



brodogradilište
VIKTORJENAC d.d.
rijeka croatia

shipyard

ANNUAL REPORT 2008

Rijeka, April 2009



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Foreword

The Management Board of the Viktor Lenac Shipyard j.s.c. is pleased to present its Annual Report for 2008 to all its shareholders, clients, employees, business partners and the entire public.

The Annual Report 2008 contains a detailed review of the financial results for the year, an assessment of the Company's situation, a review of the Company's business operations, revised consolidated and non-consolidated financial statements and the Auditor's Report. In a separate enclosure to this Report, the corporate governance rules applied by the Company are described.

Annual Report in Croatian and English

The Viktor Lenac Shipyard's Annual Report 2008 has been issued both in Croatian and English. The Annual Report is submitted to the Company's shareholders at the General Assembly and is published on the Company's website.

Legal Form

According to the Companies Act, Article 250.a, in this document to the General Assembly the annual financial statements and report on the Company's situation are submitted, while the Supervisory Board's report to the General Assembly is submitted as a separate document.

The annual financial statements have been made in accordance with the Law on Accounting and International Financial Reporting Standards and have been revised according to the International Standards on Auditing.

This Annual Report has been made in accordance with the Law on Accounting and Companies Act and gives an objective assessment of the Company's situation and development with its business results as well as other important information for the Company.

Subsidiary Company

Viktor Servisi d.o.o. Rijeka is an entity owned by the Viktor Lenac Shipyard.

Consolidation

The consolidated and non-consolidated financial statements form an integral part of this Report. The difference between the consolidated and the non-consolidated financial statements is not significant in material terms, as the results and assets of the Company's subsidiary company (Viktor Servisi d.o.o. Rijeka) participate with less than 1% in the Group's results and assets. In this Annual Report, the emphasis is, therefore, put on the business results of the mother company - Viktor Lenac Shipyard.



Abbreviations

In this Annual Report, the Viktor Lenac Shipyard j.s.c. is called the "Shipyard" or "Viktor Lenac" or the "Company" respectively, together with its subsidiary company, the "Group".

Foreign Exchange Rates

The following foreign exchange rates were used for converting amounts from one currency to another (from Croatian Kuna to Euros):

1 EUR = HRK 7.324425, representing the midpoint exchange rate by the Croatian National Bank on the 31st day of December 2008 (HRK 7.325131 on 31st December 2007), applied for calculating amounts of assets, liabilities and capital;

1 EUR = HRK 7.223178, representing the annual average of midpoint exchange rates by the Croatian National Bank (HRK 7.336019 for 2007), applied for calculating amounts in the profit and loss statement.



Chairman's Address to Shareholders

Dear Shareholders,

The business year 2008 marked a turning point for the development of the Viktor Lenac Shipyard. 2008 was a year of changes, a year of completion of the financial and ownership restructuring, a year of the social dialogue, a year of beginning of a restructuring in organisation, technology and human resources.

The bankruptcy proceedings, which was started in December 2003, finally ended in April 2008. It took four and a half years for Viktor Lenac, its workers, creditors, official receivers and the Government of the Republic of Croatia to prove that, in spite of the circumstances under which the Shipyard had filed for bankruptcy, the difficulties which it had faced could be successfully overcome. During 2008 Viktor Lenac proved that the market can still count on its quality services and has regained trust from its creditors by showing that it regularly can settle its current liabilities. Viktor Lenac has proved that it has all preconditions for further development.



I believe that 2008 was a year of relief and pride for the Shipyard's employees, who, and I have the courage to say it, have born the brunt of burden. All the time during the bankruptcy, the employees were given temporary contracts, from one to three months, each time kept in suspense until signing the next contract. With their salaries considerably lower than the average salary in the Republic of Croatia and with no creditworthiness, they have largely contributed to the fact that Viktor Lenac is one of the rare entities in Croatia that succeeded to overcome the bankruptcy difficulties and continue with business.

At the end of 2008, the Management Board and the Unions successfully concluded negotiations on collective issues and made a Collective Agreement. The Collective agreement, which stipulates employees' rights in terms of working hours, salaries, minimal salary and other material rights, shows that Viktor Lenac has a good social dialogue with its social partners and traditionally continues to have one.

Viktor Lenac's balance has been restructured and Viktor Lenac now continues doing its business free of any burden from the past. Majority of outstanding debts, which were to be settled in accordance with the Bankruptcy Plan, have been converted into the Company's capital. In this way, Viktor Lenac obtained a good ownership structure at the same time preserving its working capital for current business activities. Its largest shareholders, the Uljanik Shipyard from Pula, which is a leading Croatian shipyard, and the Tankerska Plovidba Company from Zadar, which is a leading Croatian shipping company, have committed themselves to invest in the restructuring of the Shipyard's technology. This gives us additional strength and preconditions for further development, but we also have an obligation to justify expectations of our owners, not only the biggest ones, but all of them, even the smallest ones, having in mind that by accepting the Bankruptcy Plan they all had to renounce a big part of their claims.



Besides, we must keep in mind the key role of the Government of the Republic of Croatia, which had actively participated from the beginning of the bankruptcy in solving problems that Viktor Lenac had at the time with regard to its secured creditors, intending to help toward Viktor Lenac's struggle for survival as one of the most important economic entities and exporters in Croatia. As the biggest creditor of Viktor Lenac, resulting from the claims, which the Ministry of finance and Funds had against Viktor Lenac in view of obligatory contributions, the Government of the Republic of Croatia had ceded its claims to the Uljanik Shipyard and Tankerska Plovidba Company in order to enable Viktor Lenac keep its assets and carry out its ownership restructuring.

During 2008, Viktor Lenac started its organisational restructuring. The functional organisational structure has been kept, but some business functions have been detached into independent pivotal organisational units, with the aim of improving management of individual functions and speeding up the decision-making and communication process. In addition, having in mind the nature of Viktor Lenac's activities, the emphasis has been put on project management intending to obtain a modern matrix organisational structure. Notwithstanding the complexity of such type of structure and an increased risk of conflicts due to dual responsibility and conflict of interest between the line and the production and project management system, Viktor Lenac sees advantages in this type of organisation and these are bigger flexibility and quicker adjustment to market requirements, improved coordination and communication and more motivated employees.

Last year was very important for Viktor Lenac for something else as well. Our Floating Drydock No.11, having the capacity to handle the largest of vessels, was put into operation for the first time. Following the accident, which happened in June 2007 when our Floating Drydock No.7 went to the bottom and we continued working with our Floating Drydock No.5 only, in 2008 we intensified efforts to put Floating Drydock No.11 into full operation, which is expected to happen in May 2009.

A high ship repair demand in 2008 resulted in high revenues and good financial results, which surpassed our plans made for the year. After a series of unsuccessful years in terms of finance, in other words, for the first time after 2001, Viktor Lenac managed to make a positive financial result.

In the business year 2008, Viktor Lenac realised revenues in the amount of 339 million Croatian Kuna, up by 56% compared with 2007 when Viktor Lenac's revenues had amounted to 218 million Croatian Kuna. In Viktor Lenac's sales 2008 the value of production in progress in the amount of 9 million Croatian Kuna must also be counted, meaning that the total operating revenues increased by the value of production in progress amounted to 348 million Croatian Kuna, or 48 million Euros. On the other hand, in 2008 Viktor Lenac had 313 million Croatian Kuna, or 43 million Euros of expenses, thereby making a profit in the amount of 26 million Croatian Kuna, or 3.6 million Euros.

A positive balance of financial incomes and expenses in the amount of 0.9 million Croatian Kuna as well as an extraordinary income in the amount of 77 million Croatian Kuna must be added to the operating revenues and expenses, arising, in accordance with the Bankruptcy Plan, from a write-off of part of Viktor Lenac's liabilities from the period preceding the bankruptcy. As a result of that, in 2008 Viktor Lenac made a total profit before tax in the



amount of 103.8 million Croatian Kuna. After deduction of 9.4 million Croatian Kuna of tax, Viktor Lenac ended the year with a net profit after tax of 94.4 million Croatian Kuna.

We are pleased to be able to show with this Annual Report and our business results to all who were supporting us and with whose help we managed to put an end to the bankruptcy that they rightly believed in Viktor Lenac's future and that all their decisions made with the aim to save the Shipyard have been justified. We continue our 112-year tradition through knowledge accumulated in our employees and investments of our owners' money in technology and know-how.

Next year, 2009, will bring further changes through a restructuring in technology, human resources and organisation seeking to improve our productivity in all levels. Already in 2008, we have started a program of costs decrease and increase of productivity of production processes and project management in our main activities. 2009, therefore, is a new year of challenges during which Viktor Lenac will prove that, in spite of unfavourable circumstances, it can and must realise all its goals in order to develop and grow stronger for the benefit of its shareholders, clients, employees, suppliers and the entire community.

Robert Škifić

Chairman of the Management Board



Business Environment

Market Situation in 2008

In 2008, two key events marked the maritime transport market:

- Long-lasting period of extremely high shipping rates, particularly for bulk carriers;
- A sudden plunge, which started in April 2008, caused by the world's crisis (particularly with respect to bulk carriers and container ships whose freights decreased more than 10 times and have reached a level significantly below the profitability threshold).

As the shipping market directly influences the Shipyard's clients, several months later the above described events started to affect Viktor Lenac as well. In spite of it, the second half of the year was a period of exceptional activity, in all Shipyard's activities, especially ship repair.

