

NON-CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2017



SHIPYARD

VIKTOR LENAC

Delivering Top Quality, In a Safe Way, On Time

April 2018



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STATEMENT ON RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

We acknowledge our responsibility for the preparation and presentation of the financial statements for the year 2017 in accordance with the International Financial Reporting Standards applied in the European Union and Croatian Law on Accounting to give a true and fair view of financial performance and financial results of the joint stock company "Brodogradilište Viktor Lenac" for the year.

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

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

- We acknowledge our responsibility for the implementation and consistent application of the appropriate accounting policies.
- We acknowledge our responsibility for giving reasonable and conservative estimates.
- We acknowledge our responsibility for the fair presentation of the financial statements in accordance with applicable financial reporting standards, disclosure and interpretation of any significant deviation in the financial statements.
- We have produced the financial statements under the assumption of the continuity of business for an indefinite period, unless it is inappropriate to assume that the Company shall continue running its business activities.

We acknowledge our responsibility for keeping proper and accurate accounting records, which shall at any time reflect the financial results and business performance of the Company with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and 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 20 April 2018.




Aljoša Pavelin, President of the Board


Sandra Uzelac, Member of the Board



Inženjerski biro-revizija d.o.o. Zadar

za reviziju finansijskih izvještaja i pružanje usluga u području računovodstva,
poreznog savjetovanja, finansijskih analiza i kontrola

23000 ZADAR, Poljana Plavčić 1

Tel./Fax: 023/250-869

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

AUDITOR'S REPORT ON NON-CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying Non-Consolidated Financial Statements of the joint stock company "Brodogradilište Viktor Lenac" (Company), which comprise of the Balance Sheet as at December 31, 2017, Profit and Loss Account for the year 2017, 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.

In our opinion, the accompanying Non-Consolidated Financial Statements of the Shipyard Viktor Lenac, which were the subject of our audit, present fairly and truly the Company's financial results as at December 31, 2017, financial performance and cash flows for the year 2017 in accordance with the International Financial Reporting Standards and Croatian Law on Accounting, which have been established by the European Commission and published in the Official Journal of the European Union.

Qualifications Influencing Auditor's Opinion

We conducted our audit in accordance with Croatian Law on Accounting, Audit Act and International Standards on Auditing. Our accountability to these standards is described in more detail in our Independent Auditor's Report on Auditor's Responsibilities for Audit of Non-Consolidated Annual Financial Statements. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Issues

Key audit issues are those issues that were, by our professional judgment, of the utmost importance for our audit of the Non-Consolidated Annual Financial Statements of the current period and include the recognized, most significant risks of misstatement due to error or fraud with the greatest impact on our audit strategy, allocation of our available resources, and the time spent on auditing by the audit team. We have dealt with these issues in the context of our audit of the Non-Consolidated Financial Statements as a whole and in forming our opinion thereabout. We, therefore, do not give a separate opinion on these issues.

Key Audit Issue

The value of property, plants and equipment as recorded in the Balance Sheet as at 31 December 2017 is 276 million Croatian Kuna - see note 14.

During the year, the Company continued to undertake significant investments in the docks and the capitalized costs added to the cost basis of the docks in 2017 amounted to HRK 26.5 million.

A significant amount of these costs requires consideration be given to the nature of the costs incurred to ensure that the recognition of costs as equipment meets the criteria for recognition set out in IAS 16 - Property, Plant and Equipment, and the estimated useful life of property, plant and equipment.

Our Audit Procedures related to the Key Audit Issue

As the key audit issue involves own production and use of external services, we reviewed a sample of incoming invoices recognized as newly acquired assets, we tested the cost of materials that were incorporated in the investment, and all other costs allocated to the investment to make sure that the costs from a selected sample meet the recognition criteria in accordance with IAS 16 - Property, Plant and Equipment, and whether they are consistent with the Company's accounting policies. Based on available evidence and conducted procedures, we believe that the costs are properly recognized and classified.

Other information in the Annual Report

The Management Board is responsible for other information. Other information includes information contained in the Annual Report but does not include the Non-Consolidated Financial Statements and our Independent Auditor's Report.

Our opinion on the Non-Consolidated Financial Statements does not cover other information, except to the extent expressly stated in our Independent Auditor's Report under the title 'Report on other legal requirements', and we do not express any form of conclusion involving our beliefs about them.

Regarding our audit of the Non-Consolidated Financial Statements, it is our responsibility to read other information and, in doing so, to consider whether other information is significantly contradictory to the Non-Consolidated Financial Statements or our findings or as may appear otherwise to have been significantly misrepresented. If we conclude that there is a significant misstatement of other information, we are required to report the fact. In that sense, we do not have anything to report.

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

The Management Board is responsible for preparation and a true and fair presentation of financial statements in accordance with the International Financial Reporting Standards, and for internal control relevant for preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud.

In preparing the Non-Consolidated Financial Statements, the Management Board is responsible for assessing the capability of the Company to continue to operate indefinitely, disclosing issues related thereto, where applicable, and using a basis of accounting based on the going concern concept, unless the Management Board intends to wind up the Company or terminate business or has no real alternative but to do so.

Those charged with management are responsible for supervising the financial reporting process established by the Company.

Auditor's Responsibilities for Audit of Non-Consolidated Financial Statements

It is our aim to assure ourselves that the Non-Consolidated Annual Financial Statements are free from any significant misstatement due to fraud or error and to issue an independent auditor's report, which shall incorporate our opinion. A reasonable belief is a higher level of belief, but there is no guarantee that the audit carried out in accordance with IASs will always reveal a significant misstatement when it exists. Misstatements may arise due to fraud or error and are considered significant if it can reasonably be expected that, individually or in aggregate, will affect economic decisions of the user made based on these Non-Consolidated Annual Financial Statements.

