CONSOLIDATED ANNUAL REPORT 2022

- Consolidated Annual Financial Statements
- Management Report

SHIPYARD
1896 VIKTOR LENAC
Member of Palumbo Group

April 2023

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2022

SHIPYARD

1896 VIKTOR LENAC

Member of Palumbo Group

April 2023

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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 2022 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 Group 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 2023.

SHIPYARD VIKTOR LENAC d.d.

Martinšćica bb

In Rijeka, 20 April 2023

BRODOGRADILIŠTE VIKTOR LENAC d.d.
1896 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 separated financial statements of the Shipyard Viktor Lenac d.d. Rijeka Group, Rijeka, Martinšćica bb, Croatia ("the Company" or "the Group"), which comprise the Consolidated Comprehensive Income Statement for the year ended 31 December 2022, Consolidated Statement of Financial Position as at 31 December 2022, Consolidated Cash Flow Statement for the year ended 31 December 2022, 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 2022, 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 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") including the International Independence Standards issued by the International Ethics Standards Board for Accountants (IESBA) (IESBA Code), as well as in accordance with ethical requirements relevant to our audit of annual financial statements in the Republic of Croatia 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: Events after the date of the balance sheet in which the information related to the introduction of the euro from 1 January 2023 as the official currency in the Republic of Croatia was published, making the euro the official monetary unit and legal tender.

Our opinion is not modified in respect of this matter.

/ii/ We draw attention to Note 33: Impact of the COVID-19 Pandemic and Note 34: Impact of the Russian-Ukrainian conflict which did not have a significant impact on the Company's business result, financial position and cash flows for 2022, and no significant impact on operations in 2023 is expected either.

Our opinion is not modified in respect of this matter.

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 Group 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.

Other Information

Management is responsible for other information. Other information includes the Management Report and the Statement of Compliance with the Corporate Governance Code included in the Management Report but does not include the annual financial statements and our auditor's report thereon. Our opinion on the annual financial statements does not include other information.

In connection with our audit of the annual financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our audit knowledge or otherwise appears to be materially misstated.

Regarding the Management Report and the Statement of Compliance with the Corporate Governance Code, we also performed the procedures prescribed by the Accounting Act. These procedures include checking whether the Management Report has been drawn up in accordance with Article 21 of the Accounting Act and whether the Statement of Compliance with the Corporate Governance Code contains information from Article 22 of the Accounting Act.

Based on the performed procedures, to the extent that we are able to assess it, we report that:

1. Information in the attached Management Report and Statement of Compliance with the Corporate Governance Code is aligned, in all significant respects, with the attached annual financial statements;

2. Management Report has been drawn up in accordance with Article 21 of the Accounting Act;

3. Statement of Compliance with the Corporate Governance Code includes the information defined in Article 22 of the Accounting Act.

Based on the knowledge and understanding of the Group's operations and its environment acquired within the audit of the annual financial statements, we are obliged to report if we have established that there are significant misrepresentations in the attached Management Report and Statement of Compliance with the Corporate Governance Code. In this sense, 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Audited Financial Statements (continued)

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

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 Company's internal control.

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

- 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 Company'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 Company 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Reporting on Other Regulatory Requirements

1. We were appointed at the Company's General Assembly meeting held on 29 June 2022 to perform audit of the annual financial statements for 2022.
2. This audit engagement has been uninterrupted for a total of 3 years and covers the period from January 1, 2020 to December 31, 2022.
3. In the audit of the Group's annual financial statements for 2022, we have determined the materiality for the financial statements as a whole in the amount of HRK 7.6 million, which represents approximately 1.9% of the three-year average of the Group's revenues considering it a stable business indicator and the most frequently used measure of the Group's business performance 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 2022 and the date of this report, we did not provide prohibited non-audit services to 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 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, 83/21 and 151/22) applying the requirements of Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter referred to as the ESEF Regulation.

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_2022], 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 of the Group 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 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 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.

INDEPENDENT AUDITOR'S REPORT (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)

Auditor's Responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements 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 Group'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.

The aim of our procedures was to assess whether:

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

- the information contained in the financial statements 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 labeling 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 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 2022.

In addition to this conclusion, as well as the opinion contained in this Independent Auditor's Report on the accompanying Financial Statements and the Management Report of the Group for the year ended 31 December 2022, 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.

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

Management

Ljiljana Blagojević

IRIS NOVA
Iris Nova d.o.o.
F. la Guardia 13/III, 51000 Rijeka

Authorized auditor

Zdravko Ružić

In Rijeka, 20 April 2023

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

Rijeka, Fiorello la Guardia 13/III

Croatia

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT AS AT 31 DECEMBER 2022

HRK

	Note	2021	2022
OPERATING REVENUES		**299.238.108**	**642.555.784**
Sales revenue	4	256.989.818	620.603.839
Other operating revenues	5	42.248.290	21.951.945
OPERATING EXPENSES		**277.749.413**	**584.451.848**
Material expenses	6	166.383.022	390.219.982
Employee expenses	7	67.243.288	77.425.154
Depreciation	8	34.458.198	88.106.458
Value adjustments	9	25.101	4.077.258
Provisions	10	1.890.155	14.298.565
Other expenses	11	7.521.165	9.467.243
Other operating expenses	11	228.484	857.188
EBIT		**21.488.695**	**58.103.936**
NET FINANCIAL (EXPENSES) / INCOME		**1.543.409**	**2.940.172**
Financial income	12	2.787.788	3.630.207
Financial expenses	12	1.244.379	690.035
PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX		**23.032.104**	**61.044.108**
PROFIT TAX	13	**4.182.286**	**19.972.790**
Net profit / (loss) for the year		**18.849.818**	**41.071.318**
Profit/ (loss) after revaluation of financial assets held for sale		4.464	(1.116)
Deferred tax assets		(804)	201
COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**18.853.478**	**41.070.403**
Attributable to equity holders of Parent Company		18.851.432	40.865.617
Attributable to minority (non-controlling) interest		2.046	204.786
Earnings per share		1,18	2,56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

HRK

	Note	2021	2022
ASSETS			
Fixed assets		**290.867.040**	**211.902.071**
Intangible Assets	14	4.924.786	4.036.027
Buildings, plants and equipment	14	274.875.075	196.803.226
Investment in real-estate	14	2.007.236	2.007.236
Financial assets measured at fair value through other comprehensive income – investment securities	15	114.576	113.460
Financial assets measured at amortized cost - deposits	16	8.460.314	8.479.373
Deferred tax assets		485.053	462.749
Short-term assets		**113.312.232**	**331.230.008**
Inventories	17	16.175.828	46.589.631
Trade and other receivables	18	61.708.188	153.121.421
Money in bank and cash in register	19	35.428.216	131.518.956
Total Assets		**404.179.272**	**543.132.079**
Equity and Liabilities	20	**300.134.170**	**341.202.524**
Share capital	20	168.132.470	168.132.470
Reserves		113.151.882	131.998.736
Net profit/loss for the year	20	18.849.818	41.071.318
Minority interest		**18.956**	**21.005**
Long-term liabilities		**21.886.880**	**21.328.705**
Debentures with interest charge	21	13.435.276	3.623.698
Provisions	24	926.706	12.555.896
Deferred tax liability		13.928	13.727
Other long-term liabilities	25	7.510.970	5.135.384
Short-term liabilities		**82.139.266**	**180.579.845**
Debentures with interest charge	21	14.859.907	10.048.315
Profit tax payable	13	2.382.882	16.559.496
Trade and other payables	22	63.302.840	151.747.797
Provisions	24	1.593.637	2.224.237
Total Liabilities		**104.026.146**	**201.908.550**
Total Equity and Liabilities		**404.179.272**	**543.132.079**

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2022

HRK

	Note	2021	2022
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	13	23.032.104	61.044.108
Value adjustments in respect of:			
Depreciation of real estates, facilities and equipment		34.458.198	88.106.458
Gains and losses from sale and value adjustments in respect of tangible and intangible assets, net	5	(81)	(31.001)
Gains and losses from sale, unrealized gains and value adjustments in respect of financial assets, net	9	34.988	4.076.344
Shortage, surplus and expense of material inventories, net	5, 11	523.844	48.771
Income from interests	12	(210.981)	(216.960)
Interest expenses	12	1.244.379	690.035
Provisions	5, 10	(1.059.647)	12.259.790
Exchanges rate difference (unrealized)	12	246.296	1.166.324
Profit tax cost	13	(4.182.286)	(19.972.790)
Increase in accrued revenues and costs	18, 22	(26.279.624)	(25.518.590)
Profit from operating activities before changes in working capital		**27.807.190**	**121.652.489**
Increase in inventories		(1.963.048)	(30.413.803)
Decrease/(Increase) in short-term receivables		22.453.106	(55.172.357)
Increase in liabilities		16.232.665	87.881.135
Profit tax paid		(8.052.516)	(5.773.872)
Interest paid		(1.025.512)	(597.339)
CASH FLOW FROM OPERATING ACTIVITIES		**55.451.885**	**117.576.253**
INVESTING ACTIVITIES			
Acquisition of real estates, facilities, equipment and intangible assets	14	(38.380.496)	(9.194.621)
Inflow from sale of fixed assets	5	81	31.001
Investment into financial assets		10.005	0
Inflow from interests		3.651	0
Dividend income received		0	4.464
Inflows on loans		72.500	0
CASH FLOW FROM INVESTING ACTIVITIES		**(38.294.259)**	**(9.159.156)**
FINANCIAL ACTIVITIES			
Inflows from debentures with interest charge		1.860.778	0
Repayment of debentures with interest charge		(19.141.547)	(12.326.357)
Other cash inflows from financial activities		0	0
CASH FLOW FROM FINANCIAL ACTIVITIES		**(17.280.769)**	**(12.326.357)**
TOTAL (DECREASE) / INCREASE OF CASH FLOW (I+II+III)		**(123.143)**	**96.090.740**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		35.551.359	35.428.216
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**19**	**35.428.216**	**131.518.956**

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

HRK

	Share capital	Legal reserves	Reserves for own shares	Own shares	Other reserves	Net profit / (loss)	Total	Minority (non-controlling) interest	Total
Status as at 1 January 2021	**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**
Profit / (loss) for the year	0	0	0	0	0	41.071.318	**41.071.318**	0	**41.071.318**
Changes in reserves of the fair value of financial instruments held for sale	0	0	0	0	(915)	0	**(915)**	0	**(915)**
Total comprehensive income/loss for 2022	**0**	**0**	**0**	**0**	**(915)**	**41.071.318**	**41.070.403**	**0**	**41.070.403**
Redirected into reserves per 2021 profit allocation	0	0	0	0	18.847.769	(18.849.818)	(2.049)	2.049	0
Status as at 31 December 2022	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**119.107.884**	**41.071.318**	**341.202.524**	**21.005**	**341.223.529**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Brodogradilište Viktor Lenac", headquartered in Rijeka, Croatia at Martinšćica bb, (hereinafter referred to as the „Parent Company") has been registered under the 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 16.813.247 registered ordinary shares in non-materialized form, each having a nominal value of HRK 10, of which 825.187 own shares on the balance sheet date.

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 Parent Company has been registered for other activities such as steel constructions, organization, trade, engineering and other services.

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, the ISIN code is HRVLENRB0001 whereas 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 2022, the Group employed 366 employees (2021: 383 employees).

In 2022, the Parent Company's Supervisory Board was composed of the following members: Vittorio Carratù, President; Francesco Ciaramella, Vice-President, Antonio Gennarelli and Antonio Palumbo as Members. Antonio Palumbo was appointed at the extraordinary General Assembly of the Parent Company held in December 2022, after a previous member Giorgio Filippi had resigned in October 2022. 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 2022, the Parent Company's Audit Committee consisted 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 2022, the Management Board of the Parent Company was composed solely of one member, Sandra Uzelac, whereas Marko Sobotinčić holds the position of a member of the Management Board in the company VL Steel d.o.o., and is also a minority member of the related company.

The Parent Company had the following ownership structure as at 31 December 2022:

	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	RAIFFEISENBANK AUSTRIA D.D. / GUARDIANSHIP ACCOUNT	74.560	0,44
6	VUKADIN ZVONIMIR (1/1)	70.000	0,42
7	KALČIĆ ELVIO (1/1)	47.054	0,28
8	LIST GMBH AUSTRIA (1/1)	45.992	0,27
9	PEČAR IVAN (1/1)	36.053	0,21
10	Others	1.608.175	9,57
	Total:	**16.813.247**	**100,00**

Consolidated Financial Statements were approved by the Management Board of the Parent Company on 20 April 2023 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

Group's Consolidated Financial Statements for 2022 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 Consolidated Financial Statements of the Group 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, 2023. 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 2022 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 2022 as follows:

1 EUR =	HRK	7.53450	(31 Dec 2021: 1 EUR = 7.517174 HRK)
1 USD =	HRK	7.064035	(31 Dec 2021: 1 USD = 6.643548 HRK)
1 GBP =	HRK	8.495033	(31 Dec 2021: 1 GBP = 8.958615 HRK)
1 NOK =	HRK	0.716630	(31 Dec 2021: 1 NOK = 0.752794 HRK)
1 CHF =	HRK	7.651569	(31 Dec 2021: 1 CHF = 7.248263 HRK)

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

Standards and interpretations that are in force in the 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:

- **Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the cycle of Annual Improvements to IFRS 2018-2020 (Amendments)**, all issued on May 14, 2020 (effective date for annual periods beginning on or after January 1, 2022).

