NON-CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2020

SHIPYARD
1896 VIKTOR LENAC
Member of Palumbo Group

April 2021

CONTENTS

STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the financial statements for the year 2020 in accordance with the International Financial Reporting Standards applied in the European Union and Croatian Accounting Act to give a true and fair view of financial performance and financial results of the Company for the year.

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

In the preparation of financial statements, the Management Board acknowledges their responsibility for:

- the implementation and consistent application of the appropriate accounting policies;
- giving reasonable and conservative estimates;
- the fair presentation of the financial statements in accordance with applicable financial reporting standards, disclosure and interpretation of any significant deviation in the financial statements;
- producing the financial statements under the assumption of the continuity of business for an indefinite period, unless it is inappropriate to assume that the Company 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 Company with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and Accounting Act in force in the Republic of Croatia.

We, also, acknowledge our responsibility for taking care of the Company's assets and for undertaking reasonable measures for preventing and revealing embezzlements and other irregularities.

The financial statements have been approved by the Management Board on 20 April 2021.

BRODOGRADILIŠTE VIKTOR LENAC d.d. Rijeka, Martinšćica bb

Sandra Uzelac
Member of the Management Board

IRIS NOVA

REVIZIJA, POREZNO SAVJETOVANJE,
FINANCIJSKE ANALIZE I USLUGE

INDEPENDENT AUDITOR'S REPORT

To the shareholders of the joint stock company Brodogradilište Viktor Lenac, Rijeka

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the joint stock company BRODOGRADILIŠTE VIKTOR LENAC, Rijeka, Martinšćica bb, Croatia ("the Company"), which comprise the Non-consolidated Comprehensive Income Statement for the year ended 31 December 2020, Non-consolidated Statement of Financial Position as at 31 December 2020, Non-consolidated Cash Flow Statement as at 31 December 2020, Non-consolidated Statement of Changes in Equity and Notes to the financial statements, including a summary of significant accounting policies ("the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with the Accounting Law and International Financial Reporting Standards (IFRSs) which were established by the European Commission and published in the European Union's official journal.

Basis for Opinion

We conducted our audit in accordance with the Accounting Law, Audit Law and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

/i/ We draw attention to Note 2.1 Statement of compliance and the basis of reporting in the accompanying financial statements, stating that the consolidated financial statements of the Company, which comprise the Company and its subsidiary (the "Group"), have been disclosed on 20 April 2021. The Group consolidated statements have been prepared in accordance with International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union. For a better understanding of the Group as a whole, users should read consolidated financial statements together with these accompanying financial statements. Our opinion is not modified in respect of this matter.

/ii/ We draw attention to Note 32 Impact of the COVID-19 Pandemic, in which the Management emphasized the impact of COVID-19 on the Company's financial statements in 2020 and future periods as well as the impact on liquidity. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from sales

For the accounting policies, see Note 2.3.a and 30 to the financial statements. For additional information related to identified key audit matter, see Note 4 to the financial statements.

Key Audit Matter	How our audit addressed the key audit matter
In accordance with the requirements of International Standards on Auditing, special attention is paid to the presentation of revenue, according to which revenue always represents a significant risk of misstatement. Therefore, we addressed the accuracy and comprehensiveness of revenues from the Company's business activities as a key audit matter.	To address the risks associated with sales revenue that we identified as a key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for concluding on the matter. We conducted test of controls and test of details in order to confirm the main internal controls of sales and in this regard contracts with issued invoices and reported revenues.

Other Matter

The Company's financial statements for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 April 2020.

Other Information

Management is responsible for the other information. The other information contains information included in the Annual Report, but do not include annual financial statements and our independent auditor's report.

Our opinion on the annual financial statements does not include the other information, except to the extent explicitly stated in the section of our independent auditor's report under 'Report on other regulatory requirements' and we do not express any kind of conclusion on the other information by expressing our opinion.

Regarding our audit of annual financial statements, our responsibility is to read the other information and consider whether they are significantly inconsistent with the annual financial statements, or with our knowledge acquired in the audit, or otherwise appear to be misstated. If, based on our audit, we conclude there is a significant misstatement in the other information, we are required to report our findings. In that regard, we have nothing to report.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on the Audit of the Financial Statements (continued)

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

Report based on the requirements of Regulation (EU) no. 537/2014

1. We were appointed as the statutory auditor of the Company at the General Shareholders' Meeting held on 22 December 2020 to perform audit of annual financial statements for 2020. This audit engagement is the first year of performing statutory audit of the Company.

2. Apart from the issues we have identified in our independent auditor's report as key audit matters, we have nothing to report on point (c) of Article 10 of Regulation (EU) no. 537/2014.

3. Through our statutory audit of the Company's annual financial statements for 2020, we are able to 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 review whether the Company has complied with laws and regulations which have a direct effect on determining significant amounts and disclosures in its annual financial statements, but compliance with which may be critical to the operational aspects of the Company's operations, its ability to continue as a going concern or to avoid significant penalties.
   Unless we encounter, or become aware of, non-compliance with any of the foregoing laws or regulations that is manifestly insignificant, in our judgment of its content and its impact, financial or otherwise, to the Company, its stakeholders and the general public, we are obligated to inform the Company and request that it investigates the case and takes appropriate measures to address the irregularities and to prevent the recurrence of those irregularities in the future. If the Company does not correct the irregularities in the audited annual financial statements that are cumulatively equal to or greater than the amount of materiality for the financial statements as a whole as at the date of the audited balance sheet, we are required to modify our opinion in the independent auditor's report.
   In the audit of the Company's annual financial statements for 2020, we determined the materiality for the financial statements as a whole in the amount of HRK 5.7 million, which represent approximately 1.9% of the Company's total revenue. Based on this materiality threshold, together with qualitative considerations, we have determined the scope of the audit, type, timing and volume of our audit procedures as well as determined the impact of misstatement, individually or in aggregate, on the Company's financial statements. We believe that revenue is an appropriate measure because it is the most common measure of the Company's business performance used by shareholders.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Report based on the requirements of Regulation (EU) no. 537/2014 (continued)

4. Our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company in accordance with the Article 11 of Regulation (EU) No. 537/2014;

5. During the period between the initial date of the audited annual financial statements of the Company for 2020 and the date of this report, we did not provide prohibited non-audit services to the Company and did not provide services for designing and implementing internal controls or risk management procedures related to preparation and/or control of financial information or design and implementation of technological systems for financial information, and we have maintained our independence from the Company in performing the audit.

Report based on the Requirements of the Accounting Law

1. In our opinion, based on our conducted audit, the information in the enclosed Management report of the Company for 2020 are consistent with the enclosed annual financial statements of the Company for 2020.

2. In our opinion, based on our conducted audit, the enclosed Management report of the Company for 2020 is compiled in accordance with the Accounting Law.

3. Based on our knowledge and understanding of the Company and its environment, acquired by conducting our audit, we have not determined significant misstatements in the Management report.

4. In our opinion, based on our conducted audit, the statement on the application of the corporate governance code, included in the Company's Annual Report for 2020, is in accordance with the requirements specified in Article 22, paragraph 1, items 3 and 4 of the Accounting Law.

5. The statement on the application of the corporate governance code, included in the Company's Annual Report for 2020, includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Law.

The engagement partner on the audit resulting in this independent auditor's report is Zdravko Ružić.

Rijeka, 20 April 2021

IRIS nova, audit, tax consulting, financial analysis and services, Ltd

Rijeka, Fiorello la Guardia 13/III

Croatia

On behalf of IRIS nova d.o.o.

Management

Ljiljana Blagojević

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

Chartered auditor

Zdravko Ružić

NON-CONSOLIDATED COMPREHENSIVE INCOME STATEMENT AS AT 31 DECEMBER 2020

HRK

	Note	2019	2020
OPERATING REVENUES		**319.629.741**	**305.199.981**
Revenues from sales	4	295.915.757	264.539.641
Other operating revenues	5	23.713.984	40.660.340
OPERATING EXPENSES		**296.180.068**	**262.415.109**
Changes in inventories of finished goods and work in progress		2.939.618	-
Material expenses	6	195.577.990	160.663.131
Employee expenses	7	63.155.567	60.728.401
Depreciation	8	21.224.878	31.453.597
Value adjustments	9	1.143.900	10.952
Provisions	10	1.607.356	1.202.687
Other expenses	11	9.497.380	7.840.653
Other operating expenses	11	1.033.379	515.688
EBIT		**23.449.673**	**42.784.872**
NET FINANCIAL (EXPENSES) / INCOME		**(2.107.852)**	**(1.034.779)**
Financial income	12	179.898	712.435
Financial expenses	12	2.287.750	1.747.214
PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX		**21.341.821**	**41.750.093**
PROFIT TAX	13	**504.065**	**6.551.087**
PROFIT / (LOSS) FOR THE YEAR	13,14	**20.837.756**	**35.199.006**
Earnings per share (HRK)		1,30	2,20
NET PROFIT / (LOSS) FOR THE YEAR		**20.837.756**	**35.199.006**
Profit/loss after revaluation of financial assets held for sale		(66.356)	147.694
Deferred tax assets		417	(44.936)
COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**20.771.817**	**35.301.764**

NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

HRK

	Note	2019	2020
ASSETS			
Fixed assets		**286.213.589**	**286.918.691**
Intangible Assets	15	5.477.339	5.336.969
Buildings, plants and equipment	15	270.765.295	270.475.162
Investment in real-estate	15	-	2.007.236
Investments in subsidiaries	16	778.259	15.000
Financial assets measured at fair value through other comprehensive income – investment securities	17	290.422	110.112
Financial assets measured at amortized cost - deposits	18	8.378.261	8.482.011
Deferred tax assets		524.013	492.201
Short-term assets		**132.142.746**	**102.064.470**
Inventories	19	14.925.987	14.661.908
Financial assets measured at amortized cost	18	76.318	-
Trade and other receivables	20	100.514.363	51.863.469
Money in bank and cash in register	21	14.618.842	35.539.093
Assets held for sale	15	2.007.236	-
Total Assets		**418.356.335**	**388.983.161**
EQUITY AND LIABILITIES			
Equity and reserves	22	**242.918.740**	**281.238.814**
Share capital	22	168.132.470	168.132.470
Reserves		53.948.514	77.907.338
Retained profit/loss	22	20.837.756	35.199.006
Long-term liabilities		**42.815.223**	**33.672.413**
Debentures with interest charge	23	29.175.819	22.953.539
Provisions	26	1.405.998	837.528
Deferred tax liability		-	13.124
Other long-term liabilities	27	12.233.406	9.868.222
Short-term liabilities		**132.622.372**	**74.071.934**
Debentures with interest charge	23	33.267.346	23.200.290
Profit tax payable	13	232.818	6.260.260
Trade and other payables	24	97.589.510	43.628.077
Provisions	26	1.532.698	983.307
Total Liabilities		**175.437.595**	**107.744.347**
Total Equity and Liabilities		**418.356.335**	**388.983.161**

NON-CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2020

HRK

	Note	2019	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	13,14	21.341.821	41.750.093
Value adjustments in respect of:			
Depreciation of real estates, facilities and equipment		21.224.878	31.453.597
Gains and losses from sale and value adjustments in respect of tangible and intangible assets, net	5, 15	682.792	(6.222)
Gains and losses from sale, unrealized gains and value adjustments in respect of financial assets, net	9	249.127	132.086
Value adjustments in respect of inventories	9	225.068	-
Shortage, surplus and expense of material inventories, net	5, 11	125.170	(7.716)
Income from interests and dividends	12	(179.898)	(199.215)
Interest expenses	12	1.949.524	1.679.831
Provisions	5, 10	813.844	(1.117.861)
Exchanges rate difference (unrealized)	12	(459.290)	641.239
Profit tax cost	13	(562.818)	(6.551.087)
Increase in accrued revenues and costs	20, 24	(480.048)	7.783.385
Profit from operating activities before changes in working capital		**44.930.170**	**75.558.130**
Decrease in inventories		2.684.148	2.307.357
(Decrease)/Increase in short-term receivables		(30.832.644)	32.653.938
Decrease in liabilities		(2.889.452)	(43.344.716)
Profit tax paid		(440.000)	(514.226)
Interest paid		(1.869.177)	(644.678)
CASH FLOW FROM OPERATING ACTIVITIES		**11.583.045**	**66.015.805**
INVESTING ACTIVITIES			
Acquisition of real estates, facilities, equipment and intangible assets	15	(17.297.335)	(33.058.656)
Inflow from sale of fixed assets	5	38.905	6.222
Investment into financial assets		76.203	(110.111)
Inflow from interests		179.898	199.215
Inflow from dividends		-	-
Granted loans		-	-
Inflows on loans		53.893	76.318
CASH FLOW FROM INVESTING ACTIVITIES		**(16.948.436)**	**(32.887.012)**
FINANCIAL ACTIVITIES			
Inflows from debentures with interest charge		32.569.219	2.145.451
Repayment of debentures with interest charge		(22.956.557)	(18.423.252)
Other cash inflows from financial activities			4.069.259
CASH FLOW FROM FINANCIAL ACTIVITIES		**9.612.662**	**(12.208.542)**
TOTAL (DECREASE) / INCREASE OF CASH FLOW (I+II+III)		**4.247.271**	**20.920.251**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		10.371.571	14.618.842
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**21**	**14.618.842**	**35.539.093**

NON-CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

HRK

	Share capital	Legal reserves	Reserves for own shares	Own shares	Other reserves	Retained profit/loss	Total
Status as at 1 January 2019	168.132.470	8.406.624	12.540.000	(8.055.772)	62.136.199	(21.012.598)	**222.146.923**
Profit for the year	-	-	-	-	-	20.837.756	20.837.756
Changes in reserves of the fair value of financial instruments held for sale	-	-	-	-	(65.939)	-	(65.939)
Total comprehensive income/loss for 2019					**(65.939)**	**20.837.756**	**20.771.817**
Redirected into reserves per 2018 profit allocation	-	-	-	-	(21.012.598)	21.012.598	-
Status as at 31 December 2019	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**41.057.662**	**20.837.756**	**242.918.740**
Profit for the year	-	-	-	-	-	35.199.006	35.199.006
Changes in reserves of the fair value of financial instruments held for sale	-	-	-	-	102.758	-	102.758
Total comprehensive income/loss for 2020					**102.758**	**35.199.006**	**35.301.764**
Attribution of the capital of the subsidiary Viktor Servisi d.o.o.	-	-	-	-	3.018.310	-	3.018.310
Redirected into reserves per 2019 profit allocation	-	-	-	-	20.837.756	(20.837.756)	-
Status as at 31 December 2020	**168.132.470**	**8.406.624**	**12.540.000**	**(8.055.772)**	**65.016.486**	**35.199.006**	**281.238.814**

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Brodogradilište Viktor Lenac", headquartered in Rijeka, Croatia at Martinšćica bb, (hereinafter referred to as the „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 Company amounts to HRK 168,132,470 and is divided in:
- 15.988.060 registered ordinary shares in non-materialized form, each having a nominal value of HRK 10;
- 825.187 own shares, each having a nominal value of HRK 10.

According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb, the 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 Company's main activity is newbuilding, shiprepair and conversion and other services carried out onboard ships and other floating vessels. The Company has been registered for other activities such as steel constructions, organization, trade, engineering and other services.

The Company's shares are listed on the regularly operating market of Zagreb stock exchange. The Company's LEI code is 74780060BA4DPK8V1P23, the home member state is the Republic of Croatia, while the security code is V-LEN.

On the day of 31 December 2020, the Company employed 364 employees (2019: 370 employees).

At the Extraordinary General Assembly held on January 15, 2020, new members of the Supervisory Board were elected to replace Antonio Palumbo and Raffaele Palumbo who had resigned, Vittorio Carratù appointed President of the Supervisory Board and Antonio Genarelli, who joined the former members of the Supervisory Board, Francesco Ciaramella and Giorgio Filippi, who held their positions throughout 2020. The function of the fifth member of the Supervisory Board, in the capacity of workers' representative throughout 2020, was performed by Zoran Košuta.

In 2020, the Company's Committee for Audit was composed of the following members: Francesco Ciaramella, Vittorio Carratù and Giorgio Filippi, appointed by the Company's Supervisory Board.

In 2020, the Company's Supervisory Board established a Remuneration Committee and a Nominations Committee both composed of the following members: Vittorio Carratù, Francesco Ciaramella and Antonio Genarelli.

On the day of 31 December 2020, the Management Board was composed of the single member of the Management Board, Sandra Uzelac.

The Company had the following ownership structure as at 31 December 2020:

	Shareholder	Number of Shares	Percentage of Equity
1	PALUMBO GROUP S.P.A. (1/1)	8.354.563	49,69
2	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ GUARDIANSHIP ACCOUNT	5.426.897	32,28
3	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
4	JADROAGENT D.D. (1/1)	324.766	1,93
5	RAPIĆ MIRKO (1/1) / R.L.E. ZA POPRAVAK I PREINAKE METALNIH BRODOVA, MIRKO RAPIĆ T.P.	105.211	0,63
6	RAZMAN ENES (1/1)	58.015	0,35
7	ČOLAK ZVONIMIR (1/1)	57.009	0,34
8	KERA IVANA (1/1)	51.755	0,31
9	KALČIĆ ELVIO (1/1)	47.127	0,28
10	Others	1.562.717	9,28
	Total:	**16.813.247**	**100,00**

In accordance with the International Financial Reporting Standards and Croatian law, the Consolidated Financial Statements of the Company and its subsidiary shall be published as a separate document. The Management Board of the Company approved the Non-Consolidated Financial Statements for submission to the Supervisory Board on 20 April 2021.

The Company's financial statements are prepared in Croatian as the official language. The financial statements are also available to foreign stakeholders in English.

The accounting policies given below have been applied consistently for all periods presented in these financial statements.

2. BASIC ACCOUNTING POLICIES

Basic accounting policies applied in preparation of the financial statements are as set forth below. These accounting policies have been consistently applied for all periods included in these reports unless otherwise stated.

2.1. STATEMENT ON COMPLIANCE AND BASICS OF REPORTING

Financial Statements for 2020 have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia and International Financial Reporting Standards applied in the European Union.

The Non-Consolidated Financial Statements of the Company have been prepared using the basic accounting assumption of the occurrence of an event, according to which the effects of transactions are recognized when they occurred and are presented in the financial statements for the period to which they relate, and using the basic accounting assumption of business continuity.

The Consolidated Financial Statements of the Shipyard "Viktor Lenac" d.d. and its subsidiary in which it has a controlling interest (the "Group") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and have been published on April 20, 2021. For a better understanding of the Group as a whole, users should read the Consolidated Financial Statements together with these Non-Consolidated Financial Statements.

Accounting policies applied in the preparation of the 2020 financial statements have not changed compared with the previous year. The financial statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.

The Company's financial statements have been prepared in Croatian Kuna (HRK) as measuring or reporting currency.

According to IFRSs, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank at 31 December 2020 as follows:

1 EUR = HRK 7,536898	(31 Dec 2019: 1 EUR = 7,442580 HRK)
1 USD = HRK 6,139039	(31 Dec 2019: 1 USD = 6,649911 HRK)
1 NOK = HRK 0,716912	(31 Dec 2019: 1 NOK = 0,754336 HRK)
1 GBP = HRK 8,353910	(31 Dec 2019: 1 GBP = 8,724159 HRK)

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

First application of new amendments to effective standards which are relevant for current reporting period

Standards, amendments to effective standards and clarifications issued by the International Accounting Standards Board (IASB) and adopted by the European Union, effective in current reporting period are as follows:

- **Amendments to IFRS 3 Business Combinations - Amendments to the definition of a business aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.** The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period, early adoption permitted.

- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates of Errors** - The definition of material is effective for annual periods beginning on or after 1 January 2020, early adoption permitted. The amendments clarify the definition of material and its application. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." Additionally, the explanations of the accompanying definitions have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards.

- **Amendments to References to the Conceptual Framework in IFRS Standards** – revision issued on 29 March 2018. The conceptual framework provides a comprehensive set of principles and concepts for financial reporting, disclosure of standards, references to defining consistent accounting policies, and assistance in understanding and interpreting standards. The Board issued a separate accompanying document, Amendments to References to the Conceptual Framework for Financial Reporting, which sets out amendments to the standards for the purpose of updating the references in the Conceptual Framework for Financial Reporting. The objective of the accompanying document is to monitor and support the transition to the amended Financial Reporting Conceptual Framework for companies that prepare their accounting policies under the Financial Reporting Conceptual Framework, and when no IFRS standard is applicable to a particular transaction. For companies that base their accounting policies on the Conceptual Framework for Financial Reporting, it is effective for annual periods beginning on or after 1 January 2020.

- **Interest Rate Benchmark Reform and Amendments to IFRS 9, IAS 39 and IFRS 7** effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively, early adoption permitted. In September 2019, the International Accounting Standards Board adopted amendments to IFRS 9, IAS 39 and IFRS 7, thus completing the first phase of its work on the project of defining the effects of the Interbank

Offered Rate (IBOR) reform on the financial reporting. The published Amendments address issues affecting financial reporting in the period prior to the interest rate benchmark reform and address the implications of specific hedge accounting requirements due to the progressive analysis required by IFRS 9 Financial Instruments and IAS 39 Financial instruments: Recognition and measurement. The amendments provided temporary relief applicable to all hedge accounting relationships directly affected by the interest rate benchmark reform, allowing the application of hedge accounting to continue during the period of uncertainty before replacing existing interest rates with a near risk-free alternative interest rate. Amendments to IFRS 7 Financial Instruments: Disclosures relating to additional disclosures of uncertainty arising from the interest rate benchmark reform have also been adopted. The second phase will focus on issues that could affect financial reporting when the existing interest rate is replaced by a risk-free interest rate (RFR).

The adoption of these amendments to existing standards and interpretations did not lead to material changes in the Company's financial statements.

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

The following standards, amendments to standards and interpretations have been issued at the date of approval of these financial statements but are not yet effective and have not been previously adopted:

- **IFRS 17 Insurance Contracts** is effective for annual periods beginning on or after 1 January 2021, earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have already been adopted. IFRS 17 Insurance Contracts establishes the principles of recognition, measurement, presentation and disclosure of insurance contracts. In addition, the standard requires the application of similar principles to reinsurance contracts and investment contracts with discretionary participation features. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. Such information provides users of financial statements with a basis for assessing the impact of insurance contracts, within the scope of the IFRS 17, on the financial position, financial results and cash flows of the Company. The standard has not yet been adopted at EU level and is not applicable to the Company.

- **IFRS 17 Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)** Amendments to IFRS 17 are effective, retroactively, for annual periods beginning on or after 1 January 2023, earlier adoption permitted. The amendments are aimed at assisting companies in implementing the standards. They are specifically designed to reduce costs by simplifying certain standards requirements, facilitating the explanation of financial results as well as facilitating the transition by postponing the application of the standard until 2023 and providing additional reliefs to reduce the effort required to first apply IFRS 17. Amendments to IFRS 4 introduce the option to defer the fixed expiry date providing entities with a temporary exemption from application of IFRS 9 and would have to apply it from 1 January 2023. Amendments to IFRS 17 have not yet been adopted at EU level and are not applicable to the Company.

- **Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture** address inconsistencies between IFRS 10 and IAS 28 related to sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss should be recognized on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not. A partial gain or loss is recognized in accounting for the loss of control of a subsidiary that does not constitute a business as a result of a transaction between an investor and its associate or joint venture. In December 2015, the Board deferred the date of application of these amendments indefinitely until the research project on the equity method has been concluded. These amendments have not yet been adopted at EU level and the Management Board anticipates that the adoption of these amendments will not have a significant impact on the Company's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** The amendments are effective for annual periods beginning on or after 1 January 2022, earlier adoption permitted. However, in response to the COVID-19 pandemic, the Board deferred its application for one year or until 1 January 2023, to give companies more time to implement the classification changes resulting from the amendments. The aim of the amendments is to encourage consistency in the application of standard requirements by helping companies determine whether debts and other liabilities with an uncertain settlement date should be classified in the statement of financial position as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position, but do not change the existing requirements regarding the measurement or recognition of assets, liabilities, income or expenses, or the information that the company discloses in the notes related to these positions. In addition to the above, the amendments explain the requirements for classification of liabilities that a company can settle by the issue of equity instruments. These amendments have not yet been adopted at EU level, and the Management Board anticipates that their adoption will not have a significant impact on the Company's financial statements.

- **IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the Annual Improvements to IFRS Standards 2018-2020 (Amendments)** are effective for annual periods beginning on or after 1 January 2022 year, earlier adoption permitted. The Board has issued amendments to IFRSs of limited scope as follows:
  - **IFRS 3 Business Combinations (Amendments)** includes an updated reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, such sales revenue and related expenses should be recognized in the income statement.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous.
  - **Annual improvements to IFRS Standards 2018-2020** include minor amendments to IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and the illustrative examples accompanying IAS 41 to IFRS 16 Leases. The amendments have not yet been adopted at the EU level, and the Management Board anticipates that their adoption will not have a significant impact on the Company's financial statements.

- **IFRS 16 Leases - Covid-19-Related Rent Concessions (Amendments)** are applied retroactively for annual periods beginning on or after 1 June 2020. Earlier adoption is permitted only in financial statements not yet authorized for issue on May 28, 2020. The Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient will only apply if:
  - the revised consideration is substantially the same or less than the original consideration,
  - the reduction in lease payments relates to payments due on or before 30 June 2021.
  - no other substantive changes have been made to the terms of the lease.

  This amendment did not have an impact on the Company's financial statements.

- **Interest rate benchmark reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the Board announced Phase 2 of the interest rate benchmark reform, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work to respond to the Interbank Offered Rate (IBOR) reform. The amendments should provide for temporary reliefs from the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR). In particular, the amendments provide a practical expedient to account for these changes in the basis for determining the contractual cash flows of financial assets and liabilities, to allow the effective interest rate to be adjusted to actual interest rate movements. Also, the amendments introduce reliefs from discontinuation of hedge accounting including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk. Furthermore, the

amendments to IFRS 4 are designed to enable insurers that still apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. Amendments to IFRS 7 Financial instruments are also envisaged: Disclosures that enable users of financial statements understanding the effects of interest rate benchmark reform on a company's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021, earlier adoption permitted. Although the application is retroactive, the Company is not obliged to revise previous periods.

According to the Company's estimates, the application of these new standards and amendments to existing standards would not have a significant material impact on the financial statements.
Hedge accounting for a portfolio hedge of a financial asset or financial liability whose principles have not been adopted in the EU remains unregulated.

2.3. KEY ASSUMPTIONS, 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 Company, disclosure of potential items on balance sheet date and disclosed revenues and expenses of the period then ended.

The following estimates were used, including, without limitation: calculation of depreciation and remaining value of real-estate, plants, equipment and intangible assets, impairment estimates, value adjustments in respect of inventories and doubtful receivables, provisions for employees' salaries and wages, and litigations. More details on accounting policies relative to these estimates can be found in other parts of this note as well as other notes to the financial statements. The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements made in preparing financial statements are subject to changes due to new events, additional information, new experience or changes in business environment. Actual results may differ from estimates.

The basic accounting policies applied in preparation of financial statements for the year 2020 are as set forth below:

a) Revenues

Revenues are recognized upon reliable measurement of their amount and economic benefits for the Company, and when they fulfil specific criteria for all activities of the Company.
Revenues from sales of goods and services are recognized if:

- The Company has a contract with a customer, written or verbal, which determines rights and obligations, conditions and due dates, and there is a liable probability that the Company will collect rightful recompense for negotiated obligation;
- The Company can determine its obligations based on contract with customer, i.e. obligations to transfer goods or services, deferred, related or involved with other resources required to provide service to customer;
- The Company can, based on a contract, determine or estimate selling price of the rightful transaction in exchange for goods or services to customers, which price can be determined by contract, price list, past doings or usual commercial practice;
- The price of the transaction can be separated for each contractual obligation, i.e. separate actions, which can be determined in contract or reliably estimated using a price list, past doings or usual commercial practice;
- The Company fulfilled its contractual obligation completely at a given time or partially in longer period, where the Company meets its obligations in accordance with the contractual deadlines over a longer period.

Revenues resulting from contractual obligations which are fulfilled during a period of time, are recognized to the extent that they have been incurred, under following conditions:

- The cost of partial deliveries can be determined or reliably estimated;

- The customer accepted goods or services and/or has control over accepted goods and services, or the Company is improving customer's assets while under the control of the customer; or
- The Company generated expenses of resources or inputs for delivered goods or services.

For measuring progress towards complete fulfilment of a performance obligation over time the Company can use the following methods:
- Output methods - based on direct measurement of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract;
- Input methods - measuring progress based on costs generated to recognise revenue on a straight-line basis if the entity's efforts or inputs are spread evenly throughout the performance period;
- Combination of output and input methods to question and evaluate credibility of both methods for the purpose of fair valuation of reported revenues.

Government grants are recognized in income for the period in which the related costs will be incurred, if:
- The terms of the grants have been met;
- It is likely that the grants will be received.

Financial income includes interests on invested funds, positive exchange rate differences, revenues 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 managed in such a way that periodic accounting system determines expenses which are applicable to recognition in the calculation of the financial result of the current year.

The recognition of expenses occurs if:
- Expenses result in decrease of funds or increase of liabilities that can be reliably measured;
- Expenses have direct relation to occurred costs and revenues;
- When it is expected to achieve revenues in multiple reporting periods, recognition of expenses is performed by allocation on reporting periods;
- Expense is immediately recognized in the reporting period when outflow does not achieve future economic benefit, and there are no conditions to be recognized as assets in the balance sheet;
- Expense is immediately recognized in the reporting period upon appearance of liability, and there are no conditions to be recognized as an asset.

Losses that can be identified as expenses are reported as expenses. In that case losses should be related to occurring revenues. Losses are covered with revenues of the reporting period.

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

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

c) Financial result and profit tax

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

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

Deferred tax assets and deferred tax liabilities are recognized in case of changes of valuation of financial and other assets of the Company, which have not produced profit or loss consequently creating temporary difference between accounting profit and taxable profit. Deferred tax assets refer to tax losses carried forward, unused tax benefits and deductible temporary differences, and are offset in subsequent tax periods when the conditions for recognizing previously unrecognized unrealized losses are fulfilled or represent previously paid income taxes for return in subsequent periods. Deferred tax liabilities refer to future profit tax liability on current not yet realised profits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets are calculated at tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority to the Company or another taxpayer who intends to settle the current tax liability and assets on a net basis.

d) Profit/loss after revaluation of financial assets measured at fair value through other comprehensive income

In the case of selling long-term financial assets measured at fair value through other comprehensive income, the effects are recorded in profit/(loss) statement.

e) Fixed intangible assets

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

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
- The cost of the asset can be measured reliably; and
- Its single acquisition value exceeds HRK 3,500.

If the criteria are not met, the costs are recorded as current period expenses.

After initial recognition, intangible asset is recorded based on its acquisition cost decreased for value adjustment (accumulated depreciation) and for accumulated losses from impairment.

Intangible assets are excluded from the balance sheet in case of disposal or if there are no expected future economic benefits from it. Gains or losses (difference between revenues from disposal and book value) arising from disposal or withdrawal of intangible assets are recognized as revenues or expenses of the current period.

Intangible assets are depreciated as every single item by linear method against the rate of 5-25% annually.

Depreciation is recorded from the first day of the following month after the fixed intangible asset has been activated.

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

f) Fixed tangible assets

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

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

Fixed tangible assets are recognized if the following conditions are fulfilled:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the Company;
- The cost of the asset can be measured reliably;
- Its single acquisition value exceeds HRK 3,500 and useful period of life exceeds one year.

Exceptionally, if the single value of the asset does not exceed HRK 3,500 and it is undoubtedly evaluated that its useful period of life exceeds one year, it is considered as fixed tangible asset and is completely written-off as expense of the current period.

Fixed tangible assets that do not exceed value of HRK 3,500 nor its useful period of life exceeds one year are recorded as inventory and therefore are completely written-off upon activation.

Upon acquisition, fixed tangible assets are recorded in the business books at acquisition value.

Goods and services created by the undertaking itself and used as tangible assets are recorded at their production value, under condition that the production value does not exceed net market value. Production value does not include internal profits, unusual values of waste material, work and other assets. The production cost is determined pursuant to IAS 2 – Inventories. Additional costs are included in the book value of the assets or, if needed, are recognized as separate assets only if the 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.

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

If while in use a fixed tangible asset has been damaged or withdrawn from active use, the asset is depreciated up to the end of month when it was withdrawn from active use. If its net book value exceeds its sale value, the difference is recorded as expense upon sale (net principle recording). In case its sale value exceeds its book value, the difference is recorded as revenue of the current period (net principle recording).

Depreciation is charged for each single asset, against linear method at rates suitable for disposal of acquisition value through its evaluated useful period of life. Land and assets under construction are not depreciated.

Rates applied for depreciation are as follows:

• Buildings	2.5-10%
• Ships and docks	2.5-10%
• 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 Board's decisions uses legally recognized accelerated depreciation rates.

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

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

Fixed assets are recorded in the balance sheet even if they are completely written-off, up to sale, gift, or disposal of any kind.

Real estate investments are recorded at fair value.

g) Long-term financial assets

Long-term financial assets represent investment of cash, goods and assignment of rights for generating revenue. Return on the investment is expected in period exceeding one year.

Accounting policy and procedures differ depending whether the investments occurred from:
- Investments in participation at others up to 20% of voting power;
- Investment into related companies - companies in which the Company has significant influence but no control, which typically includes 20% to 50% of the voting rights;
- Investments through business relations with partners in market.

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

Long-term financial investments in associates (share of 20% - 50%) are recorded in the books by the cost method affected by eventual depreciations, whilst the equity method is used in consolidated reports.

Investments in financial assets that do not relate to investments in subsidiaries and related companies are measured at amortized cost and assets measured at fair value through other comprehensive income.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with a maturity of more than 12 months after the balance sheet date. Such assets are classified as long-term financial assets. Receivables are stated at amortized cost using the effective interest rate method.
The impairment policy is set out in Note 2.3.j and 2.3.k.

(b) Financial assets measured at fair value through other comprehensive income

After initial measurement, for financial assets measured at fair value through other comprehensive income, the gain or loss from the change in fair value is recognized in other comprehensive income. Foreign exchange gains or losses are recognized in profit or loss in the income statement. If the financial assets are derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as reclassification adjustment.

h) Investments in subsidiaries

Investments in subsidiaries refer to investments of cash, goods and assignment of rights with the aim of earning revenue through a majority interest in another company, with a share of more than 50%, expected to be repaid over a period exceeding one year.

Long-term financial investments in subsidiaries are accounted using the cost method.

i) Inventories

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

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

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

When and unless the circumstances that led to an earlier decrease in value or write-down of inventories, no longer exist, the value of inventories should be increased up to the cost of acquisition or the value that can be realized and consumed as such in regular production.

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

Inventories that are damaged during handling and storage, as well as inventories that lose their useful value, are determined through inventory procedures or by special commissions and, with the approval of the responsible person and in accordance with tax regulations, are written off on the account of regular operating expenses.

If the Company, up to the reporting period, does not conclude an initiated commercial contract, and if the criteria for revenue recognition under IRFS 15 have not been met, the value of inventories of production in progress is recorded as at 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 production costs, which occurred by the end of the reporting period:

- Variable and fixed direct production costs that can be directly related to a 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 of 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 or 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 or value of inventories of production in progress does not include profit or general and administrative expenses which cannot be related to a service, but charge expenses of the period when they occurred.

j) Receivables

Trade receivables, receivables from state, employees and other legal and private persons are recorded in the business books based on valid documentation of their occurrence and data on their value.

Trade receivables from foreign customers expressed in foreign exchange currencies are recorded in national currency, calculated based on mean exchange rate of the Croatian National Bank as at the date of recording the receivable. Upon collection of receivables, the differences that occur due to exchange rate are recorded as revenues or expenses of the Company.

Outstanding trade receivables from foreign customers as at the balance sheet date are reported at mean exchange rate of the Croatian National Bank and the exchange rate differences are recorded as revenues or expenses.

Receivables are initially recognized at fair value in the Company's books of account and subsequently measured at amortized cost.

The increase in interest receivable is based on the contract and default interest rate calculations. Value adjustments in respect of receivables are made on the basis that it is established that the receivable has not been collected within the due time or that it is uncollectible and claimed on court. The decision on adjusting the value of receivables is made by the Management Board.

Value adjustments in respect of receivables are recognized in the income statement of the Company (Note 30), and as stated in Note 2.3 k) *Impairment of short-term financial assets, including receivables*.

k) Short-term financial assets

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

Short-term financial investments within one year are recorded in business books at investment cost. The value is determined for each investment. Subsequent measurement of short-term financial investments is recognized at amortized cost.

Impairment of short-term financial assets, including receivables

Estimates of future expected credit losses are made based on the average write-off rate in previous years and its application to non-revaluated short-term financial assets at the reporting date (Note 30). The Company uses a simplified approach to allocate receivables to Level 2 and Level 3 as required by IFRS 9. Receivables over 365 days are allocated to Level 3.

Upon acknowledging higher risk of collecting these assets and termination of litigations, where there is evidence of impairment, value adjustments in respect of short-term financial assets are carried out in an amount that reflects the specified parameters. The decision on value adjustments is made by the Management Board.

l) Cash and cash equivalents

Cash and cash equivalents include money in bank, cash in register and short-term deposits. Money in bank and cash in register is recorded at nominal value in national currency. Foreign exchange funds in bank and in register is recorded at mean exchange rate of the Croatian National Bank.

Exchange rate differences arising from setting foreign exchange funds to mean exchange rate of the Croatian National Bank are recorded as revenues / expenses of the current period.

m) Prepaid expenses and accrued income

Outflows that covered expenses referring to future periods are recorded according to the amounts specified in valid documentation supporting the business event.

Discrepancy of the calculation period of prepaid expenses at the end of the year creates a balance which is transferred into the following period as a balance sheet position.

Generated revenues that do not meet the criteria to be recorded as receivables, are recorded in the calculated amount specified in the valid documentation supporting the business event and are being transferred as a balance sheet position to the following period in which they are carried over to the receivables once they meet the criteria.

n) Equity

Equity is own source for financing assets. Subscribed capital is recorded in the amount that is registered in the court registry upon establishment or change of subscribed value of capital in the commercial registry.

Reserves are accounted for depending on their form and Company's policy (statutory and other).

o) Provisions

Provisions should be recognized when the Company 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.

p) Long-term liabilities

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

r) Short-term liabilities

Short-term liabilities are recorded in business books in the amount specified in valid documentation or contract supporting the event. Short-term liabilities refer to liabilities with maturity less than 12 months. Classification of the long-term and short-term liabilities is performed on each balance sheet date.

Short-term liabilities recorded in foreign exchange funds and those with currency clause are being set at mean exchange rate of the Croatian National Bank in national currency. Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the Company.

Outstanding liabilities shown in foreign exchange currencies are being set at mean exchange rate of the Croatian National Bank as at the balance sheet date and any exchange rate differences are recorded as revenues or expenses of the Company.

s) 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. SEGMENT REPORTING

Based on IFRS 8 management approach, the Company controls its activities in only one segment, according to the specifics of the activity itself. Shiprepair and conversions, being the main activity of the Company, constitute more than 99% of sales revenues or more than 87% of total operating revenues. All processes within the main activity are interrelated by matrix organisation. Matrix organisation connects various resources provided by functional organisational units needed to realize several concurrent projects. The Company uses its non-direct resources and infrastructure which cannot be allocated to each project, for all projects within shiprepair activities. Profitability of each project vary depending on availability of needed resources, especially labour force, which are combined depending on level of their employment. Each project has its own specificities due to client’s requirements and needs, requiring different approaches in combining production trades. Such business environment does not allow segment reporting of organisational units or activities.

The Company monitors its operations by projects that combine different trades in production activities in different proportions depending on specifications of the required works for each project. Internal managerial reports are used for whole segment of activity, in which business performance indicators are based on gross margin (relation between revenues and direct costs) and EBITDA (earnings before interest, taxes, depreciation, and amortization).

The Company’s subsidiary VL Steel d.o.o. participates in its main activity providing services that are closely related to the Company’s activities, so there can be no different segments of activities. In the Company’s business model, the subsidiary acts as a subcontractor in periods of high occupancy rates or in projects where the Company does not have its own or does not have a sufficient number of its own workers. A smaller part of the subsidiary's income is generated by providing services to third parties, which makes better use of its own capacity. It is to be noted that the subsidiary has a total impact of only 1% to the consolidated financial statements.

4. REVENUES FROM SALES

HRK

	2019	2020
Revenues from sales on domestic market	27.142.666	21.767.121
Revenues from sales on foreign market	268.741.000	242.688.400
Revenues from sales – subsidiary	32.091	84.120
Total	**295.915.757**	**264.539.641**

Revenues from sale of services – subsidiary, involved revenues generated from the subsidiary VL Steel d.o.o. The Company has not reported any revenues generated from sale of services to the subsidiary Viktor Servisi d.o.o. since the subsidiary ceased to operate on 2 September 2020, unlike the previous 2019, in which the amount of HRK 7,144 was generated.

Structure of revenues from sales:

HRK

	Domestic market	Foreign market	Total
Shiprepair	21.214.638	240.653.027	261.867.665
Other services	552.483	2.035.373	2.587.856
Other services – subsidiary	84.120	-	84.120
Total	**21.851.241**	**242.688.400**	**264.539.641**

The Company has applied IFRS-15 *Revenue from Contracts with Customers* for presentation of the value of work carried out or generated revenue per ship, five of them, onboard which works were in progress on 31 December 2020. Of the total amount of sales revenue, HRK 6,881,384 related to revenue reported in accordance with IFRS 15. Most of these revenues were generated from projects completed for foreign clients.

5. OTHER REVENUES

HRK

	2019	2020
Revenues based on the use of own products, goods and services	13.239.111	23.271.878
Revenues from sale of material	6.392.103	5.613.638
Revenues from sale of material – subsidiary companies	44.941	148.371
Rentals	1.113.406	1.111.935
Rentals - subsidiary companies	226.524	35.323
Income from reversal of long-term provisions *(Note 26)*	793.512	1.592.698
Insurance claim income	-	1.388.901
Income from disputed claims *(Note 20)*	994.925	-
Income from collecting accounts receivable already written-off	-	463.222
Revenues from sale of property, plant and equipment	38.905	1.422
Revenues from sale of property, plant and equipment – subsidiary	-	4.800
Income from discontinued liabilities	6.450	112
Retrospectively estimated income from past years	46.063	119.658
Inventory material surplus	425.034	103.603
Income from job preservation government aid for businesses affected by the Coronavirus pandemic	-	5.735.738
Income from adjusting expected credit losses (IFRS 9)	-	410.684
Other revenues	337.470	657.590
Other revenues - subsidiary	55.540	766
Total	**23.713.984**	**40.660.340**

Revenues based on the use of own products, goods and services involved investments in own production equipment, primarily Dock 5 and Dock 11 to increase the dock value and extend their service life. The increase recorded in 2020 compared to the same period last year is the result of intensified work during April and September characterised with lower occupancy rates. During 2020, larger-scale investments were made in Dock 5, so only regular maintenance should be required in the next five years.

Revenues from sale of materials included revenues from sale of waste materials or secondary raw materials, which are produced in core projects. Revenues from sale of materials to subsidiaries in 2019 had included sales revenues generated from the subsidiary Viktor Servisi d.o.o. in the amount of HRK 17,448, while in 2020 such revenues were not reported considering the subsidiary ceased to operate.

Rental income referred to revenues generated from leasing commercial premises and production equipment to subcontractors who participate in production activities of the Company. The 2019 rental income from subsidiaries included revenues generated from rental to the subsidiary Viktor Servisi d.o.o. in the amount of HRK 193,249, whereas in 2020 such revenues were not reported, as the subsidiary ceased to operate in the ordinary course of business.

Income from reversal of long-term provisions reported in the current period involved reversal of provisions for allowances for unused annual leave for 2019 and a lawsuit in the amount of HRK 60,000.

No income was collected from disputed receivables in 2020, whereas in 2019 it involved receivables from the Uljanik Group (Shipyard “3. maj”), which had been value adjusted (written off) in 2017.
Income collected from other accounts receivable already written-off referred to a very old claim that the Company had had against the bankruptcy debtor Kvarner express d.d. in bankruptcy, which was partially settled in 2020 from the bankruptcy estate.

Viktor Lenac used the job preservation government aid for businesses affected by the Coronavirus pandemic, which amounted to a total of HRK 5,735,738, paid for the period March - May 2020. The Company sought support in late March when it became certain that revenues would decline, primarily due to lockdown measures, restrictions on cross-border movements, as well as mandatory quarantines for foreigners, when many Viktor Lenac's clients postponed their shiprepair projects and cancelled some of the already agreed deals. In such circumstances, as early as the end of March, there was a decline in revenue, which continued in April and May. However, the Company, assessing the epidemiological situation in the immediate environment as good and understanding that ship crews do not carry an increased risk of infection and spread of the COVID-19, prescribed a very strict and restrictive procedure that allowed only minimum and necessary contact with foreign representatives, which was approved by the competent epidemiological institution and provided exemption from strict quarantine under the prescribed conditions. Such an approach enabled new projects and shipowners have gained confidence that the works would be carried out within a reasonable time, thus the Company took advantage of being able to operate over competitors from neighbouring countries. Therefore, revenues, starting from the second half of May onwards, began to grow, although they no longer reached earlier levels. Despite the easing of anti-epidemic measures, the Company recorded a further decline in revenue in the last quarter of 2020. Considering that in the market in which the Company provides its services, economic crises come with a delayed effect, it is still uncertain whether, when and to what extent the negative effects caused by the pandemic will have impact on future results of the Company. Thus, the aids received following the decline in occupancy in April and May, provided, together with the revenues generated from regular operations, funds that will help the Company to maintain its business.

Of other revenues generated in 2020, to bring to notice is income from deducting expenses for waste disposal already recorded in 2019, due to prices lower than expected, resulting in a decrease in amounts that had been previously calculated.

6. MATERIAL EXPENSES AND COST OF GOODS SOLD

HRK

	2019	2020
Raw and other material		
Consumed raw and other material	43.298.582	31.041.313
Consumed raw and other material – subsidiary	138.338	125.864
Consumed energy	11.840.132	11.080.459
Small inventory and spare parts	364.451	616.072
Total raw and other material	**55.641.503**	**42.863.708**
Other external expenses		
Transportation, phone, post and similar services	596.520	555.121
Services used in production of outputs	64.617.360	62.553.779
Services used in production of outputs - subsidiary	5.442.425	7.231.290
Subsupplier services	55.699.874	35.073.558
Subsupplier services - subsidiary	2.597.537	-
Maintenance services	4.738.491	6.970.272
Maintenance services - subsidiary	432.102	644.760
Rental expenses	3.001.543	1.680.943
Rental expenses – subsidiary	17.280	-
Intellectual services	1.149.881	1.289.680
Intellectual services – related parties	334.424	813.697
Other services	1.309.050	986.323
Total other external expenses	**139.936.487**	**117.799.423**
Total material expenses	**195.577.990**	**160.663.131**

Services used in production of outputs are subcontractor costs. Subsupplier services are third-party services that are normally provided outside the Company's location or are carried out by means of service providers.

Rental expenses referred to variable costs of equipment leases for production purposes, depending on specific requirements of each project and are, as a rule, one-off costs that vary on production capacity and volume.

Expenses incurred in transactions with subsidiaries in 2020 related to VL Steel d.o.o. In 2020, the Company did not report transactions with the subsidiary Viktor Servisi d.o.o., as the subsidiary ceased to operate on 2 September 2020, unlike 2019 when the subsidiary relationships involved both subsidiaries. Of the total amount of HRK 8,627,682 as reported in 2019, HRK 2,838,322 referred to the subsidiary Viktor Servisi d.o.o.

Intellectual services referred to various services of lawyers, notaries, environmental impact monitoring institutions, various expert technical and business services, which included financial audit services and tax consulting services.

The cost of legal representation of the Company in 2020 amounted to HRK 261,388 (2019: HRK 239,839). This amount related entirely to the services provide by domestic law firms. Since the Company does not have its own legal department, legal services are outsourced when required.

In 2020, the expenses of auditing financial statements amounted to HRK 168,000 (2019: HRK 167,458), and the tax consulting service expenses amounted to HRK 48,000 (2019: HRK 48,000).

The Company uses technical, market and other consulting services from a related party or a company that belongs to the Palumbo Group, which is the largest individual shareholder of the Company, whose expenses in 2020 amounted to HRK 813,697 (2019: HRK 334,424).

7. EMPLOYEE COST

HRK

	2019	2020
Net salaries and wages	34.254.937	33.617.743
Social security contributions and taxes paid by employer	14.259.365	13.864.619
Social security contributions and taxes paid by employee	8.501.155	8.330.350
Severance pays	845.855	225.344
Compensations for travelling costs, daily allowances, annual bonuses	5.294.255	4.690.345
Total	**63.155.567**	**60.728.401**

Compensations are paid to employees by the Company under the Collective Agreement.

In 2020, compared to the same period of the previous year, the Company's total employee costs were lower due to the reduction in the number of employees, however, part of the savings is aimed at increasing salaries of the remaining employees, so the total reduction in employee costs is not in line with the percentage decline in the number of employees. The employee cost reported for 2020 included the costs of employees who moved from the subsidiary Viktor Servisi d.o.o. to the Company in March 2020.

8. DEPRECIATION

HRK

	2019	2020
Intangible assets, property, plant and equipment	21.224.878	31.453.597
Total	21.224.878	31.453.597

The increase in depreciation expense in 2020 compared to the previous year was the result of the application of accelerated depreciation method on Dock 11. Although the Company has been investing in increasing the value and extending the life of the floating dock, the Company has reviewed the remaining service life, which is why such a decision was made. The application of the accelerated depreciation rate on Dock 11 resulted in an increase in the amount of depreciation by HRK 10,237,662.

At the end of 2020, the depreciation rate of assets was 69% (2019: 68%).

9. VALUE ADJUSTMENTS

In 2020, the Company reported value adjustments in respect of assets in a total amount of HRK 10,952 (2019: HRK 1,143,900), relating to write-off of trade receivables (Note 20).

10. PROVISIONS

For the year 2020, the Company made provisions for expenses in a total amount of HRK 1,202,687 (2019: HRK 1,607,356), of which HRK 983,307 (2019: HRK 1,452,736) involved provisions for allowances for unused annual leave and HRK 219,380 to provisions for litigation initiated in 2020 (2019: HRK 154,620).

The provisions for unused annual leave cost were significantly lower than in 2019 because in periods of reduced production activity, also due to the coronavirus pandemic, workers used annual leave.

11. OTHER EXPENSES

Other expenses:

HRK

	2019	2020
Insurance premiums	4.047.842	3.059.110
Utility, concession and other public fees	2.965.637	2.982.830
Representation and gifts	776.389	566.453
Bank services	420.517	185.482
Other expenses	1.286.995	1.046.778
Total other expenses	**9.497.380**	**7.840.653**

The insurance premiums in 2020 were lower because the premiums had been contracted in the insurance market under more favourable conditions, but also due to lower revenues or sales revenues, which are the basis for the calculation of insurance premiums.

Utility, concession and other fees included utility fees paid by the Company in favour of the Municipality of Kostrena, fees for the use of maritime good, fees for water protection, use of technological water, use of public forest, fee for membership in the Croatian Chamber of Commerce and other fees.

Other expenses are expenses such as education, personal protective equipment, other occupational health and safety related expenses, and remuneration of the members of the Company's Supervisory Board.

Other operating expenses:

In 2020, the Company incurred other operating expenses in the amount of HRK 515,688 (2019: HRK 1,033,379), which related to the deficit in inventories and the carrying amount of depreciated tangible assets, and other operating expenses, as below.

HRK

	2019	2020
Inventories written off	101.336	-
Deficit in inventories	448.868	67.561
Tangible fixed assets written off	51.524	28.326
Deficit in tangible fixed assets	5.266	-
Other operating and extraordinary expenses	426.385	419.801
Total other operating expenses	**1.033.379**	**515.688**

Other operating and extraordinary expenses are subsequently determined expenses related to projects of the previous business year, compensation of employees paid in previous periods from pension funds, charged to the Company by the Croatian Pension Insurance Institute, and value adjustments in respect of receivables from business relations other than trade receivables.

12. FINANCIAL INCOME AND EXPENSES

HRK

	2019	2020
Financial income		
Interests	179.898	199.215
Net foreign exchange gain	-	513.220
Total financial income	179.898	712.435
Financial expenses		
Interests	1.949.524	1.679.831
Net foreign exchange loss	338.226	-
Net loss from sale of securities	-	67.383
Total financial expenses	2.287.750	1.747.214
Net financial expenses	(2.107.852)	(1.034.779)

In 2020, the Company generated foreign exchange gains in a total amount of HRK 3,931,617 (2019: HRK 977,772), and foreign exchange loss in the amount of HRK 3,418,397 (2019: HRK 1,315,998), as a result of which net foreign exchange gain amounted to HRK 513,220 (2019: HRK 338,226 loss).

13. PROFIT TAX

The Company generated a profit of HRK 41,750,093 as a difference in revenues and expenses generated in the period from 1 January 2020 to 31 December 2020. After accounting for the increase and decrease of the tax liability, the profit tax liability amounted to HRK 6,551,087. In 2020, based on deferred tax assets in the amount of HRK 52,319, the Company used HRK 9,417 of previously paid profit tax, arising from the inventories previously written off, which were spent in this tax period. During 2020, the Company paid HRK 281,410 of profit tax advances, which it has the right to increase by an additional HRK 46,901 of profit tax advances paid in January 2021, which amounts to a total of HRK 328,311, as a result of which the obligation to pay the profit tax difference remains HRK 6,213,360.

HRK

	2019	2020
Accounting profit before taxation	21.341.821	41.750.093
Profit tax rate 18%	**3.841.528**	**7.515.017**
Effect of non-deductible costs	475.474	152.949
Effect of deductible costs	(15.093)	(1.116.879)
Total	**4.301.909**	**6.551.087**
Effect of tax loss carried forward	(3.739.091)	-
Effect of unrecognized deferred tax assets of an earlier period	-	(9.417)
Cost of profit tax	**562.818**	**6.541.670**

The table shows the effect of non-taxable income for 2020 in the amount of HRK 1,116,879, mostly related to non-taxable income based on government aid that the Company received as a job preservation measure intended for businesses affected by the coronavirus pandemic.

Of the total stated profit tax liability in the amount of HRK 6,541,670 for 2020, HRK 6,551,087 related to the current tax expense for the period, and the remaining HRK 9,417 involved recognized deferred tax assets from the previous period.

In accordance with tax regulations, the tax administration may at any time review the books and records of the Company for a period of six years after the end of the year in which the tax liability is stated, and in case of irregularities impose additional tax liabilities and penalties. The Management Board of the Company is not aware of any circumstances that could lead to irregularities in the reported tax liabilities, and thus to potentially significant liabilities based on possible controls.

14. EARNINGS PER SHARE

HRK

	31.12.2019	31.12.2020
Net (loss)/profit for the year	20.837.756	35.199.006
Total number of shares	16.813.247	16.813.247
Shares exclusive of own shares	15.988.060	15.988.060
Basic (loss)/earnings per share	**1,30**	**2,20**
Diluted (loss)/earnings per share	*1,24*	**2,09**

15. FIXED TANGIBLE AND INTANGIBLE ASSETS

HRK

Description	Land	Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investment in real-estate	Investment in tangible assets in progress	Advances for tangible assets	Total tangible assets	Intangible assets	Investment in intangible assets in progress	Total
ACQUISITION VALUE											
Status as at 1 Jan 2019	12.504.214	70.251.516	657.520.471	76.000.434	-	3.112.058	222.224	819.610.917	17.749.390	-	837.360.307
Transfer from investments in tangible assets in progress and advances	-	-	11.023.931	4.615.221	-	(15.737.025)	(222.224)	(320.097)	434.263	(114.166)	-
Acquisition during the year	-	-	-	-	-	17.183.169	-	17.183.169	-	114.166	17.297.335
Sold, written-off and discounted assets during the year	-	-	(1.089.555)	(2.491.060)	-	(669.706)	-	(4.250.321)	(6.900)	-	(4.257.221)
Surplus, Deficit	-	-	-	(2.435)	-	-	-	(2.435)	-	-	(2.435)
Transfer to assets held for sale	-	(3.136.593)	-	-	-	-	-	(3.136.593)	-	-	(3.136.593)
Status as at 31 Dec 2019	12.504.214	67.114.923	667.454.847	78.122.160	-	3.888.496	-	829.084.640	18.176.753	-	847.261.393
Transfer from investments in tangible assets in progress and advances	-	-	28.790.701	2.493.507	-	(31.284.208)		-	680.511	(680.511)	-
Acquisition during the year	-	-	-	-	-	28.326.382	1.402.304	29.728.686	-	680.511	30.409.197
Sold and written-off	-	-	(915.769)	(734.664)	-	-	-	(1.650.433)	-	-	(1.650.433)
Attribution of the subsidiary assets	-	-	2.658.765	801.050	-	-	-	3.459.815	-	-	3.459.815
Value derecognition	-	-	(3.917.077)	-	-	-	-	(3.917.077)	-	-	(3.917.077)
Transfer from assets held for sale		-	-	-	3.136.593	-	-	3.136.593			3.136.593
Status as at 31 Dec 2020	12.504.214	67.114.923	694.071.467	80.682.053	3.136.593	930.670	1.402.304	859.842.224	18.857.264	-	878.699.488
VALUE ADJUSTMENTS								-			-
Status as at 1 Jan 2019	6.958.527	65.932.775	399.498.945	69.919.078	-	-	-	542.309.325	12.151.872	-	554.461.197
Depreciation during the year		179.840	18.806.566	1.684.030	-	-	-	20.670.436	554.442	-	21.224.878
Sold and written-off	-	-	(1.049.527)	(2.466.309)	-	-	-	(3.515.836)	(6.900)	-	(3.522.736)
Surplus, Deficit	-	-	-	(15.223)	-	-	-	(15.223)	-	-	(15.223)
Transfer to assets held for sale	-	(1.129.357)	-	-	-	-		(1.129.357)	-	-	(1.129.357)
Status as at 31 Dec 2019	6.958.527	64.983.258	417.255.984	69.121.576	-	-	-	558.319.345	12.699.414	-	571.018.759
Depreciation during the year	-	179.840	28.829.445	1.623.431	-	-	-	30.632.716	820.881	-	31.453.597
Sold and written-off	-	-	(889.320)	(732.787)	-	-	-	(1.622.106)	-	-	(1.622.106)
Attribution of the subsidiary assets	-	-	2.024.692	792.901	-	-	-	2.817.593	-	-	2.817.593
Value derecognition	-	-	(3.917.077)	-	-	-	-	(3.917.077)	-	-	(3.917.077)
Transfer from assets held for sale	-	-	-	-	1.129.357	-	-	1.129.357	-	-	1.129.357
Status as at 31 Dec 2020	6.958.527	65.163.098	443.303.724	70.805.121	1.129.357	-	-	587.359.827	13.520.295	-	600.880.122
BOOK VALUE 31 DEC 2019	5.545.687	2.131.665	250.198.863	9.000.584	-	3.888.496	-	270.765.295	5.477.339	-	276.242.634
BOOK VALUE 31 DEC 2020	5.545.687	1.951.825	250.767.743	9.876.933	2.007.236	930.670	1.402.304	272.482.398	5.336.969	-	277.819.367

During 2020, investments in fixed assets related to own investments in docks and the acquisition of production and business assets. By merging the assets of the subsidiary Viktor Servisi d.o.o. the Company's non-current assets increased both on the cost side and on the accumulated value adjustment side.

Part of the Company's fixed tangible assets serves as collateral for financial loans (Note 32). Net book value of these assets as at 31 December, 2020 amounted to HRK 222,712,357 (2019: HRK 224,835,131).

Business premises having a surface area of 190 m2, in the centre of Rijeka, which the Company owns but does not use, have been reclassified in previous reports as assets held for sale. Since the Management Board estimates that the sale will not take place in the next short-term period, these assets are stated in the position of tangible fixed assets under the item of investment in real estate.

The 2020 depreciation rate at the reporting date was 69% (2019: 68%).

16. INVESTMENT IN SUBSIDIARIES AND INVESTMENT SECURITIES

Net book value of investment in subsidiaries as at 31 December 2020 related to a limited liability company VL Steel in which the Company holds a 75% equity interest, amounting to HRK 15,000.

The subsidiary Viktor Servisi d.o.o. in which the Company held a 100% equity interest, ceased to operate by a final decision of the Commercial Court in Rijeka, where the subsidiary assets have been attributed to Viktor Lenac. The value of the shares amounted to HRK 763,259 in 2019.

17. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – INVESTMENT SECURITIES

The Company owns 5,000 shares of Uljanik d.d. which are recorded in the Company's books at a nominal value in a total amount of HRK 450,000. In previous years, the Company had adjusted the value of these shares in accordance with the notifications of the Central Depository and Clearing Company of Zagreb on the prices of securities listed on the Zagreb Stock Exchange. On 31 December 2019, the Company made value adjustments in respect of the shares in full because the Uljanik company filed for bankruptcy, so that the reported value of these shares at the reporting date was HRK 0 (2019: HRK 0).

In the third quarter of 2020, the Company sold 6,153 shares of Tankerska next generation d.d. through transactions on the Zagreb Stock Exchange, which had a net book value of HRK 290,422 as at 31 December 2019. The sale of shares resulted in a loss from sale in the amount of HRK 67,383.

The subsidiary Viktor Servisi d.o.o. in which the Company held a 100% equity interest, ceased to operate by a final decision of the Commercial Court in Rijeka, where the subsidiary assets have been attributed to Viktor Lenac. Consequently, Viktor Lenac became the owner of Valamar Riviera Poreč shares, 3,720 shares in total, having a nominal value of HRK 37,200, which, in accordance with the notification of the Central Depository and Clearing Company of Zagreb have been reduced to the market share value of HRK 110,112 as at 31 December, 2020.

18. FINANCIAL ASSETS MEASURED AT AMORTIZED COST - DEPOSITS

Long-term financial assets in the amount of HRK 8,482,011 (2019: HRK 8,378,261) related to a cash deposit on a long-term investment loan in the amount of HRK 8,290,588 (2019: HRK 8,186,838) and to a deposit held to secure long-term liabilities to HEP ESCO in the amount of HRK 191,423 (2019: HRK 191,423).

There were no short-term financial assets in 2020, while in 2019 the amount of HRK 76,318 had been reported, which referred to granted borrowings.

19. INVENTORIES

HRK

	31.12.2019	31.12.2020
Raw and other material	14.925.987	14.528.060
Fabrication of flanges	-	133.848
Small inventory	8.767.932	8.962.492
Value adjustments in respect of small inventory	(8.767.932)	(8.962.492)
Total	**14.925.987**	**14.661.908**

By inventory carried out on 31 December 2020, the Company determined a shortage of material stocks in a total amount of HRK 67,561 (2019: HRK 448,869), and a surplus of material stocks in the amount of HRK 103,603 (2019: HRK 425,034), which occurred in technological processes, and could not be offset for tax reasons. The determined deficit and surplus represented about 0.5% of the total materials consumed during 2020.

20. TRADE AND OTHER RECEIVABLES

HRK

	31.12.2019	31.12.2020
Receivables from customers - gross	*99.776.763*	*71.054.960*
Receivables from customers – impairment	*33.289.716*	*32.909.366*
Receivables from customers – net	66.398.254	38.048.197
Receivables from customers - subsidiary companies	88.793	97.397
Receivables from employees	9.260	8.607
Receivables from state	8.564.302	5.048.508
Prepaid expenses and accrued income	22.137.446	7.222.385
Advances	3.316.308	1.365.875
Other receivables	-	72.500
Total	**100.514.363**	**51.863.469**

Value adjustments in respect of trade receivables:

HRK

	2019	2020
Status 1 January	39.606.938	33.289.716
Impairment for the current year	2.920.442	-
Recovery of receivables previously written-off	(994.925)	-
Definitive write-off of previously revaluated receivables	(8.472.676)	-
Value adjustments in respect of expected credit loss - IFRS 9	229.937	(410.685)
Value adjustments in respect of expected credit loss - IFRS 9-attribution of the Viktor Servisi subsidiary assets	-	30.335
Status 31 December	**33.289.716**	**32.909.366**

Trade receivables reported as at 31 December 2020 decreased significantly compared to the previous year as a result of a significant decrease in revenues in the last quarter of 2020 with respect to the last quarter of 2019.

The receivables from state related to the value added tax refund claim in the amount of HRK 4,908,798 (2019: HRK 8,344,658) and sick leave benefit claim from the Croatian Institute for Health Insurance in the amount of HRK 119,573 (2019: HRK 219,644), profit tax refund claim relating to the subsidiary Viktor Servisi d.o.o. in the amount of HRK 14,786 (2019: 0), forest contribution refund claim in the amount of HRK 4,613 (2019: 0) and receivables from the Environmental Protection Fund in the amount of HRK 739 (2019: 0).

The prepaid expenses and accrued income mostly related to accrued income (HRK 6,881,384) under IFRS 15 ‘Revenue from Contracts with Customers’ for shiprepair works carried out onboard five vessels, which were undergoing repairs in the Shipyard on 31 December 2020, recognized as revenue based on the stage of completion.

According to IFRS 9 requirements, the Company carried out value adjustments in respect of receivables from customers for 2018, 2019 and 2020.

Age structure of matured receivables from customers:

HRK

	31.12.2019	31.12.2020
1-90 days	60.490.485	29.289.646
91-180 days	185.519	77.264
181-365 days	881.480	2.671.993
Over 365 days	5.657.137	6.453.916
Value adjustments in respect of receivables	(727.574)	(347.225)
Total	**66.487.047**	**38.145.594**

Age structure of impaired receivables from customers:

HRK

	31.12.2019	31.12.2020
1-90 days	-	-
91-180 days	-	-
181-365 days	2.279.216	-
Over 365 days	30.282.926	32.562.141
Value adjustments in respect of receivables	727.574	347.225
Total	**33.289.716**	**32.909.366**

Trade receivable structure by currency:

HRK

	31.12.2019	31.12.2020
HRK	15.152.771	11.889.664
EUR	40.345.116	26.603.155
USD	11.716.734	-
Value adjustments in respect of receivables	(727.574)	(347.225)
Total	**66.487.047**	**38.145.594**

Structure of trade receivables by markets:

HRK

	31.12.2019	31.12.2020
Italy	38.967.879	7.000.741
Croatia	15.152.814	11.889.664
USA	11.717.002	-
Norway	-	2.562.545
Cyprus	-	7.913.743
Greece	-	2.102.795
Other countries	1.376.926	7.023.331
Value adjustments in respect of receivables	(727.574)	(347.225)
Total	**66.487.047**	**38.145.594**

21. CASH AND CASH EQUIVALENTS

HRK

	31.12.2019	31.12.2020
Money in bank	14.612.120	34.664.633
Cash in register	6.722	11.616
Deposit	-	862.844
Total	**14.618.842**	**35.539.093**

22. EQUITY AND RESERVES

On 31 December 2020, the issued share capital of the Company, fully paid, amounted to HRK 168,132,470 and was divided in 16.813.247 ordinary shares each having a nominal value of HRK 10.

Owners of ordinary shares are entitled to dividends and one vote per share.

On 31 December 2020, the Company owned 825.187 of own shares (31 December 2019: 825.187), making 4.91% of the share capital.

On 31 December 2020, the statutory reserves amounted to HRK 8,406,624 (2019: HRK 8,406,624). 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. The Company's reserves were also increased during 2020 based on the transfer of capital, reserves and retained earnings of the subsidiary company Viktor Servisi d.o.o. to the parent Company upon cessation of its business.

Statutory reserves, which amounted to 5% of equity and reserves for own shares in the amount of HRK 20,946,624 (2019: HRK 20,946,624) cannot be allocated between shareholders.

23. DEBENTURES WITH INTEREST CHARGE

Below is the overview of debentures on which interest is paid according to the repayment dynamics as at 31 December 2020:

HRK

	31.12.2019				31.12.2020				
	Total	1 year or less	2-5 years	Total long-term portion	Total	1 year or less	2-5 years	More than 5 years	Total long-term portion
Financial lease	7.383.011	2.248.798	5.134.213	5.134.213	7.321.085	2.216.617	4.859.027	245.441	5.104.468
Long-term investment loan	32.784.008	8.742.402	24.041.606	24.041.606	28.048.540	10.199.469	17.849.071	-	17.849.071
Short-term working capital loan	22.276.147	22.276.147	-	-	10.784.204	10.784.204	-	-	-
Total	**62.443.166**	**33.267.347**	**29.175.819**	**29.175.819**	**46.153.829**	**23.200.290**	**22.708.098**	245.441	**22.953.539**

Long-term investment loan refers to a loan approved by Croatian Bank for Reconstruction and Development through a commercial bank in 2012 for the purchase of a new floating dock (Dock RI-38), dock cranes, UHPWJ equipment and other production equipment totalling HRK 69 million. The repayment of the loan principal began in 2015, for a period of 8 years, and ends in 2023.

Financial lease involved purchase of production equipment and only HRK 222,332 (2019: HRK 345,338) related to the purchase of two passenger cars.

Working capital loans in the amount of HRK 10,784,204 (2019: HRK: 22,276,147) related to overdrafts in the amount of HRK 8,271,905 (2019: HRK 6,834,987) and short-term working capital loans in the amount of HRK 2,512,299 (2019: HRK 15,441,160).

24. TRADE AND OTHER LIABILITIES

HRK

	31.12.2019	31.12.2020
Trade payables	70.580.953	28.540.635
Trade payables – subsidiary interest	2.349.725	913.786
Trade payables – related parties	133.966	135.664
Employee payables	3.927.110	3.948.761
Tax and contribution	2.637.486	2.321.357
Received advances	3.968.591	926.466
Other liabilities	3.451.055	3.432.460
Accrued expenses and deferred income	10.540.624	3.408.948
Total	**97.589.510**	**43.628.077**

The decrease in liabilities to suppliers is a consequence of the decrease in occupancy, especially with respect to the high occupancy rate recorded at the end of 2019, and servicing liabilities from cash flows from operating activities.

The largest portion of other liabilities related to the current maturity of liabilities to HEP ESCO company in the amount of HRK 2,562,281 (2019: HRK 2,562,281) involving two commodity loans related to energy efficiency projects undertaken by the Company in previous years.

As at December 31, 2020, the Company recorded expenses in the amount of HRK 3,408,948 (2019: HRK 7,875,223) relating to the shiprepairers' liability insurance premium expenses for 2020, not yet due, and the agency fees and other expenses for which the invoices had not yet been received. In 2020, the Company had no deferred income, unlike in the previous year, when it calculated revenues for which, in accordance with IFRS 15 *Revenue from Contracts with Customers*, the conditions for their recognition were not met.

Structure of trade payables by currency:

HRK

	31.12.2019	31.12.2020
HRK	64.031.412	28.166.460
EUR	8.407.469	1.324.516
USD	548.808	99.109
GBP	76.955	-
Total	**73.064.644**	**29.590.085**

25. RELATIONS WITH RELATED PARTIES

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

HRK

Subsidiaries and key shareholders	2019	2020
Sale to related parties		
Sale to subsidiary companies	**359.096**	**273.380**
Viktor Servisi d.o.o.	273.041	-
VL Steel d.o.o.	86.055	273.380
Purchase from related parties		
Purchase from subsidiary companies	**8.627.683**	**8.001.914**
Viktor Servisi d.o.o.	2.838.323	-
VL Steel d.o.o.	5.789.360	8.001.914
Purchase from key shareholders	**334.424**	**813.697**
Palumbo Malta Superyachts Ltd (belonging to the Palumbo Group)	334.424	813.697
Receivables from related parties		
Receivables from subsidiary companies	**88.793**	**97.397**
Viktor Servisi d.o.o.	55.197	-
VL Steel d.o.o.	33.596	97.397
Receivables from key shareholders	**-**	**-**
Palumbo Group	-	-
Liabilities to related parties		
Liabilities to subsidiary companies	**2.349.725**	**913.786**
Viktor Servisi d.o.o.	1.997.304	-
VL Steel d.o.o.	352.421	913.786
Liabilities to key shareholders	**133.966**	**135.664**
Palumbo Malta Superyachts Ltd (belonging to the Palumbo Group)	133.966	135.664

During 2020, the Company procured services from a company that belongs to the Palumbo Group in the amount of HRK 813,697 (2019: HRK 334,424), which resulted in the liabilities to the company Palumbo Malta Superyachts Ltd in the amount of HRK 135,664 as at 31 December 2020 (2019: HRK 133,966).

The subsidiary Viktor Servisi d.o.o. in which Viktor Lenac held a 100% interest, ceased to operate by a final decision of the Commercial Court in Rijeka, where the subsidiary assets have been attributed to Viktor Lenac. Therefore, in 2020, the Company did not show relationship with that subsidiary, unlike in 2019.

Key management

On 31 December 2020, the Management Board of the Company was composed of the single Member of the Board, Sandra Uzelac, representing the Company individually and independently. Until 25 March 2019, when he had resigned by mutual consent, the Company's Management Board included also Aljoša Pavelin, who was holding the position of the President of the Board.

The gross salary cost of the Management Board for 2020 amounted to HRK 768,900 (2019: HRK 1,732,820 including a severance pay). During the year, members of the Supervisory Board received compensation in the total gross amount of HRK 97.587 (2019: HRK 120,378). All foreign members of the Supervisory Board waived their compensation for 2019 and 2020.

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

26. PROVISIONS

Long-term provisions in the amount of HRK 837,528 (2019: HRK 1,405,998) related to provisions for initiated litigation.

Short-term provisions in the amount of HRK 983,307 (2019: HRK 1,532,699) related to provisions for unused annual leave allowances for 2019.

	Court cases	Annual leave	Other	Total
Status 1 January 2019	1.518.259	607.480	79.963	2.205.702
Provisions reversed	(80.850)	(607.480)	-	(688.330)
Actualised	(186.031)	-	-	(186.031)
New provisions	154.620	1.452.736	-	1.607.356
Status 31 December 2019	**1.405.998**	**1.452.736**	**79.963**	**2.938.697**
Provisions reversed	-	(1.452.736)	(79.963)	(1.532.699)
Actualised	(727.850)	-	-	(727.850)
New provisions	159.380	983.307		1.142.687
Status 31 December 2020	**837.528**	**983.307**	**-**	**1.820.835**

27. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 December 2020 in the amount of HRK 9,868,222 (2019: HRK 12,233,406) related to liabilities to HEP ESCO company for implemented energy efficiency projects in the amount of HRK 5,694,442 (2019: HRK 8.059.625) and contingent liabilities for disputed claims of bankruptcy creditors and associated litigation costs (incurred in 2004, shortly after the opening of bankruptcy proceedings, ended in 2008) in the amount of HRK 4,173,780 (2019: HRK 4,173,780), for which the litigation claims have not yet been finalized.

28. RISK MANAGEMENT

The Company's activities expose it to various financial risks, including the effects of changes in market prices, changes in foreign exchange rates, liquidity risk and default risk. The Company does not use derivative financial instruments as an active hedge against financial risk exposure.

Equity management

The main goal of equity management is to ensure support to business operations and maximize shareholder value. The Company adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust its equity structure, the Company may re-adjust dividend pay-outs or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years ended December 31, 2020 and December 31, 2019.

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

	31.12.2019	31.12.2020
Total interest-bearing debt (long-term and short-term loans) (Note 23)	62.443.166	46.153.830
Less: Cash and cash equivalents (Note 21)	14.618.842	35.539.093
Long-term deposit (Note 18)	8.186.838	8.290.588
Net debt	**39.637.486**	**2.324.149**
Equity and reserves	242.918.740	281.238.814
Total equity and reserves and net debt	**282.556.226**	**283.562.963**
Indicator of indebtedness	***14%***	***1%***

Currency risk

Most of the Company's revenues from sale is generated on the international market, mainly in EUR and depending on circumstances and various projects, in USD. Therefore, EUR to HRK as well as USD to HRK exchange rate movements can affect operating results. However, due to a relatively short contracting and realization process, rapid turnover of receivables and foreign currency, currency risk is not significant, and the Company does not use active hedging techniques in foreign currency transactions. Depending on estimate of the future USD to EUR trend in relation to national currency, the Company will, if necessary, use hedging instruments. On the other hand, the Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in national currency (HRK). During 2020, there were no significant oscillations in the movement of the Croatian kuna exchange rate against the EUR, which would result in significant exchange rate differences in EUR transactions. The strengthening of the US dollar against the domestic currency during the first and second quarters of 2020 had a positive impact on receivables in US dollar (given the higher occupancy with US ships in the first part of the year), which is why Viktor Lenac generated foreign exchange gains at the end of the first half of the year. Falling of the US dollar value by the end of the year resulted in smaller negative exchange rate differences, which, however, did not completely annul the previously achieved positive effect.

The currency structure of trade receivables and trade payables, as items of assets and liabilities that are moderately exposed to currency risk, is disclosed in Notes 20 and 24.

The balance of assets, liabilities and capital by currency is presented below:

	31.12.2019			**31.12.2020**		
	HRK	**EUR/USD to HRK**	**Total**	**HRK**	**EUR/USD to HRK**	**Total**
Short-term assets	64.371.586	67.771.160	132.142.746	33.493.958	68.570.512	102.064.470
Long-term assets	278.026.751	8.186.838	286.213.589	278.628.103	8.290.588	286.918.691
Total assets	**342.398.337**	**75.957.998**	**418.356.335**	**312.122.061**	**76.861.100**	**388.983.161**
Short-term liabilities	99.523.901	33.098.471	132.622.372	67.773.780	6.298.154	74.071.934
Long-term liabilities	40.580.543	2.234.680	42.815.223	30.917.818	2.754.595	33.672.413
Total liabilities	**140.104.444**	**35.333.151**	**175.437.595**	**98.691.598**	**9.052.749**	**107.744.347**
Equity – Net assets	**202.293.893**	**40.624.847**	**242.918.740**	**213.430.463**	**67.808.351**	**281.238.814**

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

	31.12.2019		31.12.2020	
Description	Impact of exchange rate change (+1%) in million HRK	Impact of exchange rate change (-1%) in million HRK	Impact of exchange rate change (+1%) in million HRK	Impact of exchange rate change (-1%) in million HRK
Impact of change - assets	0,8	-0,8	0,8	-0,8
Impact of change - liabilities	-0,4	0,4	-0,1	0,1
Net impact - financial position	**0,4**	**-0,4**	**0,7**	**-0,7**

Considering the financial position at the reporting date, if the exchange rate of the national currency against EUR and / or USD would increase (weaken) by 1%, if all other indicators remain unchanged, according to the Management Board such a change as a result of gains and losses of exchange rate differences from relationships with suppliers, customers, loans received and deposits given, would not have a significant impact on total assets and net profit for the reporting period. In such a case, the impact on the net result would amount to around HRK 700 thousand (2019: HRK 400 thousand), negative in the case of strengthening of the national currency, while in the case of weakening of the national currency against EUR and / or USD the impact would be positive because the Company is an exporter, while at the same time procuring a small share of resources on the foreign market in foreign currency or with a currency clause.

Interest rate risk

Except for a long-term deposit that is not affected by the interest rate change, the Company has not any significant interest generating assets which would be under influence of interest rate changes. As for the liabilities, long term investment loan interest rate is determined by bank and is not prone to changes due to the methodology for setting the interest rates. A major part of other loans is negotiated by fixed interest rates, resulting in insignificant impact on financial statements, in case of rate changes. Short-term loans and borrowings received from commercial banks have a high turnover and are negotiated depending on production purposes and consequently do not bear significant interest rate risks.

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 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. Guarantees and commitments are not custom in overhaul and repair business activities, but Viktor Lenac can exercise its right to arrest a ship, in accordance with maritime law, as a mean of recovery. 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.

The possible impact of COVID-19 pandemic on increasing the Company's default risk

Given the Company's export orientation, and the fact that the shiprepair market, as part of the global maritime market, is suffering from consequences of the COVID-19 pandemic, primarily due to reduced maritime trade, the Company expects that weakening the financial strength of shipping companies could increase default risk to the Company. However, since the beginning of the pandemic, when the forecasts were the least optimistic, the Company has not had significant problems in collecting its receivables, so it is expected that the situation will stay at lower risk in the future. During the first year of the pandemic crisis, and with the beginning of the vaccination of the global population, it is expected that the situation will begin to calm down, which will lead to normalization of market relations, and thus better default risk assessment of individual partners. Depending on the risk assessment of certain types of ships and / or partners, the Company will direct its activities to minimize its default risk exposure.

Liquidity risk

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

Following is the analysis of remaining period until expected maturity date of non-realisable financial assets and receivables and negotiated maturity dates of financial liabilities of the Company. This analysis provides a better comprehension of modalities the Company uses to manage liquidity risk, based on net amounts of assets and liabilities.

000 HRK

	Structure of maturity buckets					Total
	up to 1 m	1 – 3 m	3 m - 1 y	1 – 5 y	over 5 y	
Assets, status 31 December 2020						
With interests	35.539	-	73	8.291	-	43.902
Interests free	3.901	29.150	6.756	191	-	39.999
Total	**39.440**	**29.150**	**6.828**	**8.482**	**-**	**83.901**
Liabilities, status 31 December 2020						
With interests	7.943	1.623	17.585	23.361	243	50.756
Interests free	8.449	22.659	1.971	5.694	-	38.773
Total	**16.392**	**24.283**	**19.556**	**29.056**	**-**	**89.529**
Net liabilities	**23.048**	**4.868**	**(12.728)**	**(20.574)**	**(243)**	**(5.629)**

The possible impact of COVID-19 pandemic on increasing the Company's liquidity risk

At the beginning of the COVID-19 pandemic, the Company expected to have negative consequences and an increased risk of illiquidity due to the expected decline in occupancy in the second and third quarters of 2020. However, with the use of financial Government support measures related to COVID-19 for the period March-May 2020, new contracts and positive financial results achieved in the middle of the second quarter of 2020, the Company's liquidity was maintained at a high level. Although the weakest quarter was the last quarter of 2020, liquidity was maintained, so all liabilities to workers, suppliers, the state and banks were settled on time. The risk of reduced business activities and inflow of new funds, which remains moderate, could affect the lower growth of liquid assets, but the Company estimates that it will generate a sufficient level of revenue, before tax and depreciation, which, with constant cost monitoring, will be sufficient to secure servicing of current liabilities. This is supported by the expectations on the shiprepair market, according to which no further decline in activities and freight is expected, which should be enough to bridge the next period until the global economy fully recovers from the pandemic crisis.

Fair value

The Company makes estimates of the fair value of financial assets and liabilities, following which, if necessary, value adjustments are made. It has been established that the fair value does not differ from the book value in an amount that would be considered material.

The fair value of 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 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 receivables/liabilities with less than one year to maturity corresponds to the fair value.

29. POTENTIAL LIABILITIES

As at 31 December 2020, the 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 Company has already made provisions in its books for such claims in case of unfavourable outcomes (Note 10).

As at 31 December 2020, the Company litigated in 30 proceedings worth about HRK 1.5 million as defendant, and 3 proceedings having a capital value of approximately HRK 591,000 as plaintiff, all in Republic of Croatia.

30. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In application of accounting policies, the 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. In case of partial execution of commercial contract or rendered services, revenues are recognized to the extent a critical event has occurred, which can be undoubtedly charged and eventually collected. 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

The Company recorded a positive financial result for 2020 generating a profit tax liability in the amount of HRK 6,541,669 (2019: HRK 562,818). The Company has already paid HRK 281,409 on the account of profit tax advances during 2020 as well as an advance in the amount of HRK 46,901 in January 2021 totalling HRK 328,310 (2019: HRK 330,000), resulting in the obligation to pay the remaining tax expense for 2020 in the amount of HRK 6,213,359 (HRK 232,818).

Impairment of receivables

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

Impairment of inventories

Impairment of inventories is carried at the expense of current period expenses, based on assessment of damage and deterioration, and in cases where the recoverable amount (the value that can be realized by selling or using those inventories) is less than the cost.

If it is estimated that the use of any inventories is uncertain in respect of future contracts or that some products in inventories are not likely to be used in production, such inventories are written off at the expense of current period.

Provisions for potential liabilities

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

31. EVENTS AFTER BALANCE SHEET DATE

All major events are regularly disclosed to public via the Zagreb Stock Exchange website.

32. IMPACT OF THE COVID-19 PANDEMIC

Viktor Lenac's main activity – shiprepair involves mainly ships in international navigation, which sail into the Mediterranean and Black Sea. Many ships sail to the ports of Italy and other ports of the Mediterranean and Black Sea countries for unloading of cargo, loading of fuel and other reasons. Viktor Lenac has been cooperating traditionally for many years with many Italian clients.

The COVID-19 pandemic resulted in reduced global economic activity in the first quarter of 2020, as well as restrictions on trade in goods and services and isolation and quarantine measures to prevent the spread of infection, and many shipowners postponed their shiprepair projects and cancelled some deals that had already been arranged with Viktor Lenac.

Although the most important resource in our activity is the labor force involving own and subcontracted workers, certain traffic of goods and persons takes place through foreign countries. The workforce is predominantly domicile but part of the subcontracted workers come from other counties or surrounding countries. Some of the subcontracted workers are foreign workers residing in Croatia, and foreign contractors are often employed for specialist services. In such a business model, there is a certain, not negligible number of contractors, who are subject to weekly or less frequent migrations, depending on the needs and occupancy of the Shipyard.

At the beginning of the pandemic, activities onboard ships were very limited and difficult, and additional HSE measures undertaken caused an increase in costs.

However, although the initial predictions were not optimistic, Viktor Lenac managed to seize the moment of a favorable epidemiological situation, and with strict protection measures managed to contract new projects for the end of the second and the third quarter. With the implementation of proactive protection measures, the workforce has been preserved in sufficient number to cover all tasks.

Although sales revenues recorded a decrease compared to the revenues of previous years, Viktor Lenac managed to achieve extremely good overall business results, primarily by increasing efficiency of its work activities. The costs associated with pandemic-related safety measures, however, were not so high as to undermine the overall results of 2020.

It is expected that the vaccination of the world's population will bring the pandemic to an end, and that the lockdown of social and economic activities and restrictions on the movement of goods and people, as they were in force during the first and second quarters of 2020, will no longer occur.

Some shipping companies have already suffered damage caused by the pandemic crisis, and it is certain that the trend of reduced global consumption will continue as a result of the shrinking global economy and changes in consumer habits, which will probably affect freight and financial strength of ship owners. This could consequently put pressure on shiprepair prices and initiate intensified competition between shipyards in the coming short-term period. However, some forecasts point to a faster recovery of shiprepair in relation to the shipbuilding market and a return to maritime trade to pre-pandemic levels.

In any case, uncertainty about the further course of the pandemic and the impossibility of a more detailed assessment of its impact on the global economic situation in the future poses a moderate risk to the future financial position of Viktor Lenac and its key suppliers and subcontractors, and the associated liquidity risk. On the other hand, Viktor Lenac managed to achieve positive results in the periods of low occupancy rates, with effective cost control and achievement of efficiency in its activities, so for the future there is a risk of lower financial performance, but not long-term trends of negative business. Therefore, the Management Board of Viktor Lenac believes that the negative impacts of the pandemic will not affect business continuity.

33. MORTGAGES

The 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 book value of pledged assets amounts to HRK 222,712,356 (2019: HRK 224,836,131). The obligations under the loans secured as specified as at 31 December 2020 amounted to HRK 38,832,745 (2019: HRK 49,542,436), of which HRK 28,048,541 (2019: HRK 32,784,008) referred to the investment loan and the remaining part involved short-term loans for working capital and overdrafts.

34. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

Financial statements have been prepared and approved for disclosure by the Company's Management Board on 20 April 2021.

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

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Sandra Uzelac

Member of the Management Board

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VIKTOR LENAC
Member of Palumbo Group

April 2021

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ENCLOSURES

FOREWORD

The Management Board of the Shipyard "Viktor Lenac", a joint stock company, presents its Annual Report for 2020 to all interested parties and the entire public. Annual Report 2020 provides readers insight into the Company's business and financial performance for the year. It includes Consolidated and Non-Consolidated Annual Financial Statements, Auditor's Report, and non-financial information from the point of view of sustainability. The Company is under no obligation to make a separate Non-Financial Reporting. In a separate enclosure to the Annual Report, the Corporate Governance rules applied by the Company are described. To protect confidential business information, certain data are presented as trends and movements without providing more detailed numerical or financial data.

Annual Report in Croatian and English

Annual Report 2020, including its enclosures, has been issued in Croatian as the official language and is also available in English to foreign readers. Annual Report is presented to the Company's shareholders at the General Assembly and is published on the Company's website.

Legal Form

Pursuant to Article 250.a and Article 250.b of the Companies Act, the Company's Annual Financial Statements and business performance report shall be presented to General Assembly as integral parts of this Annual Report, whereas Supervisory Board's Report on the Performed Supervision of the Company's Business shall be presented to the General Assembly as a separate document.
Annual Financial Statements, both Consolidated and Non-Consolidated, have been made in accordance with the Accounting Act and International Financial Reporting Standards and revised according to the International Standards on Auditing.
Annual Report 2020 has been made pursuant to Article 21 of the Accounting Act, and Articles 250.a and 250.b of the Companies Act, to give an objective assessment of the Company's business and financial performance and development, as well as other crucial information for the Company.
Annual Report 2020 also includes significant non-financial information. Pursuant to the provisions of Article 21a of the Accounting Act, the Company is under no obligation to issue a separate non-financial statement for 2020.

Subsidiary Company, Consolidated Financial Statements

Shipyard "Viktor Lenac" is a joint stock company, which has a controlling interest in the single subsidiary VL Steel, a limited liability company, in which it holds a 75% equity interest. Consolidated and Non-Consolidated Financial Statements form an integral part of the Annual Report. The difference between the Consolidated and the Non-Consolidated Financial Statements is not material, as the revenues and assets of the subsidiary participate with less than 1% in the Group's revenues respectively assets. The Annual Report focuses on business performance of the Parent Company - Shipyard "Viktor Lenac".
The subsidiary Viktor – Servisi, in which the Company held a 100% equity interest, ceased to operate by a decision of the Commercial Court in Rijeka in the last quarter of 2020, where the subsidiary's assets and liabilities have been attributed to the Company, therefore, Viktor – Servisi limited liability company is not included in the Consolidated Financial Statements.

Abbreviations

In the Annual Report, *Brodogradilište Viktor Lenac d.d.* is referred to as the "Shipyard" or "Viktor Lenac" or "Company"; the Company together with its subsidiary hereinafter are referred to as the "Group".

Foreign Exchange Rates

Assets, liabilities and equity amounts have been converted to foreign currency (EUR) at the midpoint exchange rate of the Croatian National Bank as of 31 December of the reporting year. The items from the income statement have been converted at the average of midpoint exchange rates of the Croatian National Bank determined on the last day of the month for the reporting year.

For year	Exchange Rate as of 31 Dec	Average Exchange Rate
2020	7.5369	7.5345
2019	7.4426	7.4168
2018	7.4176	7.4139

AN ADDRESS TO SHAREHOLDERS

Dear Shareholders, Clients, Business Partners, Employees and Everyone reading this report,

I have pleasure in placing before you the Annual Report of Shipyard „Viktor Lenac" for the year 2020, one of the strangest years we have seen, of unpredictable oscillation, a year in which we were all living in different circumstances imposed by the coronavirus pandemic. A year in which we worried about health of our workers and clients, but we also worried about occupancy, financial results and living standards, a year in which the most sought-after goods were protective face masks and disinfectants.

Today we can say that we have passed our first challenges. We are pleased to point out that we have successfully preserved the health and lives of all our employees, subcontractors, and our clients. Through dedicated work, understanding the risks to health and business, with the support of managers and workers, and responsible behaviour, primarily among production workers, who had to continue to perform their tasks in all phases of the pandemic, we have successfully completed all 70 projects on time. We managed to maintain a zero-case situation until the end of October, although we had shifts and arrivals of new clients, crews, foreign representatives, as well as subcontractors throughout the entire year.

Business results achieved by Viktor Lenac in the past year are one of the best in its history. Although in previous years Viktor Lenac generated significantly higher revenues from sale, in 2020 it generated a significant net profit, with the historically highest profitability rate. This is the result of several measures taken in recent years to increase efficiency of production and business activities, reorganize jobs and tasks with lower added value, increase organizational flexibility and reduce costs, especially fixed ones.

In 2020, Viktor Lenac generated a total of HRK 306 million revenues, or about EUR 40 million, of which over 85% was generated from core business projects. Total expenses amounted to HRK 264 million or about EUR 35 million, which resulted in a net profit before tax of HRK 42 million, whereas net profit after tax deduction amounted to HRK 35 million or EUR 4.7 million.

On one hand the pandemic brought some new ways of doing business and reduced some general business costs, business travels and visits to clients but, on the other hand, due to inability to travel it was very difficult or almost impossible to negotiate special projects that required prior survey of ships. Uncertainty as to whether procurement or contract deadlines will be met, has put many projects on hold until further notice. Apart from major conversion projects and similar more extensive ship modifications, uncertainty over the course and duration of the pandemic, especially at its inception, has contributed to oscillations in contracting for shiprepair projects and occupancy rates throughout 2020.

High occupancy rate recorded at the end of 2019 continued in the first quarter of 2020, largely due to several projects that Viktor Lenac has been awarded by the US Navy. Uncertainty and unavoidable delays in occupancy due to the pandemic began to manifest as early as March when many shipowners postponed their shiprepair projects, and some already agreed projects were either cancelled or postponed indefinitely. The end of March recorded no new projects, except for one ship of the US Navy's 6th Fleet, previously contracted, which was also delayed in arrival due to anti-epidemic measures. Viktor Lenac therefore decided to use the support of the

Government of the Republic of Croatia for the period March-May, because it was clear that it was threatened with a drastic drop in revenue.

In cooperation with the county epidemiological institutions, we managed to find a way to communicate with foreign crews and client representatives under anti-epidemic measures, which significantly contributed to client trust and enabled us to contract new projects, which ensured occupancy increase from mid-May onwards.

Although significantly lower in terms of the number of projects and the scope of work, and thus in terms of revenues compared to the first quarter of 2020, occupancy rates in the second and third quarters were, especially given the circumstances, sufficient for further profit growth. However, the last quarter recorded declining occupancy and revenues, but not to such an extent that the business results achieved so far would be significantly impaired.

At the end of the year, occupancy rates rose to those of the middle of the year, so we can expect that, with careful attention to controlling costs and taking further action to increase efficiency, we will continue to achieve good results. Revenue projections in shiprepair are based on a company's capabilities to execute works, where specific tasks, customers and prices are ultimately defined immediately, or in a very short time, before the execution of each work. All these elements are related to global economic trends, which affect the global maritime trade and financial strength of Viktor Lenac's clients, as well as the scope and dynamics of shiprepair activities. What we have learned from the past is that any economic crisis, regardless of what caused it, affects both maritime and related markets such as the shipbuilding and shiprepair markets. The supply-demand mismatch of ship slots does not always have to be the same for all types of ships, and the consequences for the shiprepair industry could occur with a delay of several years. Therefore, Viktor Lenac's goal is a flexible approach to the market and customers, with the maximum reduction of costs that burden the cold regime and optimization of resources, aimed at achieving maximum output and efficiency of each worker.

Most organizational changes and changes in the structure and number of employees were implemented during 2019 and 2020. At the end of 2020, Viktor Lenac had 364 employees, with an additional 41 employees of the subsidiary, which has revealed that, with business process reorganization, we were able to successfully prepare, contract and complete a total of 70-80 projects of varying complexity with a much smaller number of employees, especially when it comes to overhead business functions, compared to the number from two to three years ago, without affecting the workmanship quality.

Cost-efficient and labour-flexible organization, as well as ensuring capital production capacities capable of adapting to different occupancy rates, are necessary for the Company's ability to ensure positive results and accumulation of funds necessary for its further sustainable development, even with lower revenues.

To this end, Viktor Lenac assesses the upcoming period as optimal for investment in a new floating dock to replace the existing Dock 11, thus bridging the period until recovery of market affected by the pandemic, and ensure long-term facilities for further growth, also ensuring employment in the environment.

The results we achieved in 2020, despite completely unpredictable circumstances, show that Viktor Lenac is on the right path of further development and modernization to create added value needed to meet interests of all stakeholders in the environment - workers, shareholders, clients, suppliers, taking into account our social responsibility towards the community, especially environmental protection and safety of the society of which we are only a small part and to which we must reciprocate, in order to preserve the resources we take from it in the long run for the next 125 years of Viktor Lenac.

Sandra Uzelac
Member of the Management Board

BRODOGRADILIŠTE VIKTOR LENAC d.d.
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KEY FINANCIAL FIGURES

Consolidated Financial Figures

	000 HRK			000 EUR *		
	2020	2019	Index	2020	2019	Index
Total Revenues	**306.722**	320.962	0,96	**40.709**	43.275	0,94
Total Expenses	**264.488**	299.551	0,88	**35.103**	40.388	0,87
Operating Revenues	**306.013**	320.774	0,95	**40.615**	43.250	0,94
Operating Expenses	**262.723**	297.262	0,88	**34.869**	40.079	0,87
Operating Profit (or Loss)	**43.290**	23.512	1,84	**5.746**	3.170	1,81
Profit (or Loss) before Tax	**42.234**	21.411	1,97	**5.605**	2.887	1,94
Net Operating Profit (or Loss)	**35.683**	20.893	1,71	**4.736**	2.817	1,68
Total Assets	**389.534**	420.408	0,93	**51.684**	56.487	0,91
Equity and reserves	**281.300**	245.765	1,14	**37.323**	33.021	1,13

Non-Consolidated Financial Figures

	000 HRK			000 EUR *		
	2020	2019	Index	2020	2019	Index
Total Revenues	**305.912**	319.810	0,96	**40.601**	43.120	0,94
Total Expenses	**264.162**	298.468	0,89	**35.060**	40.242	0,87
Operating Revenues	**305.200**	319.630	0,95	**40.507**	43.095	0,94
Operating Expenses	**262.415**	296.180	0,89	**34.828**	39.934	0,87
Operating Profit (or Loss)	**42.785**	23.450	1,82	**5.679**	3.162	1,80
Profit (or Loss) before Tax	**41.750**	21.342	1,96	**5.541**	2.877	1,93
Net Operating Profit (or Loss)	**35.199**	20.838	1,69	**4.672**	2.810	1,66
Total Assets	**388.983**	418.356	0,93	**51.611**	56.211	0,92
Equity and reserves	**281.252**	242.919	1,16	**37.317**	32.639	1,14

** All amounts expressed in Croatian Kuna, except for assets, share capital and reserves, have been converted into Euros according to the average midpoint exchange rate by the Croatian National Bank for 2020 respectively 2019. Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31 December 2020 respectively 31 December 2019 as listed on page 3 of this Report.*

The consolidated financial statement reporting includes the subsidiary VL Steel Ltd in which the Company holds a 75% equity interest. Throughout the entire 2020, the subsidiary was providing services in shipbuilding and related metal processing activities. Viktor - Servisi Ltd. that provided specialized services in shipbuilding, primarily related to mechanical works, has ceased to operate, and is no longer included in the consolidated reporting. The employees of the former subsidiary have moved to the Parent Company, which shall continue business of the former subsidiary. The assets, liabilities and capital of the former subsidiary have been attributed to the Parent Company's financial position.

In 2020, the Group generated total revenues in the amount of 306.7 million Croatian Kuna and total expenses in the amount of 264.5 million Croatian Kuna, after annulment of their reciprocal transactions and after balancing positive and negative exchange rate differences.

The comparison between the consolidated and non-consolidated financial statements indicates that the influence of the subsidiary is irrelevant. VL Steel Ltd. generated a net profit in the amount of HRK 484,000, of which 75% is attributed to the Group, while 25% involves minority interest of a third party. It follows that the results of the subsidiary did not significantly affect the results of the Parent Company or the Group as a whole. Revenues and expenses of the Parent Company make more than 99% of revenues respectively expenses of the Group. Likewise, the assets of the Parent Company make 99% of the Group's assets. Accordingly, in Annual Report 2020, the focus is on the financial position of the Parent Company.

BUSINESS ENVIRONMENT

Like all other spheres of social and economic life during 2020, the world maritime market and the related shipbuilding and shiprepair market were affected by the SARS CoV-2 pandemic. From the very beginning of the year, the attention of all entities - shipbuilders, shiprepairers, suppliers of equipment, materials and workers was focused on the pandemic and its impact on social activities, new consumer behaviour, slowing global economy due to the impacts of the pandemic and all other activities that led to fluctuations in the world maritime market.

The world maritime industry, as well as other branches of the economy, suffers significantly from the consequences of the coronavirus disease, both in the part of world maritime trade and in the shipbuilding and shiprepair activities. The consequences of the pandemic go in two directions - in the direction of interruption and slowdown of economic activities that consequently affect the global maritime industry and in the direction of undertaking measures to prevent the spread of infection, which significantly hinder and prevent normal activities in the maritime and shipbuilding market.

The most severely affected by the pandemic, with the most significant decline in occupancy, was the cruise and passenger ship market, where there was a complete standstill, while the markets for bulk carriers, container ships, general cargo ships, oil tankers and cargo RO-RO ships recorded a smaller decline, in which, although there was a slowdown in activity, there was generally no interruption in maritime trade. Demand for container vessels has remained stable due to high dependence on China, which accounts for a high percentage of global container transport. Although a strict lockdown in China in early 2020 resulted in a significant drop in container traffic, with a rapid recovery from the coronavirus in China, demand soon returned to normal.

Although the long-term impact of the outbreak of the COVID-19 crisis has yet to be fully explored, all indicators point to significant immediate challenges for the maritime sector and related industries and other stakeholders in supply chains. Although freight revenues, or their decline, do not move equally in all market segments, which is why shipowners do not suffer equally from the consequences of the pandemic, due to further uncertainty about the movement and duration of the crisis, most shipowners are cautious about spending their financial reserves. Therefore, shipowners tend to keep their maintenance and related activities low, only to the extent of what is necessary, and on the other hand, they strive to achieve high capacity utilisation rates. This results in further postponement for shiprepairs or putting ships at rest to minimize operating costs; and, in many cases where possible, classification societies are prone to grant a postponement of certificate renewal until better assessments of the continuation of maritime activities are possible.

Planning in the shiprepair market, otherwise difficult and with large doses of reserves, in the conditions of the pandemic proved to be even more uncertain. This involves duration of the pandemic, new virus strains, new and prolonged restrictions on the migration of goods, services, new partial lockdowns, and restrictions on social and economic activities, all affecting global trade, maritime trade and the shipbuilding and repair industries. Nevertheless, global forecasts tend to suggest a recovery of the maritime industry during 2021, and according to some sources, a faster recovery and growth of the shiprepair market is expected compared to shipbuilding activities.

But with all these forecasts, one should be proverbially cautious - part of the global trends speak in favour of growth, and part in favour of further stagnation. It is expected that effective vaccines and their availability to a larger population in mid-2021 will encourage a return to "more normal" conditions and the confidence of market actors in the normalization of market conditions. On the other hand, reduced economic activities that have led to impoverishment of many companies, households, fiscal deficits of state budgets in the protection of economies, prudent behaviour of the population, could have a lasting effect of a reduction in demand and consumption, which could deepen the current crisis, or at the very least result in stagnation of the maritime market, freight rates, and thus the shiprepair market.

Scrubber installation projects are currently not interesting to shipowners due to a small difference in the price of diesel and heavy fuel, which is why now it is not cost-effective to install scrubbers. It is not even likely that this situation could change for the better, at least not soon.

On the other hand, there was a satisfactory demand for installation of BWTSs during 2020, and it is expected that interest in these projects should continue at the same level throughout 2021 and 2022, which is also the final deadline for installation of these systems. Viktor Lenac expects to achieve occupancy rates and generate revenues from such projects, which make a category higher than the standard shiprepair, both in terms of scope and value of works, having experience with already 20 such completed projects.

In the segment of conversions and large-scale projects, there are some inquiries and negotiations are underway on several projects, but with oscillating dynamics, primarily due to the pandemic, which are also affected by oil prices. In these projects, patiently gathering further information on development of the situation in relation to global economic events and the epidemiological situation is crucial.

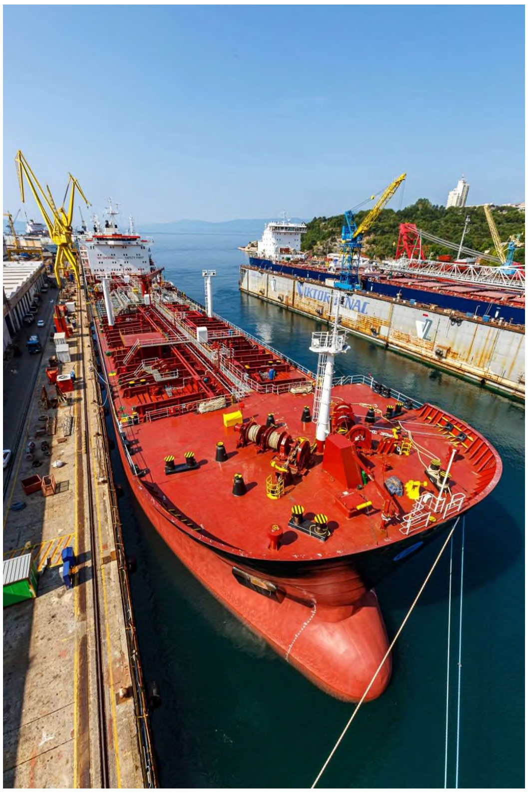
In terms of competition among shipyards in Viktor Lenac's reach, there is still a strong dominance on the part of shipyards in Turkey and the Black Sea, given their price and geographical advantage over other shipyards, including Viktor Lenac, whose prices are mainly dictated by high labour costs, tending to gravitate to the countries of Western Europe. An additional advantage for Turkish shipyards that peg their currency to the U.S. dollar, is weakening of the Turkish lira against the US dollar that hit record low in early November 2020, and after a short period of growth, weakened again against the US dollar at the end of the first quarters of this year.

We have a continuous successful cooperation with the US Navy 6th Fleet. We regularly apply for tenders for maintenance of their aluminium catamarans, onboard which works tend to be carried out mainly from the end of the year to the middle of the following year. Thanks to our competitiveness and performance, the US Navy has become our strategic client over the last few years. Recently, we won a contract for repairs of a new ship in the 6th fleet, the USS Hershel "Woody" Williams, which is used as a mobile expedition base. The ship is currently undergoing repairs at our Shipyard, which is its first repairs since it had been delivered as newbuilding in March 2020.

BUSINESS ACTIVITIES

SALES

Sales activity



Global events during 2020 also affected Viktor Lenac's business. The SARS CoV-2 pandemic that imposed travel restrictions in the first half of the year, led to port blockades to prevent the spread of the disease, resulted in closures and restrictions on many companies, imposed mandatory quarantines and self-isolation, and postponed and cancelled many shiprepair projects, a few of which Viktor Lenac had already agreed.

Clients, faced with uncertainties regarding the possibility of travel of their representatives, procurement and transport of materials and spare parts, loss of time due to mandatory self-isolation and quarantine of crew and other foreign personnel, did not want to take the risk of uncertain shiprepair deadlines.

In such circumstances, Viktor Lenac's sales activities were already in February and March reduced to gathering information on clients' intentions with a hope that the situation with the pandemic would change soon. Occupancy rates recorded in the first quarter of 2020 were the result of earlier sales activities and plans for the next quarter could not be made.

In April 2020, the aluminium catamaran USNS Carson City arrived in Viktor Lenac, which was delayed in arrival due to the mandatory 14-day quarantine of the crew compared to the expected commencement of works. Plans that included works on the ship hull in the dock, due to uncertainty in the possibility of arrival of foreign service engineers, were changed and focused only on those works that could take place at the berth. It was not possible to proceed with works without foreign service engineers authorized to do special services, relating to works for which there are no authorized service providers in Croatia, therefore Viktor Lenac implemented strict working procedures and requested permission from the authorities to grant arrival of foreign persons.

Thanks to strict safety procedures, and the fact that Viktor Lenac did not have any cases of infection at that time, and due to a favourable epidemiological situation in the Republic of Croatia and Primorje-Gorski Kotar County, Viktor Lenac managed to get support from the authorities for limited work if strict procedures in communication and work with its own staff and subcontractors, as well as ship crews and customer representatives are fulfilled. In this way, Viktor Lenac's clients did not have to wait for expiration of mandatory 14-day quarantine, which increased clients' trust that works would be performed on time, without significant risk of delays. This already in the first days of May resulted in intensified activities of the sales department, which already in May successfully contracted a dozen projects and ensured a good utilisation of Viktor Lenac's capacity until the end of the third quarter. Caution and uncertainty continued during September, when it was certain that inquiries began to stagnate and when some projects, which had reached the final stage of negotiations, were postponed by the will of the shipowners until further notice. Although as a result, and due to an extensive shiprepair that was being carried out in one of the docks, occupancy was low in the last quarter, Viktor Lenac can be satisfied both with internal work procedures and external procedures towards its work environment and clients, and especially sales results achieved in such an unpredictable 2020 as well as projects contracted for the beginning of 2021.

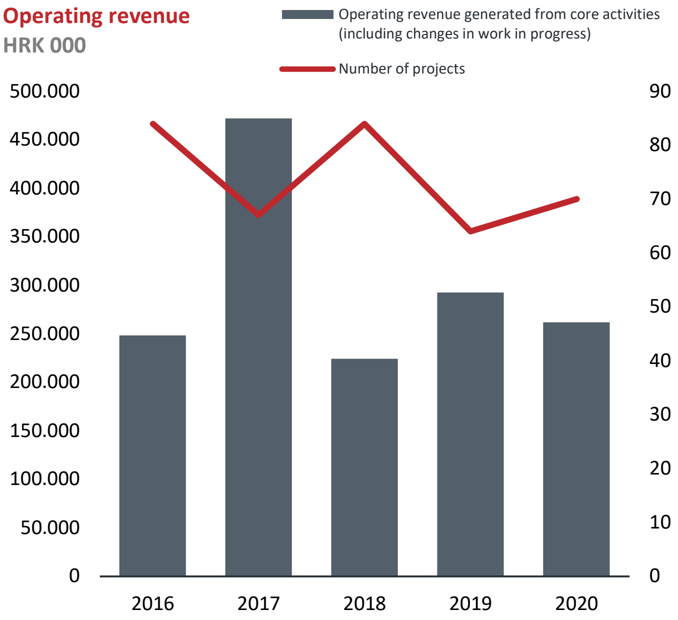
This mostly refers to four shiprepair contracts awarded by the US Navy for repairs of their 6th Fleet ships, of which works onboard the USNS Yuma began in 2020 and were completed in February 2021, and during the preparation of this Annual Report three of their ships are undergoing repairs at the Shipyard – USNS Trenton, USNS Carson City and USS Hershell "Woody" Williams.

During the year, Viktor Lenac continued to negotiate a few major conversion contracts but under very difficult circumstances. Communication "at a distance" with potential clients is difficult, especially because travel restrictions had made it impossible to inspect the ships to a sufficient extent or even at all, which is necessary to better understand the required work specifications and prepare the best offer. Since such projects require a significant share of equipment and materials, global lockdown and slowing down of other production activities impose a risk of late delivery, and therefore clients have been postponing final negotiations and project commencement dates until they are convinced of the reasonable deadlines or of their own financial strength for such investments.

Our sales and marketing activities are closely related to sales activities of the companies belonging to the Palumbo Group, the largest individual shareholder of Viktor Lenac, which also perform their ship repair activities at several locations in the Mediterranean. The joint action created a synergy of coordinated market approach aimed mainly at common customers or niche markets, with optimization and harmonization of sales policies and sales activities, better use of sales resources of all companies and expanding customer base to all companies in the group.

In most cases, sales activities are focused on offering customers the opportunity to choose the preferred shipyard within the group, in accordance with their technical capacity and technological capabilities. The final choice is exclusively on the client considering established relations, previous experience, the position of the ship and other reasons on the client's side.

Revenues generated from sales



During 2020, Viktor Lenac completed a total of 70 shiprepair projects, 5 of which began at the end of the year and continued in January 2021.

The presentation of revenues generated by years indicates a decline in revenues generated in 2020 compared to the previous year, but also an increase in the number of projects. This led to a drop in the average value of the shiprepair works, all of which was also affected by the COVID-19 pandemic.

Of the total 70 projects, five involved US Navy ships. At the beginning of 2020, there were works in progress onboard USNS Bruce C. Heezen and USNS Yuma. Amid the pandemic in Europe, Viktor Lenac was accommodating USNS Trenton onboard which works were nearing completion at the time, and the arrival of USNS Carson City was postponed from March to April, due to compliance with the ship's crew's 14-day quarantine measure. In December 2020, a new two-month shiprepair project involving USNS Yuma began, so the revenues generated from that project were recognized in part based on stage of completion.

The average value of services sold per project was about 495 thousand EUR, or about 372 thousand EUR in terms of merchant ships. There was a total of 18 shiprepair projects completed for domestic clients, of which a total revenue of about EUR 2.9 million was generated.

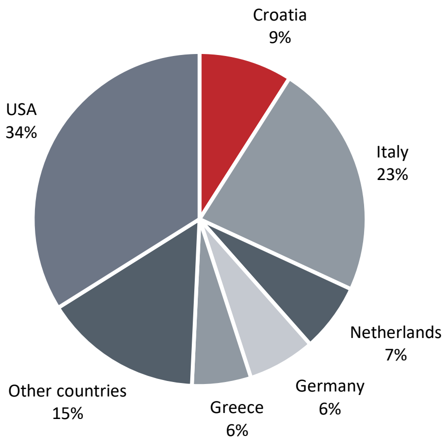
Market analysis

Put in perspective of the market structure, the 2020 operating revenues derived from 15 different countries involving 42 different clients, the same as last year.

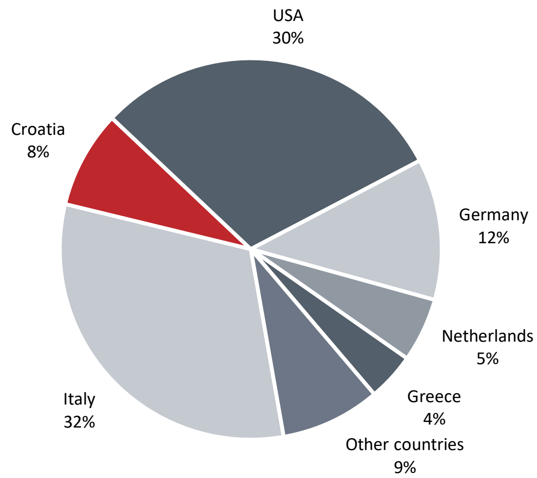
The highest revenues and the largest number of projects were generated for the Italian market. In 2020, in terms of total revenues, the Italian clients surpassed the US clients, which in recent years had recorded the largest percentage, whereas in terms of the number of projects, the total number of projects completed for the Italian market surpassed the total number of projects completed for domestic clients, which usually tend to record the largest number of projects. Such a division is not unusual, given that Italian shipping companies are our steady clients.

A total of 18 projects were completed for the domestic clients, or 8.3% put into perspective of the market structure, which is like last year's figures when a total of 9 projects generated 9% of revenues.

Operating revenue by market 2019



Operating revenue by market 2020



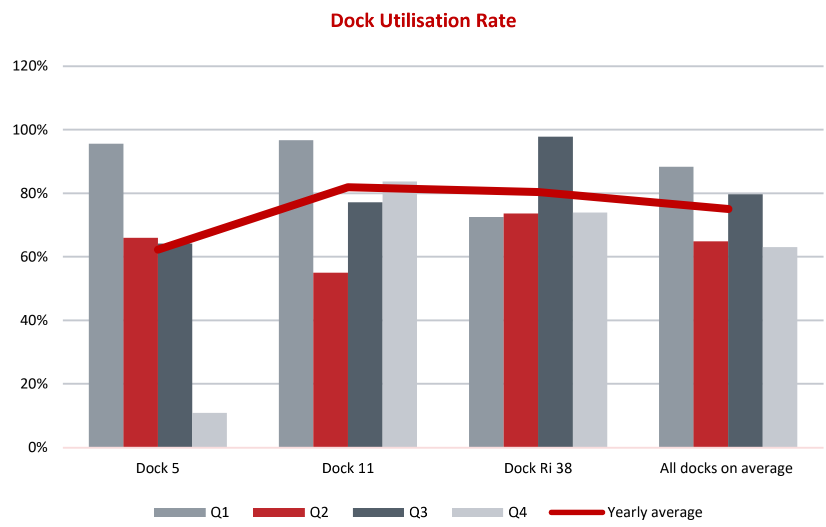
Of other foreign markets, a significant share of revenues was generated from German clients, double per share in the structure compared to the previous year, involving activities carried out onboard 6 ships.

PRODUCTION

Production activity and capacity

Production activities involved a total of 70 projects, so despite the higher number of ships in operation compared to the previous year when production activities involved a total of 64 ships, in total, in 2020 there was a decline in total capacity utilization. The first trimester was the most intensive in terms of scope of work, followed by a slowdown caused by the pandemic. The periods of low occupancy rates recorded in April and then in October and November, were used to carry out renovation of the Dock 11 and works onboard Dock 5 necessary to obtain a five-year class certificate. The periods of lower occupancy rates were also used for maintenance of other production equipment in accordance with inspection and testing plans.

A decline in capacity utilization recorded in the second quarter, as a direct consequence of the pandemic and measures to combat the spread of infection is indicated by dock occupancy by quarters. The largest docks, Dock 11 and Dock 5, which tend to generate the highest revenues, recorded a significant drop in occupancy in the second quarter. The third quarter recovered and then the last quarter recorded decreasing occupancy. As already mentioned, the periods of lower occupancy were used for reconstruction of the Dock 5.



Out of a total of 70 projects completed during 2020, 50 projects included works in dock, of which 14 in Dock 11, 16 in Dock 5, and 20 ships were docked in Dock RI 38.

Shiprepair projects involved different types of ships, of which mainly tankers (16), passenger/RO-RO ships (14), of which a cruiser that underwent a major scope of works, as well as 6 tugs, 5 container ships and 5 general cargo ships and other various types of merchant and cargo ships. Five shiprepair projects completed for the US Navy involved 3 warships, aluminium catamarans.

Production activities involved manly anti-corrosion protection works and steel renewal, a total of 900 tons of steel, of which 60% involved Dock 5 and Dock 11 steel renewal works. In addition, a total of 23.5 tons of aluminium catamaran structure was renewed.

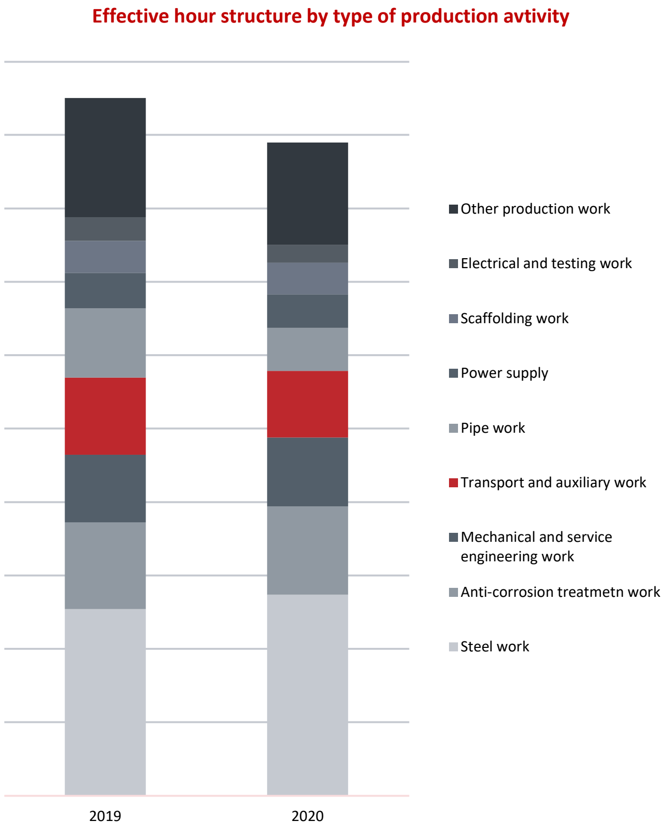
Anti-corrosion protection works were carried out onboard almost all ships, mainly involving ship's hull, ballast tanks and other tanks, as well as other surfaces such as decks and superstructure. A total of 450 thousand square meters of ship surfaces were cleaned by high-pressure washing, and about 29 thousand square meters by mechanical cleaning. Sandblasting works took place on 80 thousand square meters, while 3000 bar high-pressure water blasting equipment was used to treat a total of 16 thousand square meters. In recent years, there has been a significant reduction in sandblasting technology and the use of grit, and an increase in the use of high-pressure water, as a modern and environmentally friendly technology, where all impurities remain in a closed system, creating significantly less total waste than waste grit. A total of 706 thousand square meters were painted.

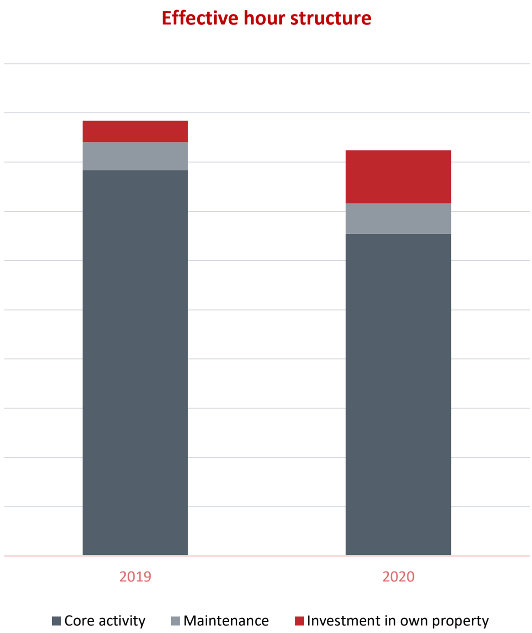
A total of 110 cubic meters of scaffolding were erected, of which 79,000 cubic meters of tubular scaffolding system and the remaining 31,000 cubic meters of quick-assembly scaffolding system.

Production activity structure

Production activity is measured by number of effective hours, which has been steadily decreasing over the last years, as a result of measures undertaken to reorganize production processes with the aim to increase efficiency and make better use of the increasingly scarce labour force. Total number of effective hours is influenced by various factors, from oscillations in occupancy and distribution of daily activities to various production solutions and frequent changes in specifications of works, where resources are defined immediately before commencement of works. This requires high flexibility of all work resources, and on the other hand increases the risk of downtime and idling, especially because all works are intertwined and interdependent.

From a comparative analysis of the 2019-2020 effective hour structure, it can be concluded that production activities in both years developed in a similar way, but to a lesser scope compared to 2019, which is a consequence of lower occupancy rates.





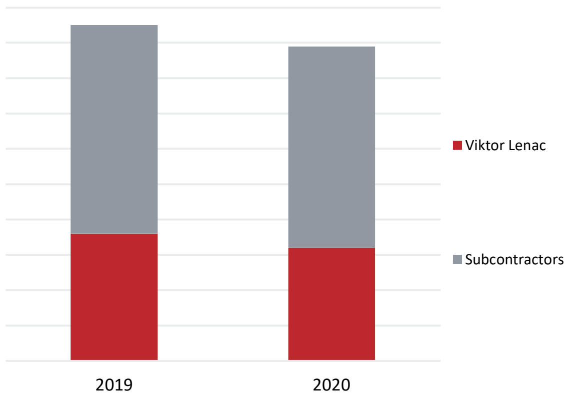
The largest decrease was recorded in transport and auxiliary works (which are directly related to and serve all other trades) and pipe works that, in 2019, were mainly related to scrubber and BWTS projects, which also occurred in 2020 but in smaller number and scope than in 2019. Steel work recorded high rates primarily due reconstruction and renovation of the floating docks. Analysed by production work order types, 2020 recorded a decrease in the number of effective hours on production work orders in the core activity, due to reduced workload, primarily due to the pandemic, so part of the capacity that could not be utilized on shiprepair projects was utilized for maintenance of own facilities.

Labour capacity and organisation of production processes

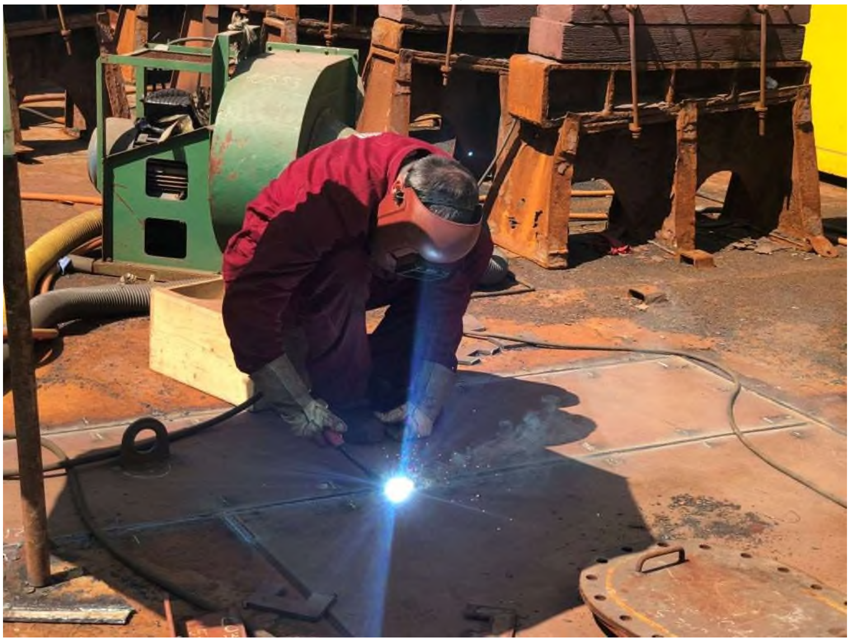
Shiprepair industry is labour-intensive. Raw material cost represents up to 30% of the total production cost in the shiprepair activity, whereas the remaining part is labour cost, relating to own production workers or subcontractor workers. The same relationship applies also to other production activities, such as maintenance of facilities, plants and equipment, or investments in own floating docks.

The capacity of own direct production workers of all trades and which, as a rule, represent a fixed capacity, in 2020 amounted to about 310 thousand effective work hours (after deduction of non-effective work hours such as vacations, sick leave and other non-effective work hours), of which about 260 thousand hours were spent for direct production work orders, and the remaining work hours were spent on maintenance of own production and business facilities.

Effective hour structure allocated to resource



Fluctuations in occupancy in the shiprepair activity and the changing structure of works in the core activity produce different workforce needs. In some periods, the Shipyard can face a shortage or surplus of own production workers in terms of total number or trade. Apart from its own permanent production workers, depending on needs, Viktor Lenac uses subcontractors for all its production activities, which is a general global practice. Subcontractors are mainly contracted on turn-key base, and in lesser scope per hour, noticeably during periods of oscillations where own labour is not sufficient. A decrease in production activity and oscillations in occupancy lead to a surplus of workers representing fixed capacity, resulting in an increase in fixed cost. That is why in previous years, Viktor Lenac reduced the number of employees through reorganization, where the number of production workers recorded a smaller decrease than the number of employees in other business units. The aim of all organizational changes, including changes in the structure of production activity, is to increase added value per unit of work. During 2020, a reduction in the number of employees led to a reduction in the capacity of effective hours produced by own production workers. The number of effective hours produced by subcontractor workforce decreased due to lower occupancy rates.



The number of subcontractor workers, and thus the number of effective hours produced by subcontractor workers vary, depending on needs, in a range of 300-400 subcontractor workers, and even in greater numbers. By contracting workers from other shipbuilding environments in Croatia, combining mutual resources, and if necessary contracting foreign labour, either from EU countries in Eastern Europe, or importing foreign labour from third countries, the labour capacity of Viktor Lenac can grow above 1, 5 million effective hours, which would correspond to almost twice the production activity. On average, about 90-95% of subcontracted workers are contracted in the domestic market, and only about 5-

10% in foreign markets, mainly in the EU market. Viktor Lenac also uses the foreign workforce through domestic subcontractors.

Apart from own production activity, Viktor Lenac also uses external services such as subsupplier services, which involve manufacture and provision of services in core activity that are mainly carried out outside the site or using subcontractors' means of work and may involve provision of raw materials for manufacture of products intended to be built-in onboard a vessel. Examples of such services are custom made manufacture, finishing, processing, tug and port services as well as waste disposal. In specific types of works, such as licensed service and electrical works, subcontracted activities may also involve purchasing of specific materials and using subcontractors' own equipment, especially in contracts stipulated on turn-key base.

In the shiprepair activity, in which the largest share of production resources is the labour cost, both own and subcontracted, it is the only resource in which savings sufficient to achieve competitive advantage can be made. One of the key goals is to improve the quality of employee structure and optimize the number of employees with the aim of achieving an organization that can respond in a fast and flexible way to market changes.

Therefore, the priority for Viktor Lenac will remain to increase efficiency of production activity, as well as logistics and support processes with the aim of reducing costs for more competitive pricing. Reducing operating expenses and reengineering processes to improve cost-effectiveness is necessary for Viktor Lenac to be able to adapt to circumstances characterized with reduced workload, while ensuring earnings sufficient for sustainable growth and development of production capacity.

Energy-generating products

Viktor Lenac consumes significant amounts of electric power, fresh water, technological water, and gas in its production processes.

Part of electric power and fresh water is accounted for as fixed cost, while part is accounted for as variable cost, depending on scope of production activity. Technological water which is not used for drinking and technological gas such as liquid oxygen and acetylene are variable costs, which depend in whole on scope of production activity.

Water is used in technological processes for washing and high-pressure cleaning of ship surfaces and treatment of steel sections. Liquid oxygen and acetylene are gases used in steel cutting and machining.

Energy-generating products		2015	2016	2017	2018	2019	2020
Electric power	mWh	19.339	13.560	19.031	11.694	11.349	11.695
FW	000 m3	93	63	77	56	51	51
Technological water	000 m3	265	262	201	210	186	196
Oxygen and acetylene	t	672	558	476	357	401	478
MFO	t	485	331	168	144	115	120
Value of production work orders	in million HRK	539	277	499	242	306	312

Total energy-generating product consumption remained at approximately the same level as in the previous year, as there were no significant differences in total value of production work orders, which consume energy-generating products. A slightly increased consumption of oxygen and acetylene was recorded, due to increased steel works onboard the floating docks.

Compared to consumption rates generated a few years ago, energy-generating product costs, primarily electricity and fuel have decreased significantly, after Viktor Lenac has invested in a several energy efficiency projects (modernization of lighting, waste heat utilization and investment in the heating system with new solutions, introduction of static frequency converters instead of using aggregates and others). When replacing production equipment and tools, Viktor Lenac constantly takes into account energy efficiency of new equipment and will continue to pursue energy efficiency goals as an energy-aware entity and the holder of ISO 50001 Energy management system certificate.

An adequate water resource management involves prompt elimination of any leaks and water consumption monitoring. The existing technological water distribution system enables the use of technological water instead of more expensive water from the public water supply. More reduction is achieved by installing additional technological water pipelines aimed at using technological water at larger scope.

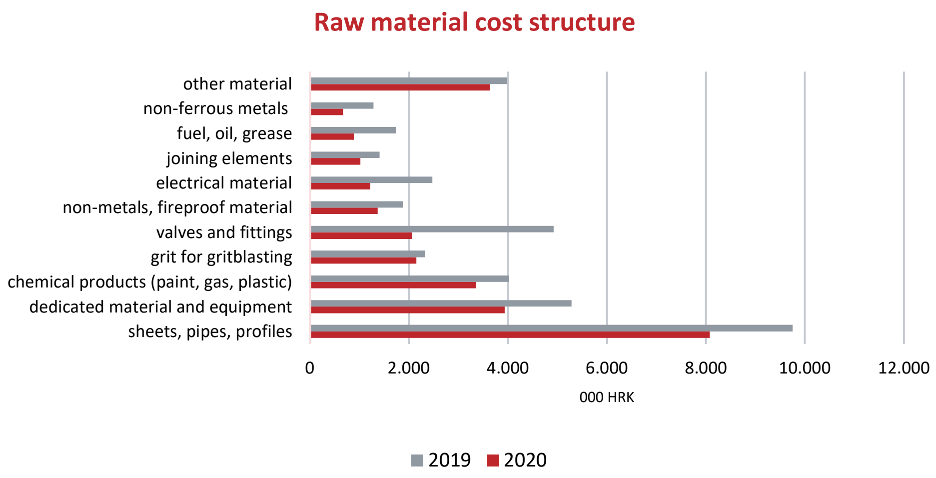
In the last few years, the energy-generating product cost tends to amount to about HRK 10.7 million per year, which makes about 3.5% of the total value of works performed.

Raw material

The raw material cost generally participates with 10-15% put in relation to total value of completed production work orders that tend to generate these costs. This share may be slightly higher if conversion projects or special projects make a higher share in the structure of core business projects, since such projects make a higher share of raw material and built-in equipment than standard shiprepair projects. The share of raw material and equipment in the revenue structure also depends on whether procurement of raw material and equipment intended for installation onboard a vessel is the Shipyard or client's obligation.

Production work orders executed during 2020 (core projects, maintenance, and own investments) resulted in consumption of raw materials worth about HRK 31 million, which in the structure of total operating expenses makes about 12%, or 10% in the structure of revenues or total results.

Compared to the previous year, the total raw material cost is lower, both due to reduced revenues and a different structure of activities.



The raw material structure follows from the structure of activities involved in the projects carried out by Viktor Lenac for its clients. The most important groups of raw materials that are regularly built-in onboard vessels under repairs or used in technological processes are ferrous metals (sheets, profiles, pipes), chemical products, special purpose materials and equipment that are not considered standard as they are specific and procured for certain special projects, and grit or sand for sandblasting (whose consumption has been decreasing in recent years due to changes in technology).

On average, about 70% of raw material is procured on the domestic market, although not all procurements are materials produced in Croatia, given their specificity and lack of domestic producers in these industries. About 25% of the raw material is procured from the EU market, and only about 5% from third countries, which is almost entirely related to imports from the USA, given the needs for specific materials required by the US Navy 6th Fleet projects.

Procurement

The objective of the procurement function is to ensure supply of materials and services in required quantity and quality, within the required delivery time at an acceptable best offer. The procurement function, given the large number of projects and the business model in which it is difficult to accurately plan production needs in advance, is very challenging and demanding.

In 2020, due to the pandemic, the market situation imposed additional complex requirements for the procurement function and the need to adapt to the new situation and fulfil additional logistics requirements in risk management. Monitoring of supply chains proved to be extremely important in ensuring delivery of the necessary materials, and to ensure the timely delivery of materials, Viktor Lenac sought to organize the transport of materials exclusively for Viktor Lenac, without using group transportation services. This ensures complete control over the movement of vehicles; from the moment the goods are ready to be picked up to the Shipyard as the final destination.

Fluctuations and slowdown in business activities due to the pandemic also affected employment of subcontracted workforce, so Viktor Lenac decided to initiate internal processes of maintenance and renovation of floating docks and other facilities in the initial crisis period in the interest of preserving its subcontracting partners, seeking to balance between the own workers and subcontractors. With the measures of the Government of the Republic of Croatia for preservation of jobs intended for businesses affected by the pandemic, we managed to preserve our labour capacity.

With the aim to continue production activities during the pandemic and enable delivery of materials and the flow of workers, Viktor Lenac has implemented specific safety procedures to preserve the health of workers, subcontractors and clients. All deliveries have been subjected to strict procedures and anti-epidemic measures including advance notice, filling in sanitary questionnaires, minimizing contact with drivers, disinfection of packaging according to risk assessment, safe acceptance and unloading of goods, temperature measurement, and mandatory use of protective masks and gloves in communication with suppliers and when reviewing documentation and accepting goods. Viktor Lenac has been regularly communicating these measures to transportation companies, freight forwarders, agents, and client representatives.

During the entire course of the pandemic and depending on the incidence of infection in Croatia and the surrounding countries, to which subcontractor workers tend to gravitate, Viktor Lenac has been implementing various safety measures to protect people and prevent the spread of infection, and the use of protective masks and fulfilment of maximum distance requirement, wherever possible, was mandatory throughout the entire year.

According to EU Regulation No 1257/2013, effective from 1 January 2021, shipowners are obligated to keep lists of hazardous material built-in onboard existing ships. The aim of the Regulation is to prevent and minimize adverse effects on human health and the environment caused by ship recycling, as well as to establish rules to ensure proper management of hazardous materials onboard ships. According to the Regulation, shipyards are obliged to ensure the traceability of materials and equipment installed onboard ships, which contain or may contain some of the defined hazardous substances, whereby shipyards are obliged to provide shipowners with material declarations or declarations of conformity obtained from their suppliers. Therefore, already in 2020, Viktor Lenac began preparatory activities in terms of product labelling and traceability, supplementing inquiries and orders, education and informing suppliers about the need to comply with the Regulation for materials containing some of the hazardous substances such as asbestos, compounds affecting ozone depletion, organotin compounds, heavy metals (cadmium, mercury, lead, hexavalent chromium) and other hazardous materials.

TECHNOLOGICAL DEVELOPMENT AND INVESTMENT

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

The total amount of investments in fixed assets in 2020 amounted to HRK 30.4 million, of which the largest amount was invested in the reconstruction of floating docks. The focus was on the renovation of Dock 5, by which the Company ensured its uninterrupted operation for the next longer period, and which needed to be done for a five-year class recertification. In addition to investments in floating docks, investments were made in creating or renewing other assets important for speeding up processes and reducing operating costs, of which to note is a system for drainage of sanitary water from ships from docks and berths in the public sewer system, renewal of a flat cargo boat for transportation of cargo within the aquatorium, completion of the first phase and the second phase of conversion of a Shipyard's facility into a "hostel" for accommodation of workers, modernization of an electrical test station, completion of lighting modernization and other projects aimed at facilitating and accelerating production activities.

In 2020, Viktor Lenac renewed production equipment and tools through direct purchases from suppliers, of which the purchase of a new set of equipment for high pressure water surface treatment (UHPWJ technology) intended for spot blasting, worth about HRK 1.9 million, should be noted. Besides the fact that UHPWJ technology is much more environmentally friendly than sandblasting technology, Viktor Lenac has been facing a growing problem with disposal of waste grit used in sandblasting due to multiplied disposal costs at more remote locations, which makes it less competitive in anti-corrosion treatment works. Two new hydraulic arms for work at height, having a total value of HRK 1.7 million, have been procured, and a general overhaul of the four existing hydraulic arms has been contracted.

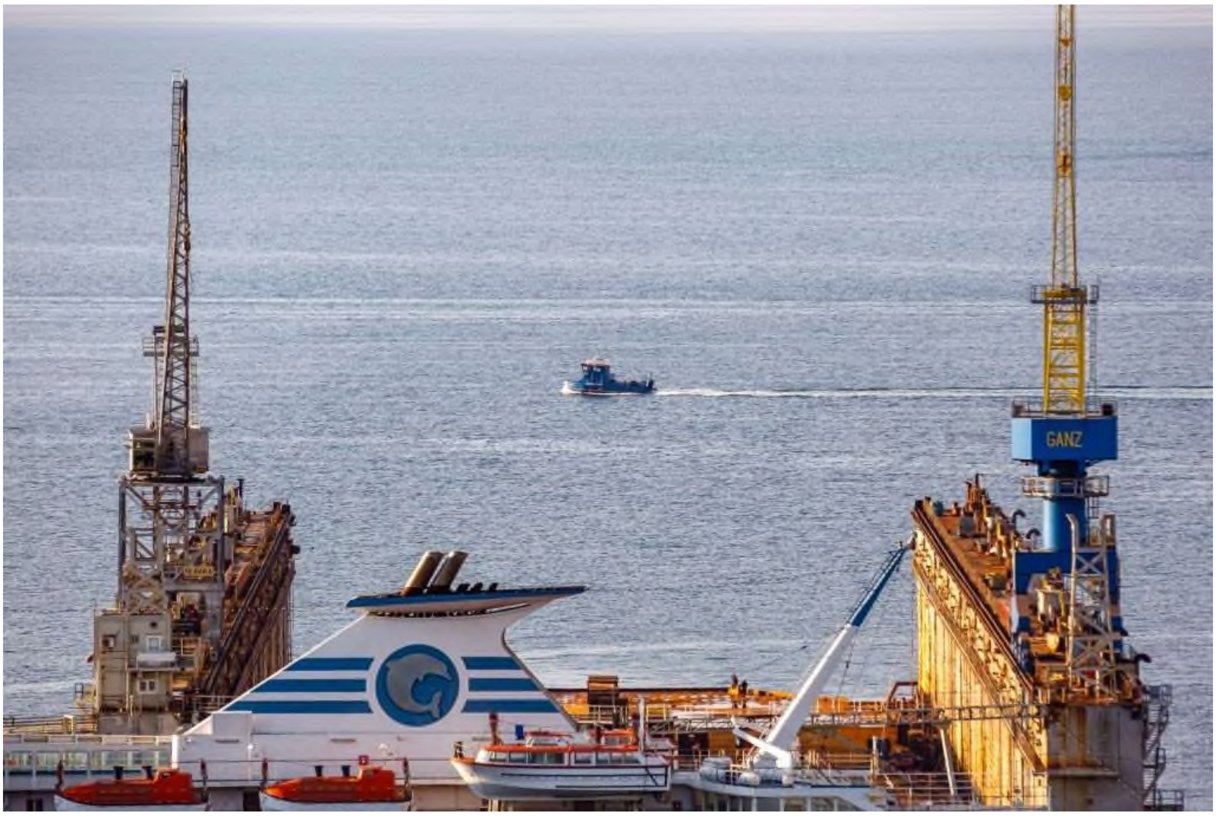
Investment in new floating dock

With the aim of ensuring its sustainable business and continuing to be one of the key entities in shiprepair in the Mediterranean, maintaining current occupancy and enabling its increase, investments in capital assets are necessary such as floating docks, which allow for execution of large-scale shiprepair projects. Lack or reduction in docking capacity directly leads to a reduction in the number of workers and decrease in occupancy, but also to a loss of marketing visibility and recognizability of Viktor Lenac as a repair shipyard that disposes of important facilities.

The largest floating dock, Dock 11, 260 meters long and 53 meters wide, can accommodate ships up to Suezmax size, which tend to generate about a third of the annual revenue. Considering the dock's age, needs for intensified maintenance works will be increasing in the coming years. Furthermore, market needs, working towards strengthening energy efficiency and environmental protection, and striving to reduce operating costs for dock utilization, require Viktor Lenac to procure another, more modern dock.

Market globalization and increasing ship size impose the need to dispose of floating docks of such larger dimensions. Accordingly, Viktor Lenac plans to replace the Dock 11 with another dock, similar in size and of higher capacity, which will allow it to enter a niche market of ships that could not have been accommodated so far such as LNG ships, which will be arriving to the nearby LNG terminal in Omišalj. Also, development of container traffic in the port of Rijeka and cargo ship traffic in the vicinity of Viktor Lenac should be considered.

The optimal solution both in terms of investment value and completion time is a major reconstruction of a partial dock structure, owned by a company related to the Palumbo Group, and its upgrading with completely new sections, to the desired dock dimensions and load capacity. The existing structure has been inspected twice, various tests and thickness measurements of the steel structure have been performed, steel properties have been analysed, and functionality of the existing equipment has been inspected. The reconstruction would be supervised by the Croatian Register of Shipping that was involved in inspection works. The project includes a general overhaul and anti-corrosion protection of the existing structure. Construction of new sections weighing about 9000 tons would be entrusted to domestic shipyards, whereas final assembly would be done in Viktor Lenac. Given that it is a major reconstruction and extension, the project would have the status of a dock under construction, which is treated as newbuilding. The planned value of total investments, including the value of the existing structure, is estimated at around EUR 35 million, twice lower when compared to purchase of a brand-new dock. The intention is to start the investment in the next very short time, immediately after securing finances, since the target deadline for the completion of the dock and its commissioning is scheduled for the first quarter of 2023. Construction stages will include design, procurement of steel, paint and necessary equipment, reconstruction of the existing dock section, construction of new sections of pontoons and towers, assembly, and modification of the existing Dock 11 cranes for installation on the new dock.



This extensive project will employ domestic capacities in steel and anti-corrosion protection, as well as workers in mechanical, electrical, and other trades, both in Viktor Lenac and in nearby shipyards, and thus contribute to creating new added value of the economy in the area. The new dock will have improved energy efficiency of dock systems compared to the existing Dock 11, and the larger width of the dock will allow high-pressure washing equipment to be used in a larger scale than traditional sandblasting technology, thus reducing negative impacts on the environment.

Upon completion of the investment and putting the new dock into operation, Viktor Lenac will remove Dock 11 from operation, which is intended for sale to waste. In this way, Viktor Lenac will contribute to financing the project.

The investment includes renewal of Berth 3 shore due to its age and wear and tear due to the effects of sea and heavy loads. This investment is estimated at around EUR 3 million, but optimal solutions are yet to be discussed. Thus, the total investment in the dock and berth, with regular annual investments in production equipment in the next two to three years, is expected to reach a value of about EUR 40 million. Viktor Lenac expects to provide this amount of money with a long-term loan from the Croatian Bank for Reconstruction and Development and commercial banks, in the amount of EUR 28 million, with a repayment period of 15 years, and the remaining EUR 12 million would be secured by its own contribution from EBITDA and the sale of Dock 11 in scrap.

We believe that our plans will proceed in the desired way in the planned dynamics, and we believe that today, in the conditions of the market affected by the pandemic, is the right time for the planned investment, which Viktor Lenac would certainly have to provide soon with the aim of maintaining and growing in terms of occupancy, revenues and financial results.

ORGANISATION, QUALITY MANAGEMENT SYSTEM, INFORMATION AND COMMUNICATION

Analysis and optimization of business processes is in the constant focus of the organization as a function, which aims to increase efficiency, reduce the number of activities that do not bring added value and accelerate each business process, all to improve and adapt operational efficiency of all business processes to needs and challenges that Viktor Lenac faces in the environment in which it operates.

At the end of 2020, the reorganization process was completed in procurement of materials and services, power supply and maintenance, and design and construction services. Changes in business process flow have resulted in revised job descriptions related to jobs in reorganized units.

When defining management system objectives, Viktor Lenac considers requirements of all stakeholders, the internal and external context of the organization and the risks and opportunities for improvement.

During 2020, 49 internal audits were conducted by competent auditors, of which 17 audits related to quality management systems, 15 audits to the energy management system and 17 audits to the occupational safety and health management system. By performing internal audits on a regular basis, Viktor Lenac can monitor performance and degree of goal achievement for business processes, and record, analyse and correct any non-compliances through a documented quality management system.

Accordingly, Viktor Lenac had recognized the need to intensify education activities and raise awareness in occupational health and safety and had initiated the certification process in accordance with ISO 45001: 2018. The certification process was successfully completed in September 2020.

In 2020, Viktor Lenac recertified its Quality Management System according to the ISO 9001: 2015 and had been preparing for recertification of the Energy Management System according to the ISO 50001: 2018, which was successfully completed at the beginning of 2021.

All external audits were conducted by the certification body Bureau Veritas, and no non-conformities were found in any of the three certified systems during the audit.

A total of three third party audits were performed in accordance with the JH143 requirement for risk assessment in shipyards. The results of these audits indicate that Viktor Lenac adequately manages risks and applies good industrial practices in the areas of process quality control, subcontracting, occupational safety and health, pollution control and incident management (fire, environmental incidents).

The certificates are an unequivocal and internationally understood indicator that Viktor Lenac nurtures a systematic and structured approach to business, which is a prerequisite for all foreign clients for any consideration of entering into a business relationship.

The requirements of regulatory bodies, as well as clients for confidentiality of information (personal data, technical solutions, contractual obligations, intellectual property) are increasingly important in everyday business, which is why Viktor Lenac decided to introduce the information security management system and implement ISO 27001:2013. To this end, some activities have already been launched such as planning for digitalization of business processes, updating the status of ICT assets, educating users on how to properly use various information resources, and familiarizing them with possible threats arising from business digitalization. Completion of the certification process is expected by the end of April 2021.

By introducing new management systems, Viktor Lenac is showing that it continuously seeks to improve its business processes to provide quality services to its clients, on time and in a safe manner, with respect to an effective energy management and effective information security policy.

Development of the information system, as an accompanying tool for automation of business activities and processes, is directly related to development of the organization.

During 2020, the Company continued with maintenance and development activities related to existing information services, but due to the impact of the pandemic, without significant strides in new technologies. Existing information systems have been upgraded with new functionalities, and emphasis has been placed on development of mobile app solutions, information security and data protection, and data exchange network management between various physical devices composed of electronic circuits, sensors, and software for water consumption management system monitoring.

The ERP system has been enriched with new possibilities involving preparation of quotations via a mobile app solution for submitting additional works to the Cost Estimate Department, which has accelerated the process of offering and contracting additional works for ships undergoing production activities.

The pandemic brought significant challenges to ensure business continuity in such new circumstances, which required significant technological resources and human efforts in implementing a new way of work. In a very short time, many employees were enabled to work from home. Employees performing business functions outside of direct production have been provided with laptops and network infrastructure and security applications and educated to work seamlessly on business applications (Teams, VPN).

The video surveillance system has been upgraded with new app versions and additional cameras. To protect against the spread of COVID-19 infection, the video surveillance system was additionally supplemented with thermal cameras for measuring body temperature, installed at the main entrance to the Shipyard and main ship entrances.

OCCUPATIONAL HEALTH AND SAFETY, FIRE PROTECTION

The occupational safety and health system is defined by the legislation and is an integral part of the organization of work and course of business processes. It is accomplished by performing occupational safety and health tasks and by applying prescribed, contracted, and recognized rules of occupational safety and health and rules adopted by Viktor Lenac incorporated in the quality management system in accordance with ISO 9001. In September 2020, Viktor Lenac successfully certified according to ISO 45001 for occupational health and safety (OH&S) management.

The following activities have been undertaken to align the OH&S management system to ISO 45001:

- Workplace safety training;
- Skill and ability checks for jobs with special working conditions carried out by an authorized health institution for occupational medicine;
- Testing machines and devices with increased dangers;
- Supervising implementation of occupational safety regulations;
- Inspecting workplaces and activities in specific, more dangerous conditions, issuing permits for entry and work in closed and confined spaces (a total of 2,300 permits issued during 2020)
- Toolbox talk courses focusing on safety topics, conducted in written communication with managers and responsible persons.

As part of the preparation process for occupational health and safety (OH&S) management certification, an application was created for workplace risk assessment, which enabled OH&S officers to assess risks by themselves.

Due to the pandemic and limiting gatherings as a measure to prevent the spread of infection, Viktor Lenac did not contract preventive health examinations for 2020, which are normally contracted for all workers to raise health care standards, early detection of diseases and increase employee motivation to take care of their own health.

The cost of protective clothing, footwear and other protective materials amounted to HRK 766,000, up by 37.8% compared to 2019 (HRK 556,000). The increase in costs resulted from mandatory use of protective face masks and disinfectants since March 2020. Almost 83,000 protective disposable face masks were used, most of which were of surgical type. In cases of increased risk, workers have been provided with FFP2 and FFP3 face masks, or safety face shields.

Already in February 2020, Viktor Lenac implemented special health protection measures, which have been effective at the time of this report, to protect health of workers and all other persons participating in business activities as prevention against the spread of COVID-19 infection. A total of 60 PCR tests were conducted worth in total about HRK 45,000 to prevent the spread of infection and impose self-isolation measures.

Implementation of HSE measures in recent years have led to a reduction in the number of injuries, evaluated both in the absolute number of injuries and relative to the number of workers. Looking at the index of injury severity, usually it comes to minor injuries mostly involving concussions, wounds and sprains.

In 2020, Viktor Lenac recorded 17 injuries at work, the same as in the previous year, but compared to the previous year, this number resulted in an increase in the injury frequency index with regard to a decrease in effective work hours in production compared to the previous year.

Also, a reduction in the number of employees in 2020 compared to 2019, nominally shows a higher percentage of injured workers, although it is at almost the same level, because those who left in previous years were mostly out of production activities.

According to the nature of injuries at work that occurred in 2020, five injuries were characterized as serious injuries at work (of which two crushes, one fracture, one dislocation, and one injury unfortunately ended in amputation of the toe), while the other 12 injuries were minor.

The Shipyard's Fire Protection System integrates a spectrum of preventive measures among which regular inspections of facilities and work sites, training of new employees, procurement and maintenance of firefighting equipment, testing of installations and equipment, all in order to detect potential fire hazards. In addition to preventive action, activities also include technical interventions of rescuing people and property endangered by fire and other disasters. With the aim of rapid and efficient interventions, firefighting equipment is deployed at various production locations, which increased its availability and operational readiness for firefighting and rescue interventions for people and property. The Shipyard’s fire brigade is organized in shifts to protect property of Viktor Lenac and its clients, as well as the health and lives of all persons, continuously in a 24/7 mode.

Hot works such as welding, grinding and cutting can be carried out only after a preventive inspection has been performed and a hot work permit has been issued. In 2020, a total of 8,047 hot work permits were issued, down by 20% compared to the previous year. Also, a total of 415 gas-free certificates were issued for works in tanks onboard tankers.

As part of preventive fire protection activity, a total of 42 own workers and subcontractors’ workers retook and successfully passed written exams for hot work such as soldering, welding and related work techniques.

Fire drills and simulations are conducted regularly in accordance with the Internal Fire Protection Plan and may be carried out at shipowner's request. A total of 48 drills were carried out during the year. The Fire Brigade also participated in annual security drill and exercises organized by the In-house security dept.

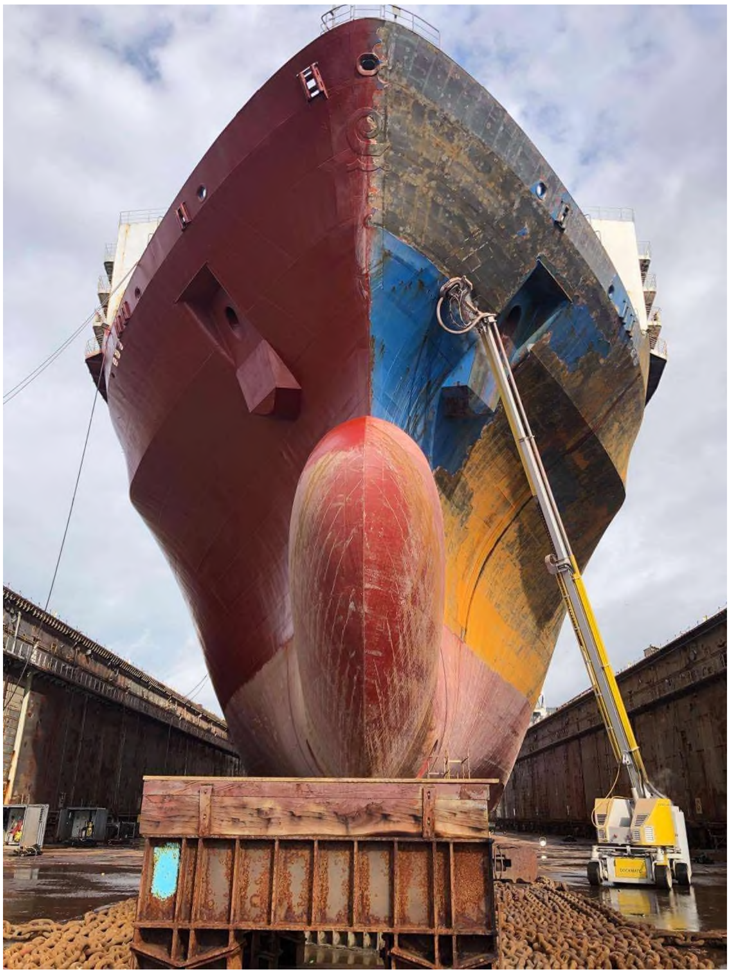
During the year, 2 initial fires and 2 technical interventions were recorded but did not cause any significant material damage (in total HRK 1,000), which can be considered extremely good score having in mind potential dangers and threats that may arise from a fire incident in shiprepair industry.

Given the reduction in the number of employees and the structure of activities in the past few years, an authorized company Build Protect d.o.o. made a new Fire, Explosion and Risk Assessment and a new Fire Protection Plan required to obtain consent of the competent institutions on re-categorization and classification of buildings and areas from I.e into a lower I.f fire risk category.

ENVIRONMENTAL PROTECTION

Viktor Lenac is continuously striving to operate with the care of a good businessman, taking into account all aspects of environmental protection and energy efficiency. Continuously investing in environmental protection and energy efficiency, Viktor Lenac has been successful in reaching the goals of sustainable development set by international and local laws, as well as its own goals. The Environmental Management System is incorporated in the Company's Quality Management System certified according to ISO 9001:2008. In the near future, all social responsibility policies, principles and procedures aimed at ensuring quality coexistence with the local community, integrating technological processes, technological achievements, professional rules and legislation shall be certified as a separate system according to ISO 14000.

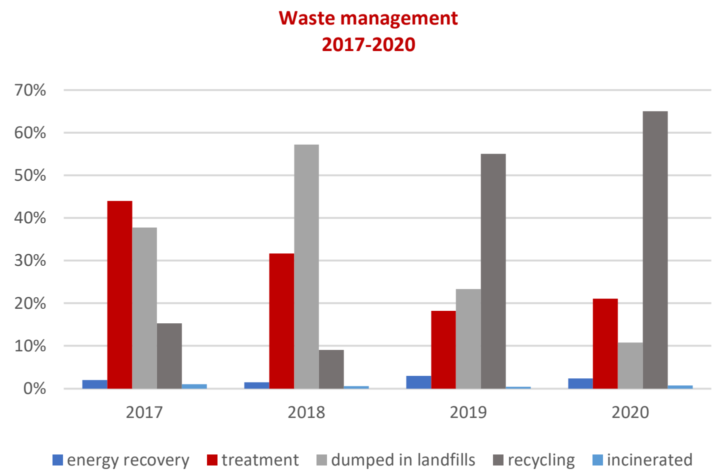
Environmental monitoring indicators indicate sources of negative impact on the environment to implement measures to reduce such impact, including quality of wastewater and seawater, the impact on marine life communities and the quality of seabed sediment. Particle immissions into the air, emissions and noise levels in the surrounding settlements are continuously monitored. Based on the obtained data, which are processed and interpreted by authorized laboratories, appropriate environmental protection measures are implemented with the aim of reducing emissions.



In 2020, Viktor Lenac continued to implement clean technologies in metal surface cleaning and treatment processes for anti-corrosion protection using Ultra High Pressure Water Jetting equipment (UHPWJ), to replace abrasive grit used in environmentally unfavourable blasting technology. A new set of spot blasting equipment and hand tools are expected to further reduce the use of grit, the amount of which is reduced from year to year.

In the Shipyard's production processes, various types of waste are produced. In addition to accumulated ship waste, there are secondary raw materials and metal processing materials such as abrasive sand (grit) and cans of paint for metal coating. By replacing sandblasting technology with new UHPWJ technology, the amount of waste abrasive sand has been reduced from 8,000 tons per year to only about 2,000 tons per year, and further use of UHPWJ technology is expected to reduce this waste by an additional 90%.

The Shipyard's Waste Management System, apart from legally defined frameworks and improvement obligations, largely depends on the possibilities of waste management in the Republic of Croatia. Therefore, the Company must constantly seek new waste management options that can meet both environmental and economic conditions. Aware that waste management can bring additional benefits or increase costs, Viktor Lenac has opted for a flexible waste management system to monitor trends that will be continuously adapted to change.



Dumping waste in landfills is the most unfavourable way of dealing with waste both ecologically and economically. To reduce waste for dumping in landfills, the Shipyard has been promoting waste sorting. The most cost-effective way of waste management is to separate waste at production site and Shipyard makes continuous efforts in educating workers and encouraging waste sorting behaviour, providing appropriate equipment and constant monitoring. The waste sorting process must be followed by an appropriate recovery practice such as recycling. In Croatia, new opportunities for waste use and recovery are opening up and Viktor Lenac has been developing its strategies for waste management in line with the development of waste management possibilities, cooperating with other economic operators and selling waste as raw material, which is extremely difficult but sometimes it can be done.

HUMAN RESOURCES

Number and structure of employees

On 31 December 2020, Viktor Lenac had 364 employees, down by 6 compared to the previous year, calling to mind that 10 workers of the former subsidiary Viktor Servisi have moved to Viktor Lenac. The average number of employees, according to the number of employees at the end of each month during 2020, was 366, down by 31 employees or 7.8% compared to the previous year. The decrease in the number of employees is a result of reorganization of business processes, which had started in 2019.

Considering oscillations in capacity utilization and the fact that in low occupancy own production workers are fixed cost, Viktor Lenac relies in large part on subcontractors' services in its production activities. New workers are employed in those activities in which it is not possible or not efficient to employ external labour. The employment policy aims to maintain a quality employee structure with the aim of raising the quality and efficiency of work, to mitigate the consequences of the downward trend in the availability of labour force, which has been more and more present in Croatia and the EU countries in recent years. In such circumstances, the aim is to maintain an optimal structure of workers, combined with the availability of quality subcontractors, to match the needs of the market, other productive resources, and the targeted rate of occupancy.

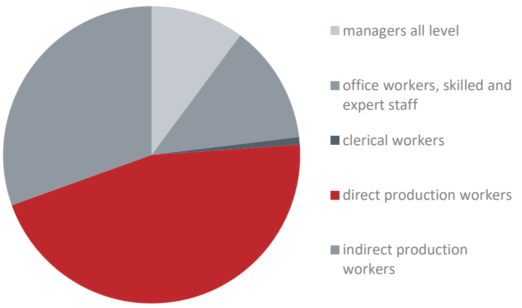
On 31 December 2020, of the total number of employees, 350 workers had employment contracts of indefinite term, whereas only 14 workers had fixed-term employment contracts.

Out of the total number of workers, only 7.7% are women, which is not unusual for this industry.

On 31 December 2020, Viktor Lenac's subsidiary VL Steel d.o.o. had a total of 41 employees, the same as last year, of which 39 direct production workers. Total consolidated number of employees on 31 December 2020 was 405, down by 22 or 5% compared to the previous year.

The structure of workers according to the type of jobs they perform has been stable for many years, without significant fluctuations.

Organisational structure



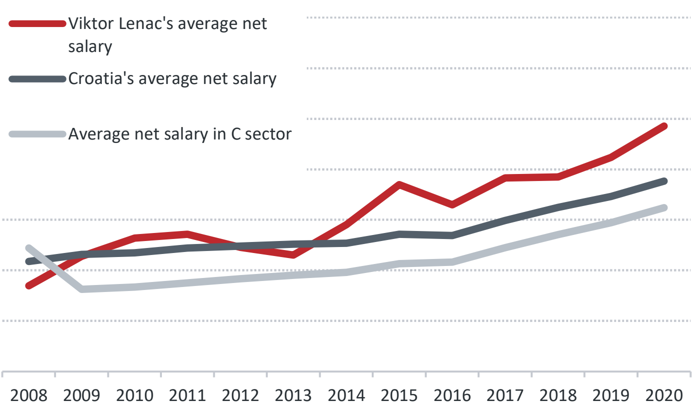
Put in the perspective of the total organisational structure of employees of the Group, there are 316 production workers (78% of total number of employees), of which 203 direct production workers. A total of 113 production-related workers involves production overhead, OH&S and environmental protection, maintenance, quality control, dock crew, technologists, foremen and other workers related to production logistics activities. The remaining number of employees involve technical-commercial and other highly qualified and expert staff (47 employees), clerical staff (only 4 employees), project managers, heads of departments and unit leaders (total 38 employees).

Structure of effective hours and salaries

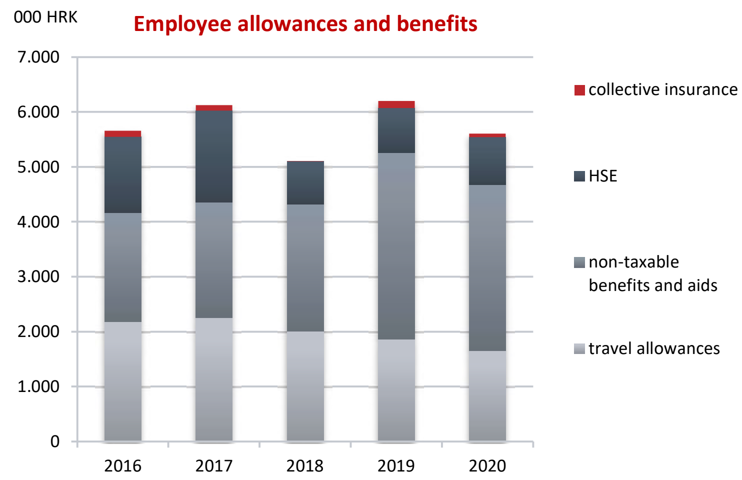
In 2020, Viktor Lenac's employees worked a total of 767,000 hours in regular working hours, of which 76% involved effective work hours. Compared to the previous year, effective work was reduced by 3%, as a result of longer periods of lower occupancy, in which workers used relatively more hours of annual leave compared to the previous year or were ordered to self-isolate, on top of the requirements prescribed by the doctor. Apart from annual leave that accounted for almost 11% of total hours, the most non-effective hours involved sick leave (7.2%), down by 1.1% compared to the previous year despite the pandemic.

In periods of high occupancy, but also due to a shortage of workers on the account of self-isolation requirement, about 60,000 overtime hours were produced, which is about 8% of additional hours to regular working time, the same as in previous year. Overtime means any hours worked beyond regular working hours, mainly as a result of oscillations in occupancy and unforeseen situations inherent to shiprepair activity, where in some periods workers are required to work outside regular working hours and, on the other hand, in other circumstances, regular working time may be characterized by labour underutilization.

Average net monthly salary trend



In 2020, Viktor Lenac paid a total of HRK 60.6 million on the account of employee salaries, allowances and benefits, down by HRK 1.8 million compared to the previous year, of which HRK 55.8 million referred to salaries, whereas HRK 4.8 million referred to allowances and benefits to which employees are entitled based on the Collective Agreement and Labour. A decrease in employee cost resulted from a decrease in the number of employees. However, it should be noted that the percentage reduction in the average number of employees in 2020 compared to the previous year was greater than the percentage reduction in total payments. This is the reason why there was an increase in the average net monthly salary, so that the wage growth trend continues.



The average net monthly salary in Viktor Lenac in 2020 amounted to HRK 7,853, up by 8.5% compared to the previous year, which is primarily due to reorganization, multi-skilling, and retention of highly efficient workers receiving higher salaries or higher incentives. The salary is composed of a basic salary and basic salary supplements representing the guaranteed part and a variable salary allowing increase or decrease in salary depending on operating results and occupancy rates. Therefore, the Shipyard's average salary trend varies in relation to the Croatia's average trend, especially when viewed over several years.

Salaries are paid regularly with all appropriate taxes and contributions, including employee allowances and benefits, to which they are entitled pursuant to the Collective Agreement and the Labour Regulations, as well as health care and accident insurance. Compared to the previous year, a decrease in employee allowances and benefits is the result of a reduction in the number of employees.

Employee education

Viktor Lenac has been continuously investing in employee education and training. Employee competencies tend to increase the Company's competitive advantage and ensure higher safety of workers and clients when performing shiprepair works.

The pandemic had negative impacts on educational activities in 2020. Activities planned abroad have been partly postponed to 2021, and partly carried out in Croatia in a modified form and reduced scale. Where possible, educational activities have been performed via online platforms. Around HRK 100,000 was invested in all types of education during 2020, including all accompanying travel expenses and other dependent expenses.

In addition to renewing certificates required by technical quality control workers, welders, workers working onboard vessels and security guards, the Company continued during the year the training for work and handling of hazardous chemicals intended for all persons who may come into contact with such substances, though to a lesser extent than planned, as well as education programs in fire protection and occupational safety for the purpose of extending authorities. Also, an upgrade course for internal auditors of the quality management system has been conducted. All these programs are aimed at maintaining skills and abilities and increasing safety at work.

To provide new services that create new added value, and which are organized by using own workforce, without using the services of third parties, thermography training, in accordance with US standards, was conducted in Croatia due to travel restrictions.

The pandemic slowed down, and in the initial part of the year, also prevented many educational activities. However, thanks to flexibility of all stakeholders in the process, and especially the commitment of workers, even in such an unforeseen and unexpected situation, key goals have been achieved in training for safe work and acquired and adopted new knowledge that would increase added value in the overall activity of the Company.

Social dialogue

Social dialogue between the Company's Management Board and the workers' representatives, organized through the Workers' Council and two trade union organizations operating in the Shipyard, shows the willingness of all social actors to reach agreements and compromise solutions through a longer or shorter negotiating process respecting the interests of each of the parties with the common aim of contributing to the growth and stability of Viktor Lenac and the well-being of workers.

The Workers' Council participates in the decision-making process through a consultation and co-decision procedure, all in accordance with the provisions of the Labour Act. The Workers 'Council holds regular sessions at which the Management Board, as well as other executives of the Shipyard, inform workers' representatives about the status and prospects of the business, and provide all information relevant to the position of the Shipyard workers and their economic and social status. During 2020, the Workers' Council held only three meetings in an attempt to reduce gatherings to a minimum due to the pandemic. For the same reasons, no Workers' Assembly was held in 2020 but the Management Board informed the workers in writing about the Company's business performance, development guidelines of the Company and other issues relevant to the position of workers.

Despite the pandemic, the Management Board and the Shipyard's Crisis Headquarters, established at the very beginning of the pandemic to prescribe, implement and monitor anti-epidemic measures, communicated intensively with workers via websites or bulletin boards, as well as through workers' representatives in the Workers' Council and trade unions, with the aim of developing workers' awareness of the need for strict implementation of anti-epidemic measures, informing workers about the situation with the pandemic, measures being undertaken by the Management Board and the Shipyard's Crisis Headquarters, and plans for further action.

All provisions stipulated by the Collective Agreement were applied to mutual satisfaction of all interested parties.

Workers' representative is the fifth member of the Supervisory Board, being elected for the period of three years.

FINANCIAL RESULT

Revenues and expenses

In 2020, Viktor Lenac generated total revenues in the amount of HRK 306 million, down by 4.3% compared to 2019. The most significant decrease was recorded in sales revenue, over 10%, as a direct result of the COVID-19 pandemic, which in absolute terms represented a decrease in revenue of more than HRK 30 million. This decrease in revenue, accordingly reduced capacity utilization, was compensated with increased internal production work orders for reconstruction and restoration of own equipment (Revenues based on the use of own products, goods and services), and at the beginning of the pandemic, when a significantly larger decline in revenue was expected, the Company used government job preservation aid intended for businesses affected by the pandemic in a total amount of HRK 5.7 million, where the subsidiary VL Steel d.o.o. received an additional half a million Croatian kuna, representing about 2% of total revenues. These revenues are included in other operating revenue, which also includes rental income, value adjustment in respect of receivables, income from reversal of provisions and similar income, which together make up only about 1% of total revenue. In 2020, insurance income in the amount of HRK 1.4 million was generated, following claims for damages incurred on the insured property of Viktor Lenac. Financial income recorded an increase compared to the previous year mainly related to foreign exchange gains.

000 HRK

	Parent Company			Group			Influence of subsidiaries' results on the Group's result 2020
	2019	2020	2020/2019	2019	2020	2020/2019	
Revenues from sales	295.916	264.540	89,4%	297.178	265.011	89,2%	0,2%
Revenues based on the use of own products, goods and services	13.239	23.272	175,8%	13.239	23.272	175,8%	0,0%
Sale of material and waste	6.476	5.762	89,0%	6.477	5.614	86,7%	2,6%
Insurance income	-	1.389	-	-	1.389	-	0,0%
Other operating revenues	3.999	10.238	256,0%	3.880	10.727	276,5%	4,6%
Total operating revenue	**319.630**	**305.200**	**95,5%**	**320.774**	**306.013**	**95,4%**	0,3%
Financial income	180	712	395,8%	188	709	377,1%	0,5%
Total revenues	**319.810**	**305.912**	**95,7%**	**320.962**	**306.722**	**95,6%**	0,3%
Material cost*	197.902	160.663	81,2%	188.505	153.615	81,5%	4,6%
Salaries*	57.631	55.813	96,8%	66.611	61.847	92,8%	9,8%
Depreciation	21.225	31.454	148,2%	21.411	31.496	147,1%	0,1%
Other cost	19.422	14.486	74,6%	20.735	15.765	76,0%	8,1%
Total operating expense	**296.180**	**262.415**	**88,6%**	**297.262**	**262.723**	**88,4%**	0,1%
Financial expense	2.288	1.747	76,4%	2.289	1.765	77,1%	1,0%
Total expenses	**298.468**	**264.162**	**88,5%**	**299.551**	**264.488**	**88,3%**	0,1%
Profit before tax	**21.342**	**41.750**	**195,6%**	**21.411**	**42.234**	**197,2%**	1,1%
Profit tax	504	6.551	-	523	6.551	1252,6%	0,0%
Profit / loss attributed to minority interest				-5	121	-	
Net profit	**20.838**	**35.199**	**168,9%**	**20.893**	**35.562**	**170,2%**	1,0%

** Adjusted for increase or decrease of work in progress*

Business reorganization measures have yielded results in 2020 as well, which has resulted in a drop in expenses at a higher rate compared to the decline in revenues. A more significant decrease in expenses was recorded in material costs as a consequence of reduced scope of sales activities, and reorganization of business activities as already mentioned, given that increased utilization of own capacity results in lower external costs, primarily related to production work orders. A decline is also noticeable in general and common expenses. Viktor Lenac is constantly seeking to reduce fixed costs that do not depend on capacity utilization. The pandemic, in addition to adversely affecting global trends and occupancy, increased the cost of protective equipment and disinfectants, but on the other hand had resulted in a decrease in other costs such as business travel, education, medical exams, and hosting business partners.

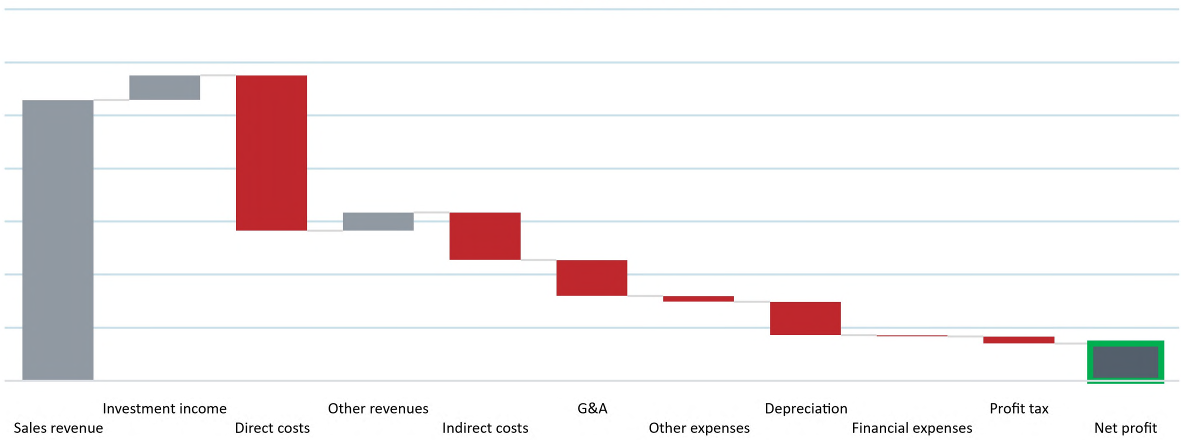
In 2020, it was decided to calculate depreciation of Dock 11 at an accelerated, taxable rate, given the investments made, which in accordance with the accounting policy are reported through an increase in the value of these assets and may be recoverable from the aspect of value transfer to production. No increase in its market value is recognized, especially given the age of the dock.

Financial expenses related to interest expenses, which decreased compared to the previous year due to the reduction of indebtedness. Financial expenses, unlike the previous year, do not contain foreign exchange losses, since this year's balance of total exchange rate differences is on the income side.

Costs are monitored depending on their allocation to direct production work orders that generate revenues or create new assets, or according to the function they have in the business process. Viktor Lenac's activity, a large number of production work orders that are executed in a matrix organization, many of which concurrently, hazards and risks arising from the production activity, management of capital equipment and other facilities and their maintenance, as well as the need for numerous functions to support direct production, generate high overhead costs, both indirect production costs and costs deriving from general and common functions. In addition, indirect production costs involve all those production functions that are common to many projects and that cannot be accurately allocated or do not relate to a specific work.

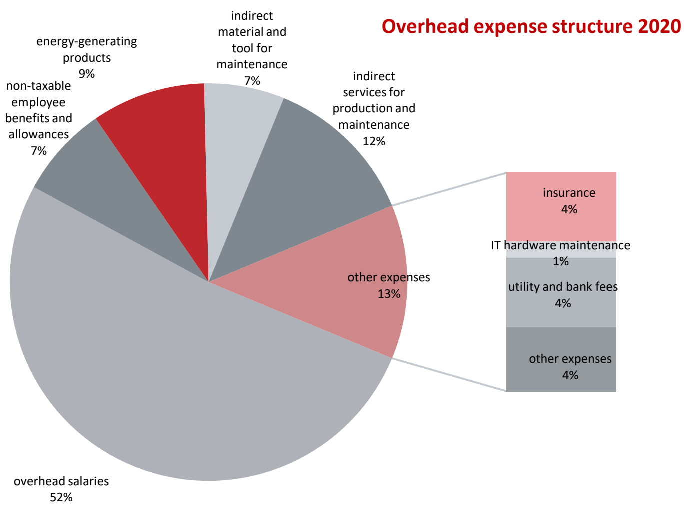
Distribution of revenues and expenses according to their business function or functional profit and loss account for 2020 is shown in the graph below.

Revenue vs. expenses 2020



The goal remains the same to reduce all costs, especially overhead costs, given that the high cold regime rate is an extremely high burden, especially in oscillations of capacity utilization or periods of low occupancy rates. On the other hand, the shortage of workers in the domestic market, in periods of high occupancy rates, leads to a progressive growth of variable costs, due to engagement of foreign workforce, which is more expensive on the account of dependent costs, resulting in a decline in relative gross margin. Thus, the increased revenue generated in one period can no longer, in the same way as in previous years, compensate for periods of low occupancy, which is why it remains imperative to reduce all costs, including overhead and fixed costs, so that occupancy fluctuations have less impact on the total gross margin.

In many categories of overhead costs, there is no greater room for their further reduction, since a large part of such costs is determined by activity, regulations and rules, as well as prices over which Viktor Lenac has no influence. Significant savings can be achieved only through further efforts to increase efficiency and better organization of work activities or better use of labour resources. Given the constant pressures of the market, prices, and competition, it is an ongoing and continuous process, and often times is not flexible enough to adapt in a timely manner and respond to the needs and requirements of the market.



The difference between operating revenues and expenses resulted in operating profit before depreciation in the amount of HRK 74 million, which brings the EBITDA margin to 24%. This significantly improved liquidity and ensured accumulation of funds for investments made in 2020, mainly with own working capital, without additional significant borrowings, which will also provide part of the funds needed for further development and modernization of production capacities in the following period.

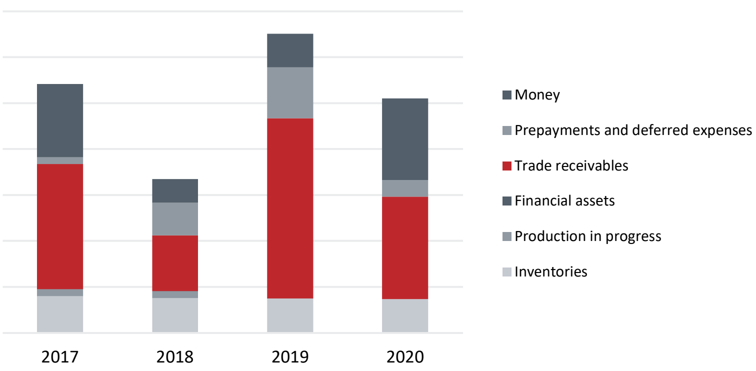
Assets and liabilities

	Parent Company			Group			Influence of subsidiaries' results on the Group's financial position 2020
	2019	2020	2020/2019	2019	2020	2020/2019	
Fixed assets	286.213	286.919	100,2%	286.439	287.069	100,2%	0,1%
Short-term assets	132.143	102.064	77,2%	133.969	102.465	76,5%	0,4%
Long-term liabilities	42.815	33.659	78,6%	42.837	33.734	78,8%	0,2%
Short-term liabilities	132.622	74.072	55,9%	131.806	74.500	56,5%	0,8%
Equity and reserves	242.919	281.252	115,8%	245.765	281.300	114,5%	0,0%
Total assets/resources	418.356	388.983	93,0%	420.408	389.534	92,7%	0,1%

Total assets as at 31 December 2020 amounted to a total of HRK 390 million, down by almost HRK 30 million compared to the previous year. Receivables collected from customers and generated profit resulted in a significant reduction of short-term liabilities, primarily to suppliers, but also to banks. Long-term liabilities also decreased by transferring amounts due in 2021 to the position of short-term liabilities, and there were no new borrowings, except for financial leasing for the purchase of production equipment.

Fixed assets, which at the end of 2020 accounted for almost three quarters of total assets, were fully financed by long-term own and banking sources. Compared to the previous year, fixed assets decreased by HRK 1 million, given that a real estate owned by Viktor Lenac, having a value of HRK 2 million, was reclassified from current to non-current assets.

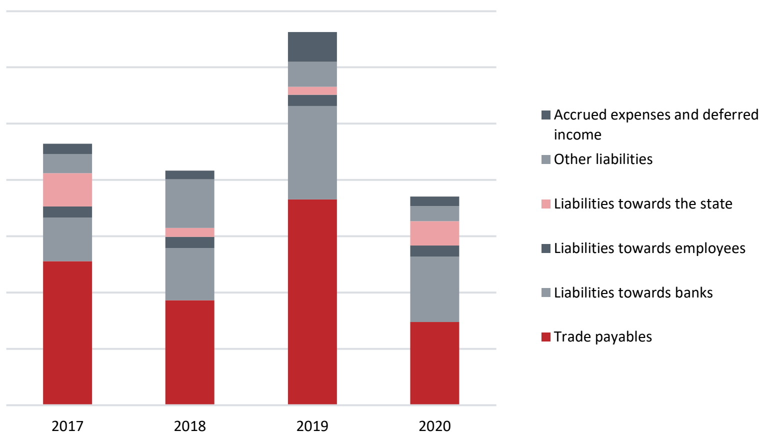
Short-term asset structure as at 31 December



Fluctuations in current assets are generally the result of oscillations in occupancy, especially if they are more pronounced at the end of the business year.

Thus, a significant decrease in current assets at the end of 2020 compared to the previous year is the result of lower occupancy in the last quarter of 2020, compared to an extremely high occupancy rate recorded in the same quarter of 2019.

Short-term liability structure as at 31 December



Decrease in occupancy leads to a decrease in liabilities to suppliers, which are generally high considering that subcontractors generally participate with a high share in production activities.

Apart from the fact that the significant reduction in short-term liabilities is a consequence of the above, these liabilities also decreased on the account of good liquidity recorded throughout the entire year. In this way, the Company managed to pay its obligations regularly, both to employees and suppliers, and to banks. Part of the loan liabilities were reprogrammed on the account of job preservation government support measures intended for businesses affected by the pandemic, but this reprogramming no longer significantly affects the balance of liabilities to banks at the end of 2020 compared to the balance that would be without the reprogramming.

Working capital, which at the end of 2019 amounted to a negative HRK 2.4 million, at the end of 2020 amounted to HRK 30.4 million. In addition, given that inventories of materials, as relatively slow-moving assets at the end of 2020, amounted to HRK 14 million, there is still a surplus of fast-moving assets in relation to total short-term liabilities, so balance sheet positions are fully balanced.

At the end of 2020, long-term liabilities decreased by HRK 9.2 million compared to the previous year. Out of the total HRK 33.6 million of long-term liabilities, HRK 22.9 million related to liabilities under long-term investment loans and leasing companies based on long-term financial leasing. The remaining long-term liabilities related to liabilities based on HEP ESCO financing of energy efficiency projects, implemented in 2015 and 2016, and provisions for court proceedings in which Viktor Lenac is the defendant, most of which relate to still retained provisions for disputed claims of former bankruptcy creditors, where litigation has not yet been concluded.

Total equity and reserves as at 31 December 2020 amounted to HRK 281.3 million, or 2.6 times the amount of total liabilities.

MAIN RISKS AND EXPOSURES

Having in mind the nature of Viktor Lenac's activities and its export orientation, the major effect to Viktor Lenac's business comes from the world's maritime market trends. When speaking about its productivity and production costs, labour market liberalization and labour mobility across the EU countries, and third countries, may pose significant challenges to further development of Viktor Lenac but it can both have positive and negative effects, on the one hand, availability of foreign labour in the stages of higher occupancy rates, and on the other hand it can be faced with price risk. Exposure to financial risks is of minor importance. Liberalization of the labour market, combined with labour migration to the EU countries, has resulted in a significant increase in the average labour cost, especially of subcontractors in recent years. However, Viktor Lenac successfully managed to overcome these negativities by increasing efficiency and increasing sales prices.

Market Risk and Competitive Risk

The ship repair and conversion market is conditioned by cyclic changes on the shipping market and changes in freight rates. It is hard to predict when the world shipping trade, both globally and on Mediterranean, would recover significantly over time. However, experience suggests that on the long-term it is likely to expect that there will be enough vessels sailing within range of Viktor Lenac that will require repair services. Issues of market risk and competitive risk with respect to Viktor Lenac's activities primarily have influence on changes in Viktor Lenac's prices arising therefrom, as well as fluctuations in occupancy. Global influences such as oscillating oil prices have also been felt by Viktor Lenac over the last few years, however, without significantly affecting the Company's competitiveness given the relatively even impact spread across competition. The competitiveness of Viktor Lenac and its positioning vis-à-vis its major competitors - Turkish shipyards, was largely influenced by currency fluctuations in Turkey. The Turkish lira weakened against US and European currencies, which further increased the competitiveness of Turkish shipyards, putting more pressure on Viktor Lenac to reduce its prices. Nevertheless, Viktor Lenac manages to contract enough shiprepair projects with its steady clients, which, together with increased efficiency of internal processes, provides it with income sufficient for positive business results. To this end, Viktor Lenac will continue to strive to be a reliable, fast, flexible, and high-quality shipyard able to compete with shipyards that can offer better prices.

Price Risk

Due to a shortage of skilled workforce on domestic labour market, Viktor Lenac can expect further labour cost increase, which will unavoidably result in the need to further increase efficiency and seek for internal resources. The import of labour from abroad, even from less developed countries, does not solve the problem of rising labour costs, primarily because of high costs of accommodation and food borne by employers. Given the fluctuations in occupancy and the fact that foreign workers require their stay to be at least 6 months to a year, the underutilization of foreign labour increases fixed operating costs or reduces the utilization of foreign labour force. The COVID-19 pandemic, which is leading to reduced shipbuilding activities in Western Europe, may eliminate the risk of labour shortages and labour costs in the short term, but Viktor Lenac must seek long-term solutions to ensure sustainability and not rely on short-term positive developments.

Risks associated with changes in cost of raw material and other materials used in shipbuilding industry, such as current rise in steel prices, have no significant impact on Viktor Lenac. Shiprepair activities and production processes are characterized with short cycles, therefore, Viktor Lenac is not exposed to risk of loss due to firm fixed price contracts. Moreover, material cost participates in revenues with approximately 20% and has relatively even impact spread across competition. However, given the intended investment in a new floating dock, or the reconstruction and upgrade of a floating dock to replace the existing Dock 11, the current rate and growth of steel prices will increase the cost of the entire investment, unless in the next few months steel prices fall.

Personnel Risk

Given that the production activity of the Company is labour intensive, personnel risk is assessed as a very important risk for total business. Generally, during the last few years, there has been a lack of interest for shipbuilding trades. Seeking to avoid risk of skilled labour migration, reduce consequences of labour mobility and provide skilled labour, Viktor Lenac is continuously investing in education and training of human resources through educational institutions and internal educational activities. Additional risk is the ever-increasing migration of quality workforce to Western European countries, and therefore, pressure to increase labour costs to attract and retain quality workers. In periods characterized by high occupancy rates, Viktor Lenac seeks to hire foreign workers, especially from Ukraine, Romania, and Bulgaria. Labour cost increase is compensated through introduction of modern technologies aimed at the rationalization of production, and better performance in production and other business activities.

Currency Risk

Most of the revenues from sales have been generated on foreign markets, mainly in EUR. Changes in exchange rates (EUR/HRK) may therefore have an impact on operating results. However, due to a high receivable turnover ratio, currency risk is not significant, which means that Viktor Lenac does not require an active hedging strategy in foreign currency transactions. On the other hand, the Company's liabilities are not exposed to significant currency risk since most of these liabilities are denominated in local currency. The US Navy contracts stipulated in US dollars may result in higher exchange rate differences, both gains and losses. However, even such projects are characterized with rapidly moving business activities, procurement, realization, invoicing, collection, and conversion of funds in domestic currency, therefore, the US dollar currency risk is not considered particularly significant. Given the expected currency fluctuations and depending on future USD/EUR currency movements and forecasts, Viktor Lenac will, if necessary, use hedging instruments.

Default Risk

Default risk implies non-fulfilment of contractual obligations of other counterparties that could produce a monetary loss, primarily referring to trade receivables. Viktor Lenac 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. Guarantees and other payment security instruments are not common in ship repair; the Company, however, has the right to arrest a ship at any port in accordance with the maritime regulations. Customer receivables may involve many customers, so the risk of non-payment 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 or funding liquidity risk (aka cash-flow risk) is related to market risk which involves fluctuations in occupancy and currency risk. Viktor Lenac manages liquidity risk through continuous monitoring of forecasted and realized cash flows. For larger projects that may have a significant impact on outflows, especially in the preparatory phase of project when there is no inflow, Viktor Lenac uses short-term loans.

Impact of the COVID-19 pandemic

Viktor Lenac’s main activity – shiprepair involves mainly ships in international navigation, which sail into the Mediterranean and Black Sea. Many ships sail to the ports of Italy and other ports of the Mediterranean and Black Sea countries for unloading of cargo, loading of fuel and other reasons. Viktor Lenac has been cooperating traditionally for many years with many Italian clients.

The COVID-19 pandemic resulted in reduced global economic activity in the first quarter of 2020, as well as restrictions on trade in goods and services and isolation and quarantine measures to prevent the spread of infection, and many shipowners postponed their shiprepair projects and cancelled some deals that had already been arranged with Viktor Lenac.

Although the most important resource in our activity is the labour force involving own and subcontracted workers, certain traffic of goods and persons takes place through foreign countries. The workforce is predominantly domicile but part of the subcontracted workers come from other counties or surrounding countries. Some of the subcontracted workers are foreign workers residing in Croatia, and foreign contractors are often employed for specialist services. In such a business model, there is a certain, not negligible number of contractors, who are subject to weekly or less frequent migrations, depending on the needs and occupancy of the Shipyard.

At the beginning of the pandemic, activities onboard ships were very limited and difficult, and additional HSE measures undertaken caused an increase in costs.

However, although the initial predictions were not optimistic, Viktor Lenac managed to seize the moment of a favourable epidemiological situation, and with strict protection measures managed to contract new projects for the end of the second and the third quarter. With the implementation of proactive protection measures, the workforce has been preserved in sufficient number to cover all tasks.

Although sales revenues recorded a decrease compared to the revenues of previous years, Viktor Lenac managed to achieve extremely good overall business results, primarily by increasing efficiency of its work activities. The costs associated with pandemic-related safety measures, however, were not so high as to undermine the overall results of 2020.

It is expected that the vaccination of the world's population will bring the pandemic to an end, and that the lockdown of social and economic activities and restrictions on the movement of goods and people, as they were in force during the first and second quarters of 2020, will no longer occur.

Some shipping companies have already suffered damage caused by the pandemic crisis, and it is certain that the trend of reduced global consumption will continue because of shrinking global economy and changes in consumer habits, which will probably affect freight and financial strength of ship owners. This could consequently put pressure on shiprepair prices and initiate intensified competition between shipyards in the coming short-term period. However, some forecasts point to a faster recovery of shiprepair in relation to the shipbuilding market and a return to maritime trade to pre-pandemic levels.

In any case, uncertainty about the further course of the pandemic and the impossibility of a more detailed assessment of its impact on the global economic situation in the future poses a moderate risk to the future financial position of Viktor Lenac and its key suppliers and subcontractors, and the associated liquidity risk. On the other hand, Viktor Lenac managed to achieve positive results in the periods of low occupancy rates, with effective cost control and achievement of efficiency in its activities, so for the future there is a risk of lower financial performance, but not long-term trends of negative business. Therefore, the Management Board of Viktor Lenac believes that the negative impacts of the pandemic will not affect business continuity.

OWNERSHIP STRUCTURE

On the day of 31 December 2020, the total share capital of the Company amounted to 168,132,470 Croatian Kuna, divided in 16.813.247 registered ordinary shares, with the ticker symbol VLEN-R-B, having a nominal value of 10.00 Croatian Kuna each, registered in the depository of the Central Depository & Clearing Company. The total of shares has been included in quotation of public joint-stock companies on the Zagreb Stock Exchange.

During 2020, the Zagreb Stock Exchange recorded 957 transactions in trading of Viktor Lenac's stocks having a trade transaction value of HRK 5,743,925 from 698,676 shares, with the average cost of HRK 8.22 per share, with the lowest trading price being HRK 5.00, and the highest HRK 9.85 per share.

The largest single shareholder of Viktor Lenac is the Italian shipbuilding group Palumbo Group S.p.A. from Naples, which acquired the share capital of Viktor Lenac in 2018. Viktor Lenac holds 825,187 treasury shares, representing 4.91% of the total equity of the Company, which were acquired by 2011 based on the decisions of the General Assembly of the Company.

The Company has a large number of small shareholders holding individually less than 2% of the share capital of the Company and as at 31 December 2020 there were 775 and represented a total of 13.12% of the ownership structure of the Company.

Ownership structure as at 31 December 2020:

	Shareholder	Number of Shares	Percentage of Equity
1	PALUMBO GROUP S.P.A. (1/1)	8.354.563	49,69
2	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ GUARDIANSHIP ACCOUNT	5.426.897	32,28
3	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
4	JADROAGENT D.D. (1/1)	324.766	1,93
5	RAPIĆ MIRKO (1/1) / R.L.E. ZA POPRAVAK I PREINAKE METALNIH BRODOVA, MIRKO RAPIĆ T.P.	105.211	0,63
6	Others	1.776.623	10,56
	Total:	**16.813.247**	**100,00**

CORPORATE GOVERNANCE

Corporate Governance can be defined as a framework for planning, organizing, directing, and controlling of Company's business operations. Viktor Lenac's Management Board and Supervisory Board have been applying the corporate governance principles consistently with its fundamental objectives of successful and growing business and growing of share value for the benefit of its shareholders.

An adequate implementation of the principles of corporate governance ensures protection of rights and equal treatment of shareholders, business transparency and responsibility toward all interested parties.

Since 2008, Viktor Lenac's shares have been included in quotation of public joint-stock companies on the Zagreb Stock Exchange and the Company has been applying the Corporate Governance Code made by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange.

Viktor Lenac has been applying recommendations of the Code, by publishing all information which is in the interest of its shareholders and as stipulated by regulations. In accordance with the Capital Market Act, obligatory information is displayed to the Croatian Agency for Supervision of Financial Services through the Zagreb Stock Exchange's website and Company’s website (www.lenac.hr). Also, notification that some information has been published is also given through the Croatian News Agency OTS service.

In 2020, Viktor Lenac's Supervisory Board held six sessions to evaluate the Company’s financial performance, its position on the market, business plans and key projects. The members of the Supervisory Board receive detailed information on the Company's management and business performance enabling them to exercise supervision over the Company.

The Company's shareholders execute their rights at the General Assembly, where they decide on profit allocation, amendments to the Company’s Articles of Association and appointment and revocation of members of the Supervisory Board. Furthermore, the General Assembly decides over performance of the Management Board and the Supervisory Board, appointment of financial auditor and other critical issues stipulated by law and Company’s Articles of Association. The General Assembly of the Company was held in June 2020, and two extraordinary General Assemblies of the Company were held in January and December 2020, convened to appoint new members of the Supervisory Board, a new auditor of the Company, and adopt Remuneration Policy and amendments to the Articles of Association.

By implementing the principles of the Corporate Governance Code, Viktor Lenac seeks to create a high-quality and long-term relationship with the entire investment community.

SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Supervisory Board of the Viktor Lenac Shipyard is composed of five members, of whom four members are representatives of the largest individual shareholder and the fifth member is a representative of the Shipyard's workers.

The members of the Supervisory Board are appointed or revoked by the General Assembly, except for the workers' representative who is elected, appointed and revoked by the Company's employees in the manner determined by the regulations of the Republic of Croatia.

In 2020, the Supervisory Board was composed of the following members: Vittorio Carratù as President of the Supervisory Board, Francesco Ciaramella as Vice-President of the Supervisory Board, Giorgio Filippi and Antonio Gennarelli as members with Zoran Košuta as the fifth member in quality of a representative of workers in the Supervisory Board.

The Company also has a Committee for Audit appointed by the Supervisory Board, consisting of three members from the Supervisory Board. At its 5th meeting held on 30 October 2020, the Supervisory Board made decision on establishing a Remuneration committee and a Nominations committee both composed of three members from the Supervisory Board, which were established at the Extraordinary General Assembly held on 22 October 2020.

The members of the Supervisory Board are entitled to compensation for their work. The remuneration decision was amended by a new decision adopted by the General Assembly on 22 December 2020. All foreign persons who in the course of 2020 provided their services to the Supervisory Board waived their remuneration before the new decision on remuneration was made, according to which they have started to receive their fees in 2021, for the period starting from 22 December 2020. The total remuneration paid to the Supervisory Board in 2020 was therefore only HRK 101,182, all related taxes and contributions included.

MANAGEMENT BOARD

In accordance with the Articles of Association of the Company, which stipulates that the Management Board of the Company may consist of up to three members, the Company's Management Board is composed of the single member, Sandra Uzelac. In previous years, the Management Board consisted of two members, the President of the Management Board, and a member of the Management Board, but no other member was appointed by the dismissal of the President of the Management Board. The term of office of Sandra Uzelac in her position of Member of the Management Board is until April 2021.

The remuneration of the members of the Management Board is approved by the Supervisory Board and regulated by employment contracts with individual members.

The cost of salaries and other compensations to the Management Board for 2020 totalled HRK 782.096, all related taxes and contributions included.

Sandra Uzelac owns 1,038 shares of the Company, which, as a former bankruptcy creditor of the bankruptcy debtor, she acquired by settling her claims by entering her rights - claims in cash into the share capital of the Company.

FOR INFORMATION

Management

Bojan Kavazović, Director of Marketing and Sales Division

Filip Gajski, Director of Technical and Production Division

Auditor

Iris nova d.o.o. Rijeka

Contact Details

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Rijeka, April 2021

Pursuant to Article 272.p and with reference to Article 250.a of the Companies Act (Official Gazette No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15 and 40/19), and pursuant to Article 22 of the Accounting Act (Official Gazette No. 78/15, 134/15, 120/16 and 116/18), the Management Board of the Shipyard "Viktor Lenac" d.d. (hereinafter referred to as the 'Company'), on this April 20, 2021, makes the following

STATEMENT
on Implementation of the Corporate Governance Code

1. Company's shares have been included in quotation of the Zagreb Stock Exchange since September 2008.

2. Since inclusion of its shares in quotation of the Zagreb Stock Exchange, the Company has been voluntarily applying the Corporate Governance Code drawn up by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange. The Code was adopted by a decision of the Croatian Agency for Supervision of Financial Services dated April 26, 2007, Class: 011-02/07-04/28, Reg. no.: 326-01-07-02 (Official Gazette No. 46/07, hereinafter referred to as 'Code'). The integral version of the Code is published on the Zagreb Exchange Stock's website.

3. During 2020, the Company was applying recommendations of the Code, by publishing all information as stipulated by law, which is in the interest of its shareholders. The Company published all information as stipulated by law on the Company's website and on the Zagreb Stock Exchange's website and informed the users through the Croatian News Agency OTS service that the information has been made public.

The Company complies with the recommendations of the Code, with the exception of those provisions whose application at a given time is not practical or envisaged given the applicable legal framework. The exceptions mentioned are:

- The Supervisory Board has not yet formally set a target percentage of female members of the Supervisory Board (Article 14 of the Code), however, all international and national standards on gender representation and equality are directly implemented. At the Group level, of the total number of employees, 7.2% are women. The Management Board of the Company is represented by a woman as the single member of the Management Board.
- All members of the Committee for Audit are also members of the Supervisory Board, in which case the Committee for Audit is exempted from the requirement of independence, as prescribed by the Audit Act in Article 65 (7).
- In other committees, all members are also members of the Supervisory Board.
- The Company has not yet formally applied the means of modern communication technology for participation and voting at the General Assembly (Article 79 of the Code) because in practice the current method of participation and voting has been confirmed as an optimal solution, largely due to more shareholders with fewer shares. On 22 December 2020 at the Extraordinary General Assembly, the Company's Articles of Association were amended, including the possibility of participating in the General Assembly remotely or voting in writing or by electronic communication when shareholders do not participate in the General Assembly, under the conditions prescribed by law.
- The Company has not yet established formal mechanisms that provide minority shareholders with the opportunity to ask questions directly to the President of the Management Board or the President of the Supervisory Board (Article 76 of the Code) because there is a possibility to ask questions directly to the Management Board and the Supervisory Board at the General Assembly, and the Company will further establish a mechanism for asking questions by shareholders via an email address for investors.

4. Supervision of the Management Board's activities in managing business of the Company has been executed by the Supervisory Board in accordance with the Companies Act. The role of the Supervisory Board is defined by the Company's Articles of Association. Members of the Supervisory Board are provided with detailed information on the Management Board's activities in managing business of the Company to be able to efficiently fulfil their supervisory role. Report submitted by the Supervisory Board makes an integral part of the Annual Report, which is presented to the General Assembly.

5. The Company is implementing rules of the accounting policy, aligned with International Financial Reporting Standards, which regulate application of methods and techniques in presenting assets, liabilities, capital, revenues, expenses, and financial results in financial statements. Annual audit of financial statements is performed by an independent auditor appointed by the General Assembly.

In 2020, due to nonrenewal of the contract that had been concluded with the appointed auditor of the Company Deloitte d.o.o. from Zagreb, for reasons unknown to the Company, a new auditor of the Company was appointed: Iris Nova d.o.o. from Rijeka, as adopted at the extraordinary session of the General Assembly on 22 December 2020.

The Company applies rules and procedures for receiving, recording, approving and flow of financial and business-related documentation, ensuring multiple models of supervision and transparency in revenue and expense recognition. The Company has not yet established a corporate internal audit to perform the function of independent audit and control and to inform the Management Board through audit reports in the form of findings and proposals for improvement because it is judged that the current system works well. The Management Board directly supervises all revenue and expense recognition processes of the Company and participates in the preparation of quarterly, semi-annual, and annual financial statements of the Company.

Members of the governing bodies, employees and business partners are familiar with the Company's anti-corruption policy and procedures and respect the principles of the Code of Ethics in their operations and daily activities. Anti-corruption documents are published on the official website of the Company.

In the international market, the Company enjoys the reputation of a loyal and fair business partner and there are no recorded cases of corruption at the Group level. The Company has not made any financial or non-monetary contribution for political purposes, directly or indirectly, to the State or the beneficiary.

The Company promotes and implements fair and transparent competition relations in all transactions, with all entities and in all places. The Group did not record any conduct contrary to the principle of freedom of competition and antitrust or monopolistic practices.

6. As at 31 December 2020, ten largest shareholders were the following ones:

	Shareholder	Number of Shares	Percentage of Equity
1	PALUMBO GROUP S.P.A. (1/1)	8.354.563	49,69
2	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ GUARDIANSHIP ACCOUNT	5.426.897	32,28
3	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
4	JADROAGENT D.D. (1/1)	324.766	1,93
5	RAPIĆ MIRKO (1/1) / R.L.E. ZA POPRAVAK I PREINAKE METALNIH BRODOVA, MIRKO RAPIĆ T.P.	105.211	0,63
6	RAZMAN ENES (1/1)	58.015	0,35
7	ČOLAK ZVONIMIR (1/1)	57.009	0,34
8	KERA IVANA (1/1)	51.755	0,31
9	KALČIĆ ELVIO (1/1)	47.127	0,28
10	Others	1.562.717	9,28
	Total:	**16.813.247**	**100,00**

The corporate governance structure of the Company is dualistic. It consists of the Management Board and the Supervisory Board, which together with the General Assembly make the three fundamental bodies of the Company.

General Assembly meets in regular sessions as stipulated by law and in accordance with the Company's Articles of Association. Shareholders may participate either personally or through a person granted by a power of attorney. Decisions of the General Assembly are made by a majority of the members present and voting, or by a two-thirds majority on statutory issues. The General Assembly is chaired by the President of the General Assembly, appointed by the Supervisory Board of the Company. The General Assembly has the authority to make decisions in accordance with the provisions of the Companies Act and the Company's Articles of Association.

The right of a shareholder to vote is not limited to a certain percentage or number of votes. The right to vote is recognized by number of shares registered on shareholder's account at the Central Depository & Clearing Company. Each ordinary share gives the right for one vote at the General Assembly. The Company is entitled to issue ordinary shares in accordance with law of the Republic of Croatia and Company's Articles of Association. Decision on issuing shares is made by the General Assembly in accordance with Article 172 of the Companies Act and Company's Articles of Association. The Company's rights and obligations originating from acquisition of own shares are realized in accordance with the provisions of the Companies Act, hence it follows that the Company can acquire own shares pursuant to General Assembly's powers for their acquisition.

Amendments to the Articles of Association are made in accordance with the Companies Act.

7. On the day of 31 December 2020, the Company's Management Board was consisted of the single Member of the Management Board, univ.spec.oec Sandra Uzelac, representing the Company individually and independently in accordance with the Articles of Association and the Rules of Procedure of the Management Board.

Management Board has no authority to make business decisions as specified in Article 15 of the Company's Articles of Association (acquisition, alienation or encumbrance of real estate, issuing, alienating and acquiring bonds, providing guarantees except for liabilities of a subsidiary, taking loans and loans outside the ordinary business of the Company, etc.), and in respect with other issues as stipulated by law or in accordance with the Company's Articles of Association or a decision made by the Supervisory Board, without prior consent of the Supervisory Board. The members of the Management Board are appointed by the Supervisory Board for a term of five years. The appointment of a member of the Management Board may be revoked by the Supervisory Board.

The Supervisory Board of the Company is consisted of five members. Four members are appointed and may be revoked by the General Assembly. The fifth member is elected and appointed and may be revoked by the Company's workers in accordance with law. In 2020, the Supervisory Board was composed of the following members: Vittorio Carratù, President of the Supervisory Board; Francesco Ciaramella, Vice-President of the Supervisory Board; Giorgio Filippi and Antonio Gennarelli as members of the Supervisory Board. Zoran Košuta in his position of the workers' representative is the fifth member of the Supervisory Board.

The Supervisory Board acts as a collegial body at meetings held at least once a quarter, at which it discusses and decides on all matters within its competence stipulated by the Companies Act and the Articles of Association. Decisions of the Supervisory Board are made by a majority vote of the members present. In 2020, six Supervisory Board meetings were held.

The Committee for Audit is a body established in December 2014 with the aim of supporting the Management Board and the Supervisory Board in effective execution of corporate governance, financial reporting, and control of the Company's business. In 2020, the body held three sessions, at which it discussed the financial performance of the Company. The members of the Committee for Audit are Vittorio Carratù, Francesco Ciaramella and Giorgio Filippi.

The Committee for Audit analyses in detail the financial statements, provides support to the Company's accounting and establishes good and quality internal controls in the Company. It monitors the integrity of financial information, and in particular the correctness and consistency of accounting methods used by the Company and the Group to which it belongs, including criteria for consolidating the financial statements of companies belonging to the Group. The task of the Committee is also to monitor the internal risk control and management system.

The Committee for Audit is independent in its work and most members are experts in the field of accounting and auditing.

In 2020, the Supervisory Board of the Company established two committees that support its work and activities, the Remuneration Committee and the Nominations Committee. Committee members are appointed from among the members of the Supervisory Board. The Remuneration and the Nominations Committees were established as part of the adopted Remuneration Policy at the extraordinary session of the General Assembly on December 22, 2020.

Report on remuneration of members of the Management Board and members of the Supervisory Board contains all data on the amount of compensation paid to members of the Management Board and the Supervisory Board and was prepared in accordance with Article 272 of the Companies Act, and the Remuneration Policy and Decision on Remuneration of the members of the Supervisory Board as adopted at the Extraordinary General Assembly on 22 December 2020.

Each member of the Supervisory Board is entitled to a fixed monthly remuneration. Remuneration of the members of the Supervisory Board does not depend on the business results of the Company and does not contain a variable part of the remuneration to maintain their independence and objectivity.

The Supervisory Board has not yet conducted a self-assessment of the profiles and competencies of the members of the Supervisory Board and its committees. However, members of the Supervisory Board and members of its committees operate in optimal numbers and have the knowledge, skills and professional experience necessary to properly perform their tasks. Each member of the Supervisory Board makes an effective contribution, showing commitment to his role and devoting time to performing that duty.

Administrative support for the preparation of sessions is provided by the Management Office of the Company in an efficient and timely manner as the position of Company Secretary has not yet been established.

8. The Company promotes diversity and inclusion of members of different age, gender, education and profession in its executive, management, and supervisory bodies.

9. In accordance with Article 250.a (4) and Article 272.p (1) of the Companies Act, this Statement represents a separate section and makes an integral part of the Company's Annual Report 2020.

Sandra Uzelac

Member of the Management Board

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