CONSOLIDATED

- Consolidated Annual Financial Statements
- Management Report

ANNUAL REPORT 2021

SHIPYARD
1896 VIKTOR LENAC
Member of Palumbo Group

April 2022

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2021

April 2022

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the consolidated financial statements for the year 2021 in accordance with the International Financial Reporting Standards applied in the European Union and Croatian Accounting Act to give a true and fair view of financial performance and financial results of the Shipyard Viktor Lenac d.d. and its subsidiary ("the Group") for the year.

Based on the research conducted, Management reasonably assumes that the Group has got adequate funds to continue with its operations for the foreseeable future. We have, therefore, made the financial statements under the assumption that the Group shall continue to operate indefinitely.

In the preparation of consolidated financial statements, Management acknowledges their responsibility for:

- the implementation and consistent application of the appropriate accounting policies;
- giving reasonable and conservative estimates and judgements;
- the fair presentation of the financial statements in accordance with applicable financial reporting standards, disclosure and interpretation of any significant deviation in the financial statements;
- producing the financial statements under the assumption of the continuity of business for an indefinite period, unless it is inappropriate to assume that the Company shall continue running its business activities.

We acknowledge our responsibility for keeping proper and accurate accounting records, which shall at any time reflect the financial results and business performance of the Group with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and Accounting Act in force in the Republic of Croatia.

We, also, acknowledge our responsibility for taking care of the Group's assets and for undertaking reasonable measures for preventing and revealing embezzlements and other irregularities.

The consolidated financial statements have been approved by the Management Board on 20 April 2022.

SHIPYARD VIKTOR LENAC d.d.

Martinšćica bb

In Rijeka, 20 April 2022

BRODOGRADILIŠTE d.d.
VIKTOR LENAC
Rijeka, Martinšćica bb 2

Sandra Uzelac

Member of the Management Board

IRIS NOVA

REVIZIJA, POREZNO SAVJETOVANJE,
FINANCIJSKE ANALIZE I USLUGE

INDEPENDENT AUDITOR'S REPORT

To the shareholders of the Shipyard Viktor Lenac d.d. Rijeka Group

Reporting on Audited Financial Statements

Opinion

We have audited the financial statements of the Shipyard Viktor Lenac joint stock company Rijeka Group, Martinšćica bb, Croatia ("the Company" or "the Group"), which comprise the Consolidated Comprehensive Income Statement for the year ended 31 December 2021, Consolidated Statement of Financial Position as at 31 December 2021, Consolidated Cash Flow Statement for the year ended 31 December 2021, Consolidated Statement of Changes in Equity and Notes to the financial statements, including a summary of significant accounting policies ("the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with the Croatian Accounting Act and International Financial Reporting Standards (IFRSs) issued by the European Commission and published in the European Union's official journal.

Basis for Opinion

We have conducted our audit in accordance with the Croatian Accounting Act and Audit Act, and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section entitled *Auditor's Responsibilities for the Audit of the Financial Statements*. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

/i/ We draw attention to Note 31: Impact of the COVID-19 Pandemic, in which Management emphasized the impact COVID-19 pandemic had on the Group's business performance in 2021.

Our opinion is not modified in respect of this matter.

/ii/ We draw attention to Note 32: Impact of the Russian-Ukrainian conflict, which may indirectly affect the Group's operations in 2022.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Audited Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from sales

For accounting policies, see Note 2.3.a and 30 to the financial statements. For additional information related to key audit matter, see Note 4 to the financial statements.

Key Audit Matter	How our audit addressed the key audit matter
In accordance with the requirements of International Standards on Auditing, special attention is paid to correct presentation of revenue, as in the audit of revenue, there is a risk of material misstatement of revenue. We, therefore, addressed the accuracy and comprehensiveness of revenues generated from the Group's business activities as a key audit matter.	Audit procedures for obtaining appropriate audit evidence involved examining the structure and effectiveness of automatic and manual internal controls implemented at the Group, as well as testing details to ascertain the accuracy of revenue accounting and revenue transactions. The main automated internal control implemented by the Company to ensure the accuracy of revenue accounting is linking work order to journal entry. Testing internal controls We have tested the structure and effectiveness of the main internal controls over the sales and shiprepair processes. The tests performed on the audit sample included: - Testing for existence: Testing work orders for existence and comparing them with quotations, contracts and outgoing invoices; - Testing for completeness: Testing incoming and outgoing invoices relating to a particular work order for existence; - Evaluation test: Comparing prices and sales terms and conditions stated in outgoing invoices with accepted quotations; - Testing accruals: Determining the degree of completion and testing whether revenue was recognized in the correct period. In addition to the above, we have also tested whether the production accounts were locked, approved and transferred to financial accounting, recorded and controlled in the Accounting and Finance Department. Based on the results of internal control tests, we have determined the scope and type of tests to verify the accuracy of revenue accounting, and we have also tested some details from internal documents by linking them to accrued sales revenue and related payment transactions. When conducting our tests, we did not identify any significant deviations or deficiencies in internal controls.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Audited Financial Statements (continued)

Other Information

Management is responsible for other information that contains information included in the Management Report, in addition to audited financial statements and the independent auditor's report thereon.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the section of our independent auditor's report entitled 'Reporting on other regulatory requirements' and we do not express any kind of conclusion on other information by expressing our opinion.

When auditing the annual financial statements, our responsibility is to read other information and consider whether they are significantly inconsistent with the annual financial statements, or with our knowledge acquired in the audit, or otherwise appear to be misstated. If, based on our audit, we conclude there is a significant misstatement in the presentation of other information, we are required to report such findings. In that regard, we have nothing to report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit, particularly regarding the following objectives:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Audited Financial Statements (continued)

Auditor’s Responsibilities for the Audit of Financial Statements (continued)

- We conclude on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure, and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore considered the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reporting on Other Regulatory Requirements

Reporting based on Regulation (EU) no. 537/2014 requirements

1. We were appointed at the Company’s General Assembly meeting held on 30 June 2021 to perform audit of the annual financial statements for 2021. This audit engagement has been uninterrupted for a total of 2 years and covers the period from January 1, 2020 to December 31, 2021.

2. Apart from the issues we have identified in our independent auditor's report as key audit matters, we have nothing to report on point (c) of Article 10 of Regulation (EU) no. 537/2014.

3. Through our statutory audit of the Group's annual financial statements for 2021, we are able to detect irregularities, including fraud in accordance with Section 225 - Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us to review whether the members of the Group have complied with laws and regulations which have a direct effect on determining significant amounts and disclosures in its annual financial statements, but compliance with which may be critical to the operational aspects of the Group's operations, its ability to continue as a going concern or to avoid significant penalties.

   Unless we encounter, or become aware of, non-compliance with any of the foregoing laws or regulations that is manifestly insignificant, in our judgment of its content and its impact, financial or otherwise, to the Group, its stakeholders and the general public, we are obligated to inform the Group and request that it investigates the case and takes appropriate measures to address the irregularities and to prevent the recurrence of those irregularities in the future. If the Group does not correct the irregularities in the audited annual financial statements that are cumulatively equal to or greater than the amount of materiality for the financial statements as a whole as at the date of the audited balance sheet, we are required to modify our opinion in the independent auditor's report.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Other Regulatory Requirements (continued)

Reporting based on Regulation (EU) no. 537/2014 requirements (continued)

In the audit of the Group's annual financial statements for 2021, we have determined the materiality for the financial statements as a whole in the amount of HRK 5.7 million, which represent approximately 1.9% of the Group's total revenue. Based on this materiality threshold, together with qualitative considerations, we have determined the scope of the audit, type, timing and volume of our audit procedures as well as determined the impact of misstatement, individually or in aggregate, on the Group's financial statements. We believe that revenue is an appropriate measure because it is the most common measure of the Group's business performance used by shareholders.

4. Our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Parent Company in accordance with the Article 11 of Regulation (EU) No. 537/2014;

5. During the period between the initial date of the audited annual financial statements of the Group for 2021 and the date of this report, we did not provide prohibited non-audit services to the members of the Group and did not provide services for designing and implementing internal controls or risk management procedures related to preparation and/or control of financial information or design and implementation of technological systems for financial information, and we have maintained our independence from the Group in performing the audit.

Reporting based on the Accounting Act requirements

1. In our opinion, based on our conducted audit, the information in the enclosed Management report for 2021 are consistent with the enclosed annual financial statements of the Group for 2021.

2. In our opinion, based on our conducted audit, the enclosed Management report for 2021 has been prepared in accordance with the Accounting Act.

3. Based on our knowledge and understanding of the Group and its environment, acquired by conducting our audit, we have not determined significant misstatements in the Management report.

4. In our opinion, based on our conducted audit, the statement on the application of the corporate governance code, included in the Group's Management Report for 2021, is in accordance with the requirements specified in Article 22, paragraph 1, items 3 and 4 of the Accounting Act.

5. The statement on the application of the corporate governance code, included in the Group's Management Report for 2021, includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format

Auditor's assurance statement on the compliance of Annual Financial Statements (hereinafter referred to as the financial statements), prepared pursuant to Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/20 and 83/21) applying the requirements of Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter referred to as the ESEF Regulation.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Other Regulatory Requirements (continued)

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (continued)

We have engaged in a reasonable assurance as to whether the financial statements prepared for public disclosure pursuant to Article 462 (5) of the Capital Market Act, contained in the attached electronic file [Viktor Lenac Grupa_2021], have been prepared in all material respects in accordance with requirements of the ESEF Regulation.

Responsibilities of Management and Those Charged with Governance

The Parent Company's Management is responsible for the preparation and contents of the financial statements in accordance with the ESEF Regulation.

In addition, the Parent Company's Management is responsible for maintaining an internal control system that reasonably ensures the preparation of financial statements of the Group without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Parent Company's Management is also responsible for:

- Publishing to the public the financial statements of the Group contained in the Management report in a valid XHTML format as part of the financial reporting process;

- Selecting and using XBRL codes in accordance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for supervising the preparation of financial statements in ESEF format as part of the financial reporting process.

Auditor's Responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements of the Group are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance engagements other than audits or reviews of historical financial information.

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of testing will reveal any significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we performed the following activities:

- We have read the requirements of the ESEF Regulation;

- We have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation;

- We have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and

- Based on that, devised and designed procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Other Regulatory Requirements (continued)

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (continued)

The aim of our procedures was to assess whether:

- the financial statements of the Group, which are included in the Management report, were prepared in a valid XHTML format;

- the information contained in the financial statements of the Group required by the ESEF Regulation were labelled and all labels met the following requirements:

- the XBRL markup language was used;

- the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance was used unless an additional taxonomy element was created in accordance with Annex IV. ESEF Regulations;

- the labels comply with the common labelling rules under the ESEF Regulation.

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

Conclusion

In our opinion, based on the conducted audit procedures and obtained evidence, the financial statements of the Group presented in ESEF format, contained in the above attached electronic file and pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, in all material respects are in accordance with the requirements of Articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2021.

In addition to this conclusion, as well as the opinion contained in this Independent Auditor's Report on the accompanying Financial Statements of the Group and the Management Report of the Group for the year ended 31 December 2021, we do not express any opinion on the information contained in these representations or other information contained in the above file.

Zdravko Ružić was the engagement partner in the audit with this independent auditor's report as its final product.

In Rijeka, 20 April 2022

IRIS nova, revizija, porezno savjetovanje, financijske analize i usluge, d.o.o.

Rijeka, Fiorello la Guardia 13/III

Croatia

For and on behalf of IRIS nova d.o.o.

Management

Ljiljana Blagojević

IRISNOVA
Iris Nova d.o.o.
... la Guardia 13/III, 51000 Rijeka

Authorized auditor

Zdravko Ružić

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
AS AT 31 DECEMBER 2021

HRK

	Note	2020	2021
OPERATING REVENUES		**306.013.207**	**299.238.108**
Sales revenue	4	265.010.980	256.989.818
Other operating revenues	5	41.002.227	42.248.290
OPERATING EXPENSES		**262.723.248**	**277.749.413**
Material expenses	6	153.615.118	166.383.022
Employee expenses	7	67.772.503	67.243.288
Depreciation	8	31.496.114	34.458.198
Value adjustments	9	10.952	25.101
Provisions	10	1.202.687	1.890.155
Other expenses	11	8.110.186	7.521.165
Other operating expenses	11	515.688	228.484
EBIT		**43.289.959**	**21.488.695**
NET FINANCIAL (EXPENSES) / INCOME		**(1.055.833)**	**1.543.409**
Financial income	12	708.860	2.787.788
Financial expenses	12	1.764.693	1.244.379
PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX		**42.234.126**	**23.032.104**
PROFIT TAX	13	**6.551.087**	**4.182.286**
Net profit / (loss) for the year		**35.683.039**	**18.849.818**
Profit/loss after revaluation of financial assets held for sale		147.694	4.464
Deferred tax assets		(44.936)	(804)
COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**35.785.797**	**18.853.478**
Attributable to equity holders of Parent Company		35.664.788	18.851.432
Attributable to minority (non-controlling) interest		121.009	2.046
Earnings per share		2,23	1,18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

HRK

	Note	2020	2021
Assets			
Fixed assets		**287.068.927**	**290.867.040**
Intangible Assets	14	5.336.969	4.924.786
Buildings, plants and equipment	14	270.640.398	274.875.075
Investment in real-estate	14	2.007.236	2.007.236
Financial assets measured at fair value through other comprehensive income – investment securities	15	110.112	114.576
Financial assets measured at amortized cost - deposits	16	8.482.011	8.460.314
Deferred tax assets		492.201	485.053
Short-term assets		**102.464.647**	**113.312.232**
Inventories	17	14.661.908	16.175.828
Trade and other receivables	18	52.251.380	61.708.188
Money in bank and cash in register	19	35.551.359	35.428.216
Total Assets		**389.533.574**	**404.179.272**
Equity and reserves	20	**281.401.701**	**300.134.170**
Share capital	20	168.132.470	168.132.470
Reserves		77.586.192	113.151.882
Retained profit/loss	20	35.683.039	18.849.818
Minority interest		**(102.053)**	**18.956**
Long-term liabilities		**33.734.378**	**21.886.880**
Debentures with interest charge	21	23.015.504	13.435.276
Provisions	24	837.528	926.706
Deferred tax liability		13.124	13.928
Other long-term liabilities	25	9.868.222	7.510.970
Short-term liabilities		**74.499.548**	**82.139.266**
Debentures with interest charge	21	23.212.266	14.859.907
Profit tax payable	13	6.260.260	2.382.882
Trade and other payables	22	44.043.715	63.302.840
Provisions	24	983.307	1.593.637
Total Liabilities		**108.233.926**	**104.026.146**
Total Equity and Liabilities		**389.533.574**	**404.179.272**

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2021

HRK

	Note	2020	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	13	42.234.126	23.032.104
Value adjustments in respect of:			
Depreciation of real estates, facilities and equipment		31.496.114	34.458.198
Gains and losses from sale and value adjustments in respect of tangible and intangible assets, net	5	(1.422)	(81)
Gains and losses from sale, unrealized gains and value adjustments in respect of financial assets, net	9	132.086	34.988
Shortage, surplus and expense of material inventories, net	5, 11	(7.716)	523.844
Income from interests	12	(199.560)	(210.981)
Interest expenses	12	1.697.310	1.244.379
Provisions	5, 10	(1.184.560)	(1.059.647)
Exchanges rate difference (unrealized)	12	637.319	246.296
Profit tax cost	13	(6.551.087)	(4.182.286)
Increase in accrued revenues and costs	18, 22	7.594.953	(26.279.624)
Profit from operating activities before changes in working capital		**75.847.563**	**27.807.190**
Decrease in inventories		2.307.358	(1.963.048)
(Decrease)/Increase in short-term receivables		32.764.554	22.453.106
Decrease in liabilities		(42.020.565)	16.232.665
Profit tax paid		(514.226)	(8.052.516)
Interest paid		(644.678)	(1.025.512)
CASH FLOW FROM OPERATING ACTIVITIES		**67.740.006**	**55.451.885**
INVESTING ACTIVITIES			
Acquisition of real estates, facilities, equipment and intangible assets	14	(32.412.590)	(38.380.496)
Inflow from sale of fixed assets	5	6.222	81
Investment into financial assets		0	10.005
Inflow from interests		199.215	3.651
Inflows on loans		116.318	72.500
CASH FLOW FROM INVESTING ACTIVITIES		**(32.090.835)**	**(38.294.259)**
FINANCIAL ACTIVITIES			
Inflows from debentures with interest charge		2.123.066	1.860.778
Repayment of debentures with interest charge		(18.349.310)	(19.141.547)
Other cash inflows from financial activities		181.463	0
CASH FLOW FROM FINANCIAL ACTIVITIES		**(16.044.781)**	**(17.280.769)**
TOTAL (DECREASE) / INCREASE OF CASH FLOW (I+II+III)		**19.604.390**	**(123.143)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		15.946.969	35.551.359
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**19**	**35.551.359**	**35.428.216**

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

HRK

	Share capital	Legal reserves	Reserves for own shares	Own shares	Other reserves	Net profit / (loss) for the year	Total	Minority (non-controlling) interest	Total
Status as at 1 January 2020	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**41.372.041**	**23.374.578**	**245.769.941**	**(4.783)**	**245.765.158**
Profit / (loss) for the year	0	0	0	0	0	35.683.039	**35.683.039**	0	**35.683.039**
Changes in reserves of the fair value of financial instruments held for sale	0	0	0	0	102.758	0	**102.758**	0	**102.758**
Total comprehensive income/loss for 2020	**0**	**0**	**0**	**0**	**102.758**	**35.683.039**	**35.785.797**	**0**	**35.785.797**
Attribution of losses of a subsidiary that has ceased to operate	0	0	0	0	(251.307)	0	(251.307)	0	(251.307)
Redirected into reserves per 2019 profit allocation	0	0	0	0	23.471.848	(23.374.578)	97.270	(97.270)	0
Status as at 31 December 2020	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**64.695.340**	**35.683.039**	**281.401.701**	**(102.053)**	**281.299.648**
Profit / (loss) for the year	0	0	0	0	0	18.849.818	**18.849.818**	0	**18.849.818**
Changes in reserves of the fair value of financial instruments held for sale	0	0	0	0	3.660	0	**3.660**	0	**3.660**
Total comprehensive income/loss for 2021	**0**	**0**	**0**	**0**	**3.660**	**18.849.818**	**18.853.478**	**0**	**18.853.478**
Redirected into reserves per 2020 profit allocation	0	0	0	0	35.562.030	(35.683.039)	(121.009)	121.009	0
Status as at 31 December 2021	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**100.261.030**	**18.849.818**	**300.134.170**	**18.956**	**300.153.126**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company “Brodogradilište Viktor Lenac”, headquartered in Rijeka, Croatia at Martinšćica bb, (the „Parent Company“) has been registered under the Parent Company’s Registration Number 040000358 in the register of the Commercial Court of Rijeka.

The share capital of the Parent Company amounts to HRK 168,132,470 and is divided in:

- 15.988.060 registered ordinary shares in non-materialized form, each having a nominal value of HRK 10;
- 825.187 own shares, each having a nominal value of HRK 10.

According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb, the Parent Company has been classified under the subclass number 3011 – building of ships and floating vessels, having its registration number 03333710 and VAT number 27531244647.

The Parent Company’s main activity is newbuilding, shiprepair and conversion and other services carried out onboard ships and other vessels. The Company has been registered for other activities such as steel constructions, organization, trade, engineering and other services.

The Parent Company’s shares are listed on the regularly operating market of Zagreb stock exchange. The Company's LEI code is 74780060BA4DPK8V1P23, the home member state is the Republic of Croatia, while the security code is V-LEN.

Joint stock company BRODOGRADILIŠTE VIKTOR LENAC Rijeka holds a 75% equity interest in a limited liability company VL STEEL headquarterd in Rijeka, Radnička 39, Croatia. Therefore, the subsidiary is included in the consolidation.

The main activity of the subsidiary VL Steel d.o.o is performing works and providing services in shipbuilding and industry. The share capital of the subsidiary VL Steel d.o.o. amounts to HRK 20,000.

On the day of 31 December 2021, the Company employed 383 employees (2020: 405 employees).

In 2021, the Company's Supervisory Board was composed of the following members: Vittorio Carratù, President; Francesco Ciaramella, Vice-President, and Giorgio Filippi and Antonio Gennarelli, Members. The function of the fifth member of the Supervisory Board, in the capacity of workers’ representative in the Supervisory Board since April 2021, is held by Damir Amić, who replaced the former member Zoran Košuta.

In 2021, the Company had an Audit Committee consisting of Francesco Ciaramella, Vittorio Carratù and Giorgio Filippi, appointed by the Supervisory Board, as well as Remuneration Committee and Nominations Committee composed of the following members: Vittorio Carratù, Francesco Ciaramella and Antonio Gennarelli.

On the day of 31 December 2021, the Management Board was composed solely of one member, Sandra Uzelac.

The Company had the following ownership structure as at 31 December 2021:

	Shareholder	Number of Shares	Percentage of Equity
1	PALUMBO GROUP S.P.A. (1/1)	8.354.563	49,69
2	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ GUARDIANSHIP ACCOUNT	5.426.897	32,28
3	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
4	JADROAGENT D.D. (1/1)	324.766	1,93
5	KALČIĆ ELVIO (1/1)	60.221	0,36
6	ČOLAK ZVONIMIR (1/1)	57.009	0,34
7	LIST GMBH AUSTRIA (1/1)	45.992	0,27
8	PEČAR IVAN (1/1)	33.203	0,20
9	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
10	Others	1.652.422	9,82
	Total:	**16.813.247**	**100,00**

Consolidated Financial Statements were approved by the Management Board of the Parent Company on 20 April 2022 for submittance to the Supervisory Board. The Consolidated Financial Statements are issued in Croatian as the official language but are also available to foreign stakeholders in English translation.

The accounting policies given below have been applied consistently for all periods presented in these financial statements.

2. BASIC ACCOUNTING POLICIES

Basic accounting policies applied in preparation of the financial statements are as set forth below. These accounting policies have been consistently applied for all periods included in these reports unless otherwise stated.

2.1. STATEMENT ON COMPLIANCE AND BASICS OF REPORTING

Consolidated Financial Statements for 2021 have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia and International Financial Reporting Standards applied in the European Union.

The Non-Consolidated Financial Statements of the Company have been prepared using the basic accounting assumption of the occurrence of an event, according to which the effects of transactions are recognized when they occurred and are presented in the financial statements for the period to which they relate, and using the basic accounting assumption of business continuity.

The Consolidated Financial Statements of the Shipyard “Viktor Lenac” d.d. and its subsidiary in which it has a controlling interest (the “Group”) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and were published on April 20, 2022. For a better understanding of the Group as a whole, users should read the Consolidated Financial Statements together with these Non-Consolidated Financial Statements.

Accounting policies applied in the preparation of the 2021 financial statements have not changed compared with the previous year. The financial statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.

The Group’s financial statements have been prepared in Croatian Kuna (HRK) as measuring or reporting currency.

According to IFRSs, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank at 31 December 2021 as follows:

1 EUR =	HRK	7.517174	(31 Dec 2020: 1 EUR = 7.536898 HRK)
1 USD =	HRK	6.643548	(31 Dec 2020: 1 USD = 6.139039 HRK)
1 GBP =	HRK	8.958615	(31 Dec 2020: 1 GBP = 8.353910 HRK)
1 NOK =	HRK	0.752794	(31 Dec 2020: 1 NOK = 0.716912 HRK)

2.2. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN IN FORCE FOR THE CURRENT PERIOD

First application of new amendments to effective standards which are relevant for current reporting period

Standards, amendments to effective standards and clarifications issued by the International Accounting Standards Board (IASB) and adopted by the European Union, effective in current reporting period are as follows:

- **IFRS 16 Leases - Covid-19-Related Rent Concessions (Amendments)** are applied retroactively for annual periods beginning on or after 1 June 2020. Earlier adoption is permitted only in financial statements not yet authorized for issue on May 28, 2020. The Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient will only apply if:
  - the revised consideration is substantially the same or less than the original consideration,
  - the reduction in lease payments relates to payments due on or before 30 June 2021.
  - no other substantive changes have been made to the terms of the lease.

  This amendment did not have an impact on the Group's financial statements.

