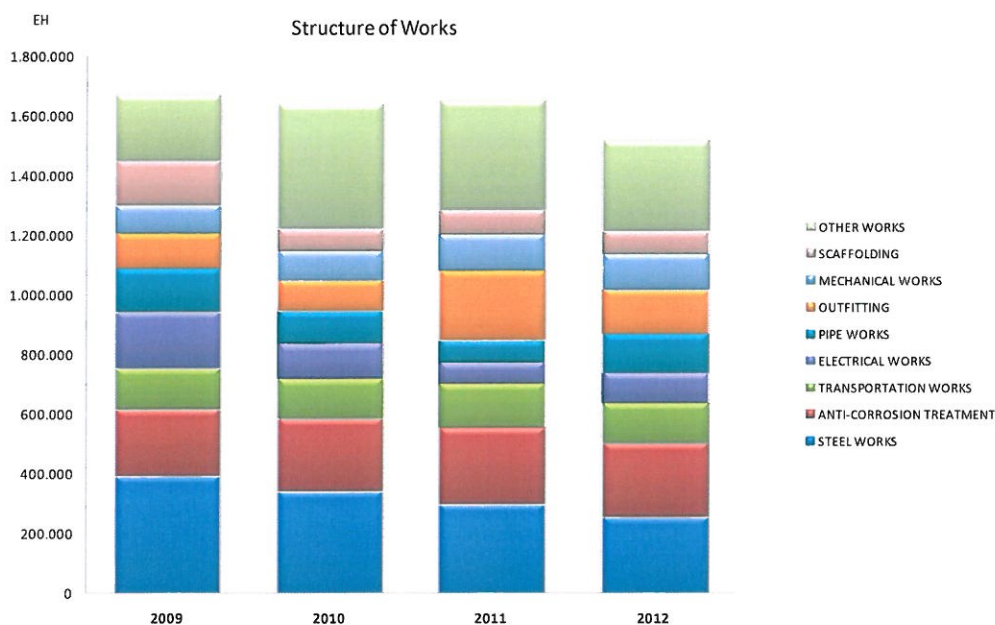
Structure of works

	2011	2012	2011	2012	2012/ 2011
STEEL WORKS	302.889	258.448	18,3%	17,0%	85,3%
ANTI-CORROSION TREATMENT	255.648	246.384	15,5%	16,2%	96,4%
TRANSPORTATION WORKS	146.783	135.971	8,9%	9,0%	92,6%
ELECTRICAL WORKS	71.692	100.033	4,3%	6,6%	139,5%
PIPE WORKS	74.938	131.995	4,5%	8,7%	176,1%
OUTFITTING	231.950	147.180	14,0%	9,7%	63,5%
MECHANICAL WORKS	121.150	118.690	7,3%	7,8%	98,0%
SCAFFOLDING	81.544	79.031	4,9%	5,2%	96,9%
OTHER WORKS	366.435	301.218	22,2%	19,8%	82,2%
	1.653.029	1.518.950	100,00%	100,00%	91,89%

Compared to the previous year, electrical and piping works increased on the account of Sampson conversion.



Repair works mainly consisted of steel renewal and surface preparation and coating.



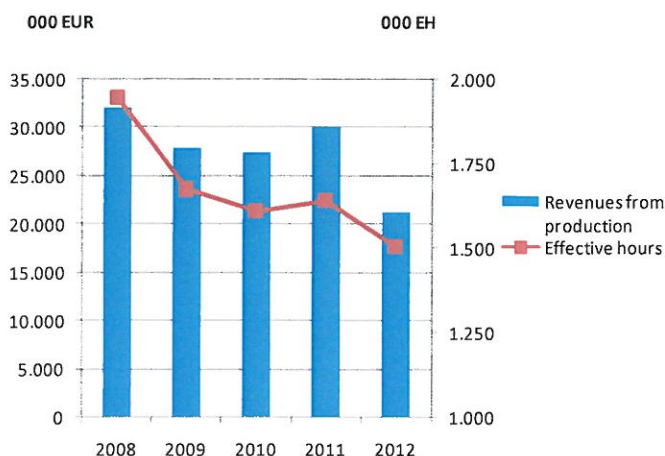
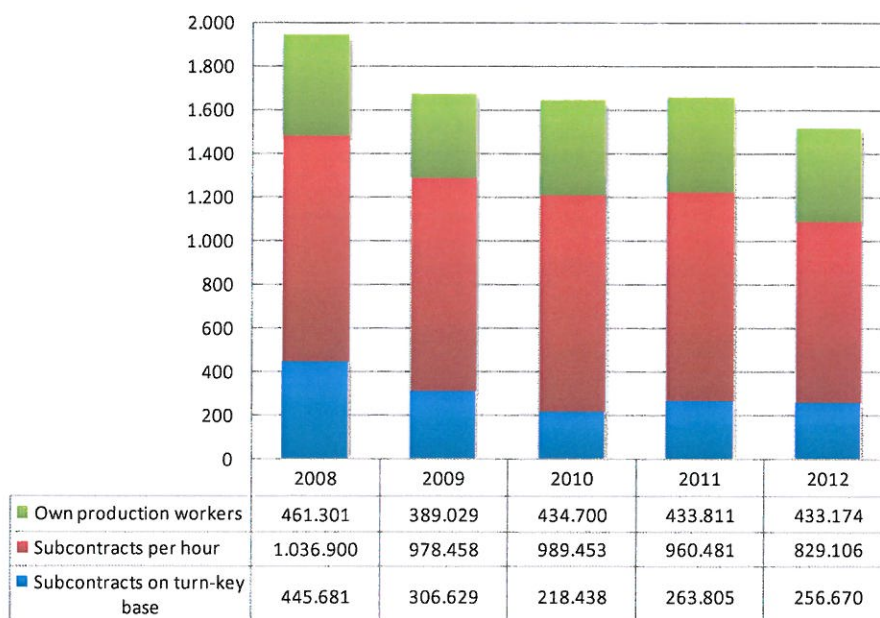
Production Capacity and Cost

The annual production capacity of Viktor Lenac is measured in effective work hours deriving from working orders in main activities, maintenance works and self-investment. Apart from its own permanent production workers, depending on needs, Viktor Lenac uses subcontractors for all its production activities. Subcontractors workers are mainly contracted on turn-key base, and in lesser scope per hour, noticeably during periods of oscillations where own

labour is not sufficient.

Of 1.52 million effective hours, own production workers participated with 28.5% down by 8.4% comparing to the last year. Decreasing trend in total number of effective hours produced with respect to revenues from main activities observed during the past few years was interrupted in 2012 on the account of reduced sales prices and struggling for every single job.

'000 EH EH vs. Revenues from Main Activities



The graph shows revenues from production with respect to effective production hours. Revenues from production are total revenues from main activities decreased by installed material, external services and other costs not directly related to exploitation of the shipyard's production capacities.

In figures, the total cost of production work incorporated in working orders from main, auxiliary and investment activities in 2012 amounted to 92.4 million Croatian Kuna, of which Viktor Lenac's own production workers' salaries made 16.9 million Croatian Kuna. This increase of labour cost as percentage of revenues from main activities resulted from decrease in shiprepair prices or lower sales prices.

	2009	2010	2011	2012
Revenues from main activities	282.778	299.275	332.795	230.634
Total production work cost	98.340	94.109	95.845	92.355
Labour cost as percentage of revenues	35%	31%	29%	40%

Employment of Docks and Berths

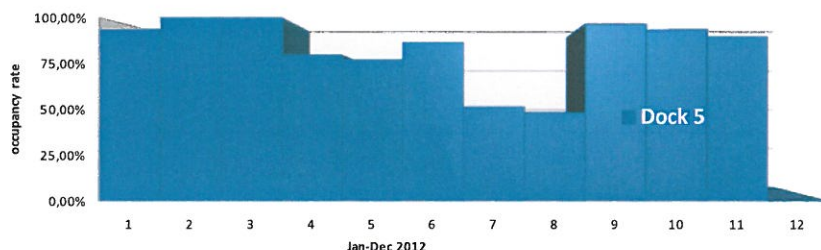
Viktor Lenac disposes of three floating drydocks: Dock 5 and Dock 11, and new-built Dock RI-38 put into operation in July 2012.

DOCK	Total amount in EUR	Number of projects
Dock 5	9.339.069,01	23
Dock 11	20.036.319,62	13
Dock RI-38	886.737,08	9
Without docking	402.108,81	5
Total	30.664.234,52	50

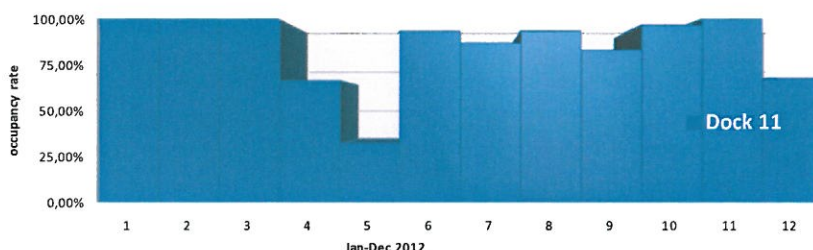
Shiprepair activity is characterised by oscillation in capacity utilization, and, therefore, employment of docks varied during the year. During periods of high employment it happened that there were two ships of smaller size in one dock.

Dock 5 recorded an occupancy rate of 76%, and Dock 11 occupancy rate was 85%. Dock RI-38 occupancy rate counting from July 2012 when it was put into operation was 63%.

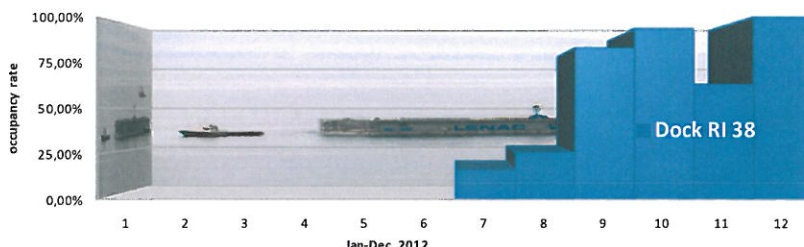




Dok 11 was occupied with the Sampson conversion from the beginning of the year until April, preventing the shipyard to contract other repair jobs in that period.

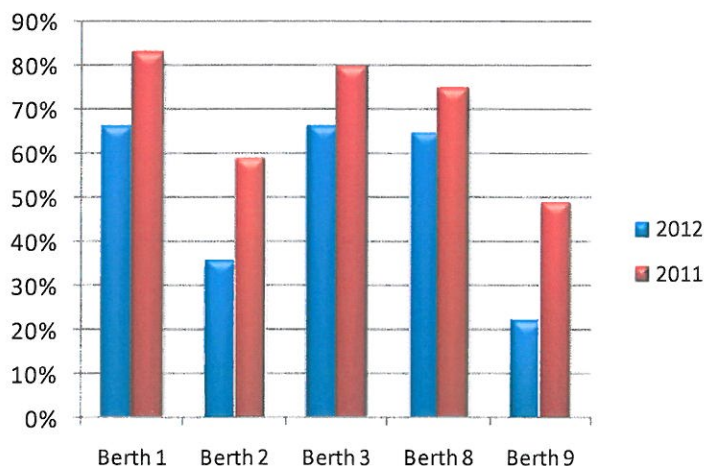


Near the end of the year, it was employed during 60 days to carry out a large scope of surface preparation and treatment works on board a vessel.

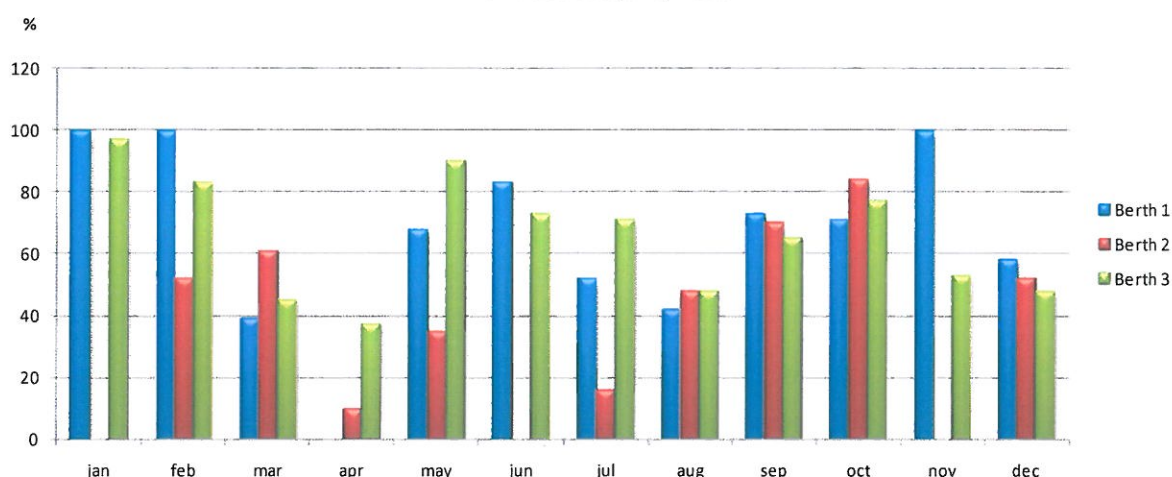


The lowest occupancy rate in 2012 was recorded in April and May, and then in December.

