



**VIKTORLENAC**

**ANNUAL REPORT 2013**

**April 2014**



## CONTENTS

<b>PRESIDENT'S ADDRESS TO SHAREHOLDERS</b>	<b>4</b>
<b>BUSINESS ENVIRONMENT</b>	<b>6</b>
<b>BUSINESS ACTIVITIES</b>	<b>8</b>
SALES	8
PRODUCTION	11
TECHNOLOGICAL DEVELOPMENT AND INVESTMENT	21
ORGANISATIONAL DEVELOPMENT, QUALITY MANAGEMENT SYSTEM, INFORMATION&COMMUNICATION	23
ENVIRONMENTAL PROTECTION	27
HUMAN RESOURCES	30
<b>FINANCE</b>	<b>35</b>
KEY FINANCIAL FIGURES	35
FINANCIAL RESULTS	36
<b>MAIN RISKS</b>	<b>41</b>
<b>OWNERSHIP STRUCTURE</b>	<b>43</b>
<b>CORPORATE GOVERNANCE</b>	<b>44</b>
<b>SUPERVISORY BOARD AND MANAGEMENT BOARD</b>	<b>45</b>
SUPERVISORY BOARD	45
MANAGEMENT BOARD	47
<b>FOR INFORMATION</b>	<b>49</b>

## ENCLOSURES

STATEMENT ON IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE

CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED FINANCIAL STATEMENTS

➤ **Foreword**

The Management Board of the Viktor Lenac Shipyard j.s.c. presents its Annual Report for 2013 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 2013 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 7.637643 – representing the midpoint exchange rate by the Croatian National Bank on the 31st day of December 2013 (HRK 7.545624 on 31st 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 7.575538 – representing the annual average of midpoint exchange rates by the Croatian National Bank (HRK 7.526459 for 2012; 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,

The business year 2013 was still characterized by decreased demand for shiprepair works in this region and strong competition among the shipyards in the southern Mediterranean resulting in reduced selling prices.

However, owing to the measures taken to reduce costs, the restructuring process that has led to increased flexibility and efficiency, and reduction in the number of workers, especially overhead, which account for the largest share of the fixed costs, Viktor Lenac succeeded to achieve positive financial results in 2013.

Although we reached a profit of just 400 thousand Croatian Kuna, we can be satisfied that we have reversed negative result from the preceding year to positive and achieved satisfactory employment rates that enabled us to cover operating costs with still low margins.

In 2013 Viktor Lenac had no major conversion projects. Our capacities were used for the construction of Ika SW platform, and execution of repairs on a larger number of ships, even 67.

We have constructed the Ika SW platform in partnership with Rosetti Marino SpA for the end client INAgip Ltd. Most of the works were done by the end of 2013 in the expected deadlines.



Although the average scope of works in shiprepair, including the average revenue per ship was low, we achieved a satisfactory level of total revenue from shiprepair thanks to the increased number of contracts, despite the fact that most of the year we used only Dock 5 and Dock 11. In other words, Viktor Lenac took the opportunity to rent the third dock - Dock RI 38 to a tenant in France for a period of one year, starting in April 2013. With still oscillating market renting the third dock was evaluated favourable, considering that this ensured a steady monthly income with low operating costs.

Total revenues in 2013 amounted to 283.1 million Croatian Kuna, or the equivalent of 37.4 million EUR, an increase of 10% compared to the previous year, whereas total expenses totalled 282.7 million Croatian Kuna or the equivalent of 37.3 million EUR, down by 1% compared to the previous year.

A profit of 452 thousand Croatian Kuna generated from operating revenues and expenses is a radical change compared with a loss of 29 million Croatian Kuna produced last year.

Although operating profit before depreciation amounted to almost 19 million Croatian Kuna, Viktor Lenac was faced with ups and downs in solvency. The reason for lower solvency lies primarily in the



loss produced in 2012, which significantly decreased the available reserves of working capital. In addition, our own working capital had to be used to complete the initiated investments in fixed tangible assets, as at the beginning of 2013 already planned and approved long-term funding was decreased. Nevertheless, Viktor Lenac fulfilled all its obligations to the banks, the state and the workers, and liabilities to suppliers and subcontractors were settled with a certain delay.

Despite the limited means of financing, Viktor Lenac managed to realize and complete all significant planned investments in accordance with the investment plan.

Following the investment made in 2012, during 2013 a static frequency converter was purchased and put into operation to supply 440V 60Hz to ships at berth. By the end of the year a new crane having a capacity of 25 tons was delivered and mounted on Dock 11. A great progress in anti-corrosion treatment having an immediate positive impact in the field of environmental protection was achieved with new ultra-high pressure washing equipment partly replacing slower and dirtier blasting technologies.

We believe that the most unfavorable circumstances in the business environment are behind us, and that 2014 will bring even better employment rates. Although we do not expect significant changes in sales prices, beginning of 2014 has given indication of positive developments in the shiprepair market. A great success has already been achieved in February of 2014 when the shipyard won a large conversion contract. Viktor Lenac is seeking to build its position precisely in the segment of conversion, in which it can better compete in the market, and will therefore in future periods focus on improving the organizational, human and technical conditions necessary for the execution of such projects.

The aim of Viktor Lenac is to maintain employment rates with further increase in efficiency and reduction in costs, in order to achieve profitable growth in the coming years and increase financial stability, committed to social responsibility in the interests of all its shareholders, but also customers, employees, business partners, suppliers, financial institutions and all other entities involved.

President of the Board

Robert Škifić

  
**BRODOGRADILIŠTE VIKTOR  
LENAC d.o.o.**  
RIJEKA, Martinsćica bb

## Business Environment

### *Shiprepair*

During 2013 shipping companies remained under the influence of the crisis in shipping. With still low freight rates for major types of ships, on the one hand, and the high cost of fuel on the other side, shipowners continue to face financial difficulties and operate on a limited budget that involves their ship repair activities.

However, for some types of ships freight rates appear to be rebounding slightly in the second half of the year, and maritime transport is expected to recover with a further slight increase in future periods. The recovery will favorably affect the ship repair activity, but significant effects on the cost of the repair can be expected after six to twelve months after the recovery. Therefore, it is expected that the level of sales prices during 2014 remains at approximately the same level as in the previous year, and slightly higher growth can be expected in the coming years.

The main competitors to Viktor Lenac remain to be Turkish shipyards, price and location favorable to shipowners, that in the absence of newbuilding orders use part of their capacity for shiprepair jobs. Also, Montenegro's Bijela Shipyard put a lot of pressure by lowering its prices, and has become a significant competitor for big jobs and clients.



In such circumstances, Viktor Lenac was forced to significantly lower its prices and come closer to the price level of Turkish shipyards that are our most important competitors. Despite unfavourable trends, a great number of ships were contracted for repairs during 2013, although the scope of work, and thus the average value of jobs was relatively small.

It is expected that in 2014 the number of shiprepair projects will grow, although it is

estimated that there will be no significant progress in increasing the average volume of works and the average value of shiprepair jobs will remain around existing figures. Also, it is expected that shipowners will continue to cope with financial difficulties and limited budgets resulting in reduced scope of repair and maintenance works to be carried out on their fleet. After low employment in the first quarter, increase in employment is expected from March of 2014 onwards. Therefore, the key factor for maintaining employment rates and the achievement of sufficient margin for shipyards, including Viktor Lenac will be the increase in the number of repaired units to compensate for low margins.

Several major projects are in the process of bidding and negotiating, and considering advantageous movements in this market more positive trends can be expected.



### ***Offshore projects***

The offshore market can be characterized as a continuous market, with sufficient activity, enabling Viktor Lenac to be constantly present in tendering such projects. However, due to their complexity and size, Viktor Lenac, due to their own limited capacity, can not independently compete in this segment, but its appearance on the market can be achieved in cooperation with other companies. Viktor Lenac can act independently in certain segments of the repairs and modernization and construction of small-sized offshore facilities. Potential oil and gas exploration and production in the southern and central Adriatic sea opens up new perspectives in the offshore field that will require investment in human and material resources.

If Viktor Lenac decides to intensify activities in this business segment, number of preparatory activities and investments in organization and technology will be required, and the selection of strategic partners to compete for such projects.

As part of the overall project of exploitation of gas from the northern Adriatic basin, Viktor Lenac was awarded a contract for the construction of Ika SW gas production platform for the end client Inagip Ltd., and the construction began in January 2013. Most of the work was done by the end of the year, and completion and delivery of the platform is expected in mid 2014. In addition, the contract provided an option of building the second platform - Ilene, but it has not entered into force by the client's decision.



### ***Conversions***

Most of the activities related to the projects of ship conversion involve the North Sea where Western European shipyards benefit, or are closer to the Far East shipyards. Despite the high price of oil and other parameters that drive this market and that should logically lead to a resurgence of activity and an increase in the number of inquiries, during 2012 and in the first part of 2013 there were very few. Viktor Lenac implemented intensive marketing and promotional activities in this segment of its business. Nevertheless, in 2013 the shipyard did not realize any revenues from conversion of ships.

During 2013, however, there have been observed some advantageous movements on the conversion market. The project of conversion of the barge *Cable Enterprise* was rated as the most promising. After intensive negotiations over several months, the shipyard signed this high value contract in February 2014.

The shipyard has been working on bids for other several major projects, and considering positive trends noted on the conversion market, future periods are likely to bring more projects, even in 2014.



## Business Activities

### Sales

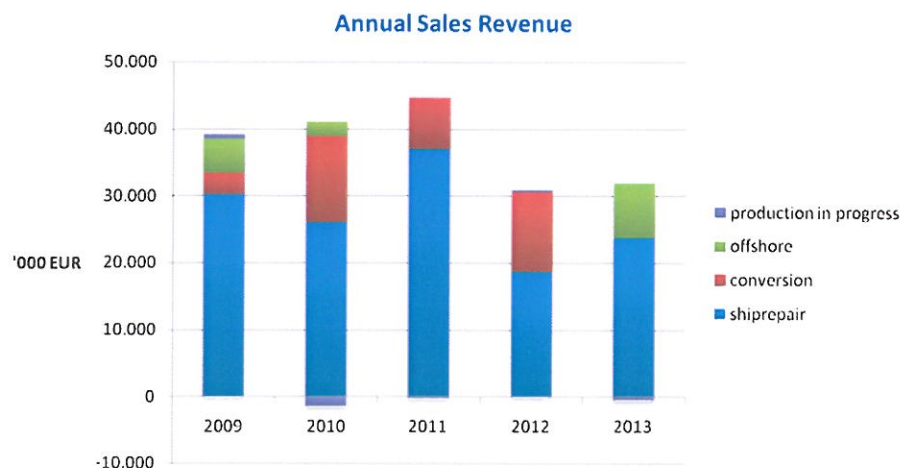
#### Realized Revenues

HRK	2009	2010	2011	2012	2013
Shiprepair	222.002.665	190.191.866	275.421.116	140.442.090	180.557.056
Conversions	23.557.569	93.754.850	57.374.612	90.077.043	0
Offshore	37.217.637	15.328.107		115.691	61.346.394
<b>Realized revenues</b>	<b>282.777.872</b>	<b>299.274.822</b>	<b>332.795.729</b>	<b>230.634.824</b>	<b>241.903.450</b>
Production in progress	4.538.878	-10.385.475	-1.710.526	1.485.152	-3.244.332
<b>Realized scope of works</b>	<b>287.316.750</b>	<b>288.889.347</b>	<b>331.085.203</b>	<b>232.119.976</b>	<b>238.659.118</b>

During 2013 Viktor Lenac realized even 67 shiprepair projects, which is the largest annual number of ships realized so far, of which 62 were contracted and completely realized during the year, and five projects account for work in progress at the end of the year. In late December, Viktor Lenac recorded four shiprepair jobs in production.