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:

- **IFRS 17 Insurance contracts, first-time application of IFRS 17 and IFRS 9 – Comparative data**, published on 9 December 2021, (effective date for annual periods beginning on or after January 1, 2023).
- **Amendments to IAS 12 Income tax**: Deferred tax related to assets and liabilities arising from individual transactions, published on May 7, 2021 (effective date for annual periods beginning on or after January 1, 2023).
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Guidelines 2: Disclosure of Accounting Policies** published on February 12, 2021 (effective date for annual periods beginning on or after January 1, 2023)
- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**: Definition of Accounting Estimates published on February 12, 2021 (effective date for annual periods beginning on or after January 1, 2023).
- **IFRS 17 Insurance contracts**, published on May 18, 2017, includes changes to IFRS 17, published on June 25, 2020, (effective date for annual periods beginning on or after January 1, 2023).

The Group is currently assessing the impact of these new standards and amendments to existing ones on the Group'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.

Standards and interpretations issued by IASB, which have not yet been approved in the EU

As of the date of issuance of these financial statements, the following standards, amendments and interpretations adopted by the International Accounting Standards Board have not been adopted in the European Union, and the Company does not expect their adoption to have a significant impact on the Company's financial statements:

- **Amendments to IAS 1 Presentation of financial statements**: Classification of liabilities as short-term or long-term issued on January 23, 2020 and amended on July 15, 2020.

- **Amendments to IFRS 16 Leases**: Lease Liability in a Sale and Leaseback, issued on September 22, 2022.

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

In preparing 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 2022 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, or 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 Group 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.

Based on the Windfall Tax Act, which entered into force on December 23, 2022 and applies only for 2022, implementation of the Council Regulation (EU) 2022/1854 (Chapter III) of October 6, 2022 on an emergency intervention to address high energy prices has been ensured. A taxpayer of windfall tax is entity liable for profit tax determined according to the regulation on profit taxation which, in the tax period for which the obligation of windfall tax is determined, has generated revenue of more than HRK 300,000,000.00. Windfall tax is calculated and paid at the rate of 33%, regardless of profit tax liability. Windfall tax is paid on the determined tax basis, which is the positive difference between the taxable profit of the tax period and the average taxable profit of the previous tax periods from 2018 to 2021 increased by 20% and affects the result of the financial year (*Note 13*).

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 Group 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 Group 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 and make up almost entire revenue from sales, or 97% 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

	2021	2022
Revenues from sales on domestic market	26.746.663	32.552.148
Revenues from sales on foreign market	230.243.155	588.051.691
Total	**256.989.818**	**620.603.839**

Structure of revenues from sales:

HRK

	Domestic market	Foreign market	Total
Shiprepair	28.508.531	552.699.769	581.208.300
Refit and conversion	0	30.300.707	30.300.707
Other services	4.043.617	4.559.630	8.603.247
Other services – related parties	0	491.585	491.585
Total	**32.552.148**	**588.051.691**	**620.603.839**

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 project, involving nine shiprepair projects which were in progress on 31 December 2022. Of the total amount of sales revenue, HRK 74,566,770 related to revenue reported in accordance with IFRS 15. Most of these revenues were generated from projects completed for foreign clients. Other related party income referred to the income earned by VL Steel d.o.o. by providing their services to Palumbo Shipyard Limited, which is part of the Palumbo Group.

5. OTHER REVENUES

HRK

	2021	2022
Revenues received from the use of own products, goods and services	34.102.986	2.641.769
Revenues from sale of material	3.753.932	4.850.220
Rentals	1.097.707	1.358.383
Income from reversal of long-term provisions *(Note 24)*	1.059.647	1.598.637
Insurance claim income	303.255	119.021
Income from collecting accounts receivable previously written-off	0	0
Revenues from sale of property, plant and equipment	81	31.001
Income from discontinued liabilities	353	0
Retrospectively estimated income from past years	0	19.824
Inventory material surplus	459.988	83.379
Income from adjusting expected credit losses (IFRS 9)	249.617	0
Other revenues	1.220.724	11.249.711
Total	**42.248.290**	**21.951.945**

Revenues received from the use of own products, goods and services involved 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 core activities.

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

Other operating revenue mostly referred to income received from judicial sale of the ship Delphin, which ended the lawsuits that the Parent Company had for many years for the collection of berthing fees and associated costs, while she was at the Parent Company's Shipyard. The Parent Company received a total of HRK 16,652,574, of which the amount of HRK 10,583,589 was extraordinary income from collected, previously corrected receivables, while the remaining HRK 6,068,985 related to closed uncorrected receivables.

6. MATERIAL EXPENSES AND COST OF GOODS SOLD

HRK

	2021	2022
Raw and other material		
Consumed raw and other material	38.741.106	103.491.640
Consumed energy	10.365.693	24.089.513
Small inventory and spare parts	458.072	962.842
Total raw and other material	**49.564.871**	**128.543.995**
Other external expenses		
Services used in production of outputs	48.834.063	126.540.975
Subsupplier services	54.586.508	118.016.222
Maintenance services	7.378.188	7.745.521
Rental expenses	1.017.161	4.919.619
Intellectual services	2.509.316	2.159.939
Intellectual services – related parties	812.336	813.956
Transportation, phone, post and similar services	390.393	423.260
Other services	1.290.186	1.056.495
Total other external expenses	**116.818.151**	**261.675.987**
Total material expenses	**166.383.022**	**390.219.982**

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. In 2022, costs relating to materials, energy, subcontractor and subsupplier services, which are mostly direct costs, increased more significantly. This important increase was a direct consequence of notable increase in the amount received from the main activity works compared to 2021.

The increase in energy costs, in addition to being caused by growth in activities and increase in number of ships under overhaul that directly consume part of this energy, is also a consequence of the increase in unit prices.

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 2022 amounted to HRK 1,137,466 (2021: HRK 260,169). This amount related mostly to services provide by domestic law firms, and only HRK 12,659 to services provided by foreign law firms. Since the Group 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 2020-2022.

In 2022, the expenses of auditing financial statements amounted to HRK 168,000 (2021: HRK 160,000), and the tax consulting service expenses amounted to HRK 48,000 (2021: HRK 48,000). These expenses related entirely to the Parent Company.

The Parent 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 2022 amounted to HRK 813,956 (2021: HRK 812,336).

7. EMPLOYEE COST

HRK

	2021	2022
Net salaries and wages	37.615.346	41.086.120
Social security contributions and taxes paid by employer	14.707.659	17.119.307
Social security contributions and taxes paid by employee	9.152.933	10.169.268
Severance pays	648.488	193.807
Compensations for travelling costs, daily allowances, annual bonuses	5.118.862	8.856.652
Total	**67.243.288**	**77.425.154**

Compensations involving severance pay, jubilee awards, travel expenses and annual bonuses are paid to employees by the Group under the Collective Agreement. These costs referred to an average number of 369 employees for 2022, or 389 employees on average for 2021.

8. DEPRECIATION

HRK

	2021	2022
Intangible assets, property, plant and equipment	34.458.198	88.106.458
Total	**34.458.198**	**88.106.458**

In 2022, the Parent Company recorded accelerated depreciation of production and other fixed assets. The largest amount of depreciation involved floating docks, which, individually, have the highest value in fixed asset items, followed by depreciation of plant, machinery and shiprepair production equipment.

The change in the accounting estimate affected the increase in depreciation costs for 2022 by the amount of HRK 52,675,570.

9. VALUE ADJUSTMENTS

In 2022, the Group recorded value adjustments in respect of assets in a total amount of HRK 4,077,258 (2021: HRK 25,101), relating to value adjustments in respect of trade receivables from the Parent Company's clients in the amount of HRK 4,032,300 and write-off of uncollectible accounts receivable in the amount of HRK 44,958 (Note 20).

In 2022, the subsidiary VL Steel d.o.o. did not record any value adjustments, whereas in 2021 the subsidiary recored an amount of HRK 11,541, which involved definitive write-off of trade receivables (*Note 18*).

10. PROVISIONS

For the year 2022, the Parent Company made provisions for expenses in a total amount of HRK 14,298,565 (2021: HRK 1,890,155), of which HRK 2,224,237 (2021: HRK 1,593,637) involved provisions for allowances for unused annual leave and HRK 12,074,328 to provisions for litigation (2021: HRK 296,518).

11. OTHER EXPENSES AND OTHER OPERATING EXPENSES

Other expenses:

HRK

	2021	2022
Insurance premiums	3.028.052	3.690.471
Utility, concession and other public fees	2.631.873	2.995.913
Representation and gifts	483.388	914.002
Bank services	215.974	702.049
Other expenses	1.161.878	1.164.808
Total other expenses	**7.521.165**	**9.467.243**

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 2022, the Group incurred other operating expenses in the amount of HRK 857,188 (2021: HRK 228,484), which related to write off and deficit in inventories and the carrying amount of depreciated tangible assets, and other operating expenses, as below:

HRK

	2021	2022
Deficit in inventories	10.860	0
Inventories written off	0	50.602
Tangible fixed assets written off	74.717	48.769
Other operating and extraordinary expenses	142.907	757.817
Total other operating expenses	**228.484**	**857.188**

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

	2021	2022
Financial income		
Interests	210.981	212.496
Dividend income received	0	4.464
Net foreign exchange gain	2.576.807	3.413.247
Total financial income	**2.787.788**	**3.630.207**
Financial expenses		
Interests	1.244.379	690.035
Total financial expenses	**1.244.379**	**690.035**
Net financial expenses	**1.543.409**	**2.940.172**

In 2022, the Group generated foreign exchange gains in a total amount of HRK 10,391,623 (2021: HRK 5,424,474), and foreign exchange loss in the amount of HRK 6,978,376 (2021: HRK 2,847,667), as a result of which net foreign exchange gain amounted to HRK 3,413,247 (2021: HRK 2,576,807).

13. PROFIT TAX

The Group generated a profit of HRK 61,044,108 (2021: HRK 23,032,104) as a difference in revenues and expenses generated in the period from 1 January 2022 to 31 December 2022. After accounting for the increase and decrease of the tax liability, the profit tax liability amounted to HRK 11,087,639 (2021: HRK 4,182,286). During 2022, the Parent Company paid HRK 3,390,990 (2021: HRK 1,792,256) of profit tax advances, increased by an additional HRK 347,928 (2021: HRK 202,522) of profit tax advances paid in January 2023, as a result of which the obligation remains to pay a profit tax difference of HRK 16,132,279 (2021: HRK 2,180,360). The profit tax liability of VL Steel d.o.o. amounts to HRK 79,289.

HRK

	2021	2022
Accounting profit before taxation	23.032.104	61.044.108
Profit tax rate 18%	**4.145.779**	**10.987.940**
Effect of non-deductible costs	96.406	189.135
Effect of deductible costs	(60.086)	(8.398)
Effect of tax loss carryforward of related company	0	(81.038)
Other	187	0
Total before windfall tax	**4.182.286**	**11.087.639**
Windfall tax in accordance with the Windfall Tax Act	0	8.885.151
Total profit tax	**4.182.286**	**19.972.790**
Amount of tax loss for which no deferred tax assets are recognized	(7.148)	(22.304)
Cost of profit tax	**4.175.138**	**19.950.486**
Effective profit tax rate	**18,13%**	**32,68%**

Parent Company is liable to pay a windfall tax in the amount of HRK 8,885,151.

Of the total stated profit tax liability in the amount of HRK 19,950,486 for 2022, HRK 19,972,790 related to current tax expense for the period, and the remaining HRK 22,304 involved recognized deferred tax assets from the previous period.

