

NON-CONSOLIDATED ANNUAL REPORT 2023

- Non-Consolidated Annual Financial Statements
- Management Report

SHIPYARD
1896 VIKTOR LENAC
Member of Palumbo Group

April 2024

NON-CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2023

April 2024

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the non-consolidated financial statements for the year 2023 in accordance with the International Financial Reporting Standards applied in the European Union and the Croatian Accounting Act to give a true and fair view of financial performance and business results of the Company for the year.

Based on the research conducted, Management 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 non-consolidated financial statements, Management acknowledges their responsibility for:

- the implementation and consistent application of the appropriate accounting policies;
- giving reasonable and conservative estimates and judgements;
- 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 performance and business results 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 non-consolidated financial statements have been approved by the Management Board on 19 April 2024.

Sandra Uzelac

President of the Management Board

BRODOGRADILIŠTE d.d. VIKTOR LENAC 1896 Kostrena, Martinscica 8 2

Luka Hrboka

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

Reporting on Audited Annual Financial Statements

Opinion

We have audited the annual financial statements of the joint stock company BRODOGRADILIŠTE VIKTOR LENAC, Rijeka, headquarted at Martinšćica 8, Kostrena, Croatia ("the Company"), which comprise the Non-Consolidated Comprehensive Income Statement for the year ended 31 December 2023, Non-Consolidated Statement of Financial Position as at 31 December 2023, Non-Consolidated Cash Flow Statement for the year ended 31 December 2023, Non-Consolidated Statement of Changes in Equity for the year ended 31 December 2023 and Notes to the Financial Statements, including a summary of accounting policies material to the Company's annual financial statements ("the annual financial statements").

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) adopted and implemented by the European Union.

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section entitled *Auditor's Responsibilities for the Audit of the Annual Financial Statements*.

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") including the International Independence Standards issued by the International Ethics Standards Board for Accountants (IESBA), as well as in accordance with ethical requirements relevant to our audit of the annual financial statements in the Republic of Croatia 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

We draw attention to Note 15: Fixed tangible and intangible assets and Note 28: Risk Management - Market and Operational Risks, in which information was published about the investment in the renovation of Dock 11 and the construction of new pontoons to replace the worn out ones, which is why Dock 11 is currently not operational. Completion of the works is expected in the middle of 2024.

Our opinion is not modified in respect of this matter.

Reporting on Audited Annual 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 annual financial statements of the current period.

These matters were addressed in the context of our audit of the annual 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 accounting policies, see Note 2.3.a and 30 to the financial statements. For additional information related to 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 correct presentation of revenue, as in the audit of revenue, there is a risk of material misstatement of revenue. We, therefore, addressed the accuracy and comprehensiveness of revenues generated from the Company's business activities as a key audit matter.	Audit procedures for obtaining appropriate audit evidence involved examining the structure and effectiveness of automatic and manual internal controls implemented at the Company, as well as testing details to ascertain the accuracy of revenue accounting and revenue transactions. The main automated internal control implemented by the Company to ensure the accuracy of revenue accounting is linking work order to journal entry. Testing internal controls We have tested the structure and effectiveness of the main internal controls over the sales and shiprepair processes. The tests performed on the audit sample included: - Testing for existence: Testing work orders for existence and comparing them with quotations, contracts and outgoing invoices; - Testing for completeness: Testing incoming and outgoing invoices relating to a particular work order for existence; - Evaluation test: Comparing prices and sales terms and conditions stated in outgoing invoices with accepted quotations; - Testing accruals: Determining the degree of completion and testing whether revenue was recognized in the correct period. In addition to the above, we have also tested whether the production accounts were locked, approved and transferred to financial accounting, recorded and controlled in the Accounting and Finance Department. Based on the results of internal control tests, we have determined the scope and type of tests to verify the accuracy of revenue accounting, and we have also tested some details from internal documents by linking them to accrued sales revenue and related payment transactions. When conducting our tests, we did not identify any significant deviations or deficiencies in internal controls.

Reporting on Audited Annual Financial Statements (continued)

Other Information

Management is responsible for other information. Other information includes the Management Report and the Statement of Compliance with the Corporate Governance Code included in the Management Report but does not include the annual financial statements and our auditor's report thereon. Our opinion on the annual financial statements does not include other information.

In connection with our audit of the annual financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our audit knowledge or otherwise appears to be materially misstated.

Regarding the Management Report and the Statement of Compliance with the Corporate Governance Code, we also performed the procedures prescribed by the Accounting Act. These procedures include checking whether the Management Report has been drawn up in accordance with Article 21 of the Accounting Act and whether the Statement of Compliance with the Corporate Governance Code contains information from Article 22 of the Accounting Act.

Based on the performed procedures, to the extent that we are able to assess it, we report that:

1. Information in the attached Management Report and Statement of Compliance with the Corporate Governance Code is aligned, in all significant respects, with the attached annual financial statements;

2. Management Report has been drawn up in accordance with Article 21 of the Accounting Act;

3. Statement of Compliance with the Corporate Governance Code includes the information defined in Article 22 of the Accounting Act.

Based on the knowledge and understanding of the Company's operations and its environment acquired within the audit of the annual financial statements, we are obliged to report if we have established that there are significant misrepresentations in the attached Management Report and Statement of Compliance with the Corporate Governance Code. In this sense, we have nothing to report.

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

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

In preparing the annual 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 Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 the annual financial statements.

Reporting on Audited Annual Financial Statements (continued)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit, particularly regarding the following objectives:

- We identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, we 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.

- We 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.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- We 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 annual 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.

- We evaluate the overall presentation, structure, and contents of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 annual financial statements of the current period and are therefore considered 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.

Reporting on Other Regulatory Requirements

1. Based on the proposal of the Supervisory Board, we were appointed at the Company's General Assembly meeting held on 29 June 2023 to perform audit of the annual financial statements for 2023.

2. This audit engagement has been uninterrupted for a total of 4 years and covers the period from January 1, 2020 to December 31, 2023.

3. In the audit of the Company's annual financial statements for 2023, we have determined the materiality for the annual financial statements as a whole in the amount of EUR 1.2 million, which represents approximately 1.8% of the three-year average of the Company's revenues considering it a stable business indicator and the most frequently used measure of the Company's business performance by shareholders.

4. Our audit opinion on the accompanying annual financial statements is consistent with the additional report issued to the Company's Audit Committee 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 2023 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.

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004 / 109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format

Auditor's assurance statement on the compliance of Annual Financial Statements (hereinafter referred to as the financial statements), prepared pursuant to Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/20, 83/21 and 151/22) applying the requirements of Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter referred to as the ESEF Regulation).

We have engaged in a reasonable assurance as to whether the annual financial statements prepared for public disclosure pursuant to Article 462 (5) of the Capital Market Act, contained in the attached electronic file [Viktor Lenac_2023], have been prepared in all material respects in accordance with requirements of the ESEF Regulation.

Responsibilities of Management and Those Charged with Governance

The Company's Management is responsible for the preparation and contents of the annual financial statements in accordance with the ESEF Regulation.

In addition, the Company's Management is responsible for maintaining an internal control system that reasonably ensures the preparation of annual financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Company's Management is also responsible for:

- Publishing to the public of the annual financial statements contained in the Management report in a valid XHTML format as part of the financial reporting process;

- Selecting and using XBRL codes in accordance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for supervising the preparation of annual financial statements in ESEF format as part of the financial reporting process.

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004 / 109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (continued)

Auditor's Responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the annual financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance engagements other than audits or reviews of historical financial information.

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of testing will reveal any significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we performed the following activities:

- We have read the requirements of the ESEF Regulation;

- We have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation;

- We have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and

- Based on that, devised and designed procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the annual financial statements, which are included in the Management report, were prepared in a valid XHTML format;

- the information contained in the annual financial statements required by the ESEF Regulation were labelled and all labels met the following requirements:

  - the XBRL markup language was used;

  - the basic taxonomy elements listed in the ESEF Regulation with the closest accounting significance was used unless an additional taxonomy element was created in accordance with Annex IV. ESEF Regulations;

  - the labels comply with the common labeling rules under the ESEF Regulation.

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

Reporting based on the requirements of Delegated Regulation (EU) 2018/815 supplementing Directive 2004 / 109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (continued)

Conclusion

In our opinion, based on the conducted audit procedures and obtained evidence, the annual financial statements presented in ESEF format, contained in the above attached electronic file and pursuant to Article 462 paragraph 5 of the Capital Market Act prepared for public disclosure, in all material respects are in accordance with the requirements of Articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2023.

In addition to this conclusion, as well as the opinion contained in this Independent Auditor's Report on the accompanying Annual Financial Statements and the Management Report for the year ended 31 December 2023, we do not express any opinion on the information contained in these representations or other information contained in the above file.

Zdravko Ružić was the engagement partner in the audit with this independent auditor's report as its final product.

For and on behalf of IRIS nova d.o.o.

Management

Ljiljana Blagojević

Authorized auditor

Zdravko Ružić

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

In Rijeka, 19 April 2024

IRIS nova, revizija, porezno savjetovanje, financijske analize i usluge, d.o.o.

Rijeka, Fiorello la Guardia 13/III

Croatia

NON-CONSOLIDATED COMPREHENSIVE INCOME STATEMENT AS AT 31 DECEMBER 2023

EUR

	Note	2022	2023
OPERATING REVENUES		**85.099.143**	**86.741.118**
Sales revenue	4	82.178.142	70.750.800
Other operating revenues	5	2.921.001	15.990.318
OPERATING EXPENSES		**77.507.560**	**80.610.390**
Material expenses	6	53.006.102	63.155.741
Employee expenses	7	9.044.362	9.103.942
Depreciation	8	11.685.880	6.479.918
Value adjustments	9	541.145	131
Provisions	10	1.897.746	597.774
Other expenses	11	1.221.815	1.208.154
Other operating expenses	11	110.510	64.730
EBIT		**7.591.583**	**6.130.728**
NET FINANCIAL (EXPENSES) / INCOME		**391.120**	**(359.413)**
Financial income	12	481.429	95.051
Financial expenses	12	90.309	454.464
PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX		**7.982.703**	**5.771.315**
PROFIT TAX	13	**2.640.321**	**1.055.130**
PROFIT / (LOSS) FOR THE YEAR	13,14	**5.342.382**	**4.716.185**
Earnings per share (EUR)		0,33	0,29
NET PROFIT / (LOSS) FOR THE YEAR		**5.342.382**	**4.716.185**
Profit/ (loss) after revaluation of financial assets held for sale		(148)	2.499
Other items that can be reclassified to profit or loss		0	(10.750)
Deferred tax assets		27	(450)
COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**5.342.261**	**4.707.484**

NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

EUR

	Note	2022	2023
ASSETS			
Fixed assets		**28.112.306**	**36.132.439**
Intangible Assets	15	535.673	476.730
Property, plant and equipment	15	26.106.354	35.335.893
Investment in real-estate	15	266.406	266.406
Investments in subsidiary	16	1.991	1.991
Financial assets measured at fair value through other comprehensive income – investment securities	17	15.059	17.558
Financial assets measured at amortized cost - deposits	18	1.125.406	19.386
Deferred tax assets		61.417	14.475
Short-term assets		**43.804.468**	**34.722.670**
Inventories	19	6.183.507	6.419.312
Trade and other receivables	20	20.185.671	14.979.605
Money in bank and cash in register	21	17.435.290	13.323.753
Total Assets		**71.916.774**	**70.855.109**
EQUITY AND LIABILITIES			
Equity and reserves	22	**45.170.266**	**49.877.750**
Share capital	22	22.315.014	22.315.014
Reserves		17.512.870	22.846.551
Net profit/loss for the year	22	5.342.382	4.716.185
Long-term liabilities		**2.826.579**	**2.728.483**
Debentures with interest charge	23	476.721	263.337
Provisions	26	1.666.454	1.909.247
Deferred tax liability		1.822	2.272
Other long-term liabilities	27	681.582	553.627
Short-term liabilities		**23.919.929**	**18.248.876**
Debentures with interest charge	23	1.331.692	224.015
Profit tax payable	13	2.187.299	191.936
Trade and other payables	24	20.105.731	17.488.934
Provisions	26	295.207	343.991
Total Liabilities		**26.746.508**	**20.977.359**
Total Equity and Liabilities		**71.916.774**	**70.855.109**

NON-CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2023

EUR

	Note	2022	2023
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	13,14	7.982.703	5.771.315
Value adjustments in respect of:			
Depreciation of property, plant and equipment		11.685.880	6.479.918
Gains and losses from sale and value adjustments in respect of tangible and intangible assets, net	5, 15	(4.115)	(6.855)
Gains and losses from sale, unrealized gains and value adjustments in respect of financial assets, net	9	541.024	(2.369)
Shortage, surplus and expense of material inventories, net	5, 11	6.473	969
Income from interests	12	(28.362)	(95.051)
Interest expenses	12	90.309	47.817
Provisions	5, 10	1.627.154	295.654
Exchanges rate difference (unrealized)	12	154.849	(394.986)
Profit tax cost	13	(2.640.321)	(1.055.130)
Increase in accrued revenues and costs	20, 24	(3.390.580)	10.447.145
Profit from operating activities before changes in working capital		**16.025.014**	**21.488.427**
Increase in inventories		11.731.961	(4.182.933)
Decrease/(Increase) in short-term receivables		(7.284.087)	(1.005.764)
Increase in liabilities		(4.036.605)	(235.805)
Profit tax paid		(766.325)	(3.045.877)
Interest paid		(78.007)	(71.817)
CASH FLOW FROM OPERATING ACTIVITIES		**15.591.951**	**12.946.231**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets	15	(1.213.062)	(15.651.483)
Inflow from sale of fixed assets	5	4.115	6.855
Investment into financial assets		0	(49.424)
Inflow from interests		592	744
Given loans		0	(65.000)
Inflows on loans		0	21.600
CASH FLOW FROM INVESTING ACTIVITIES		**(1.208.355)**	**(15.736.708)**
FINANCIAL ACTIVITIES			
Repayment of debentures with interest charge		(1.635.989)	(1.321.060)
CASH FLOW FROM FINANCIAL ACTIVITIES		**(1.635.989)**	**(1.321.060)**
TOTAL (DECREASE) / INCREASE OF CASH FLOW (I+II+III)		**12.747.607**	**(4.111.537)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		4.687.683	17.435.290
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	21	**17.435.290**	**13.323.753**

NON-CONSOLIDATED STATEMENT ON CHANGES IN EQUITY AS AT 31 DECEMBER 2023

EUR

	Share capital	Legal reserves	Reserves for own shares	Own shares	Other reserves	Net profit / (loss) for the year	Total
Balance as at 1 January 2022	**22.315.014**	**1.115.751**	**1.664.344**	**(1.069.185)**	**13.301.366**	**2.500.715**	**39.828.005**
Profit for the year	0	0	0	0	0	5.342.382	5.342.382
Changes in reserves of the fair value of financial assets held for sale	0	0	0	0	(121)	0	(121)
Total comprehensive income/loss for 2022	**0**	**0**	**0**	**0**	**(121)**	**5.342.382**	**5.342.261**
Redirected into reserves per 2021 profit allocation	0	0	0	0	2.500.715	(2.500.715)	0
Balance as at 31 December 2022	**22.315.014**	**1.115.751**	**1.664.344**	**(1.069.185)**	**15.801.960**	**5.342.382**	**45.170.266**
Profit for the year	0	0	0	0	0	4.716.185	4.716.185
Changes in reserves of the fair value of financial assets held for sale	0	0	0	0	2.049	0	2.049
Other non-proprietary capital changes	0	0	0	0	(10.750)	0	(10.750)
Total comprehensive income/loss for 2023	**0**	**0**	**0**	**0**	**(8.701)**	**4.716.185**	**4.707.484**
Redirected into reserves per 2022 profit allocation	0	0	0	0	5.342.382	(5.342.382)	0
Balance as at 31 December 2023	**22.315.014**	**1.115.751**	**1.664.344**	**(1.069.185)**	**21.135.641**	**4.716.185**	**49.877.750**

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Brodogradilište Viktor Lenac" Rijeka, headquartered at Martinšćica 8, Kostrena, Croatia (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 EUR 22,315,014 and is divided in 16.813.247 registered ordinary shares in non-materialized form without nominal value, of which 825.187 own shares on the balance sheet date.