Ship Repair

During the whole 2008, the ship repair market was characterised with significantly more demand than supply of drydock space. Despite the exceptionally favourable market situation, Viktor Lenac's revenues from ship repair were largely limited by available capacity, thereby meaning that during most of the year the Shipyard had at its disposal Floating Drydock No.5 only. Other limiting factors were lack of workforce and berth availability in a lesser degree. The Shipyard, therefore, focused to more valuable jobs and permanent clients. Such situation started to change at the end of the year when orders decreased as shipowners started to change their decisions due to changes on the market. In addition, after two years a typical seasonal drop at the end of previous year and beginning of next year was felt.

Ship Conversion

The Shipyard entered the year with two major conversion projects in progress: 'Helix Producer I' and 'Atlantic Navigator'.

The conversion of 'Helix Producer I' was completed in September 2008 when the vessel was redelivered to its owner. It is the largest conversion project ever completed by Viktor Lenac. The train ferry 'Karl', which used to sail between Germany and Denmark, has been converted into a first ship-shaped floating production unit having possibility to leave an oil field within a very short time.





On redelivery of that vessel, a part of the Shipyard's capacity was disengaged thereby enabling the Shipyard to speed up conversion works on the 'Atlantic Navigator'. Shortly after that, because of their own wrong assessment of the market situation, the shipowners of the 'Atlantic Navigator' decided to stop the project. The Aker Biomarine ASA Company originally planned to convert this giant trawler into an advanced factory for harvesting and processing health-promoting ingredients from krill. After lengthening the ship by 25 meters, when equipment installation started, the company informed the Shipyard about its decision to stop the project explaining that they had overestimated the market possibilities and had arrived too early with the project.

Besides the maritime transport market trends, the major effect on the conversion market came from oil price trends. The drop in prices in the second half of the year resulted in stopping of activities in exploring seabed oil reserves. This resulted in a lack of interest for some types of ships, which until then were very looked-for on the market and at which Viktor Lenac was aiming (seismic exploration vessel, offshore construction vessel etc.). At the end of 2008, all conversion projects were stopped and shipowners decided to wait-and-see on market progress before making any further decision with respect to continuing their projects.

Offshore Projects

A similar situation happens on the offshore market. The major effect on the offshore market comes from oil and gas price trends. At the end of the year, Viktor Lenac received invitation to tender from an American client for repair of an oil rig. After Viktor Lenac submitted its tender, the client decided, due to market situation, to replace the rig that was intended for the Adriatic with another rig. Viktor Lenac also received the second invitation and commenced immediately with preparation of the tender.



Market Expectations for 2009

Ship Repair

The major factors that will influence the ship repair market in 2009 are the following:

- Maritime transport price trends;
- Duration of the world's crisis.

The majority of Viktor Lenac's clients managed to accumulate some capital during the previous favourable period expecting it to be sufficient for a while, a year most, for surviving in bad economic times. Trends show that shipowners are willing to berth their ships and are with increasing frequency postponing ship repair works and stopping their ships, because they find it more cost effective in the short term than operating below minimal costs.



Notwithstanding, it can be said that the ship repair market is still very alive. After initial disturbances at the beginning of 2009, stabilization in number of inquiries and orders is evident and occupancy rates are satisfactory.

It is important to point out that during the last four years a number of drydocks were removed from the Adriatic, which, though not always in direct competition with the Shipyard, were taking off a part of its business and were used to put pressure on Viktor Lenac.

Ship repair prices are under a big pressure, which comes from a weaker financial situation of most of clients. This was particularly evident in the run-up to 2009 when competitive shipyards, facing the world's crisis, dramatically reduced prices in order to ensure employment even with loss. Some shipowners who were financially stable until recently, now have more and more problems with solvency and cannot fulfil their obligations in due time. On account of that, the risk of collection is growing.

In the second half of 2009, it is possible to expect more pressure from shipyards with dry docks, which, during the favourable market situation, became oriented toward newbuilding activity. It is possible that they will orient themselves toward ship repair once they deliver newbuildings and remain with empty books of orders. Such pressure that could affect Viktor Lenac is expected primarily to come from shipyards in the Black Sea and Turkey. As the majority of these shipyards are situated in the Far East, it is likely that they will not significantly affect Viktor Lenac due to their distance.

The most important event for Viktor Lenac in 2009 will be putting Floating Drydock No.11 into full operation. Considering its size and the size of ships that it can handle, this floating dock will significantly increase the Shipyard's capacity. Floating Drydock No.11 can receive Suezmax ships, which are about two to three times bigger than ships docked in



Dock No.5. Besides the fact that with Floating Drydock No.11 Viktor Lenac will enter into a new market of large ships, this also means an increase of its ship repair capacity. In other words, after the accident of Dock No.7, Viktor Lenac's capacity was very limited with respect to ship repair demand as the Shipyard had Dock No.5 only at its disposal. After putting Floating Drydock No.11 into operation, considerable pressure on the Shipyard's berth capacity can be expected, considering the size of ships that this dock can receive.

Ship Conversion

Expectations for the conversion market in 2009 are not optimistic.

Since the beginning of 2009, a few conversion and offshore projects have been initiated. These projects arose from maritime regulations or infrastructure projects or projects of replacement of old ships. The main limiting factor to these projects, however, is the weak financial situation. In other words, Viktor Lenac's potential clients are found in an uncertain situation with regard to their financial funds and possibilities of obtaining credit arrangements for financing such projects.

Conversion projects, mainly connected with oil related activities or increase of shipping tonnage capacity, have been completely stopped.

Offshore

Aside from the factors that have been influencing the conversion market, another major effect on offshore projects could come from postponement or slowing down projects of gas exploitation in the North Adriatic. In spite of it, Viktor Lenac hopes that these projects might still be sped up as a result of the Russian gas supply crisis, which Europe faced in the beginning of 2009.

In the meantime, Viktor Lenac is laying the groundwork for entering in competition for the construction of the Pelješac Bridge. By implementing technology for fabrication of supporting pillars intended for the Pelješac Bridge, which consists of bending sheet metal, fabrication of pipe segments and joining pipe segments into bigger pipes, for Viktor Lenac would be open the possibility of participating in other jobs, which include offshore technology or renewable energy projects.

Entrance of Croatia into NATO and European Union

During the period preceding the bankruptcy, Viktor Lenac and the US Navy had concluded a Master Agreement for ship repair of the Sixth Fleet. Several smaller jobs were carried out, but jobs of higher value went around Viktor Lenac. By entrance of Croatia into NATO, for Viktor Lenac open new possibilities in ship repair of warships and support ships, particularly in view of withdrawal of US troops from Iraq, which could entail a bigger need for engaging maritime transport means.

Croatia's approaching to the European Union sets new conditions before Viktor Lenac, which may bring risks, but can also be seen as new opportunities.



By entrance of Croatia into the EU, Viktor Lenac can expect an increase of price of labour (although it might not be a very significant increase, as the price of labour in Croatia is already higher than in some EU members) and considerable skilled labour migration to countries of the Western Europe such as Germany, Italy and Netherlands, where Croatian workers are already present. Business conditions will change as well, particularly concerning environmental protection. In some segments, this will cause increase of costs and affect the Shipyard's competitiveness in terms of price.

Notwithstanding the above said, with good preparation, the above-described risks could be eliminated. By increasing productivity to the European level and by shortening redelivery terms, Viktor Lenac will be in the position to increase prices. This will have a positive influence on salary levels and will make the Shipyard more attractive to potential employees.

New technologies, intended to reduce harmful impact on the environment, will bring elimination of sandblasting activities from open spaces, reduction of VOC¹ emissions, noise reduction, reduction of CO₂ emission, reduction of paint disintegration and reduction of welding smoke. The issue of waste water disposal (ballast water and slop) is also going to be resolved.

It means that Viktor Lenac will have to launch a series of new projects, for which realization will be expected some help from the local community and EU funds.

¹ VOC = Volatile Organic Compound



Business Activities 2008

Sales

In spite of limited capacity, Viktor Lenac finished the year with 65% revenue growth over 2007 revenue figures as a result of a high and stable ship repair demand and continuation of works on contracted conversion and offshore projects.

Almost one half of Viktor Lenac's revenues from main activities came from ship conversion. Revenues from ship repair activity, which Viktor Lenac has realised having one dock only (Dock No.5) at its disposal, due to the accident of Dock No.7 that happened in July 2007, participate with 38% in the total revenues derived from main activities. Comparing with the year 2007, where the situation was similar in terms of ship repair capacity, as Dock No.7 was occupied with conversion works until its accident, revenues from ship repair activity realized in 2008 were 21 million Croatian Kuna and 23% higher than in 2007. The ship repair revenues in 2008 were also 6 million Croatian Kuna and 6% higher than in 2006, where both Docks No.5 & No.7 were available.

During the last few years, offshore activity has had a constant share in the total main activity revenues.