In accordance with tax regulations, the tax administration may at any time review the books and records of the Group 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 Group'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 2021	12.504.214	67.114.923	694.219.015	80.838.047	3.136.593	930.671	1.402.304	860.145.768	19.509.166	0	879.654.932
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	39.628.436	(1.396.229)	38.232.207	0	148.288	38.380.495
Sold and written-off	0	0	(3.447.340)	(792.822)	0	0	0	(4.240.162)	0	0	(4.240.162)
Status as at 31 Dec 2021	12.504.214	67.114.923	730.054.100	80.793.081	3.136.593	528.826	6.075	894.137.813	19.657.454	0	913.795.267
Transfer from investments in tangible assets in progress and advances	0	0	5.345.026	1.941.172	0	(7.286.196)	0	0	16.240	(16.240)	0
Acquisition throughout the year	0	0	0	0	0	7.396.195	1.782.187	9.178.382	0	16.240	9.194.622
Sold and written-off	0	0	(3.915.950)	(781.416)	0	0	0	(4.697.366)	0	0	(4.697.366)
Status as at 31 Dec 2022	12.504.214	67.114.923	731.483.176	81.952.837	3.136.593	638.823	1.788.262	898.618.828	19.673.694	0	918.292.522
VALUE ADJUSTMENTS											
Status as at 31 Dec 2021	6.958.527	65.163.098	443.410.630	70.836.522	1.129.357	0	0	587.498.134	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	(4.140.360)	0	0	(4.140.360)
Status as at 31 Dec 2021	6.958.527	65.341.051	471.868.884	71.957.682	1.129.357	0	0	617.255.501	14.732.668	0	631.988.169
Depreciation throughout the year	0	279.517	79.855.512	7.066.430	0	0	0	87.201.459	904.999	0	88.106.458
Sold and written-off throughout the year	0	0	(3.893.371)	(755.224)	0	0	0	(4.648.595)	0	0	(4.648.595)
STATUS AS AT 31 DEC 2022	6.958.527	65.620.568	547.831.025	78.268.888	1.129.357	0	0	699.808.365	15.637.667	0	715.446.032
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
BOOK VALUE 31 DEC 2022	5.545.687	1.494.355	183.652.151	3.683.948	2.007.236	638.823	1.788.262	198.810.462	4.036.027	0	202.846.489

During 2022, investments in fixed assets related to the Parent Company's investments in floating docks and the acquisition of production and fixed assets.

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, 2022 amounted to HRK 176,466,952 (2021: HRK 229,694,072).

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

The 2022 depreciation rate for buildings, plants and equipment at the reporting date was 78% (2021: 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 113,460 as at 31 December, 2022 (2021: HRK 114,576).

Parent Company owns 5,000 shares of Uljanik d.d. having a total nominal value of HRK 450,000. 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 value of these shares at the reporting date was HRK 0 (2021: HRK 0).

16. FINANCIAL ASSETS MEASURED AT AMORTIZED COST - DEPOSITS

Long-term financial assets in the amount of HRK 8,479,373 (2021: HRK 8,460,314) related to a cash deposit on a long-term investment loan in the amount of HRK 8,287,950 (2021: HRK 8,268,891) and to a deposit held to secure long-term liabilities to HEP ESCO in the amount of HRK 191,423 (2021: HRK 191,423).

17. INVENTORIES

HRK

	31.12.2021	31.12.2022
Raw and other material	16.175.828	46.589.631
Small inventory	9.067.218	6.906.777
Value adjustments in respect of small inventory	(9.067.218)	(6.906.777)
Total	**16.175.828**	**46.589.631**

Increased occupancy rates caused increased materials stocks required for the main activity processes, mostly involving dedicated materials and equipment for more extensive ongoing projects and ferrous metallurgy, mainly sheets and profiles.

18. TRADE AND OTHER RECEIVABLES

HRK

	31.12.2021	31.12.2022
Receivables from customers - gross	*37.640.797*	*56.634.721*
Receivables from customers – impairment	*24.861.787*	*26.527.574*
Receivables from customers – net	12.779.010	29.615.709
Receivables from customers – key shareholders	0	491.438
Receivables from employees	214.170	190.017
Receivables from state	7.404.819	12.260.777
Prepaid expenses and accrued income	39.300.458	80.557.145
Advances	2.009.731	30.006.335
Other receivables	0	0
Total	**61.708.188**	**153.121.421**

Trade receivables recorded as at 31 December 2022 mainly involved Parent Company's trade receivables, increased significantly compared to the previous year due to increased occupancy rates and larger scope of works performed for which invoices were issued, but were not due for payment at the end of the year. 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 80,557,145 (2021: HRK 39,300,458) accounted for prepaid expenses and accrued income, HRK 74,566,770 (2021: HRK 31,442,876) related to accrued income in accordance with IFRS 15 'Revenue from Contracts with Customers', based on nine shiprepair projects carried out by the Parent Company, which were in progress on 31 December 2022.

Receivables from the state in the amount of HRK 12,260,777 (2021: HRK 7,404,819) related to receivables received from value added tax refunds in the amount of HRK 11,708,203 (2021: HRK 7,219,175), receivable from the state based on an enforcement order in the amount of HRK 352,050 and receivables received from sick leave pay paid at the expense of the Croatian Health Insurance Fund in the amount of HRK 200,525 (2021: HRK 185,334).

According to IFRS 9 requirements, the Group carried out value adjustments in respect of receivables from customers for the period from 2018 to 2022.

Age structure of matured receivables from customers:

HRK

	31.12.2021	31.12.2022
1-90 days	6.584.907	28.709.928
91-180 days	440.054	1.746.407
181-365 days	3.248.085	64.728
Over 365 days	2.603.573	60.126
Value adjustments in respect of receivables	(97.609)	(474.042)
Total	**12.779.010**	**30.107.147**

Age structure of impaired receivables from customers:

HRK

	31.12.2021	31.12.2022
1-90 days	0	0
91-180 days	0	65.765
181-365 days	0	3.193.077
Over 365 days	24.764.178	22.794.690
Value adjustments in respect of receivables	97.609	474.042
Total	**24.861.787**	**26.527.574**

Trade receivable structure by currency:

HRK

	31.12.2021	31.12.2022
HRK	7.201.663	3.900.539
EUR	5.347.177	23.421.806
USD	327.779	3.258.844
Value adjustments in respect of receivables	(97.609)	(474.042)
Total	**12.779.010**	**30.107.147**

Structure of trade receivables by markets:

HRK

	31.12.2021	31.12.2022
Malta	417.203	16.457.202
Italy	59.987	5.451.682
Croatia	7.201.663	3.900.539
USA	1.633.299	3.258.844
Germany	328.068	65.765
Other countries	3.236.399	1.447.157
Value adjustments in respect of receivables	(97.609)	(474.042)
Total	**12.779.010**	**30.107.147**

19. CASH AND CASH EQUIVALENTS

HRK

	31.12.2021	31.12.2022
Money in bank	35.401.910	131.511.236
Cash in register	26.306	7.720
Total	**35.428.216**	**131.518.956**

20. EQUITY AND RESERVES

On 31 December 2022, 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 2022, the Parent Company owned 825.187 of own shares (31 December 2021: 825.187), making 4.91% of the share capital.

On 31 December 2022, the Parent Company's statutory reserves amounted to HRK 8,406,623 (2021: 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.

Statutory reserves, which amounted to 5% of equity and reserves for own shares in the amount of HRK 20,946,623 (2021: HRK 20,946,623) cannot be allocated between shareholders.

After the introduction of euro currency in the Republic of Croatia, applying a fixed HRK to Euro conversion rate (HRK 7.53450 for EUR 1) and the rule on rounding to the nearest cent, the Parent Company's share capital in the amount of HRK 168,132,470 has been converted into EUR 22,315,013.60 (fixed conversion rate 7.53450) and the nominal amount of the Parent Company's share is EUR 1.33. With the purpose of rounding the nominal value of one share to a whole number in accordance with the provisions of the Companies Act, the Management Board of the Parent Company proposes to replace shares with nominal amount into shares without nominal amount, while rounding the total amount of the share capital to a whole number, or EUR 22,315,014, from the Parent Company's funds, which would maintain the amount of the existing share capital, while maintaining shareholder rights and rights other stakeholders of the Parent Company.

21. DEBENTURES WITH INTEREST CHARGE

Below is the overview of debentures on which interest is paid according to the repayment dynamics as at 31 December 2022 respectively 31 December 2021:

HRK

		31.12.2021				31.12.2022				
	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	17.849.071	10.199.469	7.649.602	0	7.649.602	7.649.602	7.649.602	0	0	0
Long-term loan for purchase of equipment	5.238.411	1.497.682	3.740.729	0	3.740.729	3.971.004	1.723.825	2.247.179	0	2.247.179
Financial lease	2.907.480	862.535	1.800.146	244.799	2.044.945	2.051.407	674.888	1.376.519	0	1.376.519
Short-term working capital loan	2.300.221	2.300.221	0	0	0	0	0	0	0	0
Total	**28.295.183**	**14.859.907**	**13.190.477**	**244.799**	**13.435.276**	**13.672.013**	**10.048.315**	**3.623.698**	**0**	**3.623.698**

Long-term investment loan refers to a loan approved to the Parent Company 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 two loans granted to the Parent Company specifically a loan for purchase of energy - saving lighting and expires in 2024 (total liability on 31 December 2022: HRK 1,425,000), and a loan for upgrade of the energy efficient ship supply system that expires at the end of 2026 (total liability: 31 December 2022: HRK 2,546,004).

Financial lease involved purchase of production equipment, and HRK 63,144 (2021: HRK 132,604) as reported at the end of the year related to purchase of two passenger cars.

There was no loan for working capital in 2022, whereas the working capital loan for 2021 in the amount of HRK 2,300,221 related entirely to the HRK bank account overdraft used by the Parent Company.

22. TRADE AND OTHER LIABILITIES

HRK

	31.12.2021	31.12.2022
Trade payables	35.213.579	69.428.490
Trade payables – related companies	135.309	0
Employee payables	3.647.459	3.952.415
Tax and contribution	3.404.958	3.756.645
Received advances	8.284.998	46.229.358
Other liabilities	3.448.609	3.474.864
Accrued expenses and deferred income	9.167.928	24.906.025
Total	**63.302.840**	**151.747.797**

The increase in trade payables was due to increased occupancy rates as recorded by the Parent Company as throughout and at the end of 2022 and several major shiprepair projects still ongoing at the turn of the year.

The largest portion of other liabilities related to current maturity of liabilities of the Parent Company to HEP ESCO company in the amount of HRK 2,562,281 (2021: 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, 2022, the Parent Company recorded expenses in the amount of HRK 1,206,621 (2021: HRK 1,758,627) relating to accrued expenses for which invoices have not yet been received but a contractual obligation exists therefrom, and other expenses. In 2022, the Parent Company accounted for a total of HRK 23,663,791 of revenues with respect to which, pursuant to IFRS 15 *Revenue from Contracts with Customers*, conditions for their recognition were not met even though the conditions for issuing invoices have been met according to the contract with the client.

The subsidiary generated revenues in the amount of HRK 35,613 (2021: HRK 0) in 2022 that involved costs for which invoices had not been received, but the conditions for their recognition have been met.

Structure of trade payables by currency:

HRK

	31.12.2021	31.12.2022
HRK	30.967.100	61.985.660
EUR	4.359.486	5.292.623
USD	22.302	662.742
CHF	0	1.487.465
Total	**35.348.888**	**69.428.490**

23. RELATIONS WITH RELATED PARTIES

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

HRK

Subsidiaries and key shareholders	2021	2022
Sold to related parties		
Sold to key shareholders	**0**	**491.438**
Palumbo Malta Superyachts Ltd (belonging to the Palumbo Group)	0	491.438
Purchased from related parties		
Purchased from key shareholders	**812.336**	**813.956**
Palumbo Group S.p.A.	0	609.978
Palumbo Superyachts Ltd. (belonging to the Palumbo Group)	676.128	203.978
Palumbo Malta Superyachts Ltd. (belonging to the Palumbo Group)	136.208	0
Receivables from related parties		
Receivables from key shareholders	**0**	**491.438**
Palumbo Superyachts Ltd. (belonging to the Palumbo Group)	0	491.438
Liabilities to related parties		
Liabilities to key shareholders	**135.309**	**0**
Palumbo Superyachts Ltd. (belonging to the Palumbo Group)	135.309	0

During 2022, the Parent Company procured services from companies that belongs to the Palumbo Group in the amount of HRK 813,956 (2021: HRK 812,336). On 31 December 2022, the Group has no outstanding obligations towards companies within the Palumbo Group (Palumbo Superyachts Ltd 2021: HRK 135,309), whereas the related company VL Steel claims an amount of HRK 491,438 (2021: HRK 0).

Key management

On 31 December 2022, 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 Management Boards of the Group for 2022 amounted to HRK 1,088,904 (2021: HRK 1,032,094). During the year, members of the Parent Company's Supervisory Board received compensation in the total gross amount of HRK 198,062 (2021: HRK 148,854).

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

24. PROVISIONS

Long-term provisions in the amount of HRK 12,555,896 (2021: HRK 926,706) related to provisions made by the Parent Company for initiated legal proceedings.

Short-term provisions in the amount of HRK 2,224,237 (2021: HRK 1,593,637) related to provisions for unused annual leave allowances for 2022 involving Parent Company's workers.