- **Interest rate benchmark reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the Board announced Phase 2 of the interest rate benchmark reform, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work to respond to the Interbank Offered Rate (IBOR) reform. The amendments should provide for temporary reliefs from the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR). In particular, the amendments provide a practical expedient to account for these changes in the basis for determining the contractual cash flows of financial assets and liabilities, to allow the effective interest rate to be adjusted to actual interest rate movements. Also, the amendments introduce reliefs from discontinuation of hedge accounting including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk. Furthermore, the amendments to IFRS 4 are designed to enable insurers that still apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. Amendments to IFRS 7 Financial instruments are also envisaged: Disclosures that enable users of financial statements understanding the effects of interest rate benchmark reform on a company's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021, earlier adoption permitted. Although the application is retroactive, the Company is not obliged to revise previous periods.

The adoption of these amendments to existing standards and interpretations did not lead to material changes in the Group's financial statements.

New standards and amendments to effective standards issued by IASB and not yet adopted in the European Union

The following standards, amendments to standards and interpretations have been issued at the date of approval of these financial statements but are not yet effective and have not been previously adopted:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** The amendments are effective for annual periods beginning on or after 1 January 2022, earlier adoption permitted. However, in response to the COVID-19 pandemic, the Board deferred its application for one year or until 1 January 2023, to give companies more time to implement the classification changes resulting from the amendments. The aim of the amendments is to encourage consistency in the application of standard requirements by helping companies determine whether debts and other liabilities with an uncertain settlement date should be classified in the statement of financial position as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position, but do not change the existing requirements regarding the measurement or recognition of assets, liabilities, income or expenses, or the information that the company discloses in the notes related to these positions. In addition to the above, the amendments explain the requirements for classification of liabilities that a company can settle by the issue of equity instruments. These amendments have not yet been adopted at EU level, and Management anticipates that their adoption will not have a significant impact on the Group's financial statements.

- **IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the Annual Improvements to IFRS Standards 2018-2020 (Amendments)** are effective for annual periods beginning on or after 1 January 2022 year, earlier adoption permitted. The Board has issued amendments to IFRSs of limited scope as follows:
  - **IFRS 3 Business Combinations (Amendments)** includes an updated reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, such sales revenue and related expenses should be recognized in the income statement.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous.
  - **Annual improvements to IFRS Standards 2018-2020** include minor amendments to IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and the illustrative examples accompanying IAS 41 to IFRS 16 Leases. The amendments have not yet been adopted at the EU level, and Management anticipates that their adoption will not have a significant impact on the Group's financial statements.

- **IFRS 9 Financial Instruments: Fees in the '10 Percent' Test for Derecognition of Financial Liabilities** As part of its annual improvements to IFRS standards for the period 2018-2020, the IFRS Board has issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are materially different from those of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of another. An entity shall apply the amendment to financial liabilities that are modified or exchanged at or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are effective for annual periods beginning on or after 1 January 2022.

- **IFRS 17 Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)** Amendments to IFRS 17 are effective, retroactively, for annual periods beginning on or after 1 January 2023, earlier adoption permitted. The amendments are aimed at assisting companies in implementing the standards. They are specifically designed to reduce costs by simplifying certain standards requirements, facilitating the explanation of financial results as well as facilitating the transition by postponing the application of the standard until 2023 and providing additional reliefs to reduce the effort required to first apply IFRS 17. The amendments to IFRS 4 introduce the option to defer the fixed expiry date providing entities with a temporary exemption from application of IFRS 9 and would have to apply it from 1 January 2023. Amendments to IFRS 17 have not yet been adopted at EU level and are not applicable to the Group.

- **Publication of Accounting Policies (Amendments to IAS 1 and IFRS Statement 2):** In February 2021, the Board issued amendments to IAS 1 and IFRS Statement 2 that provide guidance on how to apply the concept of materiality to accounting policy disclosures. The aim of the amendments is to provide entities with guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in IFRS Standards only need to be applied if their effect is material to the complete set of financial statements. Amendments to IAS 1 are applicable to reporting periods beginning on or after 1 January 2023, where earlier application is permitted. Given that the amendments to Statement 2 provide non-binding guidance on how to apply the concept of materiality to accounting policy disclosures, an effective date for the application of the amendments is necessary.

- **Amendments to IAS 1 and IAS 8 Definition of Material:** In February 2021, the Board adopted amendments to IAS 8, which defines accounting estimate. The amendments clarify the difference between changes in accounting estimates, changes in accounting policies and the corrections of errors. They also explain how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023, where earlier application is permitted, and apply to changes in accounting policies and estimates that occur on or after the beginning of that period.

- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)** In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to transactions in which both deductible and taxable temporary differences arise on initial recognition (eg leases under IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

The Group is currently assessing the impact of these new standards and amendments to existing ones on the Company's financial statements in the period of their adoption. According to the Group's estimates, the application of these new standards and amendments to existing standards would not have a significant material impact on the financial statements. Hedge accounting for a portfolio of financial assets or financial liabilities whose principles have not been adopted in the EU remains unregulated.

2.3. KEY ASSUMPTIONS, ESTIMATES AND UNCERTANITY IN PREPARING FINANCIAL STATEMENTS

In preparing the consolidated financial statements, Management used estimates, judgements and assumptions which can affect accounting value of assets and liabilities of the Group, disclosure of potential items on balance sheet date and disclosed revenues and expenses of the period then ended.

The following estimates were used, including, without limitation: calculation of depreciation and remaining value of real-estate, plants, equipment and intangible assets, impairment estimates, value adjustments in respect of inventories and doubtful receivables, provisions for employees’ salaries and wages, and litigations. More details on accounting policies relative to these estimates can be found in other parts of this note as well as other notes to the financial statements. The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements made in preparing financial statements are subject to changes due to new events, additional information, new experience or changes in business environment. Actual results may differ from estimates.

The basic accounting policies applied in preparation of financial statements for the year 2021 are as set forth below:

a) Revenues

Revenue is recognized when the amount of revenue and its economic benefits for the Group can be reliably measured and when it fulfils specific criteria relative to all activities of the Group.
Revenues received from sales of goods and services are recognized if:

- The Group has concluded a contract with a customer, written or verbal, which determines rights and obligations, terms and conditions and due dates, and there is a reasonable probability that the Group will collect rightful recompense for negotiated obligation;
- The Group can determine its obligations based on contract with customer, or obligations to transfer goods or services, deferred, related or involved with other resources required to provide service to customer;
- The Group can, based on a contract, determine or estimate selling price of a rightful transaction in exchange for goods or services to customers, which price can be determined by contract, price list, past doings or usual commercial practice;
- The price of the transaction can be separated for each contractual obligation, i.e. separate actions, which can be determined in contract or reliably estimated using a price list, past doings or usual commercial practice;
- The Group fulfilled its contractual obligation completely at a given time or partially in longer period, where the Company meets its obligations in accordance with the contractual deadlines over a longer period.

Revenues generated from contractual obligations, which are fulfilled during a period of time, are recognized to the extent that they are incurred under following conditions:

- The cost of partial deliveries can be determined or reliably estimated;
- The customer accepted goods or services and/or has control over accepted goods and services, or the Group is improving customer’s assets while under the control of the customer; or
- The Group accounted for expenses with respect to resources or inputs for delivered goods or services.

For measuring progress towards complete fulfilment of a performance obligation over time the Group can use the following methods:

- Output methods based on direct measurement of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract;
- Input methods measuring progress based on costs generated to recognise revenue on a straight-line basis if the entity’s efforts or inputs are spread evenly throughout the performance period;
- Combination of output and input methods to question and evaluate credibility of both methods for the purpose of fair valuation of reported revenues.

Government grants are recognized in income for the period in which the related costs will be incurred, if:

- The terms of the grants have been met;
- It is likely that the grants will be received.

Financial income includes interests on invested funds, positive exchange rate differences, revenues received from dividends and other revenues from financing sources.

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 managed in such a way that periodic accounting system determines expenses which are applicable to recognition in the calculation of the financial result of the current year.

The recognition of expenses occurs if:

- Expenses result in decrease of funds or increase of liabilities that can be reliably measured;
- Expenses have direct relation to occurred costs and revenues;
- When it is expected to achieve revenues in multiple reporting periods, recognition of expenses is performed by allocation on reporting periods;
- 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;
- 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 reported as expenses. In that case losses should be related to occurring revenues. Losses are covered with revenues of the reporting period.

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 the total accounting revenues.

Profit tax liability (current tax) is determined pursuant to valid regulations of Profit Tax Act.

Deferred tax assets and deferred tax liabilities are recognized in case of changes of valuation of financial and other assets of the Group, which have not produced profit or loss consequently creating temporary difference between accounting profit and taxable profit. Deferred tax assets refer to tax losses carried forward, unused tax benefits and deductible temporary differences, and are offset in subsequent tax periods when the conditions for recognizing previously unrecognized unrealized losses are fulfilled or represent previously paid income taxes for return in subsequent periods. Deferred tax liabilities refer to future profit tax liability on current not yet realised profits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets are calculated at tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority to the Group or another taxpayer who intends to settle the current tax liability and assets on a net basis.

d) Profit/loss after revaluation of financial assets measured at fair value through other comprehensive income

In the case of selling long-term financial assets measured at fair value through other comprehensive income, the effects are recorded in profit/(loss) statement.

e) Fixed intangible assets

Fixed intangible assets comprise of non-monetary assets that are identifiable without physical substance. Fixed intangible assets are recognized if they met the following conditions:

- 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; and
- Its single acquisition value exceeds HRK 3,500.

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 impairment.

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 5-25% annually.

Depreciation is recorded from the first day of the following month 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.

f) Fixed tangible assets

Fixed tangible assets comprise of property, plants and equipment which the Group:

- Owns and uses in business operations, general and common 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 if the following conditions are fulfilled:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the Group;
- The cost of the asset can be measured reliably;
- Its single acquisition value exceeds HRK 3,500 and useful period of life exceeds one year.

Exceptionally, if the single value of the asset does not exceed HRK 3,500 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 HRK 3,500 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 created by the undertaking itself and used as 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 Group expects to have future economic benefits of those 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.

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

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.

Rates applied for depreciation are as follows:

- Buildings 2.5-10%
- Ships and docks 0.7-10%
- Cranes and plants 6.67-10%
- Production equipment 10-12%
- Transportation vehicles 20%
- Office computer and related equipment 10-20%

The Group evaluates useful life of fixed tangible assets on a regular basis and based on 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.

Fixed assets are recorded in the balance sheet even if they are completely written-off, up to sale, gift, or disposal of any kind.

Real estate investments are recorded at fair value.

g) Long-term financial assets

Long-term financial assets represent investment of cash, goods and assignment of rights for generating revenue. Return on the investment is expected in period exceeding 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 related companies - companies in which the Company has significant influence but no control, which typically includes 20% to 50% of the voting rights;
- 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 companies.

Long-term financial investments in associates (share of 20% - 50%) are recorded in the books by the cost method affected by eventual depreciations, whilst the equity method is used in consolidated reports.

Investments in financial assets that do not relate to investments in subsidiaries and related companies are measured at amortized cost and assets measured at fair value through other comprehensive income.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with a maturity of more than 12 months after the balance sheet date. Such assets are classified as long-term financial assets. Receivables are stated at amortized cost using the effective interest rate method.
The impairment policy is set out in Note 2.3.j and 2.3.k.

(b) Financial assets measured at fair value through other comprehensive income

After initial measurement, for financial assets measured at fair value through other comprehensive income, the gain or loss from the change in fair value is recognized in other comprehensive income. Foreign exchange gains or losses are recognized in profit or loss in the income statement. If the financial assets are derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as reclassification adjustment.

h) *Consolidation*

Consolidated Financial Statements include financial statements of the Company and companies controlled by the Company and its subsidiaries (“the Group”) together with the Group's shares in associates.

Business combinations
The Group applies IFRS 3 "Business Combinations" for accounting for business combinations, and the accounting policies applied to these acquisitions are described below.
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.
The Group controls an investee when it is exposed to or has rights to variable returns from its involvement with the investee and can affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more of the elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee.

The Group measures goodwill at the acquisition date as:
- Fair value of the consideration transferred; plus
- Recognised amount of any non-controlling interests in the acquiree; plus,
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

- Net recognised amount (generally fair value) of the identifiable assets acquired and liabilities.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are regularly recognised in profit or loss.
Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.
Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.
Inter-group transactions, balances and unrealised gains on transactions among the Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions or transactions with owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group’s investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Company’s separate financial statements investments in associates are accounted at cost less impairment.
The Group’s share of associates’ post-acquisition gains or losses is recognised in the statement of profit or loss and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equal or exceed its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate. Dividends received from associates are treated as a decrease of investment in associate in the Group’s consolidated statement of financial position and as a dividend income in the Company’s separate statement of profit or loss.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Acquisition of entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using the following principles:
- Assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the controlling shareholder of the Group;
- Difference between the consideration paid and the carrying value of transferred assets and liabilities is recognized in Group equity;

- Components of equity of the acquired entities are added to the same components within Group equity (except any issued capital of the acquired entities which is recognised as part of share premium), any cash paid for the acquisition is recognised directly in equity.

Non-controlling interest
For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets.
Changes in the Group's interest in a subsidiary that do not result in a change of control are accounted for as transactions with equity holders in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

Transactions eliminated during consolidation
Intragroup balances and transactions, and unrealized revenues and expenses (excluding gains or losses on exchange rate differences) arising from intra-group transactions are eliminated when preparing consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only on the condition that there is no evidence of impairment.

Goodwill
Goodwill represents the difference between the fair value of the acquisition cost and fair value of the Group's share in the net identifiable assets acquired by the subsidiary on the acquisition date. Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Separate goodwill is tested annually for impairment or whenever there are any impairment provisions and are recognized at cost less accumulated impairment losses. Goodwill impairment losses are not eliminated.

Goodwill is allocated to cash-generating units for impairment testing purposes. Allocation is carried out on those cash-generating units that are expected to benefit from the business combination in which goodwill is generated.

i) 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 inventories value is performed by charging expenses of the current period based on evaluation made by professional services on damage, deterioration of inventories 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 unless the circumstances that led to an earlier decrease in value or write-down of inventories, no longer exist, the value of inventories should be increased up to the cost of acquisition or the value that can be realized and consumed as such in regular production.

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

Inventories that are damaged during handling and storage, as well as inventories that lose their useful value, are determined through inventory procedures or by special commissions and, with the approval of the responsible person and in accordance with tax regulations, are written off on the account of regular operating expenses.

j) 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 foreign customers expressed in foreign exchange currencies are recorded in national currency, calculated based on mean exchange rate of the Croatian National Bank as at the date of recording the receivable. Upon collection of receivables, the differences that occur due to exchange rate are recorded as revenues or expenses of the Group.

Outstanding trade receivables from foreign customers as at the balance sheet date are reported at mean exchange rate of the Croatian National Bank and the exchange rate differences are recorded as revenues or expenses.

Receivables are initially recognized at fair value in the Group's books of account and subsequently measured at amortized cost.

The increase in interest receivable is based on the contract and default interest rate calculations. Value adjustments in respect of receivables are made on the basis that it is established that the receivable has not been collected within the due time or that it is uncollectible and claimed on court. The decision on adjusting the value of receivables is made by Management.

Value adjustments in respect of receivables are recognized in the income statement of the Group (Note 30), and as stated in Note 2.3 k) *Impairment of short-term financial assets, including receivables*.

k) Short-term financial assets

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

Short-term financial investments within one year are recorded in business books at investment cost. The value is determined for each investment. Subsequent measurement of short-term financial investments is recognized at amortized cost.

Impairment of short-term financial assets, including receivables

Estimates of future expected credit losses are made based on the average write-off rate in previous years and its application to non-revaluated short-term financial assets at the reporting date (Note 30). The Group uses a simplified approach to allocate receivables to Level 2 and Level 3 as required by IFRS 9. Receivables over 365 days are allocated to Level 3.

Upon acknowledging higher risk of collecting these assets and termination of litigations, where there is evidence of impairment, value adjustments in respect of short-term financial assets are carried out in an amount that reflects the specified parameters. The decision on value adjustments is made by Management.

l) Cash and cash equivalents

Cash and cash equivalents include money in bank, cash in register and short-term deposits. Money in bank and cash in register is recorded at nominal value in national currency. Foreign exchange funds in bank and in register is recorded at mean exchange rate of the Croatian National Bank.

Exchange rate differences arising from setting foreign exchange funds to mean exchange rate of the Croatian National Bank are recorded as revenues / expenses of the current period.

m) Prepaid expenses and accrued income

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 prepaid expenses at the end of the year creates a balance which is transferred into the following period as a balance sheet position.

Generated 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.

n) Equity

Equity is own source for financing assets. Subscribed capital is recorded in the amount that is registered in the court registry upon establishment or change of subscribed value of capital in the commercial registry.

Reserves are accounted for depending on their form and Group's policy (statutory and other).

o) Provisions

Provisions should be recognized when the Group has a present obligation (legal or constructive) because of a past event or it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at balance sheet date and adjusted to the latest best evaluations.

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

p) Long-term liabilities

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

r) Short-term liabilities

Short-term liabilities are recorded in 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 balance sheet date.

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 national currency. Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the Group.

Outstanding liabilities shown in foreign exchange currencies are being set at mean exchange rate of the Croatian National Bank as at the balance sheet date and any exchange rate differences are recorded as revenues or expenses of the Group.

s) Accrued expenses and deferred income

Expenses that occurred in the current period for which the Company did not receive invoices or documentation required for accounting purpose is incomplete, 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 expenses, since the liability will be recorded in the future period.

Incurred 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.

Those revenues not meeting the criteria to be recognized in the current period are deferred for future periods.

3. SEGMENT REPORTING

Based on IFRS 8 management approach, the Parent Company controls its activities in solely one segment, according to the specifics of the activity. Shiprepair and conversions are the main activities of the Parent Company, constitute more than 99% of sales revenues or more than 87% of total operating revenues. All processes within the main activity are interrelated by matrix organisation. Matrix organisation connects various resources provided by functional organisational units needed to realize several concurrent projects. The Parent Company uses its non-direct resources and infrastructure which cannot be allocated to each project, for all projects within shiprepair activities. Profitability of each project vary depending on availability of needed resources, especially labour force, which are combined depending on level of their employment. Each project has its own specificities due to client's requirements and needs, requiring different approaches in combining production trades. Such business environment does not allow segment reporting of organisational units or activities.

The Parent Company monitors its operations by projects that combine different trades in production activities in different proportions depending on specifications of the required works for each project. Internal managerial reports are used for whole segment of activity, in which business performance indicators are based on gross margin (relation between revenues and direct costs) and EBITDA (earnings before interest, taxes, depreciation, and amortization).

The Parent Company's subsidiary VL Steel d.o.o. participates in its main activity providing services that are closely related to the Parent Company's activities, so there can be no different segments of activities. In the Parent Company's business model, the subsidiary acts as a subcontractor in periods of high occupancy rates or in projects where the Parent Company does not have its own or does not have a sufficient number of its own workers. A smaller part of the subsidiary's income is generated by providing services to third parties, which makes better use of its own capacity. It is to be noted that the subsidiary has a total impact of only 1% to the consolidated financial statements.

4. SALES REVENUE

HRK

	2020	2021
Revenues from sales on domestic market	22.211.794	26.746.663
Revenues from sales on foreign market	242.799.186	230.243.155
Total	**265.010.980**	**256.989.818**

Structure of revenues from sales:

HRK

	Domestic market	Foreign market	Total
Shiprepair	24.590.768	230.218.584	254.809.352
Other services	2.155.895	24.571	2.180.466
Total	**26.746.663**	**230.243.155**	**256.989.818**

The Parent Company has applied IFRS-15 *Revenue from Contracts with Customers* for presentation of the value of works carried out or revenue generated per ship, four of them, onboard which works were in progress on 31 December 2021. Of the total amount of sales revenue, HRK 31,442,876 related to revenue reported in accordance with IFRS 15. Most of these revenues were generated from projects completed for foreign clients.

5. OTHER REVENUES

HRK

	2020	2021
Revenues received from the use of own products, goods and services	23.271.878	34.102.986
Revenues from sale of material	5.614.403	3.753.932
Rentals	1.111.935	1.097.707
Income from reversal of long-term provisions *(Note 24)*	1.592.698	1.059.647
Insurance claim income	1.388.901	303.255
Income from collecting accounts receivable previously written-off	463.222	0
Revenues from sale of property, plant and equipment	1.422	81
Income from discontinued liabilities	112	353
Retrospectively estimated income from past years	119.658	0
Inventory material surplus	103.603	459.988
Income from job preservation government aid for businesses affected by the Coronavirus pandemic	6.258.163	0
Income from adjusting expected credit losses (IFRS 9)	410.684	249.617
Other revenues	665.548	1.220.724
Total	**41.002.227**	**42.248.290**

Revenues received from the use of own products, goods and services involved the Parent Company's investments in own production equipment, primarily Dock 5 and Dock 11 to increase the dock value and extend their service life.

Revenue from sale of materials generally refer to revenue received from sale of materials to subcontractors on turnkey basis where such materials are incorporated into shiprepair project works including revenue from sale of waste or secundary raw material resulting from the Parent Company's core activities. Revenues from sale of waste were significantly lower than such revenues generated in the same period last year when they had been extremely increased due to a project of removal of part of the steel structure on board the Yan.

Rental income referred to revenues generated from leasing commercial premises and production equipment to subcontractors that participate in production activities of the Parent Company.

Income from reversal of long-term provisions reported in the current period in the amount of HRK 1,059,647 involved reversal of provisions for allowances for unused annual leave for 2020 involving the employees of the Parent Company in the amount of HRK 983,307 and reversal of provisions on the account of completed legal proceedings in the amount of HRK 76,340.

There was no job preservation aid in 2021, unlike in 2020 when Group used the job preservation government aid for businesses affected by the Coronavirus pandemic totalling HRK 6,258,163 (HRK 522,425 for VL Steel d.o.o.) paid for the period March - May 2020.

Other revenues generated in 2021 included damages collected, write-off of liabilities and expense reimbursement, and as a novelty in our business in 2021, the Parent Company earned a return based on the savings achieved as a result of improved energy efficiencies and reduced carbon emissions.

6. MATERIAL EXPENSES AND COST OF GOODS SOLD

HRK

	2020	2021
Raw and other material		
Consumed raw and other material	31.116.821	38.741.106
Consumed energy	11.103.750	10.365.693
Small inventory and spare parts	627.477	458.072
Total raw and other material	**42.848.048**	**49.564.871**
Other external expenses		
Services used in production of outputs	63.175.145	48.834.063
Subsupplier services	35.106.363	54.586.508
Maintenance services	6.999.842	7.378.188
Rental expenses	1.681.943	1.017.161
Intellectual services	1.416.030	2.509.316
Intellectual services – related parties	813.697	812.336
Transportation, phone, post and similar services	563.107	390.393
Other services	1.010.943	1.290.186
Total other external expenses	**110.767.070**	**116.818.151**
Total material expenses	**153.615.118**	**166.383.022**

Services used in production of outputs are subcontractor costs. Subsupplier services are third-party services that are normally provided outside the Group's location or are carried out by means of service providers.

Rental expenses referred to variable costs of equipment leases for production purposes, depending on specific requirements of each project and are, as a rule, one-off costs that vary on production capacity and volume.

Intellectual services referred to various services of lawyers, notaries, environmental impact monitoring institutions, various expert technical and business services, which included financial audit services and tax consulting services.

The cost of legal representation of the Parent Company in 2021 amounted to HRK 260,169 (2020: HRK 261,388). This amount related entirely to the services provide by domestic law firms. Since the Parent Company does not have its own legal department, legal services are outsourced when required. The subsidiary VL Steel d.o.o. did not record any legal services throughout the 2020-2021.

In 2021, the expenses of auditing financial statements amounted to HRK 160,000 (2020: HRK 168,000), and the tax consulting service expenses amounted to HRK 48,000 (2020: HRK 48,000). These expenses related entirely to the Parent Company.

The Company uses technical, market and other consulting services from a related party or a company that belongs to the Palumbo Group, which is the largest individual shareholder of the Parent Company, whose expenses in 2021 amounted to HRK 812,336 (2020: HRK 813,697).

7. EMPLOYEE COST

HRK

	2020	2021
Net salaries and wages	37.226.596	37.615.346
Social security contributions and taxes paid by employer	15.435.002	14.707.659
Social security contributions and taxes paid by employee	9.184.924	9.152.933
Severance pays	229.323	648.488
Compensations for travelling costs, daily allowances, annual bonuses	5.696.658	5.118.862
Total	**67.772.503**	**67.243.288**

Compensations are paid to employees by the Group under the Collective Agreement.

In 2021, compared to the same period of the previous year, the Parent Company's total employee costs were lower due to the reduction in the number of employees, however, part of the savings is aimed at increasing salaries of the remaining employees, so the total reduction in employee costs is not in line with the percentage decline in the number of employees.