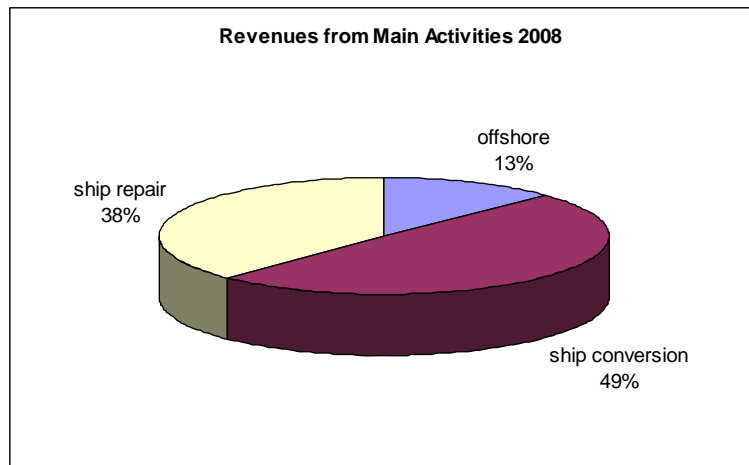
Besides its main activities of ship repair, conversion and offshore, Viktor Lenac carried out port services and other minor services.

Ship Repair

During 2008, Viktor Lenac's Marketing & Sales Department received 190 inquiries for ship repairs, of which 140 inquiries were considered. Many inquiries were refused due to limited drydock capacity. Priority was given to Viktor Lenac's permanent clients and jobs of higher value, therefore, in spite of its limited ship repair capacity, Viktor Lenac has realized revenues from ship repair in the amount of 115.4 million Croatian Kuna, or 15.9 million Euros. Apart from 42 ship repairs completed in whole in 2008, on 31st December there were five ship repairs in progress worth more than 9 million Croatian Kuna.

Floating Drydock No.11, still not in full operation, was used for docking of newbuildings and two ship repairs (Dock No.6 and m/v Trones). Of total ships, seven ships were repaired at berth. The remaining ships were docked on Dock No.5.

Of total 42 ship repairs completed by the end of 2008, 11 were done for domestic clients. Of total ship repair revenues, 16.2 million Croatian Kuna or 14% applied to ship repairs





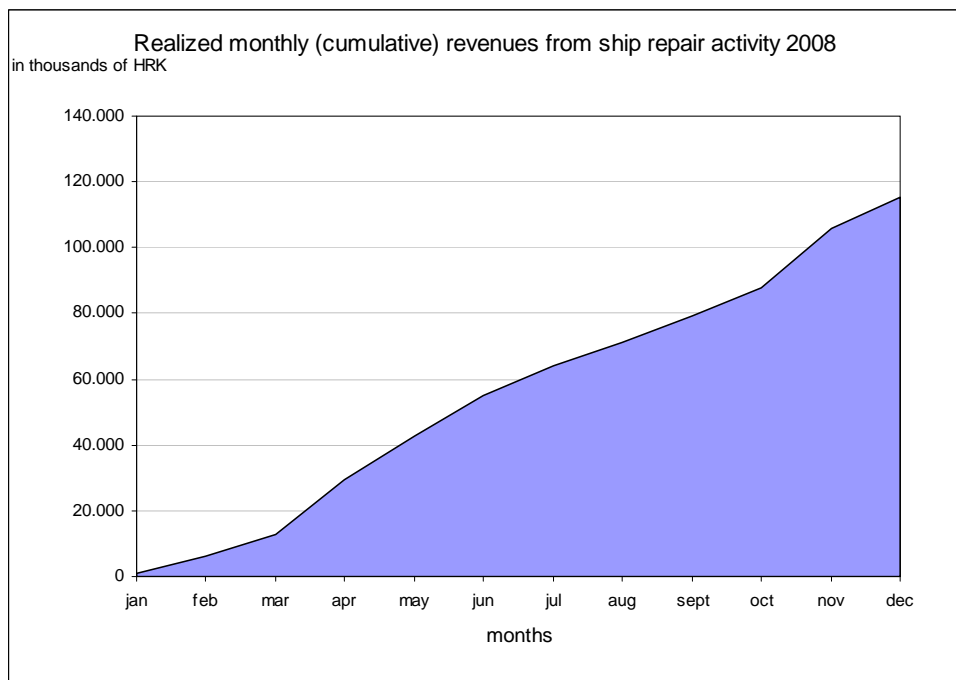
done for domestic clients, while 99.1 million Croatian Kuna or 86% applied to ship repairs done for foreign clients, the most important being the Italian clients, who are among the most important permanent clients of Viktor Lenac.



The average value of ship repair works amounted to 0.38 million Euros, the most important being repairs of m/v 'Bataliony Chlopskie' for a Polish client (2.4 million Euros), repairs of m/v 'Aurelia' for an Italian client (1.1 million Euros), repairs of m/v 'Clifford Castle' (1.0 million Euros), repairs of m/v 'Star Atlantic' (0.7 million Euros) and repairs of m/v 'Cec Accord' (0.7 million Euros).

Among ship repair works carried out for domestic clients, the most important was repairs of the vessel 'Velebit', for the Tankerska Plovidba Company from Zadar, worth 0.6 million Euros.

Examined for months, the dynamics of ship repair revenues varied during 2008, where at the beginning of the year was felt a typical seasonal drop.



Ship Conversion

2008 was characterized by considerable revenues derived from conversion activity. By September 2008, Viktor Lenac completed conversion of the vessel 'Helix Producer 1' (ex. 'Karl') for Kommandor LLC, U.S.A., worth 32 million Euros, of which 91.4 million Croatian Kuna, or 12.6 million Euros applies to 2008. The project commenced in 2006.

Another major conversion job was conversion of the vessel 'Atlantic Navigator' for a Norwegian client the Aker Biomarine ASA Company, which commenced in the second half of 2007. In the last quarter of the year, the shipowner decided to stop the project and the works were reduced to a scope that would allow the ship to leave the Shipyard. Now, the ship is still at berth in the Shipyard and the total value of works has reached 8.3 million Euros, of which 56.1 million Croatian Kuna, or 7.8 million Euros applies to 2008.



Another smaller project for an Italian client was contracted and successfully realized, where two halves of the hull needed to be joined together. This job was special not for its value (0.35 million Euros), but for the fact that Floating Drydock No. 11 was put into operation for the first time.

Offshore

Viktor Lenac is continuing its 10-year work on the project of construction of the gas system supply in the North Adriatic for INAGIP. These are steel constructions intended for exploration and exploitation of seabed oil and gas resources.

Viktor Lenac joined this project in the late nineties as a subcontractor for the Italian Rosetti Marino SpA Company, working on construction of the 'Ivana A' gas production platform. Their partnership continued thereafter in construction of satellite platforms for the 'Ivana' oil field, followed by 'Marica' and 'Katarina' platforms and platforms for the 'Ika-Ida' oil field.



In 2008, offshore activity was marked by construction of the 'Annamaria A' and 'Izabela North' platforms and conversion of the 'Ika B' platform.

The conversion of the 'Ika B' platform, with the purpose to enlarge its capacity, commenced at the end of 2007 and was completed in March 2008. The value of the project, as regards Viktor Lenac, amounted to 9.3 million Croatian Kuna, or 1.3 million Euros.

In 2008, Viktor Lenac realized another 28.1 million Croatian Kuna, or 3.9 million Euros from its offshore activity deriving from the construction of the 'Annamaria A' platform, which is expected to be completed mid 2009.

The construction of the 'Izabela North' platform started in the last quarter of 2008, therefore, revenues realised from this job in 2008 were in a modest amount of 1 million Croatian Kuna.



Production

Production Activities and Structure of Carried out Works

During 2008, Viktor Lenac completed 47 ship repairs, the conversion of 'Helix Producer I' and the lengthening of 'Atlantic Navigator'. As regards offshore activity, the Shipyard was working on the construction of the 'Annamaria A' platform and started the construction of the 'Izabela North' platform.

The repairs of the vessel 'Bataliony Chlopskie' was the most important ship repair job, where 245 tons of steel were renewed. Also, a large scope of anti-corrosion treatment and coating work was carried out, where 23000 square meters of cargo holds were sandblasted and painted.

Most ship repair works were carried out on tankers, then general cargo ships, bulk carriers, passengers and RO-RO ships including repairs of Dock No.6 for the Lošinjska Plovidba-Brodogradilište Company.



The conversion of 'Helix Producer I' was completed in September 2008. A train ferry has been converted into a ship-shaped floating production unit, which will operate in US waters, having possibility to leave an oil field within a very short time. The hull has been enlarged by 10 meters, the old superstructure has been partly removed and a new superstructure has been built and outfitted to accommodate hundred persons. A new work deck has been built, which can receive heavy cargo, the ship's bow has been modified and several major modifications have been made on the stern. Six new thrusters have been installed and the old propulsion system has been

removed. Apart from modifications carried out in the ship's propulsion system, a new dynamic positioning system has been installed. Modifications have been done on all ship's systems. Among the works that were carried out on the ship during 2008, the most important was installation of 1500 tons of steel (of total 4000 tons), 250 tons of steel pipelines and 140 kilometres of power cables.

The conversion of the giant trawler 'Atlantic Navigator', which was unfortunately stopped by the shipowner, consisted of lengthening the ship by 25 meters with the purpose to obtain an advanced factory for harvesting and processing health-promoting ingredients from krill. The project was stopped on completion of the lengthening phase when equipment installation started. The lengthening work consisted of fabrication, assembly and installation of a midbody weighing 700 tons, including installation of associated pipelines, and installation of a retractable Azimuth thruster with Z-drive.





The construction of the 'Annamaria A' and 'Izabela North' gas production platforms includes fabrication of steel sub constructions and fabrication and outfitting of processing modules. During 2008, mostly shipbuilding and piping facilities were used for the construction of these platforms.

