VIKTOR LENAC SHIPYARD GROUP
Consolidated Annual Financial Statements and Audit Report for 2010

CONTENTS

STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

Shipyard VIKTOR LENAC d.d. Since 1896

We acknowledge our responsibility for the preparation and presentation of the consolidated financial statements for the year 2010 in accordance with the International Financial Reporting Standards applied in the European Union and Croatia Law on Accounting to give a true and fair view of the financial position of Shipyard Viktor Lenac d.d. Rijeka and its subsidiary company (Group) as at December 31, 2010 and of the results of its operations for the year then ended.

We have made financial statements under the assumption that the Group shall continue doing its business for an indefinite period as reasonably expected, based on research conducted for, to have adequate funds to continue with its business in the foreseeable future.

We confirm, to the best of our knowledge and belief, the following representations:
- We acknowledge our responsibility for the implementation and consistent application of the appropriate accounting policies.
- We acknowledge our responsibility for giving reasonable and conservative estimates.
- We acknowledge our responsibility for the fair presentation of the financial statements in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations, disclosure and interpretation of any significant deviation in the financial statements.
- We have produced the financial statements under the assumption of the continuity of business for an indefinite period of time, 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 status and business results of the Group with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and Republic of Croatia Law on Accounting (OG 109/07).

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 financial statements have been approved as of 15 April 2011.

Robert Škifić, Chairman of the Board

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

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

Adresa: Brodogradilište VIKTOR LENAC d.d.
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Društvo je upisano u sudski registar Trgovačkog suda u Rijeci pod brojem Tt-08/927-2, MBS: 040000358. Temeljni kapital društva iznosi 138.444.470,00 HRK, podijeljen na 13.844.447 dionica po 10,00 HRK svaka, u cijelosti je uplaćen. Matični broj:3333710.
Predsjednik Uprave: Robert Škifić. Članovi Uprave: Sandra Uzelac, Davor Lukeš.
Predsjednik Nadzornog odbora: Karlo Radolović. Zamjenik predsjednika Nadzornog odbora: Ive Mustać.
Članovi Nadzornog odbora: Anton Brajković, Lenko Milin, Damir Bačinović.

Žiro račun: 2488001-1100112844, kod BKS Bank d.d., Rijeka.

Inženjerski biro-revizija d.o.o. Zadar

za reviziju financijskih izvještaja i pružanje usluga s područja računovodstva, poreznog savjetovanja, financijskih analiza i kontrola

23000 ZADAR, Poljana Plankit 1

Tel./Fax: 023/250-869

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE VIKTOR LENAC SHIPYARD GROUP

In the period from 27 September 2010 to 15 April 2011 we have audited the accompanying consolidated financial statements of the Viktor Lenac Shipyard Group, which comprise of the Consolidated Balance Sheet as at December 31, 2010, Consolidated Profit and Loss Account for the year 2010, including statement of comprehensive income, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity for the year then ended as well as supporting significant accounting policies and other explanatory notes to the financial statements. The consolidated financial statements are set out on pages 6 to 34.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Qualifications influencing auditor's opinion

1. As stated in the note no. 17 – Inventories, we are not able to confirm the value of inventories in its entirety considering that the write down of inventories was not recorded analytically resulting in non-conformance between the analytical and synthetic records.

Opinion

In our opinion, the accompanying consolidated financial statements of the VIKTOR LENAC SHIPYARD GROUP, which were the subject of our audit, exclusive of the effects from the item 1 (Qualifications) and other effects which could affect the financial statements, present fairly, in all material respects, the consolidated financial position as at December 31, 2010, consolidated financial performance, consolidated changes of equity and consolidated cash flows for the year 2010 in accordance with the International Financial Reporting Standards.

Issues not affecting auditor's opinion

1. Without any influence on our opinion we note to the note no. 31 to the financial statements - Disputes, to the effect that their final outcome may not be established at the moment of drawing up this report, either liabilities which might arise therefrom and which might be recorded in the financial statements.
2. Without any influence on our opinion we note the note no. 6 – Employee expenses.

In Rijeka, 15 April 2011

"Inženjerski biro-revizija" d.o.o. Zadar

Certified auditor: *President:*

Branimir Grgić *Irena Dobrović, certified auditor*

„Inženjerski biro-revizija"
d.o.o. - Zadar

CONSOLIDATED BALANCE SHEET

(As at 31 December 2010)

in HRK

	Description	Note	2009 I-XII	2010 I-XII	10/09 +/-%
1	2	3	5	5	6=5/4%
	ASSETS				
A.	**FIXED ASSETS**	14,15	**127.398.853**	**125.629.943**	99
I	INTANGIBLE ASSETS	14	2.817.227	2.575.857	91
II	BUILDINGS, PLANTS AND EQUIPMENT	14	124.511.988	122.985.193	99
III	SHARES IN DEPENDENTS AND ASSOCIATES	15	38.018	38.018	100
IV	FINANCIAL ASSETS		31.620	30.689	97
V	RECEIVABLES		-	-	-
VI	**DEFERRED TAX ASSETS**		-	186	-
B.	**SHORT-TERM ASSETS**		**161.213.531**	**150.975.813**	94
I	**INVENTORIES**	17	26.932.459	20.910.868	78
II	FINANCIAL ASSETS	16	580.000	60.000	-
III	TRADE AND OTHER RECEIVABLES	18	44.837.995	64.154.673	143
IV	MONEY IN BANK AND CASH IN REGISTER	19	88.863.077	65.850.272	74
V	ASSETS HELD FOR SALE		-	-	-
C.	**TOTAL ASSETS**		**288.612.384**	**276.605.756**	96
D.	**OFF BALANCE SHEET ITEMS, EQUITY AND LIABILITIES**		-	-	-
A.	**EQUITY**	20	**192.136.361**	**195.828.029**	102
I	SHARE CAPITAL	20	138.444.470	138.444.470	100
II	CAPITAL RESERVES		-	-	-
III	RESERVES		45.847.531	49.625.577	108
IV	RETAINED PROFIT	20	7.844.360	7.757.982	99
B.	**MINORITY INTEREST**		-	-	-
C.	**LONG-TERM LIABILITIES**		**25.785.976**	**14.028.476**	54
I	**DEBENTURES WITH INTEREST CHARGE**	21	1.798.285	1.321.712	73
II	EMPLOYEE INCOME		-	-	
III	PROVISIONS	24	6.686.459	2.425.605	36
IV	OTHER LONG-TERM LIABILITIES	25	17.301.232	10.281.159	59
D.	**SHORT-TERM LIABILITIES**		**70.690.047**	**66.749.251**	94
I	**DEBENTURES WITH INTEREST CHARGE**	21	461.779	496.460	108
II	**PROFIT TAX LIABILITY**	22	1.276.773	1.096.260	86
III	TRADE AND OTHER PAYABLES	22	61.645.296	62.657.832	102
IV	FINANCIAL LIABILITIES		-	-	-
V	EMPLOYEE INCOME		-	-	-
VI	PROVISIONS	24	7.306.199	2.498.699	34
E.	**TOTAL LIABILITIES**		**96.476.023**	**80.777.727**	84
F.	**TOTAL EQUITY AND LIABILITIES**		**288.612.384**	**276.605.756**	96

