

**SHIPYARD VIKTOR LENAC D.D.**  
**Non-consolidated Annual Financial Statements and Audit Report for 2014**

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## STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

*We acknowledge our responsibility for the preparation and presentation of the financial statements for the year 2014 in accordance with the International Financial Reporting Standards applied in the European Union and Croatia Law on Accounting to give a true and fair view of the financial position of Shipyard Viktor Lenac d.d. Rijeka as at December 31, 2014 and of the results of its operations for the year then ended.*

*We have made financial statements under the assumption that the Company shall continue doing its business for an indefinite period as reasonably expected, based on research conducted for, to have adequate funds to continue with its business in the foreseeable future.*

*We confirm, to the best of our knowledge and belief, the following representations:*

- *We acknowledge our responsibility for the implementation and consistent application of the appropriate accounting policies.*
- *We acknowledge our responsibility for giving reasonable and conservative estimates.*
- *We acknowledge our responsibility for the fair presentation of the financial statements in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations, disclosure and interpretation of any significant deviation in the financial statements.*
- *We have produced the financial statements under the assumption of the continuity of business for an indefinite period of time, unless it is inappropriate to assume that the 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 status and business results of the Company with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and Republic of Croatia Law on Accounting.*

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

*The financial statements have been approved as of 17 April 2015.*



*Robert Škifić, President of the Board*

*Sandra Uzelac, Member of the Board*

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

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



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

za reviziju finansijskih izvještaja i pružanje usluga s područja računovodstva,  
poreznog savjetovanja, finansijskih analiza i kontrola

23000 ZADAR, Poljana Plankit 1

Tel./Fax: 023/250-869

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

### **Financial Statements**

*In the period from 16 September 2014 to 17 April 2015 we have audited the accompanying financial statements of the Shipyard Viktor Lenac d.d., which comprise of the Balance Sheet as at December 31, 2014, Profit and Loss Account for the year 2014, including Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity for the year then ended as well as supporting significant accounting policies and other explanatory notes to the financial statements. The financial statements are integral part of this auditor's report.*

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

*The Management is responsible for the preparation and a true and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as applied in the European Union. This responsibility includes: designing, implementing and maintaining of internal control relevant for preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud; selecting and applying of appropriate accounting policies as well as making of accounting estimates that are reasonable in the existing circumstances.*

### **Auditor's Responsibility**

*Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.*

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

*We have also read the Annual Report of the Viktor Lenac Shipyard for 2014 to express an opinion on the compliance of the annual report with the enclosed financial statements for 2014.*

### **Qualifications influencing auditor's opinion**

*1. As stated in the note no. 17 – Inventories, we are not able to confirm the value of inventories in its entirety considering that the value adjustment of inventories was not recorded analytically resulting in non-conformance between the analytical and synthetic records.*

### **Opinion**

*In our opinion, the accompanying financial statements of the SHIPYARD VIKTOR LENAC d.d. which were the subject of our audit, exclusive of the effects from the item 1 (Qualifications) which could affect the financial statements, present fairly, in all material respects, the financial position as at December 31, 2014, financial performance and cash flows for the year 2014 in accordance with the International Financial Reporting Standards as applied in the European Union.*

### **Other legal requirements**

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

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

*In our opinion, the financial information presented in the Annual report coincide, in all material respects, with the aforementioned financial statements as of 31.12.2014.*

*In Rijeka, 17 April 2015*

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

*Certified auditor:*

*Branimir Grgić*

*Director and certified auditor:*

*Irena Dobrović*

## BALANCE SHEET

(As at 31 December 2014)

Description		Note	2013	2014	14/13
			I-XII	I-XII	+/- %
1	2	3	4	5	6=5/4%
ASSETS					
A.	FIXED ASSETS	14,15,16	274.646.904	282.281.636	103
I	INTANGIBLE ASSETS	14	7.166.739	6.139.354	86
II	BUILDINGS, PLANTS AND EQUIPMENT	14	258.091.782	267.443.132	104
III	SHARES IN DEPENDENTS AND ASSOCIATES	15	1.440.508	763.259	53
IV	PARTICIPATING INTERESTS	15	200.000	155.000	78
V	FINANCIAL ASSETS	16	7.697.875	7.721.891	100
VI	RECEIVABLES		-	-	-
VII	DEFERRED TAX ASSETS		50.000	59.000	-
B.	SHORT-TERM ASSETS		81.568.233	131.760.988	162
I	INVENTORIES	17	18.963.108	23.823.337	126
II	FINANCIAL ASSETS	16	2.447.792	8.993.695	367
III	TRADE AND OTHER RECEIVABLES	18	46.348.055	89.678.864	193
IV	MONEY IN BANK AND CASH IN REGISTER	19	13.809.278	9.265.092	67
V	ASSETS HELD FOR SALE		-	-	-
C.	TOTAL ASSETS		356.215.137	414.042.624	116
OFF BALANCE SHEET ITEMS,					
D.	EQUITY AND LIABILITIES		-	-	-
A.	EQUITY	20	192.997.409	193.440.006	100
I	SHARE CAPITAL	20	168.132.470	168.132.470	100
II	CAPITAL RESERVES		-	-	-
III	RESERVES		24.444.344	24.828.938	102
IV	RETAINED PROFIT/LOSS	20	420.595	478.598	-
B.	MINORITY INTEREST		-	-	-
C.	LONG-TERM LIABILITIES		80.437.761	76.089.659	95
I	DEBENTURES WITH INTEREST CHARGE	21	72.684.928	70.833.682	97
II	EMPLOYEE INCOME		-	-	-
III	PROVISIONS	24	3.579.054	1.082.197	30
IV	OTHER LONG-TERM LIABILITIES	25	4.173.779	4.173.780	100
D.	SHORT-TERM LIABILITIES		82.779.967	144.512.959	175
I	DEBENTURES WITH INTEREST CHARGE	21	15.069.286	27.900.850	185
II	PROFIT TAX LIABILITY	22	-	-	-
III	TRADE AND OTHER PAYABLES	22	67.710.681	116.612.109	172
IV	FINANCIAL LIABILITIES		-	-	-
V	EMPLOYEE INCOME		-	-	-
VI	PROVISIONS	24	-	-	-
E.	TOTAL LIABILITIES		163.217.728	220.602.618	135
F.	TOTAL EQUITY AND LIABILITIES		356.215.137	414.042.624	116

## PROFIT AND LOSS ACCOUNT INCLUDING COMPREHENSIVE INCOME

(As at 31 December 2014)

		<i>in HRK</i>		
Description	Note	2013	2014	14/13
		I-XII	I-XII	+/- %
1	2	3	4	5
				6=5/4
<b>1. OPERATING REVENUES</b>		<b>278.857.970</b>	<b>363.367.056</b>	<b>130</b>
1.1. Revenues from sales	3	264.310.306	353.242.013	134
1.2. Other operating revenues	4	14.547.664	10.125.043	70
<b>2. OPERATING EXPENSES</b>		<b>276.102.979</b>	<b>358.921.154</b>	<b>130</b>
2.1. Changes in inventories value of unfinished production		3.244.332	(3.376.577)	-
2.2. Material expenses	5	188.211.924	263.526.028	140
2.3. Employee expenses	6	54.115.312	62.413.681	115
2.4. Depreciation	7	16.076.080	19.717.802	123
2.5. Value adjustment	8	3.093.461	998.942	32
2.6. Provisions	9	1.606.280	60.000	4
2.7. Other expenses	10	9.235.958	14.547.404	158
2.8. Other operating expenses	10	519.632	1.033.874	199
<b>3. EBIT</b>		<b>2.754.991</b>	<b>4.445.902</b>	<b>161</b>
<b>4. NET FINANCIAL (EXPENSES/REVENUES)</b>				
	11	(2.334.396)	(3.967.304)	170
4.1. Financial revenues	11	1.532.871	814.483	53
4.2. Financial expenses	11	3.867.267	4.781.787	124
<b>5. PROFIT / (LOSS) BEFORE TAX</b>		<b>420.595</b>	<b>478.598</b>	<b>114</b>
<b>6. PROFIT TAX</b>	12	-	-	-
<b>7. NET PROFIT / (LOSS) FOR THE YEAR</b>	13	<b>420.595</b>	<b>478.598</b>	<b>114</b>
Earnings per share (HRK)		0,03	0,03	-
<b>8. Net profit / loss for the year</b>		<b>420.595</b>	<b>478.598</b>	<b>114</b>
8.1. Profit / (loss) on revaluation of financial assets available for sale		(125.000)	(45.000)	-
8.2. Deferred tax assets		25.000	9.000	-
<b>9. COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>320.595</b>	<b>442.598</b>	<b>138</b>


**BRODOGRADILIŠTE VIKTOR**  
**LENAC d.d.**  
 RIJEKA, Martinšćica bb

Robert Škifić, President of the Board

Sandra Uzelac, Member of the Board

## CASH FLOW STATEMENT

(As at 31 December 2014)

Description		Note	2013 I-XII	2014 I-XII	14/13 +/- %
1	2	3	4	5	6=5/4%
I	CASH FLOW FROM OPERATING ACTIVITIES				
1.	Profit/loss before taxation		420.595	478.598	-
	Adjustment for:				
2.	Profit tax		-	-	-
3.	Depreciation of buildings, plants and equipment		16.076.080	19.717.802	123
4.	Expenses/revenues from interests (net)		2.982.806	4.401.309	148
5.	Decrease of trade receivables		3.093.461	998.942	-
	Profit from operating activities before changes in current capital		22.572.942	25.596.651	113
6.	Increase / decrease of inventories		4.806.946	(4.860.229)	-
7.	Increase / decrease of short-term receivables		(8.525.893)	(44.655.748)	-
8.	Investment in financial assets		21.730.874	(6.452.297)	-
9.	Increase / decrease of liabilities		(3.854.922)	48.847.161	-
10.	Profit tax paid		-	-	-
11.	Interest paid		(3.205.714)	(4.347.042)	136
12.	Interest received		2.068.667	326.017	16
13.	Other		730.135	(1.892.360)	-
	CASH FLOW FROM OPERATING ACTIVITIES	34	36.323.036	12.562.153	
II	INVESTING ACTIVITIES				
1.	Acquisition of buildings, plants, equipment and intangible assets		(48.285.023)	(28.094.589)	58
2.	Granted loans		374.899	52.821	14
3.	Value adjustment of granted loans		(365.000)	(800.000)	219
4.	Inflows of loans		365.000	682.360	187
5.	Cash outflows from investing activities		11.211	72.751	649
	CASH FLOW FROM INVESTING ACTIVITIES	34	(47.898.913)	(28.086.657)	59
III	FINANCIAL ACTIVITIES				
1.	Revenues from equity and debt securities		-	-	-
2.	Revenues from debentures with interest charge		24.791.013	36.392.315	-
3.	Debenture payments		(20.744.139)	(25.411.997)	-
4.	Acquisition cost of own shares		-	-	-
IV	CASH FLOW FROM FINANCIAL ACTIVITIES	34	4.046.874	10.980.318	-
	TOTAL INCREASE / DECREASE OF CASH FLOW (I+II+III)		(7.529.003)	(4.544.186)	60
V	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		21.338.281	13.809.278	65
VI	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	19	13.809.278	9.265.092	67

## STATEMENT ON CHANGES IN EQUITY

					<i>In HRK</i>
Description	Note	31.12.2013	Increase I-XII/2014	Decrease I-XII/2014	31.12.2014
1	2	3	4	5	6
Subscribed capital	20	168.132.470	-	-	168.132.470
Capital reserves	20	32.700.116	420.595	-	33.120.710
Revalorization reserves	20	(200.000)	(36.000)	-	(236.000)
Retained profit or transferred loss	20	-	-	-	-
Profit / loss for the year	20	420.595	478.598	420.595	478.598
Acquisition of own shares	20	(8.055.772)	-	-	(8.055.772)
<b>Total equity and reserves</b>	<b>20</b>	<b>192.997.409</b>	<b>863.193</b>	<b>420.595</b>	<b>193.440.006</b>


**BRODOGRADILIŠTE VIKTOR**  
**LENAC** d.d.  
 RIJEKA, Martinšćica bb

  
 Robert Škifić, President of the Board

  
 Sandra Uzelac, Member of the Board

## Notes to Financial Statements

*(making an integral part of the financial statements)*

### 1. GENERAL INFORMATION

The joint-stock company VIKTOR LENAC shipyard, Martinšćica bb, Rijeka (hereinafter referred to as „Company“) has been registered under the company's registration number 040000358 in the register of the Commercial Court of Rijeka.

By the Rijeka Commercial Court's decision no. St-183/03 as of 8 December 2003, the Company was under bankruptcy proceedings, which terminated on 9 April 2008 by the decision of the Commercial Court of Rijeka after the implementation of the legally valid Bankruptcy plan.

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

- 15.988.060 non-materialized ordinary shares in name, each having a nominal value of 10 Croatian Kuna
- 825.187 own shares, each having a nominal value of 10 Croatian Kuna

According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb, the Company has been classified under the subclass number 3011 – building of ships and floating vessels, having its tax number 03333710 and identification number 27531244647.

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange.

On the day of 31 December 2014 the Company employed 521 employees.

On 31.12.2014 the Supervisory Board of the Viktor Lenac Shipyard consisted of five members: Mr. John Karavanić as Chairman of the Supervisory Board, Mr. Elvis Pahljina as Vice-Chairman of the Supervisory Board, Messrs. Hrvoje Markulinčić and Mate Valčić as members of the Supervisory Board, and workers' representative Mr. Božo Balen, as the fifth member of the Supervisory Board, appointed in April 2014 when he replaced Mr. Miljenko Čikulin, former workers' representative.

On the day of 31 December 2014, the members of the Viktor Lenac's Management Board were: Mr. Robert Škifić, President of the Board and Mrs. Sandra Uzelac, member of the Board, appointed for the new term of office of five years beginning on 8 April 2013.

The Company had the following ownership structure as at 31 December 2014:

Shareholder	Number of shares	%
Tankerska Plovidba j.s.c. Zadar	6.212.738	36,95
Uljanik Shipyard j.s.c. Pula	5.829.785	34,67
Privredna Bank j.s.c. Zagreb / collective custody account	1.367.268	8,13
Croatian Restructuring and Sale Centre (CERP)	1.243.702	7,40
Shipyard Viktor Lenac j.s.c. Rijeka	825.187	4,91
JADROAGENT j.s.c.	324.766	1,93
R.L.E. Ltd. Drniš	105.211	0,63
List Gmbh Austria	45.992	0,27
JADRANSKI POMORSKI SERVIS j.s.c. Rijeka	35.874	0,21
MESSER CROATIA PLIN Ltd.	32.987	0,20
Other	789.737	4,70
<b>Total</b>	<b>16.813.247</b>	<b>100,00</b>

In accordance with the International Financial Reporting Standards and Croatian law, the Company and its subsidiary's consolidated financial statements shall be published as separate document upon disclosure of the non-consolidated financial statements.

On the day of 17 April 2015, the Management Board of the Company approved the Non-consolidated Financial Statements for their submitting to the Supervisory Board.

The accounting policies hereafter were consistently applied for all periods presented in these financial statements.

## 2. BASIC ACCOUNTING POLICIES

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

### **a) Statement on compliance and basics of reporting**

*The Financial Statements have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia and International Financial Reporting Standards ("IFRS") applied in the European Union.*

*The Financial Statements have been prepared under the fundamental accounting assumption that effect of transaction is recognized when occurred and is recorded in the period to which the transaction refers, and under the assumption of the continuity of business for an indefinite period of time.*

*Accounting policies applied in the preparation of the 2014 financial statements have not changed compared with the previous year. The financial statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.*

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

*According to the IFRS, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank as at 31<sup>st</sup> December 2014 as follows:*

1 EUR = 7,661471 HRK	(31.12.2013: 1 EUR = 7,637643 HRK)
1 USD = 6,302107 HRK	(31.12.2013: 1 USD = 5,549000 HRK)
1 NOK = 0,849133 HRK	(31.12.2013: 1 NOK = 0,906782 HRK)
1 GBP = 9,784765 HRK	(31.12.2013: 1 GBP = 9,143593 HRK)

### **Standards, interpretations and amendments issued by the International Accounting Standards Board and adopted by Croatia's Board, and are in force**

For the year that ended on 31st December 2014, the Company adopted International Financial Reporting Standards and their modifications as listed below. The application of modified IFRSs has enabled data comparison. The adoption of modified standards did not affect the capital as at 1 January 2014:

- IFRS 10 Consolidated Financial Statements (applied to periods starting with 1<sup>st</sup> January 2014 or later). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and should therefore consolidate him. It sets out the accounting requirements for the preparation of consolidated financial statements.
- IFRS 11 Joint Arrangements (applied to periods starting with 1<sup>st</sup> January 2014 or later). IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise when the joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in the assets, liabilities, income and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence accounts for its equity interest. Proportional consolidation of joint ventures is no longer allowed.
- IFRS 12 Disclosure of Interests in Other Entities (applied to periods starting with 1<sup>st</sup> January 2014 or later). IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose companies and other off balance sheet items.
- IAS 27 (as amended in 2011) – Consolidated and Separate Financial Statements (applied to periods starting with 1<sup>st</sup> January 2014 or later). IAS 27 (as modified in 2011) includes provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (as amended in 2011) – Investments in Associates and Joint Ventures (applied to periods starting with 1<sup>st</sup> January 2014 or later). IAS 28 (as amended in 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- Amendments to IFRS 10, IFRS 11, and IFRS 12 – Guide to transitional provisions (applied to periods starting with 1<sup>st</sup> January 2014 or later). These amendments provide an additional exemption in the application of IFRS 10, 11 and 12 limiting the requirement for publication of revised comparative information only to the previous period. For disclosures relating to unconsolidated entities amendments abolished the requirement to present comparative information for the period before the first application of IFRS 12.

- Amendments to IFRS 10, IFRS 12, and IAS 27 related to the consolidation of investment entities (applied to periods starting with 1<sup>st</sup> January 2014 or later). These amendments mean that many funds and similar entities will be exempted from consolidating controlled investees. Instead, these entities will be measured at fair value through profit or loss. The amendments allow exceptions for entities that meet the definition of 'investment entities' and that have special characteristics. The amendments to IFRS 12 introduce disclosures that an investment entity needs to make.
- Amendments to IAS 32 Financial instruments: Presentation - Amendments to Offsetting Financial Assets and Financial Liabilities (applied to periods starting with 1<sup>st</sup> January 2014 or later). The amendments are the guidelines for the application of IAS 32 Financial Instruments: Presentation and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendments to IAS 36 Impairment of Assets, explaining the disclosure of the recoverable amount of impaired assets (applied to periods starting with 1<sup>st</sup> January 2014 or later). The amendments outline the information required to be disclosed about the recoverable amounts of impaired assets if the amount is based on fair value less cost of disposal.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement to replace the existing derivative financial instruments with new ones (applied to periods starting with 1<sup>st</sup> January 2014 or later). The amendments make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

#### **Standards, interpretations and amendments that have not yet come into force**

On the date of approval of the financial statements, the following interpretations and standards, which were not in force as at 31 December 2014, were issued:

- Annual improvements to IFRS 2012 (applied to periods starting with 1<sup>st</sup> July 2014 or later). These annual improvements complement the standards of the reporting cycle 2010 - 2012, and include the following changes:
  - IFRS 2 Share-based Payment clarifies the definition of vesting conditions as either a 'performance condition' or a 'service condition' and separately defines those terms.
  - IFRS 3 Business Combinations clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity based on the definitions in IAS 32, 'Financial Instruments: Presentation'. It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognized in profit or loss.
  - IFRS 8 Operating Segments requires that the segment information disclosed is measured on the basis used for management reporting. It also requires adjustments of segments assets with entities assets in cases when segments assets are disclosed.
  - IFRS 13 Fair Value provides amendments to the basis for conclusions in a way that makes it clear that there was no intention of removing the ability to measure short-term receivables and payables at invoiced amounts on the account where the impact of discounting is not significant.
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets provide amendments to explain the way in which are recorded gross value and accumulated depreciation when an entity uses the revaluation model.

- IAS 24 Related Party Disclosures. The amendments make it clear that related parties include entities providing key management personnel services to the entity or its parent (management entity). The reporting entity should be required to disclose the service fee it pays to the management entity.
- Annual improvements to IFRS 2013 (applied to periods starting with 1<sup>st</sup> July 2014 or later). These annual improvements complement the standards of the reporting cycle 2011 - 2013, and include the following changes:
  - IFRS 1 First-time Adoption of IFRS basis for conclusions was amended to explain to when the new version of the standard is not yet mandatory, but can be early adopted, a first-time adopter of IFRSs can use the old or the new version, provided that the same standard was applied in all periods presented.
  - IFRS 3 Business Combinations was amended to explain that it does not apply in accounting for the formation of a joint venture in accordance with IFRS 11.
  - IFRS 13 Fair Value Measurement was amended to explain that the exemption from the portfolio in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 and IFRS 9.
  - IAS 40 Investment Property was amended to explain that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 helps users differentiate investments in real estate and real estate used by the owner. The drafters of the financial statements should also consider the guidance in IFRS 3 to determine if the acquisition of an investment property can be a business combination.
- Annual improvements to IFRS 2014 (applied to periods starting with 1<sup>st</sup> July 2016 or later). These annual improvements complement the standards of the reporting cycle 2012 - 2014, and include the following changes:
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations explains that, when assets (or disposal Companies) are reclassified from category 'held for sale' in the category 'held for distribution' or vice versa, this in no way represents a change in the plan of sale or distribution and does not have to be reported as such. This means that the assets (or disposal Companies) should not be re-expressed in the financial statements, as it has never been classified in the category 'held for sale' or 'held for distribution' simply because the way of disposal changed. It also explains that the guidelines on changes in planned sales should be applied to the assets (or disposal Company) which shall cease to be intended for distribution, but not reclassified as 'held for sale'.
  - IFRS 7 Financial Instruments: Disclosures. There are two amendments: Servicing Contracts - The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuous participation that may still exist by the entity in the transferred assets. The standard provides guidance on what is meant by continuous participation. The amendment includes the effect of the retroactive application. There is a consequential amendment to IFRS 1 that provides the same relief to first-time adopters. - Financial statements for the interim period - The amendment explains that the additional disclosures required by amendments to IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities is not strictly necessary for all periods during the year, unless required by IAS 34. This amendment is retroactive.
  - IAS 19 Employee Benefits. The amendment explains that when determining the discount rate for liabilities after retirement important is currency in which liabilities are expressed, not the country in which they arise. The assessment of whether a developed market for high quality corporate bonds exists is based on corporate bonds in that currency, and not in corporate bonds in the country concerned. Similarly, when there is no active market of high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retroactive, but is limited to the beginning of the earliest period presented.

- IAS 34 Interim Financial Reporting. This amendment explains reference to information disclosed elsewhere in the financial statements. The amendment also complements IAS 34 in a way that it requires a reference in the financial statements for the period during the year to the place where the information is located. The amendment is retroactive.
- IFRS 14 Regulatory Deferral Accounts (applied to periods starting with 1<sup>st</sup> January 2016 or later). This standard allows first time adopters to continue to recognize amounts related to the regulation of prices in accordance with the requirements of the previous generally accepted accounting principles. However, in order to improve comparability with entities that already apply IFRSs and do not recognize such sums, the standard requires that the effect of regulating the price is expressed separately from other items.
- IFRIC 21 Levies (applied in EU to periods starting with 17 June 2014). It is the interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IAS 37 prescribes the criteria for the recognition of liabilities. One of the criteria is a requirement that the company has a present obligation as a result of past events (ie. a binding event). The interpretation clarifies which binding event leads to the payment of taxes and when you need to recognize a liability.
- IFRS 9 Financial Instruments (applied to periods starting with 1<sup>st</sup> January 2018 or later). Early application is permitted. If an entity elects to early implementation all requirements must be applied at the same time with the following exception: Entities with the date of the first application before February 1, 2015 still have the option of applying standards in phases.  
A complete version of IFRS 9 replaces the majority of the guidelines in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value in the profit and loss statement. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments must be measured at fair value through profit or loss with the irrevocable option at the beginning to express changes in fair value in other comprehensive income. Now there is a new model of expected credit losses, which replaces the model used in IAS 39.  
For financial liabilities there were no changes in the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, of liabilities at fair value through profit and loss.  
IFRS 9 reduces the requirements for effectiveness of protection by applying new clearly defined effectiveness tests. This requires economic relationship between the hedged item and the hedging instrument, and that hedge ratio' is the same one that the management actually used for risk management purposes. The current documentation is still required, but is different from the one currently being prepared in accordance with IAS 39.
- IFRS 15 Revenue from Contracts with Customers (applied to periods starting with 1<sup>st</sup> January 2017 or later). This is a converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognized when the customer obtains control of the goods or services. This occurs when (or as) the customer can direct the use of, and can obtain substantially, all the remaining benefits from the promised good or service. The fundamental principle of IFRS 15 is that an entity recognizes revenue for the purpose of presenting the transfer of the promised goods or services to customers in an amount that reflects the compensation to which the entity is considered to be entitled in exchange for those goods or services.  
It recognizes revenue in accordance with the basic principle of using the following procedure:
  - Step 1: Determine the contract (s) with customer
  - Step 2: Determine the delivery obligations in the contract
  - Step 3: Determine the transaction price
  - Step 4: Allocate the transaction price to delivery obligations in the contract
  - Step 5: Recognize revenue when (or as) the entity has fulfilled the obligation of delivery

IFRS 15 also includes a cohesive set of requirements for the publication of which will result in an entity to provide users of financial statements comprehensive information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers of the entity.

- Amendment to IFRS 10 and IAS 28 relating to the sale or listing of assets between the investor and his associate or joint venture (effective for annual periods beginning on or after 1 January 2016). These amendments resolve the inconsistency between IFRS 10 and IAS 28 in respect of the sale or listing of assets between the investor and his associate or joint venture. Full gain or loss is recognized when the transaction is related to the operation. Partial gain or loss is recognized when the transaction includes assets not related to business, even though the assets are relating to the subsidiary.
- Amendment to IFRS 11, Joint Arrangements, is relating to the acquisition of shares in the joint management (effective for annual periods beginning on or after 1 January 2016). This amendment establishes new guidance on how to express the acquisition of shares in the joint venture which is a business. The amendment requires the investor to apply the principles of accounting for a business combination on the acquisition of shares in the joint management, which represents the 'business'. The amendment relates to the acquisition of initial share in the joint management and the acquisition of an additional stake in the same joint management. However, previous interest is not measured again when the acquisition of an additional stake in the same joint management results in the retention of joint control.
- Amendment to IAS 16, Property, Plant and Equipment, and IAS 38, Intangible assets related to depreciation (effective for annual periods beginning on or after 1 January 2016). This amendment explains that the application of assets depreciation calculation methods based on income is not appropriate because the income from activities involving the use of property generally reflect other factors in addition to the utilization of economic benefits embodied in the asset. It also explains that revenues are generally considered inappropriate basis for measuring the efficiency of economic benefits embodied in the intangible assets. The presumption can be rebutted only in certain limited circumstances. These circumstances include cases where the intangible assets are expressed as a measure of income; or if it can be shown that the income and economic benefits of the intangible assets are connected to each other.
- Amendment to IAS 16, Property, Plant and Equipment, and IAS 41, Agriculture, regarding the fruitful plants (effective for annual periods beginning on or after 1 January 2016). These amendments alternate reporting on fruitful plants, such as grapes, natural rubber and palm oil. Fruitful plants should be expressed in the same manner as property, plant and equipment because their management is similar to production. These amendments include them in the scope of IAS 16 and not IAS 41. The fruits of fruit plants will remain within the scope of IAS 41.
- Amendment to IAS 19, Employee benefits, in relation to contributions from employees or third parties to defined benefit plan (effective for annual periods beginning on or after 1 July 2014). The amendment is applicable to contributions from employees or third parties to defined benefit plan and explains the treatment of such contributions. The amendment distinguishes contributions that are connected to the service only in the period in which they are incurred and contributions related to the service during more than one period. The aim of the amendment is to simplify the accounting for contributions which do not depend on the number of years of service of employees, such as employees' contributions, which are calculated according to a fixed percentage of salary. Entities with plans that require contributions which vary depending on the service will recognize the benefit of those contributions during the employee's employment.
- Amendment to IAS 27, Consolidated Financial Statements, in relation to the equity method (effective for annual periods beginning on or after 1 January 2016). The amendment allows entities to indicate investment in subsidiaries, joint ventures and associates in their separate financial statements using the equity method.

It is assumed by the Company's Management Board that all the above-mentioned interpretations and standards shall be applied in the Company's financial statements from the time when they shall be in force and that their adoption shall not have significant influence to financial statements in the period of first application.

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

In preparing non-consolidated financial statements, the Company's Management Board used estimates, judgements and assumptions which have influence to accounting value of assets and liabilities, disclosing of potential items on balance sheet date and disclosed revenues and expenses of the period then ended.

The estimates were used, without limitation, to the following items: calculation and period of depreciation and remaining value of the real-estate, plants, equipment and intangible assets, decrease in value, value adjustment of inventories and disputable claims, provisions for employees' salaries and wages, court disputes and warranty repairs. More details on accounting policies with respect to estimates can be found in other parts of this note as well as other notes of the financial statements. The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements used in preparing consolidated financial statements are subject to changes due to new events, new information, new experience or changes in business environment. Actual results may differ from such estimates.

**The basic accounting policies applied in the preparation of the financial statements for the year 2014 are as set forth below:**

#### **a) Revenues**

/i/ Revenues are recognized on the day of delivery of goods and/or services, or invoicing date.

/ii/ Revenues from sales of goods and services are recognized if:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

/iii/ Revenues from rendered services whose outcome of a transaction can be estimated reliably, shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenues from rendered services are recognized if:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When determining revenues from rendered services based on stage of completion of contracted activities at the end of the reporting period, revenues are recognized per specific contract, pursuant to stage of contract completion method, when it is highly possible to determine the percentage of completeness, clearly identify the occurred expenses and determine:

- Total revenues, and
- Total expenses up to completion of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenues shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable, and the contract costs shall be recognized as an expense in the period in which they are incurred.

Contract stage of completion is determined by total costs of material, work and other expenses that relate directly to the specific contract and occurred by the end of the reporting period, related to total evaluated expenses for each construction contract.

When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.

Government Grants are recognized as revenues in the period when related expenses will occur, if:

- the terms of the grants have been met
- it is likely that the grants will be received.

Financial revenues include interests on invested funds, positive exchange rate differences, revenues from dividends and other financing revenues.

Revenues from interests are recognized on a time proportional basis, with regards to the real income on the invested funds, pursuant to concluded contracts.

## **b) Expenses**

The policy of expenses is recorded in such way that the periodic accountancy system determines expenses which are applicable to recognition in the calculation of current year result.

The recognition of expenses occurs if:

- a) expenses result in decrease of funds or increase of liabilities that can be reliably measured;
- b) expenses have direct relation to occurred costs and revenues;
- c) when it is expected to achieve revenues in multiple reporting periods, recognition of expenses is performed by allocation on reporting periods;
- d) 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;
- e) expense is immediately recognized in the reporting period upon appearance of liability, and there are no conditions to be recognized as an asset.

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

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

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

## **c) Financial result and profit tax**

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

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

## **d) Fixed intangible assets**

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

- a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,
- b) the cost of the asset can be measured reliably, and
- c) its single acquisition value exceeds 3,500 Croatian Kuna.

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

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

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

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

/i/ Depreciation is recorded from the first day of the following month after the fixed intangible asset has been activated. Depreciation for sold, given, or in any other way disposed or destroyed fixed intangible assets is recognized as expense up to the end of month when the assets were still in use.

#### **e) Fixed tangible assets**

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

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

Fixed tangible assets are recognized if following fulfilled:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,
- the cost of the asset can be measured reliably,
- its single acquisition value exceeds 3,500 Croatian Kuna and useful period of life exceeds one year.

Except, if the single value of the asset does not exceed 3,500 Croatian Kuna and it is undoubtedly evaluated that its useful period of life exceeds one year, it is considered as fixed tangible asset and is completely written-off as expense of the current period. Fixed tangible assets that do not exceed value of 3,500 Croatian Kuna nor its useful period of life exceeds one year are recorded as inventory and therefore are completely written-off upon activation.

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

Goods and services made internally and included in use as fixed tangible assets are recorded at their production value, under condition that the production value does not exceed net market value. Production value does not include internal profits, unusual values of waste material, work and other assets.

The production cost is determined pursuant to IAS 2 – Inventories. Additional costs are included in the book value of the assets or, if needed, are recognized as separate assets only if the company expects to have future economic benefits of that assets, or if their expense can be reliably measured.

After initial recognition, property, plant and equipment are recorded based on their acquisition cost decreased for accumulated depreciation and accumulated losses from decrease. Basis for depreciation is acquisition value (gross book value) of the single asset.

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

If while in use a fixed tangible asset has been damaged or withdrawn from active use, the asset is depreciated up to the end of month when it was withdrawn from active use.

If its net book value exceeds its sale value, the difference is recorded as expense upon sale (net principle recording). In case its sale value exceeds its book value, the difference is recorded as revenue of the current period (net principle recording).

*ii)* Depreciation is charged for each single asset, against linear method at rates suitable for disposal of acquisition value through its evaluated useful period of life. Land and assets under construction are not depreciated. Rates applied for depreciation are as follows:

- buildings	2,5-10%
- ships and docks	2,5-5%
- cranes and plants	6,67-10%
- production equipment	10-12%
- transportation vehicles	20%
- office computer and related equipment	10-20%

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

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

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

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

#### **f) Long-term financial assets**

Long-term financial assets represent investment of cash, property and rights for generating revenues, whose benefits are expected in periods longer than one year.

Accounting policy and procedures differ depending whether the investments occurred from:

- Investments in participation at others up to 20% of voting power;
- Investment into associated companies (portion 20% - 50%);
- Investments into dependent companies (portion exceeds 50%);
- Investments through business relations with partners in market.

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

#### **g) Inventories**

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

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

If the professional services evaluate that use of certain inventories in future contracts is doubtful, respectively that some products on stock are not spendable, the company performs write-off of inventories, which is recorded as expense of the current period. When and if there are no circumstances that caused the prior reduction of value, respectively write-off of inventories, the value of inventories should be increased up to the acquisition cost, meaning up to value that can be realized and expended in regular production.

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

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

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

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

The actual costs comprise of direct and indirect costs of production which occurred by the end of the reporting period:

- Variable and fixed direct costs of production that can be directly related to the specific contract on a reasonable basis, such as costs of built in material, direct work and services of others directly involved in rendering services
- Variable and fixed general costs of production that are being allocated by a key to specific contracts, respectively in proportion to direct costs, meaning that are being assigned to the value of inventories for production in progress based on normal capacity (normal realized capacity in regular circumstances of operations through a certain period of time).

The total amount of recorded costs of production in progress decrease expenses of the period, respectively are recognized as expenses of the period at the same time as revenues are being recognized upon completion of works and delivery of the total project.

Cost i.e. value of inventories for production in progress does not include profit or general operation expenses and administrative expenses which cannot be related to rendering of services, but charge expenses of the period when they occurred.

#### ***h) Receivables***

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

Trade receivables from customers in abroad shown in foreign exchange currencies are recorded in Croatian currency, calculated based on mean exchange rate of Croatian National Bank as of the date of recording the receivable.

Upon collection of receivable, the differences that occur due to exchange rate are recorded as revenues or expenses of the Company.

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

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

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

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

#### ***i) Short-term financial assets***

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

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

Value adjustment of short-term assets is performed based on evaluation that the investment is high risk or it is claimed on court. The Decision is made by the Company's Management Board.

#### ***j) Cash and cash equivalents***

Cash and cash equivalents include cash in banks, in register and short-term deposits at banks with contracted maturity of up to 3 months. The balance of the cash in bank is recorded at nominal value in Croatian currency. Foreign exchange funds in bank and register is set at mean exchange rate of Croatian National Bank.

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

#### ***k) Deferred costs and accrued revenues***

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 deferred costs at the end of the year creates a balance which is transferred into the following period as a Balance Sheet position.

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

#### ***l) Equity***

Equity is own source for financing assets and is expressed pursuant to articles of International Financial Reporting Standards as remaining of the assets after deduction of all liabilities. Subscribed capital is recorded in the amount that is subscribed in the court registry upon establishment, i.e. change of subscribed value of capital in the commercial registry. Policy of recording reserves depends on their shape and policy of the Company (legal, statutory and similar).

#### ***m) Provisions***

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

Provisions arising from contracts, such as provisions for severance wages, provisions for expenses in guaranty periods, and provisions for expenses arising from initiated court claims are also recognized as an expense of the period for risk provisions based on legal and other regulations.

#### ***n) Long-term liabilities***

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

### ***o) Short-term liabilities***

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

Short-term liabilities recorded in foreign exchange funds and those with currency clause are being set at mean exchange rate of the Croatian National Bank in Croatian currency.

Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the company.

Open balances of liabilities shown in the foreign exchange currencies are being set at mean exchange rate of Croatian National Bank as of the Balance Sheet Date and exchange rate differences that occurred are recorded as revenues or expenses of the company.

Rental costs are recorded as expense of the period when they occurred.

### ***p) Accrued costs and deferred revenues***

Expenses that occurred in the current period for which the company did not receive invoices or has incomplete documentation for their booking, but it is possible to determine their amount (for example rental costs, audit fees based on contract) are recorded in the Balance Sheet as accrued costs, since the liability will be recorded in the future period.

Realized 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.

Collected revenues that do not meet the criteria to be recognized in the current period are deferred for future periods.

## **3. REVENUES FROM SALES**

	in HRK	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Revenues from rendered services on domestic market	35.329.213	85.715.475
Revenues from rendered services on foreign market	317.845.103	178.569.818
Revenues from sales to the subsidiary	67.697	25.013
<b>Total</b>	<b>353.242.013</b>	<b>264.310.306</b>

Revenues from rendered services classified by type of service rendered:

	in HRK		
	<b>Domestic market</b>	<b>Foreign market</b>	<b>Total</b>
Shiprepair	9.658.930	152.205.324	161.864.254
Offshore platforms	25.334.411	-	25.334.411
Conversions	-	145.542.325	145.542.325
Other	403.569	20.097.454	20.501.023
<b>Total</b>	<b>35.396.910</b>	<b>317.845.103</b>	<b>353.242.013</b>

#### 4. OTHER REVENUES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Revenues from sales of material	4.132.367	4.196.560
Revenues from sales of material (associates)	14.422	11.189
Rentals (associates)	225.790	227.429
Rentals (non-associates)	874.297	859.247
Revenues from withdrawal of long-term reserves	668.885	323.545
Collection of damage claims from insurance	2.759.567	4.747.219
Revenues from sales of buildings, plants and equipment	-	-
Other revenues	1.394.515	4.126.719
Other revenues from sales (associates)	55.200	55.756
<b>Total</b>	<b>10.125.043</b>	<b>14.547.664</b>

The revenues from collection of damage claims refer to insurance. Other revenues in the amount of 1.449.715 Croatian Kuna refer to subsequently recognized revenues from the previous years, inventory surplus, written-off liabilities and similar.

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

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
<b>Raw and other material</b>		
Used raw and other material	91.656.143	65.616.112
Used energy	12.627.745	10.489.626
Small inventory and spare parts	1.158.248	1.929.175
<b>Total raw and other material</b>	<b>105.442.136</b>	<b>78.034.913</b>
<b>Other external expenses</b>		
Transportation, phone, post and similar services	600.652	681.344
Production services	91.382.195	64.059.738
Subsupplier services	47.950.856	29.975.869
Maintenance services	9.432.792	5.967.753
Rental expenses	4.166.597	2.375.998
Intellectual services	1.369.099	979.981
Other services	3.181.701	6.136.328
<b>Total other external expenses</b>	<b>158.083.892</b>	<b>110.177.011</b>
<b>TOTAL MATERIAL EXPENSES</b>	<b>263.526.028</b>	<b>188.211.924</b>

## 6. EMPLOYEE EXPENSES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Net salaries and wages	33.843.028	29.768.479
Taxes and contributions from the salaries	14.334.241	11.943.909
Contributions on the salaries	8.844.371	7.042.357
Terminal pays	120.000	259.784
Compensations for travelling costs, daily allowances, annual bonuses	5.272.041	5.100.783
<b>TOTAL</b>	<b>62.413.681</b>	<b>54.115.312</b>

In 2014 the Company paid to the employees the annual bonuses in accordance with the Collective Agreement signed with the Unions, where those employees who are members of the Union received larger bonuses than the non-members.

## 7. DEPRECIATION

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Buildings, facilities and equipment	19.717.802	16.076.080
<b>TOTAL</b>	<b>19.717.802</b>	<b>16.076.080</b>

The 2014 depreciation rate was 67%.

## 8. VALUE ADJUSTMENT

In 2014, the Company made adjustment of the value of trade receivables in the form of write-off of trade receivables in the amount of 998.942 Croatian Kuna.

## 9. PROVISIONS

The Company's provisions in the amount of 60.000 Croatian Kuna include provisions for legal proceedings, which started in 2014.

## 10. OTHER EXPENSES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Entertainment and aids	967.308	885.986
Insurance premiums	5.948.255	3.622.065
Bank services and fees	3.139.869	868.910
Taxes and contributions not dependant on the result	2.127.344	2.558.680
Other expenses	2.364.628	1.300.317
<b>TOTAL</b>	<b>14.547.404</b>	<b>9.235.958</b>

Other operating expenses in the amount of 1.033.874 Croatian Kuna relate to the subsequently determined expenses last year, fines, penalties and damages arising from employment contract, loss of investment, deficits and expenses by inventories, and of other operating expenses.

## 11. NET FINANCIAL (EXPENSES)/INCOME

	<i>in HRK</i>	
	31.12.2014	31.12.2013
<b>Financial income</b>		
Interests	380.478	884.461
Income from sale of securities	-	-
Positive exchange rate differences	434.005	648.410
<b>Total financial income</b>	<b>814.483</b>	<b>1.532.871</b>
<b>Financial expenses</b>		
Interests	4.781.787	3.867.267
Negative exchange rate differences	-	-
<b>Total financial expenses</b>	<b>4.781.787</b>	<b>3.867.267</b>
<b>NET FINANCIAL (EXPENSES)/INCOME</b>	<b>(3.967.304)</b>	<b>(2.334.396)</b>

## 12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2014 the Company produced a profit. On the ground of the transferred loss generated in 2012, the Company has no profit tax obligation.

## 13. EARNINGS PER SHARE

	<i>in HRK</i>	
	31.12.2014	31.12.2013
Net profit	478.598	420.595
Shares exclusive of own shares	15.988.060	15.988.060
<b>Earnings/(loss) per share (Croatian Kuna)</b>	<b>0,03</b>	<b>0,03</b>



## 14. BUILDINGS, FACILITIES AND EQUIPMENT

FIXED AND TANGIBLE ASSETS											
											in HRK
1	2	3	4	5	6	7	8	9	10	11	12
TANGIBLE ASSETS											
DESCRIPTION	Land	Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investments in progress	Advances for tangible assets	Total tangible assets	Intangible assets	Investments in progress	TOTAL	
<b>A ACQUISITION VALUE</b>											
1. Balance 1 January 2014	12.504.214	68.294.120	520.822.625	75.072.797	42.633.198	314.655	719.641.609	11.580.078	-	-	731.221.687
2. Transfer from investments in progress	-	276.306.00	30.925.420,00	2.666.447	(33.868.173)	(934.729)	(934.729)	291.397	(291.398)	(934.730)	
3. Acquisition during the year	-	-	-	-	27.667.382	1.070.538	28.737.920	-	291.398	29.029.318	
4. Sale, disposal	-	-	(5.792.583)	(1.025.841)	-	-	(6.818.424)	-	-	(6.818.424)	
5. STANJE 31.12.2014	12.504.214	68.570.426	545.955.462	76.713.403	36.432.407	450.464	740.626.376	11.871.475	-	-	752.497.851
<b>B VALUE ADJUSTMENT</b>											
6. Balance 1 January 2014	6.958.527	65.250.396	321.326.892	68.014.022	-	-	461.549.827	4.413.339	-	-	465.963.166
7. Depreciation	-	8.704	16.039.089	2.351.227	-	-	18.399.020	1.318.782	-	-	19.717.802
8. Sale, disposal	-	-	(5.739.786)	(1.025.817)	-	-	(6.765.603)	-	-	(6.765.603)	
9. BALANCE 31 DECEMBER 2014	6.958.527	65.259.090	331.626.195	69.339.432	-	-	473.183.244	5.732.121	-	-	478.915.365
C BOOK VALUE 1 JANUARY 2014	5.545.687	3.043.734	199.495.733	7.058.775	42.633.198	314.655	258.091.782	7.166.739	-	-	265.258.521
D BOOK VALUE 31 DECEMBER 2014	5.545.687	3.311.336	214.329.267	7.373.971	36.432.407	450.464	267.443.132	6.139.354	-	-	273.582.486

## 15. INVESTMENT IN ASSOCIATES

The net book value of investments in subsidiaries include:

	31.12.2014		31.12.2013	
	Amount in HRK	Proprietary share %	Amount in HRK	Proprietary share %
Viktor Servi d.o.o.	763.259	100	763.259	100

Viktor – Servi d.o.o. is 100% owned by Shipyard Viktor Lenac d.d.

The net book value of investments in associates includes:

	31.12.2014		31.12.2013	
	Amount in HRK	Percentage of ownership %	Amount in HRK	Percentage of ownership %
Lenac – Rosseti Adria d.o.o.	-	-	677.250	50

According to the Act on the Establishment and after payment of the share capital at the beginning of February 2012 in the amount of 750.000 Croatian Kuna, the Company acquired 50% stake in the newly founded company Lenac - Rosetti Adria Ltd., while the remaining 50% stake was held by Rosetti Ltd. Rijeka. The company was established for the joint appearance on the market and offering jobs in offshore activities. On 22 March 2013 initiated liquidation proceedings over Lenac - Rosetti Adria Ltd. On October 29, the company was deleted from the register.

The Company owns 5,000 shares of Uljanik j.s.c. kept in the accounts at nominal value in the amount of 450.000 Croatian Kuna. On the day of 31 December 2014, the Company made value adjustment of the shares in accordance with the Central Depositary & Clearing Company notification resulting in a total share value of 155.000 Croatian Kuna.

## 16. FINANCIAL ASSETS

Financial assets in the amount of 16.845.586 Croatian Kuna refer to the long-term financial assets in the amount of 7.721.891 Croatian Kuna, of which 7.661.471 Croatian Kuna relate to a money deposit deriving from a long-term loan for financing development and a security in the amount of 60.420 Croatian Kuna.

The short-term financial assets in the amount of 8.993.695 Croatian Kuna include letters of credit for the purchase of fixed intangible assets in the amount of 8.576.055 Croatian Kuna, deposit for the arrest of the ship ANE in the amount of 200.000 Croatian Kuna, and loans in the amount of 217.640 Croatian Kuna.

## 17. INVENTORIES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Raw and other material	19.860.991	18.046.216
Raw and other material under transportation	103.329	434.452
Production in progress	3.859.017	482.440
Small inventory	7.620.155	7.331.463
Small inventory value adjustment	(7.620.155)	(7.331.463)
<b>TOTAL</b>	<b>23.823.337</b>	<b>18.963.108</b>

The raw and other material was recorded on the basis of purchase prices decreased by a value adjustment of the inventories. The inventories value adjustment was performed upon the opening of the bankruptcy proceedings when the Company evaluated the assets recorded in the books on the day of the opening of the bankruptcy proceedings. Taking into consideration the complexity of inventories issue, for purpose of the analytical evaluation, based on the then assumption that the Company was not continuing its business, but the assets would be sold for settling the bankruptcy debts, an estimate of inventories encashment according to the liquidation value was made which produced a book item for adjustment of value as per estimate.

The Company continued with its business that ultimately resulted in the termination of the bankruptcy proceedings, and the stock was used in the normal production activities, noting that during the entire period of bankruptcy the stock was equally supplied and used.

In 2010, the Company performed a value adjustment of the analytical structure of raw and other material on stock to the collective adjustment of inventories as per estimate. The value adjustment of inventories as per estimate represents collective adjustment of inventories not recorded analytically.

## 18. TRADE AND OTHER RECEIVABLES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Receivables from customers (gross)	47.634.994	51.760.880
Receivables from customers (decrease of value)	9.993.722	10.604.768
Receivables from customers (net)	37.513.636	41.156.112
Receivables from customers (related enterprises)	127.636	-
Receivables from employees	82.559	38.997
Receivables from state	11.276.459	4.564.437
Prepaid expenses and accrued income	31.038.454	270.925
Advances	9.584.412	316.330
Other receivables	55.708	1.254
<b>Total</b>	<b>89.678.864</b>	<b>46.348.055</b>

Prepaid expenses and accrued income in the amount of 31.038.454 Croatian Kuna relate to the pre-calculated income for the conversion of Cable Enterprise and construction of IKA SW platform in accordance with IAS 11, and accrued income from insurance based on the costs incurred for repairing the damage after the loss event.

Age structure of matured receivables from customers:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
1 -90 days	34.394.612	39.079.673
91 -180 days	157.720	1.460.228
181 - 365 days	2.114.794	544.987
Over 365 days	974.146	71.224
<b>TOTAL</b>	<b>37.641.272</b>	<b>41.156.112</b>

Age structure of decrease of value of receivables:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
1 -90 days	-	4.254.929
91 -180 days	-	41.889
181 - 365 days	3.643.883	-
Over 365 days	6.349.839	6.307.950
<b>TOTAL</b>	<b>9.993.722</b>	<b>10.604.768</b>

Age structure of decrease of value of receivables:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
HRK	5.397.392	21.791.120
EUR	32.243.880	18.811.523
Other currency	-	553.469
<b>Total</b>	<b>37.641.272</b>	<b>41.156.112</b>

## 19. CASH AND CASH EQUIVALENTS

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Money in bank	6.255.505	2.121.200
Cash in register	9.587	11.189
Time deposits	3.000.000	11.676.889
<b>TOTAL</b>	<b>9.265.092</b>	<b>13.809.278</b>

## 20. EQUITY AND RESERVES

- (i) On the day of 31 December 2014 the issued share capital, fully paid, amounted to 168,132,470 Croatian Kuna and was divided in 16.813.247 ordinary shares each having a nominal value of 10 Croatian Kuna.

The owners of ordinary shares are entitled to dividends and one vote per share. The Company did not pay out dividends for the years 2008-2013.

- (ii) On the day of 31 December 2014 the Company owned 825.187 own shares (31 December 2013: 825.187), making 4.91% of the share capital.

- (iii) On the day of 31 December 2014 the statutory reserve within the frame of the statutory and other reserves, amounted to 7.146.811 Croatian Kuna (2013: 7.125.782 Croatian Kuna). The statutory reserve was formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserve until it grows to 5% of the issued share capital.

In accordance with the Company's General Assembly's decision, the profit generated in 2013 in the amount of 420.595 Croatian Kuna was allocated in the following way: 21.030 Croatian Kuna was allocated to the statutory reserve fund, and 399.555 Croatian Kuna to the general reserve fund.

The statutory reserves and reserves for own shares in the amount of 19.686.811 Croatian Kuna (2013: 19.665.782 Croatian Kuna) cannot be allocated to the shareholders.

## 21. DEBENTURES WITH INTEREST CHARGE

The total debentures with interest charge for the year 2014 amounted to 70.833.682 Croatian Kuna of long-term debentures and 27.900.850 Croatian Kuna for short-term debentures.

The long-term debentures include finance lease liabilities to the BKS Bank BKS leasing Croatia in the amount of 2.971.584 Croatian Kuna, long-term loan for financing investment in the amount of 67.753.616 Croatian Kuna and liabilities to T-Hrvatski Telekom company for IT equipment in the amount of 108.481 Croatian Kuna.

The remaining part of the short-term debentures in the amount of 27.900.850 Croatian Kuna is a short-term working capital credit, and also include a short-term part of the long-term credit for financing development in the amount of 2.185.603 Croatian Kuna, short-term finance lease liabilities to the BKS Bank BKS leasing Croatia in the amount of 590.883 Croatian Kuna and liabilities to T-Hrvatski Telekom company in the amount of 108.482 Croatian Kuna.

The debenture payment terms on 31 December 2014:

	<i>in HRK</i>			
	<b>Total</b>	<b>1 year of less</b>	<b>2 -5 years</b>	<b>More than 5 years</b>
<b>31.12.2014</b>				
Finance lease	3.779.431	699.365	3.080.066	-
Long-term loan for financing development	69.939.219	2.185.603	43.712.013	24.041.603
Short-term loan	25.015.882	25.015.882	-	-
<b>Total</b>	<b>98.734.532</b>	<b>27.900.850</b>	<b>46.792.079</b>	<b>24.041.603</b>

## 22. TRADE AND OTHER LIABILITIES

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
Trade payables	104.027.728	48.189.762
Trade payables (related enterprises)	1.490.084	1.799.039
Employee payables	3.949.078	3.119.470
Taxes and contributions	2.816.718	2.766.676
Received advances	1.126.726	2.020.840
Other liabilities	1.025.249	1.986.436
Accrued costs	2.176.526	7.828.458
<b>Total</b>	<b>116.612.109</b>	<b>67.710.681</b>

Trade payables structure as per currency:

	<i>in HRK</i>	
	<b>31.12.2014</b>	<b>31.12.2013</b>
HRK	94.080.869	40.783.240
EUR	6.636.562	9.205.561
GBP	4.797.372	-
NOK	3.009	-
<b>Total</b>	<b>105.517.812</b>	<b>49.988.801</b>

## 23. RELATIONSHIP WITH RELATED ENTERPRISES

	<i>in HRK</i>	
<b>Related enterprises and key shareholders</b>	<b>2014</b>	<b>2013</b>
<b>Sale to related enterprises</b>		
Sale to subsidiaries	438.988	399.234
Sale to associates	-	-
Sale to key shareholders	394.966	7.684.059
<b>Purchase from related enterprises</b>		
Purchase from subsidiaries	3.507.961	3.382.115
Purchase from associates	-	-
Purchase from key shareholders	2.832.308	25.500
<b>Receivables from related enterprises</b>		
Receivables from subsidiaries	127.636	-
Receivables from associates	-	-
Receivables from key shareholders	612.365	3.614.704
<b>Liabilities to related enterprises</b>		
Liabilities to subsidiaries	1.490.084	1.799.039
Liabilities to associates	-	-
Liabilities to key shareholders	859.808	25.000

Transactions between related enterprises are realized under normal market conditions.

## Key Management

The Management Board of the Company is composed of the President of the Board and one member of the Board. The total compensation (gross) for the members of the Company's Management Board for the year 2014 amounted to 1.596.947 Croatian Kuna.

The total compensation for the members of the Supervisory Board for the year 2014 amounted to 520.386 Croatian Kuna.

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

## 24. PROVISIONS

The provisions of the Company amounted to 1.082.197 Croatian Kuna and include provisions for opened legal proceedings.

## 25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 December 2014 in the amount of 4.173.780 Croatian Kuna comprise of potential liabilities for disputed bankruptcy creditors' claims, securities and legal fees, as in accordance with the bankruptcy plan.

## 26. FINANCIAL INSTRUMENTS

The operations of the Company bear various financial risks: market risk (including currency, interest rate and price risk), credit risk and liquidity risk. The Company is exposed to currency, interest rate and credit risk while performing its regular business operations.

The policy of risk management related to the financial management is as follows:

### Financial risk factors

The operations of the Company bear various financial risks including the effects of market price changes, changes of foreign exchange rates and interest rates. The Company does not use derivative financial instruments as an active security from exposure to financial risks.

### Currency risk

All revenues from rendering services of the Company on the foreign market is denominated generally in EUR (smaller amount in USD) as well as the payments. Revenues from rendering services in domestic market are denominated in Croatian kuna with EUR currency clause.

Approximately merely 5-10% of expenses are denominated in EUR. The currency risk also affects foreign exchange deposits which the Company can have, if those deposits are dedicated and set at a longer period, i.e. as collateral to bank guarantees in favour of the client.

Therefore, changes in currencies between EUR and HRK, and USD and HRK have an effect on the operation result, however due to high turnover ratio of receivables and low levels of production in progress, the currency risk is not materially significant so for that reason the Company does not perform active security for exposure to foreign currency operations.

## Credit risk

Financial assets that can potential bring the Company to a credit risk includes trade receivables, value of works on construction of offshore projects and ship modifications. Trade receivables are shown decreased for doubtful and uncertain receivables. The Company does not have any other concentration of credit risk.

## Interest rate risk

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

## Liquidity risk

Liquidity risk, also called financing risk, is a risk of coping with difficulties in procurement of funds for settlement of liabilities against financial instruments.

Short-term liabilities are completely covered by short-term assets.

## Fair value

The Management's estimate on the fair value of financial assets and liabilities and accounting value as shown in the balance sheet are set forth below:

	in HRK	
	2014	
	Accounting value	Fair value
Investment in subsidiaries and associates	763.259	763.259
Receivables from customers and other receivables	89.678.864	89.678.864
Liabilities from debentures with interest charge	98.734.532	98.734.532
Other long-term liabilities	4.173.780	4.173.780
Trade and other payables	116.612.109	116.612.109

The fair value of the financial assets and liabilities is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Company makes an estimate of the fair value on the basis of the publicly disclosed information from external sources or on the basis of the discounted cash flow method if applicable.

It is considered that the value of the receivables/liabilities with less than one year to maturity corresponds to the fair value. The other receivables/liabilities are discounted to determine the fair value.

## Equity management

The main goal of the equity management is to ensure support to business and maximize shareholder value. The Company adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust the equity structure, the Company may re-adjust dividends payouts or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years 2013 and 2014.

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## 27. POTENTIAL LIABILITIES

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As of 31 December 2014, the Company was involved in several disputes which have arisen from its business and a few disputes over indemnity obligations deriving from employment relationships. The Company already made provisions in its books for such claims in case of unfavourable outcomes.

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## 28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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In the application of accounting policies, the Company's Management made following judgements, independently of those which include estimates, and which have the most important influence to the amounts shown in the financial statements.

### Recognition of revenues

Revenue is recognized when the goods have been delivered or services have been rendered, or when the risks and rewards of ownership of goods have been substantively transferred to the customer. The estimate of the expected return of goods and other discounts is deducted from the revenues from sales and is recorded as included liabilities or provisions. Such estimates were made on the basis of the analysis of the existing contractual or legal obligations, historical trends and experience of the Company.

### Profit tax

The profit tax was calculated on the basis of the interpretation of rules and laws in force.

### Decrease in value of receivables

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

### Provisions for potential liabilities

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

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## 29. EVENTS AFTER BALANCE SHEET DATE

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In March 2015 the Company successfully completed and delivered to the conversion of the barge Cable Enterprise having a total value of EUR 22.5 million. Performance guarantees and advance payment guarantees issued by the Company amounting to 12 million EUR were released at redelivery, and the Company issued a new guarantee for the warranty period of one year to the value of EUR 3,000,000.

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## 30. CONSOLIDATED FINANCIAL STATEMENTS

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The joint-stock company Viktor Lenac shipyard is the mother company of the Viktor Lenac Group. In accordance with the International Financial Reporting Standards, the Group's consolidated financial statements have still not been

published. The consolidated financial statements shall follow shortly after disclosing the non-consolidated financial statements.

### 31. INFORMATION ON KEY ASSUMPTIONS REGARDING FUTURE BUSINESS OPERATIONS AND EVALUATION OF UNCERTAINTY AS AT BALANCE SHEET DATE

There are no significant information nor uncertainty which might influence the Company's business.

### 32. COURT DISPUTES

On the day of 31 December 2014 the Company participated in 42 disputes, worth about 4.239.000 Croatian Kuna in principal, as defendant and 10 disputes, worth about 3.525.000 Croatian Kuna in principal, as distrainee.

### 33. MORTGAGE

The Company has signed the pledge on tangible assets in favor of the Raiffeisenbank Austria bank Zagreb and the Croatian Bank for Reconstruction and Development (with the right of equal priority) in order to ensure the repayment of loans to finance development investment program, debt arising from lines of credit for short-term financing operations and the issuance of performance guarantees, and issued on the basis of advance guarantees for financing project modifications. Subscribed charges relate to mortgages on Dock 5, Dock 11 and Dock RI38, m / b Kostrena and m / b Pećine, the business area of Rijeka, the land that in nature makes parking and forest in the cadastral municipality of Kostrena Lucija, and on the part of movable property. The obligations under the loan secured as specified on the date 31.12.2014 amounts to 76.839.218,83 Croatian Kuna, and the value of issued guarantees is 12 million EUR.

### 34. CASH FLOW STATEMENT

The Cash Flow Statement 2014 was made by use of the indirect method.

### 35. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been prepared and approved by the Management Board of the Company on 17 April 2015.



BRODOGRADIŠTE VIKTOR  
**LENAC** d.d.  
RIJEKA, Martinsćica bb



Robert Škifić, President of the Board

Sandra Uzelac, Member of the Board