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 TAX ID. number 27531244647.

The Company's main activity is ship repair, maintenance and conversion and other services carried out onboard ships and crafts. The Company has been registered for other activities such as steel constructions, shipbuilding 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, the ISIN code is HRVLENRB0001 whereas the security code is VLEN.

On 31 December 2023, the Company employed 317 employees (2022: 323 employees).

In 2023, the Company's Supervisory Board was composed of the following members: Antonio Palumbo, Francesco Ciaramella, Antonio Gennarelli (until July 14,2023), Vittorio Carratù (until September 14, 2023) and Antonietta Capodanno (from October 26, 2023) as well as Damir Amić as the workers' representative. Antonio Palumbo holds the position of President of the Supervisory Board from October 26, 2023, after the previous president Vittorio Carratù resigned as a member of the Supervisory Board.

In 2023, the Company's Audit Committee was composed of Francesco Ciaramella, Vittorio Carratù (until September 14, 2023), Antonio Gennarelli (until July 14, 2023), Antonio Palumbo (from October 26, 2023) and Antonietta Capodanno (from October 26, 2023). Remuneration Committee and Nominations Committee were composed of the following members: Francesco Ciaramella, Vittorio Carratù (until September 14, 2023), and Antonio Gennarelli (until July 14, 2023).

On 31 December 2023, the Management Board was composed solely of one member, Sandra Uzelac.

From March 1, 2024, the Management Board of the Company includes Luka Hrboka as a member, who shall represent the Company independently and individually.

The Company had the following ownership structure as at 31 December 2023:

	Shareholder	Number of Shares	Percentage of Equity
1	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./PALUMBO GROUP S.P.A. (1/1)	13.781.460	81,97
2	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
3	JADROAGENT D.D. (1/1)	324.766	1,93
4	RAIFFEISENBANK AUSTRIA D.D./ CUSTODIAL ACCOUNT AGGREGATION	74.560	0,44
5	LIST GMBH AUSTRIA (1/1)	45.992	0,27
6	BLAŽEKA BRANKA (1/1)	43.953	0,26
7	OTP BANKA D.D./ OTP INDEX FUND - OPEN-ENDED INVESTMENT FUND WITH PUBLIC OFFERING (1/1)	43.865	0,26
8	PEČAR IVAN (1/1)	37.803	0,22
9	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
10	Others	1.602.674	9,54
	Total	**16.813.247**	**100**

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 19 April 2024.

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 explained 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 2023 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.

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, applying the basic accounting assumption of business continuity.

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 the International Financial Reporting Standards as adopted by the European Union ("IFRS") and were published on April 19, 2024. 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 2023 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.

Items included in the Company's financial statements are expressed in the currency of the primary economic environment in which the Company operates (functional currency).

Considering that the Republic of Croatia introduced the euro as the official currency as of January 1, 2023, in accordance with the Law on the introduction of the euro as the official currency in the Republic of Croatia, the Company changed the presentation currency for the purposes of preparing financial statements for the year ended December 31, 2023. from kuna to euro, and the financial statements for the year ended December 31, 2023 were prepared in euros for the first time. From January 1, 2023, the euro is also the functional currency of the Company (until January 1, 2023, it was HRK).

Although the change in the presentation currency in the financial statements represents a change in accounting policy that requires retroactive application, the Company did not publish the third balance sheet in the financial statements for the year ended December 31, 2023 in accordance with International Accounting Standard 8 (IAS) Accounting Policies, Changes in Accounting Estimates and Errors, given that it has determined that the change in the presentation currency has no significant impact on the Company's financial statements, due to the stable HRK/EUR exchange rate over the past few years.

Company's financial statements are presented in Euros (EUR) as the Company's measuring or reporting currency. The report for the comparative period of the previous year was presented by converting at a fixed exchange rate of 7.5345 according to the rounding rules.

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 2023 as follows:

1 USD = EUR	0.904977	(31 Dec 2022: 1 USD = 0.9376 EUR)
1 GBP = EUR	1.150682	(31 Dec 2022: 1 GBP = 1.1274 EUR)
1 NOK = EUR	0.088964	(31 Dec 2022: 1 NOK = 0.0951 EUR)
1 CHF = EUR	1.079913	(31 Dec 2022: 1 CHF = 1.0155 EUR)

2.2. STANDARDS AND INTERPRETATIONS THAT ARE IN FORCE IN THE CURRENT PERIOD

Standards and interpretations that are in force in the 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:

- **IFRS 17 Insurance contracts**, published on May 18, 2017, includes changes to IFRS 17, published on June 25, 2020, (effective date for annual periods beginning on or after January 1, 2023).
- **Amendments to IFRS 17 Insurance contracts, first-time application of IFRS 17 and IFRS 9 – Comparative data**, published on 9 December 2021, (effective date for annual periods beginning on or after January 1, 2023).

- **Amendments to IAS 12 Income tax: Deferred tax related to assets and liabilities arising from individual transactions**, published on May 7, 2021 (effective date for annual periods beginning on or after January 1, 2023).

- **Amendments to IAS 12 Income tax: International Tax Reform – Pillar Two Model Rules**, published on May 23, 2023 (effective date for annual periods beginning on or after January 1, 2023).

- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Guidelines 2: Disclosure of Accounting Policies** published on February 12, 2021 (effective date for annual periods beginning on or after January 1, 2023)

- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates** published on February 12, 2021 (effective date for annual periods beginning on or after January 1, 2023).

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, which have been approved in the EU but are not yet in force:

- **Amendments to IAS 1 Presentation of financial statements: Classification of liabilities as short-term or long-term** issued on January 23, 2020 and amended on July 15, 2020 (effective date for annual periods beginning on or after January 1, 2024).

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback**, issued on September 22, 2022 (effective date for annual periods beginning on or after January 1, 2024).

As of the date of issuance of these financial statements, the following standards, amendments and interpretations issued by the International Accounting Standards Board have not been adopted in the European Union, and the Company does not expect their adoption to have a significant impact on the Company's financial statements:

- **Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability** (issued on August 15, 2023).

- **Amendments to IAS 7 Cash Flow Statements** and **IFRS 7 Financial Instruments: Disclosures – Supplier Finance Arrangements** (issued on May 25, 2023)

2.3. KEY ASSUMPTIONS, ESTIMATES AND UNCERTANITY IN PREPARING FINANCIAL STATEMENTS

In preparing Non-Consolidated Financial Statements, Management 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 property, plant and 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.

Materially significant accounting policies applied in the preparation of financial statements for the year 2023:

a) Revenues

Revenue is recognized when the amount of revenue and its economic benefits for the Company can be reliably measured and when it fulfils specific criteria relative to all activities of the Company.

Revenues received from sales of goods and services are recognized if:

- The Company has concluded a contract with a customer, written or verbal, which determines rights and obligations, terms and conditions and due dates, and there is a reasonable probability that the Company will collect rightful recompense for negotiated obligation;
- The Company can determine its obligations based on contract with customer, or 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 a 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 generated from contractual obligations, which are fulfilled during a period of time, are recognized to the extent that they are 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 accounted for expenses with respect to 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 received from dividends and other revenues from financing sources.

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 Profit Tax Act.

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.

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 and 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) Property, plant and equipment

Fixed tangible assets comprise of property, plant 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 EUR 465 and useful period of life exceeds one year.

Exceptionally, if the single value of the asset does not exceed EUR 465 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 EUR 465 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 0.7-10%
- 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 Management's decisions uses legally recognized accelerated depreciation rates.

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

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

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

g) Investing in real estate

Real estate investments refer to property (land, buildings or part of a building or both) that is held for the purpose of obtaining rental income or for an increase in their value or both. Investment in real estate is measured at fair value.

h) Impairment of value of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (excluding inventories and deferred taxes) to determine whether there are any indications of impairment losses. If such indications exist, the recoverable amount of the asset is estimated to be able to determine any losses caused by impairment. If the recoverable amount of an asset cannot be estimated, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If it is possible to determine a realistic and consistent basis for allocation, the Company's assets are also allocated to individual cash-generating units or, if this is not possible, to the smallest group of cash-generating units for which a realistic and consistent basis of allocation can be determined. Intangible assets with an unlimited useful life are tested for impairment once a year, and other intangible assets if there is an indication of possible asset impairment.

The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use.

For value in use purposes, estimated future cash flows are discounted to present value using an after-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to that asset for which future cash flow estimates have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be lower than the book value, the book value of that asset (cash-generating unit) is reduced to the recoverable amount. Impairment losses are recognized immediately as an expense.

In case of subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of that asset in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if there had been no recognized impairment losses in previous years on that asset (money-generating unit). The reversal of the impairment loss is immediately recognized as income.

i) 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.

(i) 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.

(ii) 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.

j) 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.

k) 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.

l) 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 Management.

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*.

m) 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 Management.

n) 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.

o) 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.

p) 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).

q) Employee benefits

Obligations for pensions and other obligations after retirement

In the course of normal operations, when paying salaries, the Company makes payments of contributions on behalf of its employees who are members of mandatory pension funds in accordance with the law. Mandatory pension contributions to the funds are reported as part of salary expense when they are calculated. The company does not have an additional pension plan and therefore has no other obligations regarding employee pensions. Furthermore, the Company has no obligation to provide any other benefits to employees after their retirement.

Short-term benefits of employees

The company recognizes reservations for annual leaves and other benefits when there is a contractual obligation or past practice on the basis of which the derivative obligation arose. Short-term liabilities for severance pay are recognized when the Company terminates the employment of an employee before the expected date of retirement or by the employee's decision to voluntarily accept termination of employment in exchange for compensation. The Company recognizes obligations for severance payment when it has demonstrably undertaken the obligation to terminate the employment relationship with current employee, based on a detailed formal plan without the possibility to withdraw from it, or provides severance payments as a result of an offer to encourage voluntary termination of the employment relationship. The Company recognizes the obligation for jubilee awards in the period in which the award was made, based on the actual number of years of service.

r) 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 legal proceedings are also recognized as an expense of the period for risk provisions based on legal and other regulations.

s) 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.

t) 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.

u) Government grants

Government grants shall not be recognized until there is a reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate. Grants related to assets are government grants whose primary condition is that a company qualifying for them should purchase, construct or otherwise acquire long-term asset and, shall be recognized in the statement of financial position as income for future periods and transferred to income on a systematic and rational basis during the useful life of the asset.

Receivables arising from government grants, for reimbursement of already incurred costs or losses or for the purpose of providing current financial support to the Company without future related costs, shall be recognized in the profit and loss of the period in which the receivable for them arises.

v) Accrued expenses and deferred income

Expenses that occurred in the current period for which the Company did not receive invoices or documentation required for accounting purpose is incomplete, 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 solely one segment, according to the specifics of the activity. Shiprepair and conversions are the main activities of the Company and make up almost entire revenue from sales, or 82% 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 enough 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. SALES REVENUE

EUR

	2022	2023
Revenues from sale of services in domestic market	4.193.535	4.648.695
Revenues from sale of services in foreign market	77.982.627	65.992.875
Revenues from sale of services to subsidiary	1.980	109.180
Revenues from sale of services to related parties	0	50
Total	**82.178.142**	**70.750.800**

Sales revenue from generated by the Company until December 31, 2023 included all income invoiced during the period, reduced by that part of the income that refers to the previous year in respect of which revenues were recognized and calculated using percentage of completion method, and increased by the revenues generated from the projects that as of December 31, 2023 were still in progress, so they were partially recognized as revenue of the current period in accordance with the percentage of completion method (application of IFRS-15), regardless of whether the customer was invoiced for that part or not.

Metod of calculating revenue according to IFRS-15: Revenue from contracts with customers, or according to the percentage of completion was used as of December 31, 2023 for recording revenue generated from all projects that were still ongoing at the end of December 2023, and for that part of revenue for which the conditions for invoicing to clients have not yet been met. With such recognition, revenues are also determined in accordance with the costs of individual projects, in such a way that the expected gross margin is evenly distributed in individual accounting periods, depending on the percentage of completion of the projects.

Revenue from sale of services to subsidiary involved the income generated from sales to the subsidiary company VL Steel d.o.o., whereas the revenue from sale of services to related parties referred to the income generated from sale of services to Palumbo Shipyard Ltd.

Structure of sales revenue by type of service:

EUR

	Domestic market	Foreign market	Total
Shiprepair	4.448.270	57.494.391	61.942.661
Refit and conversion	-	7.250.911	7.250.911
Other services	200.425	1.247.573	1.447.998
Other services – subsidiary	109.180	0	109.180
Other services – related parties	0	50	50
Total	**4.757.875**	**65.992.925**	**70.750.800**

5. OTHER REVENUES

EUR

	2022	2023
Revenues received from the use of own products, goods and services	350.623	14.371.509
Revenues from sale of material and waste	643.555	578.665
Revenues from sale of material and waste - subsidiary	4.427	3.919
Rentals	180.288	191.096
Rentals - subsidiary	5.076	5.884
Income from reversal of long-term provisions *(Note 26)*	212.176	295.654
Insurance claim income	15.797	8.020
Income from collected written-off receivables	0	406.337
Revenues from sale of property, plant and equipment	4.115	6.855
Subsequent recognition of income from past years	2.631	13.532
Inventory material surplus	11.066	3.466
Income from adjusting expected credit losses (IFRS 9)	0	1.929
Other revenues	1.491.207	102.989
Other revenues - subsidiary	40	463
Total	**2.921.001**	**15.990.318**

Revenues generated from the use of own products, goods and services involved investments in own production equipment and were significantly higher compared to the same period last year, mostly due to the Dock 11 renovation project, including construction of two new pontoons, and the project of transition of power lines from 10 kV to 20 kV.