	Court cases	Annual leave	Total
Status 1 January 2021	**837.528**	**983.307**	**1.820.835**
Provisions reversed	(76.340)	(983.307)	**(1.059.647)**
Actualised	(131.000)	0	**(131.000)**
New provisions	296.518	1.593.637	**1.890.155**
Status 31 December 2021	**926.706**	**1.593.637**	**2.520.343**
Provisions reversed	(5.000)	(1.593.637)	(1.598.637)
Actualised	(440.138)	0	(440.138)
New provisions	12.074.328	2.224.237	14.298.565
Status 31 December 2022	**12.555.896**	**2.224.237**	**14.780.133**

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 December 2022 in the amount of HRK 5,135,384 (2021: HRK 7,510,970) related to liabilities of the Parent Company to HEP ESCO company for implemented energy efficiency projects in the amount of HRK 964,077 (2021: HRK 3,329,260) 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 4,161,471 (2021: HRK 4,171,874), involving legal proceedings which have not yet been finalized including a rental cash inflow in the amount of HRK 9,836 (2021: HRK 9,836).

26. RISK MANAGEMENT

The 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, 2022 and December 31, 2021.

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

	31.12.2021	31.12.2022
Total interest-bearing debt (long-term and short-term loans) (Note 21)	28.295.183	13.672.013
Less: Cash and cash equivalents (Note 19)	35.428.216	131.518.956
Long-term deposit (Note 16)	8.268.891	8.287.950
Net debt	**(15.401.924)**	**(126.134.893)**
Equity and reserves	300.153.126	341.223.529
Total equity and reserves and net debt	**284.751.202**	**215.088.636**
Indicator of indebtedness	***-5%***	***-59%***

Cash and cash equivalents significantly exceed the Group's indebtedness, so the indicator has a negative sign.

Currency risk

The Group 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 particularly those relating to the US Navy. The movements of the EUR to HRK and USD to HRK exchange rates could have had an impact on business results in previous years. However, due to a relatively high accounts receivable turnover ratio and high foreign exchange ratio, the currency risk is not significant, and the Group does not use active hedging techniques with regard to foreign currency transactions. On the other hand, the Group'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 increase in the USD exchange rate during 2022 resulted in positive exchange rate differences. The introduction of euro currency in the Republic of Croatia and its accession to the EU Economic and Monetary Union on 1 January 2023 did not have negative consequences or cause any disruptions in business. In any case, most of the revenue is generated in EUR and USD, and the majority of external expenses are related to euro currency, so in all business processes, the transition from HRK to EUR was carried out without problems and without the need for special adjustments.

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.

	31.12.2021			31.12.2022		
	HRK	EUR/USD in HRK	Total	HRK	EUR/USD in HRK	Total
Short-term assets	38.759.267	74.552.965	113.312.232	87.916.351	243.313.657	331.230.008
Long-term assets	282.598.149	8.268.891	290.867.040	203.614.121	8.287.950	211.902.071
Total assets	**321.357.416**	**82.821.856**	**404.179.272**	**291.530.472**	**251.601.607**	**543.132.079**
Short-term liabilities	69.320.238	12.819.028	82.139.266	102.525.441	78.054.404	180.579.845
Long-term liabilities	17.467.815	4.419.065	21.886.880	18.186.858	3.141.846	21.328.705
Total liabilities	**86.788.053**	**17.238.093**	**104.026.146**	**120.712.299**	**81.196.250**	**201.908.550**
Equity – Net assets	**213.556.195**	**67.743.453**	**281.299.648**	**170.818.173**	**170.405.357**	**341.223.529**

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

	31.12.2021		31.12.2022	
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	0,2	-0,2
Impact of change - Liabilities	-0,2	0,2	0,0	0,0
Net impact - Financial position	**0,6**	**-0,6**	**0,2**	**-0,2**

Since 1 January 2023, the euro has become the national currency in the Republic of Croatia. Exchange rate changes can, therefore, only affect business transactions related to other currencies in which the Group performed transactions in 2022, but the balance of assets and liabilities in those other currencies at the end of 2022 are of no major material significance. Since the euro has become the national currency, the sensitivity analysis is performed only in relation to third currencies, given that there will no longer be any effects in the relationship between the exchange rates of the Croatian kuna and the euro.

In relation to the situation on the reporting date, if the exchange rate of the national currency against USD/GBP/CHF were to increase (or weaken) by 1%, assuming that other indicators remain unchanged, according to the Group's assessment, such a change, as a result of gains and losses from exchange rate differences from relations with suppliers, customers, given and received advances and money on business accounts, would not have a significant impact on the balance of total assets and net profit of the reporting period. In that case, the impact on the net result would be around HRK 200 thousand (2021: HRK 650 thousand).

Interest rate risk

The interest rate risk is related to Parent Company, given that VL Steel d.o.o. is not significantly burdened with credit or has significant interest-bearing assets. Except for long-term deposits that are less sensitive to interest rate changes, and available funds, 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 and the remaining principal is significantly reduced anyway and is due for repayment in the middle of the current year. 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 Group and Parent Company use different payment terms depending on client's financial capability assessment. 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 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. Value adjustments in respect of trade receivables make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus.

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 Company uses to manage liquidity risk based on net amounts of assets and liabilities.

000 HRK

	Structure of maturity buckets					Total
	up to 1 m	1 – 3 m	3 m - 1 y	1 – 5 y	over 5 y	
Assets, status 31 December 2022						
With interests	131.709	0	8.288	0	0	139.997
Interests free	45.949	26.682	67.590	150	0	140.371
Total	**177.658**	**26.682**	**75.878**	**150**	**0**	**280.368**
Liabilities, status 31 December 2022						
With interests	6.902	487	6.611	3.624	290	17.914
Interests free	49.453	61.995	32.845	964	0	145.257
Total	**56.355**	**62.482**	**39.456**	**4.588**	**290**	**163.171**
Net liabilities	**121.303**	**(35.800)**	**36.422**	**(4.438)**	**(290)**	**117.197**

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 2022, the Parent Company was involved in several disputes which have arisen from its business operations. The Parent Company has already made provisions in their books for such claims in case of unfavourable outcomes (Notes 10 and 24).

As at 31 December 2022, the Parent Company was a defendant in 10 court cases based on which the amount of HRK 12,555,896 has been reserved, of which the major case involves a lawsuit that had been filed against the 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 Company decided not to continue the contract after its initial seven-year duration.

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 Group recorded a positive financial result for 2022. The Parent Company has a profit tax liability in the amount of HRK 19,871,197 (2021: HRK 4,175,138), whereas the subsidiary VL Steel d.o.o. has a profit tax liability in the amount of HRK 79,289 (2021: HRK 0). The Parent Company has already paid HRK 3,390,990 on the account of profit tax advances during 2022 as well as an advance in the amount of HRK 347,928 in January 2023 totalling HRK 3,738,919 (2021: HRK 1,994,778), resulting in the amount of HRK 16,132,278 (2021: HRK 2,180,360) remaining under the 2022 tax obligation (*Note 13*). In earlier years, the subsidiary VL Steel d.o.o. generated a loss from its operations, and was not obliged to pay income tax advances, therefore its liability amounts to HRK 79,289.

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.

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 tends to recognize provisions which may result from litigation initiated against the Group which are estimated to lead to an outflow of funds. In estimating such provisions, the Parent Company regularly consults with legal professionals.

29. EVENTS AFTER BALANCE SHEET DATE

The introduction of euro currency in the Republic of Croatia and its accession to the EU Economic and Monetary Union on 1 January 2023 is not likely to bring any negative consequences and conversion carried out in the information system did not affect or cause disruptions in business. Since most of the revenue is generated in EUR and USD, and most external expenses are related to euro currency, transition from HRK to EUR has been carried out successfully in all business processes without any special adjustments except those related to the information system.

At the end of March 2023, the Parent Company signed a contract with 3. Maj Brodogradilište d.d. on the construction of two pontoons that will replace the two existing pontoons of Dock 11 for the purpose of its renovation. The value of the contracted works is close to 7 million euros, and the procurement of the main steel material and mechanical equipment is the obligation of Viktor Lenac. The Parent Company's total investment in those two pontoons is estimated at around 15 million euros. The agreed delivery period is 10 months from the delivery of the main material.

All significant events are regularly announced by the Group to the public via the Zagreb Stock Exchange.

30. MORTGAGES

The 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 multipurpose credit. 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 176,466,952 (2021: HRK 229,694,072). The obligations under the loans secured as specified as at 31 December 2022 amounted to HRK 10,195,606 (2021: HRK 25,387,703), of which HRK 7,649,602 (2021: HRK 17,849,071) 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 Group's business in 2022. 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 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 Parent Company is not at greater risk than competitors.

Regardless of further development of the pandemic, the Group and parent Company's Management believes that the negative effects of the pandemic will not affect the Group 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. The Parent Company 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 conflict in Ukraine certainly had significant consequences not only on energy prices, but also on prices of other goods affecting their supply as well as to global inflationary trends, which has also affected Parent Company, either through pressure on labour prices, or through an increase in materials and energy prices. However, these impacts are not expected to be decisive for the overall business and continuation of production activities, since it is about global trends that to a certain extent also affect the competition.

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 2023.

BRODOGRADILIŠTE VIKTOR LENAC d.d. Rijeka, Martinšćica bb 1

Sandra Uzelac
Member of the Management Board

MANAGEMENT REPORT

2022

SHIPYARD

1896 VIKTOR LENAC

Member of Palumbo Group

April 2023

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ENCLOSURE

Statement of Compliance with Corporate Governance Code

FOREWORD

Management Board of the Shipyard "Viktor Lenac", a joint stock company, presents its Management Report for 2022 to all interested parties and the entire public. The Management Report 2022 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 2022, 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 a business performance report shall be presented to the 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 2022 has been made pursuant to Article 21 of the Accounting 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 2022 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
2022	7.5345	7.5360
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 2022, which for all of us in Viktor Lenac was one of the best, but also one of the most demanding years in our recent history.

The 2022 business results, both in terms of revenue and profit, are record-breaking, at least when looking at the period of the last 20 years. These results did not come by chance, but through dedicated work and business relationships that we continuously nurture, primarily with our clients, to earn trust for every future and new job with our flexible approach and quality of workmanship. All our workers, subcontractors and suppliers are part of Viktor Lenac, and they understand well that it is difficult to plan shiprepair activities in advance, both in terms of projects and the resources needed for their realization, so we strive to be partners with each other with the aim of increasing the added value for all stakeholders in the chain.

In the years that preceded and in which the oscillations were more pronounced, and overall occupancy rate was lower compared to 2022, with the aim of ensuring positive results, we implemented organizational changes with the purpose of increasing efficiency and savings in fixed business costs, which to the greatest extent concerned reduction of costs and resources related to non-production support functions. Therefore, in the extremely busy 2022, in which labour, of all profiles, is no longer easily available, the greatest burden, but also the greatest credit for the achieved results, belong to the workers of Viktor Lenac, who with their enthusiasm and dedication ensured successful contracting, implementation and delivery of all projects to our clients.

Viktor Lenac ensured good occupancy rate at the very beginning of the year, by contracting several projects for repair of US Navy ships and other projects within the framework of standard activities. At the beginning of February, we successfully concluded long-term negotiations for refit of a passenger yacht. The Russian-Ukrainian conflict did not have a significant impact on the increase of our occupancy rate since our capacities were already contracted for the entire first half of the year. In the remaining part of the year, we won new projects, mostly involving our steady clients, but also some new estimated clients, where we should single out conversion of a RO-RO ship by building a new superstructure to accommodate passengers.

Global labour shortage, as well as disruptions in supply chains, primarily due to the Russian-Ukrainian conflict, made 2022 a very demanding year. This was reflected not only in the availability of resources and the possibility of their supply, but also in price planning, their growth and sustainability of extremely short options offered by suppliers. Due to global inflation and the rise in energy prices, as well as uncertainty in the ability to deliver equipment and materials, many suppliers were not even able to respond with their offers within the requested deadlines. The labour shortage was compensated for by workers coming mainly from third countries. In addition to language barriers and lower level of qualification, foreign workers require a longer period of adaptation to specific conditions and work organization, which in turn places additional demands on our management staff.

Nevertheless, all challenges had been overcome, so Viktor Lenac ended 2022 with almost EUR 86 million in revenues, with a net profit of over EUR 5 million.

The increase in funds achieved in 2022 is needed to invest in an extensive renovation of Dock 11, to extend its service life and increase its existing carrying capacity, in order to be able to continue with overhauls of larger and heavier ships and thus ensure a wider coverage of the market, and stable occupancy rates in the years to come. The renovation will begin in the second quarter of 2023 with the construction of two new pontoons to replace the worn ones, and the contract for their construction was concluded with the neighboring shipyard "3. May".

