

SHIPYARD VIKTOR LENAC D.D.

Non-consolidated Annual Financial Statements and Audit Report for 2015

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STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENT

We acknowledge our responsibility for the preparation and presentation of the financial statements for the year 2015 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 and the results of operations of the Company for the year.

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 applicable financial reporting standards, disclosure and interpretation of any significant deviation in the financial statements.
- We have produced the financial statements under the assumption of the continuity of business for an indefinite period 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 14 April 2016.



BRODOGRADILIŠTE VIKTOR
LENAC
RIJEKA, Martinšćica bb

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

We have audited the accompanying financial statements of the Shipyard Viktor Lenac d.d., which comprise of the Balance Sheet as at December 31, 2015, Profit and Loss Account for the year 2015, 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 Company's 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 Shipyard Viktor Lenac d.d. for 2015 to express an opinion on the compliance of the annual report with the enclosed financial statements for 2015.

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 of the Company as at December 31, 2015, financial performance and cash flows for the year 2015 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 31.12.2015.

In Rijeka, 14 April 2016

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

Certified auditor:

Irena Dobrović



Authorised representative and certified auditor:

Branimir Grgić



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

BALANCE SHEET

(As at 31 December 2015)

				in HRK	
Description	Notes	2014	2015	15/14	
		I-XII	I-XII	+/-%	
1	2	3	4	5	6=5/4%
Assets					
A. Fixed Assets	14,15,16	282.281.636	266.783.903		95
I Intangible Assets	14	8.326.355	5.142.626		62
II Buildings, plants and equipment	14	265.256.131	251.650.753		95
III Shares in dependents and associates	15	763.259	763.259		100
IV Participating interests	15	155.000	586.475		378
V Financial assets	16	7.721.891	8.575.790		111
VI Receivables		-	-		-
VII Deferred tax assets		59.000	65.000		110
B. Short-term Assets		131.760.988	129.825.411		99
I Inventories	17	23.823.337	27.615.285		116
II Financial assets	16	8.993.695	317.640		4
III Trade and other receivables	18	89.678.864	62.251.688		69
IV Money in bank and cash in register	19	9.265.092	39.640.798		428
V Assets held for sale		-	-		-
C. Total assets		414.042.624	396.609.314		96
D. Off balance sheet items, equity and liabilities		-	-		-
A. Equity and reserves	20	193.440.006	219.389.396		113
I Share capital	20	168.132.470	168.132.470		100
II Capital reserves		-	-		-
III Reserves		24.828.938	25.332.760		102
IV Retained profit/loss	20	478.598	25.924.166		-
B. Minority interest		-	-		-
C. Long-term liabilities		76.089.659	77.338.154		102
I Debentures with interest charge	21	70.833.682	61.712.913		87
II Provisions	24	1.082.197	914.484		85
III Deferred tax liabilities		-	12.306		-
IV Other long-term liabilities	25	4.173.780	14.698.451		-
D. Short-term liabilities		144.512.959	99.881.764		69
I Debentures with interest charge	21	27.900.850	13.916.246		50
II Profit tax liability	12,22	-	1.306.604		-
III Trade and other payables	22	116.612.109	81.754.860		70
IV Financial liabilities		-	-		-
V Provisions	24	-	2.904.054		-
E. Total liabilities		220.602.618	177.219.918		80
F. Total equity and liabilities		414.042.624	396.609.314		96



BRODOGRADIŠTE VIKTOR

LENAC

RIJEKA, Martinšćica bb

Robert Škifić, President of the Board

Sandra Uzelac, Member of the Board

PROFIT AND LOSS ACCOUNT INCLUDING COMPREHENSIVE INCOME
(As at 31 December 2015)