Revenues from sale of material and waste mostly included the income generated from sale of secondary raw material generated from the Company's production process in the amount of EUR 444,697 (2022: EUR 588,620). As a rule, revenue from sale of waste moves in accordance with the growth or decline in occupancy, as well as the renovation of structures of own floating docks, since most of such revenue is generated from sale of scrap steel. The remaining amount of EUR 133,968 (2022: EUR 54,935) referred to the sale of material to subcontractors, incorporated into core activity projects based on a turnkey basis subcontract or quantity of work carried out, whereby the Company controls the quality of the purchased and installed material.

Rental income referred to revenues generated from leasing commercial premises and production equipment to subcontractors that participate in production activities of the Company.

Income from collected doubtful and disputed receivables involved receivables from customers that were corrected in previous periods due to expected uncertainty in collection of debts.

Other operating revenue in the amount of EUR 103,452 was significantly lower than in 2022, when the Company included an income in the amount of EUR 1,404,684 generated from the court sale of the ship Delphin, which marked the end of the court case for the collection of demurrage and associated costs of that ship.

6. MATERIAL EXPENSES AND COST OF GOODS SOLD

EUR

	2022	2023
Raw and other material		
Consumed raw and other material	13.720.481	15.639.580
Consumed raw and other material – subsidiary	3.790	0
Consumed energy	3.192.984	3.279.083
Small inventory and spare parts	122.421	93.248
Total raw and other material	**17.039.676**	**19.011.911**
Other external expenses		
Services used in production of outputs	16.748.007	15.385.696
Services used in production of outputs - subsidiary	1.218.888	953.085
Subsupplier services	15.661.964	24.823.806
Subsupplier services - subsidiary	11.782	4.214
Subsupplier services – related parties	0	5.802
Maintenance services	1.025.836	1.743.588
Maintenance services - subsidiary	72.362	137.087
Rental expenses	652.866	523.098
Rental expenses - subsidiary	0	574
Intellectual services	272.787	269.367
Intellectual services – related parties	108.031	108.002
Transportation, phone, post and similar services	55.106	61.177
Other services	138.797	128.334
Total other external expenses	**35.966.426**	**44.143.830**
Total material expenses	**53.006.102**	**63.155.741**

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. In 2023, material costs increased more pronounced, equipment costs included, as well as the subsupplier costs involving external specialized services, whose progressive growth resulted from conversion projects and a passenger yacht refit. In general, such projects in their structure record a higher share of material, equipment and external costs, generating a lower gross margin compared to standard shiprepair projects in which the most representative resource is labour exerted within the area of the Shipyard.

The short-term rents included variable costs of renting production equipment, depending on the specificity and needs of core activity projects, and are usually one-time costs whose total amount varies depending on the occupancy rate and production needs.

Costs of transactions with a subsidiary company in 2023 related to the subsidiary company VL Steel d.o.o., whereas costs of transactions with related parties involved companies within the Palumbo Group.

Intellectual services referred to various services of lawyers, notaries public, institutions involved in environmental impact monitoring, various professional technical and business services, which also include financial audit services and tax consulting services.

The costs of legal representation of the Company in 2023 amounted to EUR 58,572 (2022: EUR 150,968). The stated amount mostly referred to services provided by domestic law firms, and only EUR 2,301 (2022: EUR 1,680) referred to services provided by foreign lawyers. Since the Company does not have its own legal department, legal services are outsourced when required.

In 2023, the costs of auditing financial statements amounted to EUR 23,000 (2022: EUR 22,297), and the costs of tax consulting services amounted to EUR 9,600 (2022: EUR 6,371).

The Company uses technical, market and other consulting services from a related party, which is a company that belongs to the Palumbo Group that represents the largest individual shareholder of the Company, the costs of which in 2023 amounted to EUR 108,002 (2022: EUR 108,031).

7. EMPLOYEE COST

EUR

	2022	2023
Net salaries and wages	4.816.775	4.998.879
Social security contributions and taxes paid by employer	1.996.116	2.138.407
Social security contributions and taxes paid by employee	1.199.603	1.254.063
Severance pays	25.723	8.494
Compensations for travelling costs, daily allowances, annual bonuses	1.006.145	704.099
Total	**9.044.362**	**9.103.942**

Compensations involving severance pay, jubilee awards, travel expenses and annual bonuses are paid to employees by the Company under the Collective Agreement. These costs referred to an average number of 321 employees for 2023, or 328 employees on average for 2022.

8. DEPRECIATION

EUR

	2022	2023
Intangible assets, property, plant and equipment	11.685.880	6.479.918
Total	**11.685.880**	**6.479.918**

For calculation of depreciation in 2023, the Company did not use accelerated depreciation rates, while in 2022 it reported accelerated depreciation of production and other business assets, and the largest amount of calculated depreciation related to floating docks, which, viewed individually, have the highest value in items of long-term assets, followed by depreciation of plants, machinery and production equipment of ship repair activities.

The change in the accounting estimate affected the reduction of depreciation costs in 2023 by EUR 2,487,164.

9. VALUE ADJUSTMENTS

In 2023, the Company recorded value adjustments in respect of assets in a total amount of EUR 131 (2022: EUR 541,145), relating to value adjustments in respect of trade receivables from those foreign customers who tend to reduce the amount received for bank costs when applying the split cost option (Note 20).

10. PROVISIONS

Company made provisions for expenses for 2023 in the total amount of EUR 597,774 (2022: EUR 1,897,746), of which EUR 343,991 (2022: EUR 295,207) involved provisions for allowances for unused annual leave and provisions for court disputes in the amount of EUR 253,783 (2022: EUR 1,602,539).

11. OTHER EXPENSES AND OTHER OPERATING EXPENSES

Other expenses:

EUR

	2022	2023
Insurance premiums	488.716	435.126
Utility, concession and other public fees	395.773	399.055
Representation and gifts	120.366	114.443
Bank services	92.243	110.145
Other expenses	124.717	149.385
Total other expenses	**1.221.815**	**1.208.154**

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 2023, the Company incurred other operating expenses in the amount of EUR 64,730 (2021: EUR 110,510), which related to write off and deficit in inventories and the carrying amount of depreciated tangible assets, and other operating expenses, as below:

EUR

	2022	2023
Deficit in inventories	6.716	0
Tangible fixed assets written off	6.473	968
Other operating and extraordinary expenses	97.321	63.762
Total other operating expenses	**110.510**	**64.730**

Other operating and extraordinary expenses are subsequently recognized expenses incurred in relation to projects of the previous business year, requests for refund by the Croatian Pension Insurance Institute for paid disability pensions for which the Institute charges the Company, and value adjustments in respect of receivables from business relations other than trade receivables.

12. FINANCIAL INCOME AND EXPENSES

EUR

	2022	2023
Financial income		
Interests	27.770	94.307
Dividend income received	592	744
Net foreign exchange gain	453.067	0
Total financial income	**481.429**	**95.051**
Financial expenses		
Interests	90.309	47.817
Net foreign exchange loss	0	406.647
Total financial expenses	**90.309**	**454.464**
Net financial expenses	**391.120**	**(359.413)**

In 2023, the Company generated foreign exchange gains in a total amount of EUR 626,942 (2022: EUR 1,379,205), and foreign exchange loss in the amount of EUR 1,033,589 (2022: EUR 926,138), as a result of which net foreign exchange gain amounted to EUR 406,647 (2022: EUR 453,067 of net profits).

13. PROFIT TAX

The Company generated a profit of EUR 5,771,315 (2022: EUR 7,982,703) as a difference in revenues and expenses generated in the period from 1 January 2023 to 31 December 2023. After accounting for the increase and decrease of the tax liability, the profit tax liability amounted to EUR 1,055,130 (2022: EUR, 2,640,321). During 2023, the Company paid EUR 827,002 (2022: EUR 450,062) of profit tax advances, increased by an additional EUR 80,994 (2022: EUR 46,178) of profit tax advances paid in January 2024, as a result of which the obligation remains to pay a profit tax difference of EUR 110,942 (2022: EUR 2,141,121).

EUR

	2022	2023
Accounting profit before taxation	7.982.703	5.771.315
Profit tax rate 18%	1.436.887	1.038.837
Effect of non-deductible costs	25.002	18.314
Effect of deductible costs	(830)	(2.021)
Total before windfall tax	**1.461.059**	**1.055.130**
Windfall tax in accordance with the Windfall Tax Act	1.179.262	0
Total profit tax	**2.640.321**	**1.055.130**
Effect of unrecognized deferred tax assets of an earlier period	(2.960)	(36.192)
Cost of profit tax	**2.637.361**	**1.018.938**
Effective profit tax rate	**33,04%**	**17,66%**

Unlike for 2022, the Company is not liable to pay a windfall tax for 2023.

Of the total stated profit tax liability in the amount of EUR 1,018,938 for 2023, EUR 1,055,130 related to current tax expense for the period, and the remaining EUR 36,192 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 Company's Management 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

EUR

	31.12.2022	31.12.2023
Net profit for the year	5.342.382	4.716.185
Total number of shares	16.813.247	16.813.247
Shares exclusive of own shares	15.988.060	15.988.060
Basic earnings per share	**0,33**	**0,29**
Diluted earnings per share	**0,32**	**0,28**

15. FIXED TANGIBLE AND INTANGIBLE ASSETS

EUR

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											
Balance as at 1 Jan 2022	1.659.594	8.907.681	96.874.284	10.707.723	416.298	70.186	806	118.636.572	2.522.470	0	121.159.042
Transfer from investments in tangible assets in progress and advances	0	0	705.248	254.522	0	(959.770)		0	2.156	(2.156)	0
Acquisition throughout the year	0	0	0	0	0	974.371	236.537	1.210.908	0	2.156	1.213.064
Sold and written-off	0	0	(519.735)	(103.713)	0	0		(623.448)	0	0	(623.448)
Balance as at 31 Dec 2022	1.659.594	8.907.681	97.059.797	10.858.532	416.298	84.787	237.343	119.224.032	2.524.626	0	121.748.658
Transfer from investments in tangible assets in progress and advances	0	0	705.873	303.093	0	(1.008.966)		0	0	0	0
Acquisition throughout the year	0	0	0	0	0	15.621.192	30.291	15.651.483	0	0	15.651.483
Sold and written-off	0	0	(633.783)	(214.326)	0	0	0	(848.109)	(72.393)	0	(920.502)
Balance as at 31 Dec 2023	1.659.594	8.907.681	97.131.887	10.947.299	416.298	14.697.013	267.634	134.027.406	2.452.233	0	136.479.639
VALUE ADJUSTMENTS											
Balance as at 31 Dec 2022	923.555	8.672.248	62.611.687	9.545.099	149.892	0	0	81.902.481	1.868.839	0	83.771.320
Depreciation throughout the year	0	37.098	10.594.082	934.586	0	0	0	11.565.766	120.114	0	11.685.880
Sold and written-off throughout the year	0	0	(516.739)	(100.236)	0	0	0	(616.975)	0	0	(616.975)
Balance as at 31 Dec 2022	923.555	8.709.346	72.689.030	10.379.449	149.892	0	0	92.851.272	1.988.953	0	94.840.225
Depreciation throughout the year	0	18.549	6.057.194	345.232	0	0	0	6.420.975	58.943	0	6.479.918
Sold and written-off throughout the year	0	0	(632.815)	(214.325)	0	0	0	(847.140)	(72.393)	0	(919.533)
BALANCE AS AT 31 DEC 2023	923.555	8.727.895	78.113.409	10.510.356	149.892	0	0	98.425.107	1.975.503	0	100.400.610
BOOK VALUE 31 DEC 2022	736.039	198.335	24.370.767	479.083	266.406	84.787	237.343	26.372.760	535.673	0	26.908.433
BOOK VALUE 31 DEC 2023	736.039	179.786	19.018.478	436.943	266.406	14.697.013	267.634	35.602.299	476.730	0	36.079.029

During 2023, investments in fixed assets related to investment of own funds in floating docks and the purchase of production and business assets. The most important investment in 2023 was the renovation of Dock 11 and the construction of new pontoons to replace worn out ones, the construction of which has been entrusted to the 3. maj Shipyard. The works started at the end of July 2023, and it is expected that the pontoons will be completed and delivered to Viktor Lenac in the middle of 2024. In parallel with the construction of the pontoon, dock steel structure renewal works are taking place in Viktor Lenac, in order to make the most of the time when Dock 11 is out of operational function.

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, 2023 amounted to EUR 6,024,767 (2022: EUR 23,421,189).

Business premises having a surface area of 190 sq.m. located in the centre of Rijeka, which the Company owns, have been rented for a period of 5 years.

The 2023 depreciation rate for property, plant and equipment at the reporting date was 83% (2022: 79%).

16. INVESTMENT IN SUBSIDIARIES

Net book value of investment in subsidiaries as at 31 December 2023 related to a limited liability company VL Steel in which the Company holds a 75% equity interest, amounting to EUR 1,991.

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

Viktor Lenac owns 3,720 shares in Valamar Riviera Poreč, having a total nominal value of EUR 4,937, which, in accordance with the notification of the Central Depository and Clearing Company of Zagreb were reduced to the market share value of EUR 17,558 as at 31 December, 2023 (2022: HRK 15,059).

On December 31, 2023, a total of 5,000 shares of Uljanik d.d., having a total nominal value of EUR 59,725, were removed from the balance sheet considering that the bankruptcy proceedings over Uljanik d.d. had ended, as a result of which Uljanik d.d. was removed from the court register. In 2019, the Company carried out value adjustment in respect of the shares in their entirety, and the decrease in value of EUR 10,750, which was charged to other reserves in the capital, related to the profit tax calculated on changes in the market value of the shares, from the acquisition in 2012 to book out in 2019, and it was not realized due to the deletion of Uljanik d.d.

18. FINANCIAL ASSETS MEASURED AT AMORTIZED COST - DEPOSITS

Long-term financial assets in the amount of EUR 19,386 (2022: EUR 1,125,406) referred entirely to a deposit to secure long-term liabilities to HEP ESCO (2022: EUR 25,406). In 2022, in addition to the deposit to HEP ESCO, the cash deposit also included a deposit for a long-term investment loan in the amount of EUR 1,100,000, which was fully repaid in July 2023, and the deposit was returned to the Company's bank account.