We make professional judgments and sustain professional scepticism during the audit in accordance with IASs. Also:

- We recognize and assess the risk of misstatement arising from fraud or error, formulate and perform audit procedures in response to the risk and obtain evidence that is sufficient and appropriate to provide qualifications for our opinion. The risk of non-discovering a significant misstatement arising from fraud is higher than the risk of error because fraud may include secret agreements, counterfeiting, deliberately omitted information, misstatement or circumventing internal controls.
- We obtain an understanding of internal controls relevant to the audit to design audit procedures that are appropriate under the circumstances but not for expressing an opinion on the effectiveness of the Company's internal control.
- We assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures by the Management Board.
- We assess the appropriateness of the basis of accounting used, deriving from the concept of continuing business as implemented by the Management Board. Based on the obtained evidence, we conclude whether there is significant uncertainty regarding events or circumstances that can create a significant suspicion of the Company's capability to continue to operate indefinitely. If we conclude that there is significant uncertainty, we are required to draw our attention in our independent auditor's report to related disclosures in the Non-Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on evidence obtained until the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to operate its business.
- We evaluate the overall presentation, structure and content of the Non-Consolidated Financial Statements, including disclosures, as well as whether the Non-Consolidated Financial Statements reflect transactions and events on which they are based to achieve fair presentation.

We communicate with those who are charged with management, among other issues, related to the planned scope and timing of the audit and important audit findings, including significant disadvantages in internal controls that were discovered during our audit.

We also issue a statement to those charged with management that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protection measures.

Among issues we are discussing with those charged with management, we determine those issues that are of utmost importance in auditing the Non-Consolidated Financial Statements for the current period and are therefore considered the key audit issues. We describe these issues in our independent auditor's report unless the law or regulation prevents public disclosure or when, in exceptionally rare circumstances, we decide that the issue should not be reported in our independent auditor's report as it can reasonably be expected that the adverse effects of disclosure will surpass the welfare of public interest.

Report related to other legal requirements

In accordance with the Regulation (EU) No. 537/2014, in our Independent Auditor's Report we provide the following additional information in line with the requirements set out in the International Auditing Standards:

1. The Auditor was appointed by the General Assembly of the Company on 24 August 2017.
2. As of the date of this report, the Auditor has been engaged to audit financial statements of the Company for 9 years uninterruptedly.
3. Except for the issues that we have included in our report as Key Audit Issues under the *Auditor's Report on Non-Consolidated Financial Statements*, there is nothing more to add with regards to the Item (c) of Article 10 of Regulation (EU) No. 537/2014.
4. Through the auditing process, we can detect irregularities, including fraud in accordance with Section 225, *Responding to Non-compliance with Laws and Regulations of the IESBA Code*, which requires us to see whether the Company has complied with laws and regulations that are generally recognized to have a direct effect on determining significant amounts and disclosures in their Non-Consolidated Financial Statements, as well as other laws and regulations that do not have a direct effect on determining significant amounts and disclosures in their Non-Consolidated Financial Statements but which may be critical to operational aspects of the Company's business, their capability to continue to operate indefinitely or to avoid significant penalties.

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

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

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

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

Report related to the requirements of the Law on Accounting

1. In our opinion, based on our audit, information contained in the Company's Annual Report for 2017 has been aligned with the Company's Non-Consolidated Financial Statements for 2017.
2. In our opinion, based on our audit, the Company's Annual Report for 2017 was prepared in accordance with the Law on Accounting.
3. Based on the understanding of the Company's business and its environment within the scope of the audit, we have not found that there is any significant misstatement in the Annual Report for 2017.
4. In our opinion, based on our audit, the Statement on Implementation of the Corporate Governance Code included in the Company's Annual Report for 2017 is in accordance with the requirements set out in Article 22, Paragraph 1, Items 3 and 4 of the Law on Accounting.
5. Statement on Implementation of the Corporate Governance Code included in the Company's Annual Report for 2017 includes information referred to in Article 22, Paragraph 1, Items 2, 5, 6 and 7 of the Law on Accounting.

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

In Rijeka, 20 April, 2018

„Inženjerski biro-revizija“ d.o.o. Zadar
Poljana Plankit 1, Croatia

For and on behalf of „Inženjerski biro-revizija“ d.o.o.
Zadar


Certified Auditor:

Irena Dobrović, dipl.oec.



Certified Auditor and Managing Director:

Irena Dobrović, dipl. oec.



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

2017 NON-CONSOLIDATED FINANCIAL STATEMENTS



BALANCE SHEET AS AT 31 DEC 2017

| | | | | HRK |
|---------------|--|----------|--------------------|--------------------|
| | Description | Note | 2016 | 2017 |
| Assets | | | | |
| A. | Fixed assets | 14,15,16 | 286.751.894 | 294.254.725 |
| I | Intangible Assets | 14 | 7.420.109 | 8.579.730 |
| II | Buildings, plants and equipment | 14 | 269.277.644 | 275.522.134 |
| III | Investment in associated companies | 15 | 1.479.184 | 1.151.321 |
| IV | Financial assets | 16 | 8.535.847 | 8.487.114 |
| V | Receivables | | - | - |
| VI | Deferred tax assets | | 39.110 | 514.426 |
| B. | Short-term assets | | 134.806.229 | 108.240.269 |
| I | Inventories | 17 | 27.647.209 | 19.021.976 |
| II | Financial assets | 16 | 158.086 | 17.640 |
| III | Trade and other receivables | 18 | 97.228.048 | 57.326.461 |
| IV | Money in bank and cash in register | 19 | 9.772.886 | 31.874.192 |
| V | Assets available for sale | | - | - |
| C. | Total Assets | | 421.558.123 | 402.494.994 |
| D. | Off balance sheet items, equity and liabilities | | - | - |
| A. | Equity and reserves | 20 | 208.955.027 | 244.261.812 |
| I | Share capital | 20 | 168.132.470 | 168.132.470 |
| II | Capital reserves | | - | - |
| III | Reserves | | 39.369.442 | 39.102.484 |
| IV | Retained profit/loss | 20 | 1.453.115 | 37.026.858 |
| B. | Minority interest | | - | - |
| C. | Long-term liabilities | | 72.523.644 | 65.374.966 |
| I | Debentures with interest charge | 21 | 52.427.610 | 46.877.286 |
| II | Provisions | 24 | 754.774 | 1.533.909 |
| III | Deferred tax liabilities | | 12.306 | 0 |
| IV | Other long-term liabilities | 25 | 19.328.954 | 16.963.771 |
| D. | Short-term liabilities | | 140.079.452 | 92.858.216 |
| I | Debentures with interest charge | 21 | 46.537.384 | 15.551.811 |
| II | Profit tax liability | 22 | 29.657 | 8.360.609 |
| III | Trade and other payables | 22 | 92.460.242 | 66.575.120 |
| IV | Financial liabilities | | - | - |
| V | Provisions | 24 | 1.052.169 | 2.370.676 |
| E. | Total Liabilities | | 212.603.096 | 158.233.182 |
| F. | Total Equity and Liabilities | | 421.558.123 | 402.494.994 |



Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

PROFIT AND LOSS ACCOUNT INCL. COMPREHENSIVE INCOME

AS AT 31 DEC 2017

| | | | HRK | |
|-----------|---|--------------|--------------------|--------------------|
| | Description | Note | 2016 | 2017 |
| 1. | OPERATING REVENUES | | 302.647.904 | 514.005.595 |
| 1.1. | Revenues from sales | 3 | 261.559.840 | 480.494.796 |
| 1.2. | Other operating revenues | 4 | 41.088.064 | 33.510.799 |
| 2. | OPERATING EXPENSES | | 295.923.993 | 460.398.516 |
| | Changes in inventories value of unfinished production | | | |
| 2.1. | | | 7.676.652 | 3.367.976 |
| 2.2. | Material expenses | 5 | 185.293.999 | 337.383.753 |
| 2.3. | Employee expenses | 6 | 67.582.497 | 70.568.255 |
| 2.4. | Depreciation | 7 | 21.831.754 | 26.501.036 |
| 2.5. | Value adjustment | 8 | 318.248 | 4.525.953 |
| 2.6. | Provisions | 9 | 991.156 | 3.393.797 |
| 2.7. | Other expenses | 10 | 11.655.306 | 12.977.954 |
| 2.8. | Other operating expenses | 10 | 574.381 | 1.679.792 |
| 3. | EBIT | | 6.723.911 | 53.607.079 |
| 4. | NET FINANCIAL EXPENSES/REVENUES | 11 | (4.641.139) | (8.011.010) |
| 4.1. | Financial revenues | 11 | 342.644 | 236.961 |
| 4.2. | Financial expenses | 11 | 4.983.783 | 8.247.971 |
| 5. | PROFIT/(LOSS) FROM OPERATING REVENUES BEFORE TAX | | 2.082.772 | 45.596.069 |
| 6. | PROFIT TAX | 12 | 629.657 | 8.569.211 |
| 7. | PROFIT/(LOSS) FOR THE YEAR | 12,13 | 1.453.115 | 37.026.858 |
| | Earnings per share (HRK) | | 0,09 | 2,32 |
| 8. | Net profit/loss for the year | | 1.453.115 | 37.026.858 |
| 8.1. | Unrealized profit or losses | | 129.450 | (342.863) |
| 8.2. | Deferred tax assets | | (25.890) | 61.715 |
| 9. | COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | 1.556.675 | 36.745.710 |

2017 NON-CONSOLIDATED FINANCIAL STATEMENTS



CASH FLOW STATEMENT AS AT 31 DEC 2017

HRK

| | Description | Note | 2016 | 2017 |
|------------|--|-----------|---------------------|---------------------|
| I | CASH FLOW FROM OPERATING ACTIVITIES | | | |
| 1 | Profit/loss before taxation | | 2.082.772 | 45.596.069 |
| | Adjustment for: | | | |
| 2 | Depreciation | | 21.831.754 | 26.501.036 |
| 3 | Gains and losses on sale and value adjustment to tangible and intangible assets | | 75.213 | 1.512.644 |
| 4 | Gains and losses on sale, unrealized gains and losses and value adjustment to financial assets | | 62.249 | 0 |
| 5 | Cash flow from interests and dividends | | (291.269) | (236.960) |
| 6 | Interest expenses | | 3.128.314 | 3.300.290 |
| 7 | Provisions | | (1.934.095) | 2.097.642 |
| 8 | Exchanges rate difference (unrealized) | | 668.601 | 216.377 |
| 9 | Profit tax | | (629.657) | (8.995.118) |
| 10 | Other adjustments for non-cash transactions and unrealized gains and losses | | (3.191.770) | 4.418.639 |
| | Profit from operating activities before changes in working capital | | 21.802.113 | 74.410.619 |
| 11 | Increase/decrease in inventories | | 3.263.407 | 8.089.875 |
| 12 | Increase/decrease in short-term receivables | | (19.465.909) | 20.953.530 |
| 13 | Increase/decrease in liabilities | | 11.416.759 | (17.293.136) |
| 14 | Profit tax paid | | (1.906.604) | 664.166 |
| 15 | Interest paid | | (3.022.748) | (2.983.175) |
| 16 | Increase/decrease in accrued revenues/expenses | | (16.471.023) | 12.548.408 |
| | CASH FLOW FROM OPERATING ACTIVITIES | 34 | (4.384.006) | 96.390.287 |
| II | INVESTING ACTIVITIES | | | |
| 1 | Acquisition of buildings, plants, equipment and intangible assets | | (41.811.341) | (36.826.422) |
| 2 | Income from sale of long-term assets | | 0 | 1.650 |
| 3 | Investment into financial assets | | 147.312 | (15.000) |
| 4 | Cash flow from interests | | 228.342 | 226.437 |
| 5 | Cash flow from dividends | | 24.304 | 9.845 |
| 6 | Granted loans | | (28.634) | 0 |
| 7 | Inflows of loans | | 188.188 | 140.445 |
| 8 | Other outflows of investing activities | | 0 | 0 |
| | CASH FLOW FROM INVESTING ACTIVITIES | 34 | (41.251.829) | (36.463.045) |
| III | FINANCIAL ACTIVITIES | | | |
| 1 | Inflows from debentures with interest charge | | 40.549.206 | 11.826.440 |
| 2 | Repayment of debentures with interest charge | | (12.790.239) | (48.213.451) |
| 3 | Dividend paid out | | (11.991.045) | (1.438.925) |
| | CASH FLOW FROM FINANCIAL ACTIVITIES | 34 | 15.767.922 | (37.825.936) |
| | TOTAL INCREASE/DECREASE OF CASH FLOW (I+II+III) | | (29.867.912) | 22.101.306 |
| IV | CASH AND CASH EQUIVALENTS AS AT 1 JANUARY | | 39.640.798 | 9.772.886 |
| V | CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER | 19 | 9.772.886 | 31.874.192 |



