

**VIKTOR LENAC SHIPYARD GROUP**

**Consolidated Annual Financial Statements and Audit Report for 2015**

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# LENAC

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## STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENT

We acknowledge our responsibility for the preparation and presentation of the consolidated financial statements for the year 2015 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 and the results of operations of the Shipyard Viktor Lenac d.d. and its subsidiary (Group) for the year.

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 applicable financial reporting standards, 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.

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.

### SHIPYARD VIKTOR LENAC D.D.

Martinšćica bb  
51000 Rijeka

Rijeka, 15 April 2016



  
Robert Škifić, President of the Board

  
Sandra Uzelac, Member of the Board

Društvo je upisano u sudski registar Trgovačkog suda u Rijeci pod brojem Tt-08/927-2, MBS: 040000358. Temeljni kapital društva uplaćen je u cijelosti i iznosi 168.132.470,00 kuna, podijeljen na 16.813.247 dionica, pojedinačne nominalne vrijednosti 10,00 kuna. Predsjednik Uprave: Robert Škifić. Član Uprave: Sandra Uzelac. Predsjednik Nadzornog odbora: John Karavanić. OIB: 27531244647 · IBAN: HR7024880011100112844, BKS Bank d.d. Rijeka

Incorporated in the Register of Commercial Court in Rijeka under the number Tt-08/927-2. Registration Number: 040000358. The Company's share capital amounts to HRK 168,132,470.00 divided into 16,813,247 shares, each having a nominal value of HRK 10.00. President of the Management Board: Robert Škifić. Member of the Board: Sandra Uzelac. President of the Supervisory Board: John Karavanić. EORI number: HR27531244647 · VAT number: HR27531244647 · IBAN: HR7024880011100112844, BKS Bank d.d. Rijeka



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

### **Consolidated Financial Statements**

*We have audited the accompanying consolidated financial statements of the Shipyard Viktor Lenac Group, which comprise of the consolidated Balance Sheet as at December 31, 2015, consolidated Profit and Loss Account for the year 2015, including 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 integral part of this auditor's report.*

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

*The Mother Company's Management is responsible for the preparation and a true 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 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 consolidated financial statements are free from material misstatement.*

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

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

*We have also read the Annual Report of the Shipyard Viktor Lenac d.d. for 2015 to express an opinion on the compliance of the annual report with the enclosed financial statements for 2015.*



### **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 value adjustment 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 SHIPYARD VIKTOR LENAC GROUP which were the subject of our audit, exclusive of the effects from the item 1 (Qualifications) which could affect the financial statements, present fairly, in all material respects, the financial position of the Group as at December 31, 2015, financial performance and cash flows for the year 2015 in accordance with the International Financial Reporting Standards as applied in the European Union.

### **Other legal requirements**

### **Opinion on compliance of Annual Report with financial statements**

According to the provisions of Article 17 of the Accounting Act, the Management is obliged to draw up an annual report. Our responsibility is, based on our audit, to express an opinion on whether the annual report complies with the financial statements. We have implemented procedures of International Standards on Auditing solely in order to assess whether the information published in the Annual Report and financial statements match to each other, in all material respects. The audit did not include any data or information other than financial information derived from the financial statements and accounting records. We are convinced that the audit we performed gives a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual report coincide, in all material respects, with the aforementioned financial statements as of 31.12.2015.

In Rijeka, 15 April 2016

"Inženjerski biro-revizija" d.o.o.  
Poljana Plankit 1, Zadar

Certified auditor:

Irena Dobrović



Authorised representative and certified auditor:

Branimir Grčić



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

# CONSOLIDATED BALANCE SHEET

(As at 31 December 2015)

				in HRK	
Description		Notes	2014 I-XII	2015 I-XII	15/14 +/-%
1	2	3	4	5	6=5/4%
	<b>Assets</b>				
<b>A.</b>	<b>Fixed assets</b>	14,15,16	<b>282.498.155</b>	<b>267.254.869</b>	<b>95</b>
I	Intangible assets	14	8.326.355	5.142.626	62
II	Buildings, plants and equipment	14	266.161.993	252.795.438	95
III	Participating interests	15	228.916	676.015	295
IV	Financial assets	16	7.721.891	8.575.790	111
V	Deferred tax assets		59.000	65.000	-
<b>B.</b>	<b>Short-term assets</b>		<b>133.317.138</b>	<b>131.325.837</b>	<b>99</b>
I	Inventories	17	23.881.429	27.615.285	116
II	Financial assets	16	9.123.695	377.640	4
III	Trade and other receivables	18	90.055.768	62.724.036	70
IV	Money in bank and cash in register	19	10.256.246	40.608.876	-
<b>C.</b>	<b>Total assets</b>		<b>415.815.293</b>	<b>398.580.706</b>	<b>96</b>
<b>D.</b>	<b>Off balance sheet items, equity and liabilities</b>		-	-	-
<b>A.</b>	<b>Equity and reserves</b>	20	<b>196.326.410</b>	<b>222.506.741</b>	<b>113</b>
I	Share capital	20	168.132.470	168.132.470	100
II	Capital reserves		-	-	-
III	Reserves		25.315.909	25.832.230	102
IV	Retained profit/loss	20	2.878.031	28.542.041	-
<b>B.</b>	<b>Minority interest</b>		-	-	-
<b>C.</b>	<b>Long-term liabilities</b>		<b>76.098.119</b>	<b>77.349.739</b>	<b>102</b>
I	Debentures with interest charge	21	70.833.682	61.712.913	87
III	Provisions	24	1.082.197	914.484	85
IV	Deferred tax liability		8.460	23.891	-
V	Other long-term liabilities	25	4.173.780	14.698.451	-
<b>D.</b>	<b>Short-term liabilities</b>		<b>143.390.764</b>	<b>98.724.226</b>	<b>69</b>
I	Debentures with interest charge	21	27.900.850	13.916.246	50
II	Profit tax liability	22	13.090	1.320.955	-
III	Trade and other payables	22	115.476.824	80.461.390	70
IV	Financial liabilities		-	-	-
VI	Provisions	24	-	3.025.635	-
<b>E.</b>	<b>Total liabilities</b>		<b>219.488.883</b>	<b>176.073.965</b>	<b>80</b>
<b>F.</b>	<b>Total equity and liabilities</b>		<b>415.815.293</b>	<b>398.580.706</b>	<b>96</b>