BRODOGRADILIŠTE VIKTOR LENAC d.d RIJEKA, Martinšćica bb 5

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED PROFIT AND LOSS ACCOUNT INCLUDING COMPREHENSIVE INCOME

(As at 31 December 2010)

	Description	Note	2009 I-XII	2010 I-XII	in HRK 10/09 +/-%
1	2	3	5	5	6=5/4
1.	**OPERATING REVENUES**		**327.612.533**	**322.444.947**	98
1.1.	Revenues from sales	3	284.640.405	301.087.087	106
1.2.	Other operating revenues	4,5	42.972.128	21.357.860	50
2.	**OPERATING EXPENSES**		**322.990.178**	**316.005.518**	98
2.1.	Changes in inventories value of unfinished production		(4.538.878)	10.385.475	-
2.2.	Material expenses	5,4	210.290.367	196.830.386	94
2.3.	Employee expenses	6	72.602.914	72.696.012	100
2.4.	Depreciation	7	21.100.079	22.511.428	107
2.5.	Value adjustment	8	5.897.157	497.409	8
2.6.	Provisions	9	4.568.175	889.530	19
2.7.	Other expenses	10	11.869.921	11.382.869	96
2.8.	Other operating expenses		1.200.443	812.409	68
3.	**EBIT**		**4.622.355**	**6.439.429**	139
4.	**NET FINANCIAL (EXPENSES/REVENUES)**	11	**2.530.942**	**1.536.839**	61
4.1.	Financial revenues	11	3.697.714	2.846.498	77
4.2.	Financial expenses	11	1.166.772	1.309.659	112
5.	**PROFIT / (LOSS) BEFORE TAX**		**7.153.297**	**7.976.268**	112
6.	**PROFIT TAX**	12	**1.863.134**	**1.803.350**	97
7.	**NET PROFIT / (LOSS) FOR THE YEAR**		**5.290.163**	**6.172.918**	**117**
	Earnings per share (HRK)	13	0,38	0,45	
8.	**Consolidated Comprehensive Income Statement**				
9.	**Net profit / loss for the year**		**5.290.163**	**6.172.918**	
9.1.	Profit / loss on revaluation of financial assets available for sale		0	(930)	
9.2.	Deferred tax assets		0	186	
10.	**COMPREHENSIVE INCOME FOR THE YEAR**		**5.290.163**	**6.172.174**	

BRODOGRADILIŠTE VIKTOR LENAC d.d. RIJEKA, Martinšćica bb

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED CASH FLOW STATEMENT

(As at 31 December 2010)

		Description	Note	2009 I-XII	2010 I-XII	in HRK 10/09 +/-%
1		2	3	4	5	6=5/4%
I		**CASH FLOW FROM OPERATING ACTIVITIES**				
	1.	Profit/loss before taxation		7.153.297	7.976.268	112
		Adjustment for:				
	2.	Profit tax		**(1.863.134)**	(1.803.350)	-
	3.	Depreciation of buildings, plants and equipment		21.100.079	22.511.428	107
	4.	Expenses/revenues from interests (net)		**(2.953.881)**	(2.026.251)	69
	5.	Decrease of trade receivables		5.897.157	497.409	-
		Profit from operating activities before changes in current capital		**29.333.518**	**27.155.504**	93
	6.	Increase / decrease of inventories		**(2.907.288)**	6.021.591	-
	7.	Increase / decrease of short-term receivables		6.403.882	(19.864.089)	-
	8.	Increase / decrease of liabilities		18.410.162	**(5.185.389)**	-
	9.	**Profit tax paid**		(9.491.375)	(1.276.773)	13
	10.	**Interest paid**		**(963.882)**	(150.464)	16
	11.	**Interest received**		1.688.280	2.500.829	148
	12.	Other		4.568.175	(9.068.354)	-
		CASH FLOW FROM OPERATING ACTIVITIES	**33**	**47.041.472**	**132.855**	-
II		**INVESTING ACTIVITIES**				
	1.	Acquisition of buildings, plants, equipment and intangible assets		(29.772.645)	(21.485.222)	72
	2.	Revenues from sale of fixed assets		326.883	741.961	-
	3.	Granted loans		(630.000)	(126.000)	-
	4.	Value adjustment of granted loans		-	398.286	-
	5.	Inflows of loans		50.000	247.714	-
	6.	Cash outflows from investing activities		-	-	-
		CASH FLOW FROM INVESTING ACTIVITIES	**33**	**(30.025.762)**	**(20.223.261)**	67
III		**FINANCIAL ACTIVITIES**				
	1.	**Revenues from equity and debt securities**		14.366.340	-	-
	2.	**Revenues from debentures with interest charge**		3.180.236	-	-
	3.	**Debenture payments**		(14.420.172)	(441.892)	-
	4.	**Acquisition cost of own shares**		(133.600)	(2.480.507)	-
IV		**CASH FLOW FROM FINANCIAL ACTIVITIES**	**33**	**2.992.804**	**(2.922.399)**	-
		TOTAL INCREASE / DECREASE OF CASH FLOW (I+II+III)		20.008.514	(23.012.805)	-
V		CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		68.854.563	88.863.077	129
VI		**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**	**19**	**88.863.077**	**65.850.272**	74

