CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2017

SHIPYARD
1896 VIKTOR LENAC

Delivering Top Quality, In a Safe Way, On Time

April 2018

CONTENTS

STATEMENT ON RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the consolidated financial statements for the year 2017 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 joint stock company "Brodogradilište Viktor Lenac" and its subsidiary companies (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 20 April 2018.

BRODOGRADILIŠTE VIKTOR LENAC d.d.
1896 Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

Inženjerski biro-revizija d o o Zadar
za reviziju financijskih izvještaja i pružanje usluga s područja računovodstva, poreznog savjetovanja, financijskih analiza i kontrola

23000 ZADAR, Poljana Plankit 1 Tel./Fax: 023/250-869

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE JOINT STOCK COMPANY "BRODOGRADILIŠTE VIKTOR LENAC", RIJEKA

AUDITOR'S REPORT ON CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying Consolidated Financial Statements of the joint stock company "Brodogradilište Viktor Lenac" (Company) and its subsidiary companies (Group), which comprise of the Consolidated Balance Sheet as at December 31, 2017, Consolidated Profit and Loss Account for the year 2017, 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, 2017, financial performance and cash flows for the year 2017 in accordance with the International Financial Reporting Standards and Croatian Law on Accounting, which have been established by the European Commission and published in the Official Journal of the European Union.

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 and include the recognized, most significant risks of misstatement due to error or fraud with the greatest impact on our audit strategy, allocation of our available resources, and the time spent on auditing by the audit team. We have dealt with these issues in the context of our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereabout. 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 Consolidated Balance Sheet as at 31 December 2017 is 276 million Croatian Kuna - see note 14, which is almost entirely related to the Company's investment. During the year, the Company continued to undertake significant investments in the docks and the capitalized costs added to the cost basis of the docks in 2017 amounted to HRK 26.5 million.
A significant amount of these costs requires consideration be given to 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 the estimated useful life of property, plant and equipment.

Our Audit Procedures related to the Key Audit Issue

As the key audit issue involves own production and use of external services, we reviewed a sample of incoming invoices 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 Management Board is responsible for other information. Other information includes information contained in the Annual Report but does not include the Consolidated Financial Statements and our Independent Auditor's Report.
Our opinion on the Consolidated 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 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 Financial Statements or our findings or as may appear otherwise to have been significantly misrepresented. If we conclude that there is a significant misstatement of other information, we are required to report the fact. In that sense, we do not have anything to report.

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

The 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 Financial Statements, the Management Board is responsible for assessing the capability 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 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, which shall incorporate 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 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 Management Board.

- We assess the appropriateness of the basis of accounting used, deriving from the concept of continuing business as implemented by the 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 capability 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 to related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, 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 Consolidated Financial Statements, including disclosures, as well as whether the Consolidated 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 issue 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 protection measures.

Among issues we are discussing with those charged with management, we determine those issues that are of utmost importance in auditing the Consolidated Financial Statements for the current period and are therefore considered the 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 related to other legal requirements
Report related to the requirements of Regulation (EU) No. 537/2014

1. The Auditor was appointed by the General Assembly of the Company on 24 August 2017.

2. As of the date of this report, the Auditor has been engaged to audit financial statements of the Company for 9 years uninterruptedly.

3. Except for the issues that we have included in our report as Key Audit Issues under the *Auditor's Report on Consolidated Financial Statements*, there is nothing more to add with regards to the Item (c) of Article 10 of Regulation (EU) No. 537/2014.

4. Through the auditing process, we can detect irregularities, including fraud in accordance with Section 225, *Responding to Non-compliance with Laws and Regulations of the IESBA Code*, which requires us to see whether the Group has complied with laws and regulations that are generally recognized to have a direct effect on determining significant amounts and disclosures in their Consolidated Financial Statements, as well as other laws and regulations that do not have a direct effect on determining significant amounts and disclosures in their Consolidated Financial Statements but which may be critical to operational aspects of the Group's business, their capability to continue to operate indefinitely or to avoid significant penalties.

Except where we encounter or find out about non-compliance with any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financially or otherwise, for the Group, their stakeholders and the general public, we are obliged to inform the Group thereabout and ask to investigate such case and take appropriate measures to resolve any irregularities and to prevent recurrence of such irregularities in the future. If the Group as at the date of the audited Consolidated Balance Sheet does not correct any irregularities that result in misstatements in the audited Consolidated Financial Statements that are cumulatively equal to or greater than the amount of significance for the Consolidated Financial Statements as a whole, we are required to modify our opinion in the Auditor's Report.

The amount of significance for the Consolidated Financial Statements of the Group for 2017 is HRK 4,045,498 representing 1% of the total consolidated assets. This position used as a stable basis for calculation of significance has not changed much in the last 3 years as opposed to their operating results which has varied significantly over previous periods and is therefore not a suitable basis for determining significance. Also, total revenues and expenses are not considered as an appropriate basis because they have varied significantly in previous years due to a highly unstable market in shiprepair and conversions.