The shipyard's main operative berths are 1, 2 and 3. The operative berths 4, 5 and 6 have been accommodating vessels on which no particular shiprepair activity has been carried out during the past few years. The operative berths 8 and 9 are of special purpose and are used when main operative berths are not sufficient to cover the shipyard's needs. Operative berths also show different percentage of occupancy with an average occupancy rate of only 51%, significantly lower comparing to the last year when the rate was 69%.



Main Berth Occupancy Rates



Employment of operative berths varied during the year, with a period of high occupancy rate from August to October, and the lowest occupancy rate in April.

Raw material and Energy Source Cost

The total cost of material and energy source in main activities in general participate with 20 to 25% in the total operating revenues. In conversions and offshore projects, installed material and equipment participated with a larger percentage. Value of used material in 2012 related to the value of realized projects was around 25%, somewhat higher comparing to the last year, resulting from the Sampson conversion, on the one hand, and lower revenues due to a decrease in sales prices on the market, on the other hand.

The most important material used in production process or built-in on vessel under repairs or alteration during the year, amounting to total 60 million Croatian Kuna, were the following:

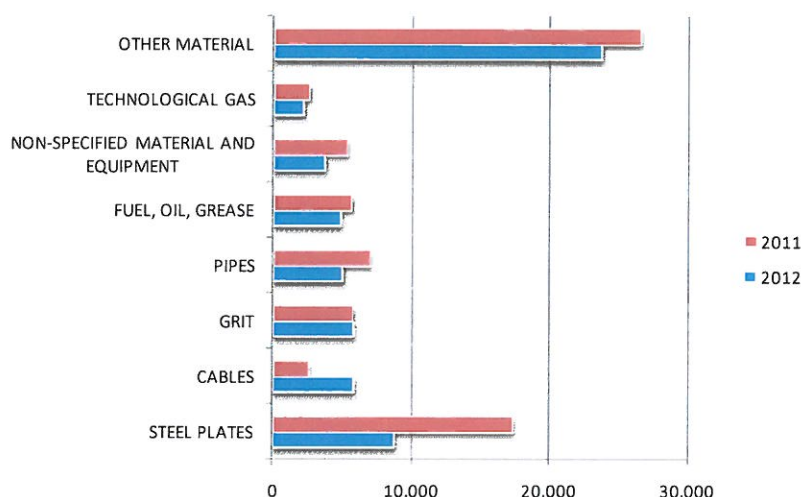
'000 HRK		
MATERIAL GROUP	2012	2011
Steel plates	8.718	17.355
Cables	5.807	2.552
Grit	5.779	5.702
Pipes	5.027	6.928
Fuel, oil, grease	4.840	5.634
Non-specified material and equipment	3.709	5.287
Technological gas	2.199	2.607
Other material	23.744	26.567
Total material	59.824	72.631

2012:

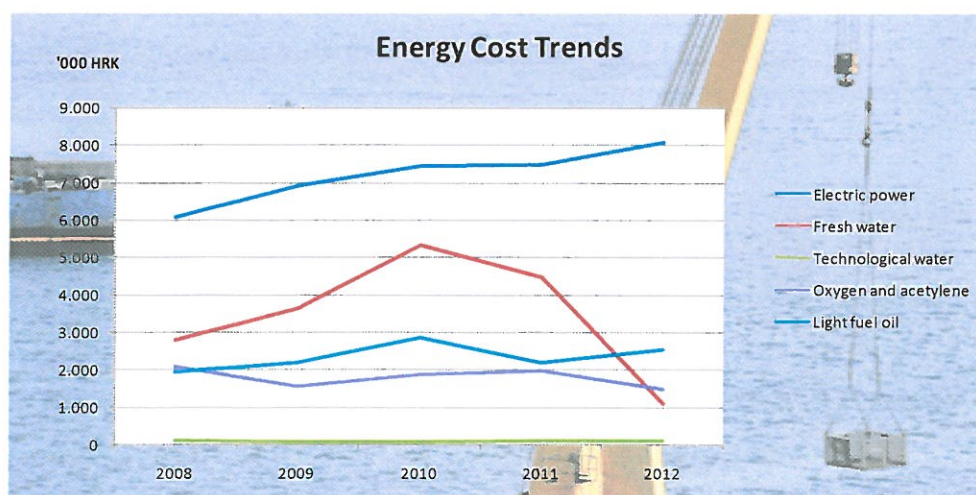
- ▶ installed 1,450 tons of steel plates
- ▶ installed 215 km of cables
- ▶ installed 460 tons of pipes
- ▶ used 9,630 tons of grit

Viktor Lenac uses significant amounts of energy such as electric power, fresh water, technological water and gas. A part of electric energy and fresh water represent fixed costs, while part is calculated as variable production costs that depend on scope of production activity. Technological water which is not used for drinking and technological gas such as liquid oxygen and acetylene are variable costs, which depend in whole on scope of production activity.

Technological water is used in washing and high pressure jetting, steel cutting and assembly. Liquid oxygen and acetylene are used in steel cutting and machining.



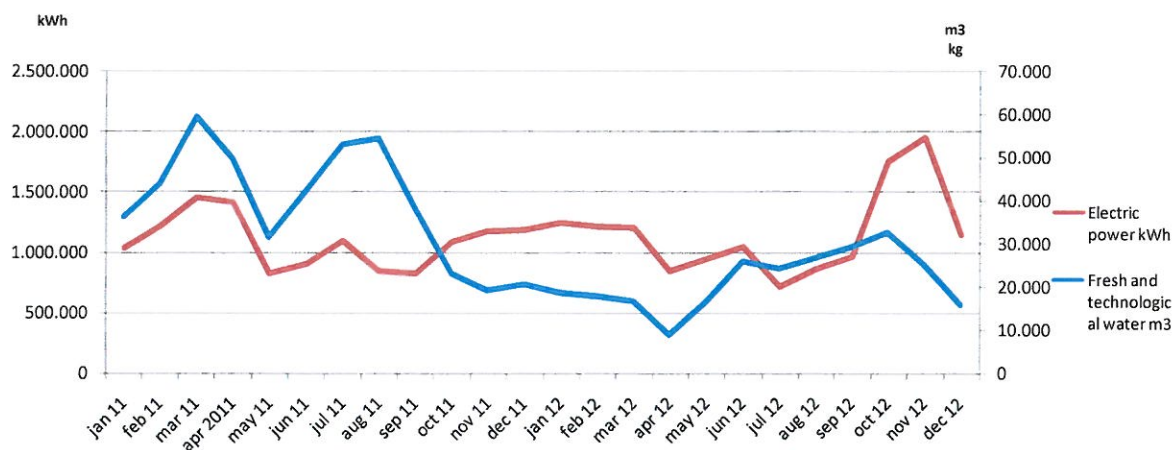
Energy source	Unit	2008	2009	2010	2011	2012
Electric power	kWh	11.730.319	11.297.600	11.188.560	13.060.720	13.906.640
Fresh water	m3	295.224	290.289	389.616	293.578	79.786
Technological water	m3	253.296	160.002	153.328	176.402	178.158
Oxygen and acetylene	kg	751.833	519.140	652.112	651.620	564.596
Light fuel oil	kg	611.710	642.400	965.750	589.280	544.720



Aimed at decreasing cost of water, in 2011 the Shipyard engaged a specialized company to take severe measures aimed at controlling and monitoring oscillation in consumption and detecting leaking. This resulted in a significant decrease in utilization of expensive water from municipality water supply. More reduction will be achieved by

installing additional technological water pipelines aimed at using technological water at larger scope instead of significantly more expensive water from municipality water supply.

Fixed costs of electric power and heating oil will be decreased by increasing energy efficiency. The energy efficiency project has started in 2012 and includes renewal of boilers, gas system installation and utilization of waste heat recovered from compressors, which is expected to bring significant reduction in electric power and heating oil.



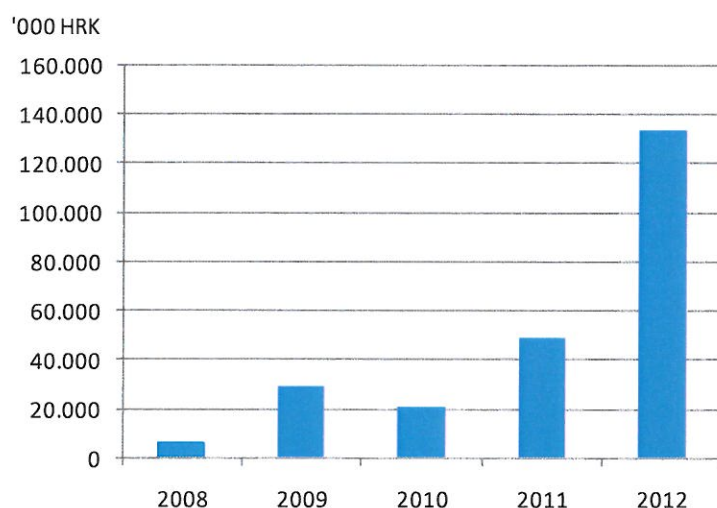
Oscillation in employment of capacity can also be analyzed through oscillation in consumption of electric power and water. A drop in water consumption is the result of the specific measures taken to reduce water consumption and eliminate leaking.



Technological Development and Investment

Development and investment objectives in shiprepair activity:

Total investment in Long-term Tangible and Intangible Assets



- Maintaining and strengthening shipyard's position on the market and growing operative revenues in the framework of existing shiprepair and conversion capacity
- Decreasing costs, fixed costs and increasing efficiency
- Providing faster services
- Business agility and speed to market

During 2012 investment into long-term tangible assets have intensified based on the company's development program started in 2011 with the following major investment issues:

- New floating dock with cranes
- New crane for faster cargo manipulation on Dock 11
- Berth 3 repair work
- Berth 9 upgrade work – to be enlarged for accommodation and repair of large-sized vessels
- Replacing sand-blasting by new environmentally friendly technologies using ultra-high pressure water blasting
- Energy Efficiency and Thermal Energy Management
- Horizontal and vertical transportation for efficient cargo manipulation
- Various production equipment, plant upgrade and modernization, safety and environmental protection, and IT development



In November 2011, Viktor Lenac signed the contract for the purchase of a new floating drydock with the Ukraine shipyard Kherson State Plant „Pallada“. Dock RI-38 was delivered in June and put into operation in July 2012. It is a composite dock type with concrete pontoons and steel towers having a pontoon length of 139.50 m and breadth (internal clear between towers) of 24.5 m, with a capacity of 8,500 t. Initially it was equipped with a 5.5 t crane. At the end of the year a second crane having a capacity of 7.5 t was installed. Total investment in new floating dock including the second crane amounted to 9.3 million EUR.

Funds engaged in purchasing new floating dock and other major investment have been realized partly by use of credit funds through Croatian Bank for Reconstruction and Development, of which a total of 69.9 million Croatian Kuna were used by the end of the year. The credit funds were also used to purchase a new crane for Dock 11 having a capacity of 25 t. The crane will be delivered and installed in the beginning of 2014. Its total value amounts to 2.6 million EUR.



In December 2012, Viktor Lenac signed the contract for the purchase of ultra-high pressure water blasting equipment to replace sand-blasting by new environmentally friendly technologies having a total value of 1.7 million EUR, of which 519,000 EUR have been paid as advance payment. The equipment will be delivered in August 2013.

The new, advanced ultra-high pressure water blasting equipment is expected to provide a much more efficient and faster service with respect to sand-blasting technology as it can be used 24 hours a day unlike sand-blasting that can be carried out only during night hours.