8. DEPRECIATION

HRK

	2020	2021
Intangible assets, property, plant and equipment	31.496.114	34.458.198
Total	31.496.114	34.458.198

The increase in depreciation expense in 2021 compared to the previous year was the result of the application of accelerated depreciation method on Dock 5 owned by the Parent Company. Although the Parent Company has been investing in increasing the value and extending the life of the floating dock, the Parent Company had reviewed the remaining service life, which is why such a decision was made. The application of accelerated depreciation rates with respect to certain assets compared to the rates applied in the previous year, resulted in an increased amount of depreciation for 2021 in the amount of HRK 1,349,751.
Of the total amount of depreciation, HRK 38,549 related to the subsidiary VL Steel d.o.o.

9. VALUE ADJUSTMENTS

For the year 2021, the Group recorded value adjustments in the amount of HRK 25,101 (2020: HRK 10,952), of which the amount of HRK 11,541 (2020: HRK 0) involved the subsidiary VL Steel whereas the Parent Company recorded HRK 13,560 (2020: HRK 10,952) accounted for definitive write-off of trade receivables (see Note 18).

10. PROVISIONS

For the year 2021, the Group made provisions for expenses in a total amount of HRK 1,890,155 (2020: HRK 1,202,687), of which HRK 1,593,637 (2020: HRK 983,307) involved provisions for allowances for unused annual leave and HRK 296,518 to provisions for litigation initiated in 2021 (2020: HRK 219,380).

11. OTHER EXPENSES AND OTHER OPERATING EXPENSES

Other expenses:

HRK

	2020	2021
Insurance premiums	3.072.396	3.028.052
Utility, concession and other public fees	2.985.605	2.631.873
Representation and gifts	585.914	483.388
Bank services	194.429	215.974
Other expenses	1.271.842	1.161.878
Total other expenses	**8.110.186**	**7.521.165**

Utility, concession and other fees included utility fees paid by the Parent Company in favour of the Municipality of Kostrena, fees for the use of maritime good, fees for water protection, use of technological water, use of public forest, fee for membership in the Croatian Chamber of Commerce and other fees.

Other expenses are expenses such as education, personal protective equipment, other occupational health and safety related expenses, and remuneration of the members of the Parent Company's Supervisory Board.

Other operating expenses:

In 2021, the Group incurred other operating expenses in the amount of HRK 228,484 (2020: HRK 515,688), which related to the deficit in inventories and the carrying amount of depreciated tangible assets, and other operating expenses, as below:

HRK

	2020	2021
Deficit in inventories	67.561	10.860
Tangible fixed assets written off	28.326	74.717
Other operating and extraordinary expenses	419.801	142.907
Total other operating expenses	**515.688**	**228.484**

Other operating and extraordinary expenses are subsequently determined expenses incurred in relation to projects of the previous business year, requests for refund by the Croatian Pension Insurance Institute for paid disability pensions for which the Institute charges the Group, and value adjustments in respect of receivables from business relations other than trade receivables.

12. FINANCIAL INCOME AND EXPENSES

HRK

	2020	2021
Financial income		
Interests	199.560	210.981
Net foreign exchange gain	509.300	2.576.807
Total financial income	708.860	2.787.788
Financial expenses		
Interests	1.697.310	1.244.379
Net loss from sale of securities	67.383	0
Total financial expenses	1.764.693	1.244.379
Net financial expenses	(1.055.833)	1.543.409

In 2021, the Group generated foreign exchange gains in a total amount of HRK 5, 424,474 (2020: HRK 3,932,095), and foreign exchange loss in the amount of HRK 2,847,667 (2020: HRK 3, 422,795), as a result of which net foreign exchange gain amounted to HRK 2,576,807 (2020: HRK 509,300).

13. PROFIT TAX

The Group generated a profit of HRK 23,032,104 as a difference in revenues and expenses generated in the period from 1 January 2021 to 31 December 2021. After accounting for the increase and decrease of the tax liability, the profit tax liability amounted to HRK 4,182,286 involving entirely the Parent Company, considering that the subsidiary VL Steel previously operated at a loss and has no tax liability.
In 2021, based on deferred tax assets in the amount of HRK 39,712, the Parent Company used HRK 7,148 of previously paid profit tax, arising from the inventories previously written off, which were spent in this tax period. During 2021, the Parent Company paid HRK 1,792,256 of profit tax advances, which it has the right to increase by an additional HRK 202,522 of profit tax advances paid in January 2022, which amounts to a total of HRK 1,994,778, as a result of which the obligation to pay the profit tax difference remains HRK 2,180,360.

HRK

	2020	2021
Accounting profit before taxation	42.234.126	23.032.104
Profit tax rate 18%	**7.602.143**	**4.145.779**
Effect of non-deductible costs	157.800	96.406
Effect of deductible costs	(1.212.756)	(60.086)
Other	3.900	187
Total	**6.551.087**	**4.182.286**
Amount of tax loss for which no deferred tax assets are recognized	(9.417)	(7.148)
Cost of profit tax	**6.541.670**	**4.175.138**

The effect of non-taxable income for 2021 shown in the table is significantly lower than in 2020 (HRK 1,212,756), and it mostly referred to non-taxable income based on government aid received by the Group as job preservation measure for businesses affected by the coronavirus pandemic, while in 2021 there was no such aid.

Of the total stated profit tax liability in the amount of HRK 4,175,138 for 2021, HRK 4,182,286 related to the current tax expense for the period, and the remaining HRK 7,148 involved recognized deferred tax assets from the previous period.

In accordance with tax regulations, the tax administration may at any time review the Group’s books and records for a period of six years after the end of the year in which the tax liability is stated, and in case of irregularities impose additional tax liabilities and penalties. The Company’s Management is not aware of any circumstances that could lead to irregularities in the reported tax liabilities, and thus to potentially significant liabilities based on possible controls.

14. FIXED TANGIBLE AND INTANGIBLE ASSETS

HRK

Description	Land	Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investment in real-estate	Investment in tangible assets in progress	Advances for tangible assets	Total tangible assets	Intangible assets	Investment in intangible assets in progress	Total
ACQUISITION VALUE											
Status as at 1 Jan 2020	12.504.214	67.114.923	670.233.416	78.981.652	0	3.888.496	0	**832.722.701**	18.828.655	0	**851.551.356**
Transfer from investments in tangible assets in progress and advances	0	0	28.818.445	2.591.061	0	(31.409.506)	0	**0**	680.511	(680.511)	**0**
Acquisition throughout the year	0	0	0	0	0	28.451.680	1.402.304	**29.853.984**	0	680.511	**30.534.495**
Sold and written-off	0	0	(915.769)	(734.664)	0	0	0	**(1.650.433)**	0	0	**(1.650.433)**
Value derecognition	0	0	(3.917.077)	0	0	**0**	**0**	**(3.917.077)**	**0**	**0**	**(3.917.077)**
Transfer from assets held for sale	0	0	0	0	3.136.593	**0**	**0**	**3.136.593**	**0**	**0**	**3.136.593**
Status as at 31 Dec 2020	12.504.214	67.114.923	694.219.015	80.838.049	3.136.593	930.670	1.402.304	**860.145.768**	19.509.166	0	**879.654.934**
Transfer from investments in tangible assets in progress and advances	0	0	39.282.425	747.856	0	(40.030.281)	0	**0**	148.288	(148.288)	**0**
Acquisition throughout the year	0	0	0	0	0	39.628.437	(1.396.229)	**38.232.208**	0	148.288	**38.380.496**
Sold and written-off	0	0	(3.447.340)	(792.821)	0	0	0	**(4.240.161)**	0	0	**(4.240.161)**
Status as at 31 Dec 2021	12.504.214	67.114.923	730.054.100	80.793.084	3.136.593	528.826	6.075	**894.137.815**	19.657.454	0	**913.795.269**
VALUE ADJUSTMENTS											
Status as at 1 Jan 2020	**6.958.527**	**64.983.258**	**419.264.171**	**69.892.834**	**0**	0	0	**561.098.790**	**13.351.316**	0	**574.450.106**
Depreciation throughout the year	**0**	179.840	28.859.187	1.636.206	0	0	0	**30.675.233**	820.881	0	**31.496.114**
Sold and written-off throughout the year	**0**	0	(889.320)	(727.990)	0	0	0	**(1.617.310)**	0	0	**(1.617.310)**
Attribution of the subsidiary assets	**0**	0	93.669	35.472	0	0	0	**129.141**	0	0	**129.141**
Value derecognition	**0**	0	(3.917.077)	0	0	0	0	**(3.917.077)**	0	0	**(3.917.077)**
Transfer from assets held for sale	**0**	0	0	0	1.129.357	0	0	**1.129.357**	0	0	**1.129.357**
Status as at 31 Dec 2020	**6.958.527**	**65.163.098**	**443.410.630**	**70.836.522**	**1.129.357**	**0**	0	**587.498.136**	**14.172.197**	0	**601.670.331**
Depreciation throughout the year	0	177.953	31.845.623	1.874.151	0	0	0	**33.897.727**	560.471	0	**34.458.198**
Sold and written-off throughout the year	0	0	(3.387.369)	(752.991)	0	0	0	**(4.140.358)**	0	0	**(4.140.358)**
Status as at 31 Dec 2021	**6.958.527**	**65.341.051**	**471.868.884**	**71.957.684**	**1.129.357**	**0**	**0**	**617.255.503**	**14.732.668**	**0**	**631.988.171**
BOOK VALUE 31 DEC 2020	**5.545.687**	**1.951.825**	**250.808.385**	**10.001.527**	**2.007.236**	**930.670**	**1.402.304**	**272.647.634**	**5.336.969**	**0**	**277.984.603**
BOOK VALUE 31 DEC 2021	**5.545.687**	**1.773.872**	**258.185.216**	**8.835.399**	**2.007.236**	**528.826**	**6.075**	**276.882.311**	**4.924.786**	**0**	**281.807.097**

During 2021, investments in fixed assets related to own investments in floating docks and the acquisition of production and business assets made by the Parent Company.

Part of the Parent Company's fixed tangible assets serves as collateral for financial loans (Note 30). Net book value of these assets as at 31 December, 2021 amounted to HRK 229,694,072 (2019: HRK 222,712,357).

Business premises having a surface area of 190 sq.m. located in the centre of Rijeka, which the Parent Company owns, have been rented for a period of 5 years.

The 2021 depreciation rate at the reporting date was 69% (2020: 69%).

15. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – INVESTMENT SECURITIES

Parent Company owns 3,720 shares in Valamar Riviera Poreč, having a total nominal value of HRK 37,200, which, in accordance with the notification of the Central Depository and Clearing Company of Zagreb were reduced to the market share value of HRK 114,576 as at 31 December, 2021 (HRK 110,112).

Parent Company owns 5,000 shares of Uljanik d.d. having a total nominal value of HRK 450,000. In previous years, the Parent Company had adjusted the value of these shares in accordance with the notifications of the Central Depository and Clearing Company of Zagreb on the prices of securities listed on the Zagreb Stock Exchange. On 31 December 2019, the Parent Company made value adjustments in respect of the shares in full because the Uljanik company has been undergoing bankruptcy proceedings, so that the reported value of these shares at the reporting date was HRK 0 (2020: HRK 0).

16. FINANCIAL ASSETS MEASURED AT AMORTIZED COST - DEPOSITS

Long-term financial assets in the amount of HRK 8,460,314 (2020: HRK 8,482,011) related to a cash deposit on a long-term investment loan granted to the Parent Company in the amount of HRK 8,268,891 (2020: HRK 8,290,588) and to a deposit held to secure long-term liabilities to HEP ESCO in the amount of HRK 191,423 (2020: HRK 191,423).

17. INVENTORIES

HRK

	31.12.2020	31.12.2021
Raw and other material	14.528.060	16.175.828
Fabrication of flanges	133.848	0
Small inventory	8.962.492	9.067.218
Value adjustments in respect of small inventory	(8.962.492)	(9.067.218)
Total	**14.661.908**	**16.175.828**

The reason for the increase in the value of material stocks at the end of 2021 compared to the end of the previous year, lies primarily in changes in prices of certain items, especially steel and other materials from the group of ferrous metallurgy, where the effect of rising prices of only these types of materials on the quantitative balance at the end of 2021, was more than HRK 1.3 million. By inventory carried out on 31 December 2021, the Company determined a surplus of material stocks, which significantly exceeded the identified shortage of material stocks, therefore, at the end of 2021 the inventories value increased by HRK 449,128 (2020: HRK 36,042).

By inventory carried out on 31 December 2021, the Parent Company determined a shortage of material stocks in a total amount of HRK 10,860 (2020: HRK 67,561), and a surplus of material stocks in the amount of HRK 459,988 (2020: HRK 103,603), which occurred in technological processes, and could not be offset for tax reasons. The determined deficit and surplus represented about 1.2% of the total materials consumed during 2021.

18. TRADE AND OTHER RECEIVABLES

HRK

	31.12.2020	31.12.2021
Receivables from customers - gross	*71.161.199*	*37.640.797*
Receivables from customers – impairment	*32.909.366*	*24.861.787*
Receivables from customers – net	38.251.833	12.779.010
Receivables from employees	226.229	214.170
Receivables from state	5.058.089	7.404.819
Prepaid expenses and accrued income	7.276.854	39.300.458
Advances	1.365.875	2.009.731
Other receivables	72.500	0
Total	**52.251.380**	**61.708.188**

Trade receivables reported as at 31 December 2021 mainly involved the Parent Company’s receivables, which decreased significantly compared to the previous year since at the end of 2021 the Parent Company had several ongoing projects for which the conditions for issuing invoices were not met, but the Parent Company accounted for revenues based on the stage of completion (IFRS 15). Thus, the counterpart to recognized income are accruals and deferrals instead of trade receivables, which is why there was an increase in accrued income in accruals and deferrals. Out of the total amount of HRK 39,300,458 accounted for prepaid expenses and accrued income, HRK 31,442,876 related to accrued income in accordance with IFRS 15 'Revenue from Contracts with Customers', based on four shiprepair projects that were in progress on 31 December 2021.

Receivables from the state in the amount of HRK 7,404,819 (2020: HRK 5,058,089) related to receivables received from value added tax refunds in the amount of HRK 7,219,175 (2020: HRK 4,918,379) and to receivables received from sick leave pay paid at the expense of the Croatian Health Insurance Fund in the amount of HRK 185,334 (2020: HRK 119,573) and receivables received on the account of overpaid forest contributions in the amount of HRK 310 (2020: HRK 4,613). In addition to the above receivables from the state in 2020, the amount of HRK 14,785 referred to receivables received on the account of overpaid income tax as well as receivables received from the Environmental Protection Fund in the amount of HRK 739.

According to IFRS 9 requirements, the Group carried out value adjustments in respect of receivables from customers for the period from 2018 to 2021.

Age structure of matured receivables from customers:

HRK

	31.12.2020	31.12.2021
1-90 days	29.310.868	6.584.907
91-180 days	77.264	440.054
181-365 days	2.671.993	3.248.085
Over 365 days	6.538.933	2.603.573
Value adjustments in respect of receivables	(347.225)	(97.609)
Total	**38.251.833**	**12.779.010**

Most overdue receivables of more than 180 or 365 days included receivables from uncollected berthing fees relating to Delphin, as secured by maritime privilege and lawsuits, which ended in 2022 when the court decided that the ship would be sold, and the Parent Company expects to collect receivables from that sale.

Age structure of impaired receivables from customers:

HRK

	31.12.2020	31.12.2021
1-90 days	0	0
91-180 days	0	0
181-365 days	0	0
Over 365 days	32.562.141	24.764.178
Value adjustments in respect of receivables	347.225	97.609
Total	**32.909.366**	**24.861.787**

Trade receivable structure by currency:

HRK

	31.12.2020	31.12.2021
HRK	11.986.859	7.201.663
EUR	26.612.199	5.347.177
USD	0	327.779
Value adjustments in respect of receivables	(347.225)	(97.609)
Total	**38.251.833**	**12.779.010**

Structure of trade receivables by markets:

HRK

	31.12.2020	31.12.2021
Croatia	11.995.904	7.201.663
Italy	7.000.741	59.987
USA	0	1.633.299
Norway	2.562.545	0
Germany	0	328.068
Cyprus	7.913.743	0
Greece	2.102.795	0
Other countries	7.023.330	3.653.602
Value adjustments in respect of receivables	(347.225)	(97.609)
Total	**38.251.833**	**12.779.010**

19. CASH AND CASH EQUIVALENTS

HRK

	31.12.2020	31.12.2021
Money in bank	34.665.095	35.401.910
Cash in register	23.420	26.306
Deposit	862.844	0
Total	**35.551.359**	**35.428.216**

20. EQUITY AND RESERVES

On 31 December 2021, the issued share capital of the Parent Company, fully paid, amounted to HRK 168,132,470 and was divided in 16.813.247 ordinary shares each having a nominal value of HRK 10.

Owners of ordinary shares are entitled to dividends and one vote per share.

On 31 December 2021, the Parent Company owned 825.187 of own shares (31 December 2020: 825.187), making 4.91% of the share capital.

On 31 December 2021, the Parent Company’s statutory reserves amounted to HRK 8,406,623 (2020: HRK 8,406,623). The statutory reserves were formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserves until it grows to 5% of the issued share capital. The Parent Company's reserves were also increased during 2020 based on the transfer of capital, reserves and retained earnings of the subsidiary company Viktor Servisi d.o.o. to the Parent Company upon cessation of its business.

Statutory reserves, which amounted to 5% of equity and reserves for own shares in the amount of HRK 20,946,623 (2020: HRK 20,946,623) cannot be allocated between shareholders.

21. DEBENTURES WITH INTEREST CHARGE

Zaduženja na koja se obračunavaju kamate prema dinamici otplate na dan 31. prosinca 2021. godine i kako slijedi:

HRK

	31.12.2020					31.12.2021				
	Total	1 year or less	2-5 years	More than 5 years	Total long-term portion	Total	1 year or less	2-5 years	More than 5 years	Total long-term portion
Long-term investment loan	28.048.540	10.199.469	17.849.071	0	17.849.071	17.849.071	10.199.469	7.649.602	0	7.649.602
Long-term loan for purchase of equipment	3.150.000	900.000	2.250.000	0	2.250.000	5.238.411	1.497.682	3.740.729	0	3.740.729
Financial lease	4.245.026	1.328.593	2.670.992	245.441	2.916.433	2.907.480	862.535	1.800.146	244.799	2.044.945
Short-term working capital loan	10.784.204	10.784.204	0	0	0	2.300.221	2.300.221	0	0	0
Total	**46.227.770**	**23.212.266**	**22.770.063**	**245.441**	**23.015.504**	**28.295.183**	**14.859.907**	**13.190.477**	**244.799**	**13.435.276**

Long-term investment loan refers to a loan approved by Croatian Bank for Reconstruction and Development through a commercial bank in 2012 for the purchase of a new floating dock (Dock RI-38), dock cranes, UHPWJ equipment and other production equipment totalling HRK 69 million. The repayment of the loan principal began in 2015, for a period of 8 years, and ends in 2023. The long-term loan for purchase of equipment refers to purchase of energy - saving lighting and expires in 2024 (total liability on 31 December 2021: HRK 2,250,000), respectively the upgrade of the efficient energy ship supply system that expires at the end of 2026 (total liability: 31 December 2021: HRK 2,988,411).

Financial lease involved purchase of production equipment, and HRK 132,604 (2020: HRK 296,274 for purchase of 3 passenger cars) as reported at the end of the year related to purchase of 2 passenger cars.

A working capital loan in the amount of HRK 2,300,221 (2020: HRK 10,784,204) related to overdrafts on the HRK account (2020: HRK 8,271,905), which the Parent Company uses to optimize exchange rate differences. In 2021, there were no short-term working capital loans, unlike in 2020, when the loan amounted to HRK 2,512,299.

22. TRADE AND OTHER LIABILITIES

HRK

	31.12.2020	31.12.2021
Trade payables	28.709.767	35.213.579
Trade payables – related parties	135.664	135.309
Employee payables	4.335.594	3.647.459
Tax and contribution	3.079.816	3.404.958
Received advances	926.466	8.284.998
Other liabilities	3.432.460	3.448.609
Accrued expenses and deferred income	3.423.948	9.167.928
Total	**44.043.715**	**63.302.840**

The increase in trade payables was due to increased occupancy as recorded by the Parent Company at the end of 2021 and several major shiprepair projects still ongoing at the turn of the year.

The largest portion of other liabilities related to the current maturity of liabilities to HEP ESCO company in the amount of HRK 2,562,281 (2020: HRK 2,562,281) involving two commodity loans related to energy efficiency projects undertaken by the Parent Company in previous years.

As at December 31, 2021, the Parent Company recorded expenses in the amount of HRK 1,758,627 (2020: HRK 3,423,948) relating to accrued expenses for which invoices have not yet been received but a contractual obligation exists therefrom, and the agency fees and other expenses. In 2021, the Parent Company accounted for a total of HRK 7,409,301 of revenues with respect to which, pursuant to IFRS 15 *Revenue from Contracts with Customers*, conditions for their recognition were not met, whereas in 2020 there were no such revenues. The subsidiary did not record accrued costs or accrued revenues throughout the year 2021, while in 2020 it recorded an amount of HRK 15,000 of accrued costs.

Structure of trade payables by currency:

HRK

	31.12.2020	31.12.2021
HRK	27.421.806	30.967.100
EUR	1.324.516	4.359.486
USD	99.109	22.302
Total	**28.845.431**	**35.348.888**

23. RELATIONS WITH RELATED PARTIES

Transactions between related companies are carried out under normal market conditions.

HRK

Related companies and key shareholders	2020	2021
Purchase from related companies		
Purchase from key shareholders	**813.697**	**812.336**
Palumbo Malta Superyachts Ltd (belonging to the Palumbo Group)	813.697	812.336
Receivables from related companies		
Receivables from key shareholders		
Palumbo Group	0	0
Liabilities to related companies		
Liabilities to related parties	**135.664**	**135.309**
Palumbo Malta Superyachts Ltd (belonging to the Palumbo Group)	135.664	135.309

During 2021, the Parent Company procured services from a company that belongs to the Palumbo Group in the amount of HRK 812.336 (2020: HRK 813,697), which resulted in the liabilities to the company Palumbo Malta Superyachts Ltd in the amount of HRK 135.309 as at 31 December 2021 (2020: HRK 135,664).

Key management

On 31 December 2021, the Management Board of the Parent Company was composed solely of one member, Sandra Uzelac, representing the Parent Company individually and independently.

Marko Sobotinčić is holding position of a member of the Management Board in VL Steel and is also a minority member of the related company.

The gross salary cost of the Group's Management Boards for 2021 amounted to HRK 1,032,094 (2020: HRK 989,018). During the year, members of the Parent Company's Supervisory Board received compensation in the total gross amount of HRK 148,854 (2020: HRK 101,182). All foreign members of the Supervisory Board had waived their remuneration until mid-December 2020 and it was not paid to them, which is why the amount of these benefits in 2020 was significantly lower than the benefits paid in 2021.

The Company has not granted any loans to the members of the Supervisory Board or the Management Board of the Parent Company.

24. PROVISIONS

Long-term provisions in the amount of HRK 926,706 (2020: HRK 837,528) related to provisions made by the Parent Company for initiated legal proceedings.

Short-term provisions in the amount of HRK 1,593,637 (2020: HRK 983,307) related to provisions for unused annual leave allowances for 2021.

	Court cases	Annual leave	Other	Total
Status 1 January 2020	**1.405.998**	**1.519.434**	**79.963**	**3.005.395**
Provisions reversed	0	(1.519.434)	(79.963)	(1.599.397)
Actualised	(727.850)	0	0	(727.850)
New provisions	159.380	983.307	0	1.142.687
Status 31 December 2020	**837.528**	**983.307**	**0**	**1.820.835**
Provisions reversed	(76.340)	(983.307)	0	**(1.059.647)**
Actualised	(131.000)	0	0	**(131.000)**
New provisions	296.518	1.593.637	0	**1.890.155**
Status 31 December 2021	**926.706**	**1.593.637**	**0**	**2.520.343**

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 December 2021 in the amount of HRK 7,510,970 (2020: HRK 9,868,222) related to the Parent Company’s liabilities to HEP ESCO company for implemented energy efficiency projects in the amount of HRK 3,329,260 (2020: HRK 5,694,442) and contingent liabilities for disputed claims of bankruptcy creditors and associated litigation costs (incurred in 2004, shortly after the opening of bankruptcy proceedings, ended in 2008) in the amount of HRK 4,171,874 (2020: HRK 4,173,780), involving legal proceedings which have not yet been finalized including a rental cash inflow in the amount of HRK 9,836 (2020: HRK 0).