# CONSOLIDATED PROFIT AND LOSS ACCOUNT INCLUDING COMPREHENSIVE INCOME

(As at 31 December 2015)

				in HRK	
Description	Notes	2014	2015	15/14	
		I-XII	I-XII	+/-%	
1	2	3	4	5	6=5/4
<b>1. Operating Revenues</b>		<b>363.854.858</b>	<b>527.764.204</b>		145
1.1. Revenues from sales	3	353.985.381	521.374.644		147
1.2. Other operating revenues	4	9.869.477	6.389.560		65
<b>2. Operating Expenses</b>		<b>359.394.949</b>	<b>496.149.058</b>		138
2.1. Changes in inventories value of unfinished production		(3.376.577)	(10.235.775)		-
2.2. Material expenses	5	261.665.280	359.257.602		137
2.3. Employee expenses	6	64.472.483	74.412.481		115
2.4. Depreciation	7	19.839.211	23.590.563		119
2.5. Value adjustment	8	1.017.096	26.485.715		-
2.6. Provisions	9	60.000	3.424.135		-
2.7. Other expenses	10	14.671.898	13.938.748		95
2.8. Other operating expenses	10	1.045.558	5.275.589		-
<b>3. EBIT</b>		<b>4.459.909</b>	<b>31.615.146</b>		-
<b>4. Net financial (expenses/revenues)</b>		<b>(3.949.794)</b>	<b>(4.136.919)</b>		105
4.1. Financial revenues	11	832.098	338.603		41
4.2. Financial expenses	11	4.781.892	4.475.522		94
<b>5. Profit/(loss) from operating activities before tax</b>		<b>510.115</b>	<b>27.478.227</b>		-
<b>6. Profit tax</b>	12	<b>13.090</b>	<b>1.335.619</b>		-
<b>7. Profit /(loss) for the year</b>	13	<b>497.025</b>	<b>26.142.608</b>		-
Earnings per share (HRK)		0,03	1,64		-
<b>8. Net profit/loss for the year</b>		<b>497.025</b>	<b>26.142.608</b>		-
Profit/(loss) after revaluation of financial assets available for sale		(19.444)	47.154		-
8.1. sale					-
8.2. Deferred tax assets		3.889	(9.431)		-
<b>9. Comprehensive income/(loss) for the year</b>		<b>481.470</b>	<b>26.180.331</b>		-

BRODOGRADIŠTE VIKTOR  
 **LENAC**  
RIJEKA, Martinšćica bb

Robert Škifić, President of the Board

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Sandra Uzelac, Member of the Board



**LENAC****CONSOLIDATED CASH FLOW STATEMENT**

(As at 31 December 2015)

				in HRK	
	Description	Notes	2014 I-XII	2015 I-XII	15/14 +/- %
1	2	3	4	5	6=5/4%
<b>I</b>	<b>Cash flow from operating activities</b>				
1.	Profit/loss before taxation		510.115	27.478.227	-
	<b>Adjustment for:</b>				
2.	Profit tax		(13.090)	(1.335.619)	-
3.	Depreciation of buildings, plants and equipment		19.839.211	23.590.563	119
4.	Expenses/revenues from interests (net)		4.382.290	3.951.381	90
5.	Decrease in value of trade receivables		1.017.096	26.485.715	-
6.	Decrease in value of tangible assets			984.829	
7.	Loss from sale of tangible assets			2.956.108	
8.	Loss from written-off tangible and intangible assets			1.706.771	
	<b>Profit from operating activities before changes in working capital</b>		<b>25.735.622</b>	<b>85.817.975</b>	-
9.	Increase/decrease of inventories		(4.883.623)	(3.733.856)	76
10.	Increase/decrease of short-term receivables		(44.210.796)	677.762	-
11.	Investment in financial assets		(6.452.297)	7.922.155	-
12.	Increase/decrease of liabilities		49.207.165	(23.004.964)	-
13.	Profit tax paid		(25.644)	(14.663)	-
14.	Interest paid		(4.347.147)	(4.099.221)	94
15.	Interest received		337.363	168.255	50
16.	Other		(1.930.983)	2.842.494	-
	<b>Cash flow from operating activities</b>	<b>33</b>	<b>13.429.660</b>	<b>66.575.937</b>	-
<b>II</b>	<b>Investing activities</b>				
1.	Acquisition of buildings, plants, equipment and intangible assets		(28.975.175)	(13.175.035)	45
2.	Income from sale of long-term assets		53.488	487.046	-
3.	Granted loans		(800.000)	(470.000)	59
4.	Inflows of loans		682.360	440.000	64
5.	Other outflows from investing activities		98.307	(399.045)	-
	<b>Cash flow from investing activities</b>	<b>33</b>	<b>(28.941.020)</b>	<b>(13.117.934)</b>	45
<b>III</b>	<b>Financial activities</b>				
1.	Inflows from equity and debt securities		-	-	-
2.	Inflows from debentures with interest charge		36.392.315	19.270.205	-
3.	Repayment of debentures with interest charge		(25.411.997)	(42.375.578)	-
4.	Acquisition cost of own shares		-	-	-
<b>IV</b>	<b>Cash flow from financial activities</b>	<b>33</b>	<b>10.980.318</b>	<b>(23.105.373)</b>	-
	Total increase/decrease of cash flow (i+ii+iii)		(4.531.042)	30.352.630	-
V	Cash and cash equivalents at the beginning of the period		14.787.288	10.256.246	69
<b>VI</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>19</b>	<b>10.256.246</b>	<b>40.608.876</b>	396