19. INVENTORIES

EUR

	31.12.2022	31.12.2023
Material	6.183.507	6.419.312
Small inventory	916.687	931.314
Value adjustments in respect of small inventory	(916.687)	(931.314)
Total	**6.183.507**	**6.419.312**

20. TRADE AND OTHER RECEIVABLES

EUR

	31.12.2022	31.12.2023
Receivables from customers - gross	*7.408.053*	*7.002.419*
Receivables from customers – impairment	*3.520.814*	*3.078.107*
Receivables from customers – net	3.886.028	3.890.861
Receivables from customers - subsidiary	1.211	33.451
Receivables from employees	273	46.921
Receivables from state	1.627.223	2.185.643
Prepaid expenses and accrued income	10.688.660	3.948.253
Advances	3.982.276	4.830.173
Other receivables	0	44.303
Total	**20.185.671**	**14.979.605**

Value adjustments in respect of trade receivables:

EUR

	2022	2023
Balance as at 1 January	3.299.726	3.520.814
Impairment for the current year	485.217	131
Recovery of receivables previously written-off	(314.090)	(440.909)
Value adjustments in respect of expected credit loss - IFRS 9	49.961	(1.929)
Balance as at 31 December	**3.520.814**	**3.078.107**

Receivables from the state in the amount of EUR 2,185,643 (2022: EUR 1,627,223) related to receivables received from value added tax refunds in the amount of EUR 2,112,142 (2022: EUR 1,553,883), receivables from the state based on an enforcement order in the amount of EUR 46,725 (2022: EUR 46,725) and receivables received from sick leave pay paid at the expense of Croatian Health Insurance Fund in the amount of EUR 26,758 (2022: EUR 26,614) including receivables from overpaid profit tax surcharge refunds for subsequently recognized sick leave due to injury in the amount of EUR 18.

According to IFRS 9 requirements, the Company carried out value adjustments in respect of receivables from customers for the period from 2018 to 2023.

Age structure of matured receivables from customers:

EUR

	31.12.2022	31.12.2023
1-90 days	3.712.318	3.645.641
91-180 days	229.727	187.622
181-365 days	130	112.627
Over 365 days	7.980	39.409
Value adjustments in respect of receivables (IFRS 9)	(62.916)	(60.987)
Total	**3.887.239**	**3.924.312**

Age structure of impaired receivables from customers:

EUR

	31.12.2022	31.12.2023
1-90 days	0	0
91-180 days	8.729	0
181-365 days	423.794	2.910
Over 365 days	3.025.375	3.014.210
Value adjustments in respect of receivables (IFRS 9)	62.916	60.987
Total	**3.520.814**	**3.078.107**

Trade receivable structure by currency:

EUR

	31.12.2022	31.12.2023
EUR	3.517.632	3.900.851
USD	432.523	84.448
Value adjustments in respect of receivables (IFRS 9)	(62.916)	(60.987)
Total	**3.887.239**	**3.924.312**

Structure of trade receivables by countries:

EUR

	31.12.2022	31.12.2023
Malta	2.119.021	999.099
Italy	723.562	300.410
Croatia	474.250	1.276.922
USA	432.523	87.268
Germany	8.729	43.643
Mexico	0	1.092.350
Other countries	192.070	185.607
Value adjustments in respect of receivables (IFRS 9)	(62.916)	(60.987)
Total	**3.887.239**	**3.924.312**

Structure of trade receivables by market:

EUR

	31.12.2022	31.12.2023
Italy	3.023.672	1.299.509
Croatia	474.250	1.276.922
Mexico	0	1.092.350
USA	432.523	87.268
Germany	8.729	43.643
Other countries	10.981	185.607
Value adjustments in respect of receivables (IFRS 9)	(62.916)	(60.987)
Total	**3.887.239**	**3.924.312**

21. CASH AND CASH EQUIVALENTS

EUR

	31.12.2022	31.12.2023
Money in bank	17.434.265	8.526.837
Cash in register	1.025	537
Deposits	0	4.796.379
Total	**17.435.290**	**13.323.753**

22. EQUITY AND RESERVES

On 31 December 2023, the issued share capital of the Company, fully paid, amounted to EUR 22,315,014 and was divided in 16,813,247 registered ordinary shares in non-materialized form without nominal value.

In the process of converting the HRK amounts of the share capital and the nominal value of the shares into Euros, in accordance with the Companies Act, at the General Assembly of the Company held on June 29, 2023, a decision was adopted to exchange shares with nominal amount for shares without nominal amount, with the share capital being rounded up by the amount of only 40 cents.

The exchange of shares with the Central Clearing and Depository Company was carried out in September 2023 based on an entry in the court register of the Commercial Court, as a result of which the Company's share capital amounts to EUR 22,315,014 and is divided into 16,813,247 ordinary shares of the designation VLEN-R-B, which are registered without nominal value.

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

On 31 December 2023, the Company owned 825.187 of own shares (31 December 2022: 825.187), making 4.91% of the share capital.

On 31 December 2023, the statutory reserves amounted to EUR 1,115,751 (2022: EUR 1,115,751). 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.

Statutory reserves, amounting 5% of equity, and reserves for own shares totalling EUR 2,780,095 (2022: EUR 2,780,095) cannot be distributed 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 2023 respectively 31 December 2022:

EUR

		31.12.2022				31.12.2023				
	Total	1 year or less	2-5 years	More than 5 years	Total long-term portion	Total	1 year or less	2-5 years	More than 5 years	Total long-term portion
Long-term investment loan	1.015.277	1.015.277	0	0	0	0	0	0	0	0
Long-term loan for purchase of equipment	527.044	228.791	298.253	0	298.253	308.207	149.189	159.018	0	159.018
Financial lease	266.092	87.624	178.468	0	178.468	179.145	74.826	104.319	0	104.319
Total	**1.808.413**	**1.331.692**	**476.721**	**0**	**476.721**	**487.352**	**224.015**	**263.337**	**0**	**263.337**

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 EUR 9.16 million. The repayment of the loan principal had begun in 2015, for a period of 8 years, and was fully repaid in July 2023. The long-term loan for purchase of equipment refers to two loans specifically a loan for purchase of energy - saving lighting and will expire in 2024 (total liability on 31 December 2023: EUR 69,679), and a loan for upgrade of the energy efficient ship supply system that expires at the end of 2026 (total liability: 31 December 2023: EUR 238,528).

Financial lease involved purchase of production equipment. The amount of EUR 2,204 as reported at the end of the year related to the purchase of a passenger car.

There was no loan for working capital in 2023, just like in 2022.

24. TRADE AND OTHER LIABILITIES

EUR

	31.12.2022	31.12.2023
Trade payables	9.208.426	8.879.564
Trade payables – related parties	0	59.802
Employee payables	458.734	488.924
Tax and contribution	387.277	785.286
Received advances	6.135.690	0
Other liabilities	461.193	267.749
Accrued expenses and deferred income	3.300.871	7.007.609
Total	**20.105.731**	**17.488.934**

Trade liabilities to related parties related to the liabilities towards the companies belonging to the Palumbo Group (Note 25).

The largest part of other liabilities in the amount of EUR 146,464 referred to the current due amount of ESCO project financing (Note 27).

Accrued expenses with a payment delay clause, in the amount of EUR 206,859 (2022: EUR 160,146) and deferred income for which the conditions for their recognition in the current period have not yet been achieved in the amount of EUR 6,800,750 (2022: EUR 3,140,725), made a total of EUR 7,007,609 in deferred income as at December 31, 2023.

Structure of trade payables by currency:

EUR

	31.12.2022	31.12.2023
EUR	9.076.584	8.793.982
USD	87.961	137.403
CHF	197.421	0
GBP	0	7.981
Total	**9.361.966**	**8.939.366**

25. RELATIONS WITH RELATED PARTIES

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

EUR

Subsidiaries and key shareholders	2022	2023
Sale to related parties		
Sale to subsidiary	**11.523**	**120.299**
VL Steel d.o.o.	11.523	120.299
Sale to key shareholders	**0**	**50**
Palumbo Shipyard Ltd. (belonging to the Palumbo Group)	0	50
Purchase from related parties		
Purchase from subsidiary	**1.306.823**	**1.104.795**
VL Steel d.o.o.	1.306.823	1.104.795
Purchase from key shareholders	**108.031**	**113.804**
Palumbo Group S.p.A.	80.958	108.002
Palumbo Superyachts Ltd. (belonging to the Palumbo Group)	27.073	0
Palumbo S.p.A. (belonging to the Palumbo Group)	0	5.802
Receivables from related parties		
Receivables from subsidiary	**1.211**	**33.451**
VL Steel d.o.o.	1.211	33.451
Receivables from key shareholders	**0**	**0**
Palumbo Group S.p.A.	0	0
Liabilities to related parties		
Liabilities to subsidiary	**153.540**	**0**
VL Steel d.o.o.	153.540	0
Liabilities to key shareholders	**0**	**59.802**
Palumbo Group S.p.A.	0	54.000
Palumbo S.p.A. (belonging to the Palumbo Group)	0	5.802

Key management

On 31 December 2023, the Management Board of the Company was composed solely of one member, Sandra Uzelac, representing the Company individually and independently.

The gross salary cost of the Management Board for 2023 amounted to EUR 115,270 (2022: EUR 113,960). During the year, members of the Supervisory Board received compensation in the total gross amount of EUR 20,809 (2022: EUR 26,287).

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

26. PROVISIONS

Long-term provisions in the amount of EUR 1,909,247 (2022: EUR 1,666,454) related to provisions for initiated legal proceedings.

Short-term provisions in the amount of EUR 343,991 (2022: EUR 295,207) related to provisions for unused annual leave allowances for 2023.

	Court cases	Annual leave	Total
Balance as at 1 January 2022	**122.995**	**211.512**	**334.507**
Provisions reversed	(664)	(211.512)	(212.176)
Recognized	(58.416)	0	(58.416)
New provisions	1.602.539	295.207	1.897.746
Balance as at 31 December 2022	**1.666.454**	**295.207**	**1.961.661**
Provisions reversed	(447)	(295.207)	(295.654)
Recognized	(10.543)	0	(10.543)
New provisions	253.783	343.991	597.774
Balance as at 31 December 2023	**1.909.247**	**343.991**	**2.253.238**

27. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as at 31 December 2023 in the amount of EUR 553,627 (2022: EUR 681,582) related to 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 EUR 552,322 (2022: EUR 552,322) where the litigation proceedings have not yet been concluded, and the deposit received based on the lease of business premises in the amount of EUR 1,305 (2022: EUR 1,305). There was not any long-term part of the liability to HEP-ESCO d.o.o. for energy efficiency projects implemented in 2023, because the obligation will be due in full in 2024, which made the obligation short-term, while in 2022 it amounted to EUR 127,955.

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, 2023 and December 31, 2022.

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

	31.12.2022	31.12.2023
Total interest-bearing debt (long-term and short-term loans) (Note 23)	1.808.413	487.352
Reduced by: Cash and cash equivalents (Note 21)	17.435.290	13.323.753
Long-term deposit (Note 18)	1.100.000	0
Net debt	**(-16.726.877)**	**(-12.836.401)**
Equity and reserves	45.170.266	49.877.750
Total equity and reserves and net debt	**28.443.389**	**37.041.349**
Indicator of indebtedness	***-59%***	***-35%***

Cash and cash equivalents significantly exceed the Company's indebtedness, so the indicator has a negative sign.

Market and operational risks

Viktor Lenac's business can be affected by disruptions in the market where their revenue is generated, primarily in terms of fluctuations in occupancy rate, because of global trends in the world maritime market. Market trends are influenced by the relationship between supply and demand for ship space, but also by prices, such as fuel price. All of this affects freight rates and the financial strength of shipowners, as well as their needs for shipbuilding and repair activities, and ultimately also the shiprepair market in which Viktor Lenac operates.

On the other hand, market and operational risks also tend to affect resources for the main activity, mostly in terms of their availability and prices. When it comes to labour force - a resource that is of the greatest importance to Viktor Lenac, rising prices and a shortage of quality skilled workers have been present for several years, leading to an increasing need to import labour. In addition, inflationary pressures and crisis events in the environment again lead to new pressures on labour prices. Disruptions in prices and supply chains present in energy sources, raw materials, materials and various equipment needed for installation exist and are felt but considering the lower share of these resources in the activity of Viktor Lenac, it is not expected that they could have a decisive or significant impact on performance of contracts and business sustainability.

In the coming period, operational risk is related to the possibility of obtaining a class certificate for the operation of Dock 11. If the certificate is not granted during the period until the completion of the planned investment for renewal of part of the dock steel structure, this will have a negative impact on the amount of potential revenue, and consequently on the business results in that period.

Currency risk

The Company receives most of its revenue from sales on the international market, mainly in euro, which became the national currency on January 1, 2023. In relations with the US Navy, projects are mostly contracted in USD, so movements of the USD to EUR exchange rates can have an impact on business results. However, due to a relatively high accounts receivable turnover ratio and high foreign exchange ratio, the currency risk is not significant, and the Company does not use active hedging techniques regarding foreign currency transactions. On the other hand, the Company's liabilities have not been exposed to significant currency risk since most of these liabilities are denominated in Euros. In the event of a higher risk assessment, primarily due to the relationship between the USD and the domestic currency, Viktor Lenac will consider the use of hedging instruments against negative exchange rate risks.

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

The balance of assets, liabilities and equity by currency is presented below.

	31.12.2022			31.12.2023		
	EUR (1 EUR=7.5345 HRK)	EUR/USD in EUR	Total	EUR	USD or other currency in EUR	Total
Short-term assets	11.576.892	32.227.576	43.804.468	20.799.756	13.922.914	34.722.670
Long-term assets	27.012.306	1.100.000	28.112.306	36.132.439	0	36.132.439
Total assets	**38.589.198**	**33.327.576**	**71.916.774**	**56.932.195**	**13.922.914**	**70.855.109**
Short-term liabilities	13.562.278	10.357.651	23.919.929	18.103.492	145.384	18.248.876
Long-term liabilities	2.409.584	416.995	2.826.579	2.728.483	0	2.728.483
Total liabilities	**15.971.862**	**10.774.646**	**26.746.508**	**20.831.975**	**145.384**	**20.977.359**
Equity – Net assets	**22.617.336**	**22.552.930**	**45.170.266**	**36.100.220**	**13.777.530**	**49.877.750**

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

	31.12.2022		31.12.2023	
Description	Impact of exchange rate change (+1%) in million EUR	Impact of exchange rate change (-1%) in million EUR	Impact of exchange rate change (+1%) in million EUR	Impact of exchange rate change (-1%) in million EUR
Impact of change - Assets	0,2	-0,2	0,1	-0,1
Impact of change - Liabilities	0,0	0,0	0,0	0,0
Net impact on financial position	**0,2**	**-0,2**	**0,1**	**-0,1**

Since 1 January 2023, the Euro has become the national currency in the Republic of Croatia. Exchange rate changes can, therefore, only affect business transactions related to other currencies in which the Company performed transactions in 2023, but the balance of assets and liabilities in those other currencies at the end of 2023 are of no major material significance.