26. RISK MANAGEMENT

Group's activities expose it to various financial risks, including the effects of changes in market prices, changes in foreign exchange rates, liquidity risk and default risk. The Group does not use derivative financial instruments as an active hedge against financial risk exposure.

Equity management

The main goal of equity management is to ensure support to business operations and maximize shareholder value. The Group adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust its equity structure, the Group may re-adjust dividend pay-outs or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years ended December 31, 2021 and December 31, 2020.

Indicators of the Group's indebtedness are shown in the table below.

	31.12.2020	31.12.2021
Total interest-bearing debt (long-term and short-term loans) (Note 21)	46.227.770	28.295.183
Less: Cash and cash equivalents (Note 19)	35.551.359	35.428.216
Long-term deposit (Note 16)	8.290.588	8.268.891
Net debt	**2.385.823**	**(15.401.924)**
Equity and reserves	281.299.648	300.153.126
Total equity and reserves and net debt	**283.685.471**	**284.751.202**
Indicator of indebtedness	***1%***	***-5%***

Currency risk

Parent Company receives most of its sales revenue from sales on the international market, mainly in euro, and in US dollars when it comes to special projects. The movements of the EUR to HRK and USD to HRK exchange rates can, therefore, affect the operating results. However, due to a relatively high accounts receivable turnover ratio and high foreign exchange ratio, the currency risk is not significant, and the Company does not use active hedging techniques with regard to foreign currency transactions. On the other hand, the Company's liabilities have not been exposed to significant currency risk, since most of these liabilities are denominated in national currency (HRK). The US Navy projects, which are contracted in the US dollar currency, may, due to currency oscillation, result in somewhat bigger exchange rate differences, both negative and positive. However, even such transactions are characterized with a high turnover ratio with regard to procurement, realization, invoicing, collection and conversion of foreign currency into domestic currency, so the risk of pricing a contract in US dollar currency is not considered particularly significant. The Group achieved exchange rate gains based on the movements of the USD exchange rate in 2021, taking into account the movements of the EUR/USD exchange rates and, accordingly, daily activities related to exchanging EUR and USD currencies into domestic currency. With the introduction of the EUR currency in the Republic of Croatia and its accession to the EU Economic and Monetary Union scheduled for early 2023, Viktor Lenac expects that the Company's internal processes would be simplified, without negative effects, since the Company generates most revenues in euro and US dollars, and most external costs are linked to the EUR currency.

The currency structure of trade receivables and trade payables, as items of assets and liabilities that are moderately exposed to currency risk, is disclosed in Notes 18 and 22.

The balance of assets, liabilities and capital by currency is presented below:

	31.12.2020			31.12.2021		
	HRK	EUR/USD u HRK	Ukupno	HRK	EUR/USD u HRK	Ukupno
Short-term assets	33.885.092	68.579.555	102.464.647	38.759.267	74.552.965	113.312.232
Long-term assets	278.778.339	8.290.588	287.068.927	282.598.149	8.268.891	290.867.040
Total assets	**312.663.431**	**76.870.143**	**389.533.574**	**321.357.416**	**82.821.856**	**404.179.272**
Short-term liabilities	68.189.418	6.310.130	74.499.548	69.320.238	12.819.028	82.139.266
Long-term liabilities	30.917.818	2.816.560	33.734.378	17.467.815	4.419.065	21.886.880
Total liabilities	**99.107.236**	**9.126.690**	**108.233.926**	**86.788.053**	**17.238.093**	**104.026.146**
Equity – Net assets	**213.556.195**	**67.743.453**	**281.299.648**	**234.569.363**	**65.583.763**	**300.153.126**

The sensitivity analysis, assuming a +/- 1% change in the exchange rate, reveals the following impacts:

	31.12.2020		31.12.2021	
Description	Impact of exchange rate change (+1%) in million HRK	Impact of exchange rate change (-1%) in million HRK	Impact of exchange rate change (+1%) in million HRK	Impact of exchange rate change (-1%) in million HRK
Impact of change - Assets	0,8	-0,8	0,8	-0,8
Impact of change - Liabilities	-0,1	0,1	-0,2	0,2
Net impact - Financial position	**0,7**	**-0,7**	**0,6**	**-0,6**

Considering the financial position at the reporting date, if the exchange rate of the national currency against EUR and / or USD would increase (weaken) by 1%, if all other indicators remain unchanged, according to the Management such a change, resulting from gains and losses of exchange rate differences related to contractual relationships with suppliers or customers, received loans and given deposits, would not have a significant impact on total assets and net profit for the reporting period. In such a case, the impact on the net result would amount to around HRK 655 thousand (2020: HRK 800 thousand), negative in the case of strengthening of the national currency, while in the case of weakening of the national currency against EUR and / or USD the impact would be positive because the Company is an exporter, while at the same time procuring a small share of resources on the foreign market in foreign currency or with a currency clause pegged to a foreign currency.

Interest rate risk

Interest rate risk considers the Parent Company, since the subsidiary VL Steel does not have credit in any significant amount nor it has any significant interest-bearing assets. Except for long-term deposits that are less sensitive to interest rate changes, the Parent Company has not any significant interest generating assets which would be under influence of interest rate changes. As for the liabilities, the long term investment loan interest rate is determined by the bank and is not prone to changes due to the interest rate setting methodology. A major part of other loans carry a fixed interest rate, therefore, the risk of interest rate changes is materially insignificant with respect to the financial statements. Short-term loans and borrowings received from commercial banks have a high turnover ratio and are negotiated depending on specific production purposes and consequently do not bear significant interest rate risks.

Default risk

Default risk is associated with the other party to a contract not meeting its obligations that could produce a monetary loss, primarily referring to trade receivables. The Parent Company/Group uses different payment terms depending on client's financial capability assessment. The objective of the Group and Parent Company is to do business with steady customers, whose credibility can be assessed more safely having in mind long-term cooperation. In case there is a higher payment risk, the objective is to agree payment in full before redelivery. Guarantees and payment security instruments are not usual in shiprepair activities, but the Parent Company can exercise its right to arrest a ship in any port in accordance with maritime law, as a mean of recovery. Trade receivables involve many customers, so the payment risk is dispersed. Trade receivables are discounted for doubtful receivables that generally make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus concerning the Parent Company/Group.

Liquidity risk

Liquidity risk aka cash flow risk is related to default risk and market risk, which involves oscillations in the capacity utilisation rate. The Parent Company manages the liquidity risk through continuous monitoring of the projected and actual cash flows. For larger projects, which can significantly affect outflows, especially in the preparatory phase of project when there are no inflows, the Parent Company uses short-term loans for project financing.

Following is the analysis of the remaining period until expected maturity date of unliquidated financial assets and receivables and negotiated maturity dates of financial liabilities of the Parent Company. This analysis provides a better comprehension of modalities the Parent Company uses to manage liquidity risk based on net amounts of assets and liabilities.

000 HRK

	Structure of maturity buckets					Ukupno
	up to 1 m	1 – 3 m	3 m - 1 y	1 – 5 y	over 5 y	
Assets, status 31 December 2021						
With interests	35.785	0	0	8.269	0	44.054
Interests free	2.474	5.030	44.740	234	0	52.478
Total	**38.259**	**5.030**	**44.740**	**8.503**	**0**	**96.532**
Liabilities, status 31 December 2021						
With interests	6.380	510	11.618	14.042	290	32.840
Interests free	27.290	17.380	9.331	3.329	0	57.330
Total	**33.670**	**17.890**	**20.949**	**17.371**	**290**	**90.170**
Net liabilities	**4.589**	**(12.860)**	**23.791**	**(8.868)**	**(290)**	**6.362**

Fair value

Group calculates the fair value estimate of a financial asset or liability, following which, if necessary, value adjustments are made. It has been established that the fair value does not differ from the book value in an amount that would be considered material.

The fair value of a financial asset or liability is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Group calculates the fair value estimate based on the publicly disclosed information from external sources or based on the discounted cash flow method if applicable.

It is considered that the book value of receivables/liabilities with less than one year to maturity corresponds to their fair value.

27. POTENTIAL LIABILITIES

As at 31 December 2021, the Parent Company was involved in several disputes which have arisen from its business operations and a few disputes over indemnity obligations deriving from employment relationships. The Parent Company has already made provisions in its books for such claims in case of unfavourable outcomes (Notes 10 and 24).

As at 31 December 2021, the Parent Company was a defendant in 26 lawsuits worth in total about HRK 1 million.

A lawsuit has been filed against the Parent Company for compensation of lost earnings for a period of four business years in the total amount of HRK 8.9 million. This is a dispute initiated by the provider of water resources management services, after the Parent Company decided not to continue the contract after its initial seven-year duration, and the court ruled that the Company was not entitled to it. The Parent Company did not reserve the principal amount of the dispute in its business books, as the amount of lost earnings of the service provider has yet to be proven, in connection with a dispute that the Parent Company had lost and which opened the possibility of this new lawsuit, and in relation to which the Parent Company filed a motion for revision to the Supreme Court and filed a constitutional lawsuit because it considers that the arguments in favor of the Parent Company were not properly taken into account during the litigation.

No lawsuit has been initiated against the subsidiary VL Steel, nor the subsidiary has any lawsuit pending against any third parties.

28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In application of accounting policies, the Group's Management made the following judgements, independently of those which include estimates, and which have the most important influence on the amounts shown in the financial statements.

Revenue recognition principle

Revenue is recognized when the goods have been shipped or services have been rendered and when the risks and rewards of ownership of goods have been substantively transferred to the customer. In case of partial performance of a contract or services which are rendered, revenue is recognized by reference to the stage of completion of contract activity. Estimation of claims to services carried out is deducted from sales revenue and accounted under liabilities or provisions. Estimation of discounts represent a decrease in sales revenue. Such estimation is made based on contractual obligations, historical trends and experience.

Profit tax

The Parent Company recorded a positive financial result for 2021 generating a profit tax liability in the amount of HRK 4,175,138 (2020: HRK 6,541,670). The Company has already paid HRK 1,792,256 on the account of profit tax advances during 2021 as well as an advance in the amount of HRK 202,522 in January 2022 totalling HRK 1,994,778 (2020: HRK 328,310), resulting in the amount of HRK 2,180,360 (2020: HRK 6,213,359) remaining under the 2021 tax obligation. The subsidiary VL Steel recorded a positive operating result for 2021 in the amount of HRK 8,184 (2020: HRK 484,036), however, due to the reduction and increase of the tax liability, a tax loss was generated, due to which the subsidiary has no obligation to pay profit tax. The subsidiary had incurred operating loss in previous periods.

Impairment of receivables

Estimation of irretrievable value of sales of goods and services is made on the balance sheet date (plus monthly) based on the estimated probability of collection of doubtful receivables. Each client is evaluated separately concerning its status (a client having its account blocked, or legal action has been initiated; competitive position), matured receivables, legal proceedings status or payment security instruments such as promissory note.

Impairment of inventories

Impairment of inventories is recorded as an expense in the current period, based on assessment of damage and deterioration, and in cases where the recoverable amount (the value that can be realized by selling or using those inventories) is less than the cost.

If it is estimated that the use of any inventories is uncertain in respect of future contracts or that some products in inventories are not likely to be used in production, such inventories are written off as an expense in the current period.

Provisions for potential liabilities

The Group recognizes provisions which may result from litigation initiated against the Group likely to have unfavourable outcomes and where outflows may be reliably estimated. In estimating such provisions, the Parent Company regularly consults with legal professionals.

29. EVENTS AFTER BALANCE SHEET DATE

Parent Company regularly discloses all major events to public via the Zagreb Stock Exchange website.

The Parent Company had previously initiated a lawsuit to collect its receivables from Vishal Cruises PVT. LTD, for the outstanding berthing fees as secured by maritime privileges imposed on their vessel ‘Delphin’. The ship was sold in March 2022 at a price of HRK 27 million according to a court decision. The Parent Company claims a total amount of HRK 16 million, interest included, mostly involving the maritime privileges and costs of proceedings. Once the creditors have been paid by their ranking order, the final amount will be distributed to Viktor Lenac. In previous years, due to uncertainty of outcome of the dispute, the Parent Company had made value adjustments in respect of receivables from Vishal to the amount of HRK 6 million, therefore, any amount beyond that will be considered extraordinary income.

30. MORTGAGES

Parent Company had signed the pledge over its fixed assets in favour of the Raiffeisenbank Austria bank Zagreb for repayment of a loan for financing of development investment program and a debt arising from two credits for short-term financing of operations and issuance of performance guarantees. The pledge right has been registered over the floating docks: Dock 5, Dock 11 and Dock RI38, motor vessels *Kostrena* and *Pećine*, a real-estate in Rijeka, land that in nature makes parking and forest in the cadastral municipality of Kostrena Lucija, including some movable property. The book value of pledged assets amounts to HRK 229,694,072 (2020: HRK 222,712,356). The obligations under the loans secured as specified as at 31 December 2021 amounted to HRK 25,387,703 (2020: HRK 41,982,744), of which HRK 17,849,071 (2020: HRK 28,048,540) referred to the investment loan and the remaining part involved a credit for purchase of equipment and short-term loans for working capital and overdrafts.

The subsidiary VL steel has no mortgage on the property.

31. IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic, although lasting longer than originally expected, did not have a significant impact on the Group's business in 2021. Economic activity has continued with its pace of normalization without further closing and with less restrictions on the movement of goods and people, while adhering to epidemiological measures especially using protective masks, which enabled the Shipyard to return to normal after the pandemic. An adequate vaccination coverage among workers and subcontractors, in addition to those recovered, played an important role in achieving a relatively good herd immunity, thus enabling us to maintain a high capacity utilization rate throughout the year.

Disruptions in supply of goods, spare parts and materials, which are still attributed to the pandemic, have had and still have some effect on the Parent Company's operations, but to the extent that such disruptions do not bring significant restrictions in business activities as they can be overcome through existing contractual relationships. Since these are global trends, the position of Viktor Lenac is not at greater risk than competitors.

Regardless of further development of the pandemic, the Group’s Management believes that the negative effects of the pandemic will not affect Viktor Lenac in terms of its ability to continue as a going concern.

32. IMPACT OF THE RUSSIAN-UKRAINIAN CONFLICT

The Russian-Ukrainian conflict, which began in February 2022, has no direct consequences on our activity. The Shipyard has not been doing business on the Russian market or with Russian clients for many years. Also, the Parent Company is not linked with banks owned by Russian capital, nor any materials or goods are imported from the Russian market. Viktor Lenac employs some Ukrainian workers in its production activities through a subcontracting company, which is not considered crucial to the overall success of business operations and continuation of production activities.

The crisis between Russia and Ukraine is affecting instability in the Black Sea region and increasing risks for shipowners, so this has obviously, though not explicitly, contributed to an increase in inquiries about Viktor Lenac's docking capacity. But, in general, a larger number of inquiries at the beginning of 2022 is due to the fact that shipowners were deferring dry-docking operations scheduled for 2021 to keep their vessels trading, therefore, it is difficult to discern to what extent these reasons have contributed to the increase in interest in docking capacity in the Mediterranean. However, since the Shipyard has already contracted its docking capacities by the end of the first half of this year, this increased number of inquiries will not result in a significant number of new projects. Further forecasts of shipbuilding capacities in the Black Sea region will depend on the duration of the crisis and its peaceful resolution between Russia and Ukraine, which everyone hopes for. But it is to be expected that the reorientation of maritime trade routes and relations between Russia and Western European countries will certainly mark 2022 and have an impact on businesses, including those like Viktor Lenac that do not have direct relations with Russian clients and suppliers.

The conflict in Ukraine will certainly have significant consequences not only on energy prices, but also on steel prices and supplies, given that both Russia and Ukraine are major exporters of steel and iron ore, and negative consequences in supply chains have been felt since the beginning of the conflict. As early as March, some steelmakers in Europe using ore from Ukraine suspended and drastically reduced their production of steel material. Viktor Lenac had ordered and partially procured some quantities of steel before the conflict began, and expects to receive the remaining deliveries within the agreed deadline, which is why it is not expected this situation to have a significant negative impact on our business activities. Specifically, although we use shipbuilding steel plates and other ferrous metallurgy products in our production activities, they make up only a small part of the total production resources and are not crucial for sustainable operations. When it comes to energy, Viktor Lenac does not use gas, so no direct impact is expected therefrom.

33. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been prepared and approved for disclosure by the Company's Management Board on 20 April 2022.

BRODOGRADILIŠTE d.d.
VIKTOR LENAC
Rijeka, Martinšćica bb 2

Sandra Uzelac
Member of the Management Board

MANAGEMENT REPORT

2021

April 2022

CONTENTS

FOREWORD

Management Board of the Shipyard “Viktor Lenac”, a joint stock company, presents its Management Report for 2021 to all interested parties and the entire public. The Management Report 2021 provides readers insight into the Company's business and financial performance for the year. It includes the audited Consolidated and Non-Consolidated Annual Financial Statements, Auditor’s Report, and non-financial information from the point of view of sustainability. The Company is under no obligation to make a separate Non-Financial Reporting. In a separate enclosure to the Management Report, the Corporate Governance rules applied by the Company are described. To protect confidential business information, certain data are presented as trends and movements without providing more detailed numerical or financial data.

Management Report in Croatian and English

Management Report 2021, including its enclosures, has been issued in Croatian as the official language and is also available in English to foreign readers. The Management Report is presented to the Company's shareholders at the General Assembly and is published on the Company's website.

Legal Form

Pursuant to Article 250.a and Article 250.b of the Companies Act, the Company’s Annual Financial Statements and business performance report shall be presented to General Assembly as integral parts of this Management Report, whereas Supervisory Board's Report on the Performed Supervision of the Company’s Business shall be presented to the General Assembly as a separate document.

Annual Financial Statements, both Consolidated and Non-Consolidated, have been made in accordance with the Accounting Act and International Financial Reporting Standards and revised according to the International Standards on Auditing.

Management Report 2021 has been made pursuant to Article 21 of the Accounting Act, and Articles 250.a and 250.b of the Companies Act, to give an objective assessment of the Company's business and financial performance and development, as well as other crucial information for the Company.

Pursuant to the provisions of Article 21a of the Accounting Act, the Company is under no obligation to issue a separate non-financial statement, however, the Management Report 2021 also includes some significant non-financial information that can contribute to the understanding of the Company’s performance and development.

Subsidiary Company, Consolidation Accounting

Shipyard “Viktor Lenac” is a joint stock company, which has a controlling interest in the single subsidiary VL Steel, a limited liability company, in which it holds a 75% equity interest. Consolidated and Non-Consolidated Financial Statements form an integral part of the Management Report. The difference between the Consolidated and the Non-Consolidated Financial Statements is not material, as the revenues and assets of the subsidiary participate with less than 1% in the Group's revenues respectively assets. The Management Report focuses on business performance of the Parent Company - Shipyard “Viktor Lenac”.

Abbreviations

In the Management Report, *Brodogradilište Viktor Lenac d.d.* is referred to as the "Shipyard" or "Viktor Lenac" or "Company"; the Company together with its subsidiary hereinafter are referred to as the "Group“.

Foreign Exchange Rates

Assets, liabilities and equity amounts have been converted to foreign currency (EUR) at the midpoint exchange rate of the Croatian National Bank as of 31 December of the reporting year. The items from the income statement have been converted at the average of midpoint exchange rates of the Croatian National Bank determined on the last day of the month for the reporting year.

For year	Exchange Rate as at 31 Dec	Average Exchange Rate
2021	7.5172	7.5241
2020	7.5369	7.5345
2019	7.4426	7.4168
2018	7.4176	7.4139

AN ADDRESS TO SHAREHOLDERS

Dear Shareholders, Clients, Business Partners, Employees and Everyone reading this report,

We are pleased to provide you with the Management Report of Shipyard „Viktor Lenac“ for the year 2021, throughout which we managed to overcome global economic disruptions and continued to achieve successful business and financial results, thus increasing the value of the Company.

Although we all thought that the COVID-19 pandemic would remain in 2020 and that throughout 2021 the consequences of the pandemic and the crisis in goods and service flows would be brought under control, this did not happen, at least not equally in all industries. As it is common in global maritime and shipbuilding market "that we know that we know nothing", again in 2021 we experienced a year full of twists, oscillations and unpredictability, where again our flexibility to changing conditions in the market and internal organization was of great importance.

We have successfully managed to preserve health and lives of all our workers, subcontractors and clients throughout the new waves of coronavirus infection. Although we had confirmed cases of infection, the application of anti-epidemic measures and a high vaccination rate among our workers resulted in a lower number of confirmed cases compared to our work environment and mostly milder forms of disease, which enabled us to complete all projects on time.

We can be satisfied with the financial result achieved by Viktor Lenac in 2021, although it is lower than in the previous year. This is primarily due to the fact that during 2021 there were periods of extremely low occupancy, which was a direct consequence of very high shipping freight rates due to which shipowners were deferring dry-docking operations to keep their vessels trading. Oscillations in occupancy throughout 2021 were even more pronounced compared to 2020, which had been caused by restrictions and closures due to the pandemic. On one hand, our revenue was decreasing, and, on the other hand, this led to an increase in fixed capacity utilization costs due to their lower occupancy. However, periods of high occupancy, primarily during the first half of the year and at the end of the year, with maximizing efficiency of business processes, enabled us to overcome the months in which we experienced lower occupancy, so the business result remained high.

The first half of 2021 was marked by extensive shiprepair projects involving the US Navy 6th Fleet ships, which occupied our production capacities, so the revenues received from these projects significantly exceeded the revenues received from shiprepair projects that involved merchant ships, whose shipowners were already on their way to seizing their market opportunities that were opening up with a growth in demand for maritime transport and the consequent increase in global freight rates. There were no more major shiprepair projects involving military ships later in the year, except for a few voyage repairs carried out outside the Shipyard, at the locations where the ships were located. The trend in merchant ships did not change significantly in the second half of the year. A higher capacity utilization rate was recorded in the last quarter due to a major shiprepair project involving the cruise ship Ambience (ex. Satoshi), including several shiprepair projects of smaller scale, which involved three smaller cruise ships and ships owned by domestic shipping companies.

In 2021, Viktor Lenac generated a total of HRK 302 million or about EUR 40 million of consolidated revenues, of which 85% received from 60 core activity projects, out of which 90% were realized with foreign clients. Total consolidated expenses amounted to HRK 279 million or about EUR 37 million, so that in 2021 Viktor Lenac made a profit again, in the amount of HRK 23 million before tax, or HRK 18.8 million or EUR 2.5 million after tax.

Occupancy growth at the end of 2021 was an overture to 2022, where there was no free docking or berthing capacity in January and February. In addition to shiprepair projects involving preparation of passenger ships for the new season, we accommodated several ships of the US Navy 6th Fleet, dredgers and other types of ships. In one period we had as many as 13 ships in the shipyard at the same time. Our sales activities conducted throughout 2021 have resulted in a major Prince Abdulaziz superyacht refit contract, which will mark our conception throughout 2022 and ensure longer period of high capacity utilization and will also be our reference to attract other similar projects.

Adapting to changing markets and customers while minimizing the cold drive costs by optimizing our own resources but keeping our partner firms busy in a long-term, remains a continuous focus of our business process management. 2021 reaffirmed that a cost-effective and flexible organization is the key to success in overcoming oscillations in occupancy and achieving positive business result, even with lower revenue, without affecting the quality of service provided by Viktor Lenac to their clients.

It is also a prerequisite to accumulate funds needed for further sustainable growth and development as well as investment in insurance and modernization of assets and optimum production capacity, in order to continue to create added value for shareholders, workers, customers, suppliers and do so in a socially responsible way by protecting the community that surrounds us.