5. The Auditor's Report is consistent with the additional report to the Company's Committee for Audit prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

6. During the period between the commencement date of the audited Consolidated Financial Statements of the Group for the year 2017 and the date of this report, we have not provided to the Group or their subsidiaries any prohibited non-audit services and we did not provide in the business year prior to the above-mentioned period any services of design and implementation of internal control or risk management procedures related to preparation or control of financial information or design and implementation of technological systems for financial information, and we have maintained independence with respect to the audit of the Group's financial statements.

Report related to the requirements of the Law on Accounting

1. In our opinion, based on our audit, information contained in the Group's Annual Report for 2017 has been aligned with the Group's Consolidated Financial Statements for 2017.

2. In our opinion, based on our audit, the Group's Annual Report for 2017 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 2017.

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 2017 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 2017 includes information referred to in Article 22, Paragraph 1, Items 2, 5, 6 and 7 of the Law on Accounting.

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

In Rijeka, 20 April, 2018

„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:

Irena Dobrović, dipl.oec.

Certified Auditor and Managing Director:

Irena Dobrović, dipl. oec.

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

CONSOLIDATED BALANCE SHEET AS AT 31 DEC 2017

HRK

	Description	Note	2016	2017
	Assets			
A.	**Fixed assets**	14,15,16	**287.134.391**	**294.563.352**
I	Intangible Assets	14	7.420.109	8.579.731
II	Buildings, plants and equipment	14	270.293.720	276.446.269
III	Participating interests and investments in securities	15	845.605	535.812
IV	Financial assets	16	8.535.847	8.487.114
V	Deferred tax assets		39.110	514.426
B.	**Short-term assets**		**136.331.845**	**109.986.527**
I	Inventories	17	27.704.977	19.077.041
II	Financial assets	16	198.086	57.640
III	Trade and other receivables	18	97.626.801	57.858.455
IV	Money in bank and cash in register	19	10.801.981	32.993.391
V	Assets available for sale		-	-
C.	**Total Assets**		**423.466.236**	**404.549.879**
D.	**Off balance sheet items, equity and liabilities**		**-**	**-**
A.	**Equity and reserves**	20	**212.124.192**	**247.196.972**
I	Share capital	20	168.132.470	168.132.470
II	Capital reserves		-	-
III	Reserves		40.119.423	39.879.583
IV	Retained profit/loss	20	3.872.299	39.184.919
B.	**Minority interest**		**-**	**(32.131)**
C.	**Long-term liabilities**		**72.543.256**	**65.400.530**
I	Debentures with interest charge	21	52.427.610	46.877.286
II	Provisions	24	754.774	1.533.909
III	Deferred tax liabilities		31.918	25.564
IV	Other long-term liabilities	25	19.328.954	16.963.771
D.	**Short-term liabilities**		**138.798.788**	**91.984.508**
I	Debentures with interest charge	21	46.537.384	15.551.811
II	Profit tax liability	22	29.657	8.360.609
III	Trade and other payables	22	91.169.948	65.633.236
IV	Financial liabilities		-	-
V	Provisions	24	1.061.799	2.438.852
E.	**Total Liabilities**		**211.342.044**	**157.385.038**
F.	**Total Equity and Liabilities**		**423.466.236**	**404.549.879**

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

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

CONSOLIDATED PROFIT AND LOSS ACOUNT INCL. COMPREHENSIVE INCOME

AS AT 31 DEC 2017

HRK

	Description	Note	2016	2017
1.	**OPERATING REVENUES**		**303.257.197**	**514.560.205**
1.1.	Revenues from sales	3	262.136.247	481.247.495
1.2.	Other operating revenues	4	41.120.950	33.312.710
2.	**OPERATING EXPENSES**		**296.502.906**	**461.249.052**
2.1.	Changes in inventories value of unfinished production		7.676.652	3.367.976
2.2.	Material expenses	5	183.074.283	335.134.221
2.3.	Employee expenses	6	70.015.465	73.273.443
2.4.	Depreciation	7	21.993.340	26.652.135
2.5.	Value adjustment	8	319.648	4.525.953
2.6.	Provisions	9	1.000.786	3.461.973
2.7.	Other expenses	10	11.844.624	13.153.300
2.8.	Other operating expenses	10	578.108	1.680.051
3.	**EBIT**		**6.754.291**	**53.311.153**
4.	**NET FINANCIAL EXPENSES/REVENUES**	11	**(4.639.588)**	**(8.013.338)**
4.1.	Financial revenues	11	355.361	243.176
4.2.	Financial expenses	11	4.994.949	8.256.514
5.	**PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX**		**2.114.703**	**45.297.815**
6.	**PROFIT TAX**	12	**641.880**	**8.569.211**
7.	**PROFIT/(LOSS) FOR THE YEAR**	13	**1.472.823**	**36.765.735**
8.	**Profit/(Loss) for the year attributed to minority interest**			**(37.131)**
	Earnings per share (HRK)		0,09	2,30
8.	**Net profit/loss for the year**		**1.472.823**	**36.728.605**
8.1.	Unrealized profits or losses		169.589	(309.793)
8.2.	Deferred tax assets		(33.918)	55.762
9.	**COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR**		**1.608.494**	**36.474.574**
9.1	Attributed to equity capital holders			36.511.705
9.2	Attributed to non-controlling (minority) interest			(37.131)