Robert Škifić, Chairman of the Board

BRODOGRADILISTE VIKTOR LENAC d.d. RIJEKA, Martinšćica bb 5

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

in HRK

Description	Note	31.12.2009	Changes in I-XII/2010	31.12.2010
1	2	3	4	5
Subscribed capital	20	138.444.470	-	138.444.470
Capital reserves	20	45.981.131	6.259.298	52.240.429
Revalorization reserves	20	-	(744)	(744)
Retained profit or transferred loss	20	2.554.197	(969.134)	1.585.063
Profit / loss for the year	20	5.290.163	6.172.918	6.172.918
Acquisition of own shares	20	(133.600)	(2.480.507)	(2.614.107)
Total equity	**20**	**192.136.361**	**8.981.831**	**195.828.029**

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

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

Notes to Consolidated Financial Statements as at 31 December 2010
(making an integral part of the consolidated financial statements)

1. GENERAL INFORMATION

The joint-stock company VIKTOR LENAC shipyard, Martinšćica bb, Rijeka (hereinafter referred to as „Mother company") has been registered under the company's registration number 040000358 in the register of the Commercial Court of Rijeka.

By the Rijeka Commercial Court's decision no. St-183/03 as of 8 December 2003, the Mother company was under bankruptcy proceedings, which terminated on 9 April 2008 by the decision of the Commercial Court of Rijeka after the implementation of the legally valid Bankruptcy plan.

The share capital of the Mother company amounts to 138,444,470 Croatian Kuna and is divided in:

- *13.831.087 non-materialized ordinary shares in name, each having a nominal value of 10 Croatian Kuna*
- *282.308 own shares, each having a nominal value of 10 Croatian Kuna*

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

The Mother company's main activity is building, repair, conversion and other services relating to ships and other floating vessels. The Mother company has been registered for other activities such as steel constructions, trade, engineering and other various services.

On the day of 31 December 2010 the Mother company employed 596 employees.

The limited liability company VIKTOR - SERVISI Rijeka, Martinšćica bb, company's registration number 40040360 is an entity owned by the joint-stock company VIKTOR LENAC shipyard Rijeka, and shall, therefore, be included into the consolidation.
According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb as of 13 February 2008, the subsidiary company has been classified under the subclass number 2811– production of engines and turbines exclusive of engines for aircrafts and motor vehicles, having its tax number 03767248 and identification number 06081251984.
The main activity of the subsidiary company is repair and maintenance of machines and devices. The share capital amounts to 254,000 Croatian Kuna.
On the day of 31 December 2010 the subsidiary company employed 13 employees.

The Viktor Lenac shipyard owns shares of minority interest in another company, which are not included into the consolidation.

Likewise, its subsidiary company also owns shares of minority interest in another company, which are not included into the consolidation.

The members of the Supervisory Board of the Mother company during 2010 and up to the moment of drawing up this report were:

Karlo Radolović	*Chairman*
Ive Mustać	*Member*
Anton Brajković	*Member*
Lenko Milin	*Member*
Damir Bačinović	*Member*

The Mother Company's Management Board is composed of three members:

Robert Škifić	*Chairman of the Board*
Sandra Uzelac	*Member of the Board*
Davor Lukeš	*Member of the Board*

The Mother Company had the following ownership structure as at 31 December 2010 :

	Shareholder	**Number of shares**	**%**
1.	Tankerska Plovidba j.s.c. Zadar	5.169.660	37,34
2.	Uljanik Shipyard j.s.c. Pula	3.904.063	28,20
3.	Privredna Bank j.s.c. Zagreb / collective custody account	1.367.268	9,88
4.	Croatian Privatization Fund from Zagreb	1.243.702	8,98
5.	Societe Generale – Splitska Bank j.s.c. Rijeka / custody account	480.596	3,47
6.	Shipyard Viktor Lenac j.s.c. Rijeka	282.308	2,04
	Privredna Bank j.s.c. Zagreb	258.751	1,87
7.	R.L.E. Ltd. Drniš	105.211	0,76
8.	Negotium Ltd. Novalja	52.139	0,38
9.	List Gmbh Austria	45.992	0,33
10.	Other	934.757	6,57
	Total	**13.844.447**	**100,00**

On the day of 15 April 2011, the Management Board of the Mother Company approved the Consolidated Financial Statements for their submitting to the Supervisory Board.

2. BASIS FOR CONSOLIDATION, STATEMENT ON COMPLIANCE AND BASICS OF REPORTING SUMMARY OF BASIC ACCOUNTING POLICIES

a) *The Consolidated Financial Statements have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia and International Financial Reporting Standards ("IFRS") applied in the European Union.*
The Consolidated Financial Statements have been prepared under the fundamental accounting assumption that effect of transaction is recognized when occurred and is recorded in the period to which the transaction refers, and under the assumption of the continuity of business for an indefinite period of time.

Accounting policies applied in the preparation of the 2010 financial statements have not changed compared with the previous year. The consolidated financial statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.
The consolidated financial statements have been prepared in Croatian Kuna (HRK) as measuring or reporting currency.
According to the IFRS, 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 as at 31st December 2010 as follows:

1 EUR = 7,385173 HRK (31.12. 2009. godine 1 EUR = 7,306199 HRK)
1 USD = 5,568252 HRK (31.12.2009. godine 1 USD = 5,089300 HRK)
1 NOK = 0,945072 HRK (31.12.2009. godine 1 NOK = 0,877021 HRK)
1 GBP = 8,608431 HRK (31.12.2009. godine 1 GBP = 8,074040 HRK)

Standards, interpretations and amendments issued by the International Accounting Standards Board ("IASB") and adopted by Croatia's Board, and are in force:

During the year, the Group adopted new and modified International Financial Reporting Standards and their interpretations. The application of modified IFRSs has not significantly influenced to the financial position and result of the Group and enabled data comparison. The adoption of modified standards did not affect the capital as at 1 January 2010.