CRNOGRADIŠTE
VIKTOR LENAC
1896
Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

STATEMENT ON CHANGES IN EQUITY

| | Share capital | Legal reserves | Reserves for own shares | Own shares | Other reserves | Fair value of financial instruments available for sale | Profit for the year | HRK Total |
|---|--------------------|------------------|-------------------------|--------------------|-------------------|--|---------------------|---------------------|
| Status as at 1 Jan 2016 | 168.132.470 | 7.170.742 | 12.540.000 | (8.055.772) | 13.888.567 | (210.776) | 25.924.166 | 219.389.397 |
| Profit/(Loss) for the year | | | | | | | 1.453.115 | 1.453.115 |
| Changes in reserves of the fair value of financial instruments available for sale | | | | | | 103.560 | | 103.560 |
| Profit / dividend payout | | | | | (11.991.045) | | | (11.991.045) |
| Redirected into reserves per 2015 profit allocation | | 1.235.882 | | | 24.688.284 | | (25.924.166) | 0 |
| Status as at 31 Dec 2016 | 168.132.470 | 8.406.624 | 12.540.000 | (8.055.772) | 26.585.806 | (107.216) | 1.453.115 | 208.955.027 |
| Profit/(Loss) for the year | | | | | | | 37.026.858 | 37.026.858 |
| Changes in reserves of the fair value of financial instruments available for sale | | | | | | (281.148) | | (281.148) |
| Profit / dividend payout | | | | | (1.438.925) | | | (1.438.925) |
| Redirected into reserves per 2016 profit allocation | | | | | 1.453.115 | | (1.453.115) | 0 |
| Status as at 31 Dec 2017 | 168.132.470 | 8.406.624 | 12.540.000 | (8.055.772) | 26.599.996 | (388.364) | 37.026.858 | 244.261.812 |



BRODOGRADILIŠTE
VIKTOR LENAC
1896
Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Brodogradilište 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 VAT number 27531244647.

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

On the day of 31 December 2017, the Company employed 488 employees.

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

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

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

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

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

In accordance with the International Financial Reporting Standards and Croatian law, the Consolidated Financial Statements of the Company and its subsidiary companies shall be published as separate document upon disclosure of the Non-Consolidated Financial Statements.

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

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

2. BASIC ACCOUNTING POLICIES

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

2.1. STATEMENT ON COMPLIANCE AND BASICS OF REPORTING

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

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

Accounting policies applied in the preparation of the 2017 Financial Statements have not changed compared with the previous year. Financial Statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.

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

According to IFRSs, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank as at 31st December 2017 as follows:

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

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

For its reporting period commencing on 1 January 2017, the Company has adopted the following new and amended IFRSs, which have been approved by the European Union and are relevant to the Company's financial statements.

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

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

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

2. BASIC ACCOUNTING POLICIES

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

2.1. STATEMENT ON COMPLIANCE AND BASICS OF REPORTING

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

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

Accounting policies applied in the preparation of the 2017 Financial Statements have not changed compared with the previous year. Financial Statements have been prepared by principle of historical cost, except for certain financial instruments recorded as per fair value.

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

According to IFRSs, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank as at 31st December 2017 as follows:

| | |
|----------------------|-------------------------------------|
| 1 EUR = HRK 7,513648 | (31.12.2016: 1 EUR = 7, 557787 HRK) |
| 1 USD = HRK 6,269733 | (31.12.2016: 1 USD = 7,168536 HRK) |
| 1 NOK = HRK 0,765589 | (31.12.2016: 1 NOK = 0,832438 HRK) |
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- Amendments to various standards under the heading *2014 - 2016 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 1, IFRS 12 and IAS 28), intended primarily to eliminate discrepancies and clarify the text, as adopted in the European Union on 8 February 2018 (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

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

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

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

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

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

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

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

to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);

- Amendments to various standards under the heading *2015 - 2017 IFRS Improvement* deriving from the *Annual IFRS Improvement Process* (IFRS 3, IFRS 11, IFRS 12 and IAS 23), intended primarily to eliminate discrepancies and clarify the text (effective for annual periods beginning on or after 1 January 2019).

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

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

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

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

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

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

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

The basic accounting policies applied in the preparation of financial statements for the year 2017 are as set forth below:

a) Revenues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Expenses

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

The recognition of expenses occurs if:

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

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

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

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

c) Financial result and profit tax

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

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

d) Fixed intangible assets

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

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

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

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

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

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

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

e) Fixed tangible assets

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

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

Fixed tangible assets are recognized if following fulfilled:

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

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

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

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

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

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

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

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

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

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

Rates applied for depreciation are as follows:

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

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

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

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

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

f) Long-term financial assets

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

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

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

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

Long-term financial investments in associates (share of 20% - 50%) are recorded in the books by the cost method. Long-term financial investments in subsidiaries (share greater than 50%) are accounted for using the cost method.

g) Inventories

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

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

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

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

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

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

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

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

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

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

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

h) Receivables

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

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

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

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

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

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

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

i) Short-term financial assets

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

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

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

j) Cash and cash equivalents

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

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

k) Prepaid expenses and accrued income

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

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

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

l) Equity

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

m) Provisions

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

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

n) Long-term liabilities

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

o) Short-term liabilities

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

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

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

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

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

p) Accrued expenses and deferred income

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

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

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

3. REVENUES FROM SALES

| | HRK | |
|---|--------------------|--------------------|
| | 31.12.2016 | 31.12.2017 |
| Revenues from sales on domestic market | 10.665.188 | 15.518.285 |
| Revenues from sales on foreign market | 248.241.668 | 463.622.784 |
| Revenues from sales – subsidiary company | 103.480 | 97.768 |
| Revenue from sales - participating interest | 2.549.504 | 1.255.959 |
| Total | 261.559.840 | 480.494.796 |