At the end of the year, Viktor Lenac signed the contract for the purchase of a static frequency converter having a total value of 4.2 million Croatian Kuna. It converts standard 380V/50Hz to 440V/60Hz, adopted for use onboard most commercial ships. It is usually a 440V/60Hz supply being generated and distributed onboard ships for automatic and electronic systems such as fire detectors, refrigerators and computer systems that ensure ship's safety and operation. Frequency converters have an advantage over Diesel generators in the ability to reduce gas emissions produced by aggregates or Diesel generators, as well as to reduce noise.

During 2012, the company invested in various production equipment, and purchased a second work boat. The shipyard also invested in IT hardware and software, and commenced with its energy efficiency program and thermal energy management activities.

Besides investing into production equipment, the company has also invested in the existing assets, particularly Docks 5 and 11 on which parts of steel structure have been renewed.

Organisational Development, Quality Management System, Information & Communication

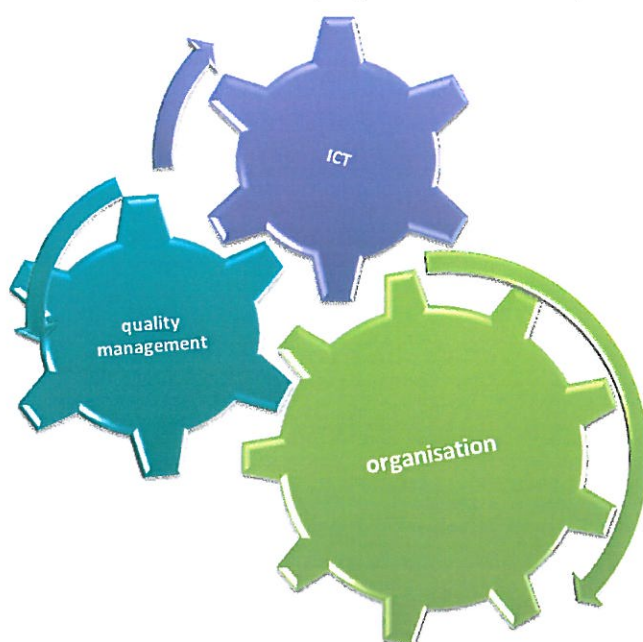
During 2012 continued extensive re-engineering of the shipyard's process with an emphasis on production activities, aimed at an increase in productivity, reduction in overhead staff, and decrease or progress in activities that do not generate additional value.

Diversification of Viktor Lenac's production activities requires that its shiprepair, conversion and offshore projects are executed with a high degree of flexibility and expertness, and the need to increase the productivity level requires accurate planning and rational utilization of resources, particularly considering that Viktor Lenac's activities are project-oriented, often working on multiple simultaneous projects.

The biggest productivity in such project-oriented activities can be achieved in an advanced matrix organisational structure. In spite of the complexity of such structure and an increased risk of conflict due to dual responsibility and conflict of interest between the managing levels, this type of organisation enables transparent measurement of productivity of each individual project and each functional unit. A complex structure such as matrix organisational structure cannot be implemented in a short period. Reexamining and improving organisational relations, eliminating misunderstanding and conflicts of interest between the managing levels, defining responsibilities and authorizations, increasing awareness and appreciation of ways of accomplishing results, and developing managing knowledge, particularly technical knowledge – is a process that is continuously being developed and upgraded.

Company is expecting from its managers to engage in a higher degree in reexamining existing processes and finding new, better solutions aimed at reducing costs and increasing clients' satisfaction.

Comprehensive modernisation and reorganisation of the entire information and communication system, seeking to increase efficiency in planning, management and evaluation based on the matrix organizational structure both project and functional, also continued during 2012. The objective of IT



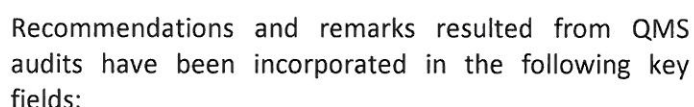
development is to facilitate, automate and speed up communication and transfer of key data, information and analysis needed in daily decision making process in the least possible time and to eliminate repeated activities.

The matrix organisation with an adequate information system is a basis for development of the controlling and internal benchmarking, breaking down overall results of company performance by individual organisational units following the company's functional organisational structure. On the

other hand, following its project organisational structure, overall results of company performance are divided by individual activities, next by individual projects and at the end by project parts.

The total investment into IT system maintenance including software upgrade and new hardware amounted to around 1 million Croatian Kuna.

- In October 2012, the company successfully passed the first audit of its quality management system performed by Bureau Veritas in accordance with ISO 9001:2008. Also, during 2012, Viktor Lenac passed a number of quality management audits performed by its clients.



- Project planning and managing
- Business process measurement and control
- Analysis of data and information relating to process and product characteristics and trends

During internal audits, a total of 42 non-compliances have been observed of which most had to do with a lack of supervision and control over measurement and achievement of business goals (23,8%). All non-compliances have been eliminated through corrective activities, and preventive activities have been taken as well.

Forty-five non-conformed products have been identified during daily controls. The non-conformed products had mainly to do with a lack of respect of the established work procedures. All non-conformances have been eliminated through corrective activities, and preventive activities have been taken as well.

Safe Work, Health and Safety at Work and Fire Protection

Occupational health and safety and protection of property both for own workers and subcontractors, as well as clients, is the Company's highest priority. The health and safety policy is implemented through the areas of safe work, fire protection and protection of property through corrective and preventive actions and permanent monitoring activities in compliance with laws and regulations.

During 2012, the Shipyard took various activities and measures to improve health and safety, and fire protection.

Personal protection equipment is provided in accordance with established intervals and real needs. The Shipyard executes regular control over the utilisation of personal protection equipment involving both Shipyard's and subcontractors' workers.

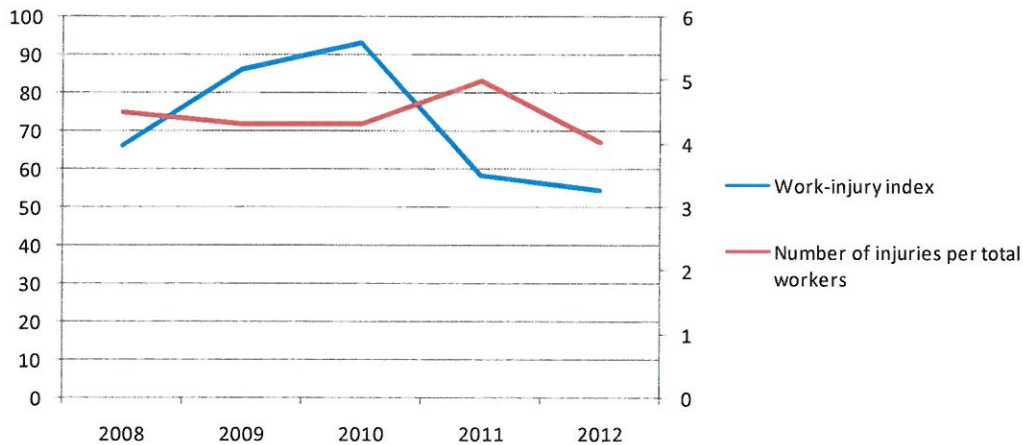
Shipyard's workers employed at posts characterized with special work conditions pass obligatory medical examination at the Institute of Occupational Medicine. Aware of the importance of preventive healthcare, Viktor Lenac has renewed its agreement with a reputable medical establishment for five years in a row for annual preventive medical exams and other medical services for the benefit of its employees. Shipyard's employees underwent mandatory medical check-ups and other specialist examinations and tests.

Funds spent in employee healthcare

	2008	2009	2010	2011	2012
Annual preventive medical exams	215.857	686.677	698.933	719.280	907.091
PPE	831.849	667.670	708.257	820.559	665.333
	1.047.706	1.354.346	1.407.191	1.539.839	1.572.424

Constant efforts in implementing safety procedures have led to a decrease in number of injuries, compared in absolute numbers of injuries, or when compared with respect to number of workers. The work-injury index indicates that the injuries mainly had to do with light injuries such as contusions, wounds, sprains or fractures.

	2008	2009	2010	2011	2012
Effective hours	1.116.833	1.095.324	1.077.765	1.090.191	1.019.687
Number of injuries	26	25	25	29	23
Total lost days due to sick leave	822	1024	892	636	557
Frequency index	23,28	22,82	23,20	26,60	22,56
Work-injury index	73,60	93,49	89,26	58,34	54,62
Number of injuries as against number of workers	4,48	4,31	4,31	5,00	4,03



HSE measures aimed at reducing the frequency and severity of injury at work, are expected to bring a decrease in number of lost days due to sick leave.

Shipyard also included subcontractors in its injury management system. In 2012, a total of 11 injuries were recorded referring to subcontractors' workers.

The Shipyard has also set up a Potentially Dangerous Event Register, which needs to be further upgraded. It is essential to raise awareness of workers on the importance of notification of potentially dangerous event. Through analysis of such events we will be able to define injury prevention measures and activities.

The Shipyard's Fire Protection System integrates a spectrum of preventive measures among which inspecting work sites for issuing of permits for work with open flame, making emergency evacuation plan for each vessel, educating and training new employees, inspecting, maintaining and renewing fire fighting equipment and practicing periodic fire fighting exercises.

Hot works such as welding and cutting can be carried out only after a preventive inspection has been performed and a hot work permit has been issued. In 2012, a total of 15,000 hot work permits were issued.

In 2012, the Company purchased a fire vehicle and a large number of special fire fighting suits.

Our clients have recognized our efforts made to provide safety at work. Safety has become one of top criteria for selecting a shipyard. Based on results obtained from Customers Satisfaction Questionnaire, Viktor Lenac's safety rate increased from 3 and lower two to three years ago to 4.1 in 2012.



Environmental Protection

By protecting the environment through an environmental protection system, which is based on the world's environmental protection rules and regulations that recognize technological achievements, branch rules and laws, Viktor Lenac is promoting and supporting the process of sustainable development. The environmental protection system is also a starting point for further development of the company, with purpose to ensure quality common life with the local community.

In cooperation with the Institute of Public Health of the Littoral and Mountain County, Viktor Lenac has been implementing a permanent program of monitoring of the influence of its production activities on the environment. Based on results of measurements of water and air samples, sea water and noise, the Shipyard is undertaking specific corrective measures in its technological processes.

Air samples are continuously taken at locations of the nearby village Vrh Martinšćica and Bay of Žurkovo, as well as at the western border of the city of Rijeka since last year. Based on the results of PM₁₀ sampling and measurements of sediment concentration of heavy metals, air quality has been given 1st category (clean or insignificantly polluted). Actual data from the monitoring station are available on the web pages of the Public Health of the Littoral and Mountain County <http://www.zzjzpgz.hr/zrak>

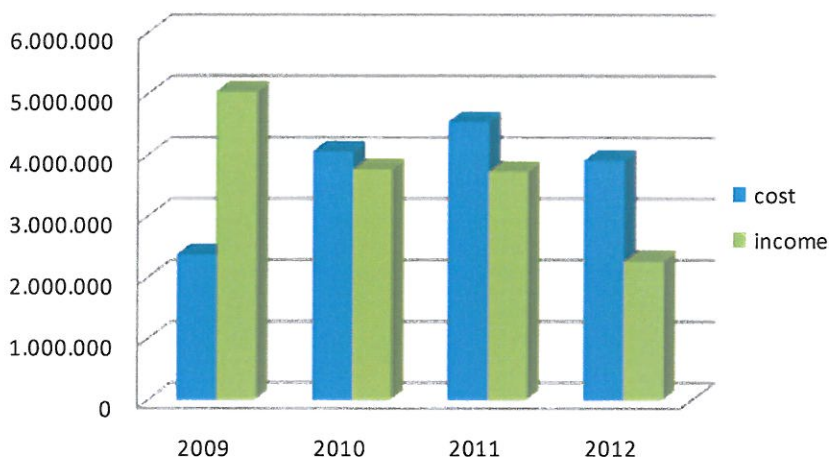
Anti-corrosion treatment works have been identified as works that negatively affect the environment. With purpose to maintain the stability of the environment, Viktor Lenac applies preventive environmental protection measures such as protection nets and inflatable booms. At the end of 2012, the Company entered into a contract to purchase ultra-high pressure water blasting equipment aimed at replacing sand-blasting by new environmentally friendly technologies. The equipment will be delivered mid 2013.