The first quarter of 2023 continues with a good occupancy rate. We continue to work on several larger projects started in 2022. Also, the beginning of the year was marked by several shiprepair projects completed for the national shipping company "Jadrolinija", as well as several shiprepair projects involving US Navy ships. It is, therefore, expected that we will achieve a good occupancy rate during the second quarter as well. We anticipate that the second part of the year will be a bit calmer, but we believe that the overall results for 2023 will ensure the continuation of sustainable development of Viktor Lenac, to the benefit of all our stakeholders.

Sandra Uzelac
Member of the Management Board

KEY FINANCIAL FIGURES

Consolidated Financial Figures

	000 HRK			000 EUR *		
	2022	2021	Index	2022	2021	Index
Total Revenues	**646.186**	302.026	2,14	**85.747**	40.141	2,14
Total Expenses	**585.142**	278.994	2,10	**77.646**	37.080	2,09
Operating Revenues	**642.556**	299.238	2,15	**85.265**	39.771	2,14
Operating Expenses	**584.452**	277.749	2,10	**77.555**	36.915	2,10
Operating Profit	**58.104**	21.489	2,70	**7.710**	2.856	2,70
Profit before Tax	**61.044**	23.032	2,65	**8.100**	3.061	2,65
Net Operating Profit	**41.071**	18.850	2,18	**5.450**	2.505	2,18
Total Assets	**543.132**	404.179	1,34	**72.086**	53.767	1,34
Equity and reserves	**341.223**	300.153	1,14	**45.288**	39.929	1,13

Non-Consolidated Financial Figures

	000 HRK			000 EUR *		
	2022	2021	Index	2022	2021	Index
Total Revenues	**644.806**	301.353	2,14	**85.563**	40.052	2,14
Total Expenses	**584.661**	278.330	2,10	**77.582**	36.992	2,10
Operating Revenues	**641.179**	298.575	2,15	**85.082**	39.682	2,14
Operating Expenses	**583.981**	277.096	2,11	**77.492**	36.828	2,10
Operating Profit (or Loss)	**57.198**	21.479	2,66	**7.590**	2.855	2,66
Profit (or Loss) before Tax	**60.145**	23.024	2,61	**7.981**	3.060	2,61
Net Operating Profit (or Loss)	**40.252**	18.842	2,14	**5.341**	2.504	2,13
Total Assets	**541.857**	403.245	1,34	**71.917**	53.643	1,34
Equity and reserves	**340.335**	300.084	1,13	**45.170**	39.920	1,13

** 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 2022 respectively 2021. Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31 December 2022 respectively 31 December 2021 as listed on page 50 of this Report.*

Consolidated comprehensive income statement and statement of financial position include Company's subsidiary VL Steel Ltd. in which the Company holds a 75% equity interest. Throughout the entire 2022, the subsidiary was providing services in shipbuilding and related metal processing activities.

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 819 thousand, of which 75% is attributed to the Group, whereas 25% involves minority interest of a third party. It follows that the business results achieved by the subsidiary did not materially affect the business 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 2022 shall focus on the financial position, assets, liabilities and equity of the Parent Company.

BUSINESS ENVIRONMENT AND RISKS

Our operations, considering our main activity, export orientation and business model, are affected by various factors, primarily global, but also those in the immediate environment that affect numerous entities in the country.

Our revenue performance is influenced by global market trends, particularly global maritime trends, which determine supply and demand for shipping space, as well as freight rates, and thus financial strength of shipowners, their possibilities and needs for maintenance of their fleet or conversion of their ships. Cyclical changes in the shipping market and its volatility, which have a spillover effect on the shiprepair market, are difficult to predict, but past experiences in economic crisis reveal that there is always enough ships within reach that need shiprepair services, which in addition to strengthening efficiency and managing expenses should be enough to overcome the period of recession.

Geopolitical developments can affect displacement of navigation routes, which can have an impact on shiprepair activities in an environment that is close to Viktor Lenac. However, our geographical position, far from the main maritime routes on the Mediterranean, is still a complicating factor, and Turkish shipyards are the biggest competitors, both in terms of price and their geographical position. The increase in navigation activities in the immediate vicinity of Viktor Lenac, which is related to the nearby LNG terminal and the future new container terminal in the port of Rijeka, increases the potential of Viktor Lenac, for the use of which it is necessary to invest in a floating dock of adequate size and capacity.

Shipowners' interest in shiprepair activities was high throughout 2022, primarily because shipowners had postponed repair and maintenance tasks that should have been done the year before, in which shipowners tried to make the most of the period of extremely high freight rates. Due to the crisis in the Black Sea region, part of the shipowners decided to entrust their shiprepair projects, initially planned for a few shipyards on the Black Sea, to other more distant shipyards, so Viktor Lenac also recorded somewhat increased inquiries, but considering the already occupied production capacities, could not use the geographical advantage this time. The Russian-Ukrainian conflict did not have a major impact on our operations especially on revenue performance since the Company has not cooperated with Russian shipping companies for several years. Likewise, there was no direct impact on our resources either since we had no business relations with Russian suppliers or financial institutions. On the other hand, the rise in energy prices and disruptions in supply chains caused by the war conflict in Ukraine had an indirect impact on our operations, although it was not decisive for the achievement of production and business goals, and at the same time had a similar impact on competing shipyards.

Our production is labor-intensive and is influenced by factors in the immediate environment and on the national level, primarily involving availability of quality labour, and cost of labour as the most important resource for Viktor Lenac. Inflationary trends during 2022 and even during 2023 exert additional pressure on prices, which inevitably led to an increase in labour costs. Such pressures represent price risks in future business as well, since not all of our competitors are under the same inflationary pressures, especially when considering workers' wages and the structure of consumption expenditures in the Republic of Croatia affecting workers' living standards. With the increase in the price of labour, Viktor Lenac may lose their price advantage over competitors from other Mediterranean countries of the European Union. On the other hand, without adjusting the price of labour, we may be faced with the risks of further outflow of high quality labour to the countries of the European Union. The increase in the cost of materials, equipment and energy has an impact, but a smaller one, both because these resources account for a smaller share of the overall activity, and because they affect the competition more evenly.

The introduction of the euro as the official currency in the Republic of Croatia brings relief to Viktor Lenac in their operations, although without major consequences, both positive and negative, on the overall business. Most of the revenue was generated on the foreign market, primarily in euros, and on the resource side there were no significant currency fluctuations, since the relationship between the Croatian kuna and the euro was relatively stable or a significant part of the input was tied to the equivalent value of the euro anyway. In any case, at least in that sense, there will be no currency risks, even though they were minimal, at least when it came to the relationship between the euro and the Croatian kuna. US Navy projects that are contracted and calculated in US dollars will continue to represent a kind of currency risk, but this time measured by the ratio of dollars to euros. However, considering the relatively fast project turnover, no significant negative effects are expected. The rise in interest rates does not currently have an impact on the increase in Company's financing costs, since the Company's indebtedness is low, but it could have an impact in the coming period on account of securing financial resources for necessary and planned investments.

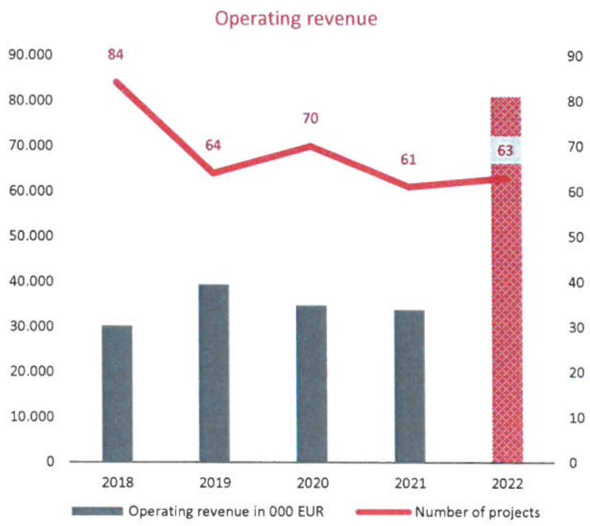
BUSINESS ACTIVITIES

SALES

Sales function was extremely active in 2022 working on a large number of inquiries for core business projects and taking into account all ongoing commercial changes to the initial work specifications.

During the year, more than 60 new projects were contracted, the scope of work, and thus the average value of the project higher than in previous years, so despite the relatively smaller number of projects, the sales activity was significantly more complex. The focus was on a few very specific projects, such as the conversion of a RO-RO ship or the refit of a passenger yacht, which required a different approach than when it comes to standard shiprepair projects.

In total, 63 core business projects were completed during the year, of which 5 projects were carried over from the previous year, and 6 were continued in 2023. On the domestic market, a total of 15 repairs were carried out for 7 clients, whereas 48 shiprepair projects involved 30 foreign clients from 8 countries, which indicates a significant dispersion, but also a wide market, which Viktor Lenac, in cooperation with the parent company, the Palumbo Group, is able to include. Synergy with other shipyards of the Palumbo Group, contributes to better and more evenly utilization of our capacities. Projects are offered with the option to be realized in one of the shipyards of the Group, depending on the possibility of their production capacities, and it is up to the clients to choose the preferred shipyard.



Stable shiprepair occupancy rate recorded in 2022, including usual US Navy projects, was additionally increased by several specific and long-term conversion and refit projects, including construction of steel structures for a wind power project. Thus, the revenue generated from the main activity and services that could also be attributed to the main activity, even though it is not about shiprepair, in 2022 more than doubled compared to the previous years. In addition to the fact that due to the cyclical nature of the market there are oscillations that alternate in shorter intervals, some conversion projects tend to lead to significant deviations observed in a longer time, which is why we have to approach the organization and the resources differently for their realization. Export revenues generated from the main activity in 2022 participated with more than 95%. A market which makes the largest share of revenues, but also brings the largest number of projects, is still the US, mostly thanks to overhauls and voyage repairs involving US Navy ships, but also projects involving commercial ships.

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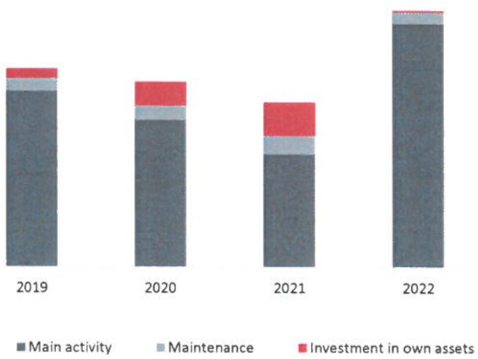
PRODUCTION

Our main activity belongs to the group of labor-intensive production processes, and the key production process is work, which has the largest share in the structure of resources. Materials and equipment that are installed onboard ships have a common share of up to 25% in the cost structure, and this can be somewhat higher in the case of specific projects. Often, even though there is a need to install larger quantities of more valuable equipment and materials, they are procured directly by the client, so that work or labour remains the focus of the organization of the production function.

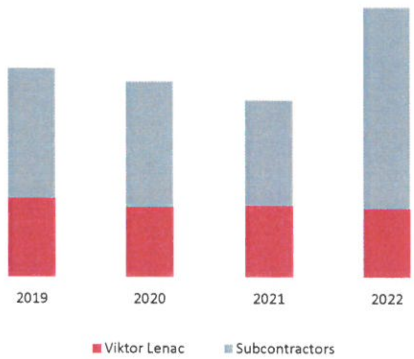
In 2022, therefore, over 70% of the production costs was related to production and support work and external services.

The increased occupancy rate recorded in 2022 led to an increased engagement of subcontractors to compensate for production needs that exceed our own workforce capacity. Also, certain specific services are provided by third parties. Procurement of services from subcontractors and third parties was very intensive both in terms of the number of contracts and their value. A total of 409 subcontracts were concluded with 63 subcontractors involving shiprepair and maintenance works. Also, as many as 1,114 contracts were concluded with a total of 336 suppliers or service providers which may include production of specific non-standard materials or equipment, so their share in the resource structure may grow, especially when they concern specific projects that require specific non-standard equipment, which was the case in 2022.

Effective work hour structure

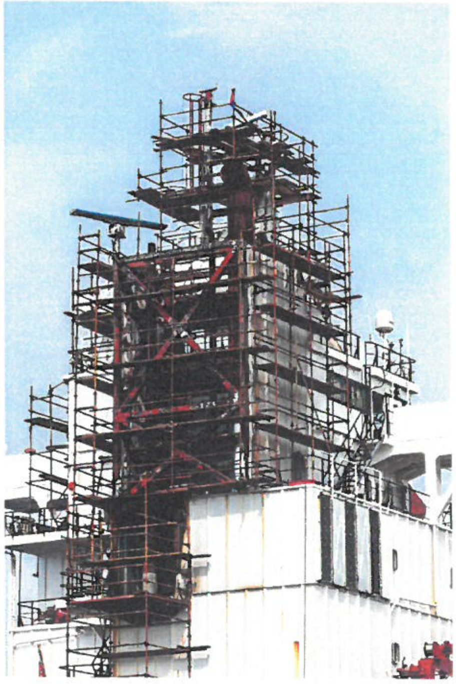


Effective work hour structure allocated by resource



Effective work hours on commercial projects have doubled compared to 2021. The hours spent on investing in own assets were significantly lower, both because there were no available resources left, and because of the investment in Dock 11, which is planned to be carried out by building new pontoons in the neighboring shipyard.