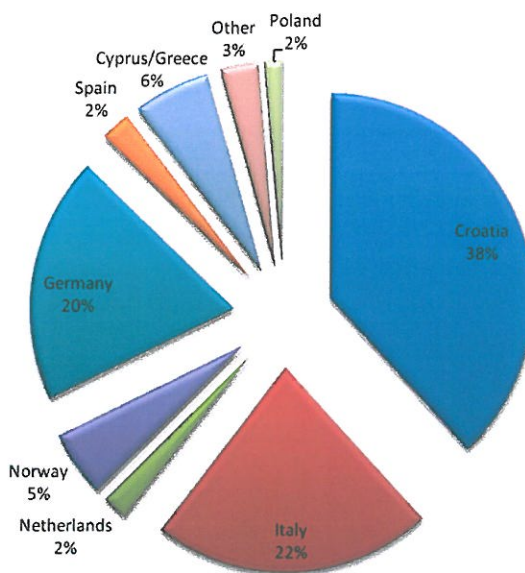
There were no conversions, but unlike the previous year the shipyard realized revenues from offshore activities i.e. Ika SW gas platform construction.

EUR	2009	2010	2011	2012	2013
Shiprepair	30.246.979	26.080.908	37.013.037	18.680.734	24.012.833
Conversions	3.209.625	12.856.552	7.710.406	11.968.051	0
Offshore	5.070.755	2.101.935		15.450	8.097.959
<b>Realized revenues</b>	<b>38.527.359</b>	<b>41.039.395</b>	<b>44.723.443</b>	<b>30.664.234</b>	<b>32.110.791</b>
Production in progress	618.404	-1.424.155	-229.873	196.823	-424.782
<b>Realized scope of works</b>	<b>39.145.763</b>	<b>39.615.240</b>	<b>44.493.571</b>	<b>30.861.057</b>	<b>31.686.009</b>



### Market share analysis 2013

Market	Revenue in EUR	Number of projects
Croatia	12.242.081	17
Italy	7.181.089	10
Netherlands	653.730	2
Norway	1.676.073	3
Germany	6.250.172	19
Spain	748.114	3
Cyprus/Greece	1.945.819	7
Other	958.292	6
Poland	455.422	1
<b>Total</b>	<b>32.110.791</b>	<b>68</b>



Put in the perspective of the total market structure, domestic market took almost a 38% share, thanks to the Ika SW platform construction project for the end client, Croatian-Italian company INAGIP Ltd.

In addition, Viktor Lenac performed a big number of shiprepair jobs for its domestic clients, the companies *Tankerska plovidba*, *Jadolinija* and *Jadranski pomorski servis*, and docked a number of newbuildings for domestic shipyards *Uljanik* and *3. maj*.

Among foreign markets, based on realized revenue, the most important was the Italian market that took a 22% share primarily on the account of repairs of two barges and one pusher reaching a value of close to 5 million euros, followed by the German market with a 20% share, leading in the number of realized jobs.

Compared to the previous year, in 2013 market dispersion was significantly higher. Specifically, during 2013 revenues were dispersed by clients to 15 different countries, while 2012 recorded clients from all nine different countries.



## Sales

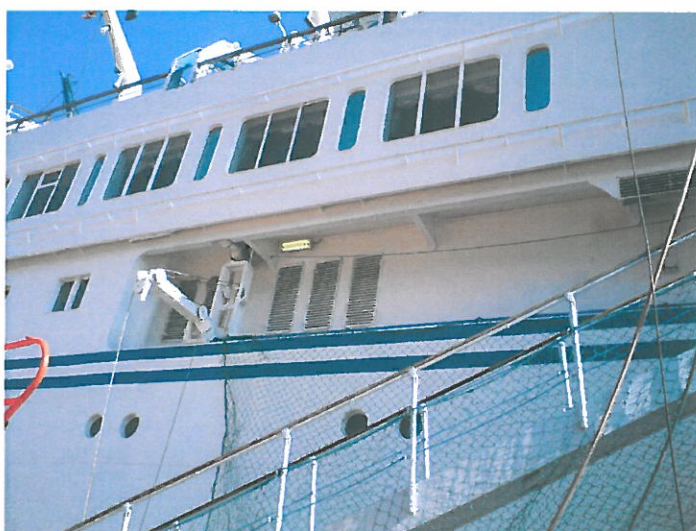
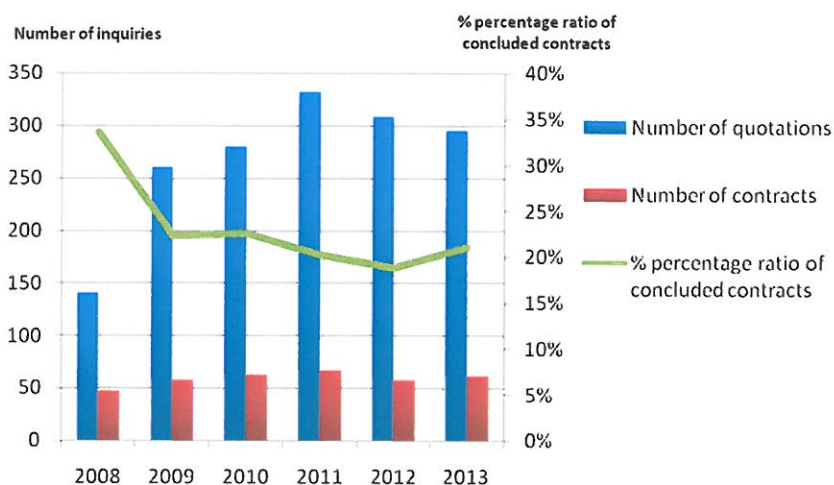
- 312 inquiries
- 295 quotations
- 62 shiprepair contracts, of which 4 in progress at the end of the year

	2008	2009	2010	2011	2012	2013
Number of quotations	140	260	280	332	308	295
Number of contracts	47	58	63	67	58	62
<b>% contracting</b>	<b>34%</b>	<b>22%</b>	<b>23%</b>	<b>20%</b>	<b>19%</b>	<b>21%</b>

Given the number of quotations and number of contracts one can clearly conclude that it was the worst contracting performance in 2012, most affected in shiprepair activities by this prolonged crisis in the shipping market. In 2013 Viktor Lenac succeeded to raise the contracting rate to 21%, as opposed to 19% realized in the previous year. At the same time, there is a trend of reducing the number of issued quotations as a result of the efforts made to make the sales focus on the more certain jobs, and thereby improve quality of offers to the customers.

In any case, great number of issued quotations and the low rate of contracting is the result of increasing competition and the increasing number of shipyards in the race for each job, but at the same time it is

**Percentage Ratio of Concluded Contracts**



the result of the fact that ship owners are turning to new shipyards and seeking for a greater number of offers with the aim of selecting the best one and reduce repair prices.

Inquiries that the shipyard did not respond to account for the periods of unavailability of capacity, or involve vessels sailing at such maritime routes where it was certain that Viktor Lenac would not get the job.



Analysing realisation of repair jobs by months, fluctuations in employment can be observed, with the extremely low level of revenue in May and September, on one hand, and July, on the other hand, where the shipyard realized revenue from shiprepair activity in the amount of almost 3.9 million euros.

## ***Production***

### ***Production Activities***

During 2013 Viktor Lenac realized 67 various projects completed by the end of the year (including 5 projects under progress) that included the following types of vessel:

- ✓ 19 tankers (oil tankers, chemical tankers, LPG tankers)
- ✓ 9 container ships
- ✓ 9 general cargo ships
- ✓ 6 ro-ro vessels
- ✓ 4 bulk carriers
- ✓ 4 tug boats
- ✓ 4 ferry boats
- ✓ 2 cruise ships of smaller size

and other types of ships including 5 newbuildings drydocked for local shipyards.



Major ship repair projects involved *Kochab* and *Polaris* that went under major, comprehensive repairs and the pusher *Ursa Minor* owned by Italy's Ilva Servizi Marittimi achieving a total value of EUR 4.98 million (150 t steel renewal, comprehensive mechanical, piping and shipbuilding works, and anti-corrosive treatment).

Also important was repairs carried out on the containership *Anika Oltmann* for a German client involving comprehensive modification of cargo hold covers, anti-corrosive treatment carried out on cargo hold covers, ship holds and shell plating as well as 30 t steel renewal.

During 2013 the biggest portion of IKA SW offshore production platform construction works was done. Construction of IKA SW platform for Croatia's INAGIP in cooperation with Italy's Rosetti Marino SpA,



Ravenna and Croatia's Rosetti, Rijeka was contracted in January 2013. By the end of the year almost 70% of total contracted works were completed having a value of about EUR 8 million. The construction works included jackets and deck. The jackets were delivered in 2013, while the deck works are in the final stage and it is expected that the deck will be delivered to the exploitation site mid 2014.

In addition to workshop documentation and material procurement (steel, pipes, cables and paints), the most important production works on IKA SW platform included the following:

- fabrication of the structure involving about 1,100 tons of steel
- fabrication and installation of 100 tons of pipes and valves
- anti-corrosive treatment covering an area of 8,500 sq.m.
- installation of deck equipment
- installation of electrical systems and instruments involving almost 10 km of cables and 4 km of pneumatic pipes



The project also includes revamping of Ika A platform involving conversion of Ika A on the sea for receiving gas coming from Ika SW. The Ika SW project will finish with hook up works and final testing during commissioning.

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



## Structure of Works

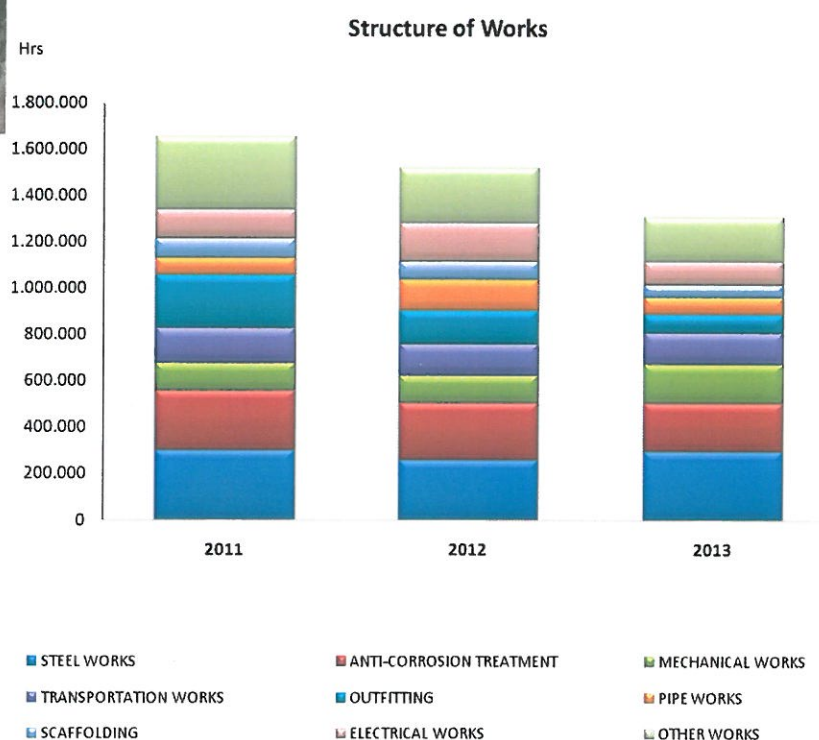
	2011	2012	2013	2011	2012	2013	2013/ 2012
STEEL WORKS	302.889	258.448	298.728	18,3%	17,0%	22,8%	115,6%
ANTI-CORROSION TREATMENT	255.648	246.384	206.497	15,5%	16,2%	15,8%	83,8%
MECHANICAL WORKS	121.150	118.690	168.700	7,3%	7,8%	12,9%	142,1%
TRANSPORTATION WORKS	146.783	135.971	136.015	8,9%	9,0%	10,4%	100,0%
OUTFITTING	231.950	147.180	77.816	14,0%	9,7%	5,9%	52,9%
PIPE WORKS	74.938	131.995	73.592	4,5%	8,7%	5,6%	55,8%
SCAFFOLDING	81.544	79.031	56.155	4,9%	5,2%	4,3%	71,1%
ELECTRICAL WORKS	123.901	164.063	99.332	7,5%	10,8%	7,6%	60,5%
OTHER WORKS	314.226	237.188	191.114	19,0%	15,6%	14,6%	80,6%
	<b>1.653.029</b>	<b>1.518.950</b>	<b>1.307.949</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>86,1%</b>

The structure of works in production primarily depends on the structure of the projects, and the realization of major projects in conversions and offshore activities.



reduced. Mechanical works recorded a jump compared to the previous years due mainly to more extensive repair works carried out on *Kochab* and *Polaris*, and *Ursa Minor*.