In accordance with its environmental protection policy, Viktor Lenac is committed to social responsibility. Company promotes clean production strategies that contribute to reducing emissions through a series of internal projects or programs started or continued during 2012. By investing into Shipyard's infrastructure (sewage system, energy supply, water supply, lighting system, buildings, etc.), we are

investing into local community property, thereby contributing to increasing the value of business zone, and promoting economic development aimed at maintaining employment and creating jobs, enabling undisturbed functioning of Shipyard's surroundings.



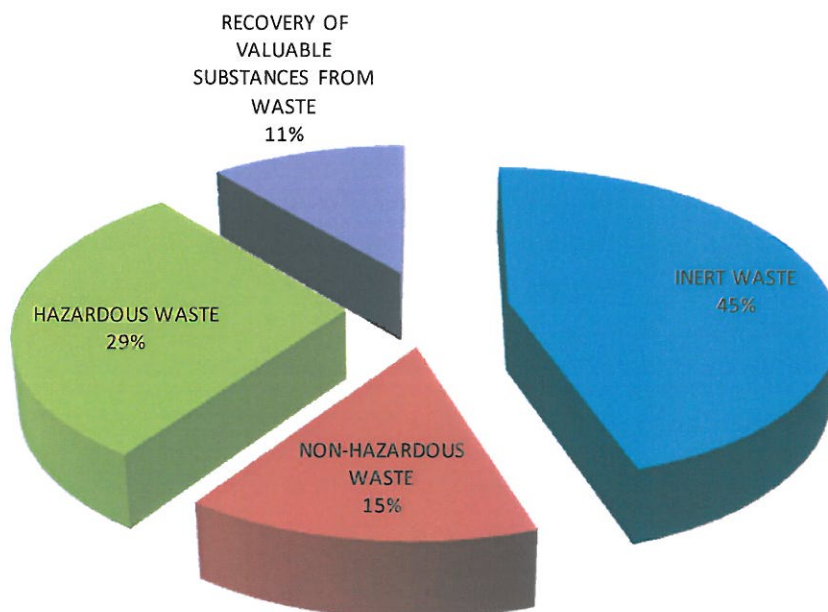
WASTE MANAGEMENT FIGURES



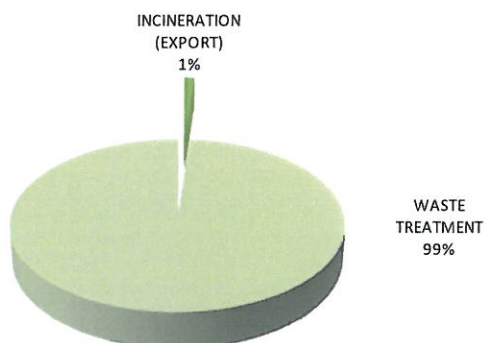
Viktor Lenac promotes Flexible Waste Management to accommodate to changes and trends in waste management issues. Its waste management system is conformed with law and basically depends on actual waste treatment capacities in Croatia. In 2012, when the local waste disposal was closed, the Shipyard was forced to find another possibilities for waste disposal and treatment, which have still not been completely developed to fulfil both ecological and economic conditions.

TOTAL WASTE PRODUCED IN 2012

In 2012, Viktor Lenac produced near 18 thousands of tons of waste, mostly referring to abrasive grit (inert waste used as top layer on the waste disposal site).



HAZARDOUS WASTE MANAGEMENT

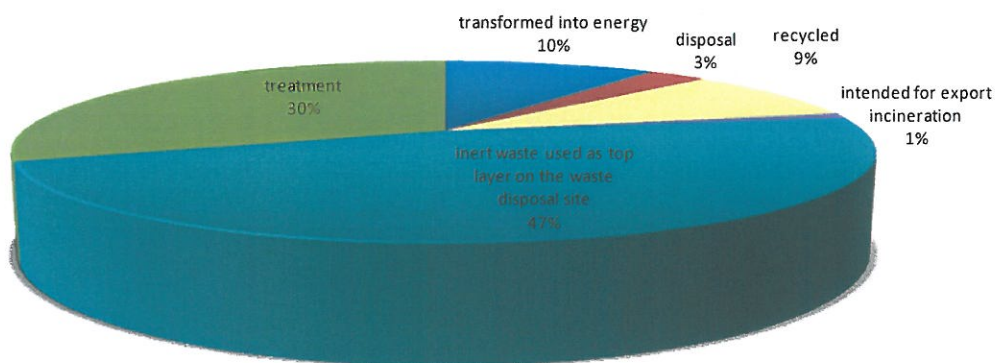


Viktor Lenac has currently been disposing around 50% of produced waste, of which 47% refers to abrasive grit. Around 30% of total waste refers to waste water coming from ships that are treated to separate water from waste before final disposal aimed at reducing waste quantity. Only 9% or around 1,500 tons of total waste is intended for recycling, and 10% is transformed into energy. Only 1% of waste is intended for incineration in Austria. Disposal is the most unfavourable strategy of waste management both in terms of environmental protection and economics.

Viktor Lenac has been applying principles of waste sorting to decrease waste quantity intended for disposal. Waste is separated at the place of origin, which is the least expensive model. Company promotes waste sorting strategies, continuously educating its workers and investing into advanced equipment. Currently, Croatia offers very few possibilities of waste treatment and recycling, and Viktor Lenac is developing its own waste management strategies.

Viktor Lenac joined **World Cleanup 2012** ! In addition to providing financial aid, Shipyard's workers cleaned an unauthorized dumping at the neighbour parking lot.

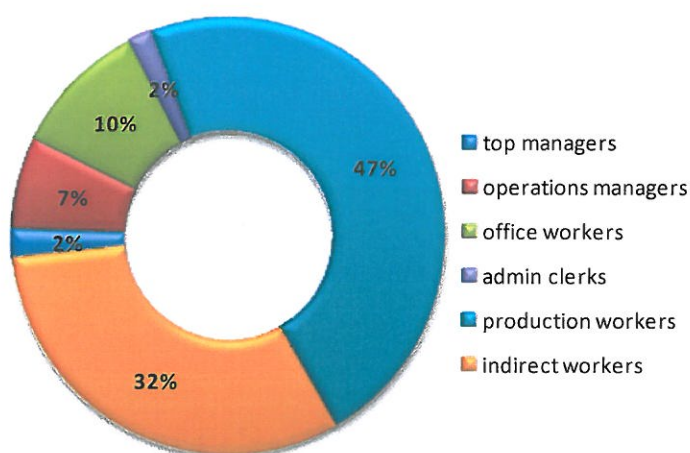
WASTE MANAGEMENT



Human Resources

Number and Structure of Employees

On the day of 31st December 2012 Viktor Lenac had 556 employees, down by 25 with respect to the previous year.



✚ HR policy primarily based on production needs

✚ Due to oscillation and lower capacity deployment on the account of decreased demand for shiprepair works within the region, resulting in an increase of fixed costs relative to variable costs in phases of lower capacity deployment, employment situation is stagnating

✚ Employment policy primarily based on replacement needs

✚ HR restructuring and reducing overhead workers, increasing new or added value of individual work posts

Of total number of employees, production workers participated with 264 employees, plus 176 indirect workers involving HSE department, Maintenance, QC, foremen in production and other overhead workers.

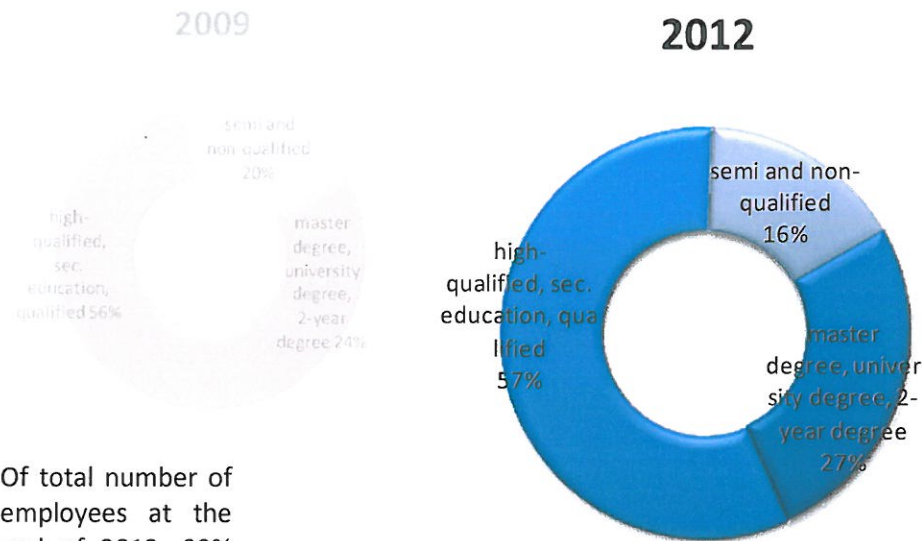
The remaining number of employees included technical and commercial staff and other experts (56 employees), administrative staff (10 employees) and project managers and managers of organisational units of all level (50 employees).

On 31st December 2012, Viktor Lenac's subsidiary company (Viktor Servisi d.o.o.) had total 17 employees, of which 14 maintenance and repair workers.

Viktor Lenac's personnel structure in terms of qualification and profession is satisfactory. A small number of employees refer to non-qualified workers and those are mostly workers occupied with cleaning works.

Qualification degree	Master's degree	University degree	Two-year degree	High-qualified	Secondary education	Qualified	Semi-qualified	Non-qualified	TOTAL
Number of men	1	54	69	25	160	123	18	72	522
Number of women	0	15	9	0	9	1	0	0	34
Total	1	69	78	25	169	124	18	72	556

During the past few years, the qualification structure improved reducing the number of non-qualified and semi-qualified workers in favour of employees having a university degree.

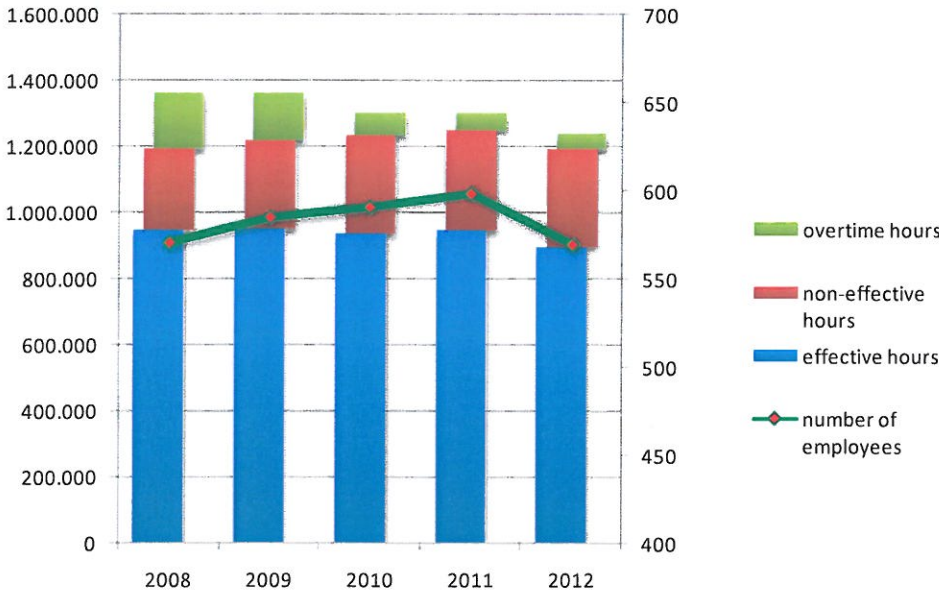


Of total number of employees at the end of 2012, 90% had employment contracts for an indefinite period of time.

The average age of the Shipyard's employees at the end of 2012 was 44 years.