- *IFRS 1, First application of International Accounting Standards, investment cost - revised (applied to periods starting with 1st January 2010 or later)*
- *IFRS 2 Share-based payments – revised (applied to periods starting with 1st January 2010 or later)*
- *IFRS 7 Financial instruments: Disclosures (applied to periods starting with 1st January 2010 or later)*
- *IAS 1 Presentation of financial statements - revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 16 Buildings, plants and equipment – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 18 Revenues (applied to periods starting with 1st January 2010 or later)*
- *IAS 19 Employee income – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance - revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 23 Borrowing costs - revised (applied to periods starting with 1st January 2010 or later)*

- *IAS 27 Consolidated and separate financial statements, investment cost (applied to periods starting with 1st January 2010 or later)*
- *IAS 28 Investment in associates – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 31 Shares in joint-ventures – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 32 Financial instruments: Presentation and IAS 1 Presentation of financial statements – Puttable instruments and obligations – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 36 Impairment of assets – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 38 Intangible assets – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 39 Financial instruments: Recognition and measurement – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 40 Investment property – revised (applied to periods starting with 1st January 2010 or later)*
- *IFRIC 15 Agreements for the Construction of Real Estate (applied to periods starting with 1st January 2010 or later)*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation (applied to periods starting with 1st January 2010 or later)*
- *IFRIC 17 Distributions of Non-cash Assets to Owners (applied to periods starting with 1st January 2010 or later)*
- *IFRIC 18 Transfers of Assets from Customers (applied to periods starting with 1st January 2010 or later)*
- *IFRS 3, Business combinations – revised (applied to periods starting with 1st January 2010 or later)*
- *IFRS 5 Fixed assets held for sale and discontinued operations – revised (applied to periods starting with 1st January 2010 or later)*
- *IAS 27 Consolidated and separate financial statements (applied to periods starting with 1st January 2010 or later)*
- *IAS 28 Investment in associates – revised based on IFRS modification (applied to periods starting with 1st January 2010 or later)*
- *IAS 31 Shares in joint-ventures – revised based on IFRS 3 modification (applied to periods starting with 1st January 2010 or later)*
- *IAS 39 Financial instruments: Recognition and measurement – Financial instruments (applied to periods starting with 1st January 2010 or later)*

Standards, interpretations and amendments not in force:

On the date of approval of the financial statements, the following interpretations and standards, which were not in force as at 31 December 2010, were issued:

- *IFRS 2010 Improvements (most of these improvements enter in force for periods starting on the day of 1 July 2010 or after or 1 January 2011)*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity (applied to periods starting with 1st July 2010 or later)*
- *IFRS 9 Financial instruments (applied to periods starting with 1st January 2013 or later)*
- *IAS 24 Amendment – Related party disclosures (as revised in 2009) (applied to periods starting with 1st January 2011 or later)*

It is assumed by the Group's Management Board that all the above-mentioned interpretations and standards shall be applied in the Group's consolidated financial statements from the time when they shall be in force and that their adoption shall not have significant influence to consolidated financial statements in the period of first application.

Key assumptions and estimates and uncertainty in preparing consolidated financial statements

In preparing consolidated financial statements, the Group's Management Board used estimates, judgements and assumptions which have influence to accounting value of assets and liabilities, disclosing of potential items on balance sheet date and disclosed revenues and expenses of the period then ended. The estimates were used, without limitation, to the following items: calculation and period of depreciation and remaining value of the real-estate, plants, equipment and intangible assets, decrease in value, value adjustment of inventories and disputable claims, provisions for employees' salaries and wages, court disputes and warranty repairs. More details on accounting policies with respect to estimates can be found in other parts of this note as well as other notes of the financial statements.
The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements used in preparing consolidated financial statements are subject to changes due to new events, new information, new experience or changes in business environment. Actual results may differ from such estimates.

The basic accounting policies applied in the preparation of the consolidated financial statements for the year 2010 are as set forth below:

a) Revenues

/i/ Revenues are recognized on the day of delivery of goods and/or services, or invoicing date.

/ii/ Revenues from sales of goods and services are recognized if:

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

/iii/ Revenues from rendered services whose outcome of a transaction can be estimated reliably, shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenues from rendered services are recognized if:

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

When determining revenues from rendered services based on stage of completion of contracted activities at the end of the reporting period, revenues are recognized per specific contract, pursuant to stage of contract completion method, when it is highly possible to determine the percentage of completeness, clearly identify the occurred expenses and determine:

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

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

Contract stage of completion is determined by total costs of material, work and other expenses that relate directly to the specific contract and occurred by the end of the reporting period, related to total evaluated expenses for each construction contract.
When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.

Government Grants are recognized as revenues in the period when related expenses will occur, if:
- *the terms of the grants have been met*
- *it is likely that the grants will be received.*

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

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

b) Expenses

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

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

Losses that can be identified as expenses are classified as expenses. In that case losses have to be related to occurring revenues. Losses are covered with revenues of the reporting period.
Financial expenses include expenses for interests against loans, discounts from sales of securities and receivables prior to their maturity, interests arising from delayed payments, negative exchange rate differences, losses from sales of shares and business portions, as well as other financing expenses.

Financing expenses are recognized on time proportional basis, respectively in the period when they occurred. Negative exchange rate differences are not capitalized, but are included in the expenses of the period.

c) Financial result and profit tax

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

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

d) Fixed intangible assets

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

a) *it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,*
b) *the cost of the asset can be measured reliably, and*
c) *its single acquisition value exceeds 3,500 Croatian Kuna.*

If the criteria are not met, the costs are recorded as current period expenses.
After initial recognition, intangible asset is recorded based on its acquisition cost decreased for value adjustment (accumulated depreciation) and for accumulated losses from decrease.

Intangible assets are excluded from the Balance Sheet in case of disposal or if there are no expected future economic benefits from it. Gains or losses (difference between revenues from disposal and book value) arising from disposal or withdrawal of intangible assets are recognized as revenues or expenses of the current period.
Intangible assets are depreciated as every single item by linear method against the rate of 25% annually.

/i/ 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.

e) Fixed tangible assets

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

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

Fixed tangible assets are recognized if following fulfilled:

- *it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,*
- *the cost of the asset can be measured reliably,*
- *its single acquisition value exceeds 3,500 Croatian Kuna and useful period of life exceeds one year.*

Except, if the single value of the asset does not exceed 3,500 Croatian Kuna 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 3,500 Croatian Kuna nor its useful period of life exceeds one year are recorded as inventory and therefore are completely written-off upon activation.
Upon acquisition, fixed tangible assets are recorded in the business books at acquisition value.
Goods and services made internally and included in use as fixed tangible assets are recorded at their production value, under condition that the production value does not exceed net market value. Production value does not include internal profits, unusual values of waste material, work and other assets.
The production cost is determined pursuant to IAS 2 – Inventories. Additional costs are included in the book value of the assets or, if needed, are recognized as separate assets only if the company expects to have future economic benefits of that assets, or if their expense can be reliably measured.
After initial recognition, property, plant and equipment are recorded based on their acquisition cost decreased for accumulated depreciation and accumulated losses from decrease. Basis for depreciation is acquisition value (gross book value) of the single asset.