In relation to the situation on the reporting date, if the exchange rate of the national currency against USD/GBP/CHF were to increase (or weaken) by 1%, assuming that other indicators remain unchanged, according to the Company's assessment, such a change, as a result of gains and losses from exchange rate differences from relations with suppliers, customers, given and received advances and money on business accounts, would not have a significant impact on the balance of total assets and net profit of the reporting period. In that case, the impact on the net result would be around EUR 140,000 (2022: EUR 26,000).

Interest rate risk

Viktor Lenac has not any significant interest generating assets which would be under influence of interest rate changes. On the liabilities side, the long-term investment loan was fully repaid in mid-2023, and other loan liabilities are not significant. A major part of other loans carries a fixed interest rate, therefore, the risk of interest rate changes is materially insignificant with respect to the financial statements. Short-term loans and borrowings received from commercial banks have a high turnover ratio and are negotiated depending on specific production purposes and consequently do not bear significant interest rate risks.

Bearing in mind future investments, which are partly intended to be realized with long-term loans, the current level of interest rates does not favor Viktor Lenac. Higher interest rates reflect the current global financial market, which is why Viktor Lenac should be neither more nor less affected by such interest rate movements compared to other entities on the global market.

Default risk

Default risk is associated with the other party to a contract not meeting its obligations that could produce a monetary loss, primarily referring to trade receivables. The Company uses different payment terms depending on client's financial capability assessment. In case there is a higher payment risk, the objective is to agree payment in full before redelivery. Guarantees and payment security instruments are not usual in shiprepair activities, but Viktor Lenac can exercise its right to arrest a ship in any port in accordance with maritime law, as a mean of recovery. Trade receivables involve many customers, so the payment risk is dispersed. Value adjustments in respect of trade receivables make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus.

Liquidity risk

Liquidity risk aka cash flow risk is related to default risk and 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, which 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 the remaining period until expected maturity date of unliquidated 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 EUR

	Structure of maturity buckets					Total
	up to 1 m	1 – 3 m	3 m - 1 y	1 – 5 y	over 5 y	
Assets, Balance as at 31 December 2023						
With interests	13.328	8	38	4	36	13.414
Interests free	2.663	3.635	5.556	1.136	0	12.990
Total	**15.991**	**3.643**	**5.594**	**1.140**	**36**	**26.404**
Liabilities, Balance as at 31 December 2023						
With interests	516	54	143	263	0	976
Interests free	11.311	4.029	646	108	0	16.094
Total	**11.827**	**4.083**	**789**	**371**	**0**	**17.070**
Net liabilities	**4.164**	**(440)**	**4.805**	**769**	**36**	**9.334**

Fair value

Company calculates the fair value estimate of a financial asset or liability, 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 a financial asset or liability is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Company calculates the fair value estimate based on the publicly disclosed information from external sources or based on the discounted cash flow method if applicable.

It is considered that the book value of receivables/liabilities with less than one year to maturity corresponds to their fair value.

29. POTENTIAL LIABILITIES

As at 31 December 2023, the Company was involved in several disputes which have arisen from its business operations. The Company has already made provisions in their books for such claims in case of unfavourable outcomes (Notes 10 and 26).

As at 31 December 2023, the Company was a defendant in 10 court cases based on which the amount of EUR 1,909,247 (2022: EUR 1,666,454) has been reserved, of which the major case involves a lawsuit that had been filed against the Company for compensation of lost earnings for a period of four business years in the total amount of EUR 1.18 million, in respect of which a provision had been made in 2022. This is a dispute initiated by the provider of water resources management services, after the Company decided not to continue the contract after its initial seven-year duration.

30. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In application of accounting policies, the Company's Management made the 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 shipped or services have been rendered and when the risks and rewards of ownership of goods have been substantively transferred to the customer. In case of partial performance of a contract or services which are rendered, revenue is recognized by reference to the stage of completion of contract activity. 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. Such estimation is made based on contractual obligations, historical trends and experience.

Profit tax

Company recorded a positive financial result for 2023 generating a profit tax liability in the amount of EUR 1,018,938 (2022: EUR 2,637,361). The Company has already paid EUR 827,002 on the account of profit tax advances during 2023 as well as an advance in the amount of EUR 80,994 in January 2024 totalling EUR 907,996 (2022: EUR 496,240), resulting in the amount of EUR 110,942 (2022: EUR 2,141,121) remaining under the 2023 tax obligation (Note 13).

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.

Impairment of inventories

Impairment of inventories is recorded as an expense in the current period, 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 as an expense in the current period.

Provisions for potential liabilities

Company tends to recognize provisions which may result from litigation initiated against the Company which are estimated to lead to an outflow of funds. In estimating such provisions, the Company regularly consults with legal professionals.

31. EVENTS AFTER BALANCE SHEET DATE

At its 23rd meeting, the Company's Supervisory Board appointed members of the Management Board for a new term of office of three years (2024-2027) starting from March 1, 2024. It appointed the previous member of the Management Board, Sandra Uzelac, as President of the Management Board, and a new member of the Management Board, Luka Hrboka, who until then managed sales in the Company. The appointees represent the Company independently and individually.

All significant events are regularly announced by the Company to the public via the Zagreb Stock Exchange.

32. MORTGAGES

Company had 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 multipurpose credit. The pledge right has been registered over the floating dock RI38, and the equipment which was the subject of the finance. The book value of pledged assets amounts to EUR 6,024,767. The balance of liabilities for loans secured by the specified encumbrances as of December 31, 2023 is EUR 308,206.

33. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

Financial statements have been prepared and approved for disclosure by the Company's Management Board on 19 April 2024.

Sandra Uzelac

President of the Management Board

BRODOGRADILIŠTE d.d. VIKTOR LENAC 1896 Kastavska, Martinscica 8 2

Luka Hrboka

Member of the Management Board

MANAGEMENT REPORT

2023

April 2024

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FOREWORD

Management Board of the Shipyard "Viktor Lenac", a joint stock company, presents its Management Report 2023 to all interested parties and the entire public. The Management Report 2023 provides readers insight into the Company's business and financial performance for the year. It includes the audited 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 Management Report, the Corporate Governance rules applied by the Company are described. For the sake of protecting confidential business information, certain data are presented as trends and movements without providing more detailed numerical or financial data.

Management Report in Croatian and English

Management Report 2023, including its enclosures, has been issued in Croatian as the official language and is also available in English to foreign readers. The Management Report is presented to the Company's shareholders at the General Assembly and is published on the Company's website.

Legal Form

Pursuant to Articles 250a and 250b of the Companies Act, Annual Financial Statements and Management Report shall be submitted to the General Assembly with this document, and Supervisory Board's Report on the Performed Supervision of the Company's Business shall be submitted 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.

Management Report 2023 has been made pursuant to Article 21 of the Accounting Act to give an objective assessment of the Company's business and financial performance and development, as well as other information of crucial importance for the Company. Pursuant to the provisions of Article 21a of the Accounting Act, the Company is under no obligation to issue a separate non-financial statement, however, the Management Report 2023 also includes some significant non-financial information that can contribute to the understanding of the Company's performance and development.

Subsidiary Company, Consolidation Accounting

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 Management 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 Management Report focuses on business performance of the Parent Company - Shipyard "Viktor Lenac".

Abbreviations

In the Management 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 for years before 2023

When converting the amounts expressed in HRK for 2022 and earlier years into the euro currency, the exchange rate of 7.5345 was used.

ADDRESS TO SHAREHOLDERS



Sandra Uzelac
President of the Management Board



Luka Hrboka
Member of the Management Board

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

Despite a very demanding and complex global environment, contributing to unpredictability in the maritime freight transport market and related shipbuilding and shiprepair market, we are pleased to share with you that we have achieved one more successful year in our business.

The 2023 sales revenue exceeded 70 million euros, reaching one of the best levels in the past two decades, right next to last year's record results. Such result was attained even with Dock 11, our most important shiprepair facility, out of operation for the entire second half of the year due to extensive renovation to extend its useful life aimed at ensuring our capacity and maintaining sustainable development to continuously and successfully deliver projects in the future. Dock 11 renovation, which is partly carried out in the neighboring shipyard, and partly at Viktor Lenac, generated additional income deriving from investment of our own funds, increasing its value, so that the reported total revenues for 2023 are even higher.

Replacement of our national currency, the kuna, with the euro as the official currency on January 1, 2023 and Croatia's entry into the Schengen area facilitated our business processes and relations with client representatives, but on the other hand, it also facilitated further labor migration to the countries of Western Europe. The outflow of quality domestic labour was additionally influenced by the rise in prices and the drop in living standards, which in Croatia in the last two years was one of the most pronounced in the European Union. This affects the ease of the process, leads to an increase in labour costs, increases turnover and makes it difficult to integrate new workers, and often in a dynamic and oscillating industry, it is not easy to secure additional labour in a short period. Although material and energy make up a smaller share of production resources, disruptions in supply chains and the impact of inflation marked 2023 as well.

Notwithstanding challenges in the resource market, primarily the labour market, Viktor Lenac has successfully completed all projects, and continues the ongoing ones in accordance with the planned dynamics. Therefore, we believe that we have once again shown our clients our quality, commitment, and flexibility, and we use this opportunity to thank everyone for their trust and exceptional cooperation.

The 2023 net profit in the amount of EUR 4.7 million, increased by the non-monetary expense of depreciation, provided sufficient own funds for the implementation of the planned investment in Dock 11, which, together with last year's accumulated results, will ensure the continuation and the most important investment for us. Returning Dock 11 to operational use is imperative, enabling wider coverage of the market and accommodation of larger and heavier ships, thus ensuring stable occupancy rates and sustainable business in the coming years.

We believe that we will continue to achieve good business results, protecting our environment and people, nurturing our corporate values of transparency and ethics and prudence in use of valuable and limited resources. We entered 2024 with plans to digitize business processes and replace the existing business information system with a new modern solution, aimed at developing the organization and increasing its efficiency. We are also preparing for the implementation of Corporate Sustainability Reporting Directive and ESG Data Management using the new ERP system. The new directive requires Viktor Lenac to report on sustainability and environmental, social and governance (ESG) issues from 2025 on, however, the policies and principles of socially responsible business have been incorporated in our management strategy for a long time.

The goal of responsible business is to harmonize the divergent interests of all the stakeholders, shareholders, clients, suppliers and subcontractors, employees, banks, state institutions and the local community, and we will continue to strive for the benefit of all.

KEY FINANCIAL FIGURES

Consolidated Financial Figures

000 euro

	2023	2022	Index
Total Revenues	**87.779**	85.764	1,02
Total Expenses	**81.992**	77.662	1,06
Operating Revenues	**87.683**	85.282	1,03
Operating Expenses	**81.537**	77.570	1,05
Operating Profit	**6.146**	7.712	0,80
Profit before Tax	**5.787**	8.102	0,71
Net Operating Profit	**4.729**	5.451	0,87
Total Assets	**71.184**	72.086	0,99
Equity and reserves	**50.009**	45.288	1,05

The Company's subsidiary VL Steel d.o.o., a limited liability company generated a net profit in the amount of EUR 13,000, of which 75% was attributed to the Group, whereas 25% involved minority interest of a third party. It follows that the business result achieved by the subsidiary did not materially affect the business result of the Parent Company or the Group as a whole.



Non-Consolidated Financial Figures

000 euro

	2023	2022	Index
Total Revenues	**86.836**	85.581	1,01
Total Expenses	**81.065**	77.598	1,04
Operating Revenues	**86.741**	85.099	1,02
Operating Expenses	**80.610**	77.508	1,04
Operating Profit	**6.131**	7.591	0,81
Profit before Tax	**5.771**	7.983	0,72
Net Operating Profit	**4.716**	5.342	0,88
Total Assets	**70.855**	71.917	0,99
Equity and reserves	**49.878**	45.170	1,10

Consolidated comprehensive income statement and statement of financial position include Company's subsidiary VL Steel d.o.o. in which the Company holds a 75% equity interest. Throughout the entire 2023, the subsidiary was providing services in shipbuilding and related metal processing activities.

Considering that the subsidiary provides most of its services to the Parent Company, there is no material difference in the revenue of the Parent Company or the Group, nor in the financial position, as the assets belong almost entirely to the Parent Company.

Accordingly, the Management Report 2023 shall focus on the financial position, assets, liabilities and equity of the Parent Company.



MARKET, CLIENTS, COMPETITION

Viktor Lenac provides most of its ship repair services to clients whose vessels navigate the maritime shipping routes in the Mediterranean. Even though it is far from the major maritime shipping routes, which due to deviation costs that clients may bear, puts it in a less favorable position compared to its competitors in the Mediterranean and the Black Sea, Viktor Lenac achieved standard good occupancy rates in 2023. The interest of shipowners remained high during the entire year.



Freight rates remained at a similar level as in previous years, although they were subject to fluctuations during the year, enabling shipowners to maintain their financial strength, resulting in a standard number of docking inquiries for maintenance and renewal of their fleets throughout the year. In the last months of 2023, the world's maritime market was focused on the events in the area around the Red Sea. Due to attacks on merchant fleets, shipowners redirected their maritime shipping routes around the Cape of Good Hope along the west coast of Africa instead of the Suez Canal resulting in a decrease in the number of ships navigating in the Mediterranean, in other words, a decrease in opportunities for Viktor Lenac, but this did not have a major impact on the occupancy rate.

During 2023, the Shipyard cooperated with 28 different clients from 11 countries. Although a smaller number of projects were realized than in previous years, which is a consequence of putting Dock 11 out of operation due to its renovation, the dispersion of the market remained almost the same as in previous years.