BRODOGRADILIŠTE VIKTOR  
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Robert Škifić, President of the Board

Sandra Uzelac, Member of the Board



## CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

in HRK

Description	Notes	31.12.2014	Increase I-XII/2015	Decrease I-XII/2015	31.12.2015
1	2	3	4	5	6
Subscribed capital	20	168.132.470	-	-	168.132.470
Capital reserves	20	33.573.844	478.598	-	34.052.441
Revalorisation reserves	20	(202.163)	37.723	-	(164.440)
Retained profit or transferred loss	20	2.381.007	18.427	-	2.399.434
Profit or loss for the year	20	497.024	26.142.608	497.024	26.142.608
Acquisition of own shares	20	(8.055.772)	0	-	(8.055.772)
<b>Total equity and reserves</b>	<b>20</b>	<b>196.326.410</b>	<b>26.677.356</b>	<b>497.024</b>	<b>222.506.741</b>


 BRODOGRADILIŠTE VIKTOR  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(making an integral part of the financial statements)

### 1. GENERAL INFORMATION

The joint-stock company SHIPYARD VIKTOR LENAC, headquartered in Rijeka, Croatia at Martinšćica bb, (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.

The share capital of the Mother Company amounts to 168,132,470 Croatian Kuna and is divided in:

- 15.988.060 non-materialized ordinary shares in name, each having a nominal value of 10 Croatian Kuna
- 825.187 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 registration 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 2015 the Group employed 509 employees.

The joint-stock company SHIPYARD VIKTOR LENAC holds a 100% of equity interest in a limited liability company VIKTOR – SERVISI, headquartered in Rijeka, Croatia at Martinšćica bb, registered under the company's registration number 40040360. The consolidated financial statements includes the subsidiary of the Mother Company.

According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb, the subsidiary has been classified under the subclass number 2811 – production of engines and turbines except for engines intended for aircrafts and motor vehicles, having its registration number 03767248 and identification number 06081251984.

The main activity of the subsidiary Viktor - Servisi Ltd. is repair and maintenance of machinery and equipment.

The share capital of the subsidiary is 684,800 Croatian Kuna.

On 31 December 2015, the subsidiary had 16 employees.

The subsidiary Viktor - Servisi Ltd. Rijeka owns a minority stake in another company that is not included in the consolidation.

On 31.12.2015 the Supervisory Board of the Viktor Lenac Shipyard consisted of five members: Mr. John Karavanić as Chairman of the Supervisory Board, Mr. Elvis Pahljina as Vice-Chairman of the Supervisory Board, Messrs. Hrvoje Markulinčić and Mate Valčić as members of the Supervisory Board, and workers' representative Mr. Božo Balen, as the fifth member of the Supervisory Board.

On the day of 31 December 2015, the members of the Viktor Lenac's Management Board were: Mr. Robert Škifić, President of the Board and Mrs. Sandra Uzelac, member of the Board, appointed for the new term of office of five years beginning on 8 April 2013.

The Mother Company had the following ownership structure as at 31 December 2015:

Ord No	Shareholder	Number of shares	%
1	TANKERSKA PLOVIDBA j.s.c. Zadar (1/1)	6.212.738	36,95
2	ULJANIK SHIPYARD j.s.c. Pula (1/1)	5.829.785	34,67
3	PRIVREDNA BANK j.s.c. Zagreb/COLLECTIVE CUSTODY ACCOUNT	1.367.268	8,13
4	SHIPYARD VIKTOR LENAC j.s.c. (1/1)	825.187	4,91
5	CROATIAN RESTRUCTURING AND SALE CENTRE (CERP) (0/1) / REPUBLIC OF CROATIA (1/1)	641.874	3,82
6	JADROAGENT j.s.c. (1/1)	324.766	1,93
7	R.L.E., Ltd. (1/1)	105.211	0,63
8	WEISS BRANKA MARIA (1/1)	77.308	0,46
9	PRESWICK MARINA (1/1)	54.329	0,32
10	Others	1.374.781	8,18
	<b>Total:</b>	<b>16.813.247</b>	<b>100,00</b>

On the day of 15 April 2016, the Management Board of the Mother Company approved the Consolidated Financial Statements for their submitting to the Supervisory Board.