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

/i/ 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	*2,5-5%*
- 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 the Management's decisions uses legally recognized accelerated depreciation rates.
Depreciation and recognition of expense starts from the first day of the month followed by activation of the fixed tangible asset.
Depreciation for sold, given, or in any other way disposed or destroyed fixed tangible assets is recognized as expense up to the end of month when the assets were still in use.
Fixed assets are recorded in the Balance Sheet even if they are completely written-off, up to sale, gift, or disposal of any kind.

f) Long-term financial assets

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

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

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

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

g) Inventories

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

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

If the professional services evaluate that use of certain inventories in future contracts is doubtful, respectively that some products on stock are not spendable, the company performs write-off of inventories, which is recorded as expense of the current period. When and if there are no circumstances that caused the prior reduction of value, respectively write-off of inventories, the value of inventories should be increased up to the acquisition cost, meaning up to value that can be realized and expended in regular production.

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

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

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

The value of production in progress is recorded at actual costs that can be related to a specific contract.

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

- *Variable and fixed direct costs of production that can be directly related to the specific contract on a reasonable basis, such as costs of built in material, direct work and services of others directly involved in rendering services*

- *Variable and fixed general costs of production that are being allocated by a key to specific contracts, respectively in proportion to direct costs, meaning that are being assigned to the value of inventories for production in progress based on normal capacity (normal realized capacity in regular circumstances of operations through a certain period of time).*

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

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

h) Receivables

Trade receivables, receivables from state, employees and other legal and private persons are recorded in the business books based on valid documentation of their occurrence and data on their value.
Trade receivables from customers in abroad shown in foreign exchange currencies are recorded in Croatian currency, calculated based on mean exchange rate of Croatian National Bank as of the date of recording the receivable.
Upon collection of receivable, the differences that occur due to exchange rate are recorded as revenues or expenses of the Group.
Open balances of trade receivables from customers in abroad as of the Balance Sheet date are set at mean exchange rate of Croatian National Bank and the exchange rate differences are recorded as revenues or expenses.
Increase of receivables for interests is based on the contract and calculations of the legal interest rates as prescribed by law.
Value adjustment of receivables is performed based on evaluation that the receivable has not been collected when due, i.e. that it is uncollectible and claimed on court. The Decision on value adjustment of receivables is made by the Management.
Value adjustment of receivables is recorded in the Profit and Loss Account of the Group.

i) Short-term financial assets

Short-term financial assets comprise of investment of cash, property, rights and granted merchandize loans for generating revenues, whose benefits are expected to arise within one year.
Short-term financial investments within one year are recorded in the business books at investment cost. The value is determined for each investment.
Value adjustment of short-term assets is performed based on evaluation that the investment is high risk or it is claimed on court. The Decision is made by the Mother company's Management Board.

j) Cash and cash equivalents

Cash and cash equivalents include cash in banks, in register and short-term deposits at banks with contracted maturity of up to 3 months. The balance of the cash in bank is recorded at nominal value in Croatian currency. Foreign exchange funds in bank and register is set at mean exchange rate of Croatian National Bank.
Exchange rate differences arising from setting foreign exchange funds to mean exchange rate of Croatian National Bank are recorded as revenues / expenses of the current period.

k) Deferred costs and accrued revenues

Outflows that covered expenses referring to future periods are recorded according to the amounts specified in valid documentation supporting the business event.
Discrepancy of the calculation period of deferred costs at the end of the year creates a balance which is transferred into the following period as a Balance Sheet position.
Realized revenues that do not meet the criteria to be recorded as receivables, are recorded in the calculated amount specified in the valid documentation supporting the business event, and are being transferred as a Balance Sheet position to the following period in which they are carried over to the receivables once they meet the criteria.

l) Equity

Equity is own source for financing assets and is expressed pursuant to articles of International Financial Reporting Standards as remaining of the assets after deduction of all liabilities. Subscribed capital is recorded in the amount that is subscribed in the court registry upon establishment, i.e. change of subscribed value of capital in the commercial registry.Policy of recording reserves depends on their shape and policy of the Group (legal, statutory and similar).

m) Provisions

Provisions should be recognized when an entity has a present obligation (legal or constructive) as a result 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 court claims are also recognized as an expense of the period for risk provisions based on legal and other regulations.

n) Long-term liabilities

Long-term liabilities are recorded in the business books in the amounts specified in valid documentation or contract supporting the event. Long-term liabilities refer to liabilities with maturity exceeding 12 months starting from the date of financial statements. Classification of the long-term and short-term liabilities is performed on each day of the Balance Sheet.

o) Short-term liabilities

Short-term liabilities are recorded in the business books in the amount specified in valid documentation or contract supporting the event. Short-term liabilities refer to liabilities with maturity less than 12 months. Classification of the long-term and short-term liabilities is performed on each day of the Balance Sheet.
Short-term liabilities recorded in foreign exchange funds and those with currency clause are being set at mean exchange rate of the Croatian National Bank in Croatian currency.
Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the company.

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

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

p) Accrued costs and deferred revenues

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

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

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

3. REVENUES FROM SALES

in HRK

	31.12.2010	31.12.2009
Revenues from rendered services on domestic market	39.146.992	66.869.620
Revenues from rendered services on foreign market	261.940.095	217.770.785
Total	**301.087.087**	**284.640.405**

Revenues from rendered services classified by type of service rendered:

in HRK

	Domestic market	Foreign market	Total
Shiprepair	23.476.526	166.715.340	190.191.866
Offshore activity	14.168.297	1.159.810	15.328.107
Conversions	-	93.754.850	93.754.850
Other	1.502.169	310.095	1.812.264
Total	**39.146.992**	**261.940.095**	**301.087.087**

4. OTHER REVENUES

		in HRK
	31.12.2010	**31.12.2009**
Revenues from sales of material	7.028.717	5.969.031
Rentals (non-associates)	959.337	951.411
Revenues from withdrawal of long-term reserves	10.252.170	14.212
Revenues from Government grants	26.200	15.000
Revenues of written-off liabilities	414.298	1.018.855
Collection of damage claims from insurance	151.084	18.681.003
Revenues from sales of buildings, plants and equipment	18.428	279.440
Revenues from use of own products, goods and services	-	9.578.051
Other revenues	2.507.626	6.465.124
Total	**21.357.860**	**42.972.128**

The revenues from withdrawal of long-term reserves amount to 9.778.178 Croatian Kuna and refer to revenues from withdrawal of realized reserves based on issued guarantees for warranty repairs on Kommandor 5000, Scarabeo 4 and Annamaria platform, and withdrawal of reserves based on closed disputes and bankruptcy reserves in the amount of 473.992 Croatian Kuna.