Structure of Effective Work Hours and Salaries

In 2012, Viktor Lenac's employees produced total 1,194,000 work hours in normal working hours, of which 75% or 897,200 were effective work hours, while the remaining hours mostly referred to



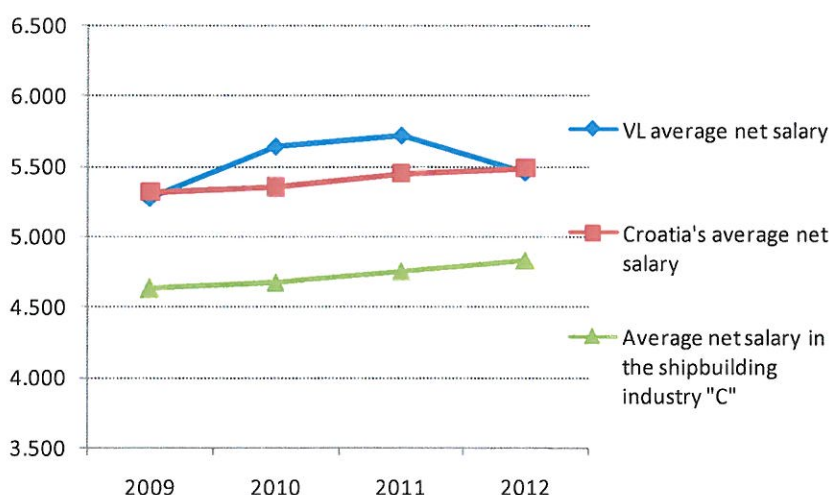
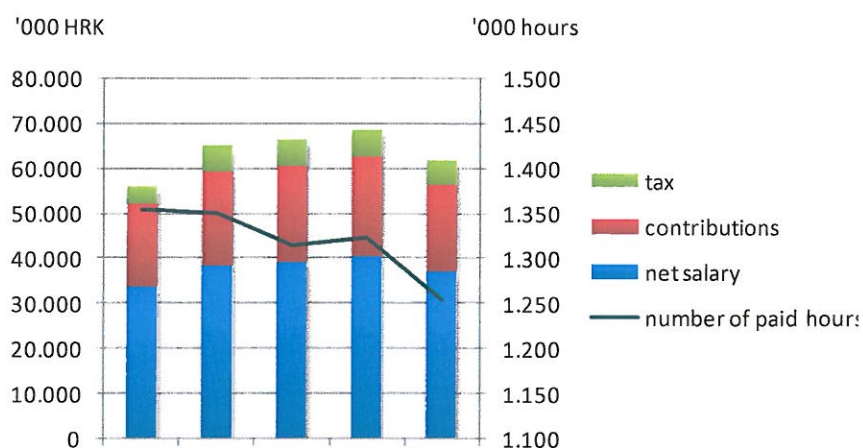
vacation and national holidays. A total of 58,360 hours or 4.9% referred to sick leave. Also, during 2012 Viktor Lenac's employees produced total 44,600 thousands of overtime work hours. A decrease in overtime hours observed

during the past three years resulted from new company policy on compensation hours as agreed between the Management and Unions in February 2010 in order to obtain bigger flexibility and better utilization of working hours considering oscillation in employment of capacity.

In 2012, Viktor Lenac paid total 66.9 million Croatian Kuna on the account of salaries and other employee material rights, of which 61.8 million Croatian Kuna referred to salaries, while 5.1 million Croatian Kuna referred to other material rights to which employees are entitled based on the Collective Agreement and Works Regulations.

Total amount of employee salaries paid in 2012 was smaller compared to the previous year on the account of smaller number of employees in average, and non-payment of the 13th month salary because of the loss produced at the end of the year, for the first time in the last several years.

Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2012, after deduction of contributions



and taxes, amounted to HRK 5,451.00, down by 4.6% compared to the previous year, equal to the average net salary in Croatia, or up by 13% compared with the average net salary in the shipbuilding industry.

Employee Education

In 2012, the multi-skill approach continued to be one of the core principles of the company's education strategy aimed at assuring an undisturbed production process, improving organization and increasing efficiency.

During the year, the Company carried out the following educational activities:

- Seminars and workshops for HSE, Finance and Accounting, Purchasing, Energy Efficiency, and preparatory activities for EU membership in terms of customs and other regulations
- Internal Auditing Education (OSHAS 18001:2007)
- Education and training in maritime skills, recertification
- Education and training in NDT, QC recertification
- Foreign language education
- Education and training in welding skills
- Training for equipment use and maintenance
- Mentoring in shipbuilding processes
- University education
- Professional exams

Educational cost in 2012 amounted to 364,000 Croatian Kuna, with associated travel cost attached thereto.



Social Dialogue

The year 2012 was traditionally marked with a social dialogue of mutual respect between the Viktor Lenac's Management Board and its social partners, the Unions and Workers' Council.

Cooperation between the Workers' Council and the Management Board is maintained at monthly meetings, where the Workers' Council is informed about actual situation and perspectives. The Workers' Council is regularly informed on all issues significant for employee economic and social status. In co-deciding processes, the Workers' Council participates in decision making in accordance with the provisions of the Labour Act.

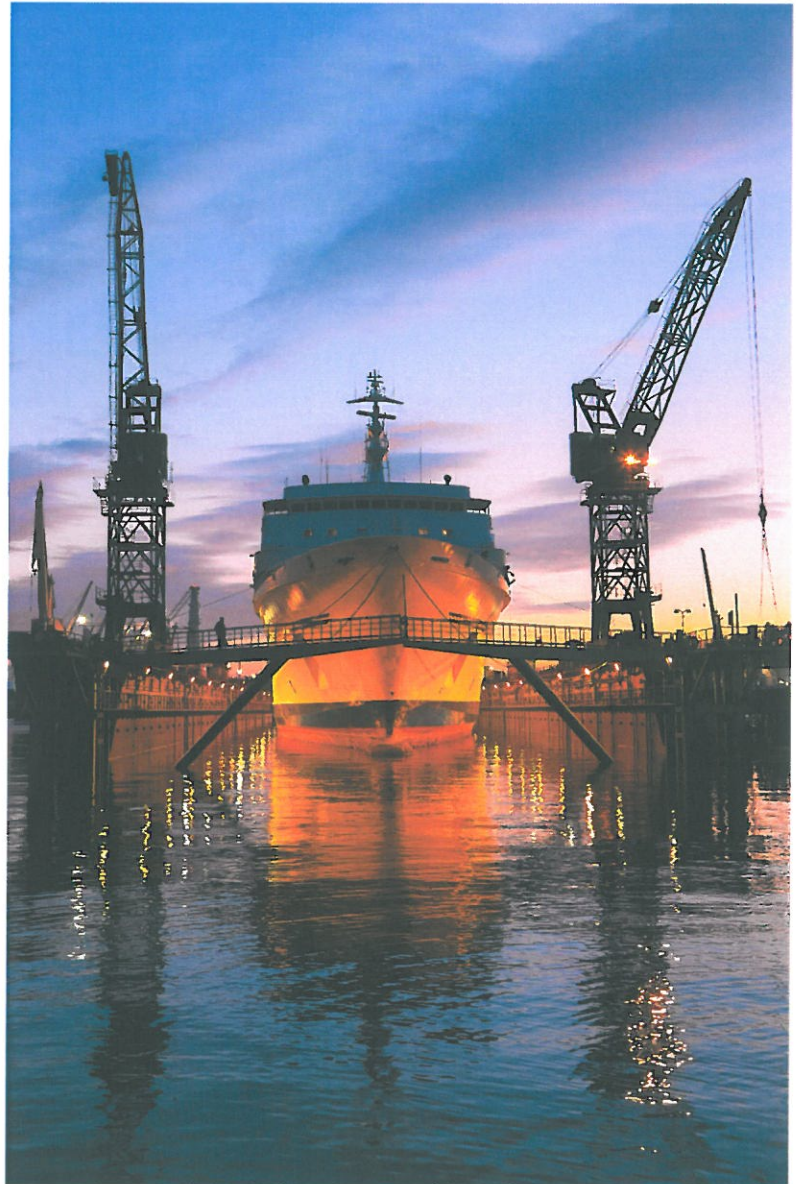
In addition, on the Company's Intranet site the employees can find all important information about Viktor Lenac, new projects and other news and actualities.

At the Employee Meeting at the end of the year, the President of the Board informed employees on the Company's development plans.

Workers' representative is the fifth member of the Supervisory Board, being elected for the period of three years.

Generally, social dialogue between the Management Board and the Unions is made over collective issues. In December 2008 the Management and the Unions concluded the Collective Agreement. The Collective Agreement stipulates all employee rights in terms of working hours, minimal salary, salary structure, health and safety at work and other material rights.

During last year all provisions as adopted by the Collective Agreement were applied to mutual satisfaction of all interested parties.



Finance

Key Financial Figures

Consolidated Financial Figures

	in thousands of HRK			in thousands of EUR *		
	2012	2011	Index	2012	2011	Index
Total Revenues	255.154	352.134	0,72	33.901	46.786	0,72
Total Expenses	284.371	346.149	0,82	37.783	45.991	0,82
Operating Revenues	251.265	348.771	0,72	33.384	46.339	0,72
Operating Expenses	279.042	345.677	0,81	37.075	45.928	0,81
Operating Profit (or Loss)	-27.777	3.094	-8,98	-3.691	411	-8,98
Profit and Loss Before Tax	-29.217	5.985	-4,88	-3.882	795	-4,88
Net Profit and Loss	-29.227	4.732	-6,18	-3.883	629	-6,18
Total Assets	356.624	335.581	1,06	47.262	44.474	1,06
Equity	195.493	224.809	0,87	25.908	29.793	0,87

Non-Consolidated Financial Figures

	in thousands of HRK			in thousands of EUR *		
	2012	2011	Index	2012	2011	Index
Total Revenues	254.347	351.293	0,72	33.794	46.674	0,72
Total Expenses	284.005	345.988	0,82	37.734	45.970	0,82
Operating Revenues	250.503	348.002	0,72	33.283	46.237	0,72
Operating Expenses	278.697	345.516	0,81	37.029	45.907	0,81
Operating Profit (or Loss)	-28.194	2.486	-	-3.746	330	-
Profit and Loss Before Tax	-29.658	5.305	-	-3.940	705	-
Net Profit and Loss	-29.658	4.071	-	-3.940	541	-
Total Assets	355.195	333.779	1,06	47.073	44.235	1,06
Equity	192.677	222.435	0,87	25.535	29.479	0,87

* All amounts expressed in Croatian Kuna, except for assets, share capital and reserves, have been converted into Euros according to the average midpoint exchange rate by the Croatian National Bank for 2012 (HRK 7.53) respectively 2011 (HRK 7.44). Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31st December 2012 (HRK 7.55) respectively 31st December 2011 (HRK 7.53).



The consolidated profit and loss statement and other financial statements include Viktor Lenac's subsidiary company Viktor Servi d.o.o. Rijeka, which, during 2012, realized revenues from its normal business activities consisting in providing specialized services in shipbuilding. In 2012 Viktor Lenac and Viktor Servi realized together total revenues in the amount of 255.2 million Croatian Kuna and total expenses in the amount of 284.4 million Croatian Kuna, after annulment of their reciprocal transactions.

Comparing the consolidated financial statements with the non-consolidated ones, it can be concluded that the influence of Viktor Lenac's subsidiary company is irrelevant. Viktor Lenac's subsidiary company realized a profit in the amount of 431,000 Croatian Kuna that did not have significant influence as to the mother company's loss figures.

Revenues and expenses of the mother company make more than 99% of revenues respectively expenses of the Group. Moreover, the assets of the mother company make 99% of the Group's assets.

Further in this Report, therefore, the emphasis will be put on the financial results, assets, equity and liabilities of the mother company.

Financial Results

Realized Revenues and Expenses

In 2012 Viktor Lenac realized total revenues of 254.3 million Croatian Kuna with total expenses in the amount of 278.7 million Croatian Kuna, producing a loss in the amount of 29.7 million Croatian Kuna.

The operating revenues realized in 2012 amounted to 250.5 million Croatian Kuna, down by 28% with respect to the previous year, and represent 98.5% of the total revenues.