BRODOGRADILIŠTE VIKTOR LENAC d.d. 1896 Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

CONSOLIDATED CASH FLOW STATEMENT

AS AT 31 DEC 2017

HRK

	Description	Note	2016	2017
I	**CASH FLOW FROM OPERATING ACTIVITIES**			
1	Profit/loss before taxation		2.114.702	45.297.816
	Adjustment for:			
2	Depreciation		21.993.340	26.652.135
3	Gains and losses on sale and value adjustment to tangible and intangible assets		55.763	1.512.644
4	Gains and losses on sale, unrealized gains and losses and value adjustment to financial assets		65.570	
5	Cash flow from interests and dividends		(303.986)	-242.323
6	Interest expenses		3.128.384	3.300.533
7	Provisions		(2.046.046)	2.156.188
8	Exchanges rate difference (unrealized)		669.834	217.646
9	Profit tax		(641.880)	(8.995.118)
10	Other adjustments for non-cash transactions and unrealized gains and losses		(3.159.657)	4.566.996
	Profit from operating activities before changes in working capital		**21.876.025**	**74.466.517**
11	Increase/decrease in inventories		3.205.639	8.092.578
12	Increase/decrease in short-term receivables		(19.140.185)	**20.683.958**
13	Increase/decrease in liabilities		11.204.372	-16.960.246
14	Profit tax paid		(1.933.178)	664.166
15	Interest paid		(3.022.748)	-2.983.419
16	Increase/decrease in accrued revenues/expenses		(16.479.248)	12.558.019
	CASH FLOW FROM OPERATING ACTIVITIES	**33**	**(4.289.324)**	**96.521.573**
II	**INVESTING ACTIVITIES**			
1	Acquisition of buildings, plants, equipment and intangible assets		(41.844.316)	(36.885.580)
2	Income from sale of long-term assets		19.450	1.650
3	Investment into financial assets		107.172	-
4	Cash flow from interests		228.342	226.436
5	Cash flow from dividends		24.304	12.821
6	Granted loans		(8.634)	
7	Inflows of loans		188.188	**140.446**
8	Other outflows of investing activities		-	
	CASH FLOW FROM INVESTING ACTIVITIES	**33**	**(41.285.494)**	**(36.504.227)**
III	**FINANCIAL ACTIVITIES**			
1	Inflows from debentures with interest charge		40.549.206	11.826.440
2	Repayment of debentures with interest charge		(12.790.239)	(48.213.451)
3	Dividend paid out		(11.991.045)	(1.438.925)
	CASH FLOW FROM FINANCIAL ACTIVITIES	**33**	**15.767.922**	**(37.825.937)**
IV	TOTAL INCREASE/DECREASE OF CASH FLOW (I+II+III)		(29.806.895)	22.191.410
V	CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		40.608.876	10.801.981
VI	**CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER**	**19**	**10.801.981**	**32.993.391**

BRODOGRADILIŠTE VIKTOR LENAC d.d. Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

HRK

	Share capital	Legal reserves	Reserve for own shares	Own shares	Other reserve	Fair value of financial instruments available for sale	Retained earnings	Profit for the year	Total	Non-controlling (minority) interest	Total
Status as at 1 Jan 2016	168.132.470	7.170.742	12.540.000	(8.055.772)	14.341.700	(164.440)	2.399.434	26.142.608	**222.506.741**		**222.506.742**
Profit/(Loss) for the year								1.472.824	**1.472.824**		**1.472.824**
Changes in reserves of the fair value of financial instruments available for sale						135.672			**135.672**		**135.672**
Profit / dividend payout					(11.991.045)				**(11.991.045)**		**(11.991.045)**
Redirected into reserves per 2015 profit allocation		1.235.882			24.906.684		43	(26.142.609)	-		-
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**	**1.472.822**	**212.124.192**	-	**212.124.192**
Profit/(Loss) for the year								36.765.735	**36.765.735**	(37.131)	**36.728.604**
Changes in reserves of the fair value of financial instruments available for sale						(254.030)			**(254.030)**		**(254.030)**
Profit / dividend payout					(1.438.924)				**(1.438.924)**		**(1.438.924)**
Redirected into reserves per 2016 profit allocation					1.453.115		19.707	(1.472.823)	-		-
Attributed to minority interest										5.000	**5.000**
Status as at 31 Dec 2017	**168.132.470**	**8.406.623**	**12.540.000**	**(8.055.772)**	**27.271.530**	**(282.798)**	**2.419.184**	**36.765.735**	**247.196.972**	**(32.131)**	**247.164.841**

BRODOGRADILIŠTE VIKTOR LENAC
Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Brodogradilište Viktor Lenac", headquartered in Rijeka, Croatia at Martinšćica bb, (hereinafter referred to as „Parent Company") has been registered under the Company's Registration Number 040000358 in the register of the Commercial Court of Rijeka.

The share capital of the Parent Company amounts to 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 Parent Company has been classified under the subclass number 3011 – building of ships and floating vessels, having its registration number 03333710 and VAT number 27531244647.

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

On the day of 31 December 2017, the Group employed 515 employees.