Other revenues in the amount of 2.507.627 Croatian Kuna refer to subsequently recognized revenues from the previous years, inventory surplus, written-off liabilities and similar.

On the account of use of own products, goods and services the company realized revenues in the amount of 9.578.051 Croatian Kuna. These revenues are shown as other revenues (see note 5).

5. MATERIAL EXPENSES AND EXPENSES OF PRODUCTS SOLD

		in HRK
	31.12.2010	**31.12.2009**
Raw and other material		
Used raw and other material	52.968.920	39.228.352
Used energy	17.646.389	14.662.083
Small inventory and spare parts	1.388.034	919.692
Total raw and other material	**72.003.343**	**54.810.127**
Other external expenses		
Transportation, phone, post and similar services	1.114.061	1.249.096
Production services	73.990.641	85.572.369
Subsupplier services	35.559.706	22.369.993
Maintenance services	9.091.152	11.540.732
Rental expenses	1.419.821	12.524.748
Intellectual services	2.176.165	2.660.317
Other services	1.475.497	19.562.985
Total other external expenses	**124.827.043**	**155.480.240**
TOTAL MATERIAL EXPENSES	**196.830.386**	**210.290.367**

The operating expenses recorded in 2009 comprised of the tangible fixed asset cost. On the other hand, in 2010, the cost represented a direct increase to the value of tangible fixed assets, without being recorded in the profit and loss statement, nor in the operating expenses neither operating revenues (see note 4).

6. EMPLOYEE EXPENSES

in HRK

	31.12.2010	31.12.2009
Net salaries and wages	39.400.342	39.219.653
Taxes and contributions from the salaries	16.609.148	16.815.748
Contributions on the salaries	10.436.965	10.505.231
Terminal pays	192.000	104.000
Compensations for travelling costs, daily allowances, annual bonuses	6.057.557	5.958.282
TOTAL	**72.696.012**	**72.602.914**

In 2010 the Group paid to the employees the annual bonuses in accordance with the Collective Agreement signed with the Unions, where those employees who are members of the Union received larger bonuses than the non-members.

7. DEPRECIATION

in HRK

	31.12.2010	31.12.2009
Buildings, facilities and equipment	22.511.428	21.100.079
TOTAL	**22.511.428**	**21.100.079**

The Mother Company made decision to apply accelerated depreciation rates for both 2009 and 2010.

8. VALUE ADJUSTMENT

In accordance with its accounting policy, the Mother Company made an adjustment of the value of receivables from customers recorded during the year 2010 in the amount of 497.409 Croatian Kuna, for which collection appears uncertain and legal proceedings have been instituted.

9. PROVISIONS

The Mother Company's provisions in the amount of 889.530 Croatian Kuna include provisions for warranty repairs for the works carried out during 2010 and for which a bank guarantee in the amount of

26.720 Croatian Kuna was issued plus provisions for legal proceedings in the amount of 862.810 Croatian Kuna, which started in 2010.

10. OTHER EXPENSES

in HRK

	31.12.2010	31.12.2009
Entertainment and aids	1.656.292	1.432.877
Insurance premiums	3.910.043	4.348.345
Bank services and fees	387.755	492.620
Taxes and contributions not dependant on the result	2.517.160	2.772.665
Other expenses	2.911.619	2.823.414
TOTAL	**11.382.869**	**11.869.921**

11. NET FINANCIAL (EXPENSES)/INCOME

in HRK

	31.12.2010	31.12.2009
Financial income		
Interests	2.450.826	3.697.714
Sale of financial instruments	395.672	-
Positive exchange rate differences	-	-
Total financial income	**2.846.498**	**3.697.714**
Financial expenses		
Interests	424.575	743.842
Negative exchange rate differences	885.084	422.930
Total financial expenses	**1.309.659**	**1.166.772**
NET FINANCIAL (EXPENSES)/INCOME	**1.536.839**	**2.530.942**

12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2010 the Group realized a profit in the amount of 7.976.268 Croatian Kuna. After deduction of a tax obligation in the amount of 1.803.350 Croatian Kuna, the profit after tax amounted to 6.172.918 Croatian Kuna.

13. EARNINGS PER SHARE

		in HRK
	31.12.2010	**31.12.2009**
Net profit	6.172.918	5.290.163
Shares exclusive of own shares	13.767.190	13.831.087
Earnings per share (Croatian Kuna)	**0,45**	**0,38**