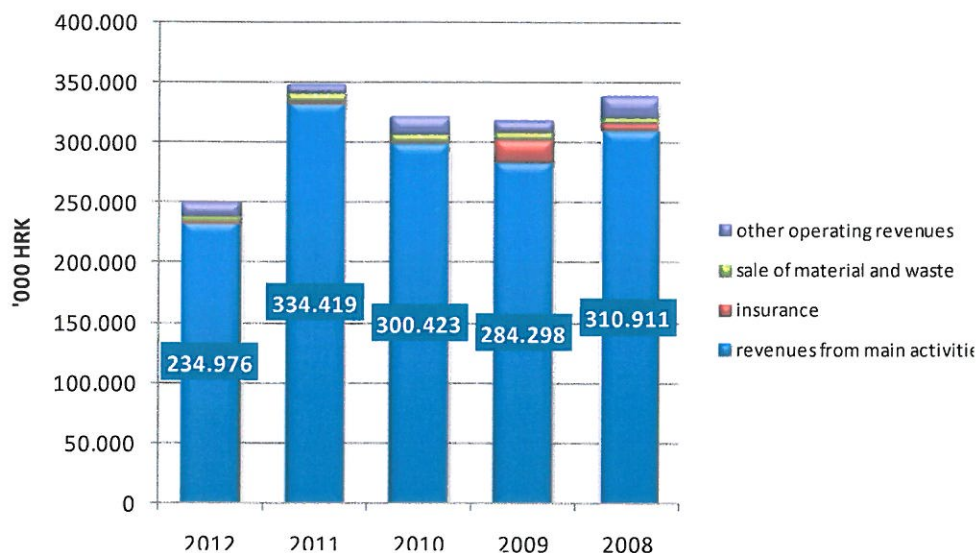
	2012	2011	2010	2009	2008
Sales	234.976	334.419	300.423	284.298	310.911
Insurance	22	292	151	18.681	5.392
Sale of Material and Waste	3.887	6.477	6.982	5.880	5.033
Other Operating Revenues	11.618	6.814	14.399	8.921	17.013
Total Operating Revenues *	250.503	348.002	321.955	317.780	338.349
Material Costs	189.139	236.343	206.955	198.169	208.349
Salaries	59.027	68.295	66.656	63.825	54.708
Depreciation	13.657	16.505	22.460	21.060	22.004
Other Expenses	16.874	24.373	19.479	29.147	27.483
Material Costs	278.697	345.516	315.550	312.201	312.544

* For purpose of comparison, revenues and expenses related to self-investment and production in progress are excluded.

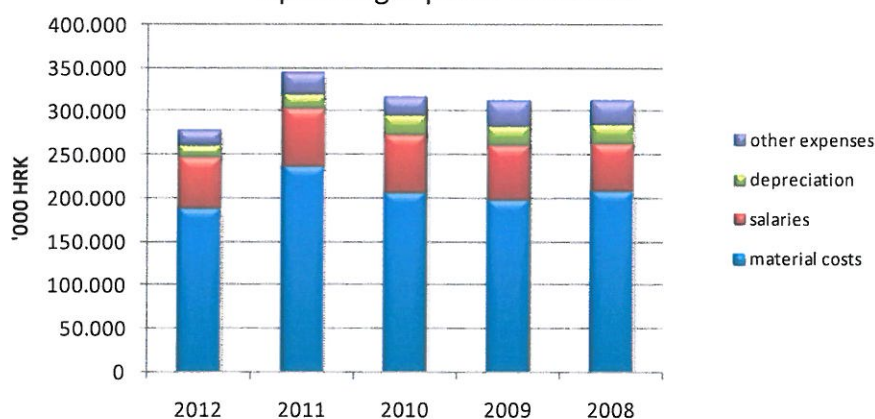
Put in the perspective of the total structure of operating revenues, revenues from sales made over 90%.

The remaining operating revenues were made of revenues from rent, sale of long-term tangible assets, withdrawal of long-term reservations, surplus, etc. Sale of material and waste produced in production process make regular income leaning against revenues from sales.

Operating Revenue Structure



Operating Expense Structure

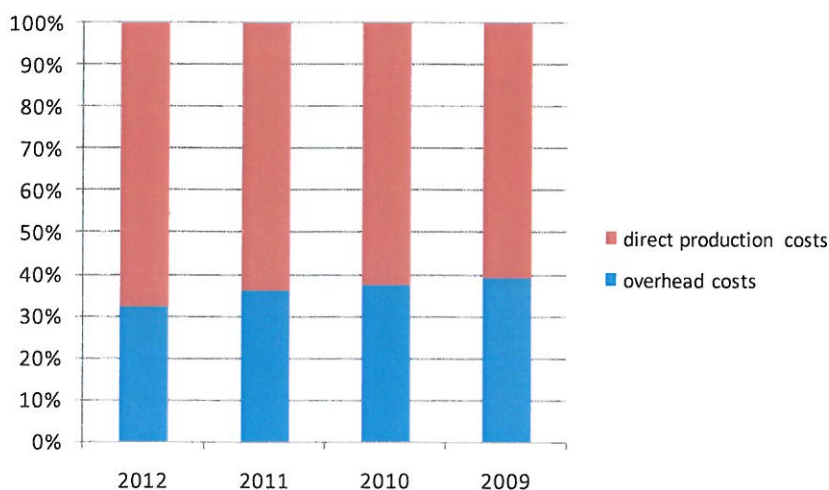


The operating expenses generated in 2012 amounted to 278.7 million Croatian Kuna, down by 19% compared with 2011.

Put in the perspective of the total structure of operating expenses, the material costs were the most important with an average proportion of

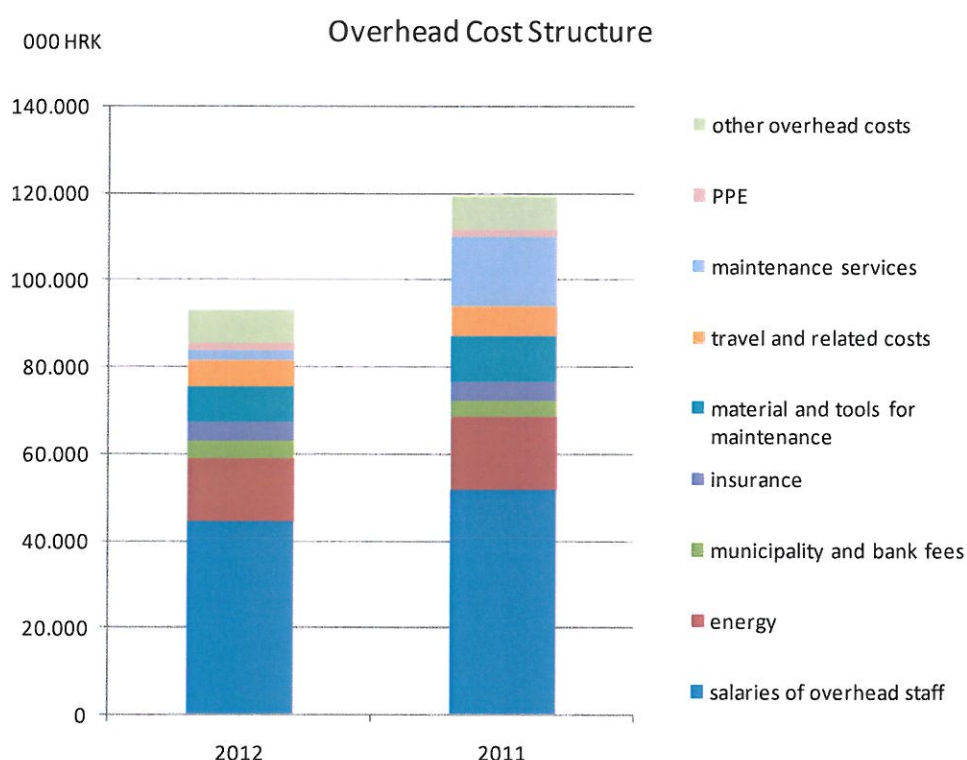
material costs and outside services of 35:65, depending on structure of contracted jobs.

Comparing operating revenue and expense trends, we find patterns of similarity, although decrease in costs observed in 2012 did not adequately follow decrease in revenues from sales. The reason for this could be a significant decrease in sale prices in addition to decreased volume of operations. Despite



all the efforts made to decrease cost prices of production resources, this was not sufficient to overcome decreased revenues and results staying at the break-even point.

Thirty-five percent of operating expenses were overhead costs, mostly fixed. In spite of limiting overhead and fixed cost budget and decrease in overhead costs with respect to direct production costs, high overhead costs are very difficult to overcome, especially in periods of high oscillation in employment of capacities.



Overhead expenses such as employee salaries and allowances (pay of overhead workers, pay of production workers for indirect work and non-effective working hours) made 40-45% of total overhead cost, or 45 to 52 million Croatian Kuna annually, with the lowest overhead cost achieved in 2012.

Energy source such as power supply, water, technological gas, and oil make a significant

part of the overhead cost and the Shipyard is taking necessary measures to minimize such cost.

The difference between operating revenues and expenses realized in 2012 produced a loss in the amount of 28.2 million Croatian Kuna, or 3.7 million EUR. Comparing to the previous several years when the Company had realized financial income, in 2012 the Company produced more financial expenses than income in the amount of 1.5 million Croatian Kuna on the account of an investment loan interest payment, which increased the operating loss. The loan was granted by the Croatian Bank for Reconstruction and Development and a business bank in May 2012 for financing an investment into long-term assets, of which around 70 million Croatian Kuna were used by the end of the year.

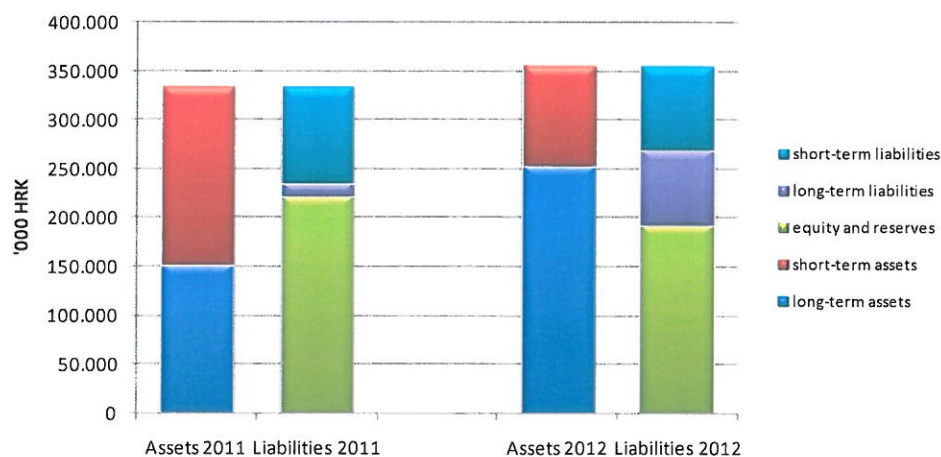
After calculating net financial income and expenses, the total loss amounted to 29.7 million Croatian Kuna. The consolidated loss amounted to 29.2 million Croatian Kuna.

Assets and Liabilities

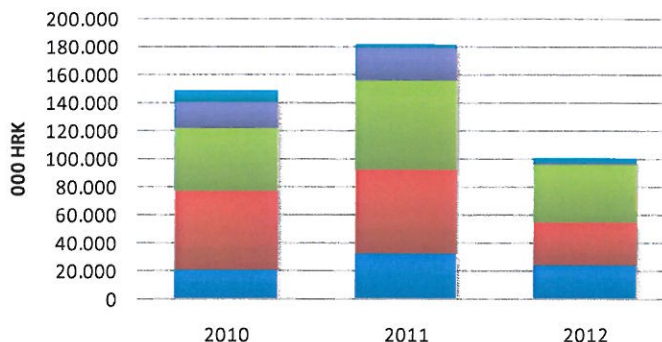
The total value of Viktor Lenac's assets on 31st December 2012 amounted to 355.2 million Croatian Kuna, of which 254.4 million Croatian Kuna of long-term assets. Comparing to the previous year, long-term assets increased by 102.8 million Croatian Kuna, and short-term assets decreased by 81.4 million Croatian Kuna.

Of total long-term assets, tangible fixed assets made 90%, among which the most important being the Shipyard's Floating Drydocks. Land and buildings made only 8.6 million Croatian Kuna considering that Viktor Lenac's operations are located on maritime property, based on Concession agreement. A decrease in short-term assets occurred from the end of 2011

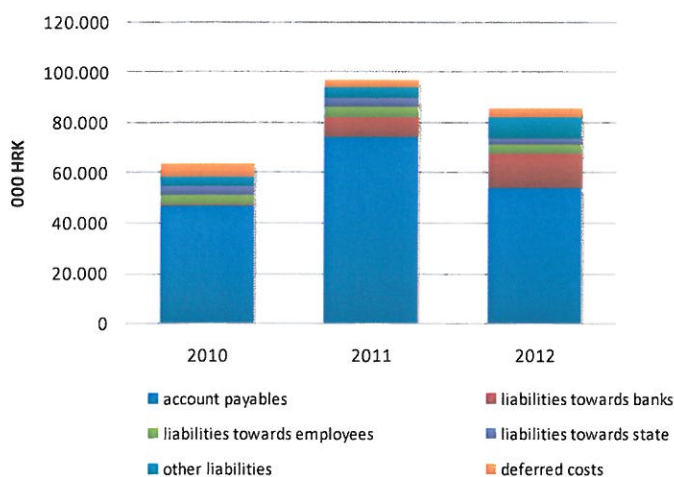
Structure of assets and liabilities as of 31 st Dec 2012



Short-term Asset Structure as of 31 st Dec 2012



Short-term Liability Structure as of 31 st Dec 2012



to the end of 2012 resulted from a decrease in inventories and a decrease in receivables, as a consequence of reduced operations volume in 2012 with respect to the previous year. Intensification of the investment cycle during 2012 caused a decrease in available financial assets on the account of investment of own funds into investment projects that were not covered by loan funds. In other words, in accordance with the

Croatian Bank for Reconstruction and Development's Economics Program, the Company was obliged to provide own funds for 25% of total investment.