The joint-stock company "Brodogradilište Viktor Lenac"holds a 100% equity interest in a limited liability company "VIKTOR – SERVISI", headquartered in Rijeka, Croatia at Martinšćica bb, and a 75% equity interest in a limited liability company "VL STEEL", headquartered in Rijeka, Croatia at Radnička 39. The subsidiary companies are 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, VIKTOR - SERVISI have been classified under the subclass number 2811 – production of engines and turbines except for engines intended for aircrafts and motor vehicles, having its Company's Registration Number 03767248 and VAT number 06081251984. VL STEEL have been classified under the subclass number 3011 – building of ships and floating vessels, having its Company's Registration Number 040380038 and VAT number 61711943141.

The main activity of the subsidiary Viktor - Servisi Ltd. is repair and maintenance of machinery and equipment, whereas the main activity of VL STEEL is execution of works and provision of services in shipbuilding and industry. The share capital of VIKTOR – SERVISI amounts to 903,200 Croatian Kuna, whereas the share capital of VL STEEL amounts to 20,000 Croatian Kuna.

On the day of 31 December 2017, VIKTOR – SERVISI had 17 employees, whereas VL STEEL had 10 employees.

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

On the day of 31 December 2017, the Supervisory Board of the Viktor Lenac Shipyard consisted of five members: John Karavanić as Chairman of the Supervisory Board, Elvis Pahljina as Vice-Chairman of the Supervisory Board, Hrvoje Markulinčić, Luka Kolanović as members and Zoran Košuta as workers' representative and 5th member.

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

On the day of 31 December 2017, members of Viktor Lenac's Management Board were Aljoša Pavelin, President of the Board and Sandra Uzelac, Member of the Board.

The Parent Company had the following ownership structure as at 31 December 2017:

#	Shareholder	Number of shares	Shareholder's equity %
1	Tankerska plovidba JSC, Zadar	6.212.738	36.95
2	Shipyard Uljanik JSC, Pula	5.829.785	34.67
3	Privredna Bank JSC, Zagreb/Collective Custody Account	1.367.268	8.13
4	Shipyard Viktor Lenac JSC, Rijeka	825.187	4.91
5	Jadroagent JSC, Rijeka	324.766	1.93
6	Croatian Restructuring and Sale Centre	310.636	1.85
7	R.L.E. Ltd., Drniš	105.211	0.63
8	Weiss Branka Maria	77.308	0.46
9	Biliš Mario	49.155	0.29
10	Other	1.711.193	10.18
	Total:	16.813.247	100.00

On the day of 20 April 2018, the Management Board of the Parent Company approved the Consolidated Financial Statements for submission to the Supervisory Board.

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

Consolidated Financial Statements 2017 have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia and International Financial Reporting Standards applied in the European Union.

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 2017 Consolidated Financial Statements have not changed compared with the previous year. 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 2017 as follows:

1 EUR = HRK 7,513648	*(31.12.2016: 1 EUR = 7, 557787 HRK)*
1 USD = HRK 6,269733	*(31.12.2016: 1 USD = 7,168536 HRK)*
1 NOK = HRK 0,765589	*(31.12.2016: 1 NOK = 0,832438 HRK)*
1 GBP = HRK 8,467991	*(31.12.2016: 1 GBP= 8,815802 HRK)*

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

For its reporting period commencing on 1 January 2017, 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.

- Amendments to IAS 7 *Statement of Cash Flows - Disclosure Initiative*, as adopted in the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*, as adopted in the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- Amendments to various standards under the heading *2014 - 2016 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 1, IFRS 12 and IAS 28), intended primarily to eliminate discrepancies and clarify the text, as adopted in the European Union on 8 February 2018 (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

Adopting these amendments to standards has not led to any significant changes in the Group's financial statements.

Amendments to standards published by IASB and adopted in the European Union but not yet in force

On the date of approval of the financial statements, the following new standards and interpretations, and amendments to standards were published but not yet in force:

- IFRS 9 *Financial Instruments*, as adopted in the European Union on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 *Revenue from Contracts with Customers* and amendments to *IFRS 15 Effective Date*, as adopted in the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 Leases, as adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 *Insurance Contracts - Applying IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts*, as adopted in the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or those in which IFRS 9 *Financial Instruments* applies for the first time),
- Amendments to IFRS 15 *Revenue from Contracts with Customers* – Clarification to IFRS 15 *Revenue from Contracts with Customers*, as adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards under the heading *2014 - 2016 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 1, IFRS 12 and IAS 28), intended primarily to eliminate discrepancies and clarify the text, as adopted in the European Union on 8 February 2018 (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

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

IFRSs currently adopted in the European Union do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to standards and interpretations, which have still not been adopted by the European Union as at 10 April 2018 (effective dates referred to below apply to IFRS as a whole):

- IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016) - The European Commission has decided to postpone the transposition of this transitional standard until publication of its final version;
- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 *Share-based Payment - Classification and Measurement of Share-Based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* and subsequent amendments (originally established effective date postponed until completion of a research project on application of the equity method);
- Amendments to IAS 19 *Employee Benefits* under the heading *Actuarial Gains and Losses, Group Plans and Disclosures* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 *Shares in Associates and Joint Ventures - Long-term Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 *Investment Property - Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards under the heading *2014 - 2016 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 1, IFRS 12 and IAS 28), intended primarily to eliminate discrepancies and clarify the text, as adopted in the European Union on 8 February 2018 (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- Amendments to various standards under the heading *2015 - 2017 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 3, IFRS 11, IFRS 12 and IAS 23), intended primarily to eliminate discrepancies and clarify the text (effective for annual periods beginning on or after 1 January 2019).