Sandra Uzelac
Member of the Management Board

BRODOGRADILIŠTE d.d.
VIKTOR LENAC
Rijeka, Martinšćica bb 2

KEY FINANCIAL FIGURES

Consolidated Financial Figures

	000 HRK			000 EUR *		
	2021	2020	Index	2021	2020	Index
Total Revenues	**302.026**	306.722	0,98	**40.141**	40.709	0,99
Total Expenses	**278.994**	264.488	1,05	**37.080**	35.103	1,06
Operating Revenues	**299.238**	306.013	0,98	**39.771**	40.615	0,98
Operating Expenses	**277.749**	262.723	1,06	**36.915**	34.869	1,06
Operating Profit	**21.489**	43.290	0,50	**2.856**	5.746	0,50
Profit before Tax	**23.032**	42.234	0,55	**3.061**	5.605	0,55
Net Operating Profit	**18.850**	35.683	0,53	**2.505**	4.736	0,53
Total Assets	**404.179**	389.534	1,04	**53.767**	51.684	1,04
Equity and reserves	**300.153**	281.300	1,07	**39.929**	37.323	1,07

Non-Consolidated Financial Figures

	000 HRK			000 EUR *		
	2021	2020	Index	2021	2020	Index
Total Revenues	**301.353**	305.912	0,99	**40.052**	40.601	0,99
Total Expenses	**278.330**	264.162	1,05	**36.992**	35.060	1,06
Operating Revenues	**298.575**	305.200	0,98	**39.682**	40.507	0,98
Operating Expenses	**277.096**	262.415	1,06	**36.828**	34.828	1,06
Operating Profit (or Loss)	**21.479**	42.785	0,50	**2.855**	5.679	0,50
Profit (or Loss) before Tax	**23.024**	41.750	0,55	**3.060**	5.541	0,55
Net Operating Profit (or Loss)	**18.842**	35.199	0,54	**2.504**	4.672	0,54
Total Assets	**403.245**	388.983	1,04	**53.643**	51.611	1,04
Equity and reserves	**300.084**	281.252	1,07	**39.920**	37.317	1,07

** 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 2021 respectively 2020. Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31 December 2021 respectively 31 December 2020 as listed on page 50 of this Report.*

Consolidated comprehensive income statement and statement of financial position includes the Company's subsidiary VL Steel Ltd in which the Company holds a 75% equity interest. Throughout the entire 2021, the subsidiary was providing services in shipbuilding and related metal processing activities.

In 2021, the Group generated total revenues in the amount of HRK 302 million and total expenses in the amount of HRK 279 million, after annulment of their reciprocal transactions and after balancing positive and negative exchange rate differences.

By comparing the consolidated and non-consolidated financial statements it is revealed that the influence of the subsidiary is not material. VL Steel Ltd. generated a net profit in the amount of HRK 8,000, of which 75% is attributed to the Group, while 25% involves minority interest of a third party. It follows that the results of the subsidiary did not materially affect the results of the Parent Company or the Group as a whole. Considering that the subsidiary provides most of its services to the Parent Company, there is no material difference in the revenue of the Parent Company or the Group, nor in the financial position, as the assets belong almost entirely to the Parent Company.

Accordingly, the Management Report 2021 shall focus on the financial position of the Parent Company.

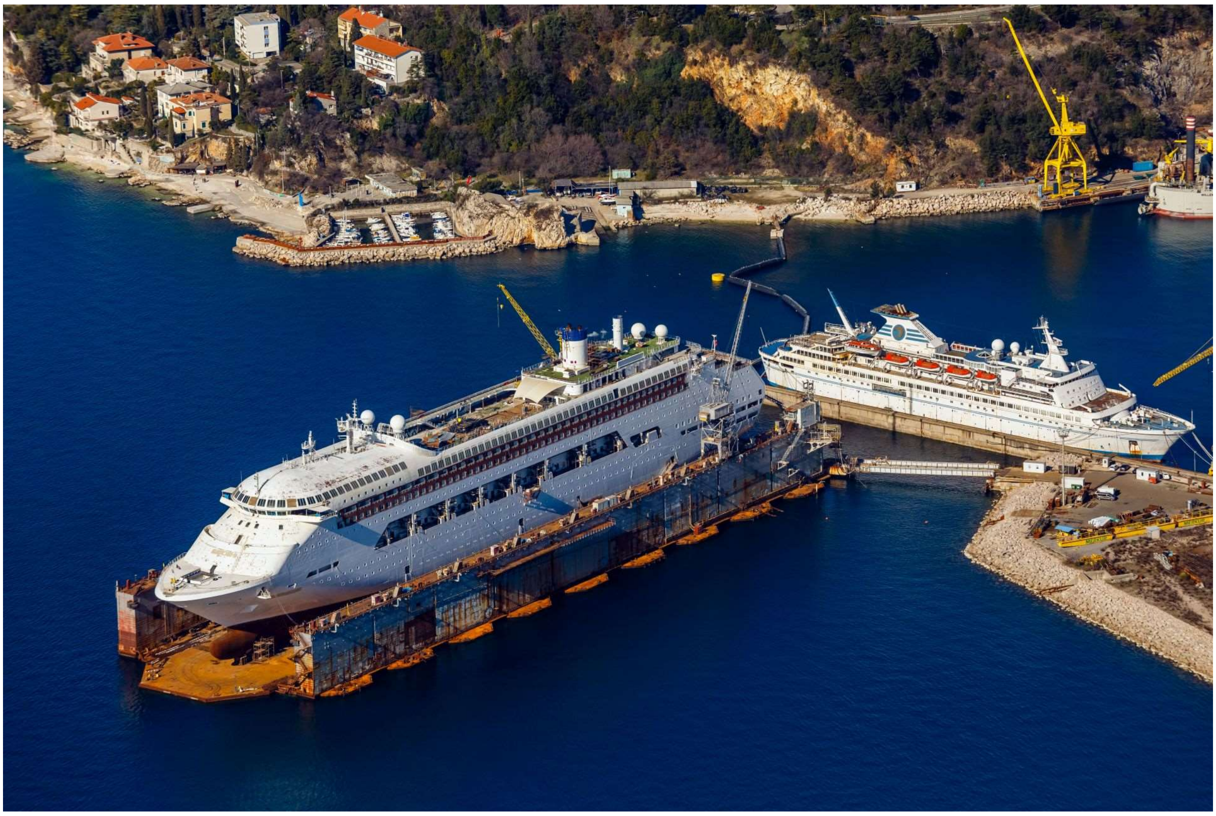
BUSINESS ENVIRONMENT

The main feature that marked global maritime market during 2021, which had an impact on shiprepair, was demand for shipping space and trend in freight rate. After demand for shipping space had decreased at the beginning of the pandemic, and recovery and stabilization in mid-2020, freight rates have experienced a significant rise since the second quarter of 2021 and reached their peak during October, after which they fell to early 2021 level.

During the periods of high freight rates and a general disturbance on the market of raw materials, not only in terms of price, but also due to long delivery times, shipowners took advantage of favourable market trends and deferred dry-docking operations to keep their vessels trading. In such circumstances, Viktor Lenac faced a significantly lower number of inquiries. Another disadvantage is the geographical distance of the Shipyard from the main sea routes in the Mediterranean. The deviation from the main maritime routes further emphasizes the difference between Viktor Lenac and its main, more cost-effective competitors in Turkey and the Black Sea. Possibilities for lowering prices and getting closer to Turkish and Black Sea competitors are very limited, also considering that labour cost as a key resource in shiprepair industry is influenced by Western European trends. The price advantage that Viktor Lenac has over other shipyards in the Mediterranean is, therefore, even decreasing.

In such market circumstances, Viktor Lenac faced extremely low occupancy in early July, such as has not been the case for many years. Only about half of the revenue needed for achieving positive business result was generated in August. The period of low occupancy was used to carry out major maintenance works on own property to maintain sufficient capacity utilization rate and retain workforce. September, on the other hand, was marked by a high occupancy rate and high revenue, which largely compensated for the losses generated in the previous two months.

The last quarter was also affected by high freight rates and shipowners deferring dry-docking operations to keep their vessels trading, so demand for shiprepair works involving merchant ships for foreign shipowners did not change significantly, until the end of the year. At the beginning of the last quarter, a major repair of the cruise ship



Ambience (ex Satoshi) commenced. The Shipyard also accommodated three smaller cruise ships during the last quarter of 2021 and the first quarter of the current year. Also, several passenger ships owned by domestic shipping companies underwent repair and maintenance to be ready for the new season. This enabled us to overcome the periods of weaker demand and welcome the first quarter of 2022, the period of highest demand.

Cooperation with the US Navy 6th Fleet was at an usual high level throughout 2021, especially in the first half of the year, and continued with several voyage repairs during the third and fourth quarters.

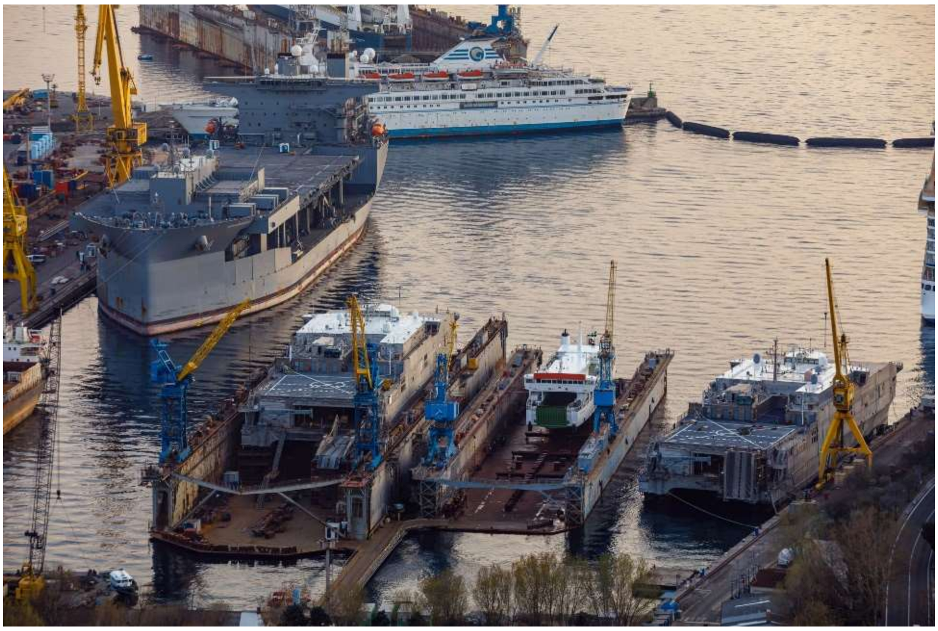
Impact of the COVID-19 pandemic did not significantly affect Viktor Lenac's business throughout 2021. By adhering to epidemiological measures and having achieved an adequate vaccination rate among workers and subcontractors, in addition to those recovered, we managed to keep it under control throughout the duration of the pandemic without suffering a major absence of workers due to illness and without significant disruption of planned production and business activities.

Russian-Ukrainian conflict, which resulted in a Russia's attack on Ukraine in February 2022 is affecting instability in the Black Sea region and increasing risks for shipowners, so this has obviously, though not explicitly, contributed to an increase in demand for Viktor Lenac's docking capacity. More inquiries received at the beginning of 2022 have resulted from deferred dry-docking operations that had been scheduled for 2021, however, since the Shipyard has already contracted its docking capacities by the end of the first half of this year, this increased number of inquiries is not likely to result in a significant number of new projects. Further forecasts of shipbuilding capacities in the Black Sea region will depend on the duration of the crisis and its peaceful resolution between Russia and Ukraine, which everyone hopes for. Russia's attack on Ukraine and economic sanctions imposed on Russia, consequently affected not only energy prices, but also other goods and production services, which is creating additional pressure on living standards already eroded by the pandemic. The crisis between Russia and Ukraine also has a significant impact on steel supplies, considering that both countries are important exporters of iron ore and steel. Negative consequences in supply chains have been felt since the beginning of the armed conflict in Ukraine. It is to be expected that the reorientation of maritime trade routes and relations between Russia and Western European countries will certainly mark 2022 but we do not expect significant changes in Viktor Lenac's business, given that the Shipyard has not been trading with Russian customers or suppliers for many years, but indirect consequences are certainly going to be felt.

BUSINESS ACTIVITIES

SALES

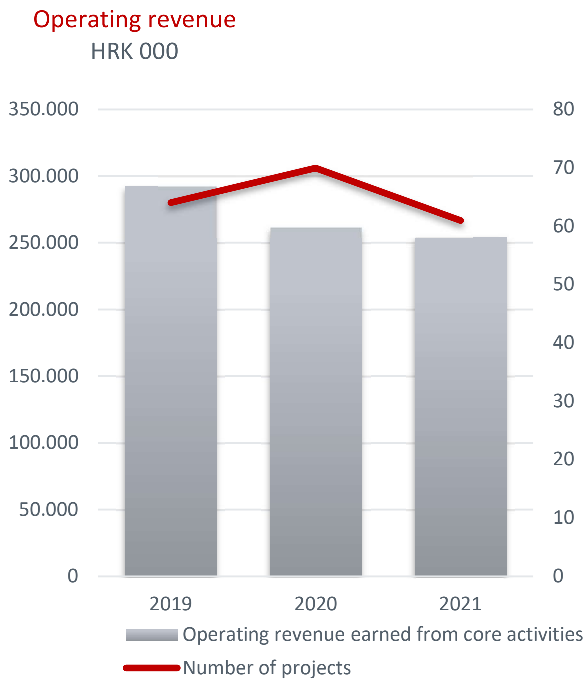
In all segments of business activities, the past business year was very demanding due to extraordinary occupation rate oscillations. Sales department had to put extra efforts to occupy both the Shipyard's and subcontractors' production capacity with a sufficient number of projects.



The first half of the year was marked by a good occupancy rate, involving shiprepair projects for the US Navy 6th Fleet and projects that had started in 2020. In the middle of the year, along with the increase in freight rates, the interest of shipowners, and thus the number of new contracts, was almost interrupted. The sales effort began to bring the desired result only after almost two months of interruption. A major shiprepair contract involving the cruise ship Ambience (ex Satoshi) occupied part of the Shipyard's production capacity for the last quarter of 2021. The Shipyard also accommodated three smaller cruise ships and several ships owned by domestic shipping companies. This enabled us to retain the business results achieved so far and ensure sufficient work for our steady subcontractors. The fall in freight rates before the end of the year resulted in an increased sales activity. Some new projects were contracted, 4 of which to commence in January 2022, announcing a good start to 2022.

In 2021, a total of 60 shiprepair projects was completed, 19 of which for domestic clients.

The focus of sales activity during 2021 was a major Prince Abdulaziz superyacht refit contract, involving extensive external communication with the client, equipment suppliers and contractors providing specific and specialized works as well as extensive internal communication with the Shipyard's departments, and coordination of all activities required to offer and complete such an extremely valuable project. Despite having learnt that we had been put on the shortlist, we had no final information about the award of the contract until a few days before signing the contract, which followed on the first day of February 2022.



During 2021, the Shipyard successfully completed a total of 52 shiprepair projects involving various types of ships, completed 5 of projects started in 2020, and commenced and partially completed 4 shiprepair projects, which continued in January 2022. Total operating revenues amounted to HRK 254 million or nearly EUR 34 million.

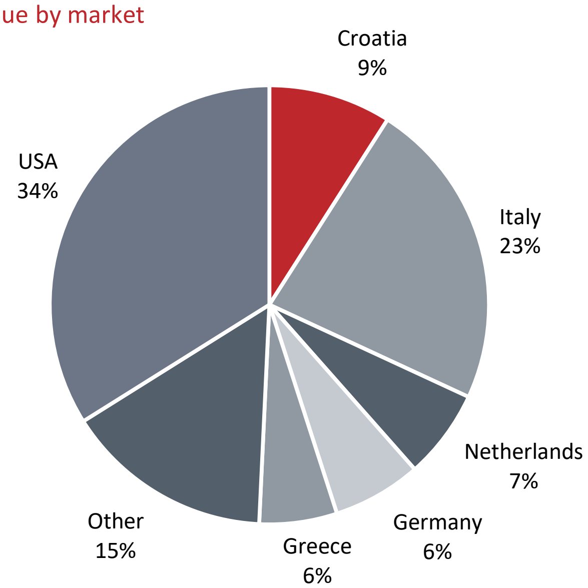
Trend in total revenue generated in the last few years, shows that the COVID-19 pandemic that affected global maritime market, led to a drop in revenue, so the 2021 operating revenue was about 13% lower than the operating revenue generated in the pre-pandemic year.

Of ongoing projects during 2021, 8 involved the US Navy ships, of which 4 ships underwent repairs at the Shipyard and 4 involved voyage repairs that were carried out outside the Shipyard, at the locations where the ships were located.

Average value of shiprepair services per project amounted to about EUR 553 thousand, which is an increase compared to the previous year, when the average value was EUR 495 thousand.

Dispersion of sales revenue in 2021 was lower than in the previous year. Unlike in 2020, when Viktor Lenac generated operating revenue from 42 different clients from 15 different countries (same as in 2019), the 2021 sales revenue was generated from 33 clients from 13 different countries.

Sales revenue by market



Half of the 2021 sales revenue was generated on the US market, involving US Navy 6th Fleet and other US clients. The US market ranked second in the number of shiprepair projects, after the domestic market with a total of 22 shiprepair projects completed.

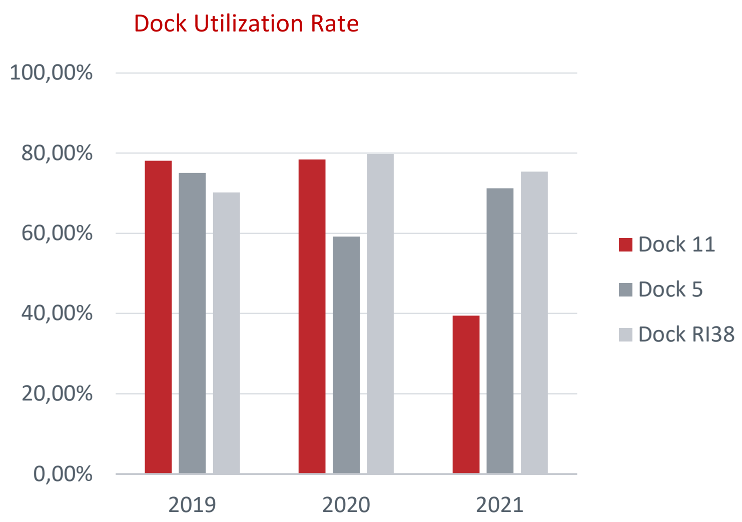
The domestic market participated with 10%, slightly more than last year, when 8.3% of sales revenue was generated from domestic shipping companies.

PRODUCTION

Viktor Lenac's key production capacity is productive work considering that the Shipyard’s production processes are labour-intensive, in view of availability of our most important assets - floating docks and berths.

In 2021, the Shipyard’s production activities involved a total of 57 shiprepair projects, including four projects where works were carried out outside the Shipyard at the locations where the ships were located.

Dock utilization recorded a lower rate in 2021 compared to previous years primarily due to lower occupancy during July and August, and again in October and November. The summer months were used to carry out an increased scope of reconstruction works onboard Dock 11, which began in June and lasted for about two and a half months, which is why Dock 11 recorded the lowest utilization rate.



In 2021, a total of 50 vessels were docked, and in two cases two vessels were docked at the same time. Dock RI-38 accommodated a total of 24 vessels, followed by Dock 5 that accommodated a total of 17 vessels, and only 10 vessels were docked in Dock 11.

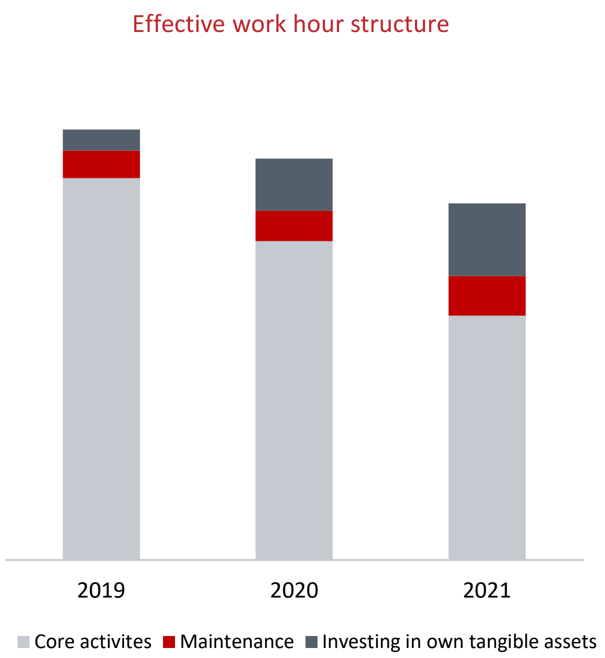
Decline in the number and scope of core activity projects, also led to a decline in berth utilization rate. The main operational berths 1-3, located along the operational coast with workshops, had an average utilization rate of 49% (2020: 52%).

As usually, our projects involved different types of vessels depending on availability of docking capacity. Given the increase in freight rates during 2021 and the high occupancy of cargo and merchant ships, most shiprepair projects involved passenger ships and ferries. There were 11 tankers, and a significantly fewer container vessels, general cargo ships and bulk carriers compared to previous years.

Production activities involved standard shiprepair works, mainly steel works (30%). Nearly 1000 tons of steel structures were renewed throughout 2021. Most of the steel was used in the reconstruction of our floating docks 5 and 11.

Mechanical, mechanistic and service works participated with 12% in the productive work structure, more than anti-corrosion works (11%), which are usually ranked first. Pipe works accounted for 6% of total productive hours, and were mainly related to wastewater treatment plant installation projects. In 2021, we installed a total of 7

WWTPs. Other works involved temporary mechanical and electrical energy ship supply, transport works, scaffolding works and other shiprepair-related works.



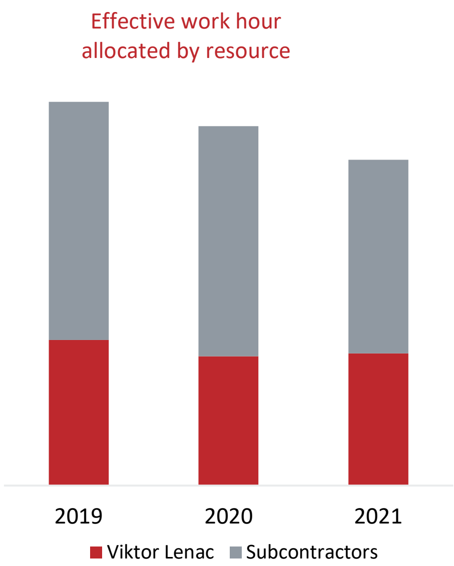
Anti-corrosion works were carried out onboard almost all ships, mainly involving shell plating, ballast tanks and other ship tanks, as well as other surfaces such as decks and superstructures. Anti-corrosion works include various techniques for cleaning ship surfaces and their preparation for painting, and application of coatings. In 2021, the biggest step forward was made in surface preparation and replacement of sandblasting technology with the use of a high-pressure water technology at a pressure of 3000 bar, where waste resulting from surface treatment is automatically separated in a closed system and purified water comes out. After having purchased additional equipment for high-pressure water technology, sandblasting that used to consume up to 8,000 tons of grit a few years ago, has been reduced to a minimum today. Compared to 2020, when a total of 80 thousand square meters were sandblasted and only 16 thousand square meters were cleaned by use of a high-pressure water technology, in 2021, a total of 46 thousand square meters were cleaned by use of a high-pressure water technology and only 6 thousand square meters were sandblasted. A total of 405 thousand square meters were painted.

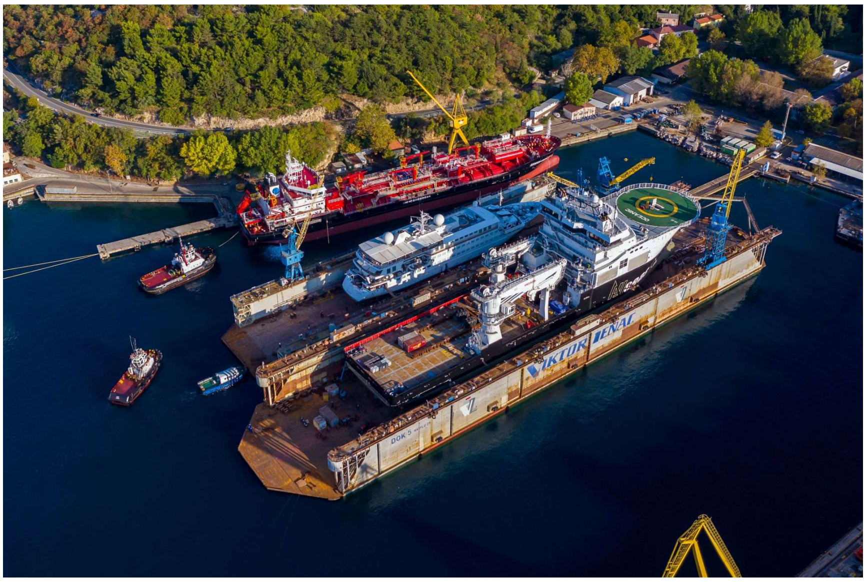
A comparative presentation of the relationship between number and structure of effective work hours shows a decrease in the cost of hours of work used in the core activity that is higher with respect to the decrease in revenue, indicating better utilization of productive work and higher efficiency, which is one of the main reasons why Viktor Lenac has been achieving positive business results in recent years at significantly lower sales revenue levels. Better organization of production and overhead activities, but also reduction in the number of own workers, among which production workers, in previous years, resulted in reduction in overhead, non-productive labour costs, especially in the periods of low occupancy, which Viktor Lenac faced in 2021.