Of total short-term liabilities, which at the end of the year amounted to 85.3 million Croatian Kuna, accounts payable made 63% or 54 million Croatian Kuna. This decrease in short-term liabilities primarily derived from reduced operations volume.

Bank liabilities increased on the account of operative loans, while the increase in other liabilities except for interests, derived from down payments received from customers.

The Company had sufficient current assets to cover its short-term liabilities. Its total long-term assets were financed through long-term source. In spite of this increase in long-term loans, Company's total equity on 31 st December 2012 was larger in value than its long-term liabilities that amounted to 30 million Croatian Kuna making a debt to equity ration of 1.19.

According to the consolidated financial reports, on 31st December 2012 the Group's assets totalled 356.6 million Croatian Kuna, of which 195.5 million Croatian Kuna of share capital and reserves and 161.1 million Croatian Kuna of liabilities, with an almost the same structure as the mother company alone.

More detailed information on Viktor Lenac's financial situation is contained in the financial statements and their associated notes, while information on the Group's business is contained in the consolidated financial statements and their associated notes, accompanied by an auditor's report (the Inženjerski biro – revizija company from Zadar).

Main Risks

Having in mind the nature of Viktor Lenac's activities and its export orientation, the major effect to Viktor Lenac's business comes from the world's maritime market trends. When speaking about its productivity and production costs, it is expected that the entrance of Croatia into the European Union will pose significant challenges to further development of Viktor Lenac. Hence it follows that Viktor Lenac will mostly be exposed to market risk and competitive risk, with associated price risk, while it is believed that its exposure to financial risks will be of minor importance. It is not expected that entering into the European Union will bring significant change in Viktor Lenac's market position, considering that the shipyard already earns more than 80% of its revenues from foreign market, where EU countries make the biggest piece of the pie.

Market Risk and Competitive Risk

The ship repair and conversion market is conditioned by cyclic changes on the shipping market and changes in freight rates. Considering the recovery of the global economy and world shipping trade, it is expected on the long-term that Viktor Lenac will get a sufficient number of vessels sailing within range of Viktor Lenac for ship repair. Issues of market risk and competitive risk with respect to Viktor Lenac's activities, and changes of Viktor Lenac's prices arising therefrom, are elaborated in more details under *Market Expectations*.

Price Risk

Croatia will become the 28th member of the European Union on 1st July 2013. The compliance with the European laws has been completed in large part when speaking of environmental protection, health and safety at work, fire protection and safety, causing an increase of overhead workers as well as operative expenses deriving from fulfilment of such requirements.

Viktor Lenac can expect further increase of operative expenses, which will unavoidably lead to a need for increasing productivity and identifying internal resources. In other words, it is not likely to expect that raising prices could compensate for increased costs, having in mind that shipyards are under big pressure to decrease prices if they want to remain competitive.

Global factors, such as constant increase in the world's oil prices during the last few years, have also affected Viktor Lenac in terms of increase in energy costs and consequently material costs. The effect of these factors is not of major importance for Viktor Lenac's



competitiveness for the reason that their impact is evenly spread across all Viktor Lenac's competitors.

Seeking to reduce consequences of the increase in energy prices, Viktor Lenac has recently started investments in an integrated energy consumption management, supervision and control system for fresh water, technological water, power supply and technical gases.

Risks connected with changes in prices of raw material and other materials used in shipbuilding industry, such as steel, have no significant impact on Viktor Lenac. Specifically, Viktor Lenac's activities in terms of contracting and production process, particularly concerning ship repair activity, are characterized by short cycles, therefore, Viktor Lenac is not exposed to risk of firm fixed price contracts. Moreover, material cost participates in revenues with less than 15%.

Personnel Risk and Risk of Price of Labour

After Croatia's entrance into the EU, an increase in the price of labour can be expected, though the price of labour in Croatia is already higher than in some EU members. Considerable skilled labour migration to countries of the Western Europe can also be expected. Consequently, more pressure will be felt that price of labour is increased in order to be able to acquire and maintain skilled workers.

Lack of skilled workers is a problem that has been present in the shipbuilding industry for a long time. Generally, during the last few years, there has been a lack of interest for shipbuilding trades. Seeking to avoid risk of skilled labour migration, reduce consequences of employee fluctuation and provide skilled labour, Viktor Lenac is continuously investing in education and training of human resources. In such circumstances, an increase of the price of labour is inevitable. Viktor Lenac is trying to compensate it through introduction of new technologies, aimed at the rationalization of production, and better performance in production and other business activities.

Other Risks

Other risks affecting Viktor Lenac business include currency, credit, interest, solvency, cash flow, and litigation. Other risks are described in Non-Consolidated Annual Financial Statements and Consolidated Annual Financial Statements.

Ownership Structure

At the end of the year 2010, the total share capital of the Company amounted to 138,444,470 Croatian Kuna. In July 2011, the total share capital was increased by 29,688,000 Croatian Kuna, based on the Decision on increase of the share capital as adopted by the Company's General Assembly, through payment in cash by Tankerska plovidba j.s.c. Zadar.

On the day of 31 December 2012, the total share capital of the Company amounted to 168,132,470 Croatian Kuna, divided in 16.813.247 registered ordinary shares, with the ticker symbol VLEN-R-B, having a nominal value of 10.00 Croatian Kuna each, registered in the depository of the Central Depository & Clearing Company and included in quotation of public joint-stock companies on the Zagreb Stock Exchange.

During 2012, Viktor Lenac's shares were rarely traded resulting in low transactions of 552.712 shares only with average price of 10.00 Croatian Kuna per share.

On the day of 31 December 2012, ten largest shareholders of Viktor Lenac participated with almost 95% in the company share capital as follows:

	Shareholder	Shareholder's equity	%
1	Tankerska Plovidba j.s.c. Zadar	81.384.600	48,40
2	Uljanik Shipyard j.s.c. Pula	39.040.630	23,22
3	Privredna Bank j.s.c. Zagreb / collective custody account	13.672.680	8,13
4	Croatian State Property Management Agency (AUDIO)	12.437.020	7,40
5	Shipyard Viktor Lenac j.s.c. Rijeka	8.251.870	4,90
6	Jadroagent j.s.c.	3.247.660	1,93
7	R.L.E. Ltd. Drniš	1.052.110	0,63
8	List Gmbh Austria	459.920	0,27
9	Jadranski pomorski servis j.s.c. Rijeka	358.740	0,21
10	Messer Croatia Plin Ltd. Zaprešić	329.870	0,20
	Other	7.897.370	4,71
	Total	168.132.470	100,00

On the Company's General Assemblies held during 2009, 2010 and 2011 decisions entitling the Company to acquiring of up to 1.054.000 own shares were made. Following the decisions, by the end of 2012 Viktor Lenac acquired total 825.187 own shares, representing 4.91% of the company share capital.

Corporate Governance

Corporate Governance is a frame for planning, organizing, directing and controlling of the company's business operations. Viktor Lenac's Management and Supervisory Board have been applying the corporate governance principles consistently with its fundamental objectives of successful and growing business and growing of share value for the benefit of its shareholders.

Respecting the principles of corporate governance ensures protection of rights and equal treatment of shareholders, business transparency and responsibility toward all interested parties.

After the termination of the bankruptcy in April 2008, Viktor Lenac has obtained the status of the joint-stock company. On 12 September 2008, Viktor Lenac's shares were included in quotation of public joint-stock companies on the Zagreb Stock Exchange, preceded by issuance of the Short Prospectus approved by the Croatian Agency for Supervision of Financial Services.

Since inclusion of its shares in quotation of public joint-stock companies on the Zagreb Stock Exchange, Viktor Lenac has been voluntarily applying the Corporate Governance Code made by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange. Viktor Lenac has been applying recommendations of the Code, by publishing all information which is in the interest of its shareholders and as stipulated by regulations.

In accordance with the Capital Market Act, obligatory information is displayed to the Croatian Agency for Supervision of Financial Services through the Zagreb Stock Exchange's website and Company's website (www.lenac.hr). In addition, new information is announced through the Croatian News Agency OTS service.

In 2012, Viktor Lenac's Supervisory Board held six meetings, where its members discussed Viktor Lenac's financial results, its position on the market, business plans and key projects.

The members of the Supervisory Board regularly receive detailed information on the Company's management and business to be allowed to efficiently supervise the Company.

The Company's shareholders execute their rights at the General Assembly, where they decide on profit allocation, amendments to the company statute and appointment and revocation of members of the Supervisory Board. Furthermore, the General Assembly makes decisions over the Management and Supervisory Board performance, appointment of financial auditor and other important issues stipulated by law and company statute.

By implementing the principles of the Corporate Governance Code, Viktor Lenac is seeking to create a quality and long-term relationship with the entire investors' community.

Supervisory Board and Management Board

Supervisory Board

Members of the Supervisory Board of the Viktor Lenac Shipyard for the second term (2012-2016) are: Mr. Lenko Milin, Chairman of the Supervisory Board, Mr. Anton Brajković, Vice-Chairman of the Supervisory Board, Messrs. Ive Mustač and Ivica Čičmir-Vestić, members of the Supervisory Board, and workers' representative as the fifth member of the Supervisory Board.

The members of the Supervisory Board, except for the workers' representative, have been appointed by the General Assembly Decision of June 20, 2012 for a term of office of four years.

Workers' representative in the Supervisory Board is elected by the Workers' Council for the period of three years. Mr. Goran Zemljić filled his post of member of the Supervisory Board from April 2011 until May 2012, when the responsibility was assumed by Mr. Miljenko Čikulin.

Biographies of Members of Supervisory Board

Mr. **Lenko Milin**, was born in Zadar (Croatia) in 1950. After finishing primary and secondary education in Zadar, he was employed in the Tankerska Plovidba Company where he took apprenticeship for mechanical engineer. He graduated at the Maritime Faculty of Split as First Rank Maritime Engineer and was employed in the Tankerska Plovidba Company as Chief Engineer.

After several years of navigation, he was employed as Technical Superintendent in the Technical Department, holding that position during many years. In February 2004 he was appointed Technical Director of the Tankerska Plovidba Company. In March 2012, he was promoted to Chairman of the Management Board.

Mr. **Anton Brajković**, was born in Lovište (Croatia) in 1946. After finishing primary and secondary education in Pula, in 1969 he graduated at the Faculty of Economics in Rijeka. He has been employed in the Uljanik Shipyard since January 1970. In October 1991 he was appointed Vice-Chairman of the Management Board, thereafter, in February 2006 he was promoted to Chairman of the Management Board.

Mr. **Ive Mustačić**, was born in Privlaka near Zadar (Croatia) in 1945. After finishing primary education in Privlaka and Secondary Maritime School of Zadar, he graduated at the Two-Year Maritime College of Rijeka in 1970, becoming master.

After secondary school, in 1964 he was employed in the Tankerska Plovidba Company as cadet, thereafter as Third, Second and First Officer and finally as master, which position he retained until 1978 when he quit navigation and continued his work in various departments of the Tankerska Plovidba Company. From 1978 to 1979 he was Purchasing Officer in the Commercial Department, thereafter, from 1979 to 1980 he was assigned Manager of Purchasing Office. From 1980 to 1981 he was Purchasing Manager in the Tankerkomerc Company, while from 1981 to 1983 he was Purchasing Manager in the Tankerska Plovidba Company. From 1983 to 1989 he was appointed General Manager of the Zadar Shipyard, then until 1995 he retained the position of Newbuilding Superintendent in the Technical Department of the Tankerska Plovidba Company. From 1995 to 2004 he held the position of Technical Director. In 2004 he was promoted to Chairman of the Management Board of the Tankerska Plovidba Company, which position he held until his retirement in March 2012.

