

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT FOR

2016



SHIPYARD

VIKTOR LENAC

Delivering Top Quality, In a Safe Way, On Time

April 2017

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STATEMENT ON RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the consolidated financial statements for the year 2016 in accordance with the International Financial Reporting Standards applied in the European Union and Croatian Law on Accounting to give a true and fair view of financial performance and financial results of the Shipyard "Viktor Lenac" JSC and its subsidiary company (Group) for the year.

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

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, unless it is inappropriate to assume that the Group shall continue running its business activities.

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

The financial statements have been approved as of 25 April 2017.



BRDOPROJEKTOVANJE
VIKTOR LENAC
1896
Brijuni, Martinšćica bb


Aljoša Pavelin, President of the Board


Sandra Uzelac, Member of the Board



Inženjerski biro-renizija d.o.o. Zadar

za reviziju: finansijskih izvještaja i pružanje usluga u području računovodstva,
posrednog uspjeha, finansijskih analiza i kontrola

21000 ZADAR, Poljana Plavki 1

Tel./Fax: 023/250-869

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

Auditor's Report on Consolidated Financial Statements

Opinion

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, 2016, Consolidated Profit and Loss Account for the year 2016, 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.

In our opinion, the accompanying Consolidated Financial Statements of the Shipyard Viktor Lenac Group, which were the subject of our audit, present fairly and truly the Group's financial results as at December 31, 2016, financial performance and cash flows for the year 2016 in accordance with the International Financial Reporting Standards and Croatian Law on Accounting.

Qualifications Influencing Auditor's Opinion

We conducted our audit in accordance with Croatian Law on Accounting, Audit Act and International Standards on Auditing. Our accountability to these standards is described in more detail in our Independent Auditor's Report on Auditor's Responsibilities for Audit of Consolidated Annual Financial Statements. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Issues

Key audit issues are those issues that were, by our professional judgment, of the utmost importance for our audit of the Consolidated Annual Financial Statements of the current period. We have dealt with these issues in the context of our audit of the Consolidated Annual Financial Statements as a whole and in our opinion about them. We, therefore, do not give a separate opinion on these issues.



Key Audit Issue

The value of property, plants and equipment as recorded in the balance sheet as at 31 December 2016 is HRK 270 million - see note 14.

During the year, the Group continued to undertake significant investments in the docks and the capitalized costs of the docks in 2016 amounted to HRK 24 million.

A significant amount of these costs requires consideration of the nature of the costs incurred to ensure that the recognition of costs as equipment meets the criteria for recognition set out in IAS 16 - Property, Plant and Equipment, and consideration of the estimated useful life of property, plant and equipment by the Group's Management Board.

Our Audit Procedures related to the Key Audit Issue

As the key audit issue involves own production and use of external services, we've reviewed a sample of income accounts recognized as newly acquired assets, we tested the cost of materials that were incorporated in the investment, and all other costs allocated to the investment to make sure that the costs from a selected sample meet the recognition criteria in accordance with IAS 16 - Property, Plant and Equipment, and whether they are consistent with the Group's accounting policies. Based on available evidence and conducted procedures, we believe that the costs are properly recognized and classified.

Other information in the Consolidated Annual Report

The Group's Management Board is responsible for other information. Other information includes information contained in the Annual Report, but does not include the Consolidated Annual Financial Statements and our Independent Auditor's Report.

Our opinion on the Consolidated Annual Financial Statements does not cover other information, except to the extent expressly stated in our Independent Auditor's Report under the title 'Report on other legal requirements', and we do not express any form of conclusion involving our beliefs about them.

Regarding our audit of the Consolidated Annual Financial Statements, it is our responsibility to read other information and, in doing so, to consider whether other information is significantly contradictory to the Consolidated Annual Financial Statements or our findings or as may appear otherwise to have been significantly misrepresented. If, based on the work we've done, we conclude that there is a significant misstatement of other information, we are required to report this fact. In that sense, we do not have anything to report.

Responsibilities of the Management Board and those responsible for managing for the Consolidated Annual Financial Statements

The Group's Management Board is responsible for preparation and a true and fair presentation of the consolidated annual financial statements in accordance with the International Financial Reporting Standards, and for internal control relevant for preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud.

In preparing the Consolidated Annual Financial Statements, the Group's Management Board is responsible for assessing the ability of the Group to continue to operate indefinitely, disclosing issues related thereto, where applicable, and using a basis of accounting based on the going concern concept, unless the Management Board intends to wind up the Group or terminate business or has no real alternative but to do so.



Those charged with management are responsible for supervising the financial reporting process established by the Group.

Auditor's Responsibilities for Audit of Consolidated Annual Financial Statements

It is our aim to assure ourselves that the consolidated annual financial statements are free from any significant misstatement due to fraud or error and to issue an independent auditor's report incorporating our opinion. A reasonable belief is a higher level of belief, but there is no guarantee that the audit carried out in accordance with IASs will always reveal a significant misstatement when it exists. Misstatements may arise due to fraud or error and are considered significant if it can reasonably be expected that, individually or in aggregate, will affect the economic decisions of the user made based on these consolidated annual financial statements.

We make professional judgments and sustain professional scepticism during the audit in accordance with IASs. Also:

- We recognize and assess the risk of misstatement arising from fraud or error, formulate and perform audit procedures in response to the risk and obtain evidence that is sufficient and appropriate to provide qualifications for our opinion. The risk of non-discovering a significant misstatement arising from fraud is higher than the risk of error because fraud may include secret agreements, counterfeiting, deliberately omitted information, misstatement or circumventing internal controls.
- We obtain an understanding of internal controls relevant to the audit to design audit procedures that are appropriate under the circumstances but not for expressing an opinion on the effectiveness of the Group's internal control.
- We assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures by the Group's Management Board.
- We make conclusion on the appropriateness of the basis of accounting used, deriving from the going concern concept implemented by the Group's Management Board. Based on the obtained evidence, we conclude whether there is significant uncertainty regarding events or circumstances that can create a significant suspicion of the Group's ability to continue to operate indefinitely. If we conclude that there is significant uncertainty, we are required to draw our attention in our independent auditor's report on related disclosures in annual financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on evidence obtained until the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to operate its business.
- We evaluate the overall presentation, structure and content of the annual financial statements, including disclosures, as well as whether the annual financial statements reflect transactions and events on which they are based to achieve fair presentation.