14. BUILDINGS, FACILITIES AND EQUIPMENT

FIXED TANGIBLE AND INTANGIBLE ASSETS

in HRK

No.	DESCRIPTION	Land	TANGIBLE ASSETS Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investments in progress	Advances for tangible assets	Total tangible assets	INTANGIBLE ASSETS Intangible assets	Investments in progress	TOTAL:
1	2	3	4	5	6	7	8				9
A	*ACQUISITION VALUE*										
1.	*Balance 1 January 2010*	9.210.011	68.370.558	387.888.744	68.100.523	5.038.529	207.229	538.815.594	5.534.707	-	544.350.301
2.	*Transfer from investments in progress*	-	-	2.022.539	2.182.410	(4.204.949)	-	-	326.817	(326.817)	-
3.	*Acquistion during 2010*	-	-	-	-	20.856.227	302.179	21.158.406	-	326.817	21.485.223
4.	*Sale, disposal*	-	(76.438)	(473.411)	(804.565)	(711.750)		(2.066.164)	(369.226)	-	(2.435.390)
5.	***BALANCE 31 DECEMBER 2010***	**9.210.011**	**68.294.120**	**389.437.872**	**69.478.368**	**20.978.057**	**509.408**	**557.907.836**	**5.492.298**	-	**563.400.134**
B	*VALUE ADJUSTMENT*										
6.	*Balance 1 January 2010*	6.958.527	65.064.224	280.474.837	61.806.018	-	-	414.303.606	2.717.480	-	417.021.086
7.	*Depreciation*	-	212.349	18.350.514	3.380.378	-	-	21.943.241	568.187		22.511.428
8.	*Sale, disposal*		(76.437)	(445.237)	(802.530)	-	-	(1.324.204)	(369.226)	-	(1.693.430)
9.	***BALANCE 31 DECEMBER 2010***	**6.958.527**	**65.200.136**	**298.380.114**	**64.383.866**	-	-	**434.922.643**	**2.916.441**	-	**437.839.084**
C	***BOOK VALUE 1 JANUARY 2010***	**2.251.484**	**3.306.334**	**107.413.907**	**6.294.505**	**5.038.529**	**207.229**	**124.511.988**	**2.817.227**	-	**127.329.215**
D	***BOOK VALUE 31 DECEMBER 2010***	**2.251.484**	**3.093.984**	**91.057.758**	**5.094.502**	**20.978.057**	**509.408**	**122.985.193**	**2.575.857**	-	**125.561.050**

15. INVESTMENT IN ASSOCIATES

Net accounting value of investment in associates includes:

	31.12.2010		31.12.2009	
	in HRK	**Share (%)**	**in HRK**	**Share (%)**
North Adriatic Offshore Ravenna	38.018	49%	38.018	49%

16. SHORT-TERM FINANCIAL ASSETS

The short-term financial assets in the amount of 60.000 Croatian Kuna include loans to companies abroad.

17. INVENTORIES

in HRK

	31.12.2010	31.12.2009
Raw and other material	16.958.369	12.594.484
Production in progress	3.950.145	14.335.621
Small inventory	6.401.674	5.939.543
Small inventory value adjustment	(6.399.320)	(5.937.189)
TOTAL	**20.910.868**	**26.932.459**

The raw and other material was recorded on the basis of purchase prices decreased by a value adjustment of the inventories. The inventories value adjustment was performed upon the opening of the bankruptcy proceedings when the Mother Company evaluated the assets recorded in the books on the day of the opening of the bankruptcy proceedings. Taking into consideration the complexity of inventories issue, for purpose of the analytical evaluation, based on the then assumption that the Group was not continuing its business, but the assets would be sold for settling the bankruptcy debts, an estimate of inventories encashment according to the liquidation value was made which produced a book item for adjustment of value as per estimate.
The Group continued with its business that ultimately resulted in the termination of the bankruptcy proceedings, and the stock was used in the normal production activities, noting that during the entire period of bankruptcy the stock was equally supplied and used.

In 2010, the Group performed a value adjustment of the analytical structure of raw and other material on stock to the collective adjustment of inventories as per estimate. The value adjustment of inventories as per estimate represents collective adjustment of inventories not recorded analytically.

18. TRADE AND OTHER RECEIVABLES

in HRK

	31.12.2010	31.12.2009
Receivables from customers	30.411.749	34.345.734
Receivables from employees	30.510	49.102
Receivables from state	9.524.167	7.093.724
Prepaid expenses	18.712.679	77.145
Other receivables	5.475.568	3.272.290
Total	**64.154.673**	**44.837.995**

Age structure of matured receivables from customers:

in HRK

	31.12.2010	31.12.2009
1 -90 days	29.099.579	30.258.893
91 -180 days	1.176.537	2.949.752
181 - 365 days	85.234	1.033.741
Over 365 days	50.399	103.348
TOTAL	**30.411.749**	**34.345.734**

Age structure of decrease of value of receivables:

	31.12.2010	31.12.2009
HRK	2.600.115	10.075.795
EUR	27.811.634	24.199.405
USD	-	70.534
Other currency	-	-
Total	**30.411.749**	**34.345.734**

19. CASH AND CASH EQUIVALENTS

in HRK

	31.12.2010	31.12.2009
Money in bank	8.578.256	26.567.338
Cash in register	6.908	7.574
Time deposits	57.265.108	62.288.165
TOTAL	**65.850.272**	**88.863.077**

20. EQUITY AND RESERVES

(i) *On the day of 31 December 2010 the issued share capital, fully paid, amounted to 138,444,470 Croatian Kuna and was divided in 13.844.447 ordinary shares each having a nominal value of 10 Croatian Kuna.*

The owners of ordinary shares are entitled to dividends and one vote per share. The Mother Company did not pay out dividends for the year 2008 neither 2009, as in accordance with the Company's General Assembly's decisions on profit distribution.

(ii) *On the day of 31 December 2010 the Mother Company owned 282.308 own shares (31 December 2009: 13.360), making 2.04% of the share capital.*

(iii) *On the day of 31 December 2010 the statutory reserve within the frame of the statutory and other reserves, amounted to 6.922.223 Croatian Kuna (2009: 6.203.906 Croatian Kuna). The statutory reserve was formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserve until it grows to 5% of the issued share capital.*

In accordance with the Mother Company's General Assembly's decision, the 2009 profit was distributed to statutory reserves up to 5% of the issued share capital, and the remaining profit was distributed to reserves for own shares, and the subsidiary company's loss was covered from retained profit.

The statutory and other reserves for own shares include 14.462.223 Croatian Kuna (2009: 8.203.906 Croatian Kuna) of reserves for own shares which cannot be distributed to shareholders.

21. DEBENTURES WITH INTEREST CHARGE

The total debentures with interest charge for the year 2010 amounted to 1.321.712 Croatian Kuna of long-term debentures and 496.460 Croatian Kuna for short-term debentures and included finance lease liabilities to the BKS Bank BKS leasing Croatia.