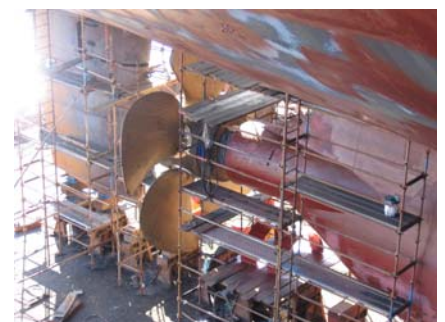


During 2008, the Shipyard's production capacities were also used for maintenance and repair of Dock No.5 and renovation of Floating Drydock No.11. With the purpose to put Floating Drydock No.11 into full operation, a partial steel renewal has been carried out, the dock cranes have been repaired and modified, the control systems have been brought into operation and other works required by the Croatian Register of Shipping have been done.

Taking into consideration ship repair activity only, each of the main work activities (steel renewal, anti-corrosion treatment&coating, mechanical works, piping and steel carpentry) participates in average with 20 to 28% in the total ship repair activity with no significant oscillation.

Viktor Lenac's structure of work activities depends mostly on conversion and offshore projects share in the total production activities, requiring particular shipbuilding trades in a lesser or higher degree.

Shipbuilding, welding and steel carpentry works participated with 35% in the total production activities carried out during 2008, followed by anti-corrosion treatment&coating works, electric and electronic works, each with a 15% share, and then piping works with a 10% share. Due to a high share of steel renewal works in conversion and offshore activities, mechanical works make 7% only. The remaining works include transportation, scaffolding, wood carpentry, specialized services and other works.



Employment of Docks and Berths

After the accident of Dock No.7, which happened in June 2007, the Shipyard's drydock capacity for 2008 was limited to Dock No.5 only. During 2008, total 33 dockings were carried out on Dock No.5, meaning that Dock No.5 was employed 360 days having near a 100% occupancy rate.



Accordingly, the Shipyard's main berths used for ship repair works were occupied almost 99%. It should be mentioned, however, that the vessel 'Galeb', which has been berthed at the Shipyard since 2001, significantly contributed to this high occupancy rate.

In April 2008, Floating Drydock No.11 was put into a partial activation. To put it into full operation, it is necessary to complete repair and modification works on the dock cranes and other equipment required for large size ships. Since April 2008, therefore, Floating Drydock No.11 has been used for works that do not require use of dock cranes.

Floating Drydock No.11 was used for the first time for joining of two halves of ship's hull for an Italian client. The work was completed to mutual satisfaction. After that, the dock was used for the project of lengthening of the trawler 'Atlantic Navigator' and docking of newbuildings for domestic shipyards. Total 7 vessels were docked on Floating Drydock No.11 during 2008, meaning that it was employed during 233 days. Near half of that time or 117 days, it was used for the conversion of 'Atlantic Navigator'.



Production Capacity and Costs

The annual production capacity of Viktor Lenac is measured in effective work hours deriving from working orders in main activities, maintenance works and investment activities carried out by Viktor Lenac in its own arrangement. Apart from its own permanent production workers, depending on needs, Viktor Lenac uses subcontractors for all its production activities.

The number of subcontractors workers was bigger in the first half of the year connected with the conversion of 'Helix Producer 1'. On completion of that project, their number decreased and remained at a stable level in view of the Shipyard's permanent and stable employment in ship repair. In figures, the average number of engaged subcontractors workers was about 650 in the first half of the year and then in September decreased to 500.



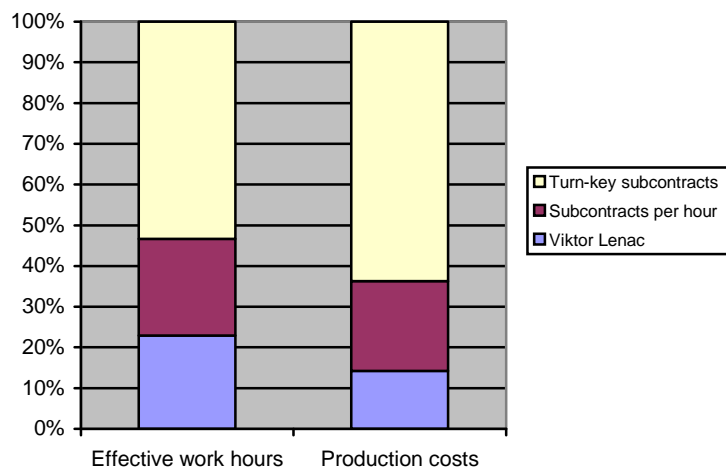
The total number of effective work hours derived from the Shipyard's main, auxiliary and investment activities in 2008 was 1.9 million. Viktor Lenac's own permanent production workers, 260 in average, participated with 446 thousands of hours or 23%. Subcontractors workers, contracted per hour, produced 461 thousands of hours. The remaining 1 million of effective work hours (derived from production costs) were produced by subcontractors workers based on turn-key contracts.



In figures, the total cost of production work incorporated in working orders from main, auxiliary and investment activities amounted to 117.5 million Croatian Kuna, of which Viktor Lenac's own production workers' salaries made 14.2% or 16.7 million Croatian Kuna. Non-working days, production stoppage period, maintenance, training or other costs are not included.

On the basis of working orders for planned and current maintenance of the Shipyard's production and auxiliary equipment, Viktor Lenac's workers produced 66000 effective work hours, while subcontractors workers produced 19000 hours.

Effective work hours and production costs in production 2008





Technological Development and Investment

Ship repair is an activity characterised by production of single products, utilisation of traditional technologies and a time-consuming technological development process. Major technological development activities have been related to anti-corrosion protective treatment and coating of steel elements, replacing sand-blasting by new technologies using

ultra-high pressure water blasting. The introduction of such technology is partially connected to an enhanced environmental protection all over the world, where the old "dirty" technologies are being replaced with those more acceptable.



The increase in ship size in the world's maritime commerce implies larger drydock capacities. Hence it follows, that shipyards disposing of large drydocks will be more competitive and will gain a bigger market share.

Quality of technical equipment for prompt and efficacious steel works and horizontal and vertical transport means for handling, outfitting and assembling of steel units are necessary for conversion and offshore works.

In order to respond to the world's demand for larger drydock capacities, Viktor Lenac had purchased an Aframax size drydock before the bankruptcy, which has been enlarged and lengthened for receiving ships of up to 260 meters in length. When the Shipyard filed for bankruptcy, all investments in new development phase and renewal of production tools were suspended and so was investment in Floating Drydock No.11.

Since April 2008, when the bankruptcy was terminated, Viktor Lenac has been restructuring in terms of finance and ownership and has been building up conditions for investment in technological development and considerable renovation of the existing facilities.

Seeking to increase its competitiveness and gain a larger market share, and due to loss of Dock No.7 leaving the Shipyard with one drydock only, the emphasis was put on the completion of renovation of Floating Drydock No.11 and putting it into full operation. Due to the fact that Floating Drydock No.11 was unutilized and unmaintained during the last few years, a large scope of works has been done to renew its construction with associated safety, electric and electronic and other systems. The investment was required as well for issuing of necessary safe work permits.

In the last quarter of the year started general repair and modification of the dock cranes and renewal of the old crane rails.

At the end of 2008, Viktor Lenac started purchasing equipment for horizontal and vertical transport intended for Floating Drydock No.11 such as cherry pickers, hydraulic shear lifting



platforms for shell plating works, fork lifts and special cars for grit collection, removal and handling operations (Bobcats).

For the purpose of large size ships that will be handled in Floating Dydock No.11, Viktor Lenac has also purchased more scaffolding of both conventional and quick erect type.

In order to decrease costs of transforming voltages from 380 to 440 Volts, as required by Viktor Lenac's clients for supply of their ships, Viktor Lenac has purchased two frequency converters for both Floating Dydock No.11 and No.5, thereby eliminating transformation of voltage by Diesel electrical aggregates, which was more expensive and ecologically unacceptable.

Seeking to improve productivity in steel machining, Viktor Lenac has purchased a new gas cutting pantograph, allowing its existing plasma cutting machine to be reconstructed. In addition to it, general repair of the press and rollers used for cold roll forming was carried out. New pantograph was delivered and installed in the first quarter of 2009 and after that started the reconstruction of the plasma cutting machine. With this investment, Viktor Lenac has increased its steel cutting capacity by 50% thereby allowing a continuous three shift work.

During the year, the Shipyard improved its production facilities by purchasing new trucks for handling operations inside the yard, a new weighbridge and other various production equipment and tools.