Market dispersion

	2020			2021			2022			2023		
	Number of projects	Number of clients	Number of countries	Number of projects	Number of clients	Number of countries	Number of projects	Number of clients	Number of countries	Number of projects	Number of clients	Number of countries
Total	70	42	16	61	33	14	63	31	10	55	28	11
Domestic market	13	5	1	19	5	1	15	5	1	20	7	1
Foreign market	52	36	14	34	27	12	35	25	8	23	20	9
US Navy	5	1	1	8	1	1	13	1	1	12	1	1

Market risks

Our revenue performance is influenced by global market trends, particularly global maritime trends, which determine supply and demand for shipping space, as well as freight rates, and thus financial strength of shipowners, their possibilities and needs for maintenance of their fleet or conversion of their ships. Cyclical changes in the shipping market and its volatility, which have a spillover effect on the shiprepair market, are difficult to predict, but past experiences in economic crisis reveal that there is always enough ships within reach that need shiprepair services.

Geopolitical developments can affect displacement of maritime shipping routes, such as current events in the area around the Red Sea, which can have an impact on shiprepair activities in an environment that is close to Viktor Lenac.

Its geographical position, far from the major maritime shipping routes in the Mediterranean, is a complicating factor for Viktor Lenac, and Turkish shipyards are the biggest competitors, both in terms of price and geographical position.

The increase in navigation activities in the immediate vicinity of Viktor Lenac, which is associated with the nearby LNG terminal and the future new container terminal in the port of Rijeka, increases the potential of Viktor Lenac and to be able to use is it is necessary to invest in a floating dock of adequate size and capacity.

Viktor Lenac generates its sales revenue by providing its services to many different clients from different countries, so there is no significant concentration of risk that the termination of cooperation with some of the clients could lead to a greater negative impact on the Company's business and its total revenue from the core activity. This does not apply in the case of cooperation with the US Navy, which accounts for a significant share of the Company's revenue.



SALES REVENUE

The revenues from sale generated from the core activities during 2023 recorded one of the highest levels achieved by Viktor Lenac in the past ten years. One of the reasons behind this result is the continuation of a passenger yacht renovation project involving extensive scope of installation of material, equipment and performance of specialized furnishing services so that the revenues and expenses generated from that project led to an increase in the total operating revenues and expenses. In the first quarter was completed a conversion of a RO-RO ship into RO-PAX, which had started in 2022, involving construction of a new superstructure for passenger accommodation.

Operating revenue (000 EUR) and number of projects



US Navy repair and maintenance projects participated with a standard high share in the total sales 2023 revenue, including several voyage repair projects carried out at external locations.

Of the total 55 projects from which the Company generated its sales revenue in 2023, nine projects were contracted and started in the previous year, 40 projects were contracted and completed in full during the year, and six of them were started at the end of 2023 and continued in the first quarter of 2024.

Revenues from domestic and foreign markets



The revenue generated from sale of services in the core activities to foreign countries recorded a share of as much as 93%. Although the revenue generated from sales to domestic clients recorded a growth of just over 2%, the absolute increase in revenues generated from the domestic market amounted to almost 30%. Part of this growth is the result of an increase in the number of projects realized in the domestic market in 2023, although part of it also lies in the general increase in prices.



Default risks

Greater dispersion in terms of the number of clients and the number of countries from which these clients and projects come, greatly reduces Viktor Lenac's default risks, or the risk of uncollectible receivables.

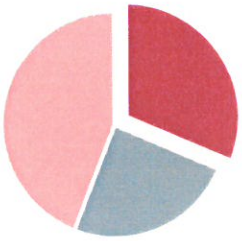
Shiprepair projects, their contracting, execution and collection stages have a significantly faster turnover than newbuilding projects. Although some ship conversion and refit projects can extend over several years, as a rule, their partial completion is accompanied by partial or phased payment, which also has a default risk reducing effect.

LABOUR RESOURCES

The Shipyard's main activity belongs to the group of labour-intensive production processes, where labour costs are the largest component, involving both own workers and hired subcontractors.

On the account of conversion projects and a passenger yacht refit project, which were carried out during 2022 and 2023, external resources or services provided outside the Shipyard significantly increased. The unusually high amount of costs relating to material and external services was also due to the renovation of the Shipyard's floating Dock 11, where the Company procured necessary material and equipment, and entrusted the construction of new pontoons to the neighboring shipyard "3.maj".

Direct production resources 2023



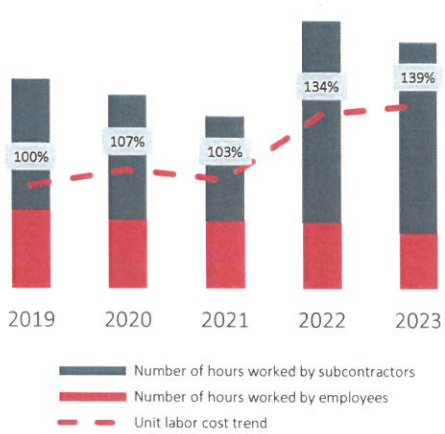
- Direct labor costs
- Direct material costs
- Direct third party services

Given the oscillatory nature of the Shipyard's activities and different levels of needs for labour capacity of different trades, and depending on occupancy rate and core project structure, Viktor Lenac uses subcontractor workforce in its production processes, which is the standard practice in the shipbuilding industry.

Subcontractors are primarily hired in the domestic market in the surroundings of the Shipyard, and if necessary, the Company also hires workers or subcontractor companies from other European countries. Although an increasing number of foreign workers, including workers from third countries, is used in the production processes, Viktor Lenac is not a direct importer of foreign workers, but uses them through subcontractors.
Inflationary trends in Croatia and in other countries of the European Union, along with the lack of labour and the import of foreign workers, have resulted in a significant increase in the cost of labour in the last two years.

Compared to the pre-pandemic 2019, today's cost of labour is on average about 40% higher and has a tendency to increase. This is especially noticeable among skilled shipbuilding workers or specialists, but growth is also evident among other auxiliary occupations and occupations with lower qualifications. Part of these costs can be compensated by increasing sales prices, but it is certain that the increased labour costs will have to be partially compensated by increased efficiency and productivity.

Hours worked employees vs. subcontractors





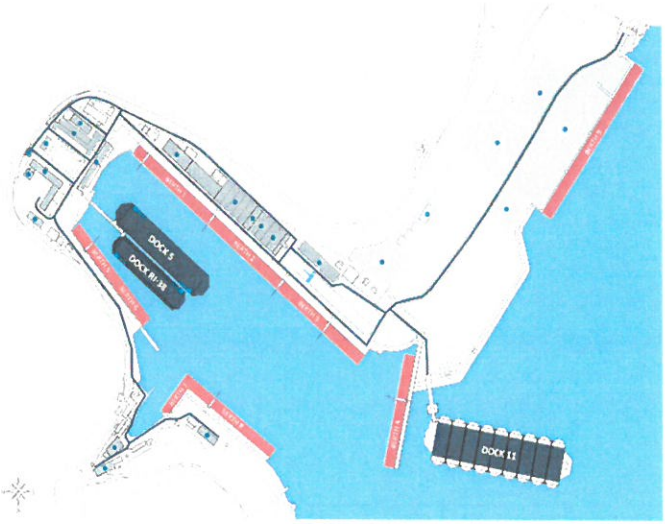
Labour risks

The labor-intensive production activity of Viktor Lenac is influenced by factors in the immediate environment and in Croatia, which primarily include availability of quality labour, and in connection with this, the cost of labour. Inflationary trends during 2022 and even during 2023 exerted additional pressure, which inevitably led to an increase in labour costs. Such pressures represent price risks in future business as well, since not all of Viktor Lenac's competitors are under the same inflationary pressures, especially when considering workers' salaries, and the structure of consumption in Croatia with an impact on workers' living standards. With the increase in the cost of labour, Viktor Lenac may lose its price advantage over competitors from other Mediterranean countries of the European Union, and without correcting the cost of labour, it may be faced with the risks of a further outflow of higher quality labour to the countries of the European Union.

KEY ASSETS

Viktor Lenac occupies 220,000 square meters of land and 440,000 square meters of sea area, which it uses based on a maritime property concession agreement. The area includes a total of 1,500 meters of shore accommodating 9 berths. The main berths 1-3 lay next to the workshops and are used for mooring of ships undergoing repairs.

The Company's most important assets for carrying out ship repair and conversion activities are three floating docks, of which Dock 11 is the most significant in terms of size and lifting capacity.



In the middle of 2023, a deep renovation of Dock 11 began, aimed at restoring the dock operation capability at a carrying capacity of 40,000 tons. The dock lost its tonnage certificate due to age and wear of its steel structure. The value of the investment in this stage, planned for the period 2023-2024, is around 25 million euros, and includes the construction of two new pontoons that will replace the two existing ones and the partial repair of the steel structure of the towers and remaining pontoons, which are not intended for a complete renewal. The construction of new pontoons has been entrusted to the 3.maj shipyard, whereas the remaining works are being carried out by Viktor Lenac using its own capacities.

After replacing the pontoons with newly built ones, it is planned to continue the renovation work, successively, with the aim of further increasing the dock lifting capacity and accommodating heavier ships. Such significant investment is necessary to be able to maintain a competitive position and stable occupancy rates. There is really no alternative to the Company's investment in dock renovation. Building a brand new dock, which would significantly exceed the value of 100 million euros, is financially unattainable for Viktor Lenac, while there are no used docks of this size available in the market, and even if there were, it is certain that it would not be possible to complete such a financial package. Since Viktor Lenac carries out its activity on maritime property, it does not have assets that would serve as sufficient insurance for a significant credit debt with commercial banks, not even with the state development bank. Therefore, Viktor Lenac will have to secure the larger part of the planned investment with its own funds and in the dynamics in which the available funds will enable this. The gradual way of renovating Dock 11 with the aim of extending its useful life is, therefore, optimal under the given circumstances.

The biggest help and support was the decision of the majority shareholder, Palumbo Group to use all the profits that Viktor Lenac earned in previous years for development and further sustainability of business.

During 2023, in addition to the investment in Dock 11, Viktor Lenac continued to invest in various production and business equipment and tools, of which it is necessary to highlight the purchase of a new water and plasma cutting pantograph for steel and aluminum, the additional equipment for the quick stage scaffolding system, and the investment into transition from the voltage level of 10 kV to 20 kV voltage level that was split between Viktor Lenac and the distribution system operator in accordance with the rules of the Croatian Energy Regulatory Agency.

Total investments made during 2023 in fixed assets amounted to over 15 million euros, of which more than 85% referred to Dock 11.

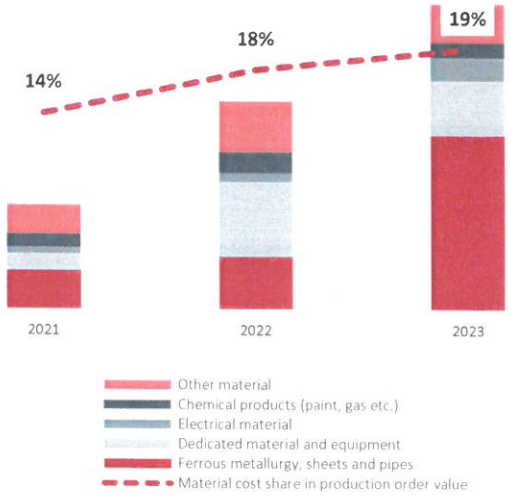
Risks associated with investment in Dock 11

Considering that revenues generated from projects involving works carried out onboard ships accommodated in Dock 11 can make up about a third of the standard revenue, or the gross margin achieved by shiprepair activities, the impossibility of completing the investment in the long run due to lack of financing or other reasons, or having Dock 11 out of operational use, represents a risk of reducing competitiveness, revenue and financial performance and business results. Lasting impossibility to keep a Suezmax-sized dock in operational use represents a risk of generating losses on a more permanent basis, in which case the Company would be forced to drastically reduce its capacities, primarily labour, since non productive work and unused labour potential represents the most significant fixed cost.



MATERIAL AND ENERGY

Material cost trends



Considering that the Shipyard's activity belongs to the group of labor-intensive production processes, the share of material and energy-generating products in the total resources is not primary. The material cost in the operating revenues, or the value of production orders that generate material costs, is around 15%. A slightly higher share that was recorded in 2023 (as in the year before) derived from the conversion and refit projects characterized by a higher share of equipment that is incorporated in such projects. In 2023, increased material consumption was due to the investment in Dock 11, revealing a growth in the group of ferrous metallurgy.

Material and equipment are mostly purchased in the domestic market. Imported material and equipment are specific goods that are not available in the domestic market, or involve orders of larger quantities, as was the case with the procurement of steel for the renovation of Dock 11, so it was more profitable for Viktor Lenac to order directly from foreign manufacturers. The share of material and equipment purchased during 2023 outside Croatia was about 58% of the total material and equipment purchased, in contrast to 2021 when 60% of the material was purchased in Croatia.

The most important energy resources that Viktor Lenac uses in its production processes are electricity and water, the consumption of which varies depending on the scope of production activities, as well as the number of ships and the length of their stay in the Shipyard. Ships use shore connection and electricity used for ship's systems accounted for about a half of the total electricity consumed. In 2023, out of the 13.6 million gWh of electricity, 6.8 million gWh were used for supply of ships, or exactly 50% of the total electricity consumed, and a similar relationship was in the previous year. In 2023, electricity had a share of 84% in the energy resource cost, and other energy costs included fresh water (6%), oxygen and acetylene, process water and fuel oil.

Energy resource management is part of the Shipyard's energy efficiency system certified in accordance with ISO 50001.

		2021	2022	2023
Electric power	kWh	10.364.145	15.335.316	13.580.637
Electric power (ship supply excluded)	*kWh*	*6.234.855*	*7.271.715*	*6.799.103*
Fresh water	m^3	40.154	64.303	76.904
Process water	m^3	103.117	265.233	186.309
Oxygen and acetylene	kg	467.396	456.610	450.132
FOEL	kg	168.045	162.020	130.040



Risks associated with material and energy

Considering that material and energy-generating products make up a smaller share in the total resource structure of the core activity, the financial risks of price changes are not considered more significant for the overall business, and in addition, they have a similar effect on the competition. In shiprepair as an activity with a relatively fast turnover, lasting disturbances in prices can be incorporated into sales prices. The lack of material in the market also does not lead to a higher risk of disruption in the realization of projects, since Viktor Lenac keeps a certain amount of standard material as a warehouse stock, and specific consumables or spare parts for ships are often delivered or supplied by the clients.

ORGANIZATION AND INFORMATION SYSTEM

Continuous analysis and optimization of Viktor Lenac's business processes is aimed at increasing operational efficiency, eliminating redundant steps and any misunderstandings between line and project management, and speeding up business growth. The Company's organizational structure consists of four main sectors: Marketing and Sales; Technical and Production; Economic, General and Legal Affairs; and ICT, Management Systems and Corporate Security. The sectors are further divided into smaller organizational units.