Due to the Ika SW platform construction project, 2013 share of steel work and transportation work increased. Compared to 2012 that was marked by Sampson conversion project, the share of electrical, outfitting and pipe works was



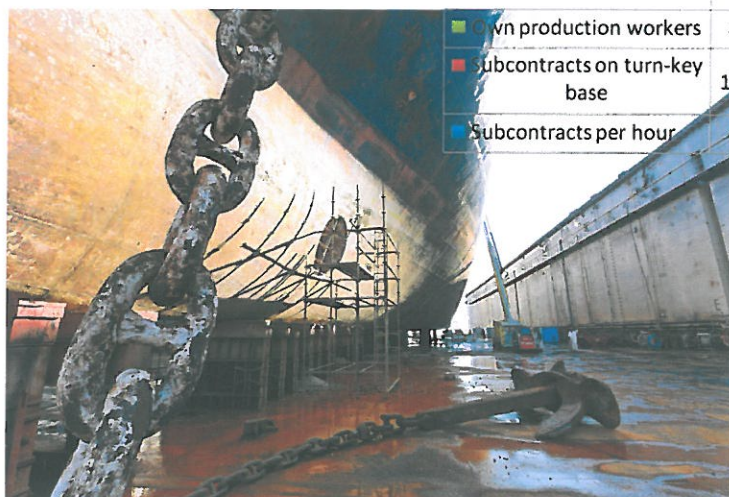
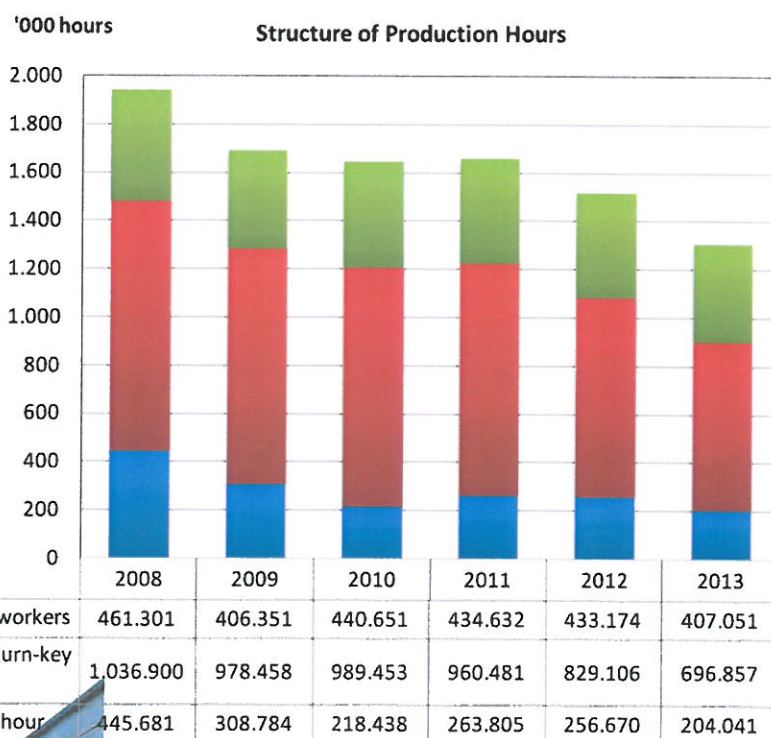


## ***Production Capacity and Cost***

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.

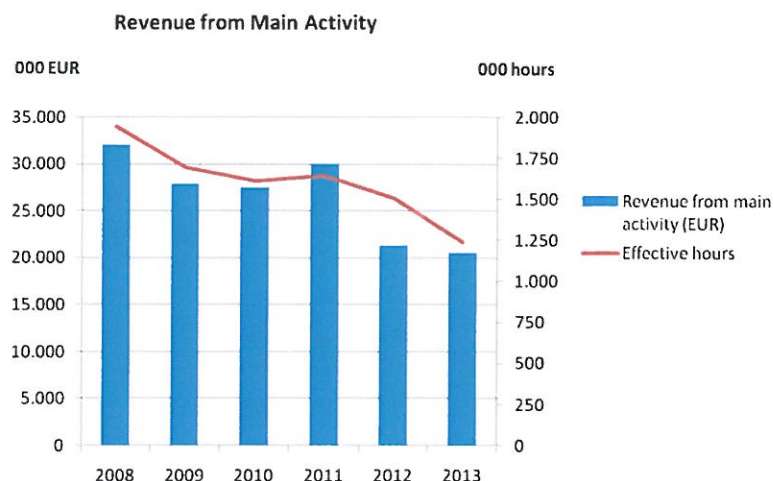
Of 1.3 million effective hours, own production workers participated with 31.1% up by 2.6% comparing to the last year. Share of subcontract workers contracted per hour decreased by 1.3% same as those contracted on turn-key base.

Compared to the previous year almost 14% fewer hours were spent, although there was greater business income, despite the decline in selling prices.



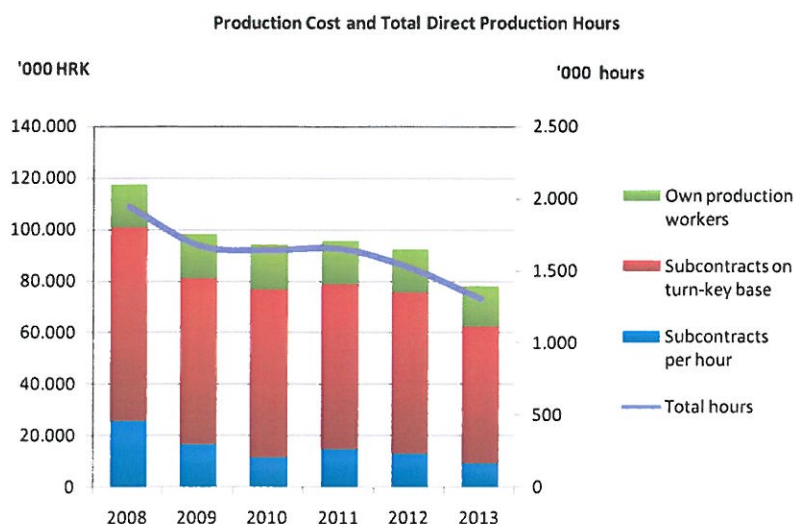
For proper analysis of the effective hour trends, hours produced in the main activities are placed in relation to the revenues from the sale of labor or in other words revenues earned from the main activities, less the value of the embedded materials, outside services and other expenses that are not related to the exploitation of the shipyard's capacity.

Decreasing trend in total number of effective hours produced with respect to revenues from main activities (less outsourcing) continued during 2013 on the account of reduced sales prices and struggling for every single job.



In figures, the total cost of production work incorporated in working orders from main, auxiliary and investment activities in 2013 amounted to 78 million Croatian Kuna, of which Viktor Lenac's own production workers' salaries made 15.6 million Croatian Kuna. Share of direct labor in core business revenue was 32%, which is 8% less than in the previous year, partly as a result of the reduction in the unit cost of labor, to its own workers, and cost of the subcontractor. On the other hand, the structure of total income included a platform construction project with a greater participation of materials compared to conventional ship repair operations.

	2009	2010	2011	2012	2013
Revenues from main activities	282.778	299.275	332.795	230.634	241.903
Total production work cost	98.340	94.109	95.845	92.355	78.030
Labour cost as percentage of revenues	35%	31%	29%	40%	32%



Reducing the number of direct production hours compared to the previous year resulted in a reduction of the cost of direct labor, where labor cost is reduced by two percentage points higher than the reduction in the number of hours and that as a result of the reduction in unit labor costs.



## ***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	9.484.529	25
Dock 11	11.500.166	27
Dock RI-38	1.917.500	6
Without docking	512.286	4
Docking at Kraljevica shipyard	598.352	5
Platform (no docking)	8.097.959	1
<b>Total</b>	<b>32.110.791</b>	<b>68</b>

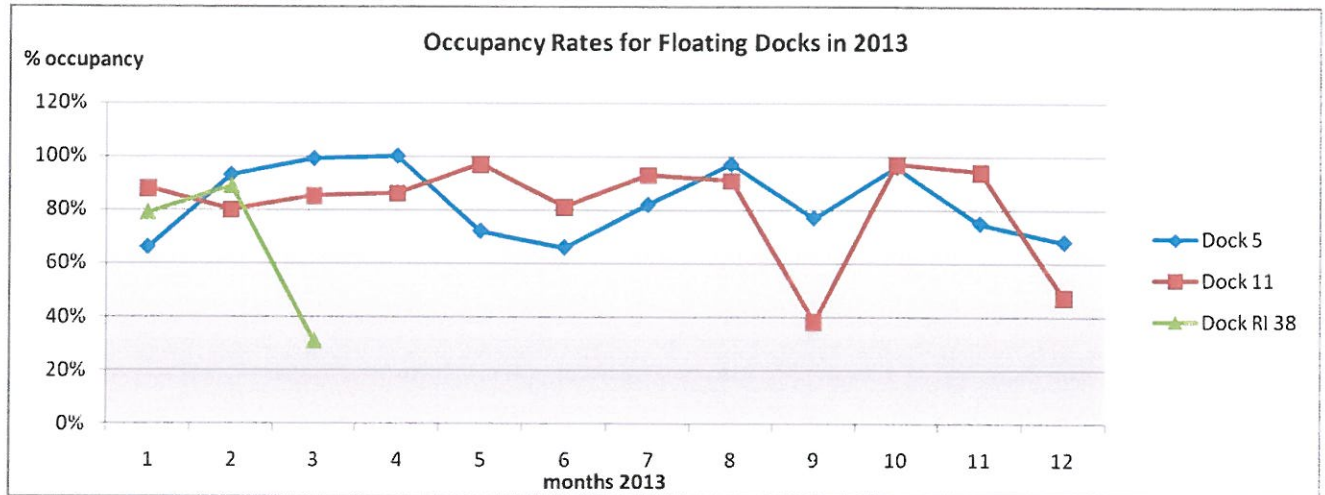
During the year, Dock 5 and Dock 11 had an equal number of docked ships. Dock RI 38 was leased in April 2013 for a period of one year to France's Foselev Marine for cutting the ships of the French Navy, and the number of docked ships in this dock relates only to the first quarter, up to the period when preparations for towing the

dock to France began. Additional docking requirements during Dock RI-38 rental period were resolved by docking ships at the nearby shipyard Kraljevica.

As the ship repair activity is characterized by fluctuations in capacity employment, so the dock employment during the year varied. Periods of lowest dock occupancy were in September and December. At Dock 11 during the year were nine cases of double-docking, where two ships were docked simultaneously. Dock RI-38 was leased in April to a French company *Foselev Marine* for a period of one year for the purpose of cutting the ships of the French Navy.