New standards and amendments to standards published by IASB, not yet adopted in the European Union

IFRSs currently adopted in the European Union do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to standards and interpretations, which have still not been adopted by the European Union as at 10 April 2018 (effective dates referred to below apply to IFRS as a whole):

- Interpretation to IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018);
- Interpretation to IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019).

The Group envisages that adoption of these new standards and amendments to standards will not materially affect the Group's financial statements for the period of their first application.

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

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

The following estimates were used, including, without limitation: calculation of depreciation and remaining value of real-estate, plants, equipment and intangible assets, decrease in value, value adjustment of inventories and doubtful receivables, provisions for employees' salaries and wages, and litigations. More details on accounting policies relative 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 made in preparing financial statements are subject to changes due to new events, additional information, new experience or changes in business environment. Actual results may differ from estimates.

The basic accounting policies applied in the preparation of financial statements for the year 2017 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 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 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 Group,
- 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.
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 Parent 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 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 elevated 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 the Group has a present obligation (legal or constructive) because of a past event or it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at balance sheet date and adjusted to the latest best evaluations.

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

	2016	2017
Revenues from sales on domestic market	11.068.764	16.298.966
Revenues from sales on foreign market	248.492.008	463.671.861
Revenue from sales - participating interest	2.575.475	1.276.668
Total	**262.136.247**	**481.247.495**

Structure of revenues from sales:

HRK

	Domestic market	Foreign market	Total
Shiprepair	13.936.294	135.762.410	149.698.704
Shiprepair - participating interest	1.276.668	-	1.276.668
Offshore	138.027	13.156.068	13.294.095
Conversions	-	307.807.515	307.807.515
Other	2.224.645	6.945.868	9.170.513
Total	**17.575.634**	**463.671.861**	**481.247.495**

4. OTHER REVENUES

HRK

	2016	2017
Revenues from sales of material	3.052.914	3.750.790
Revenues from sales of material – participating interest	976	0
Rentals	814.800	884.114
Rentals - participating interest	1.034	0
Revenues from withdrawal of long-term reserves	3.046.831	1.170.030
Insurance claim income	47.017	17.848
Income from disputed claims	792.834	6.923
Revenues from sales of property, plant and equipment	19.601	1.650
Income from discontinued liabilities	204.624	0
Retrospectively estimated income from past years	485.671	15.720
Government grants	-	22.200
Other revenues	3.900.460	757.560
Other revenues - participating interest	-	160
Revenue based on the use of own products, goods and services	28.754.188	26.685.715
Total	**41.120.950**	**33.312.710**

Revenues from withdrawal of long-term reserves in the current period involved withdrawal of reserves for unused holiday leave allowances for 2016 for the Parent Company and the subsidiary VIKTOR - SERVISI, and litigation, as recorded on 31 December 2016.

Employee vacation days that remained unused as of 31 December 2016, have been subsequently used and were charged to the first half of 2017 both for the Parent Company and the subsidiary.

5. MATERIAL EXPENSES AND COST OF GOODS SOLD

HRK

	2016	2017
Raw and other material		
Consumed raw and other material	36.482.890	61.176.577
Consumed energy	11.729.423	14.512.735
Small inventory and spare parts	617.210	719.369
Total raw and other material	**48.829.523**	**76.408.681**
Other external expenses		
Transportation, phone, post and similar services	647.102	747.160
Services used in production of outputs	79.700.691	153.857.080
Subsupplier services	34.659.951	80.889.564
Maintenance services	13.719.209	14.498.628
Rental expenses	1.884.379	4.957.527
Intellectual services	1.398.370	1.792.072
Other services	2.235.058	1.983.509
Total other external expenses	**134.244.760**	258.725.540
Total material expenses	**183.074.283**	**335.134.221**

Services used in production of outputs involve subcontractor cost of the Group's production activity. 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 2017, the cost of financial statement auditing for the Parent Company was HRK 125,000. The tax consultancy service for the Parent Company amounted to HRK 49,000, while the cost of offshore consultancy totalled HRK 67,964. In 2017, the Parent Company recorded due diligence costs in the amount of HRK 290,554. All listed services were provided by various domestic legal entities.

Legal costs amounted to HRK 356,231, of which HRK 294,279 related to services provided by domestic lawyers and the remaining amount of HRK 61,952 to services provided by foreign attorneys.

The cost of financial statement auditing for the subsidiaries amounted to HRK 22,000, of which HRK 12,000 referred to VIKTOR - SERVISI, and HRK 10,000 to VL STEEL. Legal services provided to VL STEEL amounted to HRK 3,000.