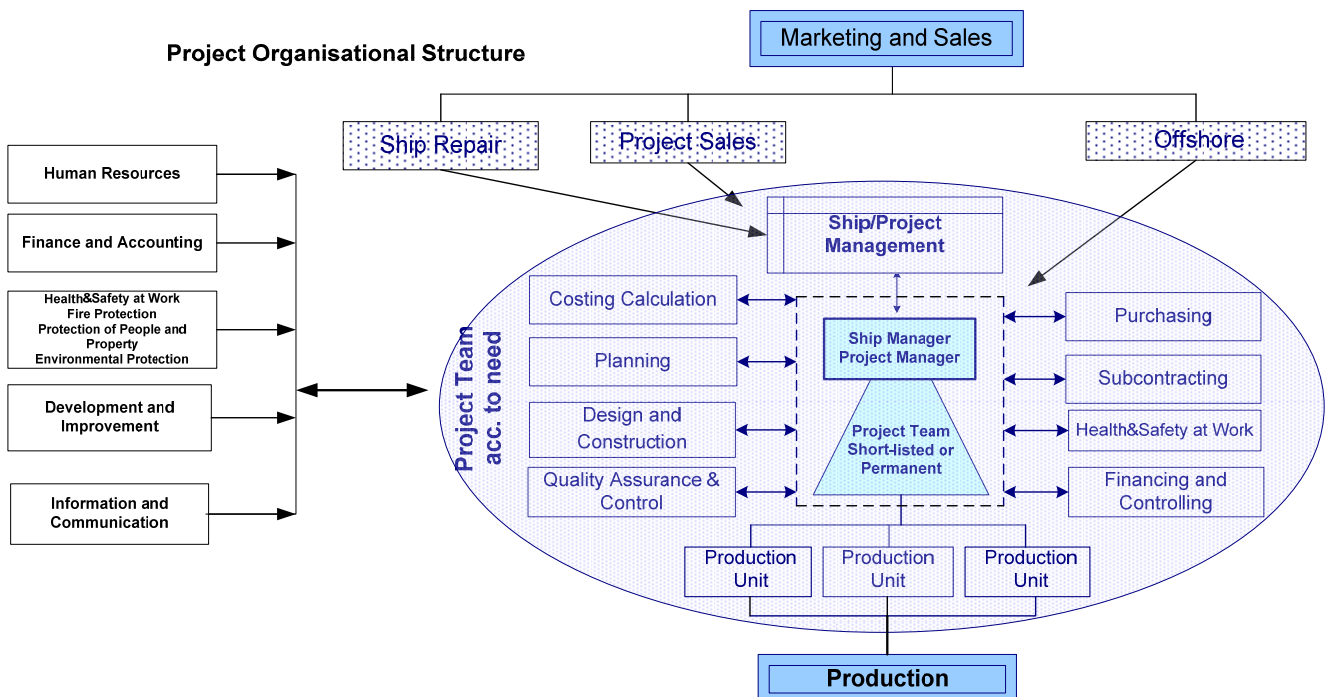


Organisational Development

Restructuring the Organisation

During 2008, Viktor Lenac has commenced the implementation of an intensive process of the organisational restructuring. The decrease in number of employees since the beginning of the bankruptcy and further fluctuation of employees during the bankruptcy period, have affected negatively the Shipyard's organisational structure disrupting the structure of functions, responsibilities and authorizations.

As a result of that, immediately on termination of the bankruptcy, Viktor Lenac started a process of the redefining the organisation and the business process reengineering. The functional organisational structure has been kept, however, with a few significant changes. The emphasis has been put on the marketing and production functions as the central parts of the organisation, while the other logistic functions have been detached into independent units. The objects of the change of the organisation and the business process reengineering are improvement of the functional management system, more efficient planning and cost control system, speeding up the communication and decision-making process and clear defining of functions, authorisations and responsibilities.



Moreover, Viktor Lenac is a project-oriented company characterised by production of single products, which requires an improved project management system and an advanced matrix organisational structure. In spite of the complexity of such structure and an increased risk of conflict due to dual responsibility and conflict of interest between the line and the project and production management systems, the advantages seen by Viktor



Lenac in this type of organisation are bigger flexibility and better adjustment to market requirements, improved coordination and communication and more motivated employees.

By defining such functional and project organisational structure conditions will be built up for further development of the planning and cost control system, thereby allowing improvement of the employee motivation and performance measurement system, measured either individually or as part of a group, against overall business objectives or specific job or tasks.

Matrix organisation with an adequate information system is a basis for development of the controlling and internal benchmarking, breaking down overall results of company performance by individual organisational units following the company's functional organisational structure. On the other hand, following its project organisational structure, overall results of company performance are divided by individual activities, next by individual projects and at the end by project parts.

Development of Information System

Diversification of Viktor Lenac's production activities requires that its ship repair, conversion and offshore projects are executed with a high degree of flexibility and expertness, having in mind that all production and technological issues, material purchasing and supply of services have to be dealt with in a short time and under big pressure. Moreover, the greater competitiveness and requests for shorter redelivery terms require increase of productivity, accurate planning and rational utilisation of resources.

The modernisation and reorganisation of the information system, started during 2008, makes, therefore, an important part of Viktor Lenac's business development strategy. Viktor Lenac has set up a very ambitious plan to implement computerized business process planning & management, cost controlling and decision-making support systems.

The objects of new management information system are process integration and controlling of projects, activities and organisational units. In addition to it, this system will enable the implementation of the employee motivation and performance measurement system thereby allowing an administrative staff reduction.

During 2008, an upgrade has been made to the internal human resource management system, salary calculation software and financial management system by installing additional modules for more comprehensive cost controlling system. As regards the business process and project management system, an upgrade of the costing calculation quotation system is in progress, which will serve as a basis for more efficient resource planning and will enable continuous communication between the marketing, planning and production departments.

Accordingly, at the end of 2008, Viktor Lenac started purchasing information equipment in a large degree, with the newest versions of various software such as MS Office, AutoCAD etc.

The process of development and integration of the new management information system will continue during 2009, with the emphasis on the health and safety at work and protection of products and property by implementing a new working hours management



system with an improved entrance and movement control system and a video surveillance system.

Viktor Lenac's website is being redesigned and will allow an improved communication and exchange of information and documents with clients, suppliers, public institutions and potential employees.

Quality Management System

Viktor Lenac was certified to be in conformance with the Quality ISO 9002 Management System for the first time in July 1997. Due to the increase of conversion and offshore project share in the Shipyard's activities, the then system was extended to new products and in 2001 Viktor Lenac obtained certification to another quality standard - ISO 9001. Although Viktor Lenac continued to apply the quality management system during the bankruptcy period, any further activities for development of the system and adjustment to new standards were suspended and as a consequence of that Viktor Lenac has lost its certifications.

Within its restructuring process, in 2008 Viktor Lenac started the preparation for the recertification of its Quality Management System to ISO 9001/2008 as well as the recertification of the Environmental Protection Management System to ISO 14000. Within this recertification project, Viktor Lenac is now working on describing and revising its business processes and their adjustment to new Shipyard's organisation and necessary documentation is being renewed.

In 2009, the recertification project will continue and will involve a continuous training of the Shipyard's employees as well as subcontractors employees. The application for recertification will be submitted in the second half of 2009.

Safe Work, Health and Safety at Work and Fire Protection

Seeking to achieve best performance results, Viktor Lenac has integrated the Health and Safety at Work System as part of its overall management system.

Since 2008, following revision of the Risk Assessment Document, with the aim to conduct a successful risk management system, the Shipyard's Health and Safety at Work Department and authorized employee representatives have been responsible to ensure that relevant safety standards and procedures are implemented and a culture where each employee is responsible and accountable for safety has been created.

Preventive occupational health and safety activities consist of the following:

- Continuous daily supervision of the implementation of health and safety at work procedures;
- Occupational health and safety education and training;
- Testing physical performance for work posts with extreme working conditions;
- Periodic testing and inspection of hazardous machines and tools;
- Providing personal protective safety equipment and ensuring it is used when required;
- Providing safe working conditions for all work posts, either temporary or permanent.



Viktor Lenac thinks about employee health and preventive care and has concluded an agreement with a reputable medical establishment for preventive medical exams and other medical services for the benefit of its employees.

In 2008, total 26 accidents at work were recorded or 4.52% injured workers against the total number of employees, down by 1.48% compared with the previous year. This indicates a high level of safety at work, particularly compared to the Croatian shipbuilding average of 9%. The injury frequency index² decreased by 8.75 compared with the previous year (I for 2008 = 21.48; I for 2007 = 30.23).

The decrease in trend of occupational injuries is a result of constant efforts to educate, motivate and stimulate employees, mostly through direct contacts, to implement safety procedures and utilise personal protective safety equipment.

The Shipyard's Fire Protection System integrates a spectrum of preventive measures among which:

- Inspecting work sites for issuing of permits for work with open flame;
- Education and training of new employees ;
- Making emergency evacuation plan for each vessel;
- Inspecting, maintaining and renewing fire fighting equipment;
- Periodic fire fighting exercises.

One small fire was recorded in 2008 and was extinguished by use of the Shipyard's own fire fighting troop. One subcontractors worker was heavily injured. There was no damage to the property.

Environmental Protection

By protecting the environment through an environmental protection system, which is based on the world's environmental protection rules and regulations that recognize technological achievements, branch rules and laws, Viktor Lenac is promoting and supporting the process of sustainable development. Environmental protection system is also a starting point for further development of the company, with purpose to ensure quality common life with the local community.



In cooperation with the Institute of Public Health of the Littoral and Mountain County, Viktor Lenac has been implementing a permanent program of monitoring of the influence of its production activities on the environment. Based on results of measurements of water and air samples, sea water and noise, the Shipyard is undertaking specific corrective measures in its technological processes.

² Injury Frequency Index is measured in number of injuries per 1 million of effective work hours.



Pollution load in waste water that is drained into the public drainage system is analyzed four times a year. According to analysis, all examined parameters show concentration lower than the limit values.

The Shipyard's waste water drainage system was completely restored in 2008, thereby eliminating harmful influence of waste water on the environment entirely.