We communicate with those who are charged with management, among other issues, related to the planned scope and timing of the audit and important audit findings, including significant disadvantages in internal controls that were discovered during our audit.

We also give a statement to those charged with management that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the issues we are communicating with those charged with management, we determine those issues that are of utmost importance in revising the annual financial statements for the current period and are therefore key audit issues. We describe these issues in our independent auditor's report unless the law or regulation prevents public disclosure or when, in exceptionally rare circumstances, we decide that the issue should not be reported in our independent auditor's report as it can reasonably be expected that the adverse effects of disclosure will surpass the welfare of public interest.

Report on other legal requirements

1. In our opinion, based on our audit, information contained in the Group's Annual Report for 2016 has been aligned with the Group's Consolidated Annual Financial Statements for 2016.
2. In our opinion, based on our audit, the Consolidated Annual Report for 2016 was prepared in accordance with the Law on Accounting.
3. Based on the understanding of the Group's business and its environment within the scope of the audit, we have not found that there is any significant misstatement in the Annual Report for 2016.
4. In our opinion, based on our audit, the Statement on Implementation of the Corporate Governance Code included in the Group's Annual Report for 2016 is in accordance with the requirements set out in Article 22, Paragraph 1, Items 3 and 4 of the Law on Accounting.
5. Statement on Implementation of the Corporate Governance Code included in the Group's Annual Report for 2016 includes information referred to in Article 22, Paragraph 1, Items 2, 5 and 6 of the Law on Accounting.

Branimir Grgić has been engaged as a partner in the audit, the result of which is this Independent Auditor's Report.

In Rijeka, 25 April, 2017

Team manager:
Certified Auditor and Partner:

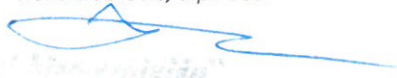
„Inženjerski biro-revizija“ d.o.o. Zadar
Poljana Plankit 1, Croatia

For and on behalf of „Inženjerski biro-revizija“ d.o.o.
Zadar

Certified Auditor and Managing Director:

Branimir Grgić, dipl.oec.

Irena Dobrović, dipl. oec.

BALANCE SHEET AS AT 31 DEC 2016

				HRK
	Description	Note	2015	2016
Assets				
A.	Fixed assets	14,15,16	267.254.869	287.134.391
I	Intangible Assets	14	5.142.626	7.420.109
II	Buildings, plants and equipment	14	252.795.438	270.293.720
III	Participating interests and investments in securities	15	676.015	845.605
IV	Financial assets	16	8.575.790	8.535.847
V	Deferred tax assets		65.000	39.110
B.	Short-term assets		131.325.837	136.331.845
I	Inventories	17	27.615.285	27.704.977
II	Financial assets	16	377.640	198.086
III	Trade and other receivables	18	62.724.036	97.626.801
IV	Money in bank and cash in register	19	40.608.876	10.801.981
V	Assets in markets		-	-
C.	Total Assets		398.580.706	423.466.236
D.	Off balance sheet items, equity and liabilities		-	-
A.	Equity and reserves	20	222.506.741	212.124.192
I	Share capital	20	168.132.470	168.132.470
II	Capital reserves		-	-
III	Reserves		25.832.230	40.119.423
IV	Retained profit/loss	20	28.542.041	3.872.299
B.	Minority interest		-	-
C.	Long-term liabilities		77.349.739	72.543.256
I	Debentures with interest charge	21	61.712.913	52.427.610
II	Provisions	24	914.484	754.774
III	Deferred tax liabilities		23.891	31.918
IV	Other long-term liabilities	25	14.698.451	19.328.954
D.	Short-term liabilities		98.724.226	138.798.788
I	Debentures with interest charge	21	13.916.246	46.537.384
II	Profit tax liability	22	1.320.955	29.657
III	Trade and other payables	22	80.461.390	91.169.948
IV	Financial liabilities		-	-
V	Provisions	24	3.025.635	1.061.799
E.	Total Liabilities		176.073.965	211.342.044
F.	Total Equity and Liabilities		398.580.706	423.466.236



BRODOGRADILIŠTE
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Plovidbena Rijeka, Martinšćica bb

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Sandra Uzelac, Member of the Board

CONSOLIDATED PROFIT AND LOSS ACCOUNT INCL. COMPREHENSIVE INCOME AS AT 31 DEC 2016

				HRK	
	Description	Note	2015	2016	
1.	OPERATING REVENUES		536.204.514	303.257.197	
1.1.	Revenues from sales	3	521.374.644	262.136.247	
1.2.	Other operating revenues	4	14.829.870	41.120.950	
2.	OPERATING EXPENSES		504.589.368	296.502.906	
2.1.	Changes in inventories value of unfinished production		(10.235.775)	7.676.652	
2.2.	Material expenses	5	367.115.362	183.074.283	
2.3.	Employee expenses	6	74.995.031	70.015.465	
2.4.	Depreciation	7	23.590.563	21.993.340	
2.5.	Value adjustment	8	26.128.998	319.648	
2.6.	Provisions	9	3.424.135	1.000.786	
2.7.	Other expenses	10	13.938.747	11.844.624	
2.8.	Other operating expenses	10	5.632.307	578.108	
3.	EBIT		31.615.146	6.754.291	
4.	NET FINANCIAL EXPENSES/REVENUES	11	(4.136.919)	(4.639.588)	
4.1.	Financial revenues	11	338.603	355.361	
4.2.	Financial expenses	11	4.475.522	4.994.949	
5.	PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX		27.478.227	2.114.703	
6.	PROFIT TAX	12	1.335.619	641.880	
7.	PROFIT/(LOSS) FOR THE YEAR	13	26.142.608	1.472.823	
	Earnings per share (HRK)		1,64	0,09	
8.	Net profit/loss for the year		26.142.608	1.472.823	
8.1.	Profit/(loss) after revaluation of financial assets in markets		47.154	169.589	
8.2.	Deferred tax assets		(9.431)	(33.918)	
9.	COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		26.180.331	1.608.494	



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CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DEC 2016

	Description	Note	2015	2016
I	CASH FLOW FROM OPERATING ACTIVITIES			
1	Profit/loss before taxation		27.478.227	2.114.702
	Adjustment for:			
2	Depreciation of buildings, plants and equipment		23.590.562	21.993.340
3	Gains and losses on sale and value adjustment to tangible and intangible assets		5.650.208	55.763
4	Gains and losses on sale, unrealized gains and losses and value adjustment to financial assets		25.497.807	65.570
5	Cash flow from interests and dividends		(321.195)	(303.986)
6	Outflows of interests		4.287.939	3.128.384
7	Provisions		3.252.911	(2.046.046)
8	Exchanges rate difference (unrealized)		986.381	669.834
9	Profit tax		(1.335.618)	(641.880)
10	Other adjustments for non-cash transactions and unrealized gains and losses		(62.635)	(3.159.657)
	Profit from operating activities before changes in working capital		89.024.587	21.876.025
11	Increase/decrease in inventories		(3.622.238)	3.205.639
12	Increase/decrease in short-term receivables		(30.094.980)	(19.140.185)
13	Increase/decrease in liabilities		(25.801.453)	11.204.372
14	Profit tax paid		0	(1.933.178)
15	Interest paid		(4.099.221)	(3.022.748)
16	Increase/decrease in accrued revenues/expenses		33.119.045	(16.479.248)
	CASH FLOW FROM OPERATING ACTIVITIES	33	58.525.741	(4.289.324)
II	Investing activities			
1	Acquisition of buildings, plants, equipment and intangible assets		(13.175.035)	(41.844.316)
2	Income from sale of long-term assets		487.046	19.450
3	Investment into financial assets		7.869.002	107.172
4	Cash flow from interests		168.254	228.342
5	Cash flow from dividends		2.046	24.304
6	Granted loans		(400.000)	(8.634)
7	Inflows of loans		370.000	188.188
8	Other outflows of investing activities		(399.945)	0
	CASH FLOW FROM INVESTING ACTIVITIES	33	(5.078.632)	(41.285.494)
III	FINANCIAL ACTIVITIES			
1	Inflows from debentures with interest charge		19.281.100	40.549.206
2	Repayment of debentures with interest charge		(42.375.578)	(12.790.239)
3	Dividend paid out		0	(11.991.045)
	CASH FLOW FROM FINANCIAL ACTIVITIES	33	(23.094.478)	15.767.922
IV	TOTAL INCREASE/DECREASE OF CASH FLOW (I+II+III)		30.352.630	(29.806.895)
V	CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		10.256.246	40.608.876
VI	CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	19	40.608.876	10.801.981



Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

	Share capital	Legal reserves	Reserve for own shares	Own shares	Other reserve	Fair value of financial instruments in markets	Retained earnings	Profit for the year	HRK Total
Status as at 1 Jan 2015	168.132.470	7.146.812	12.540.000	(8.055.772)	13.887.032	(202.163)	2.381.007	497.024	196.326.410
Profit/(Loss) for the year								26.142.608	26.142.608
Changes in reserves of the fair value of financial instruments in markets						37.723			37.723
Redirected into reserves per 2014 profit allocation		23.929			454.668		18.427	(497.024)	0
Status as at 31 Dec 2015	168.132.470	7.170.741	12.540.000	(8.055.772)	14.341.700	(164.440)	2.399.434	26.142.608	222.506.741
Profit/(Loss) for the current period								1.472.824	1.472.824
Changes in reserves of the fair value of financial instruments in markets						135.672			135.672
Cash dividend					(11.991.045)				(11.991.045)
Redirected into reserves per 2015 profit allocation		1.235.882			24.906.684		43	(26.142.609)	0
Status as at 31 Dec 2016	168.132.470	8.406.623	12.540.000	(8.055.772)	27.257.339	(28.768)	2.399.477	1.472.823	212.124.192



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(making an integral part of the financial statements)

1. GENERAL INFORMATION

The joint-stock company Brodogradilište 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 diverse services.

On the day of 31 December 2016, the Group employed 506 employees.

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

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 903,200 Croatian Kuna.

On 31 December 2016, the subsidiary had 18 employees.

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

On 31 December 2016, 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 Luka Kolanović, replacing Mate Valčić as of 14 September 2016, as members of the Supervisory Board, and workers' representative Mr. Božo Balen, as the fifth member of the Supervisory Board.

The Mother Company's Committee for Audit is composed of the following members: Mr. Elvis Pahljina, Mr. Genari Sutlović and Mrs. Ines Mirković, appointed by the Company's Supervisory Board.

On the day of 31 December 2016, the members of the Viktor Lenac's Management Board were: Mr. Aljoša Pavelin, President of the Board, appointed for a term of office of five years beginning on 1 May 2016, 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 2016:

Ord. No.	Shareholder	Number of shares	Shareholder's equity %
1	Tankerska plovdba JSC, Zadar	62.127.380	36,95
2	Shipyards Uljanik JSC, Pula	58.297.850	34,67
3	Privredna Bank JSC, Zagreb/Collective Custody Account	13.672.680	8,13
4	Shipyards Viktor Lenac JSC, Rijeka	8.251.870	4,91
5	Jadroagent JSC, Rijeka	3.247.660	1,93
6	Croatian Restructuring and Sale Centre	3.110.100	1,85
7	Erste & Steiermarkische Bank JSC, Rijeka/ Collective Custody	1.408.000	0,84
8	R.L.E. Ltd., Drniš	1.052.110	0,63
9	Weiss Branka Maria	773.080	0,46
10	Other	459.920	0,27
	Total:	15.731.820	9,36
	Tankerska plovdba JSC, Zadar	168.132.470	100,00

On the day of 25 April 2017, 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 AND BASIC ACCOUNTING POLICIES

Consolidated Financial Statements 2016 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.

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 continuity of business for an indefinite period.

Accounting policies applied in the preparation of the 2016 Consolidated 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 have been prepared in Croatian Kuna (HRK) as measuring or reporting currency.

According to IFRSs, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank as at 31st December 2016 as follows:

1 EUR = HRK 7,557787	(31.12.2015: 1 EUR = 7,635047 HRK)
1 USD = HRK 7,168536	(31.12.2015: 1 USD = 6,991801 HRK)
1 NOK = HRK 0,832438	(31.12.2015: 1 NOK = 0,800194 HRK)
1 GBP = HRK 8,815802	(31.12.2015: 1 GBP = 10,361035 HRK)

2.1. New standards and supplements that have been in force for the current period

For its reporting period commencing on 1 January 2016, the Group has adopted the following new and amended IFRSs, which have been approved by the European Union and are relevant to the Group's financial statements.

- Clarification of acceptable depreciation methods – Amendments to IAS 16 and IAS 38
- Annual improvements for the reporting cycle of 2012-2014, consisting of changes related to four standards (IFRS 5, IFRS 7, IFRS 19 and IAS 34)

Adopting these improvements has had no impact on the current period or previous periods and is likely to have no impact on future periods.

Standards, interpretations and supplements that have been published but have not yet come into effect

Several new standards and IFRS supplements have been published and the guidelines issued by the International Financial Reporting Interpretations Committee (IFRIC) but have not yet come into effect for reporting periods ending on 31 December 2016 and which have not been previously adopted by the Group. These changes are not expected to have a significant impact on the Group's future financial statements, except for the following standards:

- IFRS 15 'Revenue from Contracts with Customers' and related supplements to various other standards (effective for annual periods beginning on or after 1 January 2018). The International Accounting Standards Board has issued a new revenue recognition standard that will replace IAS 18 Revenue Recognition where revenue is recognized on the provision of goods and services and IAS 11 Construction Contracts. The new standard is based on the principle that revenue is recognized when control over goods or services is transferred to the buyer so that the concept of control replaces the existing concept of risk and benefits.

The following are a few key changes to current practice:

- All packages of goods or services that are different should be separately recognized and all discounts and rebates at the contract price must be allocated to separate elements.
- Revenues can be recognized earlier than under current standards if the fee varies for any reason (such as incentives, rebates, fees for good work performance, copyright, achievement of desired outcomes, etc.) - minimum amounts must be recognized if it does not exist significant risk of abolition.
- A moment in which revenue can be recognized can be changed: part of the revenue recognized at the time the contract is close to its completion may have to be recognized during the term of the contract and vice versa.
- There are new special rules, including licenses, guarantees, non-refundable fees which are paid in advance and consignment arrangements, and there is an increased scope of disclosure.
- As with any standard there is an increased scope of disclosure. Entities will be able to choose between full retroactive application or prospective application with additional releases. The Mother Company's Management Board is currently considering the impact of new provisions and identified the following area likely to be affected:
 - Moment when revenue is recognised in the case of contracts with a margin-free cost recovery
 - Extended warranties (which will have to be accounted for as separate obligations, which will delay the recognition of part of the revenue)

Currently the Group is unable to assess the impact of new provisions on the Group's consolidated financial statements (It is estimated that all current contracts will be completed by the date of application of the standard) but will perform a more detailed impact analysis over the next twelve months. The Mother Company's Management Board will adopt the standard with the date of its entry into force. IFRS 9 'Financial Instruments' and related supplements to various standards (effective for annual periods beginning on or after 1 January 2018) regulates qualification, measurement and termination of recognition of financial assets and liabilities and introduces new accounting policies. In December 2014, the International Accounting Standards Board introduced further changes in the classification and measurement rules and introduced a new impairment model. By introducing these changes, IFRS 9 is now completed.

The Mother Company's Management Board has assessed the following possible effects of applying the new IFRS 9 standard to its financial statements:

- Following changes approved by the IASB in July 2014, the Group no longer expects new rules on classification, measurement and termination of recognition to have an impact on its financial assets and liabilities;
- Although the Group still must carry out a detailed estimate of debt instruments classified as financial assets in markets, it appears that they could qualify for a fair value-based classification in other comprehensive income (FVOCI), considering current business model used for that asset. Therefore, there will be no change in the representation of this property;
- There will be no effect on the disclosure of the Group's financial liabilities as new requirements exclusively affect financial liabilities recognized at fair value through profit or loss and the Group does not have such obligations;
- New rules on hedge accounting are more closely aligned with the Group's risk management practices. In general, the application of hedge accounting in the future will be easier because the standard introduces a more principled approach. The new standard also introduces extended publishing requirements and changes in presentation;
- The new impairment model is the Expected Credit Loss Model (ECL) that allows for earlier credit loss recognition. The Mother Company's Management Board shall adopt the standard with the date of its entry into force. IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)
- IFRS 16 will primarily have an impact on the lessee accounting approaches, where all the leases will have to be recognized in the balance sheet. The standard removes the difference between business and finance leases and requires recognition of the property (right to use leased property) and financial lease payments for all lease agreements. There is an optional exemption for short-term leases and leases of low value.
- Impacts will also be seen in the income statement as the overall cost is generally higher in the first years of the lease and lower in later years of the lease. Business expenses will also be replaced by interest rates and depreciation, and key metrics such as EBITDA will also change.
- The cash flow from operating activities will be higher because the principal payments are classified as finance lease commitments. Only interest payments can continue to be expressed as cash flows from operating activities.
- The lessor accounting model will not be significantly altered. Some differences may arise due to the new lease definition. Under IFRS 16, a contract implies or includes a lease if the contract transfers the right to use the identified property for a specified period in exchange for a fee. As for now, the Group cannot assess the impact of the new standard on its financial statements, but will conduct a more detailed impact assessment over the next twelve months. The Mother Company's Management Board shall adopt the standard with effect from the date of its entry into force and after it is adopted by the European Union.

2.2. Key assumptions and estimates, and uncertainty in preparing financial statements

In preparing non-consolidated financial statements, the Mother Company's 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 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, additional 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 financial statements for the year 2016 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:
 - o the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - o the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - o the amount of revenue can be measured reliably;
 - o it is probable that the economic benefits associated with the transaction will flow to the entity; and
 - o 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:
 - o the amount of revenue can be measured reliably;
 - o it is probable that the economic benefits associated with the transaction will flow to the entity;
 - o the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
 - o 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 should be related to occurring revenues. Losses are covered with revenues of the reporting period.

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

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

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

c) Financial result and profit tax

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

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

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

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

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

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.

Long-term financial investments in associates (share of 20% - 50%) are recorded in the books by the cost method.

Long-term financial investments in subsidiaries (share greater than 50%) are accounted for using the cost method.

g) Inventories

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

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

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

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

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

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

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

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

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).

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 Company.

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

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

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

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

i) Short-term financial assets

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

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

Value adjustment of short-term assets is performed based on evaluation that the investment is elevated risk or it is claimed on court. The Decision is made by the 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) 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 Company (legal, statutory and similar).

m) Provisions

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

Provisions arising from contracts, such as provisions for severance wages, provisions for expenses in guaranty periods, and provisions for expenses arising from initiated 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

		HRK
	2015	2016
Revenues from sales on domestic market	7.097.423	11.068.764
Revenues from sales on foreign market	514.049.162	248.492.008
Revenue from sales - participating interest	228.059	2.575.475
Total	521.374.644	262.136.247

Structure of revenues from sales:

	Domestic market	Foreign market	HRK Total
Shiprepair	9.812.789	191.946.467	201.759.256
Shiprepair - participating interest	2.565.570	-	2.565.570
Offshore	45.487	1.048.687	1.094.174
Conversions	-	51.168.459	51.168.459
Other	1.210.488	4.328.395	5.538.883
Other - participating interest	9.905	-	9.905
Total	13.644.239	248.492.008	262.136.247

4. OTHER REVENUES

		HRK
	2015	2016
Revenues from sales of material	3.620.462	3.052.914
Revenues from sales of material – participating interest	-	976
Rentals	964.437	814.800
Rentals - participating interest	792	1.034
Revenues from withdrawal of long-term reserves	171.225	3.046.831
Insurance claim income	862.083	47.017
Income from disputed claims	-	792.834
Revenues from sales of property, plant and equipment	-	19.601
Income from discontinued liabilities	3.078	204.624
Retrospectively estimated income from past years	144.114	485.671
Other revenues	567.086	3.900.460
Other revenues - participating interest	56.282	-
Revenue based on the use of own products, goods and services	8.440.311	28.754.188
Total	14.829.870	41.120.950

Revenues from withdrawal of long-term reserves in the current period involved withdrawal of reserves for employee unused vacation allowances for 2015 for the Mother Company and the subsidiary, and Cable Enterprise warranty claims, which were recorded as of 31 December 2015

Employee vacation days that remained unused as of 31 December 2015, have been subsequently used and were charged for the first half of 2016 both for the Mother Company and the subsidiary. The Cable Enterprise warranty claim repairs were completed by the end of September 2016 and were charged for the current period. However, a part of reserves has been retained to cover for costs still expected in that respect.

Other revenues mostly related to value adjustment of inventories, i.e. to align analytical inventory records in the ancillary accounting records with synthetic records in the main book.

5. MATERIAL EXPENSES AND COST OF GOODS SOLD

		HRK
	2015	2016
Raw and other material		
Consumed raw and other material	91.709.484	36.482.890
Consumed energy	16.862.760	11.729.423
Small inventory and spare parts	512.277	617.210
Total raw and other material	109.085.021	48.829.523
Other external expenses		
Transportation, phone, post and similar services	621.006	647.102
Services used in production of outputs	131.858.728	79.700.691
Subsupplier services	94.290.518	34.659.951
Maintenance services	21.600.538	13.719.209
Rental expenses	4.375.832	1.884.379
Intellectual services	1.858.346	1.398.370
Other services	3.425.373	2.235.058
Total other external expenses	258.030.341	134.244.760
Total material expenses	367.115.362	183.074.283

Services used in production of outputs involve subcontractor cost of the Group's production of outputs. Subsupplier services are third-party services that are normally provided outside the Company's location or are carried out by means of service providers. In 2016, the cost of the tax consultancy service for the Mother Company amounted to HRK 49,816, while the cost of financial statement auditing for the Mother Company was HRK 104,000. The cost of financial statement auditing for the subsidiary totalled HRK 12,000.

6. EMPLOYEE COST

	HRK	
	2015	2016
Net salaries and wages	41.104.972	38.317.597
Social security contributions and taxes paid by employer	17.570.496	16.114.243
Social security contributions and taxes paid by employee	10.955.223	10.113.796
Severance pay	120.000	176.000
Compensations for travelling costs, daily allowances, annual bonuses	5.244.340	5.293.829
Total	74.995.031	70.015.465

7. DEPRECIATION

	HRK	
	2015	2016
Intangible assets, property, plant and equipment	23.590.563	21.993.340
Total	23.590.563	21.993.340

The 2015 depreciation rate was 66%.

8. VALUE ADJUSTMENT

The Mother Company performed revaluation of accounts receivables in the amount of HRK 318,248, of which the largest amount (HRK 205,736) involved discounted receivables deriving from ship repair works carried out for an Italian client declared insolvent.

Remaining write-offs related to smaller amounts for which compulsory collection costs would be significantly higher than the amount of receivables themselves. In the previous year, the value adjustment was significantly higher, also largely due to the opening of insolvency proceedings against the Italian client (HRK 25 million). The Mother Company's claim in the ongoing proceedings is fully acknowledged and the amount of settlement has not yet been established.

Revaluation of accounts receivables for the subsidiary amounted to only 1,400 Croatian Kuna.

9. PROVISIONS

In 2016, the Group made provisions for expenses for unused annual vacations (HRK 995,030) and provisions for legal disputes started in 2016 (HRK 5,756) entirely referring to the Mother Company.

10. OTHER EXPENSES

		HRK
	2015	2016
Representation and gifts	1.467.641	1.401.067
Insurance premiums	5.555.785	5.135.015
Bank services	1.940.413	681.173
Tax and contribution not dependant on the result	2.715.207	2.206.426
Other expenses	2.259.701	2.420.943
Total	13.938.747	11.844.624

A part of other expenses in the amount of 5,289,568 HRK referred to employee costs of the Group, involving severance pay, travel expenses, daily allowances and prizes (Note No.6).

Other operating expenses amounted to 578,108 HRK largely referring to legal expenses and settlements of the Mother Company, while a minor part related to the subsidiary in the amount of 3,730 HRK.

11. FINANCIAL EXPENSES/INCOME

		HRK
	2015	2016
Financial income		
Interests	336.557	277.450
Income from sale of securities and dividends	2.046	77.911
Positive exchange rate differences	-	-
Total financial income	338.603	355.361
Financial expenses		
Interests	4.287.939	3.128.384
Negative exchange rate differences	187.583	1.866.565
Total financial expenses	4.475.522	4.994.949
Net financial (expenses)/income	(4.136.919)	(4.639.588)

12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2016 the Group produced a profit in the amount of 2,114,703 HRK. The profit tax amounted to 641,880 HRK resulting in a profit after tax in the amount of 1,472,823 HRK.

13. EARNINGS PER SHARE

		HRK
	2015	2016
Net profit	26.142.608	1.472.823
Shares exclusive of own shares	15.988.060	15.988.060
Earnings /(loss) per share	1,64	0,09

14. FIXED TANGIBLE AND INTANGIBLE ASSETS

Description	Land	Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investment in progress	Advances for tangible assets	Total tangible assets	Intangible assets	Investment in progress	Total
ACQUISITION VALUE										
Balance 1 Jan 2016	12.504.214	69.019.648	579.839.785	73.138.163	7.972.633	-	742.474.443	10.854.647	-	753.329.09
Transfer from investments in progress and advances	-	1.231.868	34.605.926	1.985.262	(37.823.056)	-	-	3.095.416	(3.095.416)	-
Acquisition during the year	-	-	-	-	37.197.951	1.471.486	38.669.437	-	3.174.880	41.844.31
Sold and written-off assets during the year	-	-	(1.646.839)	(957.688)	-	-	(2.604.527)	(91.323)	-	(2.695.850)
Increase in value after evaluation	-	-	1.950	-	-	-	1.950	-	-	1.950
Balance 31 Dec 2016	12.504.214	70.251.516	612.800.822	74.165.737	7.347.528	1.471.486	778.541.303	13.858.740	79.464	792.479.50
VALUE ADJUSTMENT										
Balance 1 Jan 2016	6.958.527	65.376.281	350.469.490	66.874.707	-	-	489.679.005	5.712.021	-	495.391.02
Depreciation during the year	-	119.429	18.865.363	2.111.152	-	-	21.095.944	897.397	-	21.993.34
Sold and written-off assets during the year	-	-	(1.616.743)	(910.623)	-	-	(2.527.366)	(91.323)	-	(2.618.689)
Balance 31 Dec 2016	6.958.527	65.495.710	367.718.110	68.075.236	-	-	508.247.583	6.518.095	-	514.765.67
Book value 1 Jan 2016	5.545.687	3.643.367	229.370.295	6.263.456	7.972.633	-	252.795.438	5.142.626	-	257.938.06
Book value 31 Dec 2016	5.545.687	4.755.806	245.082.712	6.090.501	7.347.528	1.471.486	270.293.720	7.340.645	79.464	277.713.82

15. INVESTMENT IN ASSOCIATES AND SECURITIES

The Mother Company owns 5,000 shares of Uljanik JSC recorded at nominal value in the amount of 450,000 Croatian Kuna. On the day of 31.12.2016, 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 totalled 254,450 Croatian Kuna.

The Mother Company owns 6,153 shares of Tankerska next generation recorded at nominal value in the amount of 399,945 Croatian Kuna. On the day of 31.12.2016, 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 totalled 461,475 Croatian Kuna.

The subsidiary holds 3,720 shares of Valamar Riviera Ltd, Poreč, recorded in the business books at the nominal value of HRK 37,200 as at 31 December 2016. On 31.12.2016, the subsidiary carried out value adjustment of the shares in accordance with the notification of the Central Depository Clearing Company, Zagreb, so the recorded value of the listed shares is HRK 129,680.

16. FINANCIAL ASSETS

Long-term financial assets in the amount of 8,535,847 HRK referred to a cash deposit for long-term loan for financing development (8,313,565 HRK) and a guarantee in the amount of 222,282 Croatian Kuna all relating to the Mother Company.

Short-term financial assets of the Group amounted to HRK 198,086 of which HRK 158,086 referred to granted loans to the Mother Company and HRK 40,000 referred to granted loans to the subsidiary.

17. INVENTORIES

		HRK
	31.12.2015	31.12.2016
Raw and other material	13.520.493	21.286.837
Raw and other material under delivery	-	-
Production in progress	14.094.792	6.418.140
Small inventory	7.837.668	8.101.768
Small inventory value adjustment	(7.837.668)	(8.101.768)
Total	27.615.285	27.704.977

Of the total inventories of the Group, only HRK 57,768 referred to the subsidiary.

Raw and other material was recorded based on purchase prices decreased by inventories value adjustment. The inventories value adjustment was performed upon the opening of the bankruptcy proceedings in 2003 when the Mother Company evaluated its 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. Inventory list established on 31.12.2016 revealed that the stock has been almost entirely consumed in the production process. Therefore, the remaining amount of inventories value adjustment as at 31.12.2015 was accounted on the revenue side.

18. TRADE AND OTHER RECEIVABLES

		HRK
	31.12.2015	31.12.2016
Receivables from customers– net	48.603.447	44.687.773
Receivables from customers – participating interest	274.538	1.780.321
Receivables from employees	4.586	37.799
Receivables from state	12.763.668	13.140.282
Prepaid expenses	389.955	16.588.713
Advances	663.778	21.375.149
Other receivables	24.064	16.764
Total	62.724.036	97.626.801

Age structure of matured receivables from customers:

		HRK
	31.12.2015	31.12.2016
1-90 days	48.172.873	45.008.466
91-180 days	105.175	850.231
181-365 days	135.797	151.573
Over 365 days	464.140	457.824
Total	48.877.985	46.468.094

Structure of trade receivables by currency:

		HRK
	31.12.2015	31.12.2016
HRK	1.635.039	3.251.157
EUR	19.055.007	30.054.852
USD	28.187.939	13.162.085
Total	48.877.985	46.468.094

19. CASH AND CASH EQUIVALENTS

		HRK
	31.12.2015	31.12.2016
Money in bank	36.673.659	6.844.575
Cash in register	7.876	13.969
Time deposits	3.927.341	3.943.437
Total	40.608.876	10.801.981

20. EQUITY AND RESERVES

- (i) On the day of 31 December 2016, the issued share capital of the Mother Company, 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.

Owners of ordinary shares are entitled to dividends and one vote per share. In 2016, the Mother Company paid out dividends on the account of profit generated in 2015 in the amount of 0.75 HRK per share. During the previous years, no dividend to shareholders was paid out.

On the day of 31 December 2016, the Mother Company owned 825.187 own shares (31 December 2015: 825.187), making 4.91% of the share capital.

On the day of 31 December 2016, the statutory reserves within the frame of the statutory and other reserves, amounted to 8,406,624 Croatian Kuna (2015: 7,170,741 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 Mother Company's General Assembly's decision, the profit generated in 2015 in the amount of 25,924,166 Croatian Kuna was allocated in the following way: 1,235,882 Croatian Kuna was allocated to the statutory reserve fund, and 12,697,238 Croatian Kuna to the general reserve fund. As of 31 December 2016, the statutory reserves have grown to 5% of the issued share capital as stipulated by law.

By the decision of Mother Company representing the General Assembly of the subsidiary, part of the 2015 profit of the subsidiary, which totalled HRK 218,443, has been allocated to share capital (HRK 218,400) and the remaining HRK 43 has been allocated to retained earnings.

The statutory reserves and reserves for own shares in the amount of 20,946,624 Croatian Kuna (2015: 19,710,741 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 2016, referring in whole to the Mother Company:

					HRK
31.12.2016	Total	1 year or less	2-5 years	More than 5 years	Total long-term
Financial lease	2.964.486	805.690	2.158.796	-	2.158.796
Long-term loan for financing development	59.011.224	8.742.402	43.712.013	6.556.801	50.268.814
Short-term loan for working capital	36.989.292	36.989.292	-	-	-
Total	98.965.002	46.537.384	45.870.809	6.556.801	52.427.610

Financial lease related to purchase of production equipment and personal cars.

Short-term loans for working capital in the amount of HRK 36,989,292 related to short-term loans for financing USS Mount Whitney project preparatory stage (HRK 31,539,992), credits from the liquidity line (HRK 4,491,667) and overdrafts (HRK 957,633).

22. TRADE AND OTHER LIABILITIES

		HRK
	31.12.2015	31.12.2016
Trade payables	57.277.038	69.632.004
Trade payables – participating interest	815.629	142.601
Employee payables	4.911.506	3.866.045
Tax and contribution	5.311.002	2.755.809
Received advances	5.345.023	6.478.269
Other liabilities	2.134.780	3.923.960
Accrued expenses and deferred income	4.651.750	4.371.260
Total	80.461.390	91.169.948

Profit tax liabilities amounted to only HRK 29,657, since during 2016 the Mother Company and the subsidiary have already paid the advance amount of HRK 660,782. The profit tax liability for 2015 amounted to HRK 1,320,955, of which the most part (HRK 1,306,604) related to the Mother Company.

Other liabilities included matured liabilities towards HEP ESCO Ltd. for a commercial credit granted to the Mother Company for the energy-efficiency project in the amount of 3,021,817 Croatian Kuna.

Accrued expenses amounting to HRK 4,359,260 involved the cost of insurance premiums of the Mother Company relating to 2016 and to the invoiced agency fees and other costs which have not yet been invoiced but contracted. The amount of HRK 12,000 related to the cost of the subsidiary for accrued expenses.

Structure of trade payables by currency:

		HRK
	31.12.2015	31.12.2016
HRK	54.280.055	66.249.647
EUR	3.652.953	3.487.574
USD	-	37.384
NOK	7.301	-
Other currency	152.358	-
Total	58.092.667	69.774.605

23. RELATIONSHIP WITH RELATED ENTERPRISES

		HRK
Related enterprises and key shareholders	2015	2016
Sale to related enterprises		
Sale to key shareholders	367.390	2.577.485
Purchase from related enterprises		
Purchase from key shareholders	6.532.034	729.759
Receivables from related enterprises		
Receivables from key shareholders	274.538	1.780.321
Liabilities to related enterprises		
Liabilities to key shareholders	815.629	142.601

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

Out of the total amount of sales to key shareholders for 2015, HRK 285,000 referred to sales revenue, and the difference of HRK 82,000 related to income from cost refund for costs that had been paid on behalf of these enterprises and subsequently pre-invoiced.

Key management

The Management Board of the Mother Company is composed of the President of the Board and one Member of the Board. Mr. Robert Škifić held the position of President of the Board until 30 April 2016, when the Supervisory Board appointed Mr. Aljoša Pavelin a new President of the Board as of 1 May 2016. Position of Member of the Board was held by Mrs. Sandra Uzelac.

The total gross compensation for the members of the Group's Management Board for the year 2016 amounted to 4.524.951 Croatian Kuna.

The total gross compensation for the members of the Supervisory Board and Audit Board for the year 2016 amounted to 572.189 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

Long-term provisions in the amount of 754,774 Croatian Kuna related to provisions for legal proceedings of the Mother Company that have been started. Short-term provisions in the amount of 1,052,169 Croatian Kuna involved warranty repairs and provisions for unused vacation days for the Mother Company's employees in 2016

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31.12.2016 in the amount of 19,328,954 Croatian Kuna involved obligations of the Mother Company to HEP ESCO Ltd. for the energy-efficiency project in the amount of 15,155,174 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 is not yet finalized.

26. FINANCIAL INSTRUMENTS

Operations of the Group bear various financial risks involving market risk, price risk, currency risk, default risk and liquidity risk.

Company's risk management policy associated with finance management can be summarized as follows:

Financial risk factors

Operations of the Group bear various financial risks involving market risk and price risk, currency risk and interest rate risk. The Group does not use derivative financial instruments as an active security from exposure to financial risks.

Currency risk

Most of the Company's revenues from sale of services is generated on the international market, mainly in EUR, therefore EUR-HRK exchange rate movements can affect its operating results. However, because of a relatively rapid turnover of receivables, currency risk is not significant, and the Mother Company does not use active hedging techniques in foreign currency transactions. The Mother Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in local currency. USS Mount Whitney repair project contracted in USD currency is not expected to have a significant negative impact considering the current relationship between the USD/EUR and a rapid turnover. Part of revenue is likely to be redirected from sales revenue to accounts of financial income/loss. Given the expected fluctuations, and depending on the estimate of the future USD/EUR trend, Viktor Lenac will, if necessary, use hedging instruments.

Default risk

Default risk involves trade receivables. Trade receivables are stated net of uncollectible debt. The objective of the Group is to do business with steady 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 Group's foreign customers initiated the process of insolvency, and the Group has already accounted for impairment of value of that customer. There was no other significant concentration of default risk.

Interest rate risk

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

Liquidity risk

Liquidity risk aka cash flow risk is related to market risk which involves oscillations in the capacity utilisation rate. The Mother Company manages the liquidity risk through continuous monitoring of the projected and actual cash flows. For larger projects that can significantly affect outflows, especially in the preparatory phase of project when there are no inflows, the Mother Company uses short-term loans for project financing. During 2016, due to investment in non-current assets financed from own funds, the working capital was reduced, thus liquidity weakened, but without affecting fulfilment of obligations. Expected increase in the capacity utilisation rate and business performance in 2017 should have a beneficial impact on the Group's liquidity and cash flow.

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 the 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 Mother Company makes an estimate of the fair value based on the publicly disclosed information from external sources or based on 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 equity management is to ensure support to business operations and maximize shareholder value. The Group adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust its equity structure, the Group may re-adjust dividends pay-outs or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years 2015 and 2016

27. POTENTIAL LIABILITIES

As of 31 December 2016, the Mother Company was involved in several disputes which have arisen from its business operations and a few disputes over indemnity obligations deriving from employment relationships. The Mother Company has 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 Board made following judgements, independently of those which include estimates, and which have the most important influence on the amounts shown in the financial statements.

Revenue recognition principle

Revenue is recognized when the goods have been delivered or services have been rendered, or when the risks and rewards of ownership of goods have been substantively transferred to the customer. Estimation of claims to services carried out is deducted from sales revenue and accounted under liabilities or provisions. Estimation of discounts represent a decrease in sales revenue. Estimation is made based on contractual obligations, historical trends and experience.

Profit tax

Profit tax was calculated based on interpretation of rules and laws in force.

Decrease in value of receivables

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

Provisions for potential liabilities

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

29. EVENTS AFTER BALANCE SHEET DATE

There were no remarkable events after the balance sheet date. All major events are regularly disclosed to public via the Zagreb Stock Exchange website.

30. INFORMATION ON KEY ASSUMPTIONS REGARDING FUTURE BUSINESS OPERATIONS

There was no significant information about possible risk or uncertainty that might have a significant impact on future operations of the Mother Company.

31. COURT DISPUTES

On 31 December 2016, the Mother Company participated in 24 disputes worth about 3,606,414 Croatian Kuna as the defendant, and 8 disputes having a capital value of approximately 2,194,799 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 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 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 over its fixed assets in favour of the Raiffeisenbank Austria bank Zagreb for repayment of a loan for financing of development investment program and a debt arising from two credits for short-term financing of operations and the issuance of performance guarantees. The pledge right has been registered over the floating docks: Dock 5, Dock 11 and Dock RI38, motor vessels Kostrena and Pećine, a real-estate in Rijeka, land that in nature makes parking and forest in the cadastral municipality of Kostrena Lucija, including some movable property. The obligations under the loans secured as specified as at 31.12.2016 amounted to 81,843,434 Croatian Kuna, of which 59,011,224 Croatian Kuna involves the investment loan, and the biggest part of the remaining amount is related to the loan used for financing of the USS Mount Whitney repair project.

33. CASH FLOW STATEMENT

Cash Flow Statement 2016 was made by use of the indirect method.

34. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

Consolidated Financial statements have been prepared and approved by the Management Board of the Company on 25 April 2017.



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VICTOR LENAC
1896
Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelač, Member of the Board