The debenture payment terms on 31 December 2010:

in HRK

	Total	**1 year of less**	**2 -5 years**	**More than 5 years**
Finance lease On 31 December 2010	1.818.172	496.460	1.321.712	-

22. TRADE AND OTHER LIABILITIES

in HRK

	31.12.2010	**31.12.2009**
Trade payables	46.712.690	42.082.080
Employee payables	3.787.261	3.610.097
Taxes and contributions	3.723.356	4.253.794
Advance payments	1.035.779	6.898.538
Accrued costs	5.493.042	3.847.043
Other liabilities	3.001.964	2.230.517
TOTAL	**63.754.092**	**62.922.069**

Trade payables structure as per currency:

in HRK

	31.12.2010	**31.12.2009**
HRK	44.207.667	39.199.805
EUR	2.505.023	2.771.079
USD	-	111.196
Other currency	-	-
Total	**46.712.690**	**42.082.080**

23. RELATIONSHIP WITH RELATED ENTERPRISES

in HRK

Related enterprises and key shareholders	**2010**	**2009**
Sale to related enterprises		
Sale to associates	-	-
Sale to key shareholders	15.976.285	19.082.518
Purchase from related enterprises		
Purchase from associates	-	-
Purchase from key shareholders	-	-
Receivables from related enterprises		
Receivables from associates	-	844.736
Receivables from key shareholders	-	-
Liabilities to related enterprises		
Liabilities to associates	-	-
Liabilities to key shareholders	-	-

Transactions between related enterprises are realized under normal market conditions.

Key Management

The Management Board of the Mother Company is composed of the Chairman of the Board and two members of the Board.
The total compensation (gross) for the members of the Mother Company's Management Board for the year 2010 amounted to 2.060.447 Croatian Kuna.
The total compensation (gross) for the members of the Supervisory Board for the year 2010 amounted to 560.616 Croatian Kuna.
The Mother Company has not granted any loans to the members of the Supervisory Board or Mother Company's Management Board.

24. PROVISIONS

The provisions of the Mother Company amounted to 4.924.304 Croatian Kuna and include long-term provisions in the amount of 2.425.605 Croatian Kuna and short-term provisions in the amount of 2.498.699 Croatian Kuna.
The long-term provisions include provisions for opened legal proceedings in the amount of 2.425.605 Croatian Kuna.
The short-term liabilities in the amount of 2.498.699 Croatian Kuna include warranty repairs expiring in 2011.

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 December 2010 in the amount of 10.281.159 Croatian Kuna comprise of potential liabilities for disputed bankruptcy creditors' claims, securities and legal fees, as in accordance with the bankruptcy plan.

26. FINANCIAL INSTRUMENTS

The operations of the Mother Company bear various financial risks: market risk (including currency, interest rate and price risk), credit risk and liquidity risk. The Mother Company is exposed to currency, interest rate and credit risk while performing its regular business operations.
The policy of risk management related to the financial management is as follows:

Financial risk factors

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

Currency risk

All revenues from rendering services of the Mother Company on the foreign market is denominated generally in EUR (smaller amount in USD) as well as the payments. Revenues from rendering services in domestic market are denominated in Croatian kuna with EUR currency clause.
Approximately merely 5-10% of expenses are denominated in EUR. The currency risk also affects foreign exchange deposits which the Mother Company can have, if those deposits are dedicated and set at a longer period, i.e. as collateral to bank guarantees in favour of the client.
Therefore, changes in currencies between EUR and HRK, and USD and HRK have an effect on the operation result, however due to high turnover ratio of receivables and low levels of production in progress, the currency risk is not materially significant so for that reason the Mother Company does not perform active security for exposure to foreign currency operations.

Credit risk

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

Interest rate risk

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

Liquidity risk

Liquidity risk, also called financing risk, is a risk of coping with difficulties in procurement of funds for settlement of liabilities against financial instruments.
Short-term liabilities are completely covered by short-term assets.

Fair value

The Management's estimate on the fair value of financial assets and liabilities and accounting value as shown in the balance sheet are set forth below:

in HRK

	2010	
	Accounting value	Fair value
Financial assets available for sale	-	-
Investment in subsidiaries and associates	38.018	38.018
Receivables from customers and other receivables	64.154.673	64.154.673
Liabilities from debentures with interest charge	1.818.172	1.818.172
Other long-term liabilities	10.281.159	10.281.159
Trade and other payables	62.657.832	62.657.832

The fair value of the financial assets and liabilities is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Group makes an estimate of the fair value on the basis of the publicly disclosed information from external sources or on the basis of the discounted cash flow method if applicable.

It is considered that the value of the receivables/liabilities with less than one year to maturity corresponds to the fair value. The other receivables/liabilities are discounted to determine the fair value.

Equity management

The main goal of the equity management is to ensure support to business and maximize shareholder value. The Group adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust the equity structure, the Group may re-adjust dividends payouts or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years 2009 and 2010.

27. POTENTIAL LIABILITIES

Potential liabilities and court disputes

As of 31 December 2010, the Mother Company was involved in several disputes which have arisen from its business and a few disputes over indemnity obligations deriving from employment relationships. The Mother Company already made provisions in its books for such claims in case of unfavourable outcomes.

28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Recognition of revenues

Revenue is recognized when the goods have been delivered or services have been rendered, or when the risks and rewards of ownership of goods have been substantively transferred to the customer. The estimate of the expected return of goods and other discounts is deducted from the revenues from sales and is recorded as included liabilities or provisions. Such estimates were made on the basis of the analysis of the existing contractual or legal obligations, historical trends and experience of the Group.

Profit tax

The profit tax was calculated on the basis of the interpretation of rules and laws in force.

Decrease in value of receivables

Estimate of an 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 started), receivable maturity, stage of the legal process or payment security instruments such as promissory note.

Provisions for potential liabilities

The Group recognizes provisions which result from court disputes in which the Group is defendant most likely to have unfavourable outcomes and where the outflows may be reliably estimated. In estimating such provisions, the Group regularly consults with legal professionals.

29. EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

30. INFORMATION ON KEY ASSUMPTIONS REGARDING FUTURE BUSINESS OPERATIONS AND EVALUATION OF UNCERTAINTY AS AT BALANCE SHEET DATE

There are no significant information nor uncertainty which might influence the Group's business.

31. COURT DISPUTES

On the day of 31 December 2010 the Mother Company participated in 38 disputes, worth about 5,200,000 Croatian Kuna in principal, as defendant and 7 disputes, worth about 7,700,000 Croatian Kuna in principal, as distrainee.

32. MORTGAGE

The Group is free of any mortgage or other burden.

33. CASH FLOW STATEMENT

The Cash Flow Statement 2010 was made by use of the indirect method.

34. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been prepared and approved by the Management Board of the Company on 15 April 2010.

BRODOGRADILIŠTE VIKTOR LENAC d.d. RIJEKA, Martinšćica bb

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board