Examination of sea water consists of examination of sea water quality, sediments and living associations. The Svežanj bay, which has been proclaimed a monument of nature, has been picked as a representative sample point. By analyzing samples against the representative sample point, it can be concluded that Viktor Lenac's production activities have no significant impact on the sea water quality in the Martinšćica bay. All examined parameters show very low concentrations, with the exception of sediments in the Shipyard's aquatorium that show an elevated concentration of heavy metals and polycyclic aromatic hydrocarbons compared to the representative sample point.

Examination of the Shipyard's influence on air quality is carried out on two examination points located in the nearby villages Vrh Martinšćice and Žurkovo. At the end of 2007, Viktor Lenac purchased some highly sophisticated equipment to fight air pollution. Samples are taken every day for examination of presence of heavy metals in suspended particles smaller than 10 μm (PM_{10})³. According to analysis results, the air quality is considered satisfactory (First Category).

Emissions of air pollutants are measured also from stationary sources such as boiler-house funnel. Examined parameters do not exceed the limit values. In order to further reduce emissions, having in mind much more strict criterions after the entrance of Croatia into the EU, and also seeking to improve its energy effectiveness, Viktor Lenac has requested an Energy Study as a basis for planning of future development and investment in production and infrastructure equipment in compliance with the European Emission Standards.

The Shipyard has been using water from the Javor water supply system for technological purpose for many years now. Seeking to further decrease utilisation of drinkable water for technological purpose, in 2008 Viktor Lenac obtained a permit to increase quantity of water that it can use from the Javor water supply system by 36%.

In cooperation with the Kostrena municipality, Viktor Lenac has started to monitor noise load. In 2008, the Shipyard purchased some noise monitoring equipment. Based on measurements, the Shipyard will be able to undertake specific measures to reduce harmful influence of noise on the environment.

Seeking to maintain and improve quality of life of the local people, Viktor Lenac has supported (financially) elaboration of an Epidemiological Study, on the basis of which will be assessed impact of air pollution on the health of Kostrena's inhabitants based on a several years examination.

The education of the Shipyard's employees in terms of waste disposal, reducing waste and waste sorting is provided during the whole year. Also, Viktor Lenac continues its

³ PM_{10} (Particulate Matter): International standard for particles under 10 micrometers in diameter



cooperation with elementary and secondary schools in view of education of young people on the implementation of environmental protection activities in the shipbuilding industry.

Human Resources

Number and Structure of Employees

The human resources restructuring takes an important place in the Shipyard's restructuring process. Difficulties that had resulted in the bankruptcy of Viktor Lenac at the end of 2003 and the fact that the Shipyard continued to work under bankruptcy conditions during several years, has largely disrupted the personnel structure. It was very hard if not impossible to employ skilled staff and young experts because of low salaries and temporary contracts during the bankruptcy period.

Upon termination of the bankruptcy, Viktor Lenac concluded employment contracts with 563 workers, of which 463 contracts for an indefinite period, 24 contracts for a trial period and 76 temporary contracts.

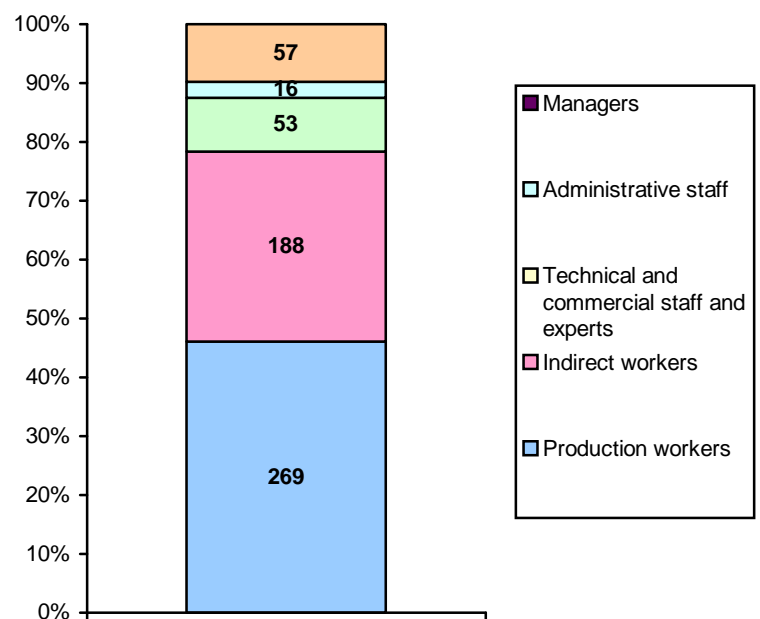
By the end of 2008, the number of employees was increased by no more than 20, so on the day of 31st December 2008 Viktor Lenac was employing total 583 employees.

Of total number of employees, production workers participate with only 46.1% or 269 employees. In spite of the Shipyard's plan to employ more direct workers, there was no significant change in the number of production workers at the end of 2008, due to salaries which were still low and a lack of skilled workers on the labour market. Viktor Lenac is now redefining its employment plan in accordance with its business process reengineering and future development strategy.

At the end of 2008, Viktor Lenac had 188 indirect workers, making 32.2% of total employees, including safety and environmental protection, maintenance and control workers, foremen in production and other workers relating to production operating expenses.

The remaining number of employees includes technical and commercial staff and experts (53 employees or 9.1%), administrative staff (16 employees or 2.7%) and project managers and managers of organisational units of all levels (57 employees or 9.2%).

Employee Structure on 31st December 2008





On 31st December 2008, Viktor Lenac's subsidiary company (Viktor Servisi d.o.o.) had total 15 employees, of which 13 maintenance and repair workers.

Viktor Lenac's personnel structure in terms of qualification and profession is satisfactory. A very small number of employees refer to non-qualified workers and those are mostly workers who are occupied with cleaning works.

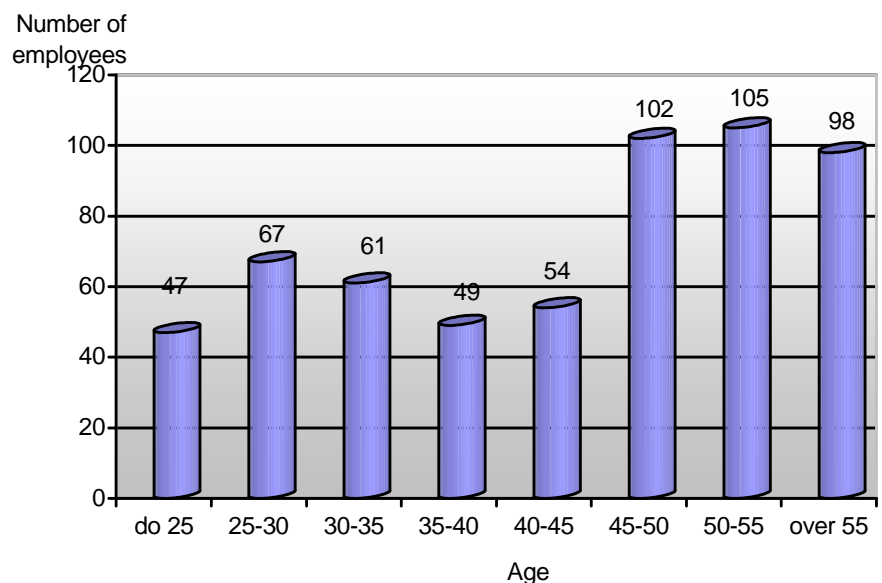
Number of employees by educational qualification:

	Master's degree	University degree	Two-year degree	High-Qualified	Secondary education	Skilled	Semi-Qualified	Non-Qualified	TOTAL
Male	1	44	65	39	132	142	24	91	538
Female	0	14	5	0	14	2	0	10	45
Total	1	58	70	39	146	144	24	101	583

Of total number of employees, employees with a two-year or university degree make 22%, while non-qualified or semi-qualified workers make 17%.

The age structure of personnel, with the average age of 43, is not favourable considering the nature of Shipyard's activities. Of total employees, there are more than 200 employees older than 50. Among other, such old age structure is a consequence of the bankruptcy, where many young employees had left Viktor Lenac because of uncertain situation and poor status.

Number of employees per age on 31st December 2008



It is, therefore, necessary to rejuvenate the Shipyard's personnel structure not only by employing young people, but also through their education, having in mind that about 37% of employees who have a university degree are older than 50.



Structure of Effective Work Hours and Salaries

In 2008, Viktor Lenac's employees produced total 1.19 million of work hours in normal working hours, of which 79% or 0.95 million were effective work hours, while 21% referred to vacation (9%), sick leave ((5%) and national holidays, paid leave and other non-working hours (7%).

Before the bankruptcy, Viktor Lenac had implemented a system of reallocation of working hours, allowing more flexible utilisation of working hours and better reaction to oscillation in employment rate. During the bankruptcy, the system of reallocation of working hours was not sustainable due to temporary contracts and other problems associated with bankruptcy. Therefore, hours produced outside normal working hours have been considered overtime work. In 2008, Viktor Lenac paid total 176000 hours in overtime.

In 2008, Viktor Lenac paid total 60.8 million Croatian Kuna on the account of salaries and other employee material rights, of which 56.1 million Croatian Kuna referred to salaries, while 4.7 million Croatian Kuna referred to other material rights such as compensation for transport, terminal pay at retirement, untaxable occasional compensations and aids, anniversary prizes etc.