Performance of business processes is supervised through systematic internal assessments. Any observed non-conformities are recorded, analyzed, and corrected through a documented and digitized system that covers Quality Management (ISO 9001), Information Security (ISO/IEC 27001), Occupational Safety and Health (ISO 45001) and Energy Efficiency (ISO 50001). Management systems are regularly subject to internal and external assessments by certification bodies as well as clients. The internationally recognized certificates confirm Viktor Lenac's focus on a systematic and structured approach to business, ensuring high quality standards and reliability, which is extremely important for the start of any negotiations with clients.

Information system development is closely related to organizational development and represents a key tool for automating business activities and processes. Plans have been made for the digitization of business processes, the replacement of outdated information infrastructure with a new one, the replacement of the existing ERP system with a more modern solution, and the education and familiarization of the Shipyard's ICT system users with possible threats arising from the digital transformation of business.

The project of replacing the existing ERP system was launched at the end of 2023, with the engagement of a renowned consulting company, whose task is to, in cooperation with Viktor Lenac's IT experts as well as the owners of the business processes, describe the necessary functionalities and propose the optimal ERP solution on which Viktor Lenac will base its business in the future. The creation of the functional specification, the implementation of the tender, and the selection of the best solution are expected to be carried out during 2024, and the entire implementation to be completed in the first half of 2025. The new ERP solution will also include the functionalities necessary for the implementation of the CSRD directive since Viktor Lenac becomes liable for non-financial reporting in accordance with ESRS standards for 2025.



Information security and data protection is extremely important in IT support for the continuity of the Shipyard's operations. At the end of 2023, a new EDR/XDR solution was successfully implemented, which improved protection against threats caused by malicious programs. The plan for 2024 is to procure new servers and a new version of the existing virtualization platform, which would increase system performance and reduce risks associated with ensuring business continuity from the aspect of providing information services.



Risks associated with information system

The digitization of business processes and the development of the information system can lead to an increase in the risk of cyber threats and breaches of data security. In order to prevent such risks, adequate user education for the proper use of information systems and raising user awareness of cyber threats is important, in order to minimize errors in the use of ICT resources, and thus security failures. The process of replacing the existing ERP system and procurement of ICT equipment and platforms could be subject to delays or insufficiently fast integration with growing business processes, which would have a negative impact on the continuity of information business. However, these risks are not assessed as high in terms of their impact on the continuity and sustainability of Viktor Lenac's business.

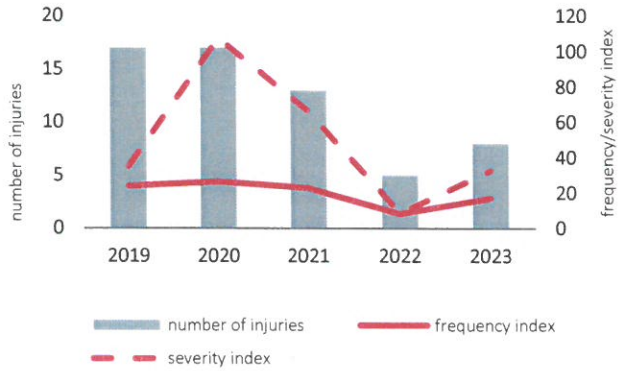
ENVIRONMENT, OCCUPATIONAL SAFETY AND HEALTH

By its nature, shiprepair activity inherently carries a higher risk of work-related injuries. By implementing various educational and regulatory measures and preventive and corrective actions, the Shipyard seeks to reduce the risk of injury and accident at work. The Shipyard has adopted Occupational Safety and Health System according to ISO 45001. The OSH measures and activities are mandatory both for own employees and subcontractors.

The number of work-related injuries, as well as the indices of injury frequency and severity of injuries, have been on a downward trend for several years. In 2023, there were a total of eight injuries at work, of which two were more serious, measured by the number of lost working days, although they were minor in terms of type of injuries. Unfortunately, after more than ten years without fatal injuries, in March 2023 a fatal accident case was recorded in which a worker of Viktor Lenac died.

Most of the injuries are caused by failing to comply with safety at work rules, which is why the greatest attention will be paid to the training of workers and managers to work in a safe manner in the coming periods.

Work-related injuries 2019-2023



An important segment in Viktor Lenac's safety system is fire protection, which is carried out through preventive activities and operational readiness for firefighting interventions. In accordance with the fire risk assessment and related regulations, Viktor Lenac employs professional firefighters organized in a professional fire department, equipped with vehicles and fire safety equipment.

For all works performed with an open flame, such as welding, cutting, grinding and other similar works, there is an obligation to carry out preliminary preventive inspection of the work site to issue permits for the execution of hot works. A total of 12,000 permits for hot or open flame works were issued throughout 2023. A total of 213 gas-free certificates were issued to remove any fire risks when entering tanks or other narrow, dangerous, and closed spaces.

Environmental protection is aimed at reducing harmful effects that the Shipyard's activities may have on the environment and its stakeholders. This primarily means managing waste and emissions in an environmentally sustainable manner, which has been the focus of Viktor Lenac for many years.

By having invested in energy-efficient equipment and plants to eliminate or significantly reduce use of diesel fuel, the Shipyard has managed to maintain all emissions of harmful gases (SO2, NO2, CO, CO2 and PM10 particles) below the prescribed limit values for many years, and so even throughout 2023.

In 2023, a total of about 4,500 tons of waste was generated or received and disposed of through authorized companies, of which about 1,340 tons referred to waste generated onboard ships, and the remaining 3,160 tons were waste generated in the Shipyard's production processes. Of the total amount of waste, about three quarters referred to non-hazardous waste, and one quarter was classified as hazardous waste. Compared to the previous year, the quantity of waste decreased by about 2,000 tons, mainly involving waste generated onboard ships.



Risks associated with occupational safety and health

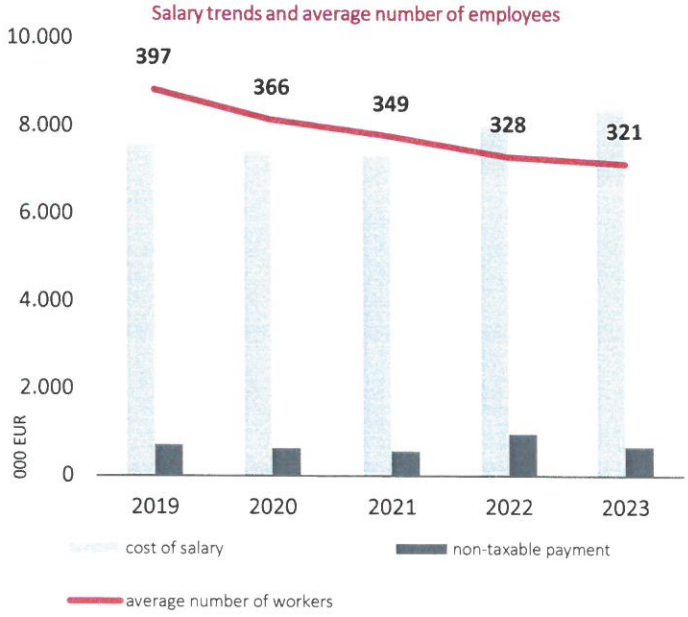
Occupational safety and health risks represent significant risks in the Shipyard's operations, since a significant part of production activities takes place in open space, at heights, onboard ship and in workshop areas where there is a risk of injury to workers. The risk of work-related injuries tends to increase with labour market fluctuations, especially with the increasing influx of foreign labour, where primarily language barriers and different attitudes towards safety measures at work additionally require increased engagement to protect the life and health of all persons participating in production activities. Recently, the lack of qualified and trained workers has also been pronounced in fire protection activities, and due to national regulations, firefighter vacancies can only be filled by employing professional firefighters who are Croatian citizens.

EMPLOYEES, COMPENSATION AND BENEFITS

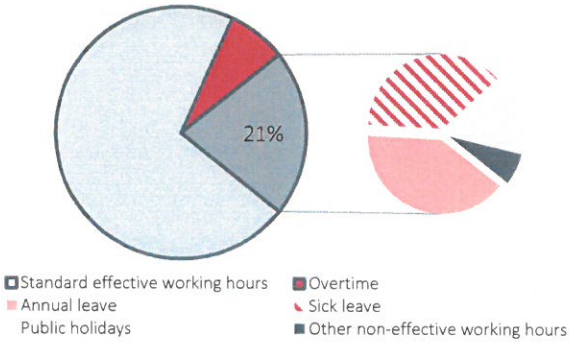
At the end of 2023, Viktor Lenac had 317 employees, down by 6 compared to the end of 2022, including 54 workers employed by its subsidiary VL Steel d.o.o. (up by 11 compared to the end of 2022).

There was a total of 134 direct production workers, and a total of 112 in production overhead. The remaining employees include qualified staff carrying out tasks and duties related to production and other business processes, as well as managers of all levels. Of 54 employees at the subsidiary, 50 are direct production workers.
Of the total employed people at Viktor Lenac, 21 were women (only one woman at the subsidiary), which is not surprising considering it is a metal processing industry. Gender equality is a principle that has been respected for many years. The salary system is determined by the job position systematization system. Of the total number of men, slightly less than 10% of them were holding managerial positions of all levels, whereas women participated with a three times higher share, or out of a total of 22 women in the Group, 7 of them we holding managerial positions.

Salary trends and average number of employees



2023 Effective working hour structure



The 2023 salaries and non-taxable payments amounted to 9.1 million euros, which is an increase of 1% compared to 2022, or 15% compared to 2021. However, when taking into account the decrease in the average number of workers, or salary per hour, in 2023 the net hourly salary was 8.3% higher compared to 2022, or 22.2% higher compared to the pre-inflationary 2021. This means that the real wage growth was higher than the consumer price index increase, observed for the period 2022-2023, which compensated for the workers' purchasing power decrease.

Of the total available working hours, effective working hours accounted for 76% of the 2023 standard working hours, and after adding overtime, the total effective working hours accounted for almost 80% of the total hours worked. The share of used annual leave was slightly higher compared to the previous year. Of the total sick leave hours (57,600), almost two-thirds involved long-term sick leave at the expense of the Croatian Institute for Health Insurance funds. These hours include maternity and parental leave. The right to parental leave is increasingly being used by Viktor Lenac's male employees as well.

All important issues related to employees, their rights and benefits are resolved through a social partnership between the Management and Heads of Departments, and workers' representatives, organized through the Workers' Council and two Unions operating in the Shipyard. Social dialogue has been at a very high level for many years, and could serve as a model of how, with mutual understanding and respect, understanding of circumstances and mutual will and readiness for dialogue, the social partners can agree and find compromise solutions in the interest of all side, having before them a common goal, and that is the growth and stability of Viktor Lenac and well-being of employees.
All rights and obligations from the Collective Agreement have been fulfilled in full, both by the Management and by the Unions. The collective agreement regulates working hours, break time, annual leave, salaries and benefits, non-taxable allowances and occasional payments, freedom of association and other topics important for the position of workers.

Risks associated with employees

Choosing the optimal number and structure of own employees means balancing between the needs of an often oscillating activity and the need to reduce fixed labour costs, which tend to increase at low labour utilization rate in business functions. The risk of further migration of highly qualified workers and specialists to competitive foreign countries can negatively affect the work quality, so the major approach to reducing this risk and mitigating negative consequences of the outflow of qualified staff will certainly include further increase in wages and other material and non-material benefits, taking care to prevent cost overrun.


ASSOL
JADROLINIJA

FINANCIAL PERFORMANCE

000 EUR

	Parent company			Group			Influence of subsidiary's result on the Group's 2023 result
	2022	2023	2023 /2022	2022	2023	2023 /2022	
Sales revenue	82.178	70.751	86,1%	82.368	71.694	87,0%	1,3%
Revenues received from investment with own funds	351	14.372	4094,6%	351	14.372	4094,6%	0,0%
Other operating revenues	2.570	1.618	63,0%	2.563	1.617	63,1%	0,1%
Total operating revenue	**85.099**	**86.741**	**101,9%**	**85.282**	**87.683**	**102,8%**	1,1%
Financial income	481	95	19,8%	482	96	19,9%	1,0%
Total revenue	**85.580**	**86.836**	**101,5%**	**85.764**	**87.779**	**102,3%**	1,1%
Material cost	53.006	63.156	119,1%	51.791	62.195	120,1%	1,5%
Salaries	8.013	8.391	104,7%	9.075	9.901	109,1%	15,3%
Depreciation	11.686	6.480	55,5%	11.694	6.497	55,6%	0,3%
Other expenses	4.803	2.583	53,8%	5.010	2.944	58,8%	12,3%
Total operating expense	**77.508**	**80.610**	**104,0%**	**77.570**	**81.537**	**105,1%**	1,1%
Financial expense	90	455	505,6%	92	455	494,6%	0,0%
Total expense	**77.598**	**81.065**	**104,5%**	**77.662**	**81.992**	**105,6%**	1,1%
Profit before tax	**7.982**	**5.771**	**72,3%**	**8.102**	**5.787**	**71,4%**	0,3%
Profit tax	2.640	1.055	40,0%	2.651	1.058	39,9%	0,3%
Net result	**5.342**	**4.716**	**88,3%**	**5.451**	**4.729**	**86,8%**	0,3%

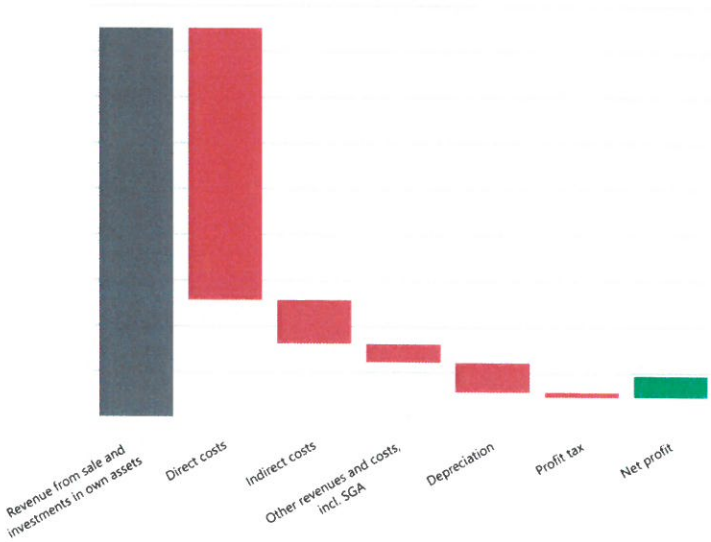
A comparative presentation of the revenues and expenses generated by the Group, or Parent company, indicates that the influence of the only subsidiary VL Steel d.o.o. on the results of the Group is without material significance, considering that subsidiary's revenues and expenses, except for costs related to workers, have an impact on the Group's result of only about 1%. This indicates that the subsidiary provides its services in the market through the Parent company, and the labour-related costs, have a slightly bigger impact, considering that the employees of the subsidiary make up 15% of the total employees of the Group.