Structure of revenues from sales:

| | HRK | | |
|---|-------------------|--------------------|--------------------|
| | Domestic market | Foreign market | Total |
| Shiprepair | 13.936.294 | 135.762.410 | 149.698.704 |
| Shiprepair - participating interest | 1.255.959 | - | 1.255.959 |
| Offshore | 138.027 | 13.156.068 | 13.294.095 |
| Conversions | - | 307.807.515 | 307.807.515 |
| Other revenues | 1.443.964 | 6.896.791 | 8.340.755 |
| Other revenues – subsidiary company | 97.768 | - | 97.768 |
| Other revenues – participating interest | - | - | 0 |
| Total | 16.872.012 | 463.622.784 | 480.494.796 |

4. OTHER REVENUES

| | HRK | |
|--|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| Revenues from sales of material | 2.987.640 | 3.734.943 |
| Revenues from sales of material – subsidiary company | 6.502 | 16.165 |
| Revenues from sales of material – participating interest | 976 | - |
| Rentals | 787.682 | 857.244 |
| Rentals - subsidiary company | 196.365 | 194.388 |
| Rentals - participating interest | 1.034 | - |
| Revenues from withdrawal of long-term reserves | 2.925.251 | 1.160.400 |
| Insurance claim income | 20.736 | 17.848 |
| Income from disputed claims | 776.219 | - |
| Revenues from sales of property, plant and equipment | 151 | 1.650 |
| Income from discontinued liabilities | 204.624 | - |
| Retrospectively estimated income from past years | 482.671 | 15.720 |
| Government grants | - | 22.200 |
| Other revenues | 3.888.825 | 748.425 |
| Ostali prihodi - subsidiary company | 55.200 | 55.941 |
| Ostali prihodi - participating interest | - | 160 |
| Revenue based on the use of own products, goods and services | 28.754.188 | 26.685.715 |
| Total | 41.088.064 | 33.510.799 |

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

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

5. MATERIAL EXPENSES AND COST OF GOODS SOLD

| | | HRK |
|---|--------------------|--------------------|
| | 31.12.2016 | 31.12.2017 |
| Raw and other material | | |
| Consumed raw and other material | 36.241.475 | 60.968.693 |
| Consumed raw and other material – subsidiary company | 55.398 | 17.456 |
| Consumed raw and other material – participating interest | | 12.948 |
| Consumed energy | 11.707.030 | 14.497.320 |
| Small inventory and spare parts | 607.393 | 696.741 |
| Total raw and other material | 48.611.296 | 76.193.158 |
| Other external expenses | | |
| Transportation, phone, post and similar services | 630.659 | 715.800 |
| Services used in production of outputs | 79.084.872 | 153.625.827 |
| Services used in production of outputs - subsidiary company | 20.844 | 222.574 |
| Services used in production of outputs - participating interest | 507.888 | 206.316 |
| Subsupplier services | 34.601.851 | 80.833.223 |
| Subsupplier services - subsidiary company | 2.690.927 | 2.371.532 |
| Subsupplier services - participating interest | 54.614 | 24.420 |
| Maintenance services | 13.460.264 | 14.436.321 |
| Maintenance services - subsidiary company | 22.187 | 40.788 |
| Maintenance services - sudjelujući interes | 148.147 | 26.203 |
| Rental expenses | 1.873.129 | 4.834.127 |
| Rental expenses - participating interest | 11.250 | 123.400 |
| Intellectual services | 1.373.153 | 1.754.698 |
| Other services | 2.195.058 | 1.975.366 |
| Other services - participating interest | 7.860 | - |
| Total other external expenses | 136.682.703 | 261.190.595 |
| Total material expenses | 185.293.999 | 337.383.753 |

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

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

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

6. EMPLOYEE COST

| | | HRK |
|--|-------------------|-------------------|
| | 2016 | 2017 |
| Net salaries and wages | 36.953.946 | 39.311.125 |
| Social security contributions and taxes paid by employer | 15.555.789 | 15.651.631 |
| Social security contributions and taxes paid by employee | 9.783.194 | 10.224.067 |
| Severance pay | 176.000 | 144.000 |
| Compensations for travelling costs, daily allowances, annual bonuses | 5.113.568 | 5.237.432 |
| Total | 67.582.497 | 70.568.255 |

7. DEPRECIATION

| | HRK | |
|--|-------------------|-------------------|
| | 2016 | 2017 |
| Intangible assets, property, plant and equipment | 21.831.754 | 26.501.036 |
| Total | 21.831.754 | 26.501.036 |

For certain equipment older than ten years, which depreciated at lower depreciation rates than prescribed in the periods until 2008, the Company made an estimation of useful life of equipment at increased depreciation rates, which resulted in an increased depreciation cost, or up by HRK 654,262 compared to the cost as it would have been that such increase had not been applied.

The 2017 depreciation rate was 65%.

8. VALUE ADJUSTMENT

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

9. PROVISIONS

In 2017, the Company made provisions for expenses for unused annual vacations (HRK 2,223,944). Due to high occupancy rates in 2017 and inability to use annual holiday leave, the provisions significantly increased compared to 2016 when they amounted to HRK 985,400).

Provisions for litigation costs and other legal proceedings started in 2017 amounted to HRK 1,089,891, whereas provisions for building costs amounted to HRK 79,962.

10. OTHER EXPENSES

| | HRK | |
|--|-------------------|-------------------|
| | 2016 | 2017 |
| Representation and gifts | 1.352.261 | 2.376.406 |
| Insurance premiums | 5.080.412 | 4.456.730 |
| Bank services | 676.051 | 539.472 |
| Tax and contribution not dependant on the result | 2.203.757 | 2.879.679 |
| Other expenses | 2.342.825 | 2.725.667 |
| Total | 11.655.306 | 12.977.954 |

Other operating expenses amounted to HRK 1,679,792 largely referring to net book value of depreciated long-term assets (HRK 1,405,419). The remaining amount related to deficit in material and tangible assets, and other operating expenses.