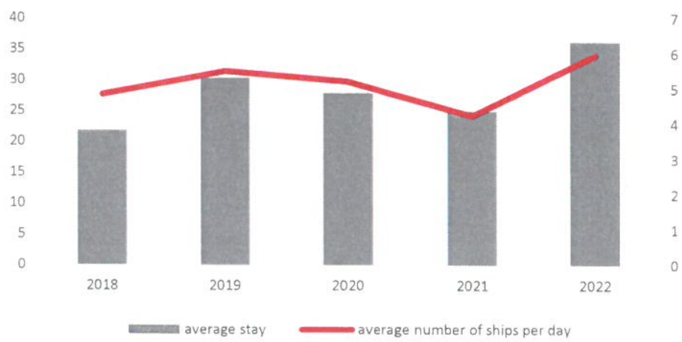
Production activities in Viktor Lenac during 2022, except for certain specific projects, for which some works were subcontracted on a turnkey basis with contractors outside Viktor Lenac, were structurally very similar to those of previous years, where there was an increase in the scope of work in all production trades. The largest share of production work in 2022 involved steel work, which accounted for about 30% of effective work hours, and piping works making almost 15%, which is a significant increase compared to previous years. They are followed by mechanical works and anti-corrosion treatment works, each of which accounted for about 11% in the structure of effective work hours. Other works involved electrical works, temporary mechanical and electrical energy supply of ships, transport, scaffolding and various other works typical of shiprepair activities.



During 2022, production activities involved a total of 63 projects, eight of which were carried out at ship locations outside Viktor Lenac. Although the number of ships on which activities took place in the Shipyard is smaller compared to the number of projects in earlier years, Viktor Lenac's capacities were constantly utilized, which is evidence of the larger scope of works that were carried out onboard these ships. Specifically, even if we exclude the long-term specific projects involving a refit of a passenger yacht and conversion of a RO-RO ship, in 2022 the average duration of overhaul works increased significantly, as well as the average number of ships per day onboard which works were carried out in parallel.

Projects included different types of ships, as usual, whereby in 2022 more than two thirds of the projects were carried out onboard RO-RO or RO-PAX and passenger ships, tankers and military ships. Among the other types of ships to be mentioned are dredges, cement carriers and general cargo ships.

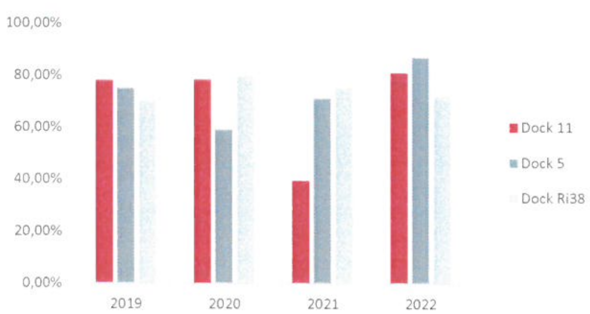
Average number of ships undergoing repairs and average stay



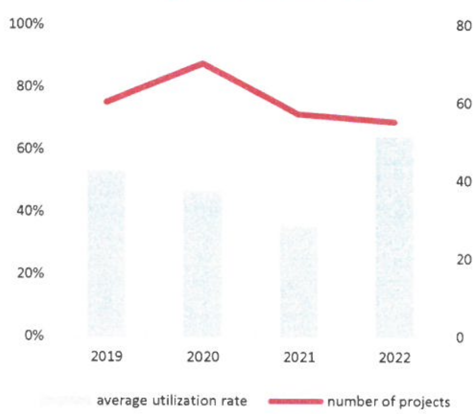
Despite the decrease in the number of shiprepair projects, the increase in the scope of works and thus the average duration of shiprepair works carried out in parallel onboard more ships, resulted in an increase of utilization rate of both docks and berths.

There were no major oscillations, so a good utilization rate was recorded in all months, although slightly lower during the summer months compared to the rest of the year.

Dock utilization rate



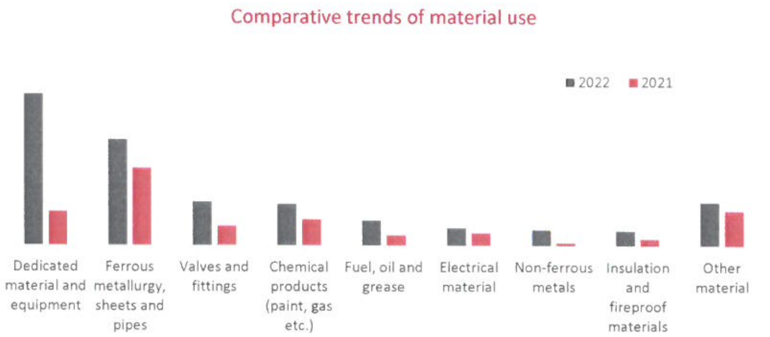
Average berth utilization rate



MATERIALS

Following a strong rise in the prices of raw materials and energy in the second half of 2021, the Russian-Ukrainian conflict caused an additional rise in prices in 2022. For the third year in a row, since the COVID-19 pandemic, the procurement function is facing very unusual and turbulent market conditions and numerous challenges but manages to find the best ways to ensure business continuity and the timely supply of materials needed for production. In addition to ensure timely delivery with the most favorable conditions, it is necessary to assess the risks of possible shortages, maintaining quality relations with existing suppliers, finding new alternative suppliers and securing supplies of materials that are regularly used in the production process.

The increase in utilization of capacities in 2022 presented an additional challenge to the procurement function for the organization of transport, manipulation and storage of larger quantities and weights of goods delivered to the Shipyard. For example, in 2022, a total of more than 19,000 parcels of various goods were received, including deliveries received from shipowners, which weighed more than 6,000 tons in total, in contrast to 2021, when the 14,000 parcels received weighed only about 2,300 tons.



In 2022, cooperation was achieved with 116 foreign and 228 domestic suppliers. The total value of the procurement of materials was about EUR 14 million, of which EUR 9 million involved deliveries from foreign suppliers, and the largest part of it included dedicated materials and equipment for special projects, which were still in progress at the end of 2022.

The total value of used material stocks was about 10 million euros, which is double compared to 2021. Dedicated materials and equipment were used the most, significantly more than in the previous year, and all other categories of materials as well recorded an increase. The increase in material costs is in line with the increase in utilization of capacities, so the share of materials, which usually amounts to 10-15% of the value of realized projects or production work orders, was maintained in 2022 as well, despite the special refit and conversion projects, which can affect a relatively larger share of material and equipment costs.

ENERGY-GENERATING PRODUCTS

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	2022
Electric power	mWh	11.694	11.349	11.695	10.364	15.335
FW	000 m3	56	51	51	40	51
Process water	000 m3	210	186	196	103	196
Oxygen and acetylene	ton	357	401	478	467	457
LFO	ton	144	115	120	168	162

Electricity consumption has increased significantly compared to previous years, due to the increased scope of activities and the increased number of days ships stayed at the Shipyard. In addition, the consumption of electricity is also affected by the needs of the ships and their crews while staying at the Shipyard, as the ships are connected to the shore supply.

Although the steel works were increased in 2022, primarily due to the RO-RO ship conversion project, the sections were built in a nearby shipyard, so this resulted in keeping oxygen and acetylene at the level of previous years. The increase in anti-corrosion treatment works resulted in an increase in process water, and the increase in the total number of days ships stayed at the Shipyard had an impact on the consumption of fresh water, since ships are also supplied with water from the water supply network of Viktor Lenac.

Energy costs in 2022 amounted to HRK 24.1 million, which represents an increase of 2.3 times compared to the previous year, which is evidence of a significant increase in unit prices, given that the quantitative growth of energy consumption is less than 50%. The biggest impact relates to the increase in unit prices of electricity, but by timely monitoring of trends in the market and contracting tranches in advance at a fixed price, greater damage that could have occurred due to a marked global increase in electricity prices during 2022 was prevented.

Despite price increases and instabilities, energy costs for Viktor Lenac remain an important, but not decisive, factor in business success, since they have a relatively small share in the expense structure.

TECHNOLOGICAL DEVELOPMENT AND INVESTMENT

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

In 2022, the total investments in fixed assets amounted to only about HRK 9 million or about EUR 1.2 million, of which about 70% related to the acquisition of various production and business assets, and the remaining part to investments in own assets. One of the most important investments is the acquisition of a new water jet cutter, worth around EUR 320 thousand, which was partially financed at the end of 2022 by an advance payment to the supplier.

Investment works on floating docks, which are always in the focus, were significantly reduced compared to previous years, primarily due to the planned investments in Dock 11, the implementation of which will begin in the middle of 2023, and due to a busy schedule throughout the year.

Viktor Lenac continues to invest in energy efficiency and environmental protection projects, although mostly with its own funds, since EU funds are mostly unavailable for shipbuilding activities. However, thanks to the financial mechanism of the European Economic Area, which is financed by Iceland, Liechtenstein and Norway within the Energy and Climate Change program, which did not exclude shipbuilding as an unacceptable activity, Viktor Lenac managed to secure funds for the Sea Water Heat Pump System project, which will achieve significant savings in electricity in the area for which the system is intended.

The most significant investment still involves floating dock capacity, primarily the largest Dock 11. Replacing it with a new dock is currently unattainable for the Company because it is an investment that would cost more than one hundred million EUR, which is practically impossible to provide by long-term loans, due to insufficient finance insurance as required by the banks. The financing of such investments cannot even be partially provided with the funds of the European Union, since Viktor Lenac's activity is not acceptable in most cases and with funds whose financing amounts are far below those required for the construction of a new dock.

Company's plans, therefore, include an extensive renovation of the existing Dock 11, in order to ensure its sustainability for many years. The renovation would begin with the construction of two new pontoons to replace the worn out ones. Specifically, Dock 11 is made up of a total of nine floating pontoons connected by towers, and the gradual replacement of one part and the possibility of repairing the rest on shore, without disrupting regular activities, would enable a significantly better approach to the complete renovation of the dock, as opposed to partial repairs, such as were the only ones possible in previous years. These are significant investments, which will cost around EUR 7.5 million per pontoon, but this is also a much more permanent solution, as an alternative to purchasing a new or newer used dock, but there is a shortage of such used docks on the market. Viktor Lenac contracted construction of the first two pontoons for Dock 11 at the end of March 2023 with the neighboring Shipyard "3. May", and it is expected that the project could start in June, immediately after completion and approval of the project documentation, when the first deliveries of the main materials, such as sheets and profiles, are expected. The project also requires equipping pontoon engine rooms with various electrical equipment, pipelines, pumps and valves.

For this kind of investment, to ensure liquidity for regular business activities, and due to the possibility of financing a more comprehensive renovation of Dock 11, Viktor Lenac plans to secure part of the investment with long-term credit funds. Since Viktor Lenac is not in debt, and most of the existing investment loans will be repaid in full during 2023, we believe that it will be possible to secure sufficient funds for the renovation work onboard Dock 11, the bulk of which should be realized in the next year.

ORGANISATION, QUALITY MANAGEMENT SYSTEM, INFORMATION AND COMMUNICATION

Shipyard's organizational structure did not change in 2022, and the focus was on optimization and automation of the existing processes.

A big challenge for the Company's information system was the modifications in application solutions due to the introduction of the euro as the official currency in the Republic of Croatia. The most significant changes were implemented in the application for payroll and personnel records and in the components of the ERP system related to finance, accounting, procurement and customs, warehouse and material operations. The alignment procedure was successfully implemented within four months.

We continued with the development of our own mobile and web application solutions for the purpose of upgrading the existing ERP system, and one of the examples is the development of a web application for recording and signing for equipment or the management of accommodation capacities the Shipyard disposes of.

With the aim of further improving information security and data protection, recognized as important for the continuity of business, during 2022 several different activities were implemented to protect and secure the server infrastructure, protect the information system from breaches and viruses, data protection with new backup software, user education and awareness raising of workers about the need for information security.

In addition to information security, much attention is also paid to technical protection of property owned by clients and own property. A large project involving equipping the central warehouse facility with technical protection systems (video surveillance, anti-burglary, access control) and fire alarm was completed in 2022. The location is connected to the central notification system monitored by the Internal Security Service and the Internal Fire Department. The technical protection system was additionally improved with the possibility of extending it to ships undergoing repairs, according to the requirements of clients.

Through regular implementation of internal and external assessments, the organization monitors the performance of its business processes; records, analyzes and corrects all non-conformities through a documented quality management system.

When planning internal assessments, non-conformities and recommendations from previous audits by internal and external auditors are taken into account, as well as the importance of business processes for a particular management system standard.