Periods of lower occupancy are usually used to carry out extensive maintenance work and invest in improvement of own tangible assets, which was the case in 2021, especially due to periodic oscillations in occupancy throughout the year.

Viktor Lenac's shiprepair production activity belongs to the group of labour-intensive activities. In the structure of standard shiprepair works, the cost of material participates with up to 30%, while the remaining part refers to labour, both own workforce and subcontractors. Such relationships are revealed in other production activities such as maintenance of facilities, plants and equipment, or investment for improvement of floating docks.

In addition to its own production workers, Viktor Lenac usually hires subcontractors in its production activities. Own workers represent a permanent resource, which remains more or less unchanged with respect to occupancy rates, whereas subcontractors are hired from time to time depending on the needs of ongoing projects.





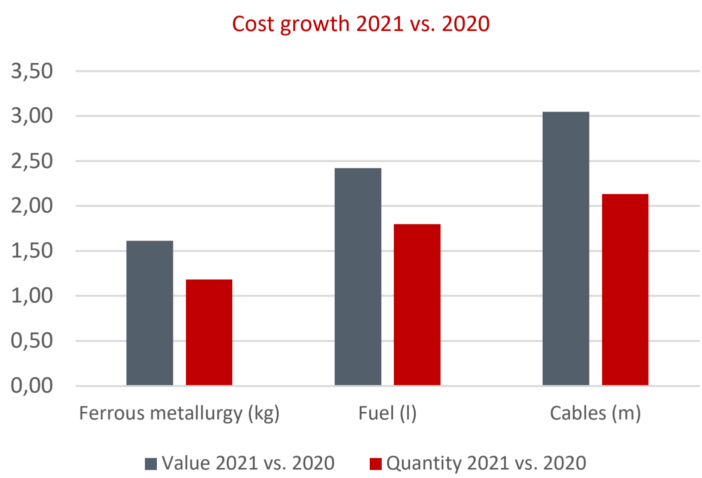
The number of subcontract workers, or the number of effective work hours produced by subcontract workers, varies depending on the need, in the usual range of 300-400 subcontract workers, and if necessary, this number may be higher. By hiring workers from other shipbuilding environments in Croatia, combining mutual resources and, if necessary, hiring foreign labour, whether from EU countries in Eastern Europe or importing foreign labour from third countries, Viktor Lenac's labour capacity can be increased significantly and respond to significantly higher occupancy rates than the average achieved in recent years.

Viktor Lenac also uses external services, the subsupplier services to provide goods or services for core activity projects but are performed mainly outside the Shipyard site and / or using subcontractors' means of work, and often include material for manufacture of products that are to be installed onboard vessels. Examples of such services are various custom-made products, finishings, processing, towing and portual services, as well as removal and disposal of various types of waste. However, for specific types of work, such as servicing and electrical work, subcontract services performed within the Shipyard's site may include subsupplier services involving use of subcontractors' equipment, procurement of specific materials, especially for turnkey contracts.

In shiprepair, where the largest part of productive resources involves labour cost, both own and subcontract, it is the only resource in which savings being sought can be achieved to be competitive, and is the most important resource which proves that the Shipyard has the ability to meet client requirements and their changing needs in the scope and quantity of work, which happens on almost every project. Therefore, one of the key goals of Viktor Lenac is the quality and optimization of hired workers, capable of quick and flexible adaptation to market conditions, which in addition to reducing the current number of hired workers, may require a significant increase in labour capacity, therefore, it is of utmost importance to build a good labour network in terms of quality and quantity.

ENERGY AND MATERIALS

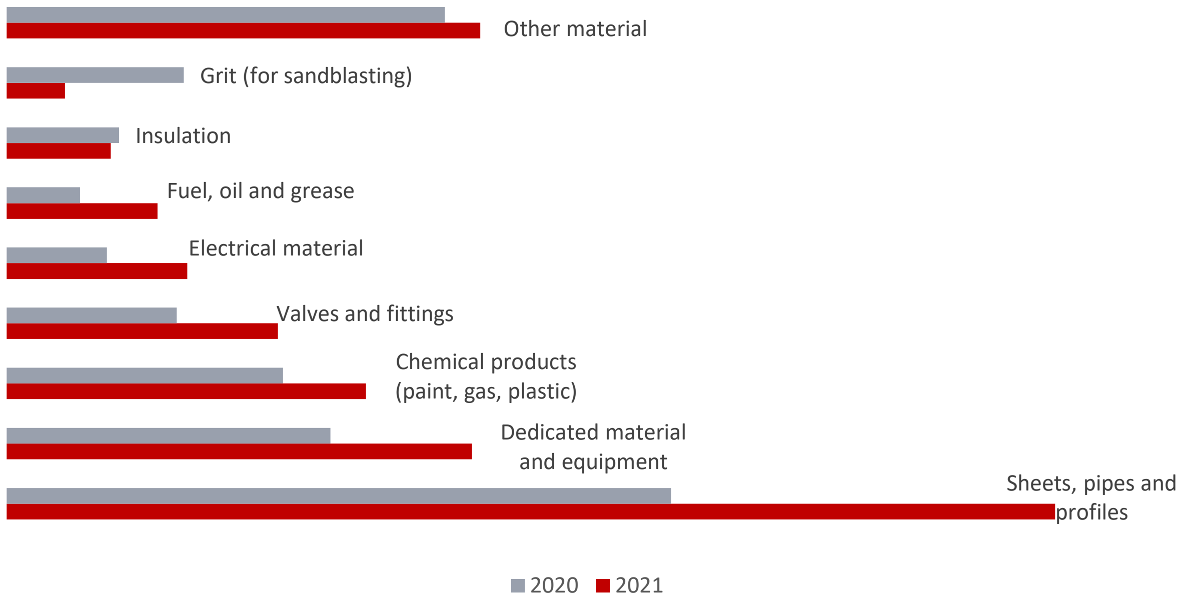
Material cost generally participates with 10-15% put in relation to total value of completed production work orders that tend to generate these costs. This percentage may be slightly higher if conversion projects or special projects participate with a higher percentage in the core activity project structure, since such projects show higher percentage of raw material and built-in equipment than standard shiprepair projects. The percentage of equipment and materials also depends on whether procurement of equipment and materials intended for installation onboard a vessel is the Shipyard's or client's obligation.



Total material cost amounted to HRK 38.7 million, or about 14% of total operating expenses, up by HRK 7.6 million or nearly 25% compared to 2020, due to rising material prices.

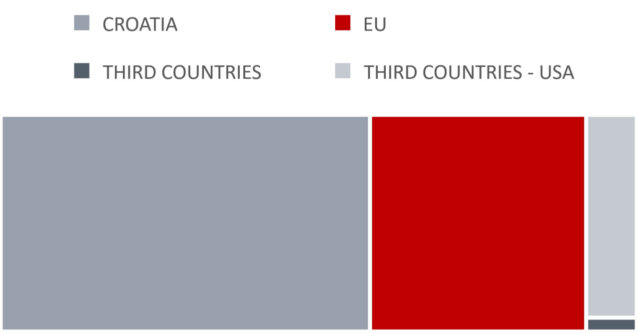
The most significant increase in material prices, which due to the quantities consumed in the production process had the most negative impact on the overall increase in material costs, was in steel, cables and fuel. It is estimated that the increase in costs for these three groups of products, which resulted from the increase in unit prices, amounted to over HRK 4 million.

Raw material cost structure



Ferrous metallurgy products such as sheets, profiles and pipes, various cables and other electrical materials, as well as fuels and greases, participate with a high percentage in the core activity project structure and other production work orders. In addition to these materials, various chemical products are regularly used, the most important of which are paints and gases used in welding, as well as special purpose materials and equipment that are procured for specific projects. One of the most used materials in previous years was grit, or sand for sandblasting in anti-corrosion works, but with the increasing use of new technologies, there is a significant reduction in the consumption of this material, which dropped significantly on the 2021 ranking scale.

Procurement structure by market



On average, about 70% of material are procured on the domestic market, although not all materials are produced in Croatia, given their specificity and lack of domestic producers in these industries. About 25% of material comes from the European Union, and only about 5% from third countries, which almost entirely refers to import from the USA, considering specific materials are required for the US Navy 6th Fleet projects. In 2021, import increased to 40%, mostly due to import of steel from suppliers outside Croatia, which accounted for almost half of total import from European Union countries. Import from the USA also recorded a slightly higher percentage (7.5%) due to an increased scope of works on US Navy projects.

Shipyard uses a significant amount of energy-generating products, particularly electricity, fresh water, process water and technical gases in its production processes.

Part of electricity and water is a fixed cost, and part is a variable cost of production that depends on the scope of production activity. Non-drinking process water and technical gases (liquid oxygen and acetylene) are variable costs that depend exclusively on the scope of production activity.

Water is used in technological processes for washing and high-pressure cleaning of ship surfaces and in the process of preparation of steel surfaces and steel sections. Liquid oxygen and acetylene are gases used in the process of cutting and processing steel.

Energy-generating products		2018	2019	2020	2021
Electric power	mWh	11.694	11.349	11.695	10.364
FW	000 m3	56	51	51	40
Process water	000 m3	210	186	196	103
Oxygen and acetylene	kg	357	401	478	467
LFO	kg	144	115	120	168

Consumption of electricity, FW and process water in 2021 decreased compared to the previous year, primarily due to a reduction in the scope of work on production work orders. Until 2017, electricity consumption amounted to close to 20 million kilowatt hours, but by investing in energy efficiency projects, Viktor Lenac drastically reduced that consumption. Also, systematic care and management of water resources has led to a reduction in water consumption from public water supply, and wherever possible, process water from a nearby stream is used. Oxygen and acetylene, which are used in welding and steel work, remained at a similar level as last year, given the equal scope of steel work caused primarily involving steel renewal of our floating docks.

Energy-generating product cost in 2021 amounted to HRK 10.3 million, or 3.7% in total operating expenses. In 2022, higher cost is likely to be expected, primarily for electricity, which accounts for about 75% of total energy cost, but also for other energy sources, however, the expected increase should not have a significant impact on overall business, given that energy-generating products account for a smaller percentage in operating expenditures. In addition, shiprepair projects are marked by a quick turnaround, and considering that rising energy prices have an equal effect on global competition, part of price increase will have to be incorporated into sales prices.

TECHNOLOGICAL DEVELOPMENT AND INVESTMENT

Company seeks to continuously invest in fixed assets with the aim of ensuring facilities for uninterrupted operation, reducing operating costs by implementing new technical solutions and procuring energy efficiency equipment, striving for reducing negative environmental impacts.

Total value of investments in fixed assets in 2021 amounted to nearly HRK 40 million, mainly relating to renewal of floating docks, the most important Company's assets. A total of 550 tons of steel was renewed onboard Dock 11, mostly during the summer months, and nearly 230 tons of steel onboard Dock 5, with the aim of extending their lifetime. The plans to replace Dock 11 with a new dock have been deferred due to a drastic rise in material prices, primarily steel, paint and other materials, due to which there was a significant change in the original calculation of investment, return on investment and the planned financing. The war in Ukraine and sanctions against Russia will lead to further disruptions in the supply of materials and energy, and thus disruptions and uncertainties related to resource prices, which will certainly affect possibilities, value, profitability and dynamics of investment in new or used dock. The final decision is, therefore, still pending.

In addition to investment in the Shipyard's floating docks, in 2021 the Company made other acquisitions of fixed assets, involving high energy-efficient and operational equipment for welding and UHPWJ surface treatment, continued investment in increasing capacity and reliability of energy-generating system and general overhaul of cherry pickers, including other investments in various production and business assets.

ORGANISATION, QUALITY MANAGEMENT SYSTEM, INFORMATION AND COMMUNICATION

Reduction in the number of employees that marked the past few years, aimed at achieving a more efficient organization with lower fixed costs, has resulted in minor changes in individual business processes without changes in the organizational structure. Also, there were no significant changes in legislation that would have a significant impact on the Company's business functions.

Shiprepair activity, focused on each project individually, without the possibility to pre-define individual production activities to a more significant extent, involving more or less traditional work procedures, does not offer much space for digitization of production processes. Nevertheless, business process digitalization and their linking including exchange of information, remain the focus of the organization and ICT system, and the Company is constantly working on upgrading mobile applications, and information security system. By conducting internal audits on a regular basis, the Company monitors performance and degree of realization of its business process objectives, and any non-compliances are recorded, analysed and corrected through a documented quality management system.

In 2021, a total of 44 internal audits of integrated management system were conducted, including as follows:
- Quality Management System (ISO 9001: 2015);
- Information Security Management System (ISO 27001: 2013);
- Energy Management System (ISO 50001: 2018);
- Occupational Health and Safety Management System (ISO 45001: 2018).

Four external audits of integrated management systems were conducted by Bureau Veritas, involving certification of the Information Security Management System, recertification of the Energy Management System and the supervisory audits of the Quality Management System and Occupational Health and Safety Management System. Based on any non-compliances recorded and recommendations obtained through internal and external audits, root cause analyses were made to undertake corrective actions.

During the year, two audits were performed by two clients of Viktor Lenac in accordance with JH143 method of risk assessment in shipyards, the results of which showed appropriate risk management in Viktor Lenac as well as the application of good industrial practices relevant to shiprepair activity in terms of process quality control, occupational health and safety, environmental protection and incident management, which topics are the focus of JH143 assessment methods.

OCCUPATIONAL HEALTH AND SAFETY, ENVIRONMENTAL PROTECTION AND FIRE PROTECTION

Law regulations and internal rules of occupational health and safety make an integral part of the organization and operations. The Shipyard's Occupational health and safety system is certified according to ISO 45001. In 2021, the OH&S activities included training of workers to work in a safe manner, checking work ability for jobs with difficult working conditions by an approved medical institution, testing of machines and devices with increased hazards, inspections of workplaces and activities to ensure safety in specific hazardous conditions, supervision of implementation of safety regulations and use of personal protective equipment.

Toolbox talk courses have been conducted for many years as good practice, focusing on safety topics, at weekly production meetings with managers and OH&S commissioners. In 2021, a total of 60 toolbox talk courses were conducted. Also, the OH&S Board held two meetings, and two special meetings were held with OH&S commissioners appointed by Unions. A total of 5,000 permits were issued for safe work in closed spaces.

Throughout 2021, all epidemiological measures in the fight against COVID-19 remained in force, including daily use of disinfectants and protective masks.

The cost of personal protective equipment in 2021 amounted to nearly HRK 586 thousand, down by 23% compared to 2020, when the costs were significantly increased due to higher costs of protective masks and disinfectants. Throughout 2021, we continued with PCR and BAT tests to prevent the spread of the infection among our workers and clients, which costed nearly HRK 46 thousand.

Continuous improvement of the occupational health and safety system, implementation of safety measures, training of workers and short courses on a regular basis, has resulted in a reduction in the number of injuries, both in absolute and relative terms. Injuries are usually minor, most often contusions, wounds and sprains, as was the case last year.

In 2021, a total of 13 injuries at work were recorded, down by four compared to the previous year, resulting in a lower frequency index in relation to the number of effective (productive) work hours, as well as the relative number of injuries in relation to the number of workers. According to cause, most injuries occurred due to working in a manner contrary to safety rules and due to malfunctions, slippery and clogged passages and surfaces in work areas. The focus, therefore, remains on constant monitoring of applying safety rules and training workers to work in a safe manner.

Fire protection measures are aimed at preventing a fire by conducting inspections of facilities and work areas on a regular basis, training of newly employed workers, procuring and maintaining firefighting equipment, testing of installations and equipment, to early detect potential fire hazards and prevent a fire. The Shipyard's fire brigade is organized in shifts to protect and keep safe the property of the Shipyard and the clients and preserve health and lives of all persons continuously in 24/7 mode. During periods of high occupancy and increased scope of works, external firefighters are hired additionally.

Approval for hot work such as welding, cutting, grinding and other work performed using an open flame is issued after a preliminary inspection of work area is carried out and the work area is secured for safe work by applying fire safety measures. In 2021, a total of 6,764 hot work permits were issued. A total of 232 gas-free certificates were issued for safe work in tanks.

During the year, the Shipyard's fire brigade conducted 48 fire drills in accordance with the fire plan. A total of 35 new employees have been trained for fire protection, including students undergoing practical learning, and 12 workers passed exam for hot work approval process.

The fire protection management system proved to be efficient and effective, without significant incidents, human threats, and material damage, both for the Company and its clients. Only one small fire was recorded and a fire in the Company's premises extinguished at the initial stage, resulting in a material damage of HRK 3,000. One technical intervention and a fire extinguished at the initial stage were recorded onboard ships undergoing repairs, without any resulting damage.

Environmental Management System is an integral part of the Shipyard's Quality Management System according to ISO 9001: 2008. Seeking to achieve its own objectives established based on internal policies and legislation, Viktor Lenac acts with the care of a good businessman, considering all aspects of environmental protection and energy efficiency.

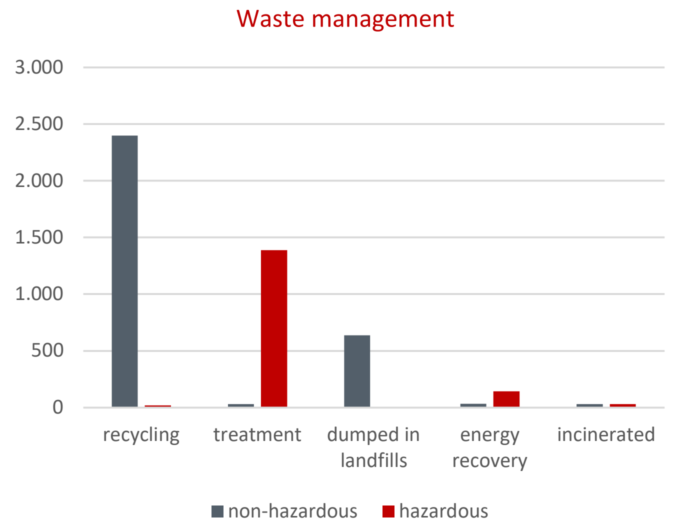
Environmental impact monitoring identifies sources of negative environmental impact in order to undertake measures to reduce the impact, and measures quality of wastewater and seawater, the impact on marine life and quality of seabed sediment. Particle immissions into the air, emissions and noise levels in the surroundings are continuously monitored. Based on the obtained data, which are processed and interpreted by authorized laboratories, appropriate environmental protection measures are implemented with the aim of reducing emissions.

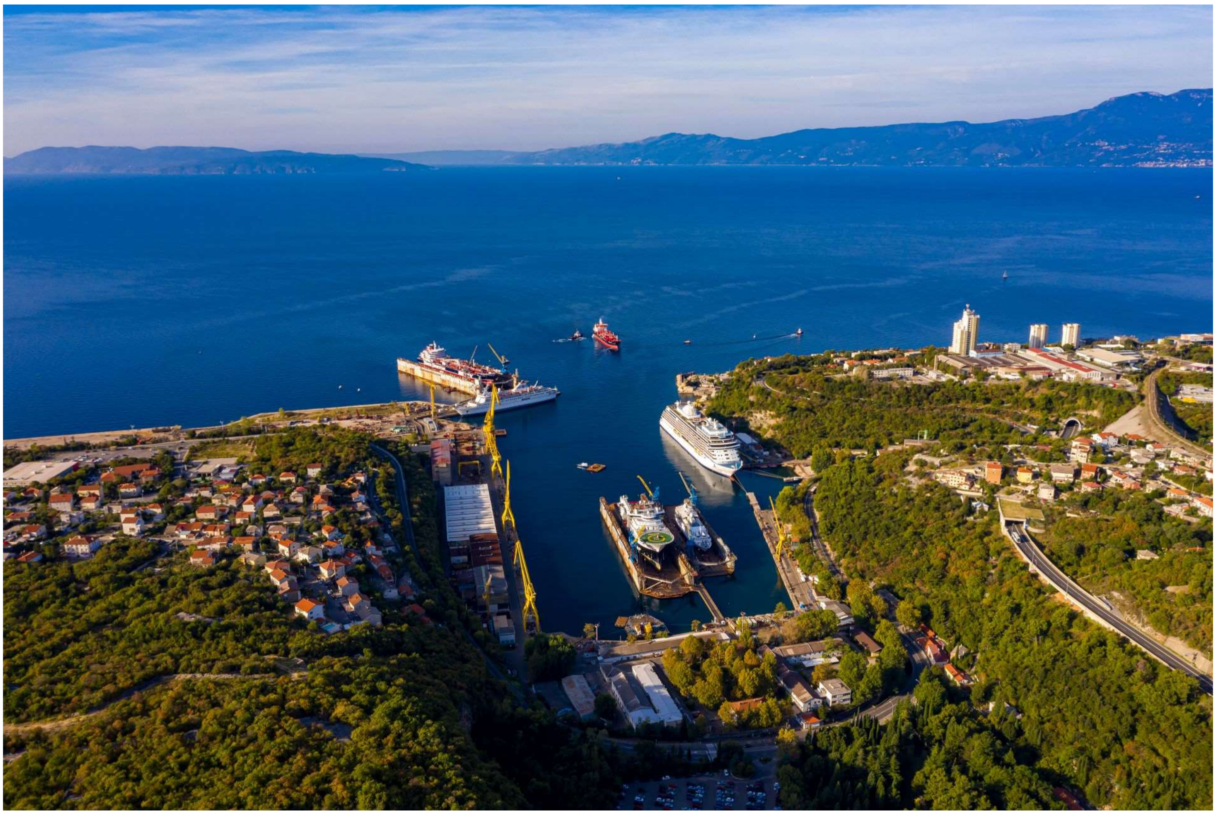
Company is continuously investing in environmental protection and energy efficiency. In 2021, the focus was on procuring high-energy efficient production equipment and tools, replacing inefficient energy consumers and procuring additional UHPW equipment to replace sandblasting technology in anti-corrosion works that resulted in a minimum use of grit.

Shipyard's Waste Management System, apart from legally defined frameworks and improvement obligations, largely depends on possibilities of waste management in Croatia. Aimed at an efficient waste management and reduction of waste to meet environmental and economic requirements, Viktor Lenac opted for the most cost-effective way of waste management – waste separation at source to separate useful secondary raw materials from waste that must be disposed or dumped in landfills, which is the most unfavourable way of waste management.

In 2021, the Shipyard's production process produced a total of 4,710 tons of various waste, of which two thirds were non-hazardous waste, and only a third of the waste belonged to the group of hazardous wastes, consisting mainly of waste containing oil (88%) and waste oils (7%).

Keeping up with waste disposal development, Viktor Lenac has been developing its own strategy for waste treatment, also in cooperation with other economic entities and delivering waste as a raw material, which is extremely difficult but sometimes succeeds.





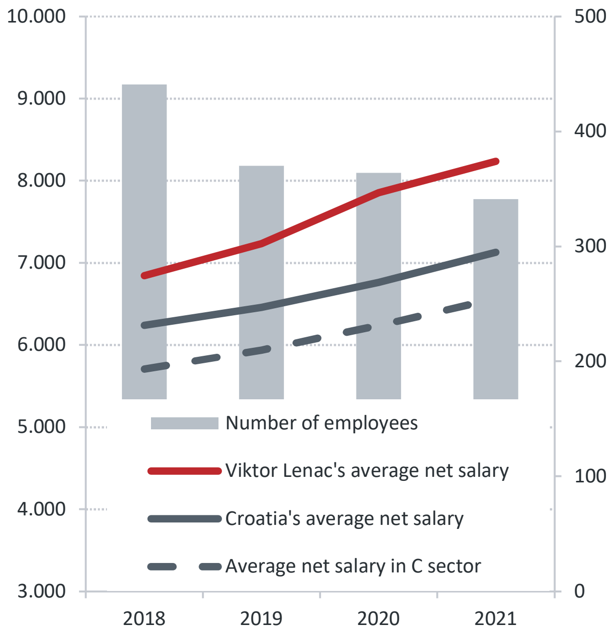
HUMAN RESOURCES

On 31 December 2021, Viktor Lenac had 341 employees, down by 23 compared to the previous year. The average number of employees, according to the number of employees at the end of each month in 2021, was 349. In 2021, there were no significant changes in business processes that would result in a targeted decline in the number of employees, so the workforce has reduced compared to the previous year because some workers retired, few left the Company for another job, and several employment contracts terminated after expiration of notice period in accordance with the 2020 reorganization plan.