6. EMPLOYEE COST

HRK

	2016	2017
Net salaries and wages	38.317.597	40.828.034
Social security contributions and taxes paid by employer	16.114.243	16.239.462
Social security contributions and taxes paid by employee	10.113.796	10.586.083
Severance pay	176.000	152.000
Compensations for travelling costs, daily allowances, annual bonuses	5.293.829	5.467.864
Total	**70.015.465**	**73.273.443**

7. DEPRECIATION

HRK

	2016	2017
Intangible assets, property, plant and equipment	**21.993.340**	**26.652.135**
Total	**21.993.340**	**26.652.135**

The 2017 depreciation rate was 65%.

8. VALUE ADJUSTMENT

In 2017, the Parent Company recorded revaluation of assets in the amount of HRK 4,525,953, which included accounts uncollectible (HRK 2,476,301), inventories (HRK 535,358) and portal cranes in preparation, purchased for an investment project that has been postponed; over the time the book value exceeded the market value (HRK 1,514,294).

9. PROVISIONS

In 2017, the Group made provisions for expenses for unused annual vacations (HRK 2,292,120). Due to high occupancy rate and inability to use annual holiday leave, the provisions significantly increased compared to 2016 (HRK 1,000,786).

Provisions for litigation costs and other legal proceedings started in 2017 amounted to HRK 1,089,891 and are entirely related to legal proceedings involving the Parent Company. The Parent Company also made provisions for building costs in the amount of HRK 79,962.

10. OTHER EXPENSES

HRK

	2016	2017
Representation and gifts	1.401.067	2.385.382
Insurance premiums	5.135.015	4.513.888
Bank services	681.173	544.807
Tax and contribution not dependant on the result	2.206.426	2.881.364
Other expenses	2.420.943	2.827.859
Total	**11.844.624**	**13.153.300**

Other operating expenses amounted to HRK 1,680,051 largely referring to net book value of depreciated long-term assets of the Parent Company (HRK 1,405,419). The remaining amount related to deficit in material and tangible assets, and other operating expenses of the Parent Company. Only HRK 260.00 referred to the subsidiary company.

11. FINANCIAL EXPENSES/INCOME

HRK

	2016	2017
Financial income		
Interests	277.450	230.355
Income from sale of securities and dividends	77.911	12.821
Positive exchange rate differences	-	-
Total financial income	**355.361**	**243.176**
Financial expenses		
Interests	3.128.384	3.300.708
Negative exchange rate differences	1.866.565	4.955.805
Total financial expenses	4.994.949	**8.256.513**
Net financial (expenses)/income	**(4.639.588)**	**(8.013.337)**

12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2017 the Group produced a profit in the amount of 45,297,816 HRK. The profit tax amounted to HRK 8,569,211 resulting in a profit after tax in the amount of 36,728,605 HRK. The subsidiary companies finished the year with loss.

13. EARNINGS PER SHARE

HRK

	2016	2017
Net profit	1.472.823	36.765.736
Shares exclusive of own shares	15.988.060	15.988.060
Earnings /(loss) per share	0,09	**2,30**

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 2017	**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**	**792.479.507**
Transfer from investments in progress and advances			35.638.802	2.349.201	(35.647.744)	(2.340.259)	**-**	4.391.182	(4.391.182)	**-**
Acquisition during the year					35.720.567	936.698	**36.657.265**	-	226.665	**36.883.930**
Sold, written-off and discounted assets during the year		-	(5.631.138)	(532.826)	(2.572.769)		**(8.736.733)**	-	-	**(8.736.733)**
Transfers					(4.085.053)		**(4.085.053)**		4.085.053	**-**
Balance 31 Dec 2017	**12.504.214**	**70.251.516**	**642.808.486**	**75.982.112**	**762.529**	**67.926**	**806.461.836**	**18.249.922**	**-**	**820.626.705**
VALUE ADJUSTMENT										
Balance 1 Jan 2017	**6.958.527**	**65.495.710**	**367.718.110**	**68.075.236**	**-**	**-**	**508.247.583**	**6.518.095**	**-**	**514.765.678**
Depreciation during the year		257.224	21.230.459	2.012.354			**23.500.037**	3.152.096		**26.652.133**
Sold and written-off assets during the year		-	(5.328.563)	(486.205)			**(5.814.768)**		-	**(5.814.768)**
Surplus, Deficit, Adjustment				(2.338)						
Balance 31 Dec 2017	**6.958.527**	**65.752.934**	**383.620.006**	**69.599.047**	**-**	**-**	**525.930.514**	**9.670.191**	**-**	**535.600.705**
Book value 1 Jan 2017	**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**	**277.713.829**
Book value 31 Dec 2017	**5.545.687**	**4.498.582**	**259.188.480**	**6.383.065**	**762.529**	**67.926**	**276.446.269**	**8.579.731**	**-**	**285.026.000**

15. INVESTMENT IN ASSOCIATES AND SECURITIES

The Parent 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 Dec 2017, the Parent 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 40,800 Croatian Kuna.

The Parent 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 Dec 2017, the Parent 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 332,262 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 2017, 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 162,750.

16. FINANCIAL ASSETS

Long-term financial assets in the amount of 8,487,114 HRK referred to a cash deposit for long-term loan for financing development (HRK 8,265,012) and a guarantee in the amount of 222,102 Croatian Kuna all relating to the Parent Company.