Based on the results of internal and external assessments, changes and additions to procedures, work instructions, work norms and the role of workplace in the entire organization are carried out, with the aim of accelerating and optimizing work activities while maintaining or increasing the quality of the work performed.

Throughout 2022, several internal and external audits were conducted in quality management (ISO 9001:2015), energy and energy efficiency (ISO 50001:2018), occupational health and safety (ISO 45001:2018), information security (ISO/IEC 27001:2013) and risk assessment (JH143).

JH143 is a standard developed by the International Association of Classification Societies (IACS) for the assessment of shipyard risks, which is an integrated assessment of quality, health, safety and environmental management systems in a shipyard, in order to identify potential risks from these areas and ensure compliance with international regulations, with the aim of helping shipyards to improve their safety and environmental protection efficiency, reduce the risk of accidents and improve their reputation as responsible and reliable business partners.

During 2022, at client's request, 3 external assessments were carried out in accordance with the JH143 standard by a renowned Dutch company. By accepting the recommendations for improving the system, Viktor Lenac significantly improved its status, concluding with a B+ grade.

External audits of all management systems in accordance with ISO standards were conducted by the certification company Bureau Veritas, the findings of which were positive with minor deviations and recommendations for improvement in some areas, which were then implemented. The acquired certificates are an indication that Viktor Lenac cultivates a systematic and structured approach to work, which is a prerequisite for all foreign clients for any consideration of entering into a business relationship.

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 2022, 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.

Continuous improvement of the occupational health and safety system, implementation of safety measures, training of workers and short courses on a regular basis, have 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 which only 5 injuries at work were recorded, which represents 1.5% of injured workers compared to the total number of workers, and the severity index was only 8.47 compared to the average of 65 for the period 2018-2022.

The cost of personal protective equipment in 2022 amounted to nearly HRK 691 thousand or EUR 92 thousand, up by 18% compared to 2021.

Fire safety responsibilities are managed by the Shipyard's Department of Fire Services, through preventative measures and on-call fire brigade. The activities involve regular inspections of ships undergoing repairs, eliminating hot work risks, early fire detection for facilities, removing any fire related hazards or other threats in the workplace, as well as training of new employees and students on internships. Fire-fighting equipment installed onboard ships undergoing repairs, fire hydrants and other fire-fighting equipment on berths and docks as well as other equipment at disposal of the Shipyard's Department of Fire Services is regularly tested.

A total of 13,268 permits for hot or open flame works were issued throughout 2022, twice as many as in the previous year. Also, a total of 313 gas-free certificates were issued to remove any fire risks when entering tanks or other narrow, dangerous, and closed spaces.

Shipyard's fire brigade conducts fire drills monthly in accordance with the fire plan, including several joint fire drills conducted onboard the US Navy ships.

Only four fires extinguished at the initial stage and one fire with minor material damage to the client's property were recorded in 2022. One fire with an estimated damage of 15,000 euros occurred on the Shipyard's property because of a technical failure of the frequency converter. Quick and efficient interventions prevented possible greater material damage, and despite the fires that occurred, the overall result is rated as good, considering the conditions of very complex fire risks in the shiprepair industry.

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 protection is aimed at reducing harmful effects that the Shipyard's activities may have on the environment and their stakeholders. This primarily means managing waste and emissions in an environmentally sustainable manner, which has been the focus of Viktor Lenac for many years.

By investing in more energy-efficient equipment and plants to eliminate or significantly reduce the use of diesel fuel, all measured emissions of harmful gases (SO2, NO2, CO, CO2 and PM10 particles) were drastically reduced in the last few years, moreover in 2022 the values of all emissions were below the prescribed limit values.

In the Shipyard's production process, large amounts of waste are generated, part of which is generated from the production activities carried out by the Shipyard, and part of which comes from ships undergoing repairs. In 2022, a total of about 6,500 tons of waste was generated, and then disposed of, of which slightly less than half referred to waste taken from ships. Of the total amount of waste, about two-thirds of the waste involved non-hazardous waste, and about one-third is classified as hazardous waste.

Waste management reflects our efforts to collect and separate waste at its source to reduce mixing of different types of waste, which makes it difficult and reduces the possibilities of its decomposition or the use of valuable ingredients. Almost half of the waste was used for its recovery. Most waste that was dumped in landfills involved oily waste taken from ship's tanks. Before disposal it is processed by physical and chemical treatment by authorized companies for managing industrial waste.

HUMAN RESOURCES

At the end of 2022, Viktor Lenac has 323 employees, 22 of whom are women. The total number of workers decreased compared to the end of 2021 by 18 workers, mainly due to retirement. Although currently the needs are such that it is necessary to increase the number of highly qualified and professional workers, it is very difficult to find new specialists primarily because such profiles of workers are in high demand in more competitive foreign environments, which Viktor Lenac can hardly deal with when it comes to salaries and other benefits. On the other hand, in the case of a decline in business activities, this would mean a significant increase in non-productive fixed costs, so where necessary and possible, the lack of specialists is compensated for by using external services.

Viktor Lenac relies in large part on subcontractors' services in their production activities. New workers are employed in those activities in which it is not possible or efficient to employ external labour. Labour shortages are felt more and more also in Croatia and in other EU countries, which led to the import of foreign workers, where additional costs are made in the stages of adaptation to domestic business systems and overcoming language barriers, and this, although it primarily affects subcontractors, has a spillover effect on the Shipyard's costs.

Viktor Lenac strives to manage a fluctuating workforce by ensuring a good ratio of indefinite and fixed-term employment contracts, where even 96% of employment contracts are concluded for an indefinite period of time, a high level of labor and material rights in accordance with the Collective Agreement that has been in force for many years, and higher net wages compared to the average of the Republic of Croatia, but this is still not sufficiently competitive compared to foreign companies in the same or related or similar activities.

On 31 December 2022, Viktor Lenac's subsidiary VL Steel d.o.o. had a total of 43 employees, up by 1 compared to the last year. Total consolidated number of employees on 31 December 2022 was 366.

According to types of jobs, of the total employees of the Group, there are 307 production workers, of which 185 direct production workers, whereas a total of 112 workers involves production overhead, OH&S and environmental protection, maintenance, quality control, dock crew, technologists, foremen and other workers related to production logistics activities. The remaining 69 employees are sales, procurement, finance, project management, and heads and managers of organizational units at all levels.

In 2022, Viktor Lenac's workers produced a total of 744,000 effective work hours or an average of 2,268 hours per worker, of which 9.2% or 1.7 percentage points more than in 2021 referred to overtime work. Non-effective work hours which include annual leave, sick leave and other non-effective work hours made up 19% of total paid hours. On average, each worker used 180 hours of annual leave, and spent 165 hours on sick leave, including the hours paid at the expense of Croatian Health Insurance Fund, referring to long-term sick leave. Increased sick leave hours are also a consequence of the COVID-19 pandemic.

Salaries and benefits amounted to HRK 68.14 million (or consolidated HRK 77.4 million), up by 14% (or consolidated 15%) compared to the previous year. The cost of salaries amounted to HRK 60.4 million (or consolidated HRK 68.4 million), and other material rights used pursuant to the Collective Agreement and the Labor Act as well as other non-taxable income provided by law amounted to HRK 7.6 million (or consolidated HRK 8.9). The total mass of net wages is higher by 7.7% (or consolidated 9.2%) compared to the previous year 2021, resulting in an increase in the average net hourly wage by 14.8% considering lower number of total paid working hours, which makes a significant contribution to the living standard of workers, especially in conditions of high inflation, which is why the wages of all workers were increased as early as April 2022.

The average net monthly salary in Viktor Lenac in 2022 amounted to HRK 9,450 or EUR 1,250, which is 23% above the national average or 34% above the C-area average (processing industry).

In reorganizing work processes, the Company seeks to redistribute the savings in wages resulting from the reduction in the number of workers to those workers who take on a certain part of new work tasks, with the aim of increasing the efficiency of work activities, but also stimulating efficient and effective work.

In addition to regular payment of salaries with all associated taxes and contributions, other material rights to which workers are entitled pursuant to the Collective Agreement and the Labor Regulations, are regularly paid over a number of years. The total paid material rights in 2022 amounted to an average of HRK 22,000 per worker, which includes a transport allowance paid to employees to meet the cost of the daily commute from home to work and vice versa, up by HRK 8,000 per worker, as the result of raising non-taxable amounts of benefits and aid to workers, applied in accordance with the Collective Agreement.

Labour shortages affecting certain profiles lead to situations in which it is not possible to find the necessary and adequate number of workers for some jobs at all. The problem is that there are no new workers on the market who need to replace more experienced personnel in production activities before their retirement, so such personnel should be trained at the workplace. However, this also entails a significant fluctuation risk due to the potential loss of newly trained workers and outflows of workers to other sectors with higher wages. This, in parallel with the increase in the cost of living, will create additional pressure on the increase in wages, which will have to be increased in order to attract and retain a sufficient number of (high quality) workers.

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. In 2022, educational activities were of small scope, mainly because some specific education programs are planned for 2023, but also partly because some activities were postponed for less busy periods.

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. At the beginning of 2023, a meeting of workers was held, where the Management informed the workers about current situation, perspectives and important determinants of future business.
All obligations from the Collective Agreement have been fulfilled in full, 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

000 HRK

	Parent company			Group			Influence of subsidiary's result on the Group's result 2022
	2021	2022	2022/2021	2021	2022	2022/2021	
Sales revenue	256.201	619.171	241,7%	256.990	620.604	241,5%	0,2%
Revenues based on the use of own products, goods and services	34.103	2.642	7,7%	34.103	2.642	7,7%	0,0%
Sale of material and waste	3.864	4.880	126,3%	3.754	4.881	130,0%	0,0%
Insurance income	303	119	39,2%	303	119	39,2%	0,0%
Other operating revenues	4.104	14.367	350,0%	4.088	14.310	350,0%	0,4%
Total operating revenue	**298.575**	**641.179**	**214,7%**	**299.238**	**642.556**	**214,7%**	0,2%
Financial income	2.778	3.627	130,6%	2.788	3.630	130,2%	0,1%
Total revenues	**301.353**	**644.806**	**214,0%**	**302.026**	**646.186**	**214,0%**	0,2%
Material cost	173.403	399.374	230,3%	166.383	390.220	234,5%	2,3%
Salaries	55.077	60.370	109,6%	61.476	68.375	111,2%	11,7%
Depreciation	34.420	88.047	255,8%	34.458	88.106	255,7%	0,1%
Other cost	14.196	36.189	254,9%	15.432	37.751	244,6%	4,1%
Total operating expense	**277.096**	**583.981**	**210,8%**	**277.749**	**584.452**	**210,4%**	0,1%
Financial expense	1.233	680	55,2%	1.244	690	55,5%	1,4%
Total expenses	**278.330**	**584.661**	**210,1%**	**278.994**	**585.142**	**209,7%**	0,1%
Profit before tax	**23.024**	**60.145**	**261,2%**	**23.032**	**61.044**	**265,0%**	1,5%
Profit tax	4.182	19.893	475,6%	4.182	19.973	477,6%	0,4%
Profit / loss attributed to minority interest				2	205		
Net profit	**18.842**	**40.252**	**213,6%**	**18.848**	**40.867**	**216,8%**	1,5%

The total revenues generated by the Group in 2022 amounted to almost HRK 650 million and have more than doubled compared to the previous year. The consolidated revenue is higher by only HRK 1.4 million, which the subsidiary company generated by providing services to third parties.

The usual high share of sales revenue in total operating revenue or total revenues, in 2022 exceeded even 96% of total operating revenue respectively total revenues. The increase in total operating revenue compared to 2021 resulted from collecting previously unrecognized or written-off claims for berthing fees involving the ship Delphin, following the judicial sale of the ship, which ended the litigation that Viktor Lenac had been conducting for several years.

Income from investment in own assets significantly decreased compared to previous years, due to plans for the renovation works to be performed onboard Dock 11 for the period from 2023 onwards, and due to the lack of capacity to invest in renewing the dock steel structure. Other income included rentals, income from provision reversals, surplus of material and other extraordinary income. Financial income mainly involved positive exchange differences, primarily due to the increase in the USD exchange rate, in which currency part of the revenue is generated, whereas at the same time the Company's liabilities tied to the USD currency are minimal.