				<i>in HRK</i>	
Description		Notes	2014 I-XII	2015 I-XII	15/14 +/-%
1	2	3	4	5	6=5/4
1.	Operating Revenues		363.367.056	527.178.431	145
1.1.	Revenues from sales	3	353.242.013	520.569.352	147
1.2.	Other operating revenues	4	10.125.043	6.609.079	65
2.	Operating Expenses		358.921.154	495.798.002	138
2.1.	Changes in inventories value of unfinished production		(3.376.577)	(10.235.775)	-
2.2.	Material expenses	5	263.526.028	362.378.452	138
2.3.	Employee expenses	6	62.413.681	71.722.100	115
2.4.	Depreciation	7	19.717.802	23.399.094	119
2.5.	Value adjustment	8	998.942	26.289.194	-
2.6.	Provisions	9	60.000	3.302.555	-
2.7.	Other expenses	10	14.547.404	13.704.532	94
2.8.	Other operating expenses	10	1.033.874	5.237.850	-
3.	EBIT		4.445.902	31.380.429	-
4.	Net financial (expenses/revenues)	11	(3.967.304)	(4.149.659)	105
4.1.	Financial revenues	11	814.483	318.990	39
4.2.	Financial expenses	11	4.781.787	4.468.649	93
5.	Profit/(loss) from operating activities before tax		478.598	27.230.770	-
6.	Profit tax	12	-	1.306.604	-
7.	Profit /(loss) for the year	13	478.598	25.924.166	-
	Earnings per share (HRK)		0,03	1,62	-
8.	Net profit/loss for the year		478.598	25.924.166	-
	Profit/(loss) after revaluation of financial assets available for sale		(45.000)	31.530	-
8.1.					
8.2.	Deferred tax assets		9.000	(6.306)	-
9.	Comprehensive income/(loss) for the year		442.598	25.949.390	-


 BRODOGRADIŠTE VIKTOR
LENAC
 RIJEKA, Martinčićeva bb

Robert Škifić, President of the Board

Sandra Uzelac, Member of the Board

CASH FLOW STATEMENT
 (As at 31 December 2015)

				<i>in HRK</i>	
	Description	Notes	2014	2015	15/14
			I-XII	I-XII	+/-%
1	2	3	4	5	6=5/4
I	Cash flow from operating activities				
1.	Profit/loss before taxation		478.598	27.230.770	-
	Adjustment for:				
2.	Profit tax		-	(1.306.604)	-
3.	Depreciation of buildings, plants and equipment		19.717.802	23.399.094	119
4.	Expenses/revenues from interests (net)		4.401.309	3.968.733	90
5.	Decrease in value of trade receivables		998.942	25.304.365	-
6.	Decrease in value of tangible assets		-	984.829	-
7.	Loss from sale of tangible assets		-	2.956.108	-
8.	Loss from written-off tangible and intangible assets		-	1.706.771	-
	Profit from operating activities before changes in working capital		25.596.651	84.244.066	329
9.	Increase/decrease of inventories		(4.860.229)	(3.791.948)	-
10.	Increase/decrease of short-term receivables		(44.655.748)	1.954.557	-
11.	Investment in financial assets		(6.452.297)	7.922.155	-
12.	Increase/decrease of liabilities		48.847.161	(22.895.486)	-
13.	Profit tax paid		-	-	-
14.	Interest paid		(4.347.042)	(4.099.221)	94
15.	Interest received		326.017	168.255	52
16.	Other		(1.892.360)	2.736.341	-
	Cash flow from operating activities	34	12.562.153	66.238.719	-
II	Investing activities				
	Acquisition of buildings, plants, equipment and intangible assets		(28.094.589)	(12.744.741)	45
1.	Income from sale of long-term assets		52.821	487.046	-
2.	Granted loans		(800.000)	(470.000)	59
3.	Inflows of loans		682.360	370.000	54
4.	Other outflows from investing activities		72.751	(399.945)	-
	Cash flow from investing activities	34	(28.086.657)	(12.757.640)	45
III	Financial activities				
1.	Inflows from debentures with interest charge		36.392.315	19.270.205	-
2.	Repayment of debentures with interest charge		(25.411.997)	(42.375.578)	-
IV	Cash flow from financial activities	34	10.980.318	(23.105.373)	-
	Total increase/decrease of cash flow (i+ii+iii)		(4.544.186)	30.375.706	-
V	Cash and cash equivalents at the beginning of the period		13.809.278	9.265.092	67
VI	Cash and cash equivalents at the end of the period	19	9.265.092	39.640.798	428


 BRODOGRADILIŠTE VIKTOR LENAC D.D. RIJEKA
 Robert Škifić, President of the Board

 RIJEKA, Martin Galić
 Sandra Uzelac, Member of the Board


STATEMENT ON CHANGES IN EQUITY

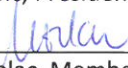
in HRK

Description	Notes	31.12.2014	Increase I-XII/2015	Decrease I-XII/2015	31.12.2015
1	2	3	4	5	6
Subscribed capital	20	168.132.470	-	-	168.132.470
Capital reserves	20	33.120.710	478.598	-	33.599.308
Revalorisation reserves	20	(236.000)	25.224	-	(210.776)
Retained profit or transferred loss	20	-	-	-	-
Profit or loss for the year	20	478.598	25.924.166	478.598	25.924.166
Acquisition of own shares	20	(8.055.772)	-	-	(8.055.772)
Total equity and reserves	20	193.440.006	26.427.988	478.598	219.389.396



BRODOGRADIŠTE VIKTOR
LENAC
 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 SHIPYARD VIKTOR LENAC, headquartered in Rijeka, Croatia at Martinšćica bb, (hereinafter referred to as „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 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 registration 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 2015 the Company employed 493 employees.