Considering oscillations in capacity utilization and the fact that in low occupancy periods own production workers are fixed cost, Viktor Lenac relies in large part on subcontractors' services in its production activities. New workers are employed in those activities in which it is not possible or efficient to employ external labour. The employment policy aims to maintain a quality employee structure with the aim of raising the quality and efficiency of work, to minimize overhead and production fixed costs. However, in recent years, labour force availability in Croatia and the EU countries has been showing an increasing downward trend. The availability of quality employees has been decreasing, and it is becoming increasingly difficult for employers to manage workforce in the face of fluctuating demand within a similar industry and beyond.

Despite an extremely high percentage of permanent contracts (95%), increased employee benefits which are guaranteed by collective agreement concluded with Unions, high net wages, for years, with a 2021 average of HRK 8,237, up by 15% compared to the national average and nearly up by 25% compared to the industry average, Viktor Lenac finds it difficult to find new quality workers. The reason for this lies in the growing global shortage of metal workers, especially those younger in the immediate area and ready for difficult working conditions in the metalworking industry, especially in shiprepair. Increasing globalization and the opening of foreign labour markets in recent years have made labour migration to European Union countries normal.

Average net monthly salary trend



Out of total number of workers, only 6.5% are women, which is not unusual for this industry, but the percentage of women in management positions is twice as high.

On 31 December 2021, Viktor Lenac's subsidiary VL Steel d.o.o. had a total of 42 employees, up by 1 compared to the last year. Total consolidated number of employees on 31 December 2021 was 383, down by 22 or 5% compared to the previous year.

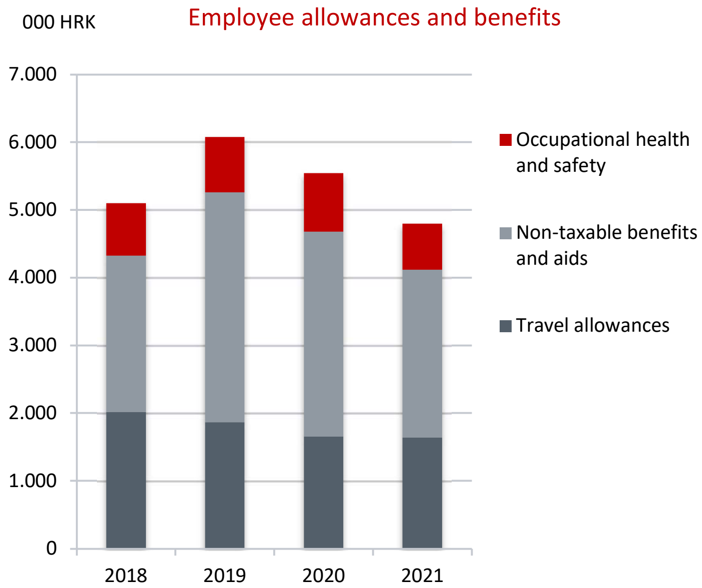
Employee structure has been stable for many years, without significant oscillations.

According to the type of job, of total employees of the Group, there are 309 production workers (81% of total number of employees), of which 198 direct production workers. A total of 111 workers performing productive jobs involve production overhead, OH&S and environmental protection, maintenance, quality control, dock crew, technologists, foremen and other workers related to production logistics activities. The remaining number of employees involve technical-commercial and other highly qualified and expert staff (36 employees), clerical staff (only 4 employees), project managers, heads of departments and unit leaders (total 34 employees).

In 2021, Viktor Lenac's employees produced a total of 726,000 work hours in normal working hours, of which 78% involved effective work hours. Compared to the previous year, effective work increased by 2.5%. Apart from annual leave that accounted for 8.4% of total hours, the most non-effective hours involved sick leave (7.8%), slightly increased due to the pandemic.

In periods of high occupancy, but also in periods of shortage of workers on the account of self-isolation requirement or sick leave, a total of 58,800 overtime hours were produced, which is about 8.1% of additional hours to normal work hours, the same as in previous year. Overtime means any hours worked beyond normal working hours, mainly as a result of oscillations in occupancy and unforeseen situations inherent to shiprepair activity, where in some periods workers are required to work beyond normal working hours and, on the other hand, in other circumstances, normal working hours may be characterized by labour underutilization.

In 2021, Viktor Lenac paid a total of HRK 59.3 million on the account of employee salaries, allowances and benefits, down by HRK 1.3 million compared to the previous year, of which HRK 55 million referred to salaries, whereas HRK 4.2 million referred to allowances and benefits to which employees are entitled based on the Collective Agreement and Work Regulations. Total gross wages decreased by 1.3% compared to 2020, which resulted in an increase in average salary per employee, considering a decline in the average number of employees and the number of paid work hours by 5%.



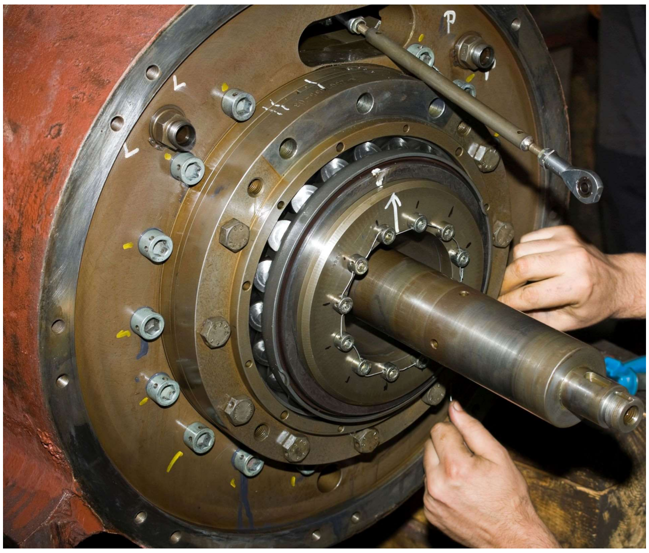
As part of the reorganization of work processes, Viktor Lenac seeks to redistribute wage savings resulting from the reduction in the number of employees to workers taking on additional scope of work, aimed at increasing work efficiency, but also stimulating efficient and effective work.

The average net monthly salary in Viktor Lenac in 2021 amounted to HRK 8,237, up by 4.9% compared to the previous year. In 2021, the average salary in Croatia indicated an annual growth of 5.4%.

Salaries are paid regularly with all appropriate taxes and contributions, including employee allowances and benefits to which they are entitled pursuant to the Collective Agreement and Work Regulations, and have been paid regularly over many years. Compared to the previous year, a decrease in the amount of employee allowances and benefits is the result of a reduction in the number of employees and lower amount of paid non-taxable benefits, aids and bonuses for performance results.

Viktor Lenac has been continuously investing in employee education and training. Employee competencies tend to increase the Company's competitive advantage and ensure higher safety of workers and clients when performing shiprepair works.

The effect of the pandemic on educational activities was particularly pronounced in 2020 and affected 2021 as well. It was impossible to carry out educational activities, especially those planned abroad. Also, in Croatia they have been kept to a minimum to reduce contacts among workers with larger groups. Where possible and useful, educational activities were delivered online. The value of investment in education was, therefore, three to four times lower than in the pre-pandemic years and mainly involved regular certification renewal activities required for some specific production jobs and for the execution of legally required work programs.



As mentioned earlier, the ongoing labour shortage in certain occupations leads to situations in which for some jobs it is not possible to find the necessary and adequate number of workers. There are no ready-made staff on the market who should replace experienced workers in production before their retirement, so new workers are trained in the workplace. However, this also carries a significant fluctuation risk because newly trained workers can leave for other sectors with higher wages. This will, in parallel with the increase in the cost of living, create additional pressure to increase wages, which will have to increase to attract and retain a sufficient number of (more quality) workers.

All important issues related to employees and employee rights are resolved through a social partnership between the Management and Heads of Departments and workers' representatives, organized through the Workers' Council and two Unions operating in the Shipyard. Social dialogue has been at a very high level for many years, and could serve as a model of how, with mutual understanding and respect, understanding of circumstances and mutual will and readiness for dialogue, the social partners can agree and find compromise solutions in the interest of all side, having before them a common goal, and that is the growth and stability of Viktor Lenac and well-being of employees.

Workers' Council participates in making management decisions through consultation and co-decision in accordance with the provisions of the Labour Act. The Workers 'Council holds regular sessions at which the Management and Heads of Departments inform the workers' representatives about the Company’s business performance and prospects and submit all information relevant to the Shipyard workers and their economic and social status.

During 2021, all provisions of the Collective Agreement were complied with, both by the Management and by the Unions.

Company’s Supervisory Board includes a workers’ representative elected for a three-year term.

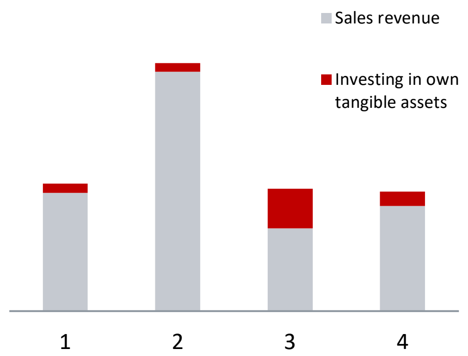
FINANCIAL RESULT

Revenues and expenses

In 2021, Viktor Lenac generated total revenues in the amount to HRK 301 million, down by 1.5% compared to the previous year. Consolidated revenues, which include revenues generated by the Company’s subsidiary, were higher by HRK 672 thousand. Sales revenue decreased by 3%, primarily due to low occupancy in the third quarter, when growing freight rates motivated shipowners to defer their fleet maintenance operations and keep their vessels trading. In 2021, unlike the previous year, which was also marked by a decline in revenues as a result of the COVID-19 pandemic, Viktor Lenac did not use Government job preservation aid for businesses affected by the pandemic, so other operating revenues were significantly lower. Periods of low occupancy were used to carry out extensive maintenance and improvement of own tangible property.

Other operating revenue generated in 2021 included rentals, income from reversal of provisions, surplus materials, income from value adjustment in respect of receivables and similar revenue, making together just over 1% of total revenue. Financial income mainly referred to positive exchange rate differences, which for the second year in a row have been exceeding negative exchange rate differences. The foreign exchange gain became important in 2021.

Quarterly revenue realisation



000 HRK

	Parent Company			Group			Influence of subsidiary's result on the Group's result 2021
	2020	2021	2021/2020	2020	2021	2021/2020	
Sales revenue	264.540	256.201	96,8%	265.011	256.990	97,0%	0,3%
Revenues based on the use of own products, goods and services	23.272	34.103	146,5%	23.272	34.103	146,5%	0,0%
Sale of material and waste	5.762	3.864	67,1%	5.614	3.754	66,9%	2,9%
Insurance income	1.389	303	21,8%	1.389	303	21,8%	0,0%
Other operating revenues	10.238	4.104	40,1%	10.727	4.088	38,1%	0,4%
Total operating revenue	**305.200**	**298.575**	**97,8%**	**306.013**	**299.238**	**97,8%**	0,2%
Financial income	712	2.778	390,0%	709	2.788	393,3%	0,3%
Total revenues	**305.912**	**301.353**	**98,5%**	**306.722**	**302.026**	**98,5%**	0,2%
Material cost	160.663	173.403	107,9%	153.615	166.383	108,3%	4,1%
Salaries	60.728	59.853	98,6%	67.773	67.243	99,2%	12,3%
Depreciation	31.454	34.420	109,4%	31.496	34.458	109,4%	0,1%
Other cost	9.571	9.420	98,4%	9.839	9.665	98,2%	2,0%
Total operating expense	**262.415**	**277.096**	**105,6%**	**262.723**	**277.749**	**105,7%**	0,2%
Financial expense	1.747	1.233	70,6%	1.765	1.244	70,5%	0,9%
Total expenses	**264.162**	**278.330**	**105,4%**	**264.488**	**278.994**	**105,5%**	0,2%
Profit before tax	**41.750**	**23.024**	**55,1%**	**42.234**	**23.032**	**54,5%**	0,0%
Profit tax	6.551	4.182	63,8%	6.551	4.182	63,8%	0,0%
Profit / loss attributed to minority interest				121	2		
Net profit	**35.199**	**18.842**	**53,5%**	**35.562**	**18.848**	**53,0%**	0,0%

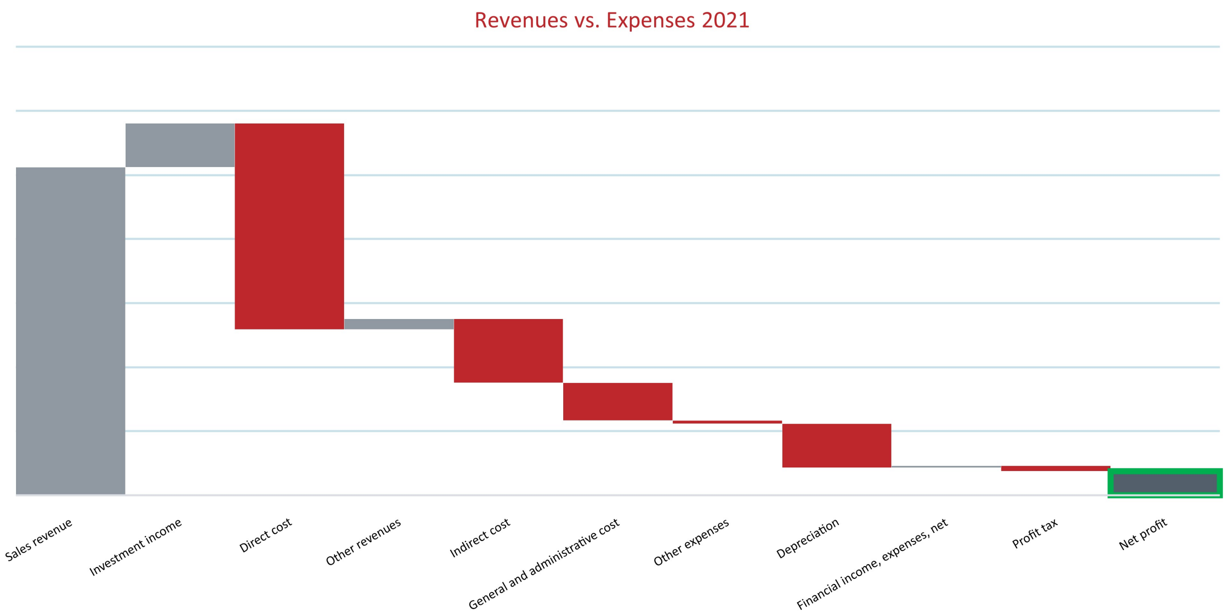
Total expenses incurred by the Parent Company in 2021 amounted to HRK 278.3 million, or HRK 279 million, if we look at the result of the Group. The increase in expenses by about 5.5% compared to last year, despite a simultaneous decline in revenue by 1.5%, was the result of the following:

- Oscillations in occupancy and monthly/quarterly revenue, since in the periods of lower occupancy fixed costs are increased, while in the periods of extremely high occupancy variable costs are progressively increasing, due to the need to hired external and foreign labour for shorter periods;
- Increase in prices of certain materials, primarily steel during 2021;
- Increase in maintenance costs, and increase in the cost of investment only partly capitalized;
- Higher depreciation amount compared to the previous year;
- Costs associated with the pandemic.

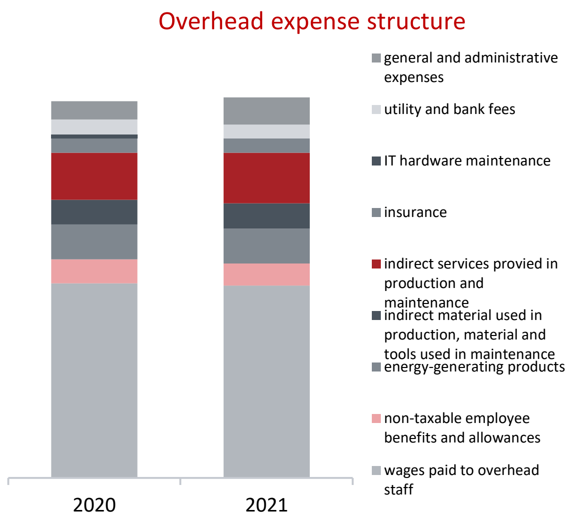
Financial expenses related to interest expenses, which decreased compared to the previous year on the account of reduction of indebtedness.

Operating revenues and expenses resulted in an operating profit before depreciation in the amount of HRK 56 million, which brings the EBITDA margin to 19%. Although the result is lower than those achieved in the previous two years, they are in line with total planned and expected result for the past year. The achieved result ensured sufficient liquidity and accumulated funds for investments made in 2021, mainly with own working capital without additional significant borrowings, and created a basis for further development and modernization of production capacities for the following periods.

Costs are monitored depending on their allocation to direct production work orders that generate revenue or create new assets, or according to the function they have in the business process. Viktor Lenac's activity, a large scope of quotations and production work orders that are executed in a matrix organization, hazards and risks arising from the production activity, maintenance of capital equipment, and many business functions required as support and logistics to direct production, tend to generate high overhead costs, both indirect production costs and costs deriving from general and common functions. In addition, indirect production costs involve all those production functions that are common to many projects and that cannot be accurately allocated or do not relate to a specific work.



Half of total overhead cost included salaries of overhead staff, or labour cost that cannot be allocated to a separate project or are common to all projects or represent non-effective work cost. The categories of overhead cost that follow refer to maintenance cost, indirect production service cost, and energy cost. In many of these cost categories, there is not much space for their further reduction, since a large part of such cost is determined by the activity character, regulations and rules, as well as prices over which Viktor Lenac has no influence. Significant savings can be achieved only by further efforts to increase efficiency and achieve better organization of work activities, or better use of labour resources.



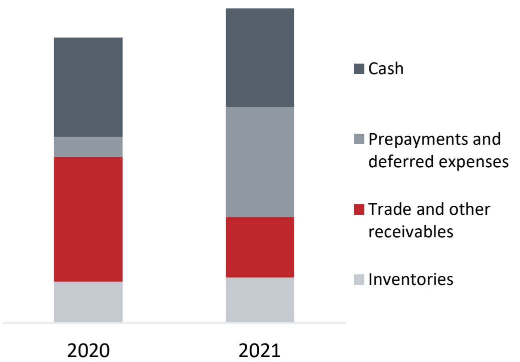
Objective of Viktor Lenac in the coming years remains, therefore, to reduce all costs, especially overhead cost, given that high cold drive cost is an extremely high burden, especially in periods of oscillations in capacity utilization, or low occupancy. In addition, labour shortage in the domestic market, in the periods of high occupancy, leads to progressive increase in variable costs, because the Company needs to hire foreign workforce, which is more expensive due to dependent costs, resulting in a decline in gross profit margin. Thus, the increased revenue of one period can no longer, in the same way as in previous years, compensate for periods of lower occupancy, which is why it remains imperative to reduce all costs, including overhead and fixed cost, so that oscillations in occupancy have less impact on total gross profit margin. When making such decisions, considering the needs of major and complex projects, care will certainly be taken that reducing indirect production resources and general and common business function resources does not become counterproductive, at the expense of the overall business process quality.

Assets and liabilities

	Parent Company			Group			Influence of subsidiary's result on the Group's financial position 2021
	2020	2021	2021/2020	2020	2021	2021/2020	
Fixed assets	286.919	290.773	101,3%	287.069	290.867	101,3%	0,0%
Short-term assets	102.064	112.473	110,2%	102.465	113.312	110,6%	0,7%
Long-term liabilities	33.659	21.840	64,9%	33.880	21.887	64,6%	0,2%
Short-term liabilities	74.072	81.321	109,8%	74.354	82.139	110,5%	1,0%
Equity and reserves	281.252	300.084	106,7%	281.300	300.153	106,7%	0,0%
Total assets/resources	**388.983**	**403.245**	**103,7%**	**389.534**	**404.179**	**103,8%**	0,2%

At the end of 2021, Viktor Lenac's assets amounted to a total of HRK 403 million, up by HRK 14 million compared to the previous year. The improvement of the financial position is the result of an increase in occupancy at the end of 2021, as a result of which trade receivables and accruals, mainly accrued revenues that are recognized over a period of time based on the percentage of completion, increased. Short-term liabilities indicate a similar trend due to increased liabilities to suppliers. An increase in fixed assets was also recorded, due to investments that exceeded the depreciation cost. Long-term liabilities have been reduced by a third, and total result, having in mind no dividend was paid during the year, contributed to strengthening of the Company's equity, which at the end of 2021 exceeded liabilities by almost three times.

Short-term asset structure as at 31 Dec

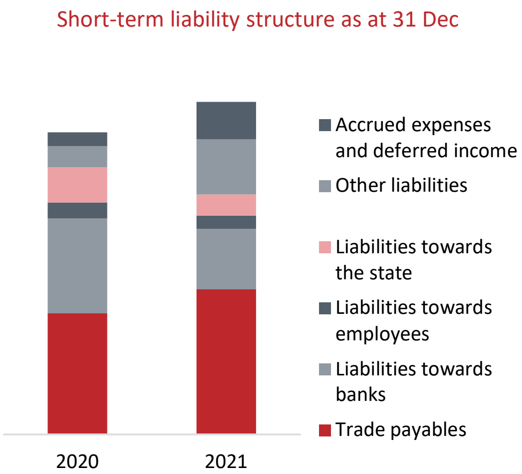


Fluctuating short-term assets arise from oscillations in occupancy rate, especially if higher at the end of the fiscal year.

At the end of 2021, a decline in trade receivables was recorded, as a result of collected receivables from previous months. On the other hand, projects that were still ongoing generated accrued revenues based on the stage of completion, instead of trade receivables. However, as these are assets generated from core activity projects, accrued revenues should be viewed in a similar way as trade receivables.

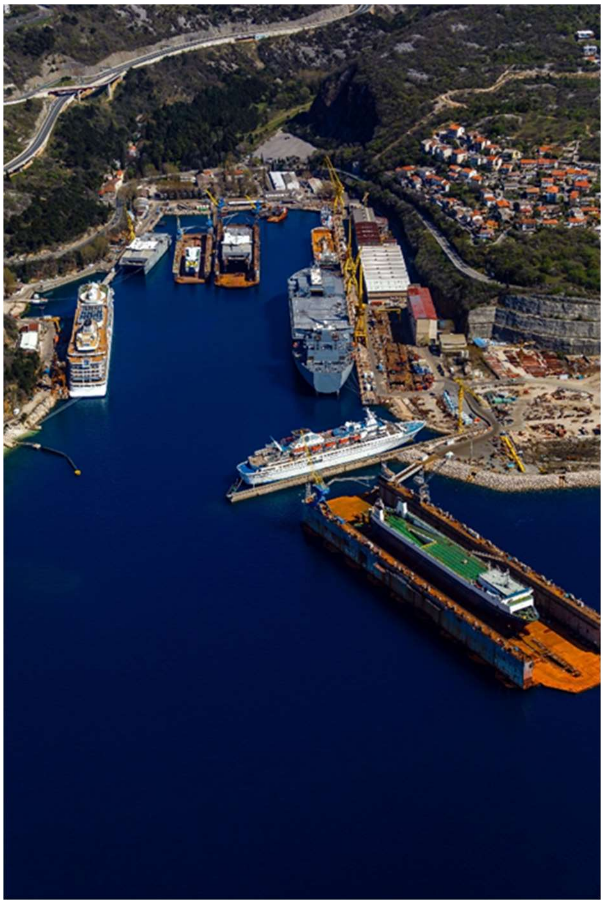
Considering that occupancy rates recorded at the end of 2021 were higher than those recorded at the end of the previous year, both on the side of short-term assets and on the side of short-term liabilities, an increase in certain financial position items was recorded. Logically, there was an increase in liabilities to suppliers, but also liabilities for advances received from customers, which are included in other liabilities. Ongoing projects, where there is a discrepancy between the time and amount of invoicing and the accounting stage of their completion, may generate deferred revenue, which was the case at the end of 2021.

Viktor Lenac has been also reducing its liabilities to banks, primarily short-term debts and loans. The liabilities recorded as at 31 December 2021 included current maturities of long-term loans that Viktor Lenac is obliged to settle during 2022.



At the end of 2021, working capital amounted to HRK 31 million, including accruals and deferrals, given that these are assets and liabilities with rapid turnover, closely related to trade receivables and payables. Of total working capital, inventories of materials, as assets with relatively slow turnover, at the end of 2021 amounted to HRK 16 million, so there is still a high amount of assets that can be converted into cash within a short period of time in relation to total short-term liabilities, resulting in a balanced financial position.