Mr. **Ivica Čičmir-Vestić** was born in 1956. After finishing primary and secondary education in Zadar, in 1980 he graduated at the Faculty of Economics in Zagreb. He has been employed with the Tankerska Plovidba Company since 1981. After a few years in the Planning and Investment department, in 1985 he passed to the Financial department. After holding the position of Accounting Manager, he was promoted to Financial Director, which position he has been holding since then.

Mr. **Miljenko Čikulin**, was born in Rijeka in 1952. He finished a two-year degree at the Faculty of Maritime Studies in Rijeka and became a marine engineer. He has been employed with the Viktor Lenac Shipyard since 1979. After working in Development department, he was promoted to Investment Project Manager, which position he has been holding since then.

Income and Ownership Interest of the Members of the Supervisory Board

In accordance with data obtained from the State Statistics Institute, the compensation of the Chairman of the Supervisory Board is established in a net amount equalling one average monthly net salary, while the compensation of the Vice-Chairman of the Supervisory Board is established in a net amount equalling 3/4 of the average monthly net salary in the Republic of Croatia. In 2012 total compensation in gross amount of 520,240.00 Croatian Kuna was paid to the members of the Supervisory Board.

Mr. Miljenko Čikulin, member of the Supervisory Board owns 664 company shares, which he, as former bankruptcy creditor, acquired by converting his monetary claim into the company share capital.



Management Board

The members of the Viktor Lenac's Management Board are: Mr. Robert Škifić, President of the Board, Mrs. Sandra Uzelac and Mr. Davor Lukeš, members of the Board. The Management Board has been appointed by decision of the Supervisory Board dated April 7, 2008 for a term of office of five years.

Biographies of Members of Management Board

Mr. **Robert Škifić**, B.Sc. in Mechanical Engineering, was born in Zadar (Croatia) in 1956. After finishing primary and secondary education in Zadar, in 1981 he graduated at the Faculty of Mechanical Engineering and Naval Architecture of Zadar.

Upon graduation, in 1982 he was employed in the Rade Končar Institute, working in development of home electrical appliances, where he remained until 1984. From 1984 to 2000 he worked at SAS, a factory for special machine tools in Zadar, where he held various positions of Technologist, Operative Planning Manager, Production Manager and finally became Technical Director. In 1995 he was appointed General Manager of the SAS - Zadar Company and from 2000 to 2006 he held the position of General Manager of the SAS Strojogradnja Company. From 2006 to 2008 he held the position of General Manager of the Crosi Company, a consulting company. In 2008, he was elected President of the Management Board of the Viktor Lenac Shipyard.

In 2008 he passed exam at the Faculty of Economics of Zagreb for corporate governance for members of supervisory and management boards. He speaks fluently English and Italian.

Mrs. **Sandra Uzelac**, B.Sc. in Economics, was born in Rijeka (Croatia) in 1969. After finishing primary and secondary education in Rijeka, in 1994 she graduated at the Faculty of Economics in Rijeka. She has been employed in the Viktor Lenac Shipyard since 1994 at various positions: Office Worker in Salary & Economics of Work Department from 1994 to 1997, Financial Officer and Assistant Accounting Manager in Financial Department from 1997 to 2001 and Manager of Planning and Analysis Department from 2001 to 2004. From 2004 to 2008 she held the position of Manager of Financial Division. After termination of the bankruptcy, she has been appointed member of the Management Board.

During the period from 1997 to 2006, she attended several specialized seminars and upgrading programmes. Since end 2007, she has been studying postgraduate economics (controlling course) at the Faculty of Economics of Rijeka. She speaks fluently English.

Mr. **Davor Lukeš**, B.Sc. in Naval Architecture, was born in Rijeka (Croatia) in 1956. After finishing primary and secondary education in Rijeka, in 1985 he graduated at the Faculty of Engineering of Rijeka. After completing his graduate studies, he was employed in the Brodoprosjekt Company, working as Ship Equipment Designer and Project Manager. In 1989 he was employed in the Viktor Lenac Shipyard and until 1991 worked as Conversion and Offshore Sales Specialist. From 1991 to 2001 he held the position of Manager of Project Sales Department, while from 2001 to 2002 he held the position of Manager of Conversion Department. From 2002 to 2004 he worked as Assistant Manager of Commercial and Technical Division. Thereafter, he was Senior Market Advisor in the Commercial and Technical Division until 2007. From 2007 until being appointed member of the Management Board in 2008, he held the position of Deputy General Manager.

He speaks fluently Italian and English and basics of German.

Income and Ownership Interest of the Members of the Management Board

Each member of the Management Board receives income, which is stipulated by employment contract concluded with each member and approved by the Supervisory Board. Incomes of the members of the Management Board are related to the average income of the Shipyard's employees. Accordingly, the President of the Management Board receives income, which equals five average incomes of the Shipyard's employees, while members of the Management Board each receive income, which equals four and a half average incomes of the Shipyard's employees. Furthermore, the President of the Management Board is entitled to a monthly net amount of 5,000.00 Croatian Kuna for covering his living costs in Rijeka, where the Company's headquarters is located. In 2012 total income in gross amount of 2,132,294 Croatian Kuna was paid to the members of the Management Board.

The President and members of the Management Board have not received any bonus or other income, either in money or in company shares, on the account of good performance results achieved by the Company in 2012 or previous years, as the Company's Stimulation policy has not yet been developed.

As on the day of this Report, members of the Management Board, Mrs. Sandra Uzelac and Mr. Davor Lukeš, own 1038 respectively 2410 company shares, which they, as former bankruptcy creditors, acquired by converting their monetary claims into the company share capital.

The President of the Management Board, Mr. Robert Škifić owns 26601 company shares acquired during the year 2010 and 2012.

For Information

Management

Marko Domijan, Marketing and Sales Director

Mislav Klič, Production Director

Aris Lazarić, Manager of Project Mngmt Department

Dražen Bevanda, Safety, Health and Environmental Protection Manager

Davor Badurina, Quality Control Manager

Anton Dujmović, Purchasing Manager

Alen Karnjuš, ICT and Quality Assurance Manager

Ljubica Linardić, Human Resources Manager

Auditor

INŽENJERSKI BIRO - REVIZIJA d.o.o. Zadar

Contact details

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tel: +385 51 40 55 55

fax: +385 51 21 70 33

email: lenac@lenac.hr

http: [//www.lenac.hr](http://www.lenac.hr)

Rijeka, April 2013

On the basis of Article 272.p and with reference to Article 250.a of the Companies Act (Official Gazette No. 113/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as 'CA'), the Management Board of the Viktor Lenac Shipyard (hereinafter referred to as 'Company'), on this April 18, 2013, makes the following

STATEMENT

on Implementation of the Corporate Governance Code

1. The Company closed bankruptcy proceedings in April 2008, following which, in accordance with regulations, became the public joint-stock company. After issuance of the Short Prospectus approved by the Croatian Agency for Supervision of Financial Services, on September 12, 2008 the Company's shares were included in quotation of public joint-stock companies.

2. Since inclusion of its shares in quotation of public joint-stock companies, the Company has been voluntarily applying the Corporate Governance Code made by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange. The Code was adopted by the Croatian Agency for Supervision of Financial Services' decision dated April 26, 2007, class 011-02/07-04/28, reg. no. 326-01-07-02 (Official Gazette No. 46/07, hereinafter referred to as 'Code'). The integral version of the Code has been published on the Zagreb Exchange Stock's website.

3. During 2012, the Company was applying recommendations of the Code, by publishing all information which is in the interest of its shareholders and as stipulated by regulations.

During the last year, the Company published all information foreseen by regulations on the Company's website and on the Zagreb Stock Exchange's website, and informed the public on information availability through Croatian News Agency OTS service.

4. Supervision of the Company's business operations has been executed by the Supervisory Board in accordance with the Companies Act. The role of the Supervisory Board is defined by the Company's Statute. Members of the Supervisory Board are provided with detailed information on the Company's management and business operations in order to efficiently fulfil their supervisory role. Supervisory Board's report makes an integral part of the Annual Report submitted to the General Assembly.

The Supervisory Board has not established Committee for Appointment, Committee for Rewarding and Committee for Audit, because the members of the Supervisory Board themselves carry out tasks otherwise being obligation of the mentioned committees.

LENAC

5. The Company is implementing rules of the accounting policy, which regulate application of methods and techniques in presenting assets, liabilities, capital, revenues, expenses and financial results in financial statements. Annual audit of financial statements is performed by an independent auditor appointed by the General Assembly.

6. As on the day of December 31, 2012, ten largest shareholders are the following ones:

	Shareholder	Shareholder's equity	%
1	Tankerska Plovidba j.s.c. Zadar	81.384.600	48,40
2	Uljanik Shipyard j.s.c. Pula	39.040.630	23,22
3	Privredna Bank j.s.c. Zagreb / collective custody account	13.672.680	8,13
4	Croatian State Property Management Agency (AUDIO)	12.437.020	7,40
5	Shipyard Viktor Lenac j.s.c. Rijeka	8.251.870	4,90
6	Jadroagent j.s.c.	3.247.660	1,93
7	R.L.E. Ltd. Drniš	1.052.110	0,63
8	List Gmbh Austria	459.920	0,27
9	Jadranski pomorski servis j.s.c. Rijeka	358.740	0,21
10	Messer Croatia Plin Ltd. Zaprešić	329.870	0,20
	Other	7.897.370	4,71
	Total	168.132.470	100,00

The right of the Company's shareholders to vote is not limited to a certain percentage or number of votes. The right to vote is recognized by number of shares registered on shareholder's account at the Central Depository & Clearing Company. Each ordinary share gives the right for one vote at the General Assembly. The Company is entitled to issue registered ordinary shares in accordance with positive legal regulations of the Republic of Croatia and Statute of the Company. In accordance with Article 172 of the Companies Act and Company's Statute, decision on share issue is made by the General Assembly. The Company's rights and obligations originating from acquisition of own shares are realized in accordance with the provisions of the Companies Act, hence it follows that the Company can acquire own shares on the basis of the General Assembly's authority for their acquisition.

Amendments to the Statute of the Company are made in accordance with the Companies Act.

7. The Company's Management Board is consisted of three members, President of the Board and two members of the Board. Mr. Robert Škifić has been elected President of the Board, while Mrs. Sandra Uzelac and Mr. Davor Lukeš hold positions of the members of the Board.



LENAC

The members of the Management Board represent the Company independently and individually and run Company's business jointly or individually, in accordance with the Statute of the Company and Management Rules of Procedure made by the Supervisory Board. Specific tasks defined by Article 15 of the Company's Statute (acquisition, abalienation or encumbrance to real estate; issuing, abalienation or acquisition of shares; issuing guarantees except for obligations of subsidiary company; taking loans and credits beyond normal business operations of the Company etc.) and in other cases, when required by law, can be undertaken by the Management Board, authorized by the Company's Statute or Supervisory Board's decision, only with previous consent of the Supervisory Board. The Management Board is appointed and revoked by the Supervisory Board for a term of office of five years.

The Supervisory Board of the Company is consisted of five members: Mr. Lenko Milin has been appointed Chairman of the Supervisory Board, Mr. Anton Brajković is Vice-Chairman of the Supervisory Board and Messrs. Ive Mustač, Ivica Čičmir-Vestić, and Miljenko Čikulin are members of the Supervisory Board.

The General Assembly elects and relieves of their office four members of the Supervisory Board, while one member is elected, appointed and revoked by the Company's employees in accordance with positive regulations of the Republic of Croatia.

Mr. Miljenko Čikulin assumed the responsibility of workers' representative in the Supervisory Board in May 2012, succeeding to Mr. Goran Zemljić. Workers' representative in the Supervisory Board is elected by the Workers' Council for the period of four years.

The Supervisory Board acts as collegial body at sessions, which take place at least once quarterly, where all issues within its competence, as required by the Companies Act and Statute of the Company, are discussed and decided upon. Decisions of the Supervisory Board are made by majority of votes of present members.

8. In accordance with Article 250.a, item 4, and Article 272.p of the Companies Act, this Statement represents a separate section and makes an integral part of the Company's Annual Report 2012.

Robert Škifić

President of the Board



BRODOGRADILIŠTE VIKTOR
LENAC d.d.
RIJEKA, Martinšćica bb

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