11. FINANCIAL EXPENSES/INCOME

| | | HRK |
|--|--------------------|--------------------|
| | 2016 | 2017 |
| Financial income | | |
| Interests | 266.965 | 227.116 |
| Income from sale of securities | 51.375 | - |
| Dividend income | 24.304 | 9.845 |
| Positive exchange rate differences | - | - |
| Total financial income | 342.644 | 236.961 |
| Financial expenses | | |
| Interests | 3.128.314 | 3.300.464 |
| Negative exchange rate differences | 1.855.469 | 4.947.507 |
| Total financial expenses | 4.983.783 | 8.247.971 |
| Net financial (expenses)/income | (4.641.139) | (8.011.010) |

12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2017 the Company produced a profit in the amount of 45,596,069 HRK. The profit tax amounted to HRK 8,569,211 resulting in a profit after tax in the amount of 37,026,858 HRK.

13. EARNINGS PER SHARE

| | | HRK |
|-----------------------------------|-------------|-------------|
| | 2016 | 2017 |
| Net profit | 1.453.115 | 37.026.858 |
| Shares exclusive of own shares | 15.988.060 | 15.988.060 |
| Earnings /(loss) per share | 0,09 | 2,32 |

14. FIXED TANGIBLE AND INTANGIBLE ASSETS

| Description | Land | Buildings | Plants and equipment | Tools, inventory and transportation vehicles | Investment in tangible assets in progress | Advances for tangible assets | Total tangible assets | Intangible assets | Investment in intangible assets in progress | Total |
|---|------------|------------|----------------------|--|---|------------------------------|-----------------------|-------------------|---|-------------|
| ACQUISITION VALUE | | | | | | | | | | |
| Balance 1 Jan 2017 | 12.504.214 | 70.251.516 | 610.125.119 | 73.354.344 | 7.347.528 | 1.471.486 | 775.054.207 | 13.206.838 | 79.464 | 788.340.509 |
| Transfer from investments in progress and advances | - | | 35.617.339 | 2.311.506 | (35.588.586) | (2.340.259) | - | 4.391.182 | (4.391.182) | - |
| Acquisition during the year | | | | | 35.661.409 | 936.698 | 36.598.107 | - | 226.665 | 36.824.772 |
| Sold, written-off and discounted assets during the year | - | - | (5.477.052) | (506.475) | (2.572.769) | | (8.556.296) | - | - | (8.556.296) |
| Transfers | | | | | (4.085.053) | | (4.085.053) | | 4.085.053 | - |
| Balance 31 Dec 2017 | 12.504.214 | 70.251.516 | 640.265.406 | 75.159.375 | 762.529 | 67.926 | 799.010.966 | 17.598.020 | - | 816.608.986 |
| ADJUSTMENT | | | | | | | | | | |
| Balance 1 Jan 2017 | 6.958.527 | 65.495.710 | 366.037.481 | 67.284.845 | - | - | 505.776.563 | 5.866.193 | - | 511.642.756 |
| Depreciation during the year | | 257.224 | 21.099.800 | 1.991.915 | - | - | 23.348.939 | 3.152.097 | - | 26.501.036 |
| Sold and written-off assets during the year | - | - | (5.174.477) | (459.855) | - | - | (5.634.332) | - | - | (5.634.332) |
| Surplus, Deficit, Adjustment | | | | (2.338) | | | (2.338) | | | (2.338) |
| Balance 31 Dec 2017 | 6.958.527 | 65.752.934 | 381.962.804 | 68.814.567 | - | - | 523.488.832 | 9.018.290 | - | 532.507.122 |
| Book value 1 Jan 2017 | 5.545.687 | 4.755.806 | 244.087.638 | 6.069.499 | 7.347.528 | 1.471.486 | 269.277.644 | 7.340.645 | 79.464 | 276.697.753 |
| Book value 31 Dec 2017 | 5.545.687 | 4.498.582 | 258.302.602 | 6.344.808 | 762.529 | 67.926 | 275.522.134 | 8.579.730 | - | 284.101.864 |

During 2017, investment in long-term assets involved purchase of UHPW equipment of ultra high pressure water treatment of ship surfaces, static frequency converter, fork lift trucks and other horizontal transport vehicles, welding equipment, quick-assembly scaffold and other production equipment. The investment also included steel renewal of Dock 5 and Dock 11 to extend their useful life.

The 2017 depreciation rate was 65%

15. INVESTMENT IN ASSOCIATES

Net book value of investment in associates as of 31 Dec 2017 related a limited liability company Viktor Servi in which the Company holds a 100% equity interest that amounts to HRK 763,259, and the newly founded limited liability company VL Steel in which the Company holds a 75% equity interest that amounts to HRK 15,000, paid in September 2017.

The Company owns 5,000 shares of Uljanik JSC recorded at nominal value in the amount of 450,000 Croatian Kuna. On the day of 31 Dec 2017, the Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares totalled 40,800 Croatian Kuna.

The Company owns 6,153 shares of Tankerska next generation recorded at nominal value in the amount of 399,945 Croatian Kuna. On the day of 31 Dec 2017, the Company performed revaluation of these shares in accordance with the notification of Central Depository & Clearing Company Inc. Zagreb, so that the reported amount of these shares totalled 332,262 Croatian Kuna.

16. FINANCIAL ASSETS

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

Short-term financial assets in the amount of HRK 17,640 referred to granted loans.

17. INVENTORIES

| | HRK | |
|---------------------------------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| Raw and other material | 21.229.069 | 15.971.326 |
| Raw and other material under delivery | - | 486 |
| Production in progress | 6.418.140 | 3.050.164 |
| Small inventory | 8.101.768 | 8.435.144 |
| Small inventory value adjustment | (8.101.768) | (8.435.144) |
| Total | 27.647.209 | 19.021.976 |

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

The production in progress involved 3 unfinished shiprepair projects at the end of the year.