Of total salary cost, 33.6 million Croatian Kuna was paid on the account of net salaries, 18.3 million Croatian Kuna was paid on the account of obligatory contributions and the remaining 4.2 million Croatian Kuna was paid on the account of tax obligations.

Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2008, after deduction of contributions and taxes, amounted to HRK 4,692.00, down by 9.4% compared with the average net salary in Croatia, or by 13.7% compared with the average net salary in the shipbuilding industry.

By conclusion of the Collective Agreement and its application since December 2008, salaries have been augmented by about 9% and the difference between the salaries in Viktor Lenac and the average Croatian salary has been reduced. In other words, the average net salary in Viktor Lenac is now down by about 5% compared with the average Croatian salary, or by 10% compared with the average in the shipbuilding industry.

Employee Education

Recognizing employees as its most important resource and being aware that their education may largely impact the Shipyard's competitiveness on the market, Viktor Lenac is making more efforts to increase their capacity and skills through education and qualification programs for various jobs and tasks. In order to achieve bigger flexibility in work, it will be necessary to educate polyvalent employees, each being able to handle multiple related jobs and tasks. While doing so, very important will be mentoring, where older, more experienced workers transfer their knowledge to younger employees.

In accordance with the Shipyard's Education Plan, employee education programs have been intensified. Seeking to improve productivity, all employee categories, from production workers to managers, have been included into education programs. In 2008, the following education programs were completed or have been commenced, either internally or in cooperation with educational institutions:



- English language learning (basics and advanced)
- Computer training (basics and advanced)
- Communication skills
- Purchasing skills
- Specific skills for individual jobs and tasks
- Specialization and upgrading
- Fundamental education programs for shipbuilding trades

Awarding Scholarships to Pupils and Students

Apart from qualified production workers, mostly jobs in short supply, Viktor Lenac needs a number of employees with a university degree in shipbuilding. Therefore, Viktor Lenac has decided to award scholarships to a number of pupils and students. Through a public competition, five scholarships have been awarded to pupils, while eight scholarships have been awarded to students who are being educated for shipbuilding technicians or engineers.

Social Dialogue

2008 was traditionally marked with a social dialogue of mutual trust and respect between the Viktor Lenac's Management Board and its social partners, the Unions and Workers' Council.

Elections for the Workers' Council were held immediately upon termination of the bankruptcy, where started its cooperation with the Management Board in consulting and co-deciding over important employee issues.

At monthly meetings, the Management Board informs the Workers' Council about actual situation and perspectives and provides all data important for the Shipyard's employees.

The President of the Workers' Council, Mr. Damir Bačinović, has been appointed member of the Supervisory board in his capacity of workers' representative.

Generally, social dialogue between the Management Board and the Unions is made over collective issues. Negotiations over new Collective Agreement started in June 2008 and after being intensified in autumn, the Collective Agreement was concluded in December 2008 to mutual satisfaction of negotiators and all employees. The Collective Agreement stipulates all employee rights in terms of working hours, minimal salary, salary structure, health and safety at work and other material rights.



Finance

Key Financial Figures

Consolidated Financial Figures:

	in thousands of HRK			in thousands of EUR ⁴		
	2008	2007	Index	2008	2007	Index
Total Revenues	422.471	221.570	190,7	58.488	30.203	193,7
Total Expenses	318.839	227.284	115,8	44.141	37.525	117,6
Operating Revenues	417.501	220.642	189,2	57.800	30.077	192,2
Operating Revenues (write-off of pre-bankruptcy liabilities not included)	340.457	220.642	154,3	47.134	30.077	156,7
Operating Expenses	314.821	272.487	115,5	43.585	37.144	117,3
Operating expenses (loss after adjustment of bankruptcy long-term assets not included)	314.821	247.832	127,0	43.585	33.783	129,0
EBIT	102.680	(51.845)	-	14.215	(7.067)	-
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities and adjustment of bankruptcy long-term assets)	25.636	(27.190)	-	3.549	(3.706)	-
Profit and Loss Before Tax	103.632	(53.714)	-	14.347	(7.322)	-
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities and adjustment of bankruptcy long-term assets)	26.588	(29.059)	-	3.681	(4.023)	-
Net Profit and Loss	94.224	(53.812)	-	13.045	(7.335)	-
Total Assets	267.841	1.103.051	24,3	36.568	150.584	24,3
Capital and Reserves	172.624	0	-	23.568	0	-

The consolidated profit and loss statement and other financial statements include Viktor Lenac's subsidiary company Viktor Servisi d.o.o. Rijeka, which, during 2008, realized revenues from its normal business activities consisting in providing specialized services in shipbuilding.

⁴ All amounts expressed in Croatian Kuna, except for assets, capital and reserves, have been converted into Euros according to the average midpoint exchange rate by the Croatian National Bank for 2008 (HRK 7.22) respectively 2007 (HRK 7.34). Assets, capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31st December 2008 (HRK 7.32) respectively 31st December 2007 (HRK 7.33).



In 2008 Viktor Lenac and Viktor Servisi realized together total revenues in the amount of 422.5 million Croatian Kuna and total expenses in the amount of 318.8 million Croatian Kuna, after annulment of their reciprocal transactions.

Comparing the consolidated financial statements with the non-consolidated ones, it can be concluded that the influence of Viktor Lenac's subsidiary company is irrelevant. In total revenues and expenses of the Group for 2008, revenues and expenses of the mother company make more than 99% of revenues respectively expenses of the Group. Moreover, the assets of the mother company make 99% of the Group's assets.

Further in this Report, therefore, the emphasis will be put on the financial results, assets, capital, reserves and liabilities of the mother company.

Non-consolidated Financial Figures:

	in thousands of HRK			in thousands of EUR		
	2008	2007	Index	2008	2007	Index
Total Revenues	420.951	218.957	192,3	58.278	29.847	195,3
Total Expenses	317.161	273.084	116,1	43.909	37.225	118,0
Operating Revenues	416.076	218.046	190,8	57.603	29.723	193,8
Operating Revenues (write-off of pre-bankruptcy liabilities not included)	339.032	218.046	155,5	46.937	29.723	157,9
Operating Expenses	313.227	270.353	115,9	43.364	36.853	117,7
Operating expenses (loss after adjustment of bankruptcy long-term assets not included)	313.227	245.698	127,5	43.364	33.492	129,5
EBIT	102.849	(52.307)	-	14.239	(7.130)	-
Profit and loss from business activities (no influence of write-off of pre- bankruptcy liabilities and adjustment of bankruptcy long-term assets)	25.805	(27.652)	-	3.573	(3.769)	-
Profit and Loss Before Tax	103.790	(54.127)	-	14.369	(7.378)	-
Profit and loss from business activities (no influence of write-off of pre- bankruptcy liabilities and adjustment of bankruptcy long-term assets)	26.746	(29.472)	-	3.703	(4.017)	-
Net Profit and Loss	94.382	(54.127)	-	13.067	(7.378)	-
Total Assets	265.374	1.102.741	24,1	36.232	150.542	24,1
Capital and Reserves	170.037	0	-	23.215	0	-



Financial Results

Realized Revenues and Expenses

In 2008 Viktor Lenac realized total revenues of 420.9 million Croatian Kuna with total expenses in the amount of 317.1 million Croatian Kuna, thereby making a profit before tax in the amount of 103.8 million Croatian Kuna.

Total revenues include an income derived from a write-off of pre-bankruptcy liabilities in the amount of 77 million Croatian Kuna, which refers to the write-off of 90% of acknowledged claims of second ranking creditors who had not agreed to convert their claims into shares, therefore, their debts will be paid.

By reducing total revenues for the above-mentioned write-off, total revenues realized by Viktor Lenac from its normal business activities amounted to 343.9 million Croatian Kuna.

Operating revenues realized in 2008 amounted to 416.1 million Croatian Kuna respectively 339 million Croatian Kuna after deduction of the above-mentioned write-off. Operating revenues expressed in this way can be compared with operating revenues realized in 2007 where they amounted to 218 million Croatian Kuna.

The increase of operating revenues by 121 million Croatian Kuna or 55.5% compared with the previous year, derived from the following incomes:

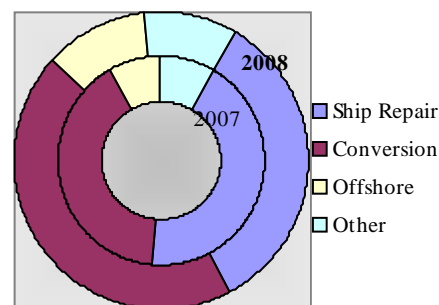
- Incomes from conversion activity ('Helix Producer I' and 'Atlantic Navigator'), up by 62.3 million Croatian Kuna or 71% compared with the previous year;
- Incomes from ship repair activity, up by 21.6 million Croatian Kuna or 23% compared with the previous year;
- Incomes from offshore activity ('Ika B' conversion and 'Annamaria A' & 'Izabela North' construction), up by 21.2 million Croatian Kuna or more than double compared with the previous year.

The remaining increase of operating revenues, as compared with the previous year, resulted from higher incomes from various services, state subventions, material and waste sales etc.