The total 2023 revenue generated by the Parent company amounted to 87 million euros, or 88 million euros at the Group level. Although the 2023 revenues are even slightly higher than the revenues generated in 2022, their structure is different. The sales revenues, or revenues generated from the core activities decreased by more than 10 million euros. On the other hand, revenues from investment with own funds increased by 14 million euros compared to 2022 when they recorded a very small amount.

The investment in the renovation of the floating Dock 11 and putting it out of operation in the middle of 2023 was the main reason for a decline in the sales 2023 revenue compared to the previous year. However, the sales 2023 revenues are still one of the highest achieved, and the reason for this lies in the significant level of revenue generated from passenger ship conversion and refit projects, the standard high level of revenue from shiprepair of military ships and the year-round utilization of capacities for shiprepair of commercial ships. Other operating revenues decreased by slightly less than one million euros compared to the previous year, in which almost half of other operating revenues involved collection of previously corrected receivables.

Of the total material cost, salary cost and other costs, 80% related to direct production costs, and only about 20% represented relatively fixed indirect costs and general and administrative costs. Normally, the share of general and administrative, and indirect costs is higher, but due to their relatively fixed character, as well as high occupancy rate and direct, especially external costs, the overhead cost represented only one fifth of monetary expenditures.

Revenue and expense, 2023



The 2023 production resources recorded higher share in the material and equipment costs, including external specialized services, so the capacity utilization load was lower than in the previous year. For this reason, depreciation was calculated in a smaller amount than last year, when it was applied accelerated, and part of the property was fully depreciated. The Shipyard's floating docks are the assets with the highest unamortized value.

000 EUR

	Parent company			Group			Influence of subsidiary's result on the Group's 2023 result
	2022	2023	2023 /2022	2022	2023	2023 /2022	
Fixed assets	28.112	36.132	128,5%	28.124	36.182	128,7%	0,1%
Short-term assets	43.805	34.723	79,3%	43.962	35.002	79,6%	0,8%
Long-term assets	2.827	2.728	96,5%	2.831	2.747	97,0%	0,7%
Short-term liabilities	23.920	18.249	76,3%	23.967	18.428	76,9%	1,0%
Equity and reserves	45.170	49.878	110,4%	45.288	50.009	110,4%	0,3%
Total asset/resource	**71.917**	**70.855**	**98,5%**	**72.086**	**71.184**	**98,7%**	0,5%

The Company's assets as at the end of 2023 amounted to about 71 million euros. The influence of the subsidiary on the Group's financial position is only about 0.5%.

Compared to the previous year, the total amount of funds decreased only slightly, but there was a change in the structure of assets. Long-term assets were increased by investments, primarily in Dock 11, and short-term assets were reduced in total, whereby compared to the end of the previous year, there were less cash and accruals, and slightly increased receivables for advances and receivables from the state. On the short-term liability side, which are in total less compared to the end of the previous year, there is an increase in accrued liabilities on the deferred income item, and a decrease in liabilities for advances received, liabilities to banks and, to a lesser extent, liabilities to suppliers.

Funds for investment in the renovation of Dock 11 have been secured from the 2023 net profit, increased by non-monetary depreciation expenses. Throughout 2023 the investment was entirely financed with the Company's funds. Although Viktor Lenac planned to finance a part of the investment with credit funds, due to insufficient collateral that would cover the debt, the credit arrangement has not yet been realized. Specifically, without significant property or other suitable assets to secure loans as required by financial institutions and the state development bank, Viktor Lenac has difficulty in obtaining significant credit funds. The Company could borrow several million euros from its business bank, but since the Company managed to realize the previous investment with its own funds and maintained liquidity for servicing current liabilities and for continued investments, this possibility of bank debt has not yet been used. The financial strength that Viktor Lenac has acquired for the independent financing of such serious investments, which will exceed 20 million euros in the first stage, reflects capital reserves, which have been increased for the last six years in a row as the largest shareholder Palumbo Group decided not to pay out dividends but increase retained earnings.



Currency, interest rate and other financial risks

Working capital, as the difference between short-term assets and short-term liabilities, with the included amounts of accruals that are closely related to ongoing projects, amounted to 16.5 million euros at the end of 2023, which represents a decrease of 3.4 million euros compared to the end of 2022. The ratio of short-term assets to short-term liabilities was 1.90, and excluding material stocks as a slower cashable asset, this ratio was 1.33. Owner's equity at the end of 2023 was 2.38 times higher than total liabilities, indicating that Viktor Lenac continues to be financially stable.

Viktor Lenac may be exposed to currency risk when part of its income is in USD currency, but due to the relatively quick turnover from contracting to realization and collection of such deals, this risk does not represent a greater material significance.

Liquidity risk, cash flow risk are associated with default risk and market risk, or fluctuations in capacity utilization. Default risk is minimal due to the dispersion of business among many clients, and by reducing fixed costs, along with continuous monitoring of projected and actual cash flows, measures are taken in advance to minimize liquidity risk. For larger projects that can have a significant impact on outflows, especially in the preparatory phase of projects when there is no inflow from clients, Viktor Lenac reaches for project financing through short-term loans.

Viktor Lenac has no significant interest rate risks since it has neither significant interest-bearing assets nor significant liabilities. In the case of larger debts in the near future, with high interest rates, Viktor Lenac will try to contract mechanisms of protection against changes in interest rates.

CORPORATE GOVERNANCE AND INVESTOR RELATIONS

In accordance with fundamental objectives of successful and growing business and growing of share value for the benefit of its shareholders, Viktor Lenac's Management Board and Supervisory Board have been applying the corporate governance principles to ensure 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.



Trading on the Zagreb Stock Exchange in 2023

- 215 trading days
- Share trading price range:
  - from EUR 2.12 to EUR 4.36 per share
  - average trading price EUR 3.34 per share
- a total of 870,535 shares were traded in 2398 transactions
- total turnover of EUR 2,905,022

Ownership structure as at December 31, 2023

	Number of shares	Percentage of equity
INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./ PALUMBO GROUP S.P.A.	13.781.460	81,97
BRODOGRADILIŠTE VIKTOR LENAC D.D.	825.187	4,91
JADROAGENT D.D.	324.766	1,93
OTHERS (shares of less than 0.5%)	1.881.834	11,19
TOTAL	**16.813.247**	**100,00**

The share capital of the Company amounts to EUR 22,315,014 and is divided in 16.813.247 registered ordinary shares in non-materialized form without nominal value.

The largest individual shareholder of Viktor Lenac is the Italian shipbuilding group Palumbo Group S.p.A. from Naples, which acquired majority of shares in the share capital of Viktor Lenac in 2018.

At the end of 2023, there were as many as 873 small shareholders, with shares of less than 0.5%.

All shares bear the symbol VLEN-R-B and are listed in the regular market of the Zagreb Stock Exchange.

Market capitalization as at December 31, 2023

EUR 57.50 million

VLEN-R-B included in indices:

CROBEX
CROBEXtr
CROBEXplus
CROBEXindustrija

In 2023, the Company's Supervisory Board was composed of the following members: Antonio Palumbo, Francesco Ciaramella, Antonio Gennarelli (until July 14,2023), Vittorio Carratù (until September 14, 2023) and Antonietta Capodanno (from October 26, 2023) as well as Damir Amić as the workers' representative. Antonio Palumbo holds the position of President of the Supervisory Board from October 26, 2023, after the previous president Vittorio Carratù resigned as a member of the Supervisory Board.

The Supervisory Board meets regularly, at least once every three months, when they discuss the financial performance, the position that Viktor Lenac has in the market where it provides its services, business and development plans, key projects and other issues more important for the business and development of the Company. The members of the Supervisory Board, as well as the members of the Audit Committee, regularly personally supervise the management of the Company by the Management Board and senior management, business documentation and business management, and are informed in a timely manner about the course of business and all important plans.

Member of the Management Board Sandra Uzelac owns 1,038 shares of the Company, acquired in 2008, whereas the members of the Supervisory Board, as well as the newly appointed member of the Management Board, have no ownership interest in the Company.

Members of the Supervisory Board are entitled to compensation for their work pursuant to a decision adopted by the General Assembly. Remuneration of members of the Management Board is approved by the Supervisory Board and regulated by employment contracts with individual members.


JADROLINIJA

FOR INFORMATION

Top Management

Bojan Kavazović, Director of Marketing and Sales

Filip Gajski, Director of Technical and Production

Alen Karnjuš, Director of ICT, Management Systems and Corporate Security

Executive Assistant to the Management Board

Karmen Vlastelica Nimčević

Auditor

Iris nova d.o.o. Rijeka

Contact details

Brodogradilište Viktor Lenac d.d. Rijeka, Croatia
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51221 Kostrena

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E-mail: lenac@lenac.hr
URL: http: //www.lenac.hr

Rijeka, April 2024

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, 40/19, 34/22, 114/22, 18/23 and 130/23); Article 22 of the Accounting Act (Official Gazette No. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22 and 82/23), the Management Board of the Shipyard "Viktor Lenac" d.d. Rijeka, headquarted at Martinšćica 8, Kostrena, Croatia (hereinafter referred to as the 'Company'), on April 15, 2024, makes the following

STATEMENT
of Compliance with 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. Throughout 2023, 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, except for 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, 6.54% are female. One woman is represented in the Company's Management Board as solely only member of the Management Board. Also, Antonietta Capodanno was elected to the Company's Supervisory Board for a term of 4 years starting from October 26, 2023.
- All members of the Audit Committee were also members of the Supervisory Board, in which case the Audit Committee 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.
- Supervisory Board has not yet established a Reward Committee because there was no need for such type of Committee yet.
- 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 the existing method of participation and voting has been confirmed in practice as an optimal solution, largely due to more shareholders with fewer shares. The Company's Articles of Association prescribes a 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'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 Management Report, which is presented to the General Assembly.

5. 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.

Iris Nova d.o.o. from Rijeka was approved appointed auditor of the Company for 2023 at the General Assembly held on 29 June 2023.

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.

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 2023, ten largest shareholders were the following ones:

	Shareholder	Number of Shares	Percentage of Equity
1	INTERKAPITAL VRIJEDNOSNI PAPIRI D.O.O./PALUMBO GROUP S.P.A. (1/1)	13.781.460	81,97
2	BRODOGRADILIŠTE VIKTOR LENAC D.D. (1/1)	825.187	4,91
3	JADROAGENT D.D. (1/1)	324.766	1,93
4	RAIFFEISENBANK AUSTRIA D.D./ CUSTODIAL ACCOUNT AGGREGATION	74.560	0,44
5	LIST GMBH AUSTRIA (1/1)	45.992	0,27
6	BLAŽEKA BRANKA (1/1)	43.953	0,26
7	OTP BANKA D.D./ OTP INDEX FUND - OPEN-ENDED INVESTMENT FUND WITH PUBLIC OFFERING (1/1)	43.865	0,26
8	PEČAR IVAN (1/1)	37.803	0,22
9	MESSER CROATIA PLIN D.O.O. (1/1)	32.987	0,20
10	Others	1.602.674	9,54
	Total	**16.813.247**	**100**

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.

A shareholder wishing to participate and exercise his or her rights at the General Assembly must register in writing (including by e-mail to ured.uprave@lenac.hr) six days before the day on which the General Assembly is held at the latest, whereby the day of receipt of the application shall not be not included in the deadline and shall be entered in the Share Register of the Central Depository and Clearing Company concluding with the last day for application for participation.

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

7. On the day of 31 December 2023, the Company's Management Board was composed solely of one member, 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 that are regulated by the Company's Articles of Association (acquisition, alienation or encumbrance of property, 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 up to five years.

Supervisory Board of the Company is composed 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 2023, the Company's Supervisory Board was composed of the following members: Vittorio Carratu as President of the Supervisory Board until September 14, 2023 when he resigned for personal reasons, replaced by Antonio Palumbo as the new President of the Supervisory Board from October 26, 2023, Francesco Ciaramella as Vice-President of the Supervisory Board and members Antonio Gennarelli until July 14,2023 when he resigned for personal reasons and Antonietta Capodanno from October 26, 2023. The position of the fifth member of the Supervisory Board as workers' representative has been held by Damir Amić.

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 2023, six Supervisory Board meetings were held.

Audit Committee 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 2023, the body held four sessions, at which it discussed the financial performance of the Company. The members of the Audit Committee were Vittorio Carratù (until September 14, 2023), Francesco Ciaramella and Antonio Gennarelli (until July 14,2023) and continued in the following composition: Francesco Ciaramella, Antonio Palumbo (from 26 October 2023) and Antonietta Capodanno (from 26 October 2023).

Audit Committee 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.

Audit Committee is independent in its activities and most members are experts in accounting and auditing.

Company has established the Remuneration Committee and Nomination Committee to support Audit Committee in its activities. The Reward Committee has not yet been established because the Company does not yet have a need for it. The members of the Committees have been appointed from among the members of the Supervisory Board. The Committees propose the content of contracts with members of the Management Board and the structure of their remuneration, prepare and propose the Remuneration Policy of members of the Management Board and the Supervisory Board, discuss and propose to the Supervisory Board a decision on appointing and electing members of the Management Board. In 2023, the Remuneration Committee and Nominations Committee were composed of the following members: Francesco Ciaramella, Vittorio Carratù (until September 14, 2023), and Antonio Gennarelli (until July 14, 2023).

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.

Supervisory Board has not yet conducted 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.

Supervisory Board has not yet evaluated its effectiveness in the last 12 months, mainly due to changes of its members.

Supervisory Board has not yet evaluated the effectiveness of cooperation between the Supervisory Board and the Management Board in the last 12 months, as well as the adequacy of support and information it receives from the Management Board, mostly due to changes of the Supervisory Board members.

Management Board has not yet evaluated its effectiveness, as well as the effectiveness of individual members in the last 12 months and reported to the Supervisory Board, mainly because the Management Board was composed solely of one member.

Evaluation of the cooperation between the Supervisory Board and the Management Board have not yet been included in the Management Report, mainly because the Supervisory Board did not give such an evaluation due to changes of its members, but it is noted that the cooperation between the two bodies has been very satisfactory.

Administrative support for the preparation of meetings 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. Company promotes diversity and inclusion of members of different age, gender, education and profession in its executive, management, and supervisory bodies.

9. Pursuant 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 Management Report 2023.

Sandra Uzelac

President of the Management Board

BRODOGRADILIŠTE d.d. VIKTOR LENAC 1896 Kostrena, Martinščica 8 2

Luka Hrboka

Member of the Management Board