Short-term financial assets of the Group amounted to HRK 57,640 of which HRK 17,640 referred to granted loans to the Parent Company and HRK 40,000 referred to granted loans to the subsidiary company VIKTOR - SERVISI.

17. INVENTORIES

HRK

	31.12.2016	31.12.2017
Raw and other material	21.286.837	16.026.391
Raw and other material under delivery	-	486
Production in progress	6.418.140	3.050.164
Small inventory	8.101.768	8.435.144
Small inventory value adjustment	(8.101.768)	(8.435.144)
Total	**27.704.977**	**19.077.041**

Of the total inventories of the Group, only HRK 55,065 referred to the subsidiary company VIKTOR - SERVISI. According to the Parent Company's Inventory list established on 31 Dec 2017 and the inventory control it was found that there are stocks that are not certain to be consumed regularly in the subsequent production process, primarily due to a low inventory turnover and because part of the stock was intended for special projects, so it is not certain that those stocks will be needed in the near future. Accordingly, the Parent Company recorded a value adjustment of inventories in the amount of HRK 535,358.

The production in progress involved 3 unfinished shiprepair projects that the Parent Company had at the end of the year.

18. TRADE AND OTHER RECEIVABLES

HRK

	31.12.2016	31.12.2017
Receivables from customers– net	44.687.773	47.730.681
Receivables from customers – participating interest	1.780.321	176.846
Receivables from employees	37.799	12.584
Receivables from state	13.140.282	6.556.021
Prepaid expenses	16.588.713	2.956.567
Advances	21.375.149	406.607
Other receivables	16.764	19.149
Total	**97.626.801**	**57.858.455**

Age structure of matured receivables from customers:

HRK

	31.12.2016	31.12.2017
1-90 days	45.008.466	47.034.255
91-180 days	850.231	199.580
181-365 days	151.573	477.810
Over 365 days	457.824	195.881
Total	**46.468.094**	**47.907.527**

Structure of trade receivables by currency:

HRK

	31.12.2016	31.12.2017
HRK	3.251.157	6.075.675
EUR	30.054.852	17.503.459
USD	13.162.085	24.328.393
Total	**46.468.094**	**47.907.527**

19. CASH AND CASH EQUIVALENTS

HRK

	31.12.2016	31.12.2017
Money in bank	6.844.575	14.612.333
Cash in register	13.969	18.968
Time deposits	3.943.437	18.362.090
Total	**10.801.981**	**32.993.391**

20. EQUITY AND RESERVES

(i) On the day of 31 December 2017, the issued share capital of the Parent 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 2017, the Parent Company paid out dividends on the account of profit generated in 2016 in the amount of 0.09 HRK per share (0.75 HRK per share in 2015). During the years before 2015, no dividend to shareholders was paid out.

(ii) On the day of 31 December 2017, the Parent Company owned 825.187 own shares (31 December 2016: 825.187), making 4.91% of the share capital.

(iii) On the day of 31 December 2017, the statutory reserves within the frame of the statutory and other reserves, amounted to 8,406,624 Croatian Kuna (2016: 8,406,624 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 Parent Company's General Assembly's decision, the profit generated in 2016 in the amount of 1,453,115 Croatian Kuna was allocated in the following way: 1,438,925 Croatian Kuna were paid out to the shareholders of the Parent Company, whereas the remaining amount was allocated to the general reserve fund.

By decision of the Parent Company representing the General Assembly of the subsidiary company VIKTOR - SERVISI, the 2016 profit of the subsidiary, which totalled HRK 19,708 was allocated to retained earnings. VL STEEL did not operate in 2016.

The statutory reserves and reserves for own shares in the amount of 20,946,624 Croatian Kuna (2016: 20,946,624 Croatian Kuna) cannot be allocated between shareholders. The subsidiaries do not have statutory reserves.

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 2017, referring in whole to the Parent Company:

HRK

31 Dec 2017	Total	1 year or less	2-5 years	More than 5 years	Total long-term
Financial lease	7.043.907	1.693.032	5.350.875	-	5.350.875
Long-term loan for financing development	50.268.813	8.742.402	34.969.609	6.556.802	41.526.411
Short-term loan for working capital	5.116.377	5.116.377	-	-	
Total	**62.429.097**	**15.551.811**	**40.320.484**	**6.556.802**	**46.877.286**

Financial lease related to purchase of production equipment and personal cars for the Parent Company. Short-term loans for working capital in the amount of HRK 5,116,377 related to cost overrun.

22. TRADE AND OTHER LIABILITIES

HRK

	31.12.2016	31.12.2017
Trade payables	69.632.004	49.731.773
Trade payables – participating interest	142.601	55.890
Employee payables	3.866.045	4.160.327
Tax and contribution	2.755.809	3.546.339
Received advances	6.478.269	1.029.860
Other liabilities	3.923.960	3.487.424
Accrued expenses and deferred income	4.371.260	3.621.622
Total	**91.169.948**	**65.633.235**

Profit tax liabilities amounted to HRK 8,995,118, which was entirely related to profit generated by the Parent Company, as both subsidiaries generated a loss for the business year 2017. During 2017, the Parent Company made advance tax payments in the total amount of HRK 634,509 resulting in a remaining tax obligation in the amount of HRK 8,360,609. By 6 February 2018, the Parent Company made an advance tax payment in the amount of HRK 51,194, and for this amount the tax obligation will be further reduced.

Other liabilities included matured liabilities towards HEP ESCO Ltd. for a commercial credit granted to the Parent Company for the energy-efficiency project in the amount of 2,562,281 Croatian Kuna.

Accrued expenses amounting to HRK 3,621,622 involved the cost of insurance premiums of the Parent Company relating to 2017 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 accrued expenses of the subsidiary company VIKTOR - SERVISI, whereas the amount of HRK 10,000 referred to the subsidiary company VL STEEL for accrued accounts payable.

Structure of trade payables by currency:

HRK

	31.12.2016	31.12.2017
HRK	66.249.647	44.455.153
EUR	3.487.574	2.166.934
USD	37.384	2.836.662
GBP	-	328.914
Total	**69.774.605**	**49.787.663**

23. RELATIONSHIP WITH RELATED ENTERPRISES

HRK

Related enterprises and key shareholders	2016	2017
Sale to related enterprises		
Sale to key shareholders	3.220.108	1.517.495
Purchase from related enterprises		
Purchase from key shareholders	942.687	508.398
Receivables from related enterprises		
Receivables from key shareholders	1.780.321	176.846
Liabilities to related enterprises		
Liabilities to key shareholders	142.601	55.890

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

Key management

The Management Board of the Parent Company is composed of the President of the Board and one Member of the Board. During 2017, Aljoša Pavelin held the position of President of the Board whereas position of Member of the Board was held by Sandra Uzelac. The total gross compensation for the members of the Group's Management Board for the year 2017 amounted to 1,809,324 Croatian Kuna.

The total gross compensation for the members of the Supervisory Board and Committee for Audit for the year 2017 amounted to 501,984 Croatian Kuna.

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

24. PROVISIONS

Long-term provisions in the amount of 1,533,909 Croatian Kuna related to provisions for legal proceedings of the Parent Company that have been started. Short-term provisions in the amount of 2,438,852 Croatian Kuna involved warranty repairs and provisions for unused vacation leave for the Parent Company's employees in 2017.

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 Dec 2017 in the amount of 16,963,771 Croatian Kuna involved obligations of the Parent Company to HEP ESCO Ltd. for the energy-efficiency project in the amount of 12,789,991 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 proceeding 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 Parent Company's revenues from sale is generated on the international market, mainly in EUR, therefore EUR-HRK exchange rate movements can affect its operating results. In 2017, a significant part of the revenue was generated in USD, where weakening of US Dollar against national currency resulted in slightly higher negative exchange rate differences. However, because of a relatively rapid turnover of receivables and foreign currency, currency risk is not significant, and the Parent Company does not use active hedging techniques in foreign currency transactions. Negative exchange rate differences generated in 2017 made less than 1% of the operating revenues for the year. Depending on estimate of the future USD/EUR trend, the Parent Company will, if necessary, use hedging instruments. On the other hand, the Parent Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in local currency.

Default risk

Default risk implies non-fulfilment of contractual obligations of other counterparties that could produce a monetary loss, primarily referring to trade receivables. The Parent Company uses different payment terms depending on client's financial capability assessment. The objective is to do business with steady customers, whose credibility can be assessed more safely having in mind long-term cooperation. In case there is a higher payment risk, the objective is to agree payment in full before redelivery. Trade receivables involve many customers, so the payment risk is dispersed. Trade receivables are discounted for doubtful receivables that generally make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus.

Liquidity risk

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

Fair value

The Group makes estimates of the fair value of financial assets and liabilities, following which, if necessary, valuation adjustments are made. 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 Group 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 2017 and 2016.

27. POTENTIAL LIABILITIES

As of 31 December 2017, the Parent Company was involved in several disputes which have arisen from its business operations and a few disputes over indemnity obligations deriving from employment relationships. The Parent Company has already made provisions in its books for such claims in case of unfavourable outcomes.

28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In application of accounting policies, the Group'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 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 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 Company.

31. COURT DISPUTES

On 31 December 2017, the Parent Company litigated in 28 proceedings worth about 2.04 Croatian Kuna as the defendant, and 6 proceedings having a capital value of approximately 0.71 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 Company against its debtor, which ended in favour of the debtor under the statute of limitations, the debtor filed a lawsuit against the 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 Company to inflict damage to the debtor by arresting the ship. In the first (lost) case, the 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 Company believes that the risk of losing the litigation in which the Company is now found as a defendant is very small, since the alleged intention of the Company to incur damage to the opposing party is almost impossible to prove. According to the latest findings, it is likely that the dispute will end with the agreement which will not have any consequences for the financial position of the Parent Company.

32. MORTGAGE

The Parent 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 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 Dec 2017 amounted to 55,385,191 Croatian Kuna, of which 50,268,814 Croatian Kuna involves the investment loan, and the remaining amount is cost overrun.

33. CASH FLOW STATEMENT

Cash Flow Statement 2017 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 20 April 2018.

BRODOGRADILIŠTE VIKTOR LENAC d.d. 1896 Rijeka, Martinšćica bb 2

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board