18. TRADE AND OTHER RECEIVABLES

| | HRK | |
|--|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| <i>Receivables from customers - gross</i> | 76.233.734 | 79.865.064 |
| <i>Receivables from customers – value adjustment</i> | 30.066.120 | 32.412.246 |
| Receivables from customers – net | 44.402.894 | 47.226.289 |
| Receivables from customers - subsidiary company | - | 61.329 |
| Receivables from customers - participating interest | 1.764.720 | 165.200 |
| Receivables from employees | 33.634 | 3.068 |
| Receivables from state | 13.086.160 | 6.523.071 |
| Prepaid expenses and accrued income | 16.573.622 | 2.944.253 |
| Advances | 21.365.149 | 396.607 |
| Advances – subsidiary company | - | 4.775 |
| Other receivables | 1.869 | 1.869 |
| Total | 97.228.048 | 57.326.461 |

Age structure of matured receivables from customers:

| | HRK | |
|---------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| 1-90 days | 44.881.704 | 46.743.411 |
| 91-180 days | 844.293 | 194.999 |
| 181-365 days | 92.165 | 477.810 |
| Over 365 days | 349.452 | 36.598 |
| Total | 46.167.614 | 47.452.818 |

Age structure of value adjusted receivables from customers:

| | HRK | |
|---------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| 1-90 days | - | 346.230 |
| 91-180 days | - | - |
| 181-365 days | - | 767.074 |
| Over 365 days | 30.066.120 | 31.298.942 |
| Total | 30.066.120 | 32.412.246 |

Structure of trade receivables by currency:

| | HRK | |
|--------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| HRK | 3.201.528 | 5.780.255 |
| EUR | 29.804.001 | 17.344.170 |
| USD | 13.162.085 | 24.328.393 |
| Total | 46.167.614 | 47.452.818 |

19. CASH AND CASH EQUIVALENTS

| | HRK | |
|------------------|------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| Money in bank | 6.681.423 | 14.352.956 |
| Cash in register | 12.221 | 18.893 |
| Time deposits | 3.079.242 | 17.502.343 |
| Total | 9.772.886 | 31.874.192 |

20. EQUITY AND RESERVES

- (i) On the day of 31 December 2017, the issued share capital of the Company, fully paid, amounted to 168,132,470 Croatian Kuna and was divided in 16.813.247 ordinary shares each having a nominal value of 10 Croatian Kuna.
Owners of ordinary shares are entitled to dividends and one vote per share. In 2017, the Company paid out dividends on the account of profit generated in 2016 in the amount of 0.09 HRK per share (0.75 HRK per share in 2015). During the years before 2015, no dividend to shareholders was paid out.
- (ii) On the day of 31 December 2017, the Company owned 825.187 own shares (31 December 2016: 825.187), making 4.91% of the share capital.
- (iii) On the day of 31 December 2017, the statutory reserves within the frame of the statutory and other reserves, amounted to 8,406,624 Croatian Kuna (2016: 8,406,624 Croatian Kuna). The statutory reserves were formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserves until it grows to 5% of the issued share capital.
In accordance with the Company's General Assembly's decision, the profit generated in 2016 in the amount of 1,453,115 Croatian Kuna was allocated in the following way: 1,438,925 Croatian Kuna were paid out to the shareholders of the Company, whereas the remaining amount was allocated to the general reserve fund.
The statutory reserves and reserves for own shares in the amount of 20,946,624 Croatian Kuna (2016: 20,946,624 Croatian Kuna) cannot be allocated between shareholders. The subsidiaries do not have statutory reserves.

21. DEBENTURES WITH INTEREST CHARGE

Below is the overview of debentures on which interest is paid according to the repayment dynamics as at 31 December 2017:

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

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

22. TRADE AND OTHER LIABILITIES

| | | HRK |
|---|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| Trade payables | 69.578.067 | 49.643.486 |
| Trade payables – subsidiary interest | 1.628.385 | 1.420.285 |
| Trade payables – participating interest | 142.601 | 55.890 |
| Employee payables | 3.739.132 | 3.977.472 |
| Tax and contribution | 2.610.568 | 3.361.081 |
| Received advances | 6.478.269 | 1.029.860 |
| Other liabilities | 3.923.960 | 3.487.424 |
| Accrued expenses and deferred income | 4.359.260 | 3.599.622 |
| Total | 92.460.242 | 66.575.120 |

Profit tax liabilities amounted to HRK 8,995,118. The Company made advance tax payments in the total amount of HRK 634,509 resulting in a remaining tax obligation in the amount of HRK 8,360,609. By 6 February 2018, the Company made an advance tax payment in the amount of HRK 51,194, and for this amount the tax obligation will be further reduced. The tax obligation for the year 2016 amounted to HRK 29,657.

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

Accrued expenses amounted to HRK 3,599,622. The expenses included insurance premiums and agency fees and other costs which have not yet been invoiced but contracted.

Structure of trade payables by currency:

| | | HRK |
|--------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2017 |
| HRK | 67.824.097 | 45.787.151 |
| EUR | 3.487.572 | 2.166.934 |
| USD | 37.384 | 2.836.662 |
| GBP | - | 328.914 |
| Total | 71.349.053 | 51.119.661 |

23. RELATIONSHIP WITH RELATED ENTERPRISES

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

| Related enterprises and key shareholders | 2016 | HRK |
|---|-----------|-----------|
| | | 2017 |
| Sale to related enterprises | | |
| Sale to subsidiary companies | 454.910 | 455.327 |
| Sale to key shareholders | 3.187.644 | 1.491.609 |
| Purchase from related enterprises | | |
| Purchase from subsidiary companies | 3.489.670 | 3.315.438 |
| Purchase from key shareholders | 942.688 | 500.038 |
| Receivables from related enterprises | | |
| Receivables from subsidiary companies | - | 61.329 |
| Receivables from key shareholders | 1.764.720 | 165.200 |
| Liabilities to related enterprises | | |
| Liabilities to subsidiary companies | 1.628.385 | 1.420.285 |
| Liabilities to key shareholders | 142.601 | 55.890 |

Key management

The Management Board of the Company is composed of the President of the Board and one Member of the Board. During 2017, Aljoša Pavelin held the position of President of the Board whereas position of Member of the Board was held by Sandra Uzelac. The total gross compensation for the members of the Management Board for the year 2017 amounted to 1,809,324 Croatian Kuna. The total gross compensation for the members of the Supervisory Board and Committee for Audit for the year 2017 amounted to 501,984 Croatian Kuna. The Company has not granted any loans to the members of the Supervisory Board or Parent Company's Management Board.