On 31.12.2015 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.

On the day of 31 December 2015, 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 2015:

Ord No	Shareholder	Number of shares	%
1	TANKERSKA PLOVIDBA j.s.c. Zadar (1/1)	6.212.738	36,95
2	ULJANIK SHIPYARD j.s.c. Pula (1/1)	5.829.785	34,67
3	PRIVREDNA BANK j.s.c. Zagreb/COLLECTIVE CUSTODY ACCOUNT	1.367.268	8,13
4	SHIPYARD VIKTOR LENAC j.s.c. (1/1)	825.187	4,91
5	CROATIAN RESTRUCTURING AND SALE CENTRE (CERP) (0/1) / REPUBLIC OF CROATIA (1/1)	641.874	3,82
6	JADROAGENT j.s.c. (1/1)	324.766	1,93
7	R.L.E., Ltd. (1/1)	105.211	0,63
8	WEISS BRANKA MARIA (1/1)	77.308	0,46
9	PRESWICK MARINA (1/1)	54.329	0,32
10	Others	1.374.781	8,18
	Total:	16.813.247	100,00

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

On the day of 14 April 2016, 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 2015 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 31st December 2015 as follows:

1 EUR = 7,635047 HRK	(31.12.2014: 1 EUR = 7,661471 HRK)
1 USD = 6,991801 HRK	(31.12.2014: 1 USD = 6,302107 HRK)
1 NOK = 0,800194 HRK	(31.12.2014: 1 NOK = 0,849133 HRK)
1 GBP = 10,361035 HRK	(31.12.2014: 1 GBP = 9,784765 HRK)

2.1. Standards and interpretations that have been in force for the current period

For the year that ended on 31st December 2015, the Company adopted International Financial Reporting Standards and their modifications as listed below. The application of modified IFRSs has enabled data comparison.

The following standards, modifications and amendments to the existing standards and interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union have been in force in the current period:

- Modifications and amendments to a number of standards entitled "Improvements to IFRSs from the series 2011 to 2013" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 18 December 2014 (applicable to annual periods beginning on or after January 1, 2015);

- interpretation of IFRIC 21 "Levies", adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after June 17, 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in accounting policies of the Company and the Group.

2.2. Standards and interpretations issued by the IASB and adopted by the EU, that have not yet come into force

At the date of approval of the financial statements were published but not in force the following amendments to the existing standards issued by IASB and adopted by the European Union:

- Amendments to IFRS 11 "Joint Arrangements" - "Accounting to acquisition of interests in joint operations", adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - "Disclosure Initiative", adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible assets" - "Clarification of acceptable methods of depreciation of tangible and intangible assets", adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - "Agriculture: fruitful plants", adopted by the European Union on 23 November 2015 (effective for annual periods beginning on or after January 1, 2016.),
- Amendments to IAS 19 "Employee Benefits" - "Defined contribution plans: contributions paid by employees", adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after February 1, 2015),
- Amendments to IAS 27 "Separate Financial Statements" - "Equity method in separate financial statements", adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to various standards entitled "Improvements to IFRSs from the series 2010 to 2012" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 17 December 2014 (applicable to annual periods beginning on or after February 1, 2015),
- Amendments to various standards entitled "Improvements to IFRSs from the series 2012 to 2014" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after January 1, 2016).

2.3. New standards and amendments to existing standards issued by the IASB and not yet adopted by the EU

IFRSs currently approved in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB abbreviated), except for the following standards, amendments to standards and interpretations adoption of which has not yet been decided by the European Union as until 29 January 2016 (effective dates listed below refer to IFRSs as a whole):

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018),
- IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after January 1, 2016),

- IFRS 15 "Revenues from contracts with customers" (effective for annual periods beginning on or after January 1, 2017),
- amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Interests in associates and joint ventures" –sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after January 1, 2016),
- amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in other entities" and IAS 28 "Interests in associates and joint ventures" - "Investment entities: application of the exemption from consolidation" (effective for annual periods beginning on or after January 1, 2016),
- amendments to IFRS 11 "Joint Arrangements" - "Accounting to acquisition of interests in joint operations " (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 1 "Presentation of Financial Statements" - " Disclosure Initiative " (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - an explanation of acceptable methods of depreciation of tangible and intangible assets (effective for annual periods beginning on or after January 1, 2016),
- amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - "Agriculture: fruitful plants" (effective for annual periods beginning on or after January 1, 2016)
- amendments to IAS 27 "Separate Financial Statements" - "Equity method in separate financial statements" (effective for annual periods beginning on or after January 1, 2016).
- amendments to various standards entitled "Improvements to IFRSs from the series 2012 to 2014" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (applicable to annual periods beginning on or after January 1, 2016).