## 2. BASIS OF CONSOLIDATION, STATEMENT OF COMPLIANCE AND BASICS OF REPORTING 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 Group's 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 2015 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 financial statements of the Group 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 31<sup>st</sup> December 2015 as follows:

1 EUR = 7,635047 HRK	(31.12.2014: 1 EUR = 7,661471 HRK)
1 USD = 6,991801 HRK	(31.12.2014: 1 USD = 6,302107 HRK)
1 NOK = 0,800194 HRK	(31.12.2014: 1 NOK = 0,849133 HRK)
1 GBP = 10,361035 HRK	(31.12.2014: 1 GBP = 9,784765 HRK)



## 2.1. Standards, amendments and interpretations that have been in force for the current period

For the year that ended on 31st December 2015, the Group adopted International Financial Reporting Standards and their modifications as listed below. The application of modified IFRSs has enabled data comparison.

The following standards, modifications and amendments to the existing standards and interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union have been in force in the current period:

- Modifications and amendments to a number of standards entitled "Improvements to IFRSs from the series 2011 to 2013" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 18 December 2014 (applicable to annual periods beginning on or after January 1, 2015);
- interpretation of IFRIC 21 "Levies", adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after June 17, 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in accounting policies of the Group.

## 2.2. Standards and interpretations issued by the IASB and adopted by the EU, that have not yet come into force

At the date of approval of the financial statements were published but not in force the following amendments to the existing standards issued by IASB and adopted by the European Union:

- Amendments to IFRS 11 "Joint Arrangements" - "Accounting to acquisition of interests in joint operations", adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - "Disclosure Initiative", adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible assets" - "Clarification of acceptable methods of depreciation of tangible and intangible assets", adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - "Agriculture: fruitful plants", adopted by the European Union on 23 November 2015 (effective for annual periods beginning on or after January 1, 2016.),
- Amendments to IAS 19 "Employee Benefits" - "Defined contribution plans: contributions paid by employees", adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after February 1, 2015),
- Amendments to IAS 27 "Separate Financial Statements" - "Equity method in separate financial statements", adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to various standards entitled "Improvements to IFRSs from the series 2010 to 2012" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 ), primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 17 December 2014 (applicable to annual periods beginning on or after February 1, 2015),



- Amendments to various standards entitled "Improvements to IFRSs from the series 2012 to 2014" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after January 1, 2016).

### **2.3. New standards and amendments to existing standards issued by the IASB and not yet adopted by the EU**

IFRSs currently approved in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB abbreviated), except for the following standards, amendments to standards and interpretations adoption of which has not yet been decided by the European Union as until 29 January 2016 (effective dates listed below refer to IFRSs as a whole):

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018),
- IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after January 1, 2016),
- IFRS 15 "Revenues from contracts with customers" (effective for annual periods beginning on or after January 1, 2017),
- amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Interests in associates and joint ventures" –sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after January 1, 2016),
- amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in other entities" and IAS 28 "Interests in associates and joint ventures" - "Investment entities: application of the exemption from consolidation" (effective for annual periods beginning on or after January 1, 2016),
- amendments to IFRS 11 "Joint Arrangements" - "Accounting to acquisition of interests in joint operations " (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 1 "Presentation of Financial Statements" - " Disclosure Initiative " (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - an explanation of acceptable methods of depreciation of tangible and intangible assets (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - "Agriculture: fruitful plants" (effective for annual periods beginning on or after January 1, 2016)
- amendments to IAS 27 "Separate Financial Statements" - "Equity method in separate financial statements" (effective for annual periods beginning on or after January 1, 2016).
- amendments to various standards entitled "Improvements to IFRSs from the series 2012 to 2014" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (applicable to annual periods beginning on or after January 1, 2016).

### **2.4. New standards and amendments to existing standards issued by the IASB and not yet adopted by the EU**

IFRSs currently approved by the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB abbreviated), except for the following standards, amendments to

standards and interpretations adoption of which has not yet been decided by the European Union as until 29 January 2016 (effective dates listed below refer to IFRSs as a whole):

- The entity anticipates that their adoption will have no material impact on its financial statements in the period of initial application.
- At the same time, hedge accounting for financial assets and financial liabilities whose principles have not yet been adopted by the European Union, remains unregulated.
- According to estimates of the entity, the application of hedge accounting for financial assets and financial liabilities in IAS 39 "Financial Instruments: Recognition and Measurement" with the balance sheet date would not significantly affect the financial statements.

The Group anticipates that all of the above-mentioned standards and interpretations will be applied in the financial statements for the period when they are in force, and that their adoption will not have a significant impact on the financial statements in the period of initial application.

#### **Key assumptions and estimates and uncertainty in preparing financial statements**

In preparing consolidated financial statements, the Management Board used estimates, judgements and assumptions which have influence to accounting value of assets and liabilities, disclosure 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, and court disputes. 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 consolidated financial statements. The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements used in preparing 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 2015 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:

- 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 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:

- 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 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 5-25% 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 produced 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 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.

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 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) 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.

#### **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 expenses and deferred income

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 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. REVENUES FROM SALES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Revenues from rendered services on domestic market	35.783.072	7.325.482
Revenues from rendered services on foreign market	318.202.309	514.049.162
<b>Total</b>	<b>353.985.381</b>	<b>521.374.644</b>



Structure of revenues from sales:

	<i>in HRK</i>		
	Domestic market	Foreign market	Total
Shiprepair	6.333.111	236.291.225	242.624.366
Offshore	334.404	-	334.404
Conversions	-	274.066.850	274.066.850
Other	657.967	3.691.087	4.349.054
<b>Total</b>	<b>7.325.482</b>	<b>514.049.162</b>	<b>521.374.644</b>

#### 4. OTHER REVENUES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Revenues from sale of material	4.132.367	3.620.462
Rentals	901.788	965.229
Revenues from withdrawal of long-term reserves	668.885	171.225
Collection of damage claims from insurance	2.759.567	862.083
Other revenues	1.406.870	770.561
<b>Total</b>	<b>9.869.477</b>	<b>6.389.560</b>

The revenues from collection of damage claims refer to insurance cover. Other revenues in the amount of 770.561 Croatian Kuna refer to subsequently established revenues from the previous years, inventory surplus, written-off liabilities and similar.

#### 5. MATERIAL EXPENSES AND EXPENSES OF PRODUCTS SOLD

	<i>in HRK</i>	
	31.12.2014	31.12.2015
<b>Raw and other material</b>		
Consumed raw and other material	91.886.673	89.888.592
Consumed energy	12.651.491	16.862.760
Small inventory and spare parts	1.177.398	512.777
<b>Total raw and other material</b>	<b>105.715.562</b>	<b>107.264.129</b>
<b>Other external expenses</b>		
Transportation, phone, post and similar services	604.199	621.006
Services in manufacture of product	91.337.817	125.821.859
Subsupplier services	45.840.392	94.290.518
Maintenance services	9.446.435	21.600.538
Rental expenses	4.133.803	4.375.832
Intellectual services	1.395.692	1.858.346
Other services	3.191.380	3.425.373
<b>Total other external expenses</b>	<b>155.949.718</b>	<b>251.993.472</b>
<b>Total material expenses</b>	<b>261.665.280</b>	<b>359.257.602</b>

## 6. EMPLOYEE EXPENSES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Net salaries and wages	34.978.381	40.761.132
Social security contributions and taxes paid by employer	14.833.412	17.423.662
Social security contributions and taxes paid by employee	9.117.432	10.863.347
Severance pay	120.000	120.000
Compensations for travelling costs, daily allowances, annual bonuses	5.423.258	5.244.340
<b>Total</b>	<b>64.472.483</b>	<b>74.412.481</b>

In 2015 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

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Buildings, facilities and equipment	19.839.211	23.590.563
<b>Total</b>	<b>19.839.211</b>	<b>23.590.563</b>

The 2015 depreciation rate was 67%.

## 8. VALUE ADJUSTMENT

The Mother Company performed revaluation of fixed assets in the amount of 984,829 Croatian Kuna, as well as the revaluation of accounts receivable in the amount of 25,304,365 Croatian Kuna, of which the largest amount related to the revaluation of receivables from an Italian client declared insolvent. An adjusting to the value of the subsidiary's accounts receivables was made in the amount of 196,520 Croatian Kuna.

## 9. PROVISIONS

The Mother Company made provisions for warranty works (768,849 HRK) and provisions for litigations started in 2015 (398.500 HRK). Due to a significant amount of unused vacation days and their transfer to 2016, the Group made provisions for unused vacation days in 2015 (2,256,786 HRK).

## 10. OTHER EXPENSES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Representation and gifts	978.996	1.467.641
Insurance premiums	5.992.803	5.555.785
Bank services	3.146.035	1.940.413
Tax and contribution not dependant on the result	2.130.686	2.715.208
Other expenses	2.423.378	2.259.701

**LENAC****Total****14.671.898****13.938.748**

A part of other expenses in the amount of 5,364,340 HRK referred to employee costs, relating to severance pay and travel expenses, daily allowances and prizes (Note No.6).

Other operating expenses in the amount of 5,275,589 HRK largely referred to unwritten-off value of the written-off and sold assets of the Mother Company (4,689,901 HRK), written-off items of the Group from the last year subsequently established (187,346 HRK), inventory shortages (13,342 HRK), and other operating expenses (385,000 HRK).

## 11. NET FINANCIAL (EXPENSES) / INCOME

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
<b>Financial income</b>		
Interests	399.602	336.557
Dividend revenue	1.860	2.046
Positive exchange rate differences	430.636	-
<b>Total financial income</b>	<b>832.098</b>	<b>338.603</b>
<b>Financial expenses</b>		
Interests	4.781.892	4.287.938
Negative exchange rate differences	-	187.584
<b>Total financial expenses</b>	<b>4.781.892</b>	<b>4.475.522</b>
<b>Net financial (expenses) / income</b>	<b>(3.949.794)</b>	<b>(4.136.919)</b>

## 12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2015 the Group produced a profit in the amount of 27.478.227 HRK. The profit tax amounted to 1.335.619 HRK resulting in a profit after tax in the amount of 26.142.608 HRK.

## 13. EARNINGS PER SHARE

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Net profit	497.025	26.142.608
Shares exclusive of own shares	15.988.060	15.988.060
<b>Earning /(loss) per share</b>	<b>0,03</b>	<b>1,64</b>



#### 14. FIXED TANGIBLE AND INTANGIBLE ASSETS

Description	Land	Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investments in progress	Advances for tangible assets	Total tangible assets	Intangible assets	Investments in progress	Total
<b>Acquisition value</b>										
<b>Balance 1 Jan 2015</b>	<b>12.504.214</b>	<b>68.570.426</b>	<b>548.217.028</b>	<b>77.767.455</b>	<b>34.245.406</b>	<b>450.464</b>	<b>741.754.993</b>	<b>12.523.377</b>	<b>2.187.001</b>	<b>756.465.371</b>
Transfer from investments in progress and advances	-	1.434.051	33.525.882	1.361.733	(36.464.822)	(1.103.029)	<b>(1.246.185)</b>	2.320.452	(2.320.452)	<b>(1.246.185)</b>
Acquisition during the year	-	-	-	-	13.492.049	652.565	<b>14.144.614</b>	-	133.451	<b>14.278.065</b>
Sold and written-off assets during the year	-	-	(1.903.125)	(5.991.025)	(3.300.000)	-	<b>(11.194.150)</b>	(3.989.182)	-	<b>(15.183.332)</b>
Decrease in value after evaluation		(984.829)					<b>(984.829)</b>			<b>(984.829)</b>
<b>Balance 31 Dec 2015</b>	<b>12.504.214</b>	<b>69.019.648</b>	<b>579.839.785</b>	<b>73.138.163</b>	<b>7.972.633</b>	<b>-</b>	<b>742.474.443</b>	<b>10.854.647</b>	<b>-</b>	<b>753.329.090</b>
<b>Value adjustment</b>										
<b>Balance 1 Jan 2015</b>	<b>6.958.527</b>	<b>65.259.090</b>	<b>333.066.886</b>	<b>70.308.498</b>	<b>-</b>	<b>-</b>	<b>475.593.001</b>	<b>6.384.023</b>	<b>-</b>	<b>481.977.024</b>
Depreciation during the year	-	117.191	19.247.070	2.504.794	-	-	<b>21.869.055</b>	1.721.508		<b>23.590.563</b>
Sold and written-off assets during the year	-	-	(1.844.466)	(5.938.585)	-	-	<b>(7.783.051)</b>	(2.393.510)	-	<b>(10.176.561)</b>
<b>Balance 31 Dec 2015</b>	<b>6.958.527</b>	<b>65.376.281</b>	<b>350.469.490</b>	<b>66.874.707</b>	<b>-</b>	<b>-</b>	<b>489.679.005</b>	<b>5.712.021</b>	<b>-</b>	<b>495.391.026</b>
<b>Book value 1 Jan 2015</b>	<b>5.545.687</b>	<b>3.311.336</b>	<b>215.150.142</b>	<b>7.458.957</b>	<b>34.245.406</b>	<b>450.464</b>	<b>266.161.992</b>	<b>6.139.354</b>	<b>2.187.001</b>	<b>274.488.347</b>
<b>Book value 31 Dec 2015</b>	<b>5.545.687</b>	<b>3.643.367</b>	<b>229.370.295</b>	<b>6.263.456</b>	<b>7.972.633</b>	<b>-</b>	<b>252.795.438</b>	<b>5.142.626</b>	<b>-</b>	<b>257.938.064</b>

## 15. INVESTMENT IN ASSOCIATES

The Mother Company owns 5,000 shares of Uljanik j.s.c. recorded at nominal value in the amount of 450,000 Croatian Kuna. On the day of 31.12.2015, the Mother Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares amounted to 125,000 Croatian Kuna.

In February 2015, the Mother Company purchased 6,153 shares of Tankerska next generation recorded at nominal value in the amount of 399,945 Croatian Kuna. On the day of 31.12.2015, the Mother Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares amounts to 461,475 Croatian Kuna.

Long-term financial assets of the subsidiary referred to its shares in the joint-stock company Valamar Riviera Poreč. The subsidiary owns 3,720 shares that are recorded at nominal value in the amount of 37,200 Croatian Kuna. On the day of 31.12.2015, the subsidiary performed value adjustment of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares amounted to 89,540 Croatian Kuna.

## 16. FINANCIAL ASSETS

Long-term financial assets in the amount of 8,575,790 HRK referred to a cash deposit of the Mother Company for long-term loan for financing development (8,398,551 HRK) and a security in the amount of 177,239 Croatian Kuna.

Short-term financial assets in the amount of 377,640 Croatian Kuna included loans granted by the Mother Company (317,640 Croatian Kuna) and loans granted by the subsidiary (60,000 Croatian Kuna).

## 17. INVENTORIES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Raw and other material	19.919.083	13.520.493
Raw and other material under transportation	103.329	-
Production in progress	3.859.017	14.094.792
Small inventory	7.620.155	7.837.668
Small inventory value adjustment	(7.620.155)	(7.837.668)
<b>Total</b>	<b>23.881.429</b>	<b>27.615.285</b>

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 in 2003 when the Mother Company evaluated the assets, including an aggregate estimate of inventories encashment which produced a book item for adjustment of value as per estimate. The Mother Company continued with its business and the stock was used in normal production activities. The Mother Company performed a value adjustment of the analytical structure of raw and other material on stock to the aggregate value adjusted. The remaining balance of the book value adjustment of inventories as per estimate represents an aggregate adjustment of inventories that has not yet been not recorded analytically.

## 18. TRADE AND OTHER RECEIVABLES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Receivables from customers – net	37.945.431	48.877.985
Receivables from employees	86.734	4.586
Receivables from state	11.323.595	12.763.668
Prepaid expenses and accrued income	31.048.776	389.955
Other receivables	9.651.232	687.842
<b>Total</b>	<b>90.055.768</b>	<b>62.724.036</b>

Age structure of matured receivables from customers:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
1-90 days	34.487.821	48.172.873
91-180 days	166.230	105.175
181-365 days	2.118.919	135.797
Over 365 days	1.172.460	464.140
<b>Total</b>	<b>37.945.431</b>	<b>48.877.985</b>

Structure of trade receivables by currency:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
HRK	5.406.818	1.635.039
EUR	32.538.613	19.055.007
USD	-	28.187.939
<b>Total</b>	<b>37.945.431</b>	<b>48.877.985</b>

## 19. CASH AND CASH EQUIVALENTS

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2015</b>
Money in bank	6.391.214	36.673.659
Cash in register	9.803	7.876
Time deposits	3.855.229	3.927.341
<b>Total</b>	<b>10.256.246</b>	<b>40.608.876</b>



## 20. EQUITY AND RESERVES

- (i) On the day of 31 December 2015 the issued share capital, fully paid, amounted to 168,132,470 Croatian Kuna and was divided in 16.813.247 ordinary shares each having a nominal value of 10 Croatian Kuna.

The owners of ordinary shares of the Mother Company are entitled to dividends and one vote per share. The Mother Company did not pay out dividends for the years 2008-2014.

- (ii) On the day of 31 December 2015 the Mother Company owned 825.187 own shares (31 December 2014: 825.187), making 4.91% of the share capital.

- (iii) On the day of 31 December 2015 the statutory reserves within the frame of the statutory and other reserves, amounted to 7.170.741 Croatian Kuna (2014: 7.146.811 Croatian Kuna). 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.

In accordance with the Company's General Assembly's decision, the profit generated in 2014 in the amount of 478.598 Croatian Kuna was allocated in the following way: 23.930 Croatian Kuna was allocated to the statutory reserve fund, and 454.668 Croatian Kuna to the general reserve fund. The 2014 profit of the subsidiary in the amount of 18,427 Croatian Kuna was allocated to retained earnings.

The statutory reserves and reserves for own shares in the amount of 19.710.741 Croatian Kuna (2014: 19.686.811 Croatian Kuna) cannot be allocated to the shareholders.

## 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 2015:

31.12.2015	Total	1 year or less	2-5 years	in HRK
				More than 5 years
Financial lease	3.535.322	833.617	2.701.705	-
Long-term loan for financing development	67.753.618	8.742.410	43.712.013	15.299.195
Short-term loan	4.340.219	4.340.219	-	-
<b>Total</b>	<b>75.629.159</b>	<b>13.916.246</b>	<b>46.413.718</b>	<b>15.299.195</b>

The long-term debentures in the amount of 61.712.913 Croatian Kuna included finance lease liabilities of the Mother Company to the BKS Bank BKS leasing Croatia in the amount of 2.701.705 Croatian Kuna and the long-term loan for financing investment in the amount of 59.011.208 Croatian Kuna.

The short-term debt in the amount of 13,916,246 Croatian Kuna included liabilities of the Mother Company for the short-term loan for working capital, current portion of long-term loans to finance development, and the current portions of financial leasing liabilities to the BKS Leasing Croatia and Croatian Telecom.

## 22. TRADE AND OTHER LIABILITIES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Trade payables	104.151.839	58.092.667
Employee payables	4.063.370	4.911.506
Tax and contribution	2.918.115	5.311.002
Profit tax liability for the year	13.090	1.335.619
Received advances	1.126.726	5.345.023
Other liabilities	1.025.248	2.134.779
Accrued expenses and deferred income	2.191.526	4.651.749
<b>Total</b>	<b>115.489.914</b>	<b>81.782.345</b>

Other liabilities included current portions of liabilities of the Mother Company to HEP ESCO Ltd. for the project of extensive renovation of external, internal, and temporary lighting in the amount of 1,168,520 Croatian Kuna.

Structure of trade payables by currency:

	<i>in HRK</i>	
	31.12.2014	31.12.2015
HRK	92.648.630	54.280.055
EUR	6.702.828	3.652.953
GBP	4.797.372	-
NOK	3.009	7.301
Other currency	-	152.358
<b>Total</b>	<b>104.151.839</b>	<b>58.092.667</b>

## 23. RELATIONSHIP WITH RELATED ENTERPRISES

Related enterprises and key shareholders	2014	2015
<b>Sale to related enterprises</b>		
Sale to key shareholders	394.966	367.390
<b>Purchase from related enterprises</b>		
Purchase from related enterprises	2.832.308	6.532.034
<b>Receivables from related enterprises</b>		
Receivables from related enterprises	612.365	274.538
<b>Liabilities to related enterprises</b>		
Liabilities to related enterprises	859.808	815.629

Transactions between related enterprises are realized under normal market conditions.



### Key management

The Management Board of the Mother Company is composed of the President of the Board and one member of the Board.

The total compensation (gross) for the members of the Mother Company's Management Board and Top Management for the year 2015 amounted to 3.832.085 Croatian Kuna.

The total compensation (gross) for the members of the Supervisory Board and Audit Board for the year 2015 amounted to 593.949 Croatian Kuna.