24. PROVISIONS

Long-term provisions in the amount of 1,533,909 Croatian Kuna related to provisions for legal proceedings that have been started. Short-term provisions in the amount of 2,370,676 Croatian Kuna involved warranty repairs and provisions for unused vacation leave in 2017.

25. OTHER LONG-TERM LIABILITIES

Other liabilities as at 31 Dec 2017 in the amount of 16,963,771 Croatian Kuna involved obligations to HEP ESCO Ltd. for the energy-efficiency project in the amount of 12,789,991 Croatian Kuna and contingent liabilities for disputed claims of creditors and related litigation costs in the amount of 4,173,780 Croatian Kuna, where litigation proceeding is not yet finalized.

26. FINANCIAL INSTRUMENTS

Financial risk factors

Operations of the Group bear various financial risks involving market risk and price risk, currency risk and interest rate risk. The Group does not use derivative financial instruments as an active security from exposure to financial risks.

Currency risk

Most of the Company's revenues from sale is generated on the international market, mainly in EUR, therefore EUR-HRK exchange rate movements can affect its operating results. In 2017, a significant part of the revenue was generated in USD, where weakening of US Dollar against national currency resulted in slightly higher negative exchange rate differences. However, because of a relatively rapid turnover of receivables and foreign currency, currency risk is not significant, and the Company does not use active hedging techniques in foreign currency transactions. Negative exchange rate differences generated in 2017 made less than 1% of the operating revenues for the year. Depending on estimate of the future USD/EUR trend, the Company will, if necessary, use hedging instruments. On the other hand, the Company's obligations have not been exposed to significant currency risk, since most of these obligations are denominated in local currency.

Default risk

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

Liquidity risk

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

Fair value

The Company makes estimates of the fair value of financial assets and liabilities, following which, if necessary, valuation adjustments are made. It has been established that the fair value does not differ from the book value. The fair value of the financial assets and liabilities is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Company makes an estimate of the fair value based on the publicly disclosed information from external sources or based on the discounted cash flow method if applicable.

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

Equity management

The main goal of equity management is to ensure support to business operations and maximize shareholder value. The Company adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust its equity structure, the Company may re-adjust dividends pay-outs or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years 2017 and 2016.

27. POTENTIAL LIABILITIES

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

28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Revenue recognition principle

Revenue is recognized when the goods have been delivered or services have been rendered, or when the risks and rewards of ownership of goods have been substantively transferred to the customer. Estimation of claims to services carried out is deducted from sales revenue and accounted under liabilities or provisions. Estimation of discounts represent a decrease in sales revenue. Estimation is made based on contractual obligations, historical trends and experience.

Profit tax

Profit tax was calculated based on interpretation of rules and laws in force.

Decrease in value of receivables

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

Provisions for potential liabilities

The 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 remarkable events after the balance sheet date. All major events are regularly disclosed to public via the Zagreb Stock Exchange website.

30. CONSOLIDATED FINANCIAL STATEMENTS

The joint-stock company Shipyard Viktor Lenac is the parent company of the Viktor Lenac Group. The Group's Consolidated Financial Statements, made in accordance with the International Financial Reporting Standards, have not yet been published. Consolidated Financial Statements shall follow shortly after disclosing the Non-Consolidated Financial Statements.

31. INFORMATION ON KEY ASSUMPTIONS REGARDING FUTURE BUSINESS OPERATIONS

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

32. COURT DISPUTES

On 31 December 2017, the Company litigated in 28 proceedings worth about 2.04 Croatian Kuna as the defendant, and 6 proceedings having a capital value of approximately 0.71 Croatian Kuna as the plaintiff, all in Croatian court.

In Panama court, following a litigation worth over 2.1 million USD of outstanding receivables for restoration of the yacht Christina O., pursued by the Company against its debtor, which ended in favour of the debtor under the statute of limitations, the debtor filed a lawsuit against the Company for damages allegedly suffered because of the fore mentioned case in the amount of EUR 9,341,617, referring to the alleged intention of the Company to inflict damage to the debtor by arresting the ship. In the first (lost) case, the Company was not denied its claim, but the case was lost because of the preponderance of opinion of two of the three judges of the Judicial Council of the Panamanian court that the claim was covered by the statute of limitations. Consequently, the Company believes that the risk of losing the litigation in which the Company is now found as a defendant is very small, since the alleged intention of the Company to incur damage to the opposing party is almost impossible to prove. According to the latest findings, it is likely that the dispute will end with the agreement which will not have any consequences for the financial position of the Company.

33. MORTGAGE

The Company has signed the pledge over its fixed assets in favour of the Raiffeisenbank Austria bank Zagreb for repayment of a loan for financing of development investment program and a debt arising from two credits for short-term financing of operations and issuance of performance guarantees. The pledge right has been registered over the floating docks: Dock 5, Dock 11 and Dock RI38, motor vessels Kostrena and Pećine, a real-estate in Rijeka, land that in nature makes parking and forest in the cadastral municipality of Kostrena Lucija, including some movable property. The obligations under the loans secured as specified as at 31 Dec 2017 amounted to 55,385,191 Croatian Kuna, of which 50,268,814 Croatian Kuna involves the investment loan, and the remaining amount is cost overrun.

34. CASH FLOW STATEMENT

Cash Flow Statement 2017 was made by use of the indirect method.

35. PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

Financial statements have been prepared and approved by the Management Board of the Company on 20 April 2018.



BRDOGRADILISTE
VICTOR LENAC
Rijeka, Martinšćica bb

Aljoša Pavelin, President of the Board

Sandra Uzelac, Member of the Board