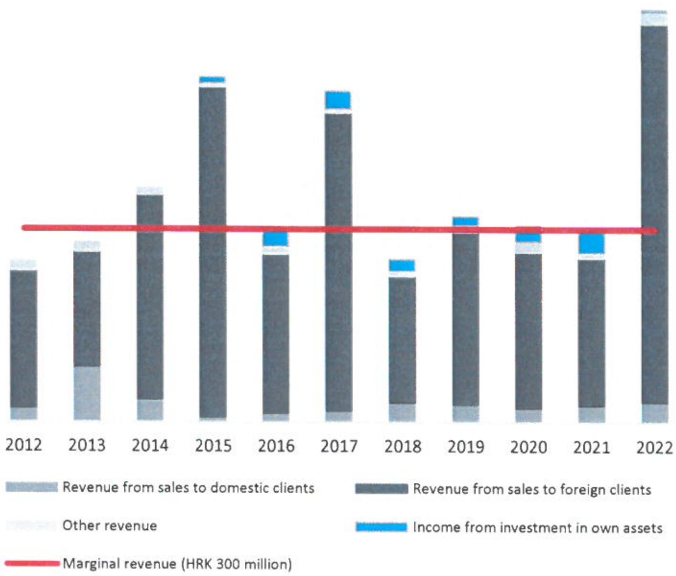
A relative growth of revenue in 2022 was followed by an almost equal relative growth of expenses, particularly if the receivables income relating to the ship Delfin, which did not generate expenses in 2022, as well as in the comparative year, were excluded from the revenue. Following the revenue trend, expenses have also doubled compared to 2021, which is mostly reflected in material costs mainly directly related to the revenue, which include the costs of subcontractors and other external services on projects, used to compensate for our own fixed work capacity.

Increased wear and tear of long-term tangible assets, re-examination of the remaining useful life and the need for future investments to ensure the continued use of existing equipment, as well as the replacement of some outdated equipment with new upgraded and energy-efficient ones, resulted in increased depreciation.

Financial expenses included interest costs, which have decreased compared to the previous year due to reduction in debt.

Operating revenues and expenses resulted in an operating profit before depreciation in the amount of HRK 145 million, which brings the EBITDA margin to 22.7%, ensuring sufficient liquidity for settlement of current liabilities, as well as accumulation of funds for at least part of the investments that are planned for 2023.

Operating revenue structure 2012-2022

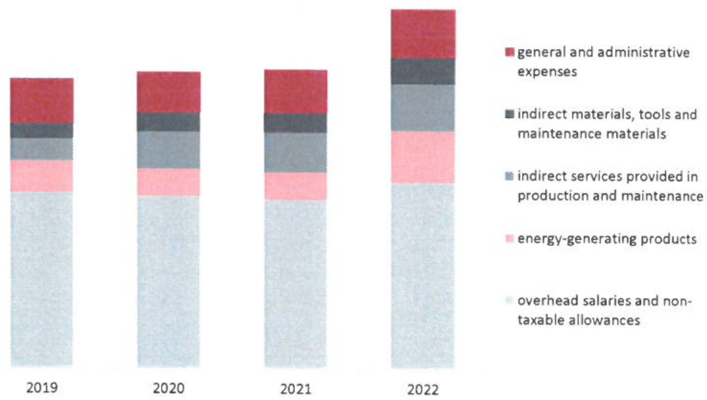


The Shipyard's activity is project oriented. Larger projects can lead to significant fluctuation in revenue, which was the case in 2022. With revenues of over HRK 300 million, the Company became liable for the windfall tax introduced by the Government of the Republic of Croatia at the end of the year, in accordance with the Council Regulation (EU) 2022/1854. Higher revenues, along with relatively stable fixed, indirect business costs, generated a significantly higher profit compared to previous years, which is why Viktor Lenac, in addition to regular profit tax, also calculated the windfall tax, resulting in a total tax liability to almost HRK 20 million, and the total effective tax rate is as much as 33%.

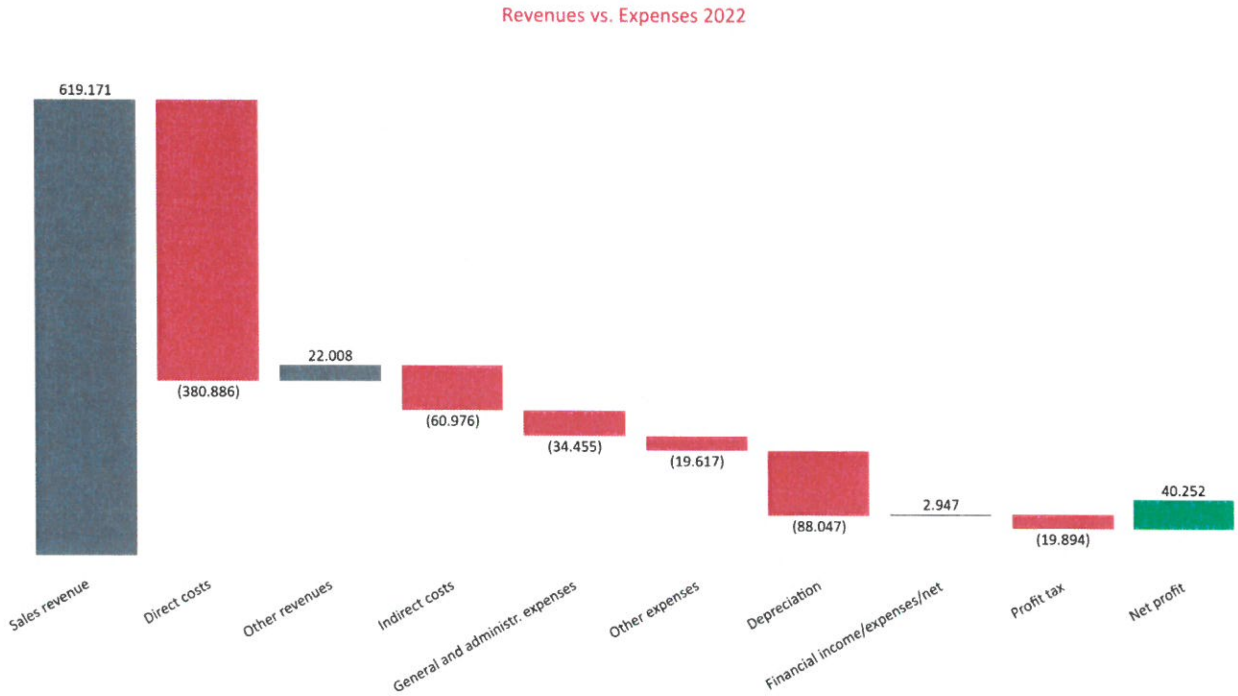
Costs are monitored depending on their allocation to direct production work orders that generate revenue or create new assets, or according to the function they have in the business process. Viktor Lenac's activity, a large scope of quotations and production work orders that are executed in a matrix 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

Overhead cost structure



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.

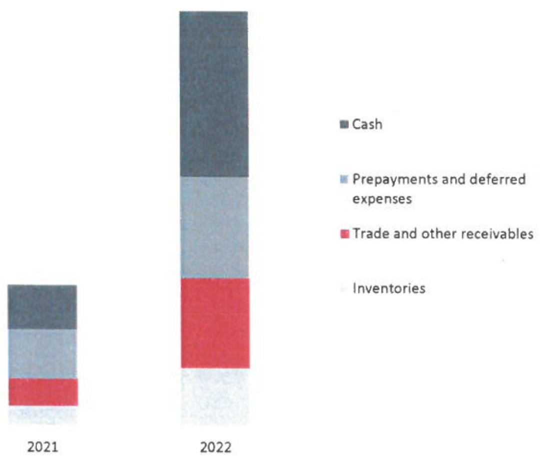


Assets and liabilities

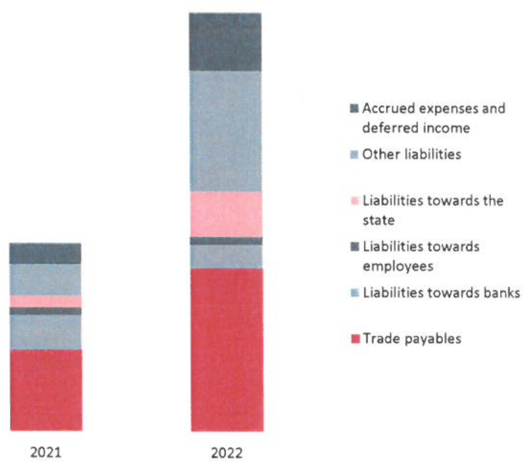
	Parent company			Group			Influence of subsidiary's result on the Group's financial position 2022
	2021	2022	2022/2021	2021	2022	2022/2021	
Fixed assets	290.773	211.812	72,8%	290.867	211.902	72,9%	0,0%
Short-term assets	112.473	330.045	293,4%	113.312	331.230	292,3%	0,4%
Long-term assets	21.840	21.297	97,5%	21.887	21.329	97,4%	0,1%
Short-term liabilities	81.321	180.225	221,6%	82.139	180.580	219,8%	0,2%
Equity and reserves	300.084	340.335	113,4%	300.153	341.223	113,7%	0,3%
Total assets/resources	**403.245**	**541.857**	**134,4%**	**404.179**	**543.132**	**134,4%**	0,2%

At the end of 2022, the Company's assets amounted to a total of HRK 540 million, up by more than 30% compared to the previous year. The improvement of the financial position as the result of the profit is also the result of an increase in occupancy rate. Trade receivables and accruals, therefore, increased. Also, the value of supplies needed for continuation of activities on ongoing projects, and advances given to suppliers for purchase of specific equipment increased. Short-term liabilities indicate a similar trend due to increased liabilities to suppliers, increase in advances received from customers, as well as due to tax obligations. Long-term assets have been reduced on the account of calculated depreciation. There were no significant changes in long-term liabilities, since, on the one hand, they were reduced by current maturities of obligations maturing in 2023, and on the other hand, they were increased due to provisions made for court cases.

Short-term asset structure as at 31 Dec



Short-term liability structure as at 31 Dec



At the end of 2022, working capital amounted to HRK 150 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, amounted to HRK 47 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.

OWNERSHIP STRUCTURE

On the day of 31 December 2022, 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 2022, the Zagreb Stock Exchange recorded 1,940 transactions in trading of Viktor Lenac's stocks during a period of 204 trading days, having a trade transaction value of HRK 14,751,175 from 1,031,013 shares, with the average cost of HRK 14.31 or converted to EUR 1.90 per share, with the lowest trading price being HRK 9.00, and the highest HRK 18.60 or converted to EUR 1.19 respectively EUR 2.47 per share.

As at 31 December 2022, Viktor Lenac has a market cap of HRK 272.4 million or EUR 36.15 million.

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 2022 there were 831 and represented a total of 13.12% of the ownership structure of the Company.

Ownership structure as at 31 December 2022:

The Company had the following ownership structure as at 31 December 2022:

	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	RAIFFEISENBANK AUSTRIA D.D. / GUARDIANSHIP ACCOUNT	74.560	0,44
6	VUKADIN ZVONIMIR (1/1)	70.000	0,42
7	KALČIĆ ELVIO (1/1)	47.054	0,28
8	LIST GMBH AUSTRIA (1/1)	45.992	0,27
9	PEČAR IVAN (1/1)	36.053	0,21
10	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
	Others	1.575.188	9,37
	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 2022, Viktor Lenac's Supervisory Board held 5 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 2022, and an extraordinary General Assemblies of the Company was held in December 2022, at which a new member of the Supervisory Board was appointed.

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 2022, 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. In October 2022, Giorgio Filippi resigned as a member of the Supervisory Board, and was replaced by Antonio Palumbo, starting December 15, 2022.

The Company has a Committee for Audit appointed by the Supervisory Board, consisting of three members from the Supervisory Board, as well as a Remuneration Committee and Nominations Committee each composed of the same 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. Total remuneration paid to the Supervisory Board in 2022 was HRK 144,519, 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 and allowances paid to the Management Board for 2022 totalled HRK 1,085,275, all related taxes and contributions included, as well as receipt in kind based on the use of an official car.

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

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Rijeka, April 2023

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, 34/22, 114/22 and 18/23); Article 22 of the Accounting Act (Official Gazette No. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20 and 114/22), the Management Board of the Shipyard "Viktor Lenac" d.d. (hereinafter referred to as the 'Company'), on this April 20, 2023, 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 2022, 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, except for 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, 7.2% 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 were 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. The Company's Articles of Association prescribes a 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.

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 2022 at the General Assembly held on 29 June 2022.

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 2022, 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	RAIFFEISENBANK AUSTRIA D.D. / GUARDIANSHIP ACCOUNT	74.560	0,44
6	VUKADIN ZVONIMIR (1/1)	70.000	0,42
7	KALČIĆ ELVIO (1/1)	47.054	0,28
8	LIST GMBH AUSTRIA (1/1)	45.992	0,27
9	PEČAR IVAN (1/1)	36.053	0,21
10	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
	Others	1.575.188	9,37
	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 2022, 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 2022, 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 (until 17 October 2022 when resigning for personal reasons) 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. At the extraordinary assembly of the Company held on 15 December 2022, Antonio Palumbo was elected as a new member of the Supervisory Board for a term of four years.

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 2022, five 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 2022, 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 2022.

Sandra Uzelac
Member of the Management Board

BRODOGRADILIŠTE VIKTOR LENAC d.d.
Rijeka, Martinšćica bb