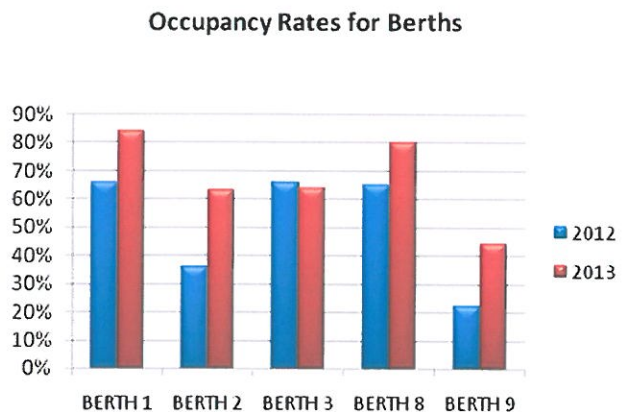






Dock 5 recorded an occupancy rate of 83% (2012: 76%), and Dock 11 occupancy rate was 81% (2012: 85%). Dock RI-38 occupancy rate counting for the first quarter only was 66%.

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.



Occupancy of operative berths as well of docks indicate the level of employment of repair facilities. The average occupancy of the main operational berths in 2013 was 67%, which is significantly more than in 2012 when it was only 51% and that as a result of the significantly larger number of ships under repair during 2013 compared to the previous year.

## Raw material and Energy Source Cost

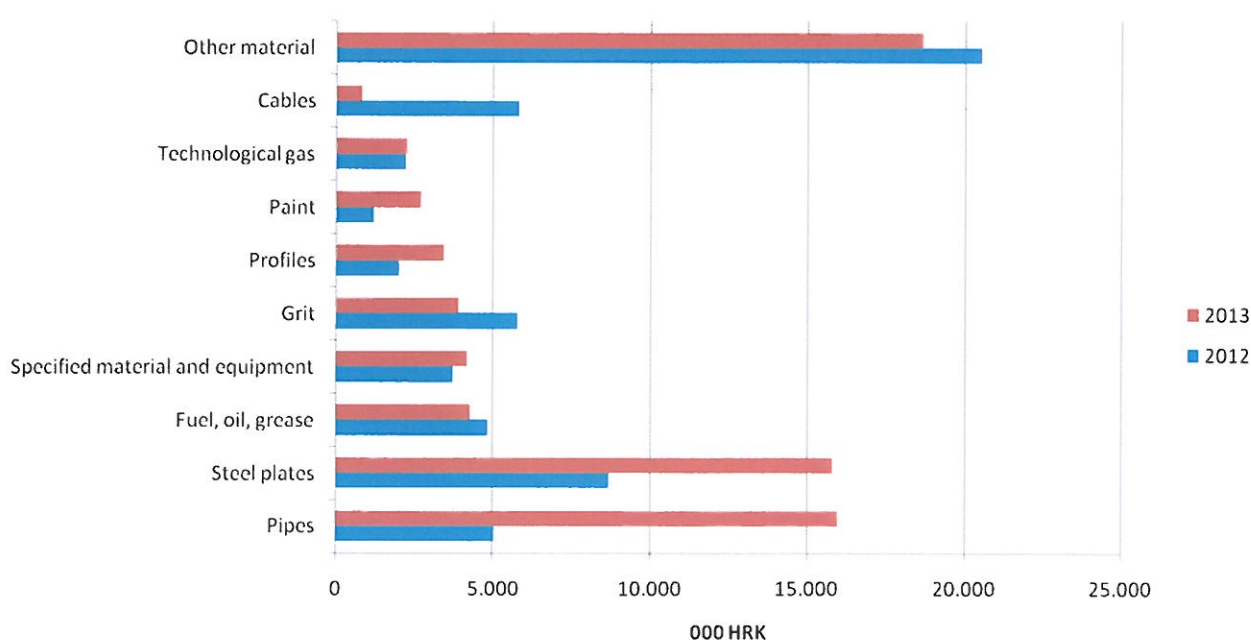
The total cost of material and energy source in main activities in general participate with 20 to 30% in the total operating revenues. In conversions and offshore projects, installed material and equipment participated with a larger percentage. Value of used material in 2013 related to the value of realized

projects was around 30%, somewhat higher comparing to the last year, resulting from higher share of material in Ika SW platform construction project, 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 71 million Croatian Kuna, were the following:

MATERIAL GROUP	HRK		
	2011	2012	2013
Pipes	6.927.836	5.025.784	15.955.869
Steel plates	17.354.648	8.716.679	15.779.605
Fuel, oil, grease	5.633.663	4.839.973	4.245.607
Specified material and equipment	5.286.540	3.708.134	4.148.231
Grit	5.702.223	5.779.070	3.891.078
Profiles	3.987.401	1.993.777	3.420.855
Paint	1.064.767	1.189.054	2.655.416
Technological gas	2.607.009	2.199.284	2.224.138
Cables	2.552.081	5.806.646	767.106
Other material	21.515.140	20.561.265	18.643.972
<b>Total material</b>	<b>72.631.308</b>	<b>59.819.666</b>	<b>71.731.877</b>

In 2013 there was a significantly higher consumption of pipes and sheets, that is characteristic for platform building, which is also affected by the increased consumption of paint. Compared to the previous year it was recorded a reduced consumption of electrical cables and other electrical materials, which in the previous year were more significant because of Sampson conversion.





In conventional shipbuilding works metallurgy and grit blasting materials are used mostly. During 2013 a total of 2,200 tons of sheet was spent for steel works, 533 tons of profiles and 320 tons of pipes, while 6,300 tons of grit was spent for anti-corrosion works.

In addition to large consumption of steel, profiles and pipes built onto Ika SW platform, of other shipbuilding works primarily should be mentioned the alteration of the structure on Dock 11, where about 470 tons of steel was spent. Biggest steel quantities involved the repairs of Kochab and Polaris.

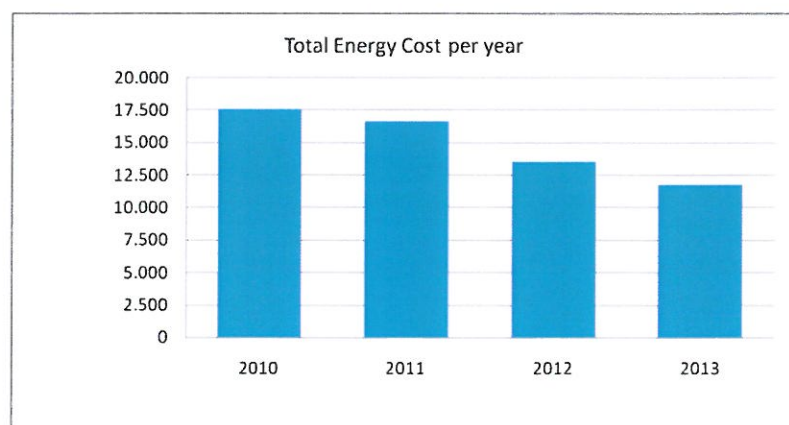
Viktor Lenac uses significant amounts of energy such as electric power, fresh water, technological water and gas.

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	2013
Electric power	kWh	11.730.319	11.297.600	11.188.560	13.060.720	13.906.640	10.867.568
Fresh water	m3	295.224	290.289	389.616	293.578	79.786	60.818
Technological water	m3	253.296	160.002	153.328	176.402	178.158	185.271
Oxygen and acetylene	kg	751.833	519.140	652.112	651.620	564.596	602.084
Light fuel oil	kg	611.710	642.400	965.750	589.280	544.720	523.400

Annual energy costs indicate a trend of continuous reduction of costs, primarily due to the savings in the amount of energy that is consumed in the process of work. The savings in electricity are achieved primarily by planning and monthly contracting required power using energy monitoring system which plans and controls the peak power and load. In addition, compressed air system leaks are systematically fixed, and it is taken care that consumers which are not related to operational processes are disconnected. Also, with the aim of reducing the cost of energy, Viktor Lenac has chosen a more favorable electricity supplier.

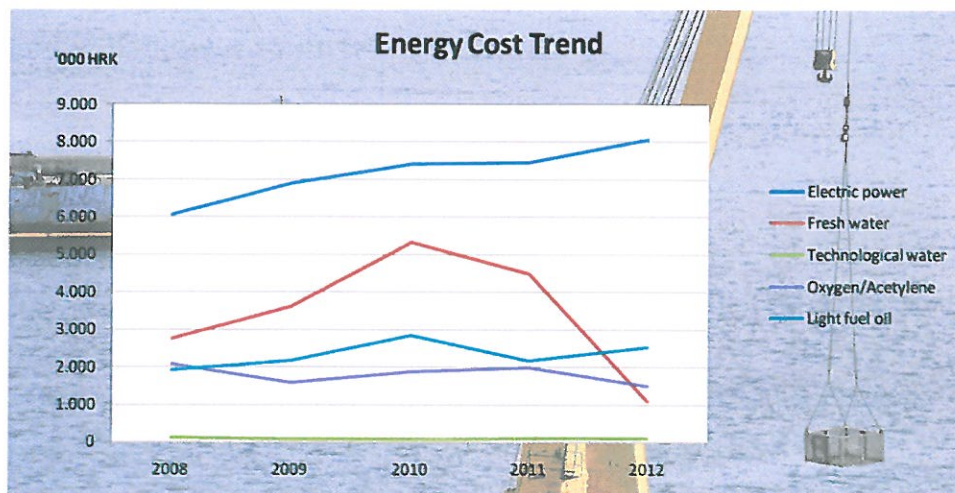


Also, with the aim of reducing the cost of energy, Viktor Lenac has chosen a more favorable electricity supplier.

Aimed at decreasing cost of water, in 2011 the Shipyard engaged a specialized company to take severe measures aimed at

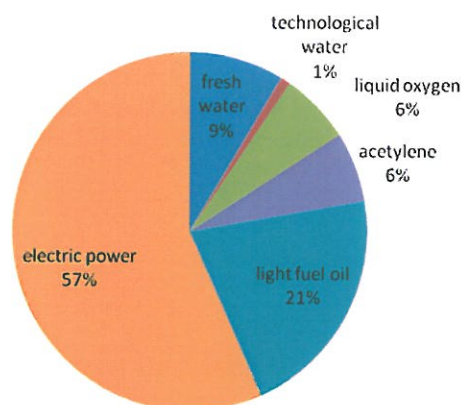
controlling and monitoring oscillation in consumption and detecting leaking. This resulted in a significant decrease in utilization of expensive water from municipality water supply. In order to assure proper management of water resources any leaks are promptly eliminated, and consumption

monitoring devices have been installed. The existing technological water distribution system enables the use of technological water instead of more expensive water from the public water supply. More reduction will be achieved by installing additional technological water pipelines aimed at using technological water at larger scope.



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.

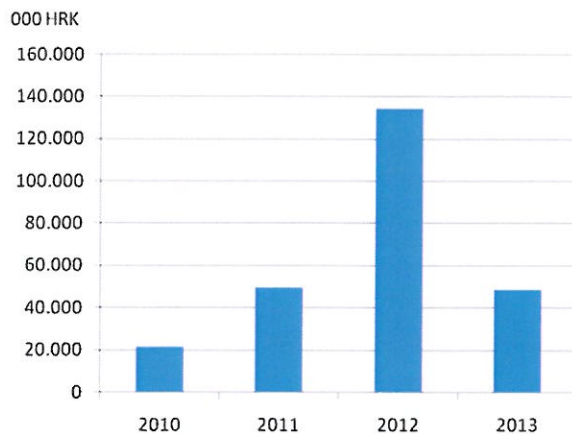
During 2013 electricity costs had the largest share in total energy costs. Technological water, whose consumption is three times higher than the water from the public water supply in the cost structure has a share of only 1%, as opposed to drinking water with the participation of as many as 9% of the total costs of all energy sources.





## Technological Development and Investment

Total Investment in Tangible and Intangible Fixed Assets



During 2013, the Company continued investment in tangible fixed assets, although much less pronounced than in the previous year. Specifically, in May 2012, Viktor Lenac was approved a long-term loan for the renovation and modernization of production equipment in accordance with the development plan, whose backbone was acquisition of a new floating dock and new dock cranes. By the end of 2012, the total amount of 69.9 million Croatian Kuna of the funds were spent. Afterwards, because of the negative results achieved in that fiscal year, the commercial bank suspended further funding.

Therefore Viktor Lenac postponed portion of unrealized investments for future periods, and during 2013 investment activity related to the completion of investment and launching of the property whose acquisition was contracted and started in the previous year.



In April 2013 a static frequency converter was purchased, which converts 380V 50Hz supply voltage into 440V 60Hz, needed in 90% of cases for marine automation and electronics installed on merchant ships. It is therefore important that the shipyard can provide such power supply to ships under repairs. The advantage of the frequency converter compared to diesel generator, which can also provide a ship with 380V 50Hz supply voltage, is in the reduction of emissions of greenhouse gases in the atmosphere arising from the operation of marine generators or diesel generators, and reduces the noise level in the surrounding villages. For the acquisition of the frequency converter Viktor Lenac provided a deposit of 1.9 million Croatian Kuna at the end of 2012, and invested 2.8 million Croatian Kuna in its commissioning during 2013.

In December 2012 Viktor Lenac concluded a contract with Germany's Hammelmann for the procurement of ultra high pressure washing equipment as an alternative to grit blasting having a value of EUR 1.7 million. Complete equipment was delivered in 2013 including Dockmate and Dockboy that treat the surface prior coating using high pressure water operating at pressures up to 3000 bars, three high-pressure pumps, used also for manual cleaning, and a wastewater treatment unit that separates solid waste and releases clean water



into the sea. New UHPW equipment is significantly more efficient and faster comparing to the existing grit blasting technology. Unlike blasting that can be operated during night hours only, UHPW equipment can be used 24 hours a day resulting in better utilisation of resources. Also, ultra high pressure washing is a clean, ecologically friendly technology. Of the total EUR 1.7 million, in 2013 Viktor Lenac invested EUR 1.2 million, while half a million was invested in the previous year as an advance payment to the manufacturer.

At the end of the year, new crane intended for Dock 11 having a capacity of 23.5 t was delivered by Hungary's Ganz Danubius. The crane having a value of EUR 2.6 million was ordered and paid at the end of 2012. The crane was installed on Dock 11 in February 2014. The existing crane was relocated to the other dock tower. Dock 11 is now equipped with three cranes, one of which is a new crane, having the maximum load capacity, at one and the existing two cranes on the second tower.



Investment completed during 2012 and 2013 according to the development plan ensure realization of the objectives aimed at:

- 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 2013 Viktor Lenac also invested in various production and IT equipment. Particular emphasis was placed on the reconstruction of steel structures (about 470 tons) and existing systems of Dock 11 which increases its value and extends the life of exploitation. Made investment in reconstruction of Dock 11 during the year amounted to 17 million Croatian Kuna. Although in a significantly smaller scale, the shipyard also invested in reconstruction of Dock 5 and other existing production equipment.



## ***Organisational Development, Quality Management System, Information&Communication***

During 2013 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



- It is the management objective to improve relationships with clients, employees and other subjects involved in the business environment, and **increasing efficiency**, competitive advantages and sustainability
- It is the management objective to set up an **organisation** in which everyone knows exactly what to do, by whom, when, where and how to achieve planned results
- **Quality Management System** acc. to ISO as a support tool

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.

During 2013 company's IT&Business alignment strategy was focused on Business Intelligent aimed at an systematic process of gathering and integrating information based on matrix organisational structure that enables reporting on project results and organisational performance, and matrix relations between the organisational units creating a basis for managing over separate organisational units as centres of responsibility.

The total investment into IT system maintenance including software upgrade and new hardware amounted to around 860,000 Croatian Kuna.



In October 2013, Bureau Veritas conducted the second supervisory audit of the shipyard's quality management system according to ISO 9001:2008.

In addition, during the year a number of QMS audits was carried out by our business partners, including regular internal audits.

Recommendations and observations noted during the execution of the audits have been incorporated in the documented system, and special attention will in future be paid to the following key areas:

- Intermediate control of work execution;
- Collecting feedback on nonconforming products and customer complaints;
- The training of new employees, especially managers in the field of quality

assurance.

Compared to the year 2012, the number of internal auditors declined due to workers fluctuations, mostly in production organizational units. This reduction in the number of auditors has been established as a weak point of the quality management system in the field of supervision of the production process and nonconforming products. Therefore Viktor Lenac is planning for the next period additional training and increasing of the number of internal auditors. At the end of 2014, the shipyard will apply for the recertification of the system according to ISO 9001:2008, and is planning to start with the preparatory work in the alignment of the documentation with the new revision of ISO 9001:2015.



## ***Safe Work, Health and Safety at Work and Fire Protection***

The system of occupational health and safety, determined by legislation, is an integral part of the organization and execution of production and other tasks, and included in a comprehensive quality management system. Improving the safety system is carried out continuously by updating the existing processes and work procedures and prescribing new procedures, and controlling compliance with documented system. On an international level in recent years an increasing emphasis has been placed on meeting and improving standards in the field of occupational safety and health. In addition to price and quality of service, health and safety is becoming increasingly important to the customers of Viktor Lenac. Therefore Viktor Lenac focuses on the development and fulfillment of the requirements of safety and applicability of the same aimed at providing an undisturbed development of the manufacturing process.



In 2013, Viktor Lenac has commenced preparation of new personal protective equipment regulations serving as a basic document for procurement of personal protective equipment. Also, the shipyard started an audit of workplace risk assessment given that in the previous period significant changes in the organization of Viktor Lenac and description of particular jobs have been implemented.



Most EVIZ software modules for keeping records in the field of occupational safety are implemented, which significantly enhances and accelerates data access, preparation of various reports, printing of forms and similar, and in the coming period, program modules will be adapted to the requirements of the production process of Viktor Lenac.

Over 2013 training of personnel needed to perform the jobs in the services of occupational safety and fire protection were conducted.

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 testssix.

*Funds spent in employee healthcare*

	2010	2011	2012	2013
Annual preventive medical exams	698.933	719.280	907.091	376.875
PPE	708.257	820.559	665.333	653.745
	<b>1.407.191</b>	<b>1.539.839</b>	<b>1.572.424</b>	<b>1.030.620</b>

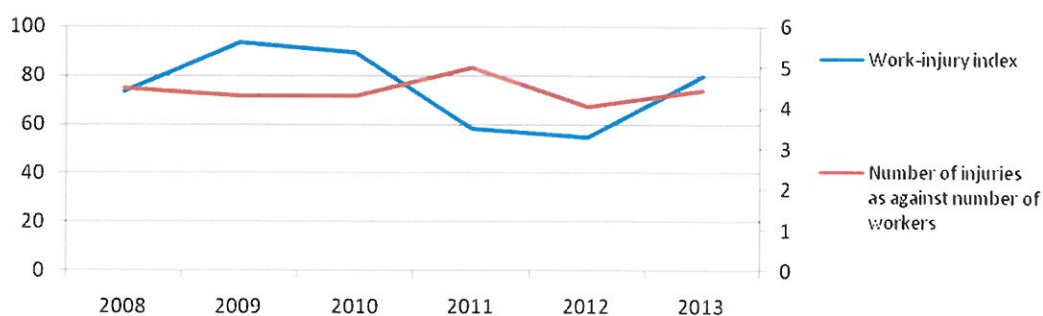
Constant efforts in implementing safety procedures have led to a decrease in number of injuries, compared in absolute numbers of injuries, or when compared with respect to number of workers. The work-injury index indicates that the injuries mainly had to do with light injuries such as contusions, wounds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

During 2013, Viktor Lenac recorded 23 injuries at work with a total of 738 lost working days representing an increase in severity index as compared with previous years (2011 and 2012). This is the result of three somewhat harder work injuries (knee injury, hip injury and injury of the shoulder joint) that occurred in the first half of the year and caused long-term sick leave and increasing number of working days lost.

Increase in the frequency and the number of injuries in relation to the number of workers, primarily is the result of the intensification of production activities in certain periods with large fluctuations in employment capacity, as it was the case during 2013 in which the number of ships under repair was higher than in previous years.

	2008	2009	2010	2011	2012	2013
<b>Effective hours</b>	1.116.833	1.095.324	1.077.765	1.090.191	1.019.687	925.669
Number of injuries	26	25	25	29	23	23
Total lost days due to sick leave	822	1024	892	636	557	738
<b>Frequency index</b>	<b>23,28</b>	<b>22,82</b>	<b>23,20</b>	<b>26,60</b>	<b>22,56</b>	<b>24,85</b>
<b>Work-injury index</b>	<b>73,60</b>	<b>93,49</b>	<b>89,26</b>	<b>58,34</b>	<b>54,62</b>	<b>79,73</b>
Number of injuries as against number of workers	4,48	4,31	4,31	5,00	4,03	4,44

In subsequent periods, Viktor Lenac will take further measures to boost the education of all employees in order to reduce the number of work-related injuries. This will be particularly important for training newly arrived workers to work in a safe





manner, but also workers who will, following organizational changes be trained to work in a safe manner when performing activities of different crafts.

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 2013, a total of 6,000 hot work permits were issued.

In 2012 the shipyard procured a fire truck and a large number of special protective fire suits, and in 2013 it procured two sets of chemical suits and more valuable device for the detection of gases, which fulfills the basic prerequisite for carrying out technical interventions in the atmosphere of toxic gases and vapor.

Part of firefighting equipment from the fire department store has been deployed at different production sites of the shipyard thus increasing equipment availability and readiness of Viktor Lenac's Fire brigade in emergency situations, and in December a fire drill was held.

During 2013, there were 11 initial fires in which there was no damage to property.



## ***Environmental Protection***

By adhering to environmental policy, Viktor Lenac opted for corporate social responsibility and during 2013 made a major step forward in improving the technological part of the process. Respecting the rules of clean production, aimed at reducing the impact on the environment while maintaining quality, the shipyard procured equipment for high-pressure washing of shell plating as an alternative to blasting technology in anti-corrosion protection.

New equipment eliminates the emissions of particulate matter and sea pollution, minimizing the amount of waste and reducing overall noise, and also enables continuous and simultaneous operation with other technological processes affecting the shortening of deadlines in repairs.

The waste management system in Viktor Lenac shipyard, as legally defined in framework and



obligation to improve, greatly depends on the possibilities of waste management in Croatia. Therefore Viktor Lenac is constantly striving to find new opportunities for waste management which for now is not enough, affecting the high disposal costs. In 2013 waste disposal costs increased compared to the previous year, primarily due to an increase in the scope of work in repairs, but also because of the structure of production work during 2013.

In other words, the jobs in ship repair have been reduced to necessary maintenance only, which generates a greater proportion of waste that can not be exploited as secondary raw material, unlike conversions that were lacking in production activities of Viktor Lenca in 2013.

In 2013 Viktor Lenac produced close to 17,000 tons of waste, of which 40% related to hazardous waste, while 35% related to the abrasive sand (grit) which belongs to the group of inert waste, which is used as a coating layer on the landfill.

Of the total amount of hazardous waste largest part refers to the oily wastewater taken from ships under repairs and that are submitted for processing and final disposal to the authorized waste disposal service.

About 12% of the total amount of waste is given to recycling, 2% of waste is used for energy recovery, and only 0.4% of the waste goes to incineration in Austria.

Worst way of dealing with waste, both in ecological and economic terms, is disposing. In order to reduce the amount of waste for disposal, Viktor Lenac implements sorting through separate collection at source. Therefore, the continuous training of workers is carried out, necessary equipment is purchased and continuous surveillance is performed to go up with the new possibilities of treatment and recovery of waste, to which the Republic of Croatia is opening up new possibilities.

Environmental Management System is part of an integrated management system that serves as a starting point for planning and business development. It represents an integral control system over the components of the environment that directs Viktor Lenac to optimize the use of natural resources, continuously improving its environmental activities and using technology aimed at protecting the environment.





In order to determine the effectiveness of the system, the impact of Viktor Lenac's activities on the environment and in particular the influence on the sea, water, air, biotic community, and the noise has been continuously monitored. Environmental monitoring is carried out in collaboration with the Institute of Public Health of the county and other entities authorized to testing environment.

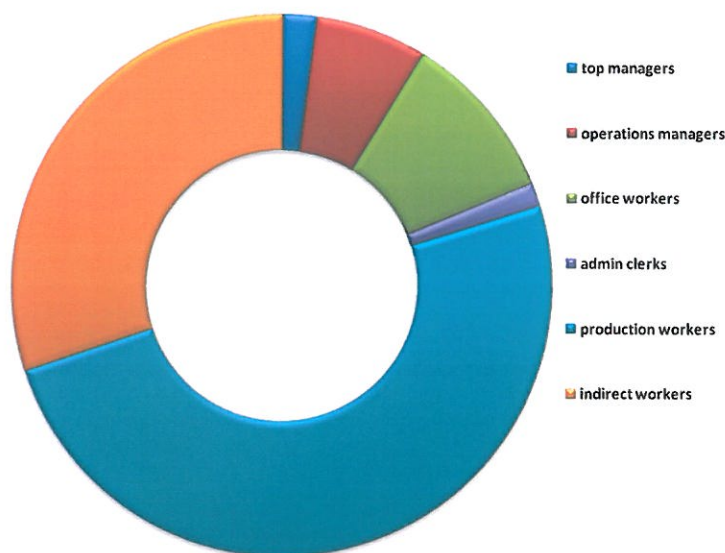
Air quality is examined as emissions of pollutants in the settlement of Vrh Martiniscica, at the Bay of Zurkovo, and since the beginning of 2011 on the edge of the western part of Rijeka that borders with Viktor Lenac. Based on the results of PM<sub>10</sub> sampling and measurements of sediment concentration of heavy metals, air quality has been given 1st category (clean or insignificantly polluted).

Current data on the concentration of particulate matter (PM<sub>10</sub>) at the measuring station of Vrh Martinscice are publicly available online at [www.zzjzpgz.hr](http://www.zzjzpgz.hr).



## Human Resources

### Number and Structure of Employees



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,

On the day of 31st December 2013 Viktor Lenac had 495 employees, down by 61 with respect to the previous year.

Of total number of employees, production workers participated with 246 employees, plus 149 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 (50 employees), administrative staff (7 employees) and project managers and managers of organisational units of all level (43 employees). Put in the perspective of the total structure of employees, direct workers increased by 3%, while there was a decrease in indirect workers and administrative staff or 2% respectively 1%.

On 31st December 2013, Viktor Lenac's subsidiary company (Viktor Servisi d.o.o.) had total 15 employees, of which 12 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	42	70	23	141	110	16	66	469
Number of women	0	14	6	0	6	0	0	0	26
<b>Total</b>	<b>1</b>	<b>56</b>	<b>76</b>	<b>23</b>	<b>147</b>	<b>110</b>	<b>16</b>	<b>66</b>	<b>495</b>



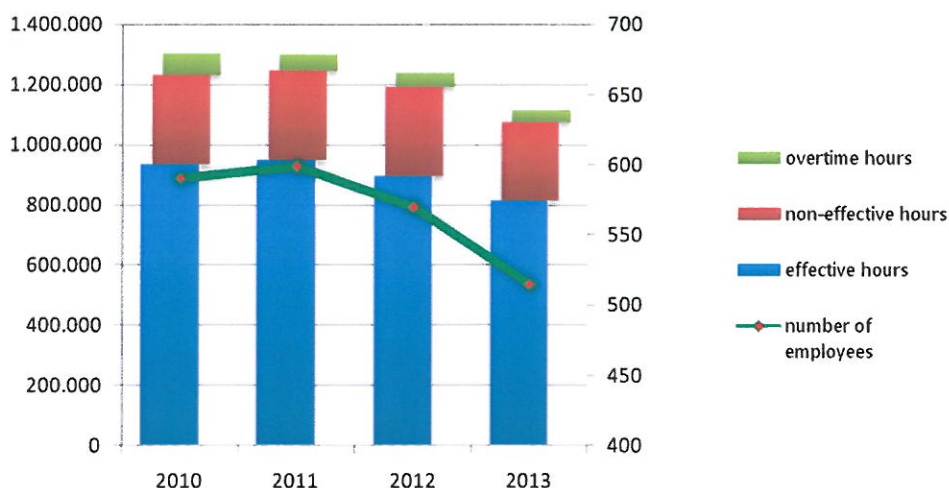
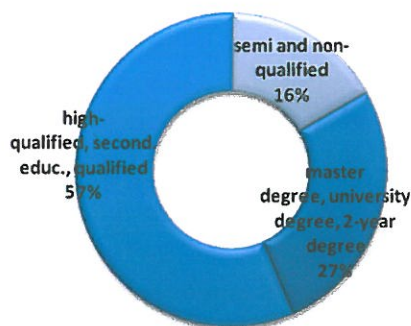
Of total number of employees at the end of 2013, 93.5% or 463 employees had employment contracts for an indefinite period of time.

The average age of the Shipyard's employees at the end of 2013 was 44.8 years.

### **Structure of Effective Work Hours and Salaries**

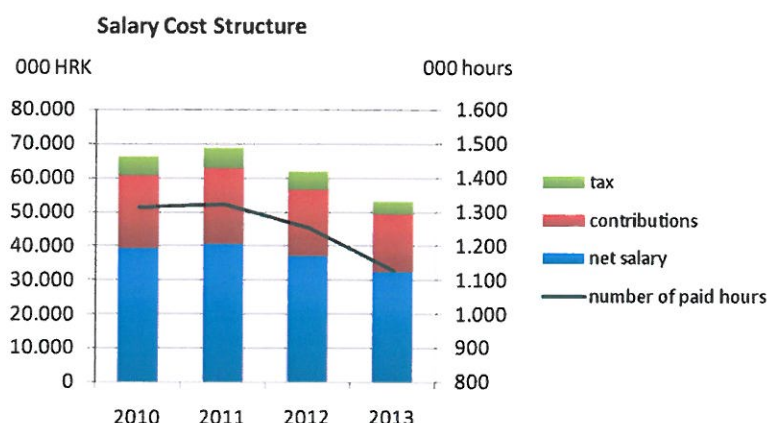
In 2013, Viktor Lenac's employees produced total 1,077,200 work hours in normal working hours, of which 75.8% or 816,000 were effective work hours, while the remaining hours mostly referred to vacation and national holidays. A total of 52,450 hours or 4.9% referred to sick leave. Also, during 2012 Viktor Lenac's employees produced total 39,300 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.

**2013**



Compared with the previous year, the total number of work hours decreased by 9% as a result of a decrease in the number of employees with the total hour structure without significant changes.

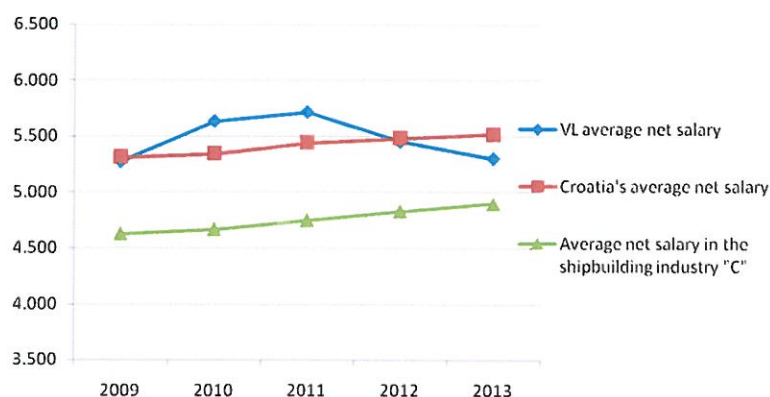
In 2013, Viktor Lenac paid total 57.7 million Croatian Kuna on the account of salaries and other employee material rights, of which 53.2 million Croatian Kuna referred to salaries, while 4.5 million



Croatian Kuna referred to other material rights to which employees are entitled based on the Collective Agreement and Works Regulations. Compared with the previous year, the total salaries and other employee material rights decreased by 13.8% primarily resulting from a decrease in the number of employees (9%). On the other hand, this decrease is also the result of a decrease

in the variable portion of the salary. In other words, due to negative financial results in 2012 and unstable market situation during 2013, Company's Management was constrained to take an

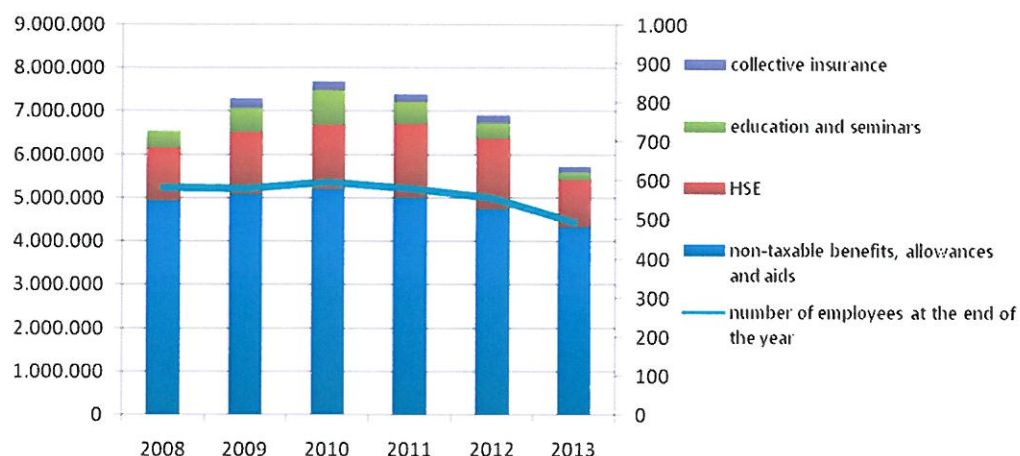
unpopular step and reduce salaries in order to reduce operative cost.



Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2013, after deduction of contributions and taxes, amounted to HRK 5,300.00, down by 3.9% compared to the previous year, equal to the

average net salary in Croatia, or up by 8.2% compared with the average net salary in the shipbuilding industry.

Analysis of trends in annual average monthly net salaries shows that salaries in Viktor Lenac were growing with respect to Croatia's average salary until 2011 where a drop had occurred as a result of general trends in shipping activity that affected Company's results.





## ***Employee Education***

During 2013 Company continued with permanent education activities at all business levels.

During the year, various educational activities through seminars and workshops were carried out.

In the production process, education programs involved energy and energy efficiency, professional training in the field of NDT, acquiring skills to use new equipment and new technologies, and a variety of training to acquire multiskill knowledge, or training workers to perform activities of various crafts.



In support services education programs related to the field of security and safety, finance and accounting, information technology, quality assurance systems, training in foreign languages, as well as the area of procurement and customs operations related to changes in regulations by the Croatian accession to the EU.

The costs of education and training activities during 2013 directly amounted to 172,000 Croatian Kuna, which should be added the cost of travel-related educational activities.

In order to measure the effectiveness of education and calculate the return on investment in the training of staff, Viktor Lenac began systematically recording of hours and quality of work performed by employees in roles for which they have been additionally trained (multiskill).

To increase efficiency in the selection of staff, Company introduced the process of monitoring and standardization of methods of group selection interview conducted by HR along with managers of other organizational units and also when there are more job candidates on the shortlist. Such a process enhances the quality of selection but also saves the time required for a decision on the election.

Aimed at a more objective measurement of employee performance throughout the year Company has initiated a monitoring and evaluation system in order to increase assessor competence and ensure objective feedback to workers, with the aim of increasing their motivation and creating a basis for objective reward system. Further activities will be conducted for the purpose of redefining the standards of performance and related employee performance evaluation criteria.

### ***Social Dialogue***

The year 2013 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 *		
	2013	2012	Index	2013	2012	Index
Total Revenues	283.121	255.154	1,11	37.373	33.901	1,10
Total Expenses	282.654	284.371	0,99	37.311	37.783	0,99
Operating Revenues	279.496	251.265	1,11	36.895	33.384	1,11
Operating Expenses	276.723	279.042	0,99	36.528	37.075	0,99
Operating Profit (or Loss)	2.773	-27.777	-0,10	366	-3.691	-0,10
Profit and Loss Before Tax	467	-29.217	-0,02	62	-3.882	-0,02
Net Profit and Loss	452	-29.227	-0,02	60	-3.883	-0,02
Total Assets	357.642	356.624	1,00	46.826	47.262	0,99
Equity	195.845	195.493	1,00	25.642	25.908	0,99

#### Non-Consolidated Financial Figures

	in thousands of HRK			in thousands of EUR *		
	2013	2012	Index	2013	2012	Index
Total Revenues	282.430	254.347	1,11	37.282	33.794	1,10
Total Expenses	282.009	284.005	0,99	37.226	37.734	0,99
Operating Revenues	278.858	250.503	1,11	36.810	33.283	1,11
Operating Expenses	276.103	278.697	0,99	36.447	37.029	0,98
Operating Profit (or Loss)	2.755	-28.194	-	364	-3.746	-
Profit and Loss Before Tax	421	-29.658	-	56	-3.940	-
Net Profit and Loss	421	-29.658	-	56	-3.940	-
Total Assets	356.215	355.195	1,00	46.639	47.073	0,99
Equity	192.997	192.677	1,00	25.269	25.535	0,99

\* 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 2013 (HRK 7.58) respectively 2012 (HRK 7.53). Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31st December 2013 (HRK 7.64) respectively 31st December 2012 (HRK 7.55).

The consolidated profit and loss statement and other financial statements include Viktor Lenac's subsidiary company Viktor Servisi d.o.o. Rijeka, which, during 2013, realized revenues from its normal business activities consisting in providing specialized services in shipbuilding.

In 2013 Viktor Lenac and Viktor Servisi realized together total revenues in the amount of 283.1 million Croatian Kuna and total expenses in the amount of 282.6 million Croatian Kuna, after annulment of their reciprocal transactions; after balancing positive and negative exchange rate differences, the total revenues amounted to 281.1 million Croatian Kuna, while total expenses amounted to 280.6 million Croatian Kuna.

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 before tax in the amount of 46,000 Croatian Kuna or net profit in the amount of 31,000 Croatian Kuna resulting in the total net profit of the Group in the amount of 467,000 Croatian Kuna.

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 2013 Viktor Lenac realized total revenues of 280.4 million Croatian Kuna with total expenses in the amount of 280.0 million Croatian Kuna, producing a profit before tax or net profit in the amount of 421,000 Croatian Kuna.

The operating revenues realized in 2013 amounted to 278.9 million Croatian Kuna, up by 11% with respect to the previous year both for total and operating revenues, and represent 99.5% of the total revenues.

	2013	2012	2011	2010
Sales	264.310	234.976	334.419	300.423
Insurance	4.747	22	292	151
Sale of Material and Waste	4.208	3.887	6.477	6.982
Other Operating Revenues	5.593	11.618	6.814	14.399
<b>Total Operating Revenues *</b>	<b>278.858</b>	<b>250.503</b>	<b>348.002</b>	<b>321.955</b>
Material Costs	185.958	189.139	236.343	206.955
Salaries	47.764	59.027	68.295	66.656
Depreciation	16.076	13.657	16.505	22.460
Other Expenses	26.305	16.874	24.373	19.479
<b>Material Costs</b>	<b>276.103</b>	<b>278.697</b>	<b>345.516</b>	<b>315.550</b>

\* 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%. Of total 264 million Croatian Kuna of revenues from sales, 242 million Croatian Kuna refer to revenues from ship repair and offshore construction. Of the remaining amount of 22 million Croatian Kuna, 14 million Croatian Kuna were realized from Dock RI38 charter, while 8 million Croatian Kuna refer to various minor repairs and services.

The remaining operating revenues were made of revenues from rental, withdrawal of long-term reservations, surplus, debt write-off etc. Sale of material and waste produced in production process make regular income leaning against revenues from sales. In 2013 Viktor Lenac realized 4.7 million

Croatian Kuna of revenues from ship repairers liability insurance.

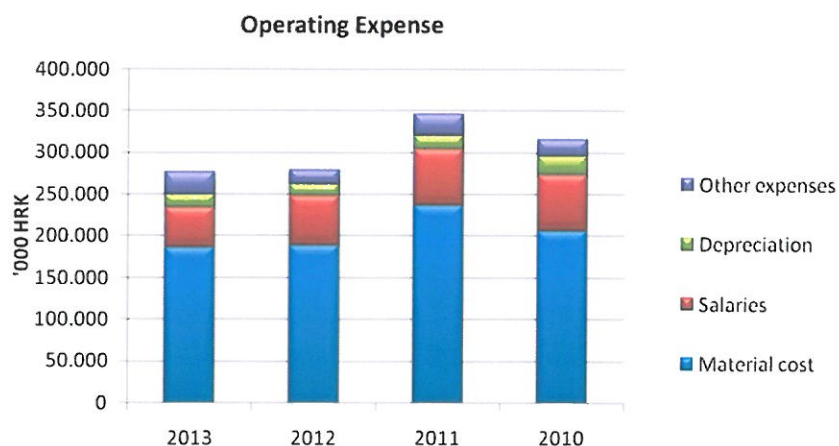
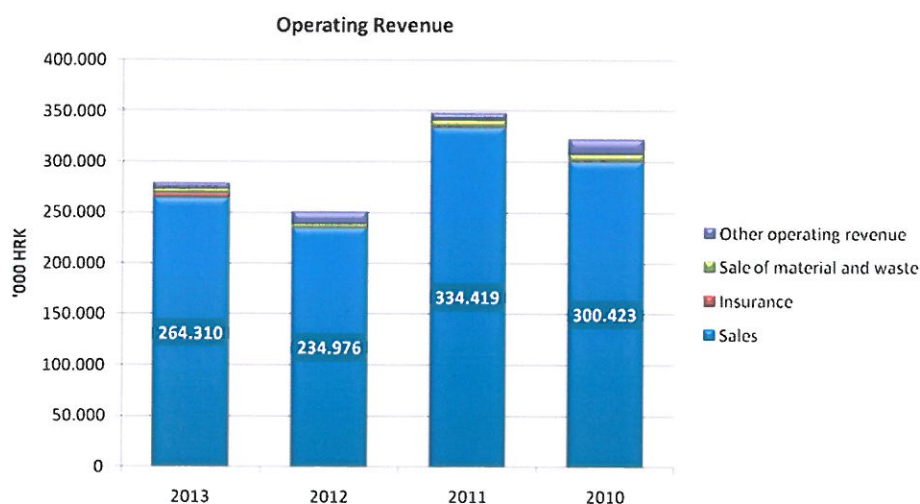
The operating expenses generated in 2013 amounted to 276 million Croatian Kuna, down by 1% compared with 2012.

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. 2013 expenses remained at the last year's level, while revenues increased by 11%. Such trends are the result of actions and efforts made to decrease prime cost of production resources and other operating expenses in order to obtain positive financial figures in still unstable market conditions.

Also, put in the perspective of the total structure of operating expenses in 2013, other expenses increased in their share on the account of value adjustment of trade receivables in the amount of 3.1 million Croatian Kuna and provisions for costs arising from asbestos-related legal proceedings in the amount of 1.6 million Croatian Kuna, significantly higher comparing to the last year.



Thirty 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.

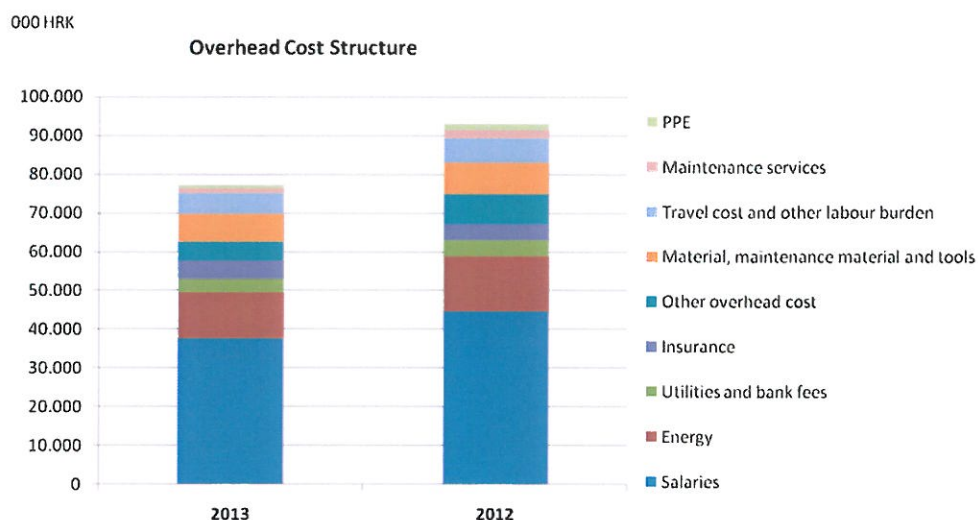
Overhead expenses such as employee salaries and allowances (pay of overhead workers, pay of production workers for indirect work and non-effective working hours) made 45% of total overhead cost. In previous years these costs amounted from 45 to more than 50 million Croatian Kuna annually. However, after reducing the number of employees in 2013 and decreasing variable portion of the salary, overhead cost has been cut to 38 million Croatian Kuna.

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 (down by 2 million Croatian Kuna comparing to the last year).

The difference between operating revenues and expenses realized in 2013 produced a profit

in the amount of 2.8 million Croatian Kuna, in contrast to the last financial year finished with a higher loss. After calculating negative balance between financial income and expenses on the account of interest and exchange rate, the operating profit has been reduced to 2.3 million Croatian Kuna. The Company realized an interest income in the amount of 0.9 million Croatian Kuna and a positive balance on the account of exchange rate differences in the amount of 0.6 million Croatian Kuna. Financial expenses included 3.9 million Croatian Kuna of loan interest payment, of which most part resulted from long-term assets investment finance.

After calculating financial income and expenses, the profit before tax amounted to 421,000 Croatian Kuna; the consolidated profit before tax amounted to 467,000 Croatian Kuna. Profit tax in the amount of 15,000 Croatian Kuna entirely involved the Company's subsidiary company *Viktor Servisi* resulting in a total net consolidated profit in the amount of 452,000 Croatian Kuna. Viktor Lenac had no profit tax liability for 2013 on the account of transferring fiscal loss from 2012.





## Assets and Liabilities

The total value of Viktor Lenac's assets on 31st December 2013 amounted to 356.2 million Croatian Kuna, of which 274.6 million Croatian Kuna of long-term assets. Comparing to the previous year, long-term assets increased by 20 million Croatian Kuna, and short-term assets decreased by 19 million Croatian Kuna.

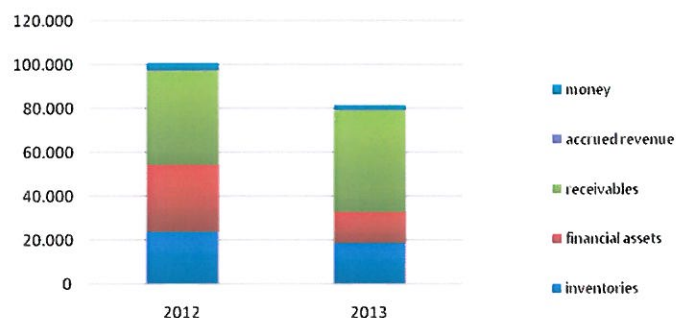
Of total long-term assets, tangible fixed assets made 94%, among which the most important being the Shipyard's Floating Drydocks. Land and buildings made only 8.6 million Croatian Kuna considering that Viktor Lenac's operations are located on maritime property, based on Concession agreement.

A decrease in short-term assets recorded at the end of 2013 as compared to the previous year resulted from a decrease in financial income on the account of using own working assets to complete planned and started investment in long-term assets. Inventories also decreased, while trade and other receivables increased as compared to the previous year.

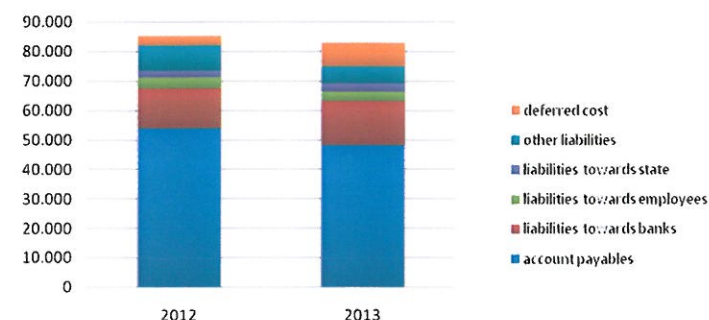
Assets and Liabilities as of 31 Dec 2013



Short-term Asset Structure as of 31 Dec 2013



Short-term Liability Structure as of 31 Dec 2013



Of total short-term liabilities, which at the end of the year amounted to 82.8 million Croatian Kuna, accounts payable made 58% or 48.2 million Croatian Kuna, down by 11% or 5.8 million Croatian Kuna comparing to the previous year. Almost 8 million Croatian Kuna as recorded in the balance sheet

resulted from deferred income related to Ika SW construction project.

Bank liabilities increased on the account of operative loans by 1.5 million Croatian Kuna.

The Company's current assets were somewhat lower than its short-term liabilities primarily on the account of using own working assets to complete contracted and started long-term investment, and especially after the decision has been made to limit further growth in debt due to negative financial results realized in 2012. Its total long-term assets were financed entirely through long-term source. In spite of this increase in long-term loans, Company's total equity on 31 st December 2013 was larger in value than its long-term liabilities by almost 30 million Croatian Kuna.

According to the consolidated financial reports, on 31st December 2013 the Group's assets totalled 357.6 million Croatian Kuna, of which 195.8 million Croatian Kuna of share capital and reserves and 161.8 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 primarily have influence on changes in Viktor Lenac's prices arising therefrom.

### ***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 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***

EU membership brings a risk of increasing price of labour, 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

On the day of 31 December 2013, 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. The total of 13.844.447 shares have been included in quotation of public joint-stock companies on the Zagreb Stock Exchange having a value of 34,337,39 Croatia Kuna with an average price of 5.64 Croatian Kuna per share.

During 2013, Viktor Lenac's shares were rarely traded resulting in low transactions (35) of 6.093 shares only.

On the day of 31 December 2013, 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	62.127.380	36,95
2	Uljanik Shipyard j.s.c. Pula	58.297.850	34,67
3	Privredna Bank j.s.c. Zagreb / collective custody account	13.672.680	8,13
4	Croatian Restructuring and Sale Centre (CERP)	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.	329.870	0,20
	Other	7.897.370	4,71
	<b>Total</b>	<b>168.132.470</b>	<b>100,00</b>

Until 2011, in accordance with the decisions made by the General Assembly, the Company 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](http://www.lenac.hr)). In addition, new information is announced through the Croatian News Agency OTS service.

In 2013, Viktor Lenac's Supervisory Board held five meetings, where its members discussed Viktor Lenac's financial results, its position on the market, business plans and key projects. In December 2013, an Extraordinary General Assembly was held where new members of the Supervisory Board were appointed followed by the constitutive meeting of the new Supervisory Board.

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.



## **Supervisory Board and Management Board**

### ***Supervisory Board***

Supervisory Board of the Viktor Lenac Shipyard is composed of five members, of whom four members representatives of two largest individual shareholders and the fifth member is a representative of the workers. Mr. Ivica Čičmir-Vestić, member of the Supervisory Board was recalled at his own request in July 2013. At the Extraordinary General Assembly held on 18 December 2013 new members representatives of the largest individual shareholders were elected replacing former chairman Mr. Lenko Milin and the members Mr. Anton Brajković and Ive Mustać.

As of 31 December 2013, the Company's Supervisory Board has been composed of the following new-elected members: Mr. John Karavanić, Chairman, Mr. Elvis Pahljina, Vice-Chairman, and Mr. Hrvoje Markulinčić and Mr. Mate Valčić as members with Mr. Miljenko Čikulín as the workers' representative.

The members of the Supervisory Board, except for the workers' representative, are appointed by the General Assembly 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.

### ***Biographies of Members of Supervisory Board***

**Mr. John Karavanić** was born in New York in 1967. He attended the St Thomas the Apostles Primary School in Queens where he grew up. He returned to Croatia and finished secondary education in Zadar. He continued education at the Faculty of Economics in Zagreb and in 1992 he acquired master's degree in economics. In the same year he was employed as an intern in the marketing sector of the Tankerska Plovidba Company. In 1993 he became full-time employed in the commercial sector as Assistant Manager in the Department for Transport of Petroleum Products and Chemicals. From 1997 to mid 1999 he held the position of Deputy Manager of the department. In 1999 he started his four-year term of office in London's affiliate of the Tankerska navigation Company, where he worked as a broker until 2004. On his return from London's *Alan Shipping* he continued to work in the commercial sector as Chartering Manager in the Department of crude oil tankers. Two years later, he became Head of Tankers Department and Deputy Commercial Director, that function is performed today.

**Mr. Elvis Pahljina** was born in Pula in 1971 where he completed secondary education. After graduation in economics and business in 1996 he begun to work as an intern in the Uljanik Shipyard (Common Affairs). His career in finance quickly brought him to a place where in

1998 he became Manager of Foreign Currency Loans. From 2001 to 2013 he performed functions of Assistant Financial Director, Assistant Director for Foreign Exchange Operations and Assistant General Director. In June 2013 he was appointed Director of Finance and then Financial Director of the Uljanik Group. He has been constantly upgrading his expert knowledge by participating in various seminars and training courses following the modern trends in financial operations, so in 2013 he participated in Project Finance Academy and obtained a certificate of Project Financing Advisor. He has also been developing other skills such as managing teams and projects.

Mr. **Hrvoje Markulinčić** was born in Pula in 1975. After graduating from high school, in 1994 he entered the Faculty of Law in Rijeka, where he gained a law degree. After a number of different jobs, in 2001 he was employed in the Uljanik Shipyard as PR Manager working in all major communications projects and promoting Uljanik as a modern group, oriented to building sophisticated ships. In 2007 he became Head of General Affairs, and then Director of Common Affairs, which by reorganizing Uljanik Shipyard became Business Information Systems consolidating all supporting functions for the performance of the group, that function is performed today.

Mr. **Mate Valčić** was born in Zadar in 1975. After finishing elementary school and high school mathematics extensions in Zadar, he entered the Faculty of Mechanical Engineering and Naval Architecture in Zagreb and obtained a degree in mechanical engineering. The first working experience gained in the shipyard Walter Wolf in Lamjana on the island of Ugljan or today's Nauta Lamjana, where he worked for three years, of which most of the time as Project Manager. In early 2005, he was employed in the Tankerska Plovidba Company in the Department of Newbuildings. As Newbuildings Inspector he has been working most of his time as part of a team in supervising the construction of ships in domestic and foreign shipyards.

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 2013 total compensation in gross amount of 477,465.00 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 and Mrs. Sandra Uzelac, member of the Board. The Management Board has been appointed by the Supervisory Board in March 2013 for a new term of office of five years from 8 April 2013 to 7 April 2018. By a decision made by the Supervisory Board the size of the management board has been reduced from three to two members. Mr. Davor Lukeš was second member of the board until April 2013.

### ***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. In 2013 she finished postgraduate economics (controlling) at the Faculty of Economics of Rijeka. She speaks fluently English.

### ***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 2013 total income in gross amount of 1,417,084 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.

Measures taken to mitigate the consequences of negative business results in 2012 and ensure positive business in an unstable business environment during 2013 also included earnings of the members of the management board reducing them further by 20%.

As on the day of this Report, Mrs. Sandra Uzelac, member of the Management Board owns 1038 company shares, which she, as former bankruptcy creditor, acquired by converting her monetary claims into the company share capital.

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

**Aleksandra Masar**, 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***

Brodogradilište Viktor Lenac d.d.

Martinščica bb, PO Box 210

HR-51000 Rijeka (Croatia)

tel: +385 51 40 55 55

fax: +385 51 21 70 33

email: [lenac@lenac.hr](mailto:lenac@lenac.hr)

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

Rijeka, April 2014

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 25, 2014, makes the following

## **STATEMENT**

### **on Implementation of the Corporate Governance Code**

1. Company's shares have been included in quotation of the Zagreb Stock Exchange since September 2008.
2. Since inclusion of its shares in quotation of the Zagreb Stock Exchange, 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 2013, 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.
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, 2013, ten largest shareholders are the following ones:

	Shareholder	Shareholder's equity	%
1	Tankerska Plovidba j.s.c. Zadar	62.127.380	36,95
2	Uljanik Shipyard j.s.c. Pula	58.297.850	34,67
3	Privredna Bank j.s.c. Zagreb / collective custody account	13.672.680	8,13
4	Croatian Restructuring and Sale Centre (CERP)	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.	329.870	0,20
	Other	7.897.370	4,71
	<b>Total</b>	<b>168.132.470</b>	<b>100,00</b>

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. In their first term of office, the Company's Management Board consisted of three members, President of the Board and two members of the Board. Mr. Robert Škifić had been elected President of the Board, while Mrs. Sandra Uzelac and Mr. Davor Lukeš held positions of the members of the Board. After the expiration of the first term of office, the Company's Supervisory Board decided to reduce the size of the management board to two members. Mr. Robert Škifić and Mrs. Sandra Uzelac have been reappointed President of the Board respectively Member of the Board for their second term of office. 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 (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. 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. In December 2013 at the Extraordinary General Assembly, new members of the Supervisory Board were elected replacing Mr. Lenko Milin, Mr. Anton Brajković, Mr. Ive Mustać and Mr. Ivica Čičmir-Vestić (recalled at own request in July 2013). New members of the Supervisory Board are Mr. John Karavanić (Chairman), Mr. Elvis Pahljina (Vice-Chairman) and Mr. Hrvoje Markulinčić and Mr. Mate Valčić as members of the Supervisory Board.

Mr. Miljenko Čikulin assumed the responsibility of workers' representative in the Supervisory Board in May 2012.

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 2013.

Robert Škifić

President of the Board



**LENAC**  
BRODOGRADILIŠTE VIKTOR  
d.d.  
RIJEKA, Martinšćica bb

2