MAIN RISKS AND EXPOSURES



Viktor Lenac's business, given its core activity and export orientation, is influenced by trends in global maritime market. Execution of shiprepair projects is affected by productive resource supply, primarily labour. Internal efficiency and cost management are affected by labour market liberalization and fluctuating demand for workforce in the European Union countries and third countries, which can have both positive and negative effects. In periods of higher occupancy rates, Viktor Lenac can hire domestic and foreign workforce under a subcontract, but with a certain risk that such arrangement may not be achieved fast enough to meet market needs without delay, given the very dynamic and fast contracting cycle. This can lead to cost risk Labour market liberalization, combined with global labour shortages in the near and wider European area, has already resulted in a significant increase in average labour costs, especially for subcontract workers. The Company successfully overcame these negative aspects by increasing efficiency, but also by raising sales prices, precisely because it is a short cycle from contract conclusion to execution of works. Exposure to financial risks is less and less significant.

Financial exposure is minor.

Market Risk and Competitive Risk

Ship repair and conversion market is conditioned by cyclic changes on the shipping space market and changes in freight rates. The international shipping market is volatile, both globally and in the Mediterranean, however, experience suggests that on the long-term it is likely to expect that there will be enough vessels sailing within range of Viktor Lenac that will require repair services. Viktor Lenac's capacity utilisation rates and sales prices are affected by market and competition. The competitiveness of Viktor Lenac and its positioning vis-à-vis its major competitors - Turkish shipyards, was largely influenced by currency fluctuations. The Turkish lira weakened against US and European currencies, which further increased the competitiveness of Turkish shipyards, putting more pressure on Viktor Lenac to reduce its prices. Nevertheless, Viktor Lenac is managing to secure sufficient number of shiprepair projects with its steady clients, continuously increasing efficiency of its internal processes, and has been generating positive business results even at lower annual revenue levels and with more frequent oscillations. Viktor Lenac will continue to strive to be a reliable, fast, flexible, and high-quality shipyard able to compete with shipyards that can offer better prices.

Price Risk and risks associated with productive resources

Due to a shortage of skilled workforce on domestic labour market, Viktor Lenac can expect further labour cost increase, which will unavoidably require to further increase efficiency and seek for reallocation of internal resources. The import of labour from abroad, even from less developed countries, does not solve the problem of rising labour costs, primarily because of high costs of accommodation and food borne by employers. Given the oscillations in occupancy and the fact that foreign workers require their stay to be at least 6 months to a year, the underutilization of foreign labour increases fixed operating costs or reduces the utilization of foreign labour force.

Risks associated with changes in cost of raw material and other materials used in shipbuilding industry, such as current rise in steel prices, have no significant impact on Viktor Lenac. Shiprepair activities and production processes are characterized with short cycles, therefore, Viktor Lenac is not exposed to risk of loss due to firm fixed price contracts. Moreover, material cost participates in revenues with approximately 20% and has relatively equal impact spread across competition. It is similar with energy costs, which on one hand do not tend to achieve a significant percentage in the business resource structure, and in addition, Viktor Lenac has been implementing various energy efficiency projects to reduce dependence on energy prices.

Global supply-chain problems caused by a series of events in recent history, partly affect Viktor Lenac’s business. However, as these are materials and energy that tend to achieve a lower percentage in total production and business resources, the impact is not crucial for sustainability and business continuity, nor can affect existing contractual relationships with customers. Since these are global trends, these risks also affect competition, so Viktor Lenac's business is not at greater risk than competitors.

Personnel Risk

Given that the production activity of the Company is labour intensive, personnel risk is assessed as a very important risk for total business. 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 labour mobility and provide skilled labour, Viktor Lenac is continuously investing in education and training of human resources through educational institutions and internal educational activities. Additional risk is the ever-increasing migration of quality workforce to Western European countries, and therefore, pressure to increase labour costs to attract and retain quality workers. In periods characterized with high occupancy rates, Viktor Lenac seeks to hire foreign workers, especially from Montenegro, Ukraine, Romania, and Bulgaria. Labour cost increase is compensated through introduction of modern technologies aimed at rationalization of production, and better performance in production and other business activities. It should be noted that the average salary of the Shipyard’s workers, has been above the national average and the average of manufacturing industry in Croatia for years, which is also one of the motives to increase the interest of quality workers to look for employment in Viktor Lenac, and such practice will continue in the future. However, it should be noted that personnel risk will be under even greater pressure due to general rise in market prices, inflation and rising cost of living, where an additional pressure on labour rates and wages is likely to be expected, as well as further migration of workers to countries with better living standards.

Currency Risk

Most of sales revenue has been generated on foreign markets, mainly in EUR. Changes in exchange rates (EUR/HRK) may therefore have an impact on operating results. However, due to a high receivable turnover ratio, currency risk is not significant, which means that Viktor Lenac does not require an active hedging strategy in foreign currency transactions. On the other hand, the Company's liabilities are not exposed to significant currency risk since most of these liabilities are denominated in local currency. The US Navy contracts stipulated in US dollars may result in higher exchange rate differences, both gains and losses. However, such projects are also characterized with rapidly moving business activities, procurement, realization, invoicing, collection, and conversion of funds in domestic currency, therefore, the US dollar currency risk is not considered particularly significant. The Company achieved exchange rate gains based on the movements of the USD exchange rate in 2021, taking into account the movements of the EUR/USD exchange rates and, accordingly, daily activities related to exchanging EUR and USD currencies into domestic currency. With the introduction of the EUR currency in Croatia and its accession to the EU Economic and Monetary Union, Viktor Lenac expects that the Company's internal processes would be simplified, without negative effects, since the Company generates most revenues in euro and US dollars, and most external costs are linked to the EUR currency.

Default Risk

Default risk is associated with the other party to a contract not meeting its obligations that could produce a monetary loss, primarily referring to trade receivables. The Company uses different payment terms depending on client's financial capability assessment. The objective is to do business with steady customers, whose credibility can be assessed more safely having in mind long-term cooperation. In case there is a higher payment risk, the objective is to agree payment in full before redelivery. Guarantees and payment security instruments are not usual in shiprepair activities, but Viktor Lenac can exercise its right to arrest a ship in any port in accordance with maritime law, as a mean of recovery. Trade receivables involve many customers, so the payment risk is dispersed. Trade receivables are discounted for doubtful receivables that generally make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus.

Liquidity Risk

Liquidity risk or funding liquidity risk (aka cash-flow risk) is related to market risk which involves fluctuations in occupancy and currency risk. Viktor Lenac manages liquidity risk through continuous monitoring of projected and realized cash flows. For larger projects that may have a significant impact on outflows, especially in the preparatory phase of project when there is no inflow, Viktor Lenac uses short-term loans.

Impact of the COVID-19 pandemic

The COVID-19 pandemic, although lasting longer than originally expected, did not have a significant impact on Viktor Lenac's business in 2021. Economic activity has continued with its pace of normalization without further closing and with less restrictions on the movement of goods and people, while adhering to epidemiological measures especially using protective masks, which enabled the Shipyard to return to normal after the pandemic. An adequate vaccination rate among workers and subcontractors, in addition to those recovered, played an important role in achieving a relatively good herd immunity, thus enabling us to maintain a high capacity utilization rate throughout the year. However, the omicron variant of the virus also affected Viktor Lenac, which led to a short disruption and a lack of a sufficient number of workers at the beginning of 2022, at the time of peak occupancy. However, this period was successfully overcome, without major delays and impact on overall business operations, through efforts of other workers who compensated for the lack of their colleagues prevented from working with coronavirus disease.

Disruptions in supply of goods, spare parts and materials, which are still attributed to the pandemic, have had and still have some effect on Viktor Lenac's operations, but to the extent that such disruptions do not bring significant restrictions in business activities as they can be overcome through existing contractual relationships. Since these are global trends, the position of Viktor Lenac is not at greater risk than competitors.

Regardless of further development of the pandemic, the Company's Management believes that the negative effects of the pandemic will not affect the Company in terms of its ability to continue as a going concern.

Russian-Ukrainian conflict

Russian-Ukrainian conflict, which began in February 2022, has no direct consequences on our activity. The Shipyard has not been trading on the Russian market or with Russian clients for many years. Also, the Company is not linked with banks owned by Russian capital, nor any materials or goods are imported from the Russian market. Viktor Lenac employs some Ukrainian workers in its production activities through a subcontracting company, which is not considered crucial to the overall success of business operations and continuation of production activities.

Russia's attack on Ukraine is affecting instability in the Black Sea region and increasing risks for shipowners, so this has obviously, though not explicitly, contributed to an increase in inquiries about Viktor Lenac's docking capacity. But, in general, a larger number of inquiries at the beginning of 2022 is a consequence of deferred dry-docking operations that had been scheduled for 2021, therefore, it is difficult to discern to what extent these reasons have contributed to the increase in interest in docking capacity in the Mediterranean. However, since the Shipyard has already contracted its docking capacities by the end of the first half of this year, this increased number of inquiries will not result in a significant number of new projects. Further forecasts of shipbuilding capacities in the Black Sea region will depend on the duration of the crisis and its peaceful resolution between Russia and Ukraine, which everyone hopes for. But it is to be expected that the reorientation of maritime trade routes and relations between Russia and Western European countries will certainly mark 2022 and have an impact on businesses, including those like Viktor Lenac that do not have direct relations with Russian clients and suppliers.

The conflict in Ukraine will certainly have significant consequences not only on energy prices, but also on steel prices and supplies, given that both Russia and Ukraine are major exporters of steel and iron ore, and negative consequences in supply chains have been felt since the beginning of the conflict. As early as March, some steelmakers in Europe using ore from Ukraine suspended and drastically reduced their production of steel material. Viktor Lenac had ordered and partially procured some quantities of steel before the conflict began, and expects to receive the remaining deliveries within the agreed deadline, which is why it is not expected this situation to have a significant negative impact on our business activities. When it comes to energy, Viktor Lenac does not use gas, so no direct impact is expected therefrom.

OWNERSHIP STRUCTURE

On the day of 31 December 2021, 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 shares has been included in quotation of public joint-stock companies on the Zagreb Stock Exchange.

Throughout 2021, the Zagreb Stock Exchange recorded 1,939 transactions in trading of Viktor Lenac's stocks during a period of 209 trading days, having a trade transaction value of HRK 12,021,733 from 1,132,975 shares, with the average cost of HRK 10.61 per share, with the lowest trading price being HRK 7.90, and the highest HRK 15.00 per share.

The largest single shareholder of Viktor Lenac is the Italian shipbuilding group Palumbo Group S.p.A. from Naples, which acquired the share capital of Viktor Lenac in 2018. Viktor Lenac holds 825,187 treasury shares, representing 4.91% of the total equity of the Company, which were acquired by 2011 based on the decisions of the General Assembly of the Company.

Company has a large number of small shareholders holding individually less than 2% of the share capital of the Company and as at 31 December 2021 there were 823 and represented a total of 13.12% of the ownership structure of the Company.

Ownership structure as at 31 December 2021:

	Shareholder	Number of Shares	Percentage of Equity
1	Palumbo Group S.p.A. Italy	8.354.563	49,69
2	Interkapital vrijednosni papiri d.o.o. / Guardianship Account	5.426.897	32,28
3	Brodogradilište Viktor Lenac d.d.	825.187	4,91
4	Jadroagent d.d.	324.766	1,93
5	Kalčić Elvio	60.221	0,36
6	Others	1.821.613	10,83
	Total:	16.813.247	100,00

CORPORATE GOVERNANCE

Corporate Governance can be defined as a framework for planning, organizing, directing, and controlling of Company's business operations. Viktor Lenac's Management Board 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.

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

Since 2008, Viktor Lenac's shares have been included in quotation of public joint-stock companies on the Zagreb Stock Exchange and the Company has been 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). Also, notification that some information has been published is also given through the Croatian News Agency OTS service.

In 2021, Viktor Lenac's Supervisory Board held 6 meetings to evaluate the Company's financial performance, its position on the market, business plans and key projects. The members of the Supervisory Board regularly receive detailed information on the Company's management and business performance enabling them to exercise supervision over the Company.

Company's shareholders execute their rights at the General Assembly, where they decide on profit allocation, amendments to the Company's Articles of Association and appointment and revocation of members of the Supervisory Board. Furthermore, General Assembly decides over performance of the Management Board and the Supervisory Board, appointment of financial auditor and other critical issues stipulated by law and Company's Articles of Association. The General Assembly of the Company was held in June 2021, and an extraordinary General Assemblies of the Company was held in August 2021, where the Company's Management obtained approval to carry out a potential transaction with a related company.

By implementing the principles of the Corporate Governance Code, Viktor Lenac seeks to create a high-quality and long-term relationship with the entire investment community.

SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Supervisory Board of the Viktor Lenac Shipyard is composed of five members, of whom four members are representatives of the largest individual shareholder and the fifth member is a representative of the Shipyard's workers.

Members of the Supervisory Board are appointed or revoked by the General Assembly, except for the workers' representative who is elected, appointed and revoked by the Company's employees in the manner determined by the regulations of the Republic of Croatia.

In 2021, the Supervisory Board was composed of the following members: Vittorio Carratù as President of the Supervisory Board, Francesco Ciaramella as Vice-President of the Supervisory Board, Giorgio Filippi and Antonio Gennarelli as members. The position of the fifth member of the Supervisory Board, in the capacity of workers' representative in the Supervisory Board since April 2021, after the elections for the Workers' Council, is held by Damir Amić, who replaced the former member Zoran Košuta.

The Company has established a Committee for Audit appointed by the Supervisory Board, consisting of three members from the Supervisory Board. In 2020, the Company established a Remuneration Committee and Nominations Committee composed of three members from the Supervisory Board.

Members of the Supervisory Board are entitled to compensation for their work pursuant to a decision adopted by the General Assembly on 22 December 2020. All foreign persons who in the course of 2020 provided their services to the Supervisory Board waived their remuneration before the new decision on remuneration was made, according to which they have started to receive their fees in 2021, for the period starting from 22 December 2020. Total remuneration paid to the Supervisory Board in 2021 was only HRK 148,854, all related taxes and contributions included.

MANAGEMENT BOARD

Company's Management Board is composed solely of one member, Sandra Uzelac, in accordance with the Articles of Association of the Company, which stipulates that the Management Board of the Company may consist of up to three members.

Remuneration of members of the Management Board is approved by the Supervisory Board and regulated by employment contracts with individual members.

The cost of salaries paid to the Management Board for 2021 totalled HRK 823,887, all related taxes and contributions included.

Sandra Uzelac owns 1,038 shares of the Company, acquired in 2008.

FOR INFORMATION

Management

Bojan Kavazović, Director of Marketing and Sales Division

Filip Gajski, Director of Technical and Production Division

Auditor

Iris nova d.o.o. Rijeka

Contact Details

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Rijeka, April 2022

Pursuant to Article 272.p and with reference to Article 250.a of the Companies Act (Official Gazette No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19 and 34/22); Article 22 of the Accounting Act (Official Gazette No. 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20), the Management Board of the Shipyard "Viktor Lenac" d.d. (hereinafter referred to as the 'Company'), on this April 20, 2022, makes the following

STATEMENT
of Compliance with 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 drawn up by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange. The Code was adopted by a decision of the Croatian Agency for Supervision of Financial Services 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 is published on the Zagreb Exchange Stock's website.

3. Throughout 2021, the Company was applying recommendations of the Code, by publishing all information as stipulated by law, which is in the interest of its shareholders. The Company published all information as stipulated by law on the Company's website and on the Zagreb Stock Exchange's website and informed the users through the Croatian News Agency OTS service that the information has been made public.

The Company complies with the recommendations of the Code, with the exception of those provisions whose application at a given time is not practical or envisaged given the applicable legal framework. The exceptions mentioned are:

- The Supervisory Board has not yet formally set a target percentage of female members of the Supervisory Board (Article 14 of the Code), however, all international and national standards on gender representation and equality are directly implemented. At the Group level, of the total number of employees, 6% are women. The Management Board of the Company is represented by a woman as solely one member of the Management Board.
- All members of the Committee for Audit are also members of the Supervisory Board, in which case the Committee for Audit is exempted from the requirement of independence, as prescribed by the Audit Act in Article 65 (7).
- In other committees, all members are also members of the Supervisory Board.
- Supervisory Board has not yet established a Reward Committee because there was no need for such a Committee yet.
- The Company has not yet formally applied the means of modern communication technology for participation and voting at the General Assembly (Article 79 of the Code) because the existing method of participation and voting has been confirmed in practice as an optimal solution, largely due to more shareholders with fewer shares. On 22 December 2020 at the Extraordinary General Assembly, the Company's Articles of Association were amended, including the possibility of participating in the General Assembly remotely or voting in writing or by electronic communication when shareholders do not participate in the General Assembly, under the conditions prescribed by law.
- The Company has not yet established formal mechanisms that provide minority shareholders with the opportunity to ask questions directly to the President of the Management Board or the President of the Supervisory Board (Article 76 of the Code) because there is a possibility to ask questions directly to the Management Board and the Supervisory Board at the General Assembly, and the Company will further establish a mechanism for asking questions by shareholders via an email address for investors.

4. Supervision of the Management Board's activities in managing business of the Company 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 Articles of Association. Members of the Supervisory Board are provided with detailed information on the Management's activities in managing business of the Company to be able to efficiently fulfil their supervisory

role. Report submitted by the Supervisory Board makes an integral part of the Management Report, which is presented to the General Assembly.

5. Company is implementing rules of the accounting policy, aligned with International Financial Reporting Standards, 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.

Iris Nova d.o.o. from Rijeka was approved appointed auditor of the Company for 2021 at the General Assembly held on 30 June 2021.

Company applies rules and procedures for receiving, recording, approving and flow of financial and business-related documentation, ensuring multiple models of supervision and transparency in revenue and expense recognition. The Company has not yet established a corporate internal audit to perform the function of independent audit and control and to inform the Management Board through audit reports in the form of findings and proposals for improvement because it is judged that the current system works well. The Management Board directly supervises all revenue and expense recognition processes of the Company and participates in the preparation of quarterly, semi-annual, and annual financial statements of the Company.

Members of the governing bodies, employees and business partners are familiar with the Company's anti-corruption policy and procedures and respect the principles of the Code of Ethics in their operations and daily activities. Anti-corruption documents are published on the official website of the Company.

In the international market, the Company enjoys the reputation of a loyal and fair business partner and there are no recorded cases of corruption at the Group level. The Company has not made any financial or non-monetary contribution for political purposes, directly or indirectly, to the State or the beneficiary.

Company promotes and implements fair and transparent competition relations in all transactions, with all entities and in all places. The Group did not record any conduct contrary to the principle of freedom of competition and antitrust or monopolistic practices.

6. As at 31 December 2021, ten largest shareholders were the following ones:

	Shareholder	Number of Shares	Percentage of Equity
1	PALUMBO GROUP S.P.A. (1/1)	8.354.563	49,69
2	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ GUARDIANSHIP ACCOUNT	5.426.897	32,28
3	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
4	JADROAGENT D.D. (1/1)	324.766	1,93
5	KALČIĆ ELVIO (1/1)	60.221	0,36
6	ČOLAK ZVONIMIR (1/1)	57.009	0,34
7	LIST GMBH AUSTRIA (1/1)	45.992	0,27
8	PEČAR IVAN (1/1)	33.203	0,20
9	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
10	Others	1.652.422	9,82
	Total:	**16.813.247**	**100,00**

The corporate governance structure of the Company is dualistic. It consists of the Management Board and the Supervisory Board, which together with the General Assembly make the three fundamental bodies of the Company.

General Assembly meets in regular sessions as stipulated by law and in accordance with the Company’s Articles of Association. Shareholders may participate either personally or through a person granted by a power of attorney. Decisions of the General Assembly are made by a majority of the members present and voting, or by a two-thirds majority on statutory issues. The General Assembly is chaired by the President of the General Assembly, appointed by the Supervisory Board of the Company. The General Assembly has the authority to make decisions in accordance with the provisions of the Companies Act and the Company's Articles of Association.

The right of a shareholder 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 ordinary shares in accordance with law of the Republic of Croatia and Company's Articles of Association. Decision on issuing shares is made by the General Assembly in accordance with Article 172 of the Companies Act and Company's Articles of Association. 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 pursuant to General Assembly's powers for their acquisition.

A shareholder wishing to participate and exercise his or her rights at the General Assembly must register in writing (including by e-mail to ured.uprave@lenac.hr) six days before the day on which the General Assembly is held at the latest, whereby the day of receipt of the application shall not be not included in the deadline and shall be entered in the Share Register of the Central Depository and Clearing Company concluding with the last day for application for participation.

Amendments to the Articles of Association are made in accordance with the Companies Act.

7. On the day of 31 December 2021, the Company's Management Board was consisted of solely one member of the Management Board, univ.spec.oec Sandra Uzelac, representing the Company individually and independently in accordance with the Articles of Association and the Rules of Procedure of the Management Board.

Management Board has no authority to make business decisions as specified in Article 15 of the Company's Articles of Association (acquisition, alienation or encumbrance of real estate, issuing, alienating and acquiring bonds, providing guarantees except for liabilities of a subsidiary, taking loans and loans outside the ordinary business of the Company, etc.), and in respect with other issues as stipulated by law or in accordance with the Company's Articles of Association or a decision made by the Supervisory Board, without prior consent of the Supervisory Board. The members of the Management Board are appointed by the Supervisory Board for a term of five years. The appointment of a member of the Management Board may be revoked by the Supervisory Board.

Supervisory Board of the Company is consisted of five members. Four members are appointed and may be revoked by the General Assembly. The fifth member is elected and appointed and may be revoked by the Company's workers in accordance with law. In 2021, the Supervisory Board was composed of the following members: Vittorio Carratù, President of the Supervisory Board; Francesco Ciaramella, Vice-President of the Supervisory Board; Giorgio Filippi and Antonio Gennarelli as members of the Supervisory Board. The function of the fifth member of the Supervisory Board, in the capacity of workers' representative in the Supervisory Board since April 2021, is held by Damir Amić, who replaced the former member Zoran Košuta.

Supervisory Board acts as a collegial body at meetings held at least once a quarter, at which it discusses and decides on all matters within its competence stipulated by the Companies Act and the Articles of Association. Decisions of the Supervisory Board are made by a majority vote of the members present. In 2021, six Supervisory Board meetings were held.

Committee for Audit is a body established in December 2014 with the aim of supporting the Management Board and the Supervisory Board in effective execution of corporate governance, financial reporting, and control of the Company's business. In 2021, the body held four sessions, at which it discussed the financial performance of the Company. The members of the Committee for Audit are Vittorio Carratù, Francesco Ciaramella and Giorgio Filippi. Committee for Audit analyses in detail the financial statements, provides support to the Company's accounting and establishes good and quality internal controls in the Company. It monitors the integrity of financial information, and in particular the correctness and consistency of accounting methods used by the Company and the Group to which it belongs, including criteria for consolidating the financial statements of companies belonging to the Group. The task of the Committee is also to monitor the internal risk control and management system.

Committee for Audit is independent in its work and most members are experts in the field of accounting and auditing.

Company has established the Remuneration Committee and Nomination Committee to support Committee for Audit in its activities. The Reward Committee has not yet been established as not yet required. The members of the Committees have been appointed from among the members of the Supervisory Board. The Committees propose the content of contracts with members of the Management Board and the structure of their remuneration, prepare and propose the Remuneration Policy of members of the Management Board and the Supervisory Board, discuss and propose to the Supervisory Board a decision on appointing and electing members of the Management Board.

Report on remuneration of members of the Management Board and members of the Supervisory Board contains all data on the amount of compensation paid to members of the Management Board and the Supervisory Board and was prepared in accordance with Article 272 of the Companies Act, and the Remuneration Policy and Decision on Remuneration of the members of the Supervisory Board as adopted at the Extraordinary General Assembly on 22 December 2020.

Each member of the Supervisory Board is entitled to a fixed monthly remuneration. Remuneration of the members of the Supervisory Board does not depend on the business results of the Company and does not contain a variable part of the remuneration to maintain their independence and objectivity.

Supervisory Board has not yet conducted a self-assessment of the profiles and competencies of the members of the Supervisory Board and its committees. However, members of the Supervisory Board and members of its committees operate in optimal numbers and have the knowledge, skills and professional experience necessary to properly perform their tasks. Each member of the Supervisory Board makes an effective contribution, showing commitment to his role and devoting time to performing that duty.

Administrative support for the preparation of sessions is provided by the Management Office of the Company in an efficient and timely manner as the position of Company Secretary has not yet been established.

8. Company promotes diversity and inclusion of members of different age, gender, education and profession in its executive, management, and supervisory bodies.

9. Pursuant Article 250.a (4) and Article 272.p (1) of the Companies Act, this Statement represents a separate section and makes an integral part of the Company's Management Report 2021.

Sandra Uzelac
Member of the Management Board

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