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

## 24. PROVISIONS

Long-term provisions in the amount of 914,484 Croatian Kuna related to provisions for legal proceedings that have been started. Short-term provisions in the amount of 3,025,635 Croatian Kuna involved warranty repairs and provisions for unused vacation days for workers in 2015.

## 25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31.12.2015 in the amount of 14,698,451 Croatian Kuna involved obligations of the Mother Company to HEP ESCO Ltd. the project of extensive renovation of external, internal, and temporary lighting in the amount of 10,524,671 Croatian Kuna and contingent liabilities for disputed claims of creditors and related litigation costs in the amount of 4,173,780 Croatian Kuna, where litigation are not yet finalized.

## 26. FINANCIAL INSTRUMENTS

The operations of the Group bear various financial risks: market risk (including currency, interest rate and price risk), credit risk and liquidity risk. The 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 Group bear various financial risks including the effects of market price changes, changes of foreign exchange rates and interest rates. The Company does not use derivative financial instruments as an active security from exposure to financial risks.

### Currency risk

Most of the Mother Company's revenues from sale of services is generated on the international market, mainly in EUR, therefore EUR-HRK exchange rate movements can have an impact on operating results. However, because of a relatively rapid turnover of receivables, currency risk is not significant, and the Company does not conduct active hedging operations in foreign currencies. The Mother Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in local currency. In 2015, the Mother Company recorded an extremely high level of revenue stipulated in USD deriving from extensive repair works carried out on the ship "USS Mount Whitney". Concerning that since the beginning of the project, the US dollar advanced with respect to the euro and the local currency, the Mother Company did not use hedging instruments. Given the short duration of the



project, and payment dynamics, during the phases of slight fluctuations of the US dollar to the local currency, almost the same level of positive and negative exchange rate differences was achieved.

Depending on the assessment of future trends in USD and EUR currencies in relation to the local currency, the Company will use hedging instruments.

#### **Credit risk**

Potential credit risk may involve trade receivables. Trade receivables are stated net of bad debt. The objective of the Group is to do business with regular customers, whose credibility can be safely estimated given the long-standing cooperation. When there is a higher risk of payment, the Group seeks to arrange such payment terms that the works carried out are paid in full prior to redelivery of the vessel. One of the Mother Company's foreign customers initiated the process of insolvency, and the Mother Company has already accounted for impairment of value of that customer. There were no other significant concentrations of credit risk.

#### **Interest rate risk**

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

#### **Liquidity risk**

Intensified employment in the previous period and increased shiprepair operations favourably impacted on the liquidity, that was impaired as a result of higher loss of the Mother Company realized in 2012 and working capital investment in fixed assets. The Group did not have significant difficulty in meeting obligations associated with financial instruments. During 2015 were shortened payment terms to suppliers, and liabilities to the government, banks and employees were regularly settled without delay.

#### **Fair value**

The Group makes estimates of the fair value of financial assets and liabilities, and it has been established that the fair value does not differ from book value.

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.

#### **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. There were no changes in the goals, policies or processes during the years 2014 and 2015.

## **27. POTENTIAL LIABILITIES**

As of 31 December 2015, 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**

There were no significant information about the possible risk or uncertainty that might have a greater impact on the future operations of the Group.

## **31. COURT DISPUTES**

On 31 December 2015, the Mother Company participated in 31 disputes worth about 3,964,680 Croatian Kuna as the defendant, and 10 disputes having a capital value of approximately 3,524,600 Croatian Kuna as the plaintiff, all in Croatian court. In Panama court, following a litigation worth over 2.1 million USD of outstanding receivables for the restoration of the yacht Christina O., pursued by the Mother Company against its debtor, which ended in favour of the debtor under the statute of limitations, the debtor filed a lawsuit against the Mother Company for damages





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allegedly suffered because of the fore mentioned case in the amount of EUR 9,341,617, referring to the alleged intention of the Mother Company to inflict damage to the debtor by arresting the ship. In the first (lost) case, the

Mother Company was not denied its claim, but the case was lost because of the preponderance of opinion of two of the three judges of the Judicial Council of the Panamanian court that the claim was covered by the statute of limitations. Consequently, the Mother Company believes that the risk of losing the litigation in which the Mother Company is now found as a defendant is very small, since the alleged intention of the Mother Company to incur damage to the opposing party is almost impossible to prove.

### 32. MORTGAGE

The Mother Company has signed the pledge on tangible assets in favour of the Raiffeisenbank Austria bank Zagreb and the Croatian Bank for Reconstruction and Development (with the right of equal priority) in order to ensure the repayment of loans to finance development investment program, debt arising from lines of credit for short-term financing operations and the issuance of performance guarantees. Subscribed charges relate to mortgages on Dock 5, Dock 11 and Dock RI38, m/v Kostrena and m/v Pećine, a real-estate in Rijeka, land that in nature makes parking and forest in the cadastral municipality of Kostrena Lucija, and on the part of movable property. The obligations under the loan secured as specified on the date 31.12.2015 amounted to 72.093.837 Croatian Kuna.

### 33. CASH FLOW STATEMENT

The Cash Flow Statement 2015 was made by use of the indirect method.

### 34. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared and approved by the Management Board of the Company on 15 April 2016.

Robert Škifić, President of the Board

BRODOGRADILIŠTE VIKTOR  
**LENAC**  
RIJEKA, Martinšćica bb

Sandra Uzelac, Member of the Board

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