Operating expenses realized in 2008 amounted to 313.2 million Croatian Kuna, up by 67.5 million Croatian Kuna or 27.5% compared with 2007.⁵

The biggest increase in operating expenses derived from costs of subcontracts and other outside services used in the Shipyard's production process. Subcontract costs in 2008 were higher by 37.9 million Croatian Kuna than in 2007. Viktor Lenac uses subcontractors

Business Revenue Structure 2007 and 2008



⁵ For an objective comparison of operating expense trends, operating expenses for 2007 have been reduced by expenses derived from adjustment of long-term assets, having in mind that the adjustment did not derive from normal business activities, but from adjustment of the bankruptcy assets in accordance with the Court's decision.



as an additional work force in default of its own production workers. Use of subcontractors, taking into account that they are more expensive than own workers, is justified during periods of high oscillation in production as subcontract cost is not treated as fixed cost; specifically, subcontractors are only used in periods when the Shipyard's own capacities are not sufficient.

Production material costs with operative expenses and energy costs were higher by 23.4% than in the previous year.

Salary costs were also higher than in 2007, by 20.4% or 9.5 million Croatian Kuna, resulting from the increased number of employees by the end of 2008, augmented salaries (upon conclusion of the Collective Agreement in December 2008) and 13th month salary payment.

For 2008 Viktor Lenac recorded and calculated a depreciation cost of its tangible fixed assets and intangible assets in the amount of 22 million Croatian Kuna, up by two and a half times compared with the previous year. Such augmented depreciation cost derived from its Floating Dydock No.11, which was put into operation, and is representing the most valuable assets of the Company. Also, considering the age of its floating vessels and a need for further investment, particularly after the accident of Dock No.7 in June 2007, in 2008 Viktor Lenac used its legal right to accelerated depreciation for both Docks No.5 & No.11.

Operating expenses include reservations for risks and costs in the amount of 9.4 million Croatian Kuna, of which 8.2 million Croatian Kuna refers to reservations deriving from guarantees issued to clients for works under warranty and 1.2 million Croatian Kuna refers to reservations provided for litigations.

The difference between realized operating revenues and expenses in 2008 produced a profit of 102.8 million Croatian Kuna respectively a profit from normal business activities in the amount of 25.8 million Croatian Kuna after deducting the amount of write-off of pre-bankruptcy liabilities.

The total profit has grown by 1 million Croatian Kuna due to net financial income. Financial expenses consist of negative exchange rate differences in the amount of 2.7 million Croatian Kuna and interests in the amount of 1.2 million Croatian Kuna paid on a credit obtained from the Tankerska Plovidba Company from Zadar. As to financial incomes, an amount of 2 million Croatian Kuna was realized on the account of positive exchange rate differences as well as an income deriving from interests earned on time deposits in the amount of 2.9 million Croatian Kuna.

After calculating net financial income, the total profit before tax amounted to 103.8 million Croatian Kuna.

New Profit Tax Law, applied from 1st January 2005, has influenced the Shipyard's fiscal situation. Specifically, according to provisions of the earlier law, Viktor Lenac was obliged to pay corporate income tax relating to period of bankruptcy as a unique tax period. The Shipyard, therefore, submitted its last corporate income tax return on the day of the opening of bankruptcy. According to new Profit Tax Law, Viktor Lenac in its capacity of bankruptcy debtor ought to have submitted annual corporate income tax returns since 1st January 2005, thus interrupting continuity in taxing, and consequently Viktor Lenac lost its right to transfer tax loss, accumulated up to the day of the opening of bankruptcy.



The tax loss, accumulated, in accordance with provisions of new Profit Tax Law, from 1st January 2005 to 31st December 2007, amounted to 57.7 million Croatian Kuna, which was insufficient to cover the tax base realized in 2008. The major effect to the tax base came, according to the Bankruptcy Plan, from the write-off of pre-bankruptcy liabilities in the amount of 77 million Croatian Kuna, which is treated as taxable income.

As a result of that, Viktor Lenac recorded and calculated a profit tax for 2008 in the amount of 9.4 million Croatian Kuna, therefore, its net profit after tax amounted to 94.4 million Croatian Kuna.

The inclusion of the write-off of pre-bankruptcy liabilities in the total figures for 2008, caused distortion of the key indicators of capital rentability and profitability, hence they could be misjudged if calculated against total operating revenues.

Likewise, studying net profit after tax reduced by income derived from the write-off of pre-bankruptcy liabilities, would also be wrong, having in mind that Viktor Lenac would not have been obliged to pay profit tax if the write-off of pre-bankruptcy liabilities had not been included.

In such case, the Shipyard's net profit would have amounted to 26.7 million Croatian Kuna (profit before tax reduced by the amount of the write-off of pre-bankruptcy liabilities) and, related to the total revenues realized from normal business activities, its profit rate would have been 7.8%.

Assets and Liabilities

The total value of Viktor Lenac's assets on 31st December 2008 amounted to 265.3 million Croatian Kuna, of which 119.7 million Croatian Kuna of long-term assets and 145.6 million Croatian Kuna of short-term assets. Of total long-term assets, tangible fixed assets made 99%, among which the most important being the Shipyard's floating vessels, Floating Dydock No.11 and Floating Dydock No.5.

The short-terms assets consists of short-term receivables, which amounted to 55.7 million Croatian Kuna or made 38% of total short-term assets, and 51.2 million Croatian Kuna or 35% of deposits or time deposits, partly in form of collateral value to support guarantees issued in favour of client, while 14.8 million Croatian Kuna or 10% of total short-term assets referred to money in current accounts. The remaining amount referred to raw material and other materials supply and production in progress totalling 24 million Croatian Kuna, which made 16% of total short-term assets.

Total Shipyard's liabilities on 31st December 2008 amounted to 95.3 million Croatian Kuna, of which 26.8 million Croatian Kuna of long-term liabilities and reservations and 68.5 million Croatian Kuna of short-term liabilities.

All short-term liabilities have been covered in whole by short-term assets with current ratio higher than 2.

Total long-term assets has been covered in whole by the Company's capital.



The value of the Company's issued share capital is 124.1 million Croatian Kuna and is registered in the Register of Commerce at the Commercial Court of Rijeka under the number Tt-08/927-2 dated 9th April 2008 being the day of the termination of bankruptcy.

Specifically, by the termination of the bankruptcy based on the Bankruptcy Plan, a decision was made to cover loss through a simplified decrease of the company issued share capital and from share premiums and capital reserves. In the same time, another decision was made to increase the company issued share capital through converting claims into shares of those creditors who had accepted such modality of settlement. Total claims converted into shares amounted to 933,900,468 Croatian Kuna, of which 809,822,338 Croatian Kuna were allocated to capital reserves for covering transferred loss and 124,078,130 Croatian Kuna are making a new company issued share capital.



Hence it follows that after the termination of the bankruptcy, Viktor Lenac continued running business as a sound economic entity with a restructured balance and free of majority of its outstanding debts, which it could not settle at the time and on the account of which in December 2003 the bankruptcy proceedings started.

The remaining outstanding amount of transferred loss will be covered from the net profit realized in 2008. Accordingly, total capital on 31st December 2008 amounted to 170 million Croatian Kuna or was higher by 45.9 million Croatian Kuna than the company issued share capital.

Due to the write-off of pre-bankruptcy liabilities, which influenced financial figures for 2008 and consequently affected changes in the company capital, the key indicator of capital rentability should be taken with a grain of salt.

If excluding the effect of the write-off of pre-bankruptcy liabilities, and consequently the effect of the profit tax obligation, in 2008 the rentability rate, expressed as net profit (adjusted to 26.7 million Croatian Kuna) to total assets, was 10%.

Comparing the adjusted profit to the capital, to the level of the company issued share capital, the capital rentability rate would be 21.5%.

More detailed information on Viktor Lenac's financial situation is contained in the financial statements and their associated notes, while information on the Group's business is contained in the consolidated financial statements and their associated notes, accompanied by an auditor's report (the Iris Nova Company from Rijeka).



Main Risks

Having in mind the nature of Viktor Lenac's activities and its export orientation, the major effect to Viktor Lenac's business comes from the world's maritime market trends. When speaking about its productivity and production costs, it is expected that the entrance of Croatia into the European Union will pose significant challenges to further development of Viktor Lenac. Hence it follows that Viktor Lenac will mostly be exposed to market risk and competitive risk, with associated price risk, while it is believed that its exposure to financial risks will be of minor importance.

Market Risk and Competitive Risk

The ship repair and conversion market is conditioned by cyclic changes on the shipping market and changes in freight rates. Considering the increase in the world's fleet capacity, with this vessels sailing within range of Viktor Lenac, and the decrease in number of drydocks in the Mediterranean, it is expected on the long-term that Viktor Lenac will get a sufficient number of vessels for ship repair. On the short-term, the decrease in freight prices and crisis on the shipping market, which follows from unfavourable global trends, will bring additional pressure to contracting terms and conditions. Issues of market risk and competitive risk with respect to Viktor Lenac's activities, and changes of Viktor Lenac's prices arising therefrom, are elaborated in more details under *Market Expectations for 2009*.

Price Risk

Croatia entered into the preparatory phase for its entrance into the European Union. The compliance with the European laws has resulted in more strict regulations concerning environmental protection, health and safety at work, fire protection and safety, which, together with tax and customs regulations, imply a need for more overhead workers and cause more operative expenses deriving from fulfilment of such requirements.

From further compliance with the EU laws, Viktor Lenac can expect further increase of operative expenses, which will unavoidably lead to a need for augmenting the Shipyard's prices or reallocation of internal resources seeking not to lose its competitiveness on the market.

Global factors, such as constant increase in the world's oil prices during the last few years, have also affected Viktor Lenac in terms of increase in energy costs and consequently material costs. