

***SHIPYARD  
VIKTOR LENAC d.d., RIJEKA***

***AUDIT REPORT  
OF FINANCIAL STATEMENTS  
FOR 2008***

***Rijeka, April 2009***

**AUDIT REPORT  
OF FINANCIAL STATEMENTS FOR 2008**

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**IRIS NOVA d.o.o. Rijeka**  
**F. la Guardia 13/III**  
**51000 Rijeka**

### ***Responsibility for Financial Statements***

*This representation letter is provided in connection with your audit of the financial statements of Shipyard Viktor Lenac d.d. Rijeka for the year ended December 31, 2008 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Shipyard Viktor Lenac d.d. Rijeka as of December 31, 2008 and of the results of its operations and position on capital and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations.*

*We acknowledge our responsibility for the fair presentation of the financial statements in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations.*

*We confirm, to the best of our knowledge and belief, the following representations:*

*-There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.*

*-We have made available to you all books of account and supporting documentation and all minutes of meetings of the Board of directors and Assembly.*

*-We confirm the completeness of the information provided regarding the identification of related parties.*

*-The financial statements are free of material misstatements, including omissions.*

*-The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.*

*-The following have been properly recorded and when appropriate, adequately disclosed in the financial statements:*

*a) The identity of, and balances and transactions with, related parties,*

*b) Losses arising from sale and purchase commitments.*

*-We have no plans or intentions that may materially alter the carrying value of classification of assets and liabilities reflected in the financial statements.*

*-The Management is responsible for taking care of Company's asset and also for undertaking reasonable measures for preventing and revealing embezzlements and other irregularities.*

*-The Company has satisfactory title to all assets.*

*Rijeka, April 7, 2009*

*President of the Board:*

**BRODOGRADILIŠTE**  
**VIKTOR LENAC d.d.**  
**RIJEKA, Martinšćica bb 5**

*Robert Škifić*

**INDEPENDENT AUDIT REPORT  
TO THE STOCKHOLDERS OF SHIPYARD VIKTOR LENAC d.d., RIJEKA**

***Report on the Financial Statements***

*We have audited the accompanying financial statements of the joint – stock company Shipyard Viktor Lenac Rijeka (hereinafter “Company”) which comprise of the Balance Sheet as of December 31, 2008, Profit and Loss Account, Statement on Changes of Equity and Cash Flow Statement for the year 2008 as well as supporting Notes to financial statements shown on pages 11 to 38 which include a summary of significant accounting policies and other explanatory notes.*

***Management's Responsibility for the Financial Statements***

*Management is responsible for the preparation and fair presentation of these financial statements in accordance with Law on Accounting and International Financial Reporting Standards published in Croatian Official Gazette. This responsibility includes: designing, implementing and maintaining of internal control relevant for preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud; selecting and applying of appropriate accounting policies as well as making of accounting estimates that are reasonable in the existing circumstances.*

***Auditor's Responsibility***

*Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error.*

*In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.*

*An audit also includes evaluating and appropriateness of account policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.*

*We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.*

### **Opinion**

*In our opinion, the financial statements present fairly, in all material respects, the financial position of Shipyard Viktor Lenac d.d. Rijeka as of December 31, 2008, and of its financial performance, cash flows and changes of equity for the year then ended in accordance with Law on Accounting and International Financial Reporting Standards valid in Republic of Croatia.*

### **Issues not affecting the auditors opinion**

*Without any influence on our opinion we note the following:*

*a) The realized financial result of 2008 in the amount of 94.381.695 kunas was affected by:*

- revenues from written-off liabilities against bankruptcy plan amounting to 77.043.770 kunas, which refer to 90% of written-off recognized second lien lender's claim pursuant to implementation of valid bankruptcy plan, which concluded the bankruptcy over the Company on April 9, 2008 (Note 4/iii/).*

*The mentioned procedure with writing of the liabilities as if it was the writing of liabilities of the companies at which there were no status changes (bankruptcy) will significantly put weight (with profit tax) to the liquidity of the newly arisen, previously bankrupt Company.*

- depreciation expenses which in 2008 amount to 22.004.318 kunas and have been increased compared to the previous year due to activation of Dock 11 and usage of legally recognized accelerated depreciation, which the company applied for docks (Note 5/v/).*

*b) We have attended the inventory taking and we are assured in authenticity and reality of the inventory position, but we are not able to evaluate their turnover based on their use. The value adjustment of the stock has been performed in the previous periods, therefore in our opinion the writing-off of stock with low turnover rate will not affect the operation result of the Company in the following years (Note 9/i/).*

*Rijeka, April 20, 2009*

**IRIS NOVA d.o.o. Rijeka**

**Chartered auditors:**

**President of the Board:**

*Ljiljana Blagojević*

*Ljiljana Benčić Markulin*

*Zdravko Ružić*



## PROFIT AND LOSS ACCOUNT FOR 2008

- in HRK -

Position	Notes	2007	2008
<b>OPERATING REVENUES</b>	<b>3(a),4</b>	<b>218.045.757</b>	<b>416.075.763</b>
Revenues from sales		202.940.479	310.910.993
Revenues from use of own products, goods and services		0	683.296
Other operating revenues		15.105.278	104.481.474
<b>OPERATING EXPENSES</b>	<b>3(b),5</b>	<b>270.352.828</b>	<b>313.227.298</b>
Changes in value of unfinished production and finished products		5.395.357	(9.299.871)
Material expenses		150.011.845	216.907.540
Expenses of raw and other material		53.894.596	67.917.127
Other external expenses		96.117.249	148.990.413
Employee expenses		46.624.982	56.132.582
Net salaries and wages		28.417.294	33.610.798
Taxes and contributions from the salaries		10.767.688	13.560.098
Contributions on the salaries		7.440.000	8.961.686
Depreciation		7.656.423	22.004.318
Other expenses		13.157.056	15.950.562
Value adjustment		0	946.393
Short-term assets (except for financial)		0	946.393
Provisions		0	9.424.483
Other operating expenses		47.507.165	1.161.291
<b>FINANCIAL REVENUES</b>	<b>3(a),4</b>	<b>910.848</b>	<b>4.875.506</b>
Interests, exchange rate differences, dividends and similar revenues from relations with non-associated companies and others		910.848	4.875.506
<b>FINANCIAL EXPENSES</b>	<b>3(b),5</b>	<b>2.730.688</b>	<b>3.934.274</b>
Interests, exchange rate differences and other expenses from relations with non-associated companies and others		2.730.688	3.934.274
<b>TOTAL REVENUES</b>	<b>3(a)</b>	<b>218.956.605</b>	<b>420.951.269</b>
<b>TOTAL EXPENSES</b>	<b>3(b)</b>	<b>273.083.516</b>	<b>317.161.572</b>
<b>PROFIT BEFORE TAXES</b>	<b>3(c),6</b>	<b>0</b>	<b>103.789.697</b>
<b>LOSS BEFORE TAXES</b>		<b>54.126.911</b>	<b>0</b>
<b>PROFIT TAX</b>	<b>3(c),6</b>	<b>0</b>	<b>9.408.002</b>
<b>CURRENT YEAR PROFIT</b>	<b>3(c),6</b>	<b>0</b>	<b>94.381.695</b>
<b>CURRENT YEAR LOSS</b>		<b>54.126.911</b>	<b>0</b>

Notes on pages 11 to 38 are integral part of these financial statements.  
Independent auditor's report to the shareholders of joint-stock company  
Shipyard Viktor Lenac d.d. Rijeka - on pages 4 to 5

## BALANCE SHEET AS OF DECEMBER 31, 2008

- in HRK -

<i>Position</i>	<i>Notes</i>	<i>2007</i>	<i>2008</i>
<b>ASSETS</b>			
<b>FIXED ASSETS</b>		<b>136.383.946</b>	<b>119.640.710</b>
<b>INTANGIBLE ASSETS</b>	<b>3(d),7</b>	<b>7.313</b>	<b>149.476</b>
Concessions, patents, licenses, brands, software and other rights		7.313	149.476
<b>TANGIBLE ASSETS</b>	<b>3(e),7</b>	<b>135.575.356</b>	<b>118.689.957</b>
Land		2.251.484	2.251.484
Buildings		3.462.320	3.321.780
Plants and equipment		31.623.269	101.455.727
Tools, inventory and transportation assets		2.378.360	2.630.206
Advances for tangible assets		0	253.489
Tangible assets in progress		95.859.923	8.777.271
<b>LONG-TERM FINANCIAL ASSETS</b>	<b>3(f),8</b>	<b>801.277</b>	<b>801.277</b>
Shares in associated companies		763.259	763.259
Participating interests (portions)		38.018	38.018
<b>CURRENT ASSETS</b>		<b>108.108.005</b>	<b>145.666.849</b>
<b>INVENTORY</b>	<b>3(g),9</b>	<b>13.577.672</b>	<b>24.025.171</b>
Raw and other material		13.080.800	14.228.429
Production in progress		496.872	9.796.742
<b>RECEIVABLES</b>	<b>3(h)</b>	<b>43.870.724</b>	<b>55.681.750</b>
Trade receivables	10	34.833.110	42.007.819
Receivables from employees and members		136.871	68.108
receivables from state and other institutions	11	7.890.161	6.593.961
Other receivables	12	1.010.582	7.011.862
<b>SHORT-TERM FINANCIAL ASSETS</b>	<b>3(i),13</b>	<b>24.026.916</b>	<b>51.186.737</b>
Given loans, deposits and similar		24.026.916	51.186.737
<b>CASH IN BANK AND REGISTER</b>	<b>3(j),14</b>	<b>26.632.693</b>	<b>14.773.191</b>
<b>DEFERRED COSTS AND ACCRUED REVENUES</b>	<b>3(k)</b>	<b>3.535</b>	<b>67.042</b>
<b>LOSS OVER EQUITY</b>		<b>858.245.235</b>	<b>0</b>
<b>TOTAL ASSETS</b>		<b>1.102.740.721</b>	<b>265.374.601</b>

Notes on pages 11 to 38 are integral part of these financial statements.  
Independent auditor's report to the shareholders of joint-stock company  
Shipyard Viktor Lenac d.d. Rijeka - on pages 4 to 5



## BALANCE SHEET AS OF DECEMBER 31, 2008

- continued-

- in HRK -

<i>Position</i>	<i>Notes</i>	<i>2007</i>	<i>2008</i>
<b>EQUITY AND RESERVES</b>	<b>3(l),15</b>	<b>0</b>	<b>170.036.928</b>
<b>SUBSCRIBED CAPITAL</b>		<b>175.023.400</b>	<b>124.078.130</b>
<b>CAPITAL RESERVES</b>		<b>1.459.775</b>	<b>0</b>
<b>RESERVES FROM PROFIT</b>		<b>11.090.996</b>	<b>0</b>
Legal reserves		7.291.395	0
Other reserves		3.799.601	0
<b>TRANSFERRED LOSS</b>		<b>133.447.260</b>	<b>48.422.897</b>
<b>CURRENT YEAR PROFIT</b>		<b>0</b>	<b>94.381.695</b>
<b>CURRENT YEAR LOSS</b>		<b>54.126.911</b>	<b>0</b>
<b>PROVISIONS</b>	<b>3(m),16</b>	<b>0</b>	<b>9.424.483</b>
Provisions for pensions, severance wages and similar liabilities		0	9.424.483
<b>LONG-TERM LIABILITIES</b>	<b>3(n),17</b>	<b>1.042.333.929</b>	<b>17.357.377</b>
Other long-term liabilities		1.042.333.929	17.357.377
<b>SHORT-TERM LIABILITIES</b>	<b>3(o),18</b>	<b>37.138.849</b>	<b>62.482.036</b>
Liabilities for loans, deposits and similar		517.246	14.508.932
Trade payables		31.516.764	30.704.258
Employee payables		2.278.342	3.220.610
Liabilities for taxes, contributions and similar		1.713.013	12.392.569
Other short-term liabilities		1.113.484	1.655.667
<b>ACCRUED COSTS AND DEFERRED REVENUES</b>	<b>3(p),19</b>	<b>23.267.943</b>	<b>6.073.777</b>
<b>TOTAL LIABILITIES</b>		<b>1.102.740.721</b>	<b>265.374.601</b>

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## STATEMENT ON CHANGES OF EQUITY IN 2008

- in HRK -

<i>Position</i>	<i>2007</i>	<i>2008</i>
<i>Subscribed capital</i>	175.023.400	124.078.130
<i>Capital reserves</i>	1.459.775	0
<i>Reserves from profit</i>	11.090.996	0
<i>Retained profit or transferred loss</i>	(133.447.260)	(48.422.897)
<i>Current year profit or loss</i>	(54.126.911)	94.381.695
<i>Total equity and reserves</i>	0	170.036.928
<i>Other changes of equity</i>	0	170.036.928
<i>Total increase or decrease of equity</i>	0	170.036.928

*Notes on pages 11 to 38 are integral part of these financial statements.*  
*Independent auditor's report to the shareholders of joint-stock company*  
*Shipyard Viktor Lenac d.d. Rijeka - on pages 4 to 5*

## CASH FLOW STATEMENT FOR 2008

- in HRK -

<i>Naziv pozicije</i>	<i>2007.</i>	<i>2008.</i>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<i>Profit before taxation</i>	(54.126.911)	103.789.697
<i>Items that according to the implementation of the bankruptcy plan do not affect cash flow from operating activities</i>	24.654.939	(77.043.770)
<i>Profit tax</i>	0	(9.408.002)
	<b>(29.471.972)</b>	<b>17.337.925</b>
<i>Depreciation</i>	7.656.423	22.004.318
<i>Increase (decrease) of short-term liabilities</i>	4.030.464	11.351.501
<i>(Increase) decrease of short-term receivables</i>	4.121.125	(11.811.026)
<i>(Increase) decrease of inventories</i>	6.962.510	(10.447.499)
<i>Other increase (decrease) of cash flow</i>	18.123.265	(7.833.190)
<b>Total increase (decrease) of cash flow from operating activities</b>	<b>11.421.815</b>	<b>20.602.029</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
<i>Decrease of fixed tangible assets</i>	7.515.434	1.939.157
<i>Acquisition of fixed tangible and intangible assets</i>	(1.084.581)	(7.200.239)
<b>Total increase (decrease) of cash flow from investing activities</b>	<b>6.430.853</b>	<b>(5.261.082)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
<i>Increase of subscribed capital</i>	0	124.078.130
<i>Inflows from loans</i>	461.309	13.991.686
<i>Cash outflows from financing activities (increase of deposits)</i>	(13.281.497)	(27.159.821)
<i>Changes on equity and liabilities in accordance with the Bankruptcy plan</i>	0	(138.110.444)
<b>Total increase (decrease) of cash flow from financing activities</b>	<b>(12.820.188)</b>	<b>(27.200.449)</b>
<b>Total increase (decrease) of cash flow</b>	<b>5.032.480</b>	<b>(11.859.502)</b>
<i>Cash and cash equivalents at the beginning of the period</i>	21.600.213	26.632.693
<i>Increase (decrease) of cash and cash equivalents</i>	5.032.480	(11.859.502)
<b>Cash and cash equivalents at the end of the period</b>	<b>26.632.693</b>	<b>14.773.191</b>

*Notes on pages 11 to 38 are integral part of these financial statements.*  
*Independent auditor's report to the shareholders of joint-stock company*  
*Shipyard Viktor Lenac d.d. Rijeka - on pages 4 to 5*

**NOTES TO FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION ON THE COMPANY**

*SHIPYARD VIKTOR LENAC joint-stock company Rijeka, Martinšćica bb, Rijeka is recorded in the Registry with business number 040000358 at Commercial Court in Rijeka.*

*By the Resolution of the Commercial Court in Rijeka number St-183/03 dated December 8, 2003 the bankruptcy procedure was conducted over the Company, which pursuant to Resolution of the Commercial Court dated April 9, 2008 was concluded based on implementation of the valid Bankruptcy plan.*

*Based on implementation of the valid Bankruptcy plan, the subscribed capital of the Company amounts to 124.078.130 kunas and comprises of:*

*- 12.407.813 intangible, regular shares, each of nominal value of 10 kunas*

*In accordance with the Notice on classification of business subjects pursuant to national classification of activities brought by State Institute For Statistics Zagreb, the Company has a numerical mark of subclass 3011 – construction of ships and vessels, and tax number of the business subject is 03333710.*

*Basic activities of the Company are construction, repair, maintenance, modification and other services related to ships and vessels. The company is also registered for other activities: construction of steel structures, organization of ship construction, trade, engineering and other services.*

*In 2008 the Company employed based on working hours, average of 651 employees (in 2007 646 employees) while the number of employees at December 31, 2008 was 583 (in 2007 was 538).*

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS**

*Financial statements for 2008 have been prepared in accordance with Republic of Croatia legal regulations and accounting policies of the Company.*

*Accounting policies of the Company are pursuant to International Financial Reporting Standards (Official Gazette 140/06, 30/08, 130/08, 137/08) published in Republic of Croatia Official Gazette, which the Company is obliged to apply in accordance with the new Law on Accounting (Official Gazette 109/07).*

*Financial statements are prepared as prescribed in the Structure and Contents of Financial Statements Act (Official Gazette 38/08, 12/09), except for certain items in the Cash Flow Statement which were reclassified due to clarity reasons in order to specifically express the effect of business operations up to the completion of the bankruptcy.*

*The structure and contents of the presented financial statements are pursuant to IAS 1.*

*For the needs of reporting in 2008, the Company performed certain reclassifications of the 2007 positions, in accordance with Structure and Contents of Financial Statements Act, for the means of clarity and comparability.*

*The data shown in the financial statements have been presented in Croatian kunas (HRK), as a Republic of Croatia reporting currency.*

*Pursuant to International Financial Reporting Standards, all foreign exchange receivables and liabilities, as well as receivables and liabilities with currency clause, have been adjusted to mean exchange rate of Croatian National Bank as of December 31, 2008:*

*1 EUR = 7,324425 HRK (Dec 31, 2007 1 EUR = 7,325131 HRK)  
 1 USD = 5,155504 HRK (Dec 31, 2007 1 USD = 4,985456 HRK)  
 1 NOK = 0,741286 HRK (Dec 31, 2007 1 NOK = 0,918454 HRK)  
 1 GBP = 7,484595 HRK (Dec 31, 2007 1 GBP = 9,963453 HRK)*

*Annual average of mean exchange rates of Croatian National Bank for EUR and USD compared to HRK amounted for 2007 and 2008 as follows:*

	<b>2007</b>	<b>2008</b>	<b>Index 08/07</b>
<i>EUR / HRK</i>	<i>7,336019</i>	<i>7,223178</i>	<i>98</i>
<i>USD / HRK</i>	<i>5,365993</i>	<i>4,934417</i>	<i>92</i>

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**3. SUMMARY OF BASIC ACCOUNTING POLICIES APPLIED IN 2008**

*The basic accounting policies applied in preparation of financial statements for 2008 were following:*

**a) Revenues**

**Revenues are recorded pursuant to following IAS:**

- IAS 18 – Revenue;
- IAS 11 – Construction Contracts;
- IAS 17 – Leases;
- IAS 21 – The Effects of Changes in Foreign Exchange Rates, and
- IAS 39 – Financial Instruments.

*Revenues are recognized on the day when the goods and/or services are delivered, respectively when they are invoiced.*

**/i/ Revenues from sales of goods and services are recognized pursuant to IAS 18, if:**

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**/ii/ Revenues from rendered services whose outcome of a transaction can be estimated reliably, shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenues from rendered services are recognized pursuant article 20 of IAS 18, if:**

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

**When determining revenues from rendered services based on stage of completion of contracted activities at the end of the reporting period, the Company applies IAS 11.**

*Revenues are recognized per specific contract, pursuant to stage of contract completion method, when it is highly possible to determine the percentage of completeness, clearly identify the occurred expenses and determine:*

- Total revenues, and
- Total expenses up to completion of the contract.

**NOTES TO FINANCIAL STATEMENTS****- continued -**

*When the outcome of a construction contract cannot be estimated reliably, revenues shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable, and the contract costs shall be recognized as an expense in the period in which they are incurred (article 36 of IAS 11 and article 26 of IAS 18).*

*Contract stage of completion is determined by total costs of material, work and other expenses that relate directly to the specific contract and occurred by the end of the reporting period, related to total evaluated expenses for each construction contract.*

*When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.*

**Government Grants** are recognized as revenues in the period when related expenses will occur, if:

- the terms of the grants have been met
- it is likely that the grants will be received.

*Financial revenues include interests on invested funds, positive exchange rate differences, revenues from dividends and other financing revenues.*

*Revenues from interests are recognized on a time proportional basis, with regards to the real income on the invested funds, pursuant to concluded contracts.*

**b) Expenses**

*The policy of expenses is recorded in such way that the periodic accountancy system determines expenses which are applicable to recognition in the calculation of current year result.*

*The recognition of expenses occurs if:*

- a) *expenses result in decrease of funds or increase of liabilities that can be reliably measured;*
- b) *expenses have direct relation to occurred costs and revenues;*
- c) *when it is expected to achieve revenues in multiple reporting periods, recognition of expenses is performed by allocation on reporting periods;*
- d) *expense is immediately recognized in the reporting period when outflow does not achieve future economic benefit, and there are no conditions to be recognized as assets in the Balance Sheet;*
- e) *expense is immediately recognized in the reporting period upon appearance of liability, and there are no conditions to be recognized as an asset.*

*Losses that can be identified as expenses are classified as expenses.*

*In that case losses have to be related to occurring revenues.*

*Losses are covered with revenues of the reporting period.*



**NOTES TO FINANCIAL STATEMENTS****- continued -**

*Financial expenses include expenses for interests against loans, discounts from sales of securities and receivables prior to their maturity, interests arising from delayed payments, negative exchange rate differences, losses from sales of shares and business portions, as well as other financing expenses.*

*Financing expenses are recognized on time proportional basis, respectively in the period when they occurred.*

*Negative exchange rate differences are not capitalized, but are included in the expenses of the period.*

**c) Financial result and profit tax**

*Profit/loss before taxation is determined in such way that the total accounting expenses are subtracted from total accounting revenues.*

*Profit tax liability (current tax) is determined pursuant to valid regulations of Law on Profit Tax.*

**d) Fixed intangible assets**

*Fixed intangible assets are shown pursuant to IAS 38 – Intangible Assets, and comprises of non-monetary assets that are identifiable without physical substance. Fixed intangible assets are recognized if they met the conditions from article 21 of IAS 38 – Intangible Assets, respectively:*

- a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,*
- b) the cost of the asset can be measured reliably, and*
- c) its single acquisition value exceeds 2.000 kunas.*

*If the criteria are not met, the costs are recorded as current period expenses.*

*After initial recognition, intangible asset is recorded based on its acquisition cost decreased for value adjustment (accumulated depreciation) and for accumulated losses from decrease.*

*Intangible assets are excluded from the Balance Sheet in case of disposal or if there are no expected future economic benefits from it. Gains or losses (difference between revenues from disposal and book value) arising from disposal or withdrawal of intangible assets are recognized as revenues or expenses of the current period.*

*Intangible assets are depreciated as every single item by linear method against the rate of 25% annually.*



## NOTES TO FINANCIAL STATEMENTS

- continued -

/u/ Depreciation is recorded from the first day of the following months after the fixed intangible asset has been activated. Depreciation for sold, given, or in any other way disposed or destroyed fixed intangible assets is recognized as expense up to the end of month when the assets were still in use.

**e) Fixed tangible assets**

Fixed tangible assets comprise of property, plants and equipment pursuant to IAS 16 – Property, Plant and Equipment, and to IAS 40 – Investment Property which the Company:

- Owns and uses in business operations, administrative purposes or for rental to others;
- Acquires or builds with intention of continuous use;
- Does not sell through its basic operations and is expected that those assets will be in use for more than one period.

Fixed tangible assets are recognized as assets if article 7 of IAS 16 is fulfilled:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,
- the cost of the asset can be measured reliably,
- its single acquisition value exceeds 2.000 kunas and useful period of life exceeds one year (article 12 of Profit Tax Law).

Except, if the single value of the asset does not exceed 2.000 kunas and it is undoubtedly evaluated that its useful period of life exceeds one year, it is considered as fixed tangible asset and is completely written-off as expense of the current period.

Fixed tangible assets that do not exceed value of 2.000 kunas nor its useful period of life exceeds one year are recorded as inventory and therefore are completely written-off upon activation.

Upon acquisition, fixed tangible assets are recorded in the business books at acquisition value.

Goods and services made internally and included in use as fixed tangible assets are recorded at their production value, under condition that the production value does not exceed net market value. Production value does not include internal profits, unusual values of waste material, work and other assets.

The production cost is determined pursuant to IAS 2 – Inventories.

Additional costs are included in the book value of the assets or, if needed, are recognized as separate assets only if the Company expects to have future economic benefits of that assets, or if their expense can be reliably measured.

After initial recognition, property, plant and equipment are recorded based on their acquisition cost decreased for accumulated depreciation and accumulated losses from decrease. Basis for depreciation is acquisition value (gross book value) of the single asset.

Plants and equipment are withdrawn from use and are disposed when there are no expected economic benefits from them or market values.

**NOTES TO FINANCIAL STATEMENTS****- continued -**

*If while in use a fixed tangible asset has been damaged or withdrawn from active use, the asset is depreciated up to the end of month when it was withdrawn from active use.*

*If its net book value exceeds its sale value, the difference is recorded as expense upon sale (net principle recording).*

*In case its sale value exceeds its book value, the difference is recorded as revenue of the current period (net principle recording).*

*/!/ Depreciation is charged for each single asset, against linear method at rates suitable for disposal of acquisition value through its evaluated useful period of life. Land and assets under construction are not depreciated.*

*Rated applied for depreciation are as follows:*

<i>- buildings</i>	<i>2,5-10%</i>
<i>- ships and docks</i>	<i>2,5-5%</i>
<i>- cranes and plants</i>	<i>6,67-10%</i>
<i>- production equipment</i>	<i>10-12%</i>
<i>- transportation vehicles</i>	<i>20%</i>
<i>- office computer and related equipment</i>	<i>10-20%</i>

*The Company evaluates useful life of fixed tangible assets on a regular basis and based on the Management's decisions uses legally recognized accelerated depreciation rates.*

*Depreciation and recognition of expense starts from the first day of the month followed by activation of the fixed tangible asset.*

*Depreciation for sold, given, or in any other way disposed or destroyed fixed tangible assets is recognized as expense up to the end of month when the assets were still in use.*

*Sixed assets are recorded in the Balance Sheet even if they are completely written-off, up to sale, gift, or disposal of any kind.*

*When the fixed tangible assets are withdrawn from use for means of sale, those assets are still being depreciated pursuant to IAS 16 – Property, Plant and Equipment.*

**f) Long-term financial assets**

*Long-term financial assets represent investment of cash, property and rights for generating revenues, whose benefits are expected in periods longer than one year.*

*Accounting policy and procedures differ depending whether the investments occurred from:*

- Investments in participation at others up to 20% of voting power;*
- Investment into associated companies (portion 20% - 50%);*
- Investments into dependent companies (portion exceeds 50%);*
- Investments through business relations with partners in market.*

*Initial investment in associated and dependent companies is recorded at acquisition cost increased for transaction expenses. On the financial statements date these investments are recorded depending on the portion in these associated / dependent companies.*

## NOTES TO FINANCIAL STATEMENTS

- continued -

*Long-term financial investments in the associated companies (portions 20% - 50%) are recorded in the business books pursuant to acquisition cost method.*

*Long-term financial investments in dependent companies (portion exceeds 50%) are recorded pursuant to article 37 of IAS 27 and article 46.c of IAS 39 applying acquisition cost method.*

**g) Inventories**

*Inventories of raw and other material are valued according to their acquisition value (average weighted price principle) or their net market value, depending on which one is lower.*

*Reduction of inventory value is performed by charging expenses of the current period based on evaluation made by professional services on damage, deterioration of inventory and in case when recoverable value (value that can be realized by sale or use of those inventories) is lower than acquisition cost.*

*If the professional services evaluate that use of certain inventories in future contracts is doubtful, respectively that some products on stock are not spendable, the Company performs write-off of inventories, which is recorded as expense of the current period.*

*When and if there are no circumstances that caused the prior reduction of value, respectively write-off of inventories, the value of inventories should be increased up to the acquisition cost, meaning up to value that can be realized and expended in regular production.*

*Small inventory and tools are being written-off completely upon activation.*

*Inventories that are damaged upon manipulation and storage, as well as inventories that lose their usage value are being written-off and charge operating expenses through inventory taking or by special committees with permission granted by a responsible person, up to the written-off values prescribed by Leakage, Breakage and Damage Act and with permission of Tax Department.*

*If the Company up to the reporting period does not conclude the initiated contract, it records the value of inventories for production in progress as of the end of the period.*

*The value of production in progress is recorded at actual costs that can be related to a specific contract, applying the articles of IAS 2 – Inventories.*

*The actual costs comprise of direct and indirect costs of production which occurred by the end of the reporting period:*

- *Variable and fixed direct costs of production that can be directly related to the specific contract on a reasonable basis, such as costs of built in material, direct work and services of others directly involved in rendering services*
- *Variable and fixed general costs of production that are being allocated by a key to specific contracts, respectively in proportion to direct costs, meaning that are being assigned to the value of inventories for production in progress based on normal capacity (normal realized capacity in regular circumstances of operations through a certain period of time).*

**NOTES TO FINANCIAL STATEMENTS****- continued -**

*The total amount of recorded costs of production in progress decrease expenses of the period, respectively are recognized as expenses of the period at the same time as revenues are being recognized upon completion of works and delivery of the total project.*

*Cost i.e. value of inventories for production in progress does not include profit or general operation expenses and administrative expenses which cannot be related to rendering of services, but charge expenses of the period when they occurred.*

**h) Receivables**

*Trade receivables, receivables from state, employees and other legal and private persons are recorded in the business books based on valid documentation of their occurrence and data on their value.*

*Trade receivables from customers in abroad shown in foreign exchange currencies are recorded in Croatian currency, calculated based on mean exchange rate of Croatian National Bank as of the date of recording the receivable, pursuant to articles of IAS 21.*

*Upon collection of receivable, the differences that occur due to exchange rate are recorded as revenues or expenses of the Company.*

*Open balances of trade receivables from customers in abroad as of the Balance Sheet date are set at mean exchange rate of Croatian national Bank and the exchange rate differences are recorded as revenues or expenses of the Company.*

*Increase of receivables for interests is based on the contract and calculations of the legal interest rates as prescribed by law.*

*Value adjustment of receivables is performed based on evaluation that the receivable has not been collected when due, i.e. that it is uncollectible and claimed on court. The Decision on value adjustment of receivables is made by the Management.*

*Value adjustment of receivables is recorded in the Profit and Loss Account of the Company.*

**i) Short-term financial assets**

*Short-term financial assets comprise of investment of cash, property, rights and granted merchandize loans for generating revenues, whose benefits are expected to arise within one year.*

*Short-term financial investments within one year are recorded in the business books at investment cost. The value is determined for each investment.*

*Value adjustment of short-term assets is performed based on evaluation that the investment is high risk or it is claimed on court. The Decision is made by the Management of the Company.*

**j) Cash and cash equivalents**

*Cash and cash equivalents include cash in banks, in register and short-term deposits at banks with contracted maturity of up to 3 months. The balance of the cash in bank is recorded at nominal value in Croatian currency. Foreign exchange funds in bank and register is set at mean exchange rate of Croatian National Bank.*



**NOTES TO FINANCIAL STATEMENTS****- continued -**

*Exchange rate differences arising from setting foreign exchange funds to mean exchange rate of Croatian National Bank are recorded as revenues / expenses of the current period pursuant to articles of IAS 21 – The Effects of Changes in Foreign Exchange Rates.*

**k) Deferred costs and accrued revenues**

*Outflows that covered expenses referring to future periods are recorded according to the amounts specified in valid documentation supporting the business event.*

*Discrepancy of the calculation period of deferred costs at the end of the year creates a balance which is transferred into the following period as a Balance Sheet position.*

*Realized revenues that do not meet the criteria to be recorded as receivables, are recorded in the calculated amount specified in the valid documentation supporting the business event, and are being transferred as a Balance Sheet position to the following period in which they are carried over to the receivables once they meet the criteria.*

**l) Equity**

*Equity is own source for financing assets and is expressed pursuant to articles of International Financial Reporting Standards as remaining of the assets after deduction of all liabilities. Subscribed capital is recorded in the amount that is subscribed in the court registry upon establishment, i.e. change of subscribed value of capital in the commercial registry.*

*Policy of recording reserves depends on their shape and policy of the Company (legal, statutory and similar).*

**m) Provisions**

*Provisions are liabilities of uncertain timing or amount pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.*

*Provisions should be recognized when:*

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and*
- (c) a reliable estimate can be made of the amount of the obligation.*

*If the above mentioned criteria are not met, the provision cannot be recognized.*

*Provisions arising from contracts, such as provisions for severance wages, provisions for expenses in guaranty periods, and provisions for expenses arising from initiated court claims are also recognized as an expense of the period for risk provisions based on legal and other regulations.*

**n) Long-term liabilities**

*Long-term liabilities are recorded in the business books in the amounts specified in valid documentation or contract supporting the event.*

**NOTES TO FINANCIAL STATEMENTS****- continued -**

*Long-term liabilities refer to liabilities with maturity exceeding 12 months starting from the date of financial statements. Classification of the long-term and short-term liabilities is performed on each day of the Balance Sheet.*

***o) Short-term liabilities***

*Short-term liabilities are recorded in the business books in the amount specified in valid documentation or contract supporting the event.*

*Short-term liabilities refer to liabilities with maturity less than 12 months.*

*Classification of the long-term and short-term liabilities is performed on each day of the Balance Sheet.*

*Short-term liabilities recorded in foreign exchange funds and those with currency clause are being set at mean exchange rate of the Croatian National Bank in Croatian currency, pursuant to articles of IAS 21.*

*Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the Company.*

*Open balances of liabilities shown in the foreign exchange currencies are being set at mean exchange rate of Croatian National Bank as of the Balance Sheet Date and exchange rate differences that occurred are recorded as revenues or expenses of the Company.*

*Rental costs are recorded as expense of the period when they occurred.*

***p) Accrued costs and deferred revenues***

*Expenses that occurred in the current period for which the Company did not receive invoices or has incomplete documentation for their booking, but it is possible to determine their amount (for example rental costs, audit fees based on contract) are recorded in the Balance Sheet as accrued costs, since the liability will be recorded in the future period.*

*Realized expenses which do not meet the criteria to be recorded as liabilities, are recorded at the amount specified in the documentation which anticipated the business event and are transferred as a Balance Sheet position in the following period in which they are carried over to liabilities once they meet the criteria.*

*Collected revenues that do not meet the criteria to be recognized in the current period are deferred for future periods.*

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**4. REVENUES**

Are shown as follows:

	Notes	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	Index 2008/2007
<b>OPERATING REVENUES</b>				
<b><u>Revenues from sales</u></b>		<b>205.098.114</b>	<b>316.015.913</b>	<b>154</b>
Revenues from rendered services	/i/	202.897.388	310.779.556	153
- on domestic market		27.594.911	47.411.075	172
- on foreign market		175.302.477	263.368.481	150
Revenues from sales of material		2.107.226	5.033.019	239
Revenues from sales of goods and services to the associated company		93.500	203.338	217
<b><u>Revenues from use of own products, goods and services</u></b>		<b>0</b>	<b>683.296</b>	<b>-</b>
<b><u>Other operating revenues</u></b>		<b>12.947.643</b>	<b>99.376.554</b>	<b>768</b>
- revenues from government grants		0	13.500.000	-
- collection of damage claims from insurance	/ii/	9.396.054	5.391.862	57
- rentals		2.403.817	1.251.892	52
- revenues from abolition of long-term provisions		0	610.098	-
- revenues from sales of fixed assets		0	666.995	-
- surpluses		78.342	212.419	271
- revenues from written-off liabilities		44.283	16.951	38
- written-off liabilities against bankruptcy plan	/iii/	0	77.043.770	-
- other revenues		1.025.147	682.567	67
<b>TOTAL OPERATING REVENUES</b>		<b>218.045.757</b>	<b>416.075.763</b>	<b>191</b>
<b>FINANCIAL REVENUES</b>				
- revenues from interests	/iv/	81.215	2.880.739	-
- positive exchange rate differences	/v/	829.633	1.994.767	240
<b>TOTAL FINANCIAL REVENUES</b>		<b>910.848</b>	<b>4.875.506</b>	<b>-</b>
<b>TOTAL REVENUES</b>		<b>218.956.605</b>	<b>420.951.269</b>	<b>192</b>

/i/ Revenues from sales are increased compared to the previous year for 54% and mainly refer to revenues from rendered services on domestic and foreign market which is shown as follows:

	Domestic market	Foreign market	Total
Ship repair	16.201.356	99.148.980	115.350.336
Off shore program	29.509.647	9.308.070	38.817.717
Reconstructions and modifications	0	150.251.384	150.251.384
Other services	1.700.072	4.660.047	6.360.119
<b>Total</b>	<b>47.411.075</b>	<b>263.368.481</b>	<b>310.779.556</b>



## NOTES TO FINANCIAL STATEMENTS

- continued -

*/ii/ Revenues from damage claims collected from insurance companies amount to 5.391.862 kunas and mainly refer to revenues from refund of expenses for pullout of sunken Dock 7 amounting to 5.386.675 kunas (refer to Note 5/iii/).*

*/iii/ Revenues from written-off liabilities against bankruptcy plan amounting to 77.043.770 kunas refer to 90% of written-off second lien claims in the bankruptcy procedure from lenders who did not accept their receivables to be converted into shares, but accepted to be settled in cash. The mentioned procedure with writing of the liabilities as if it was the writing of liabilities of the companies at which there were no status changes (bankruptcy) will significantly put weight (with profit tax) to the liquidity of the newly arisen, previously bankrupt Company.*

*/iv/ Revenues from interests refer to interests from deposits (2.829.253 kunas) and a vista interests (51.486 kunas).*

*/v/ Even though the Company in 2008 realized significant revenues from exchange rate differences, the effect is negative (759.896 kunas) (Note 5).*

## NOTES TO FINANCIAL STATEMENTS

- continued -

## 5. OPERATING EXPENSES

The structure of expenses is as follows:

	Note	2007 HRK	2008 HRK	Index 2008/2007
<b>OPERATING EXPENSES</b>				
Changes to value of unfinished production and finished product stock		5.395.357	(9.299.871)	-
Material expenses	/i/	150.011.845	216.907.540	145
Expenses of raw and other material		53.894.596	67.917.127	126
- used material		40.443.214	52.278.139	129
- used energy and fuel		11.989.220	13.752.275	115
- small inventory and spare parts		1.462.162	1.886.713	129
Other external expenses		96.117.249	148.990.413	155
- transportation, phone, post and similar services		1.211.827	1.084.832	90
- production services		63.505.369	101.355.185	160
- subsupplier services		20.632.044	23.384.370	113
- maintenance services		3.101.802	7.036.021	227
- rental expenses		3.262.993	7.679.339	235
- advertizing and propaganda		93.168	64.469	69
- intellectual services	/ii/	1.679.667	1.946.239	116
- other services	/iii/	2.630.379	6.439.958	245
Employee expenses	/iv/	46.624.982	56.132.582	120
Net salaries and wages		28.417.294	33.610.798	118
Taxes and contributions from the salaries		10.767.688	13.560.098	126
Contributions on the salaries		7.440.000	8.961.686	120
Depreciation	/v/	7.656.423	22.004.318	287
Other expenses		13.157.056	15.950.562	121
- remuneration of employee costs and other employee rights	/iv/	6.325.068	7.098.451	112
- entertainment and aids		821.368	1.386.347	169
- insurance premiums		2.414.454	2.284.691	95
- author fees and similar		569.791	826.899	145
- taxes and contributions not dependant on the result		2.583.973	3.829.682	148
- bank services and fees		442.402	524.492	119
Value adjustment	/vi/	0	946.393	-
- Value adjustment of current assets		0	946.393	-
Provisions	16	0	9.424.483	-
Other operating expenses		47.507.165	1.161.291	2
- non written-off value of disposed assets		0	26.254	-
- deficit against inventory taking		42.405	202.981	479
- written-off receivables		2.831.637	37.360	-
- subsequently identified expenses from previous years		3.630	663.631	-
- penalties and damage claims		389.502	160.297	41
- other - loss based on the difference between evaluated and realized value of assets and other		44.239.991	70.768	-
<b>TOTAL OPERATING EXPENSES</b>		<b>270.352.828</b>	<b>313.227.298</b>	<b>116</b>
<b>FINANCIAL EXPENSES</b>				
- interests		803.969	1.179.611	147
- negative exchange rate differences	4/v/	1.926.719	2.754.663	143
<b>TOTAL FINANCIAL EXPENSES</b>		<b>2.730.688</b>	<b>3.934.274</b>	<b>144</b>
<b>TOTAL EXPENSES</b>		<b>273.083.516</b>	<b>317.161.572</b>	<b>116</b>

## NOTES TO FINANCIAL STATEMENTS

*- continued -**/i/ Material expenses and services*

*In 2008 material expenses and services amount 216.907.540 kunas and they are 45% higher compared to the previous year. The increase was mainly affected by increase of production expenses and services for 60% which amount to 101.355.185 kunas and represent 47% of total material expenses, as well as increase of raw and other material costs for 26% which amount to 67.917.127 kunas and represent 31% of total material expenses and services.*

*/ii/ Intellectual services expenses refer to translation services, lawyers, share book management, organization improvement, public notary services, evaluation services and legally prescribed audit of financial statements which represents 7% of total intellectual services expenses.*

*/iii/ Other services expenses amount to 6.439.958 kunas and have been increased in 2008 compared to 2007 for more than double. They mainly i.e. 82% or 5.306.037 kunas refer to expenses related to pullout of Dock 7 that has been pulled out completely in April 2009.*

*/iv/ Employee expenses have been increased in 2008 for 20% due to increase of the number of employees based on average working hours for 1%. Employee expenses represent 18% of total operating expenses (in 2007 20%), i.e. 20% of total operating expenses (in 2007 22%) if the employee expenses are increased for other employee costs and rights.  
During 2008 the Management of the Company has been paid with remunerations in the gross amount of 1.347.548 kunas. Total remuneration to the Management have been included in the employee expenses and they represent 2,4% of total employee expenses.*

*/v/ Depreciation in 2008 amounts 22.004.318 kunas and is increases for more than 2.5 times. The increase has been affected by activating Dock 11 and legally recognized accelerated depreciation rates for Dock 11 and Dock 5 pursuant to Decision made by the Management of the Company. Depreciation in 2008 would have been lower for 9.142.969 kunas and would amount 12.861.349 kunas if the Company had used the same depreciation rates as in 2007.*

*/vi/ Pursuant to its accounting policy, the Company in 2008 performed a value adjustment of receivables from customers in abroad whose collection is doubtful and for which court claims have been filed amounting to 946.483 kunas (Note 10/iii/).*

## NOTES TO FINANCIAL STATEMENTS

- continued -

## 6. CURRENT YEAR RESULT

From the difference between revenues and expenses in the period January 1 – December 31 the Company realized the following result:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
- total revenues	218.956.605	420.951.269	192
- total expenses	(273.083.516)	(317.161.572)	116
Gross result	(54.126.911)	103.789.697	-
Profit tax (20%)	0	(9.408.002)	-
<b>Current year profit</b>	<b>(54.126.911)</b>	<b>94.381.695</b>	-

Based on the calculation of profit tax for 2008 the Company is obliged to pay profit tax in the amount of 9.408.002 kunas, therefore current year profit amounts 94.381.695 kunas.

Operating result has been realized by:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>
- operating profit	0	102.848.465
- operating loss	(52.307.071)	0
- financial profit	0	941.232
- financial loss	(1.819.840)	0
<b>Gross result</b>	<b>(54.126.911)</b>	<b>103.789.697</b>

## NOTES TO FINANCIAL STATEMENTS

- continued -

## 7. FIXED TANGIBLE AND INTANGIBLE ASSETS

Are shown as follows:

	TOOLS, INVENTORY AND							TOTAL FIXED ASSETS
	LAND	BUILDINGS	PLANTS AND EQUIPMENT	TRANSPORTATION VEHICLES	ADVANCES FOR TANGIBLE ASSETS	INVESTMENTS IN PROGRESS	TOTAL TANGIBLE ASSETS	
<b>Acquisition value</b>								
<b>Balance Jan 01, 2008</b>	9.210.011	68.197.401	282.144.941	73.840.670	0	95.859.923	529.252.946	532.532.762
Direct increases								
- acquisition in 2008	0	0	0	0	253.489	6.946.750	7.200.239	0
- transfer from investments in progress	0	0	92.749.573	1.115.099	0	(94.029.402)	(164.730)	0
Decrease								
- sale, disposal	0	0	(10.321.300)	(11.275.018)	0	0	(21.596.318)	(1.407.246)
<b>Balance Dec 31, 2008</b>	9.210.011	68.197.401	364.573.214	63.680.751	253.489	8.777.271	514.692.137	516.729.437
<b>Value adjustment</b>								
<b>Balance Jan 01, 2008</b>	6.958.527	64.735.081	250.521.672	71.462.310	0	0	393.677.590	396.950.093
Depreciation	0	140.540	20.980.796	860.416	0	0	21.981.752	22.566
Decrease against evaluation	0	0	0	0	0	0	0	0
Changes on assets (disposal)	0	0	(8.384.981)	(11.272.181)	0	0	(19.657.162)	(1.407.245)
<b>Balance Dec 31, 2008</b>	6.958.527	64.875.621	263.117.487	61.050.545	0	0	396.002.180	397.890.004
<b>Book value Dec 31, 2008</b>	2.251.484	3.321.780	101.455.727	2.630.206	253.489	8.777.271	118.689.957	118.839.433
<b>Book value Jan 01, 2008</b>	2.251.484	3.462.320	31.623.269	2.378.360	0	95.859.923	135.575.356	135.582.669

## NOTES TO FINANCIAL STATEMENTS

- continued -

**Tangible assets** as of December 31, 2008 amount 118.689.957 kunas and refer to:

	Amount in HRK	Percentage of write-off
- land	2.251.484	-
- buildings	3.321.780	-
- plants and equipment	101.455.727	72,2%
- tools, inventory and transportation vehicles	2.630.206	95,9%
- advances for tangible assets	253.489	-
- investments in progress	8.777.271	-
	<u>118.689.957</u>	

Land and buildings on maritime domain

Pursuant to Law on Maritime Domains and Sea Ports the Company in 2007 in its business books recorded value adjustment of land located on maritime domain in Vranjic (which in 2008 was no longer used by the Company) of acquisition value amounting 6.958.527 kunas as well as buildings located on maritime domain in Vranjic and Martinšćica of total acquisition value amounting 64.075.978 kunas.

Plants and equipment

Based on balances as of December 31, 2008 the value of plants and equipment amounted 101.455.727 kunas and mainly refer to book value of Dock 11 (84.637.500 kunas) and book value of Dock 5 (2.592.772 kunas) by which the Company conducts its operations.

During 2008 the Company acquired i.e. activated plants and equipment of total acquisition value amounting 92.749.573 kunas, which mainly refers to Dock 11 of acquisition value amounting 91.500.000 kunas.

In 2008 the Company sold Dock 17 situated in Vranjic of book value amounting 1.912.573 kunas and realized profit of 658.201 kunas.

During 2008 the Company disposed plants and equipment of total book value amounting 23.746 kunas.

Tools, inventory and other equipment

Based on balance as of December 31, 2008 tools, inventory and other equipment amounts 2.630.206 kunas and refer to equipment, special tools, transportation vehicles, furniture and similar.

During 2008 the Company acquired various equipment amounting to 1.115.099 kunas, i.e. four transportation vehicles in the amount of 436.124 kunas, computer equipment in the amount of 363.474 kunas and other equipment and similar in the amount of 315.501 kunas.

In 2008 the Company disposed tools, inventory and other equipment of total book value amounting 2.837 kunas.

Investments in progress

Investments in progress as of December 31, 2008 amounts 8.777.271 kunas and refer to Dock 11 – dock cranes (2.859.504 kunas), one gantry (3.300.000 kunas), overhead travelling crane (711.750 kunas) and other investments (1.906.017 kunas).

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**8. LONG-TERM FINANCIAL ASSETS**

*Long-term financial assets as of December 31, 2008 refer to:*

	Notes	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>
<i>Stakes in subsidiaries</i>			
- Viktor - Servisi d.o.o Rijeka	/i/	763.259	763.259
<i>Investments in associated companies</i>			
- North Adriatic Offshore s.c.r.l., Ravenna	/ii/	38.018	38.018
<b>Total</b>		<b>801.277</b>	<b>801.277</b>

*/i/ The Company in its business books shows 100% stakes in subsidiary Viktor - Servisi d.o.o. Rijeka in the amount of 763.259 kunas. Subscribed capital has been recorded in the court registry in the amount of 254.000 kunas. According to the financial statements of the subsidiary for 2008, the value of stakes in the subsidiary amounts 3.350.779 kunas.*

*/ii/ Investments in associated company North Adriatic Offshore s.c.r.l. Ravenna, Italy in the business books of the Company are recorded in the amount of 38.018 kunas. In North Adriatic Offshore s.c.r.l. Ravenna the Company owns 49% stake in the nominal amount of 5.096 EUR.*



**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**9. INVENTORIES**

Are shown as follows:

	<i>Notes</i>	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
- raw and other material	/i/	13.080.800	14.228.429	109
- production in progress	/ii/	496.872	9.796.742	-
<b>Total</b>		<b>13.577.672</b>	<b>24.025.171</b>	<b>57</b>

/i/ Inventories of raw and other material are value adjusted and shown as follows:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Acquisition value	25.653.807	22.310.376	87
Value adjustment	(12.573.007)	(8.081.947)	64
<b>Total</b>	<b>13.080.800</b>	<b>14.228.429</b>	<b>109</b>

Based on inventory taking for 2008, the Company performed value adjustment of inventories with low turnover rate in the total amount of 4.491.060 kunas. The mentioned amount did not charge operating expenses but decreased value adjustment of inventories made in previous years.

/ii/ Costs and expenses, as well as balances of production in progress is shown as follows:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Opening balance	5.892.229	496.872	8
Costs during period	216.865.335	309.557.168	143
Expenses recognized during period	(222.260.692)	(300.257.298)	135
<b>Closing balance</b>	<b>496.872</b>	<b>9.796.742</b>	<b>-</b>

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**10. TRADE RECEIVABLES**

Are shown as follows:

	<i>Notes</i>	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Domestic trade receivables		7.708.312	14.784.980	192
Foreign trade receivables	/ii/	33.300.015	33.924.923	102
Value adjustment	/iii/	(6.175.217)	(6.702.084)	109
<b>Total</b>	<b>/i/</b>	<b>34.833.110</b>	<b>42.007.819</b>	<b>121</b>

*/i/ Domestic and foreign trade receivables as of December 31, 2008 have increased for 21% compared to the same date in 2007, which was mainly affected by increase of domestic receivables in 2008 by 92%.*

*From receivables closing balance as of December 31, 2008 up to the preparation of these Notes 72% of the domestic receivables and 80% of foreign receivables has been collected.*

*/ii/ Foreign trade receivables as of December 31, 2008 allocated by currency are shown as follows:*

	<i>Amount in currency</i>	<i>Amount in HRK</i>
Foreign trade receivables		
EUR	3.909.468	28.634.605
USD	201.170	1.037.133
Doubtful and uncertain foreign trade receivables		
EUR	149.439	1.095.594
USD	541.653	3.157.594
Total foreign trade receivables		
EUR	4.058.907	29.730.199
USD	742.823	4.194.726
<b>TOTAL</b>	<b>-</b>	<b>33.924.926</b>

*Doubtful and uncertain foreign trade receivables are not set at mean exchange rate of Croatian National Bank as of December 31, 2008.*

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

*/iii/ Changes on value adjustments of trade receivables in 2008 are shown as follows:*

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>
Opening balance	(3.478.312)	(6.175.217)
Decrease - disposal of receivables	623.362	419.526
Increase - value adjustment - expense	(2.446.051)	(946.393)
Increase - value adjustment - future periods	(874.216)	0
<b>Closing balance</b>	<b>(6.175.217)</b>	<b>(6.702.084)</b>

**11. RECEIVABLES FROM STATE AND OTHER INSTITUTIONS**

*Receivables from state and other institutions as of December 31, 2008 amount a total of 6.593.961 kunas, from which the amount of 6.437.086 kunas refers to value added tax receivables. The remaining amount of 156.875 kunas refers to receivables from Croatian Institute for Health Insurance for remuneration of sick leaves from August to December 2008.*

**12. OTHER RECEIVABLES**

*Are shown as follows:*

	<i>Notes</i>	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Receivables for given advances in the country	/i/	471.317	3.550.487	753
Receivables for given advances to abroad	/i/	529.698	1.114.088	210
Receivables for interests on deposits		9.567	2.347.287	-
<b>Total</b>		<b>1.010.582</b>	<b>7.011.862</b>	<b>694</b>

*/i/ Receivables for given advances for material and services in the country and abroad, shown as of December 31, 2008, up to preparation of these Notes have been realized in the amount of 2.083.232 kunas which represents 45% of total receivables for given advances.*

## NOTES TO FINANCIAL STATEMENTS

- continued -

## 13. SHORT-TERM FINANCIAL ASSETS

Changes on short-term financial assets are shown as follows:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Opening balance	10.745.419	24.026.916	224
Increase	13.400.248	34.447.775	257
Decrease	(139.612)	(7.297.264)	-
Exchange rate differences	20.861	9.310	45
Closing balance	<u>24.026.916</u>	<u>51.186.737</u>	213

Short-term financial assets refer to deposited Croatian and foreign currency funds at business banks. Part of the deposited funds serves as insurance for issued performance guarantees and counter guarantees for repairs within the guaranty period.

## 14. CASH IN BANK AND REGISTER

Is shown as follows:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Cash in bank account - in croatian kunas	8.828.989	2.812.389	32
Cash in register	62.905	148.324	236
Cash in bank account - in foreign currencies	17.740.799	11.812.478	67
<b>Total</b>	<u>26.632.693</u>	<u>14.773.191</u>	55

**NOTES TO FINANCIAL STATEMENTS**  
- continued -

**15. EQUITY**

Balance of equity is shown as follows:

DESCRIPTION	SUBSCRIBED CAPITAL	CAPITAL RESERVES	LEGAL RESERVES	OTHER RESERVES	TRANSFERRED LOSS	CURRENT YEAR PROFIT (LOSS)	TOTAL	LOSS OVER EQUITY
Balance Jan 01, 2008	175.023.400	1.459.775	7.291.395	3.799.601	(133.447.260)	(54.126.911)	0	(838.245.235)
Allocation of the previous year result	0	0	0	0	(54.126.911)	54.126.911	0	0
Decrease of the subscribed capital and partly coverage of loss	(175.023.400)	(1.459.775)	(7.291.395)	(3.799.601)	0	0	(187.574.171)	187.574.171
Increase of subscribed capital and reserves by investing rights	124.078.130	0	0	809.822.338	0	0	933.900.468	0
Losses covered after increase of capital	0	0	0	(809.822.338)	139.151.274		(670.671.064)	670.671.064
<u>Balance upon completion of the bankruptcy procedure</u>	<u>124.078.130</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48.422.897)</u>	<u>0</u>	<u>75.655.233</u>	<u>0</u>
Increase Current year profit	0	0	0	0	0	94.381.695	94.381.695	0
<u>Balance Dec 31, 2008</u>	<u>124.078.130</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48.422.897)</u>	<u>94.381.695</u>	<u>170.036.928</u>	<u>0</u>

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

*/!/ The Decision on coverage of losses by simplified decrease of subscribed capital, from premium for issued shares, legal and other reserves and capital reserves has been made on the Assembly of the Company held April 7, 2008.*

*On the same Assembly a Decision has been made on increase of subscribed capital in the amount of 124.078.130 kunas by investment of lenders reported claims amounting to 933.900.468 kunas and the difference amounting 809.822.338 kunas would be allocated to capital reserves for the coverage of transferred losses.*

*The new subscribed capital of the Company in the amount of 124.078.130 kunas is entered in the registry of Commercial court in Rijeka by a Decree no. Tt – 08/927-2 dated April 9, 2008 at the same time when a decree on closure of the bankruptcy procedure has been brought.*

## **16. PROVISIONS**

*The Company as of December 31, 2008 made a Decision on provisions for works in the guaranty period (8.252.283 kunas) and on provisions for court claims (1.172.200 kunas).*

*The mentioned provisions will be abolished upon closure of the guarantee periods for performed works, upon closure of court claims or Management's evaluation.*

## **17. LONG-TERM LIABILITIES**

*Long-term liabilities completely refer to liabilities arising from the bankruptcy procedure and are shown as follows:*

		<u><b>2008</b></u> <b>HRK</b>
<b>Balance as of January 01, 2008</b>		
<b>Recognized reported claims in the bankruptcy procedure</b>		<b>1.042.333.929</b>
<u><b>Division upon closure of the bankruptcy procedure (April 9, 2008)</b></u>		
- transfer to capital of the Company	15	(933.900.468)
- write-off in favor of the Company revenues	4/iii/	(77.043.770)
<b>Settled during 2008</b>		<b>(14.032.314)</b>
<b>Balance as of December 31, 2008</b>	<b>/!/</b>	<b><u><u>17.357.377</u></u></b>

*/!/ From the total recorded liabilities as of December 31, 2008 amounting to 17.357.377 kunas, the amount of 6.741.055 kunas refers to liabilities towards bankruptcy lenders and the amount of 10.616.322 kunas refers to potential liabilities for rejected lenders claims, securities and court fees in accordance with the bankruptcy plan.*

## NOTES TO FINANCIAL STATEMENTS

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## 18. SHORT-TERM LIABILITIES

As of December 31, 2008 the short-term liabilities amount 62.482.036 kunas and refer to:

		<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Loan liabilities (Tankerska Plovidba d.d. Zadar)		517.246	14.508.932	-
Trade payables	/i/	31.516.764	30.704.258	97
Employee payables		2.278.342	3.220.610	141
Liabilities for taxes, contributions and similar	/ii/	1.713.013	12.392.569	723
Other short-term liabilities		1.113.484	1.655.667	149
<b>Total</b>		<b>37.138.849</b>	<b>62.482.036</b>	

/i/ Trade payables are shown as follows:

	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Domestic trade payables	29.609.607	29.875.153	101
Foreign trade payables	1.907.157	829.105	43
<b>Total</b>	<b>31.516.764</b>	<b>30.704.258</b>	97

From the total recorded trade payables, major part refers to domestic trade payables. The mentioned payables have been completely settled up to preparation of these Notes.

/ii/ Liabilities for taxes, contributions and similar are shown as follows:

	<i>Notes</i>	<u>2007</u> <b>HRK</b>	<u>2008</u> <b>HRK</b>	<i>Index</i> 2008/2007
Liabilities for profit tax	6	0	9.408.002	0
Liabilities for taxes and contributions from and on salaries and other liabilities		1.713.013	2.308.319	135
Liabilities for value added tax		0	676.248	0
<b>Total</b>		<b>1.713.013</b>	<b>12.392.569</b>	723



**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

**19. ACCRUED COSTS AND DEFERRED REVENUES**

*As of December 31, 2008 accrued costs and deferred revenues amount a total of 6.073.777 kunas and refer to in-calculated costs in the amount of 972.817 kunas and future period revenues in the amount of 5.100.960 kunas against performed calculations based on IAS 11 – Construction Contracts.*

**20. FINANCIAL RISK MANAGEMENT**

*Financial risk factors*

*The operations of the Company bear various financial risks, including the effects of market price changes, changes of foreign exchange rates and interest rates. Company does not use derivative financial instruments as an active security from exposure to financial risks.*

*Currency risk*

*All revenues from rendering services of the Company on the foreign market is denominated generally in EUR (smaller amount in USD) as well as the payments. Revenues from rendering services in domestic market are denominated in Croatian kunas with EUR currency clause.*

*Approximately merely 5-10% of expenses are denominated in EUR. The currency risk also affects foreign exchange deposits which the Company can have, if those deposits are dedicated and set at a longer period, i.e. as collateral to bank guarantees in favor of the client.*

*Therefore, changes in currencies between EUR and HRK, and USD and HRK have an effect on the operation result, however due to high turnover ratio of receivables and low levels of production in progress, the currency risk is not materially significant so for that reason the Company does not perform active security for exposure to foreign currency operations.*

*Credit risk*

*Financial assets that can potential bring the Company to a credit risk includes trade receivables, value of works on construction of offshore projects and ship modifications. Trade receivables are shown decreased for doubtful and uncertain receivables. The Company does not have any other concentration of credit risk.*

*Interest rate risk*

*The Company does not have any significant assets or significant liabilities with interest rates except for deposits, and hence does not perform active security from exposure to interest rate risk.*

**NOTES TO FINANCIAL STATEMENTS**  
**- continued -**

*Liquidity risk*

*Liquidity risk, also called financing risk, is a risk of coping with difficulties in procurement of funds for settlement of liabilities against financial instruments.*

*Short-term liabilities are completely covered by short-term assets.*

*Even though the current liquidity ratio is higher than 2, the calculated profit tax for 2008 which mostly occurred due to written-off liabilities against bankruptcy procedure as well as related prepayments of profit tax for 2009 will have a significant effect on the current liquidity of the Company.*

*Fair value*

*Book values of cash, trade receivables, trade liabilities and calculated expenses are shown in approximate fair values with regards to the short-term maturity of these assets and liabilities. Inventories are recorded at acquisition costs or net market value, dependent on which one is lower.*

*In Rijeka, April 17, 2009*

*President of the Board*

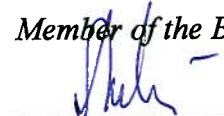
  
 Robert Škifić

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 Sandra Uzelac

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 Davor Lukeš