2.4. New standards and amendments to existing standards issued by the IASB and not yet adopted by the EU

IFRSs currently approved by the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB abbreviated), except for the following standards, amendments to standards and interpretations adoption of which has not yet been decided by the European Union as until 29 January 2016 (effective dates listed below refer to IFRSs as a whole):

- The entity anticipates that their adoption will have no material impact on its financial statements in the period of initial application.
- At the same time, hedge accounting for financial assets and financial liabilities whose principles have not yet been adopted by the European Union, remains unregulated.
- According to estimates of the entity, the application of hedge accounting for financial assets and financial liabilities in IAS 39 "Financial Instruments: Recognition and Measurement" with the balance sheet date would not significantly affect the financial statements.

The Management anticipates that all of the above-mentioned standards and interpretations will be applied in the financial statements for the period when they are in force, and that their adoption will not have a significant impact on the financial statements in the period of initial application.

Key assumptions and estimates and uncertainty in preparing 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, disclosure of potential items on balance sheet date and disclosed revenues and expenses of the period then ended.

The estimates were used, without limitation, to the following items: calculation and period of depreciation and remaining value of the real-estate, plants, equipment and intangible assets, decrease in value, value adjustment of inventories and disputable claims, provisions for employees' salaries and wages, and court disputes. More details on accounting policies with respect to estimates can be found in other parts of this note as well as other notes of the financial statements. The impact of future events cannot be anticipated with certainty. Accounting estimates, therefore, call for judgements. Judgements used in preparing financial statements are subject to changes due to new events, 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 2015 are as set forth below:

a) Revenues

- /i/ Revenues are recognized on the day of delivery of goods and/or services, or invoicing date.
- /ii/ Revenues from sales of goods and services are recognized if:
 - o the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - o the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - o the amount of revenue can be measured reliably;
 - o it is probable that the economic benefits associated with the transaction will flow to the entity; and
 - o the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- /iii/ Revenues from rendered services whose outcome of a transaction can be estimated reliably, shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenues from rendered services are recognized if:
 - o the amount of revenue can be measured reliably;
 - o it is probable that the economic benefits associated with the transaction will flow to the entity;
 - o the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
 - o the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

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

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

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

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

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

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

b) Expenses

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

The recognition of expenses occurs if:

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

Losses that can be identified as expenses are classified as expenses. In that case losses 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:

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

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

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

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

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

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

e) Fixed tangible assets

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

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

Fixed tangible assets are recognized if following fulfilled:

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

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

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

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

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

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

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

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

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

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

Rates applied for depreciation are as follows:

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

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

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

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

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

f) Long-term financial assets

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

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

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

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

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

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

g) Inventories

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

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

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

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

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

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

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

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

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

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

j) 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) Prepaid expenses and accrued income

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

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

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

l) Equity

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

m) Provisions

Provisions should be recognized when an entity has a present obligation (legal or constructive) 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 expenses and deferred income

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

Incurred expenses which do not meet the criteria to be recorded as liabilities, are recorded at the amount specified in the documentation which anticipated the business event and are transferred as a Balance Sheet position in the following period in which they are carried over to liabilities once they meet the criteria.

Those revenues not meeting the criteria to be recognized in the current period are deferred for future periods.

3.REVENUES FROM SALES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Revenues from rendered services on domestic market	35.329.213	6.997.824
Revenues from rendered services on foreign market	317.845.103	513.512.110
Revenues from sales to the subsidiary	67.697	59.418
Total	353.242.013	520.569.352

Structure of revenues from sales:

	<i>in HRK</i>		
	Domestic market	Foreign market	Total
Shiprepair	6.064.871	236.291.225	242.356.096
Offshore	334.404	-	334.404
Conversions	-	273.529.798	273.529.798
Other	657.967	3.691.087	4.349.054
Total	7.057.242	513.512.110	520.569.352

4.OTHER REVENUES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Revenues from sales of material	4.132.367	3.587.030
Revenues from sales of material - subsidiary	14.422	27.436
Rentals	874.297	937.869
Rentals - subsidiary	225.790	211.899
Revenues from withdrawal of long-term reserves	668.885	171.225
Collection of damage claims from insurance	2.759.567	856.461
Other revenues	1.394.515	761.939
Other revenues - subsidiary	55.200	55.220
Total	10.125.043	6.609.079

The revenues from collection of damage claims refer to insurance cover. Other revenues in the amount of 761.939 Croatian Kuna refer to subsequently established revenues from the previous years, inventory surplus, written-off liabilities and similar.

5. MATERIAL EXPENSES AND EXPENSES OF PRODUCTS SOLD

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Raw and other material		
Consumed raw and other material	91.607.172	89.374.862
Consumed raw and other material - subsidiary	48.971	28.744
Consumed energy	12.627.745	16.838.644
Small inventory and spare parts	1.158.248	484.298
Total raw and other material	105.442.136	106.726.548
Other external expenses		
Transportation, phone, post and similar services	600.652	612.914
Services in manufacture of product	90.755.557	125.704.692
Services in manufacture of product- subsidiary	626.638	533.800
Subsupplier services	45.835.945	94.282.652
Subsupplier services- subsidiary	2.114.911	3.345.685
Maintenance services	9.417.701	21.542.680
Maintenance services - subsidiary	15.091	12.225
Rental expenses	4.166.597	4.375.732
Intellectual services	1.369.099	1.838.658
Other services	3.181.701	3.402.866
Total other external expenses	158.083.892	255.651.904
Total material expenses	263.526.028	362.378.452

6. EMPLOYEE EXPENSES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Net salaries and wages	33.843.028	39.330.263
Social security contributions and taxes paid by employer	14.334.241	16.795.620
Social security contributions and taxes paid by employee	8.844.371	10.509.214
Severance pay	120.000	120.000
Compensations for travelling costs, daily allowances, annual bonuses	5.272.041	4.967.003
Total	62.413.681	71.722.100

In 2015 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>	
	31.12.2014	31.12.2015
Buildings, facilities and equipment	19.717.802	23.399.094
Total	19.717.802	23.399.094

The 2015 depreciation rate was 67%.

8. VALUE ADJUSTMENT

The Company performed revaluation of fixed assets in the amount of 984,829 Croatian Kuna, as well as the revaluation of accounts receivable in the amount of 25,304,365 Croatian Kuna, of which the largest amount related to the revaluation of receivables from an Italian client declared insolvent.

9. PROVISIONS

The Company made provisions for warranty works (768,849 HRK) and provisions for litigations started in 2015 (398.500 HRK). Due to a significant amount of unused vacation days and their transfer to 2016, the Company made provisions for unused vacation days in 2015 (2,135,206 HRK).

10. OTHER EXPENSES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Representation and gifts	967.308	1.372.858
Insurance premiums	5.948.255	5.504.677
Bank services	3.139.869	1.932.029
Tax and contribution not dependant on the result	2.127.344	2.711.566
Other expenses	2.364.628	2.183.402
Total	14.547.404	13.704.532

A part of other expenses in the amount of 5,087,003 HRK referred to employee costs, relating to severance pay and travel expenses, daily allowances and prizes (Note No.6).

Other operating expenses in the amount of 5,237,850 HRK largely referred to unwritten-off value of the written-off and sold assets (4,689,901 HRK), written-off items from the last year subsequently established (187,288 HRK), inventory shortages (13,342 HRK), and other operating expenses (347,319 HRK).

11.NET FINANCIAL (EXPENSES) / INCOME

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Financial income		
Interests	380.478	318.990
Positive exchange rate differences	434.005	-
Total financial income	814.483	318.990
Financial expenses		
Interests	4.781.787	4.287.723
Negative exchange rate differences	-	180.926
Total financial expenses	4.781.787	4.468.649
Net financial (expenses) / income	(3.967.304)	(4.149.659)

12.PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2015 the Company produced a profit in the amount of 27,230,770 HRK. The profit tax amounted to 1,306,604 HRK resulting in a profit after tax in the amount of 25,924,166 HRK.

13.EARNINGS PER SHARE

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Net profit	478.598	25.924.166
Shares exclusive of own shares	15.988.060	15.988.060
Earning /(loss) per share	0,03	1,62

14. FIXED TANGIBLE AND INTANGIBLE 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
Acquisition value										
Balance 1 Jan 2015	12.504.214	68.570.426	545.955.462	76.713.403	34.245.406	450.464	738.439.375	11.871.475	2.187.001	752.497.851
Transfer from investments in progress and advances	-	1.434.051	33.135.533	1.321.789	(36.034.528)	(1.103.029)	(1.246.184)	2.320.452	(2.320.452)	(1.246.184)
Acquisition during the year	-	-	-	-	13.061.755	652.565	13.714.320	-	133.451	13.847.771
Sold and written-off assets during the year	-	-	(1.903.125)	(5.991.025)	(3.300.000)	-	(11.194.150)	(3.989.182)	-	(15.183.332)
Decrease in value after evaluation	-	(984.829)	-	-	-	-	(984.829)	-	-	(984.829)
Balance 31 Dec 2015	12.504.214	69.019.648	577.187.870	72.044.167	7.972.633	-	738.728.532	10.202.745	-	748.931.277
Value adjustment										
Balance 1 Jan 2015	6.958.527	65.259.090	331.626.195	69.339.432	-	-	473.183.244	5.732.121	-	478.915.365
Depreciation during the year	-	117.191	19.136.640	2.423.755	-	-	21.677.586	1.721.508	-	23.399.094
Sold and written-off assets during the year	-	-	(1.844.466)	(5.938.585)	-	-	(7.783.051)	(2.393.510)	-	(10.176.561)
Balance 31 Dec 2015	6.958.527	65.376.281	348.918.369	65.824.602	-	-	487.077.779	5.060.119	-	492.137.898
Book value 1 Jan 2015	5.545.687	3.311.336	214.329.267	7.373.971	34.245.406	450.464	265.256.131	6.139.354	2.187.001	273.582.486
Book value 31 Dec 2015	5.545.687	3.643.367	228.269.501	6.219.565	7.972.633	-	251.650.753	5.142.626	-	256.793.379

15. INVESTMENT IN ASSOCIATES

The net book value of investments in subsidiaries refer to only subsidiary Viktor Servisi Ltd. in which the Company holds a 100% equity interest, the value of which amounts to 763,259 Croatian Kuna as at 31.12.2015 as well as 31.12.2014.

The Company owns 5,000 shares of Uljanik j.s.c. recorded at nominal value in the amount of 450,000 Croatian Kuna. On the day of 31.12.2015, the Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares amounted to 125,000 Croatian Kuna.

In February 2015, the Company purchased 6,153 shares of Tankerska next generation recorded at nominal value in the amount of 399,945 Croatian Kuna. On the day of 31.12.2015, the Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares amounts to 461,475 Croatian Kuna.

16. FINANCIAL ASSETS

Long-term financial assets in the amount of 8,575,790 HRK refer to a cash deposit for long-term loan for financing development (8,398,551 HRK) and a security in the amount of 177,239 Croatian Kuna.

Short-term financial assets in the amount of HRK 317,640 referred to granted loans.

17. INVENTORIES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Raw and other material	19.860.991	13.520.493
Raw and other material under transportation	103.329	-
Production in progress	3.859.017	14.094.792
Small inventory	7.620.155	7.837.668
Small inventory value adjustment	(7.620.155)	(7.837.668)
Total	23.823.337	27.615.285

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 in 2003 when the Company evaluated the assets, including an aggregate estimate of inventories encashment which produced a book item for adjustment of value as per estimate. The Company continued with its business and the stock was used in normal production activities. The Company performed a value adjustment of the analytical structure of raw and other material on stock to the aggregate value adjusted. The remaining balance of the book value adjustment of inventories as per estimate represents an aggregate adjustment of inventories that has not yet been not recorded analytically.

18. TRADE AND OTHER RECEIVABLES

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Receivables from customers - gross	47.634.994	79.005.394
Receivables from customers—decrease of value	9.993.722	30.545.142
Receivables from customers— net	37.513.636	48.451.071
Receivables from customers—subsidiary	127.636	9.181
Receivables from employees	82.559	1.875
Receivables from state	11.276.459	12.742.907
Prepaid expenses and accrued income	31.038.454	380.088
Advances	9.584.412	657.397
Other receivables	55.708	9.169
Total	89.678.864	62.251.688

Age structure of matured receivables from customers:

	<i>in HRK</i>	
	31.12.2014	31.12.2015
1-90 days	34.394.612	47.922.536
91-180 days	157.720	43.504
181-365 days	2.114.794	60.019
Over 365 days	974.146	434.193
Total	37.641.272	48.460.252

Age structure of decrease of value of receivables:

	<i>in HRK</i>	
	31.12.2014	31.12.2015
1-90 days	-	-
91-180 days	-	-
181-365 days	3.643.883	-
Over 365 days	6.349.839	30.545.142
Total	9.993.722	30.545.142

Structure of trade receivables by currency:

	<i>in HRK</i>	
	31.12.2014	31.12.2015
HRK	5.397.392	1.430.529
EUR	32.243.880	18.841.784
USD	-	28.187.939
Total	37.641.272	48.460.252

19.CASH AND CASH EQUIVALENTS

	<i>in HRK</i>	
	31.12.2014	31.12.2015
Money in bank	6.255.505	36.569.487
Cash in register	9.587	6.562
Time deposits	3.000.000	3.064.749
Total	9.265.092	39.640.798

20.EQUITY AND RESERVES

- (i) On the day of 31 December 2015 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 2008-2014.

- (ii) On the day of 31 December 2015 the Company owned 825.187 own shares (31 December 2014: 825.187), making 4.91% of the share capital.

- (iii) On the day of 31 December 2015 the statutory reserves within the frame of the statutory and other reserves, amounted to 7.170.741 Croatian Kuna (2014: 7.146.811 Croatian Kuna). The statutory reserves were formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserves until it grows to 5% of the issued share capital.
- In accordance with the Company's General Assembly's decision, the profit generated in 2014 in the amount of 478.598 Croatian Kuna was allocated in the following way: 23.930 Croatian Kuna was allocated to the statutory reserve fund, and 454.668 Croatian Kuna to the general reserve fund.
- The statutory reserves and reserves for own shares in the amount of 19.710.741 Croatian Kuna (2014: 19.686.811 Croatian Kuna) cannot be allocated to the shareholders.

21.DEBENTURES WITH INTEREST CHARGE

Below is the overview of debentures on which interest is paid according to the repayment dynamics as at 31 December 2015:

31.12.2015	Total	1 year or less	2-5 years	In HRK More than 5 years
Financial lease	3.535.322	833.617	2.701.705	-
Long-term loan for financing development	67.753.618	8.742.410	43.712.013	15.299.195
Short-term loan	4.340.219	4.340.219	-	-
Total	75.629.159	13.916.246	46.413.718	15.299.195

The long-term debentures include finance lease liabilities to the BKS Bank BKS leasing Croatia in the amount of 2.701.705 Croatian Kuna and the long-term loan for financing investment in the amount of 59.011.208 Croatian Kuna.

The short-term debt in the amount of 13,916,246 Croatian Kuna related to the short-term loan for working capital in the amount of 4,340,219 Croatian Kuna, current portion of long-term loans to finance development in the amount of 8,742,410 Croatian Kuna, and the current portion of financial leasing liabilities to the BKS Leasing Croatia in the amount of 725,135 Croatian Kuna, and Croatian Telecom in the amount of 108,482 Croatian Kuna.

22.TRADE AND OTHER LIABILITIES

	in HRK	
	31.12.2014	31.12.2015
Trade payables	104.027.728	57.925.456
Trade payables—subsidiary	1.490.084	1.857.915
Employee payables	3.949.078	4.720.470
Tax and contribution	2.816.718	5.135.181
Profit tax liability for the year	-	1.306.604
Received advances	1.126.726	5.345.023
Other liabilities	1.025.249	2.134.780
Accrued expenses and deferred income	2.176.526	4.636.750
Total	116.612.109	83.061.464

Other liabilities included current portions of liabilities to HEP ESCO Ltd. for the project of extensive renovation of external, internal, and temporary lighting in the amount of 1,168,520 Croatian Kuna.

Structure of trade payables by currency:

	31.12.2014	31.12.2015
<i>in HRK</i>		
HRK	94.080.869	55.970.757
EUR	6.636.562	3.652.953
GBP	4.797.372	-
NOK	3.009	7.301
Other currency	-	152.360
Total	105.517.812	59.783.371

23. RELATIONSHIP WITH RELATED ENTERPRISES

	2014	2015
<i>in HRK</i>		
Related enterprises and key shareholders		
Sale to related enterprises		
Sale to subsidiaries	438.988	353.973
Sale to key shareholders	394.966	344.340
Purchase from related enterprises		
Purchase from subsidiaries	3.507.961	3.920.453
Purchase from key shareholders	2.832.308	6.532.034
Receivables from related enterprises		
Receivables from subsidiaries	127.636	9.181
Receivables from key shareholders	612.365	218.873
Liabilities to related enterprises		
Liabilities to subsidiaries	1.490.084	1.857.915
Liabilities to key shareholders	859.808	815.629

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 and Top Management for the year 2015 amounted to 3.575.246 Croatian Kuna.

The total compensation (gross) for the members of the Supervisory Board and Audit Board for the year 2015 amounted to 593.949 Croatian Kuna.

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

24. PROVISIONS

Long-term provisions in the amount of 914,484 Croatian Kuna related to provisions for legal proceedings that have been started. Short-term provisions in the amount of 2,904,054 Croatian Kuna involved warranty repairs and provisions for unused vacation days for workers in 2015.

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31.12.2015 in the amount of 14,698,451 Croatian Kuna involved obligations to HEP ESCO Ltd. the project of extensive renovation of external, internal, and temporary lighting in the amount of 10,524,671 Croatian Kuna and contingent liabilities for disputed claims of creditors and related litigation costs in the amount of 4,173,780 Croatian Kuna, where litigation are not yet finalized.

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

Most of the Company's revenues from sale of services is generated on the international market, mainly in EUR, therefore EUR-HRK exchange rate movements can have an impact on operating results. However, because of a relatively rapid turnover of receivables, currency risk is not significant, and the Company does not conduct active hedging operations in foreign currencies. The Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in local currency. In 2015, the Company recorded an extremely high level of revenue stipulated in USD deriving from extensive repair works carried out on the ship "USS Mount Whitney". Concerning that since the beginning of the project, the US dollar advanced with respect to the euro and the local currency, the Company did not use hedging instruments. Given the short duration of the project, and payment dynamics, during the phases of slight fluctuations of the US dollar to the local currency, almost the same level of positive and negative exchange rate differences was achieved.

Depending on the assessment of future trends in USD and EUR currencies in relation to the local currency, the Company will use hedging instruments.

Credit risk

Potential credit risk may involve trade receivables. Trade receivables are stated net of bad debt. The objective of the Company is to do business with regular customers, whose credibility can be safely estimated given the long-standing cooperation. When there is a higher risk of payment, the Company seeks to arrange such payment terms that the works carried out are paid in full prior to redelivery of the vessel. One of the Company's foreign customers initiated the process of insolvency, and the Company has already accounted for impairment of value of that customer. There were no other significant concentrations of credit risk.

Interest rate risk

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

Liquidity risk

Intensified employment in the previous period and increased shiprepair operations favorably impacted on the liquidity, that was impaired as a result of higher loss realized in 2012 and working capital investment in fixed assets. The Company did not have significant difficulty in meeting obligations associated with financial instruments. During 2015 were shortened payment terms to suppliers, and liabilities to the government, banks and employees were regularly settled without delay.

Fair value

The Company makes estimates of the fair value of financial assets and liabilities, and it has been established that the fair value does not differ from book value.

The fair value of the financial assets and liabilities is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the 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.

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 2014 and 2015.

27.POTENTIAL LIABILITIES

As of 31 December 2015, 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.

28.IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

29.EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

30.CONSOLIDATED FINANCIAL STATEMENTS

The joint-stock company Shipyard Viktor Lenac 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

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

32. COURT DISPUTES

On 31 December 2015, the Company participated in 31 disputes worth about 3,964,680 Croatian Kuna as the defendant, and 10 disputes having a capital value of approximately 3,524,600 Croatian Kuna as the plaintiff, all in Croatian court. In Panama court, following a litigation worth over 2.1 million USD of outstanding receivables for the restoration of the yacht Christina O., pursued by the Company against its debtor, which ended in favor of the debtor under the statute of limitations, the debtor filed a lawsuit against the Company for damages allegedly suffered because of the fore mentioned case in the amount of EUR 9,341,617, referring to the alleged intention of the Company to inflict damage to the debtor by arresting the ship. In the first (lost) case, the Company was not denied its claim, but the case was lost because of the preponderance of opinion of two of the three judges of the Judicial Council of the Panamanian court that the claim was covered by the statute of limitations. Consequently, the Company believes that the risk of losing the litigation in which the Company is now found as a defendant is very small, since the alleged intention of the Company to incur damage to the opposing party is almost impossible to prove.

33. MORTGAGE

The Company has signed the pledge on tangible assets in favour 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. Subscribed charges relate to mortgages on Dock 5, Dock 11 and Dock RI38, m/v Kostrena and m/v Pećine, a real-estate in Rijeka, 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 31.12.2015 amounted to 72.093.837 Croatian Kuna.

34. CASH FLOW STATEMENT

The Cash Flow Statement 2015 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 14 April 2016.



BRODOGRADILIŠTE VIKTOR
LENAC d.d.
 RIJEKA, Martinsćica bb


 Robert Škifić, President of the Board


 Sandra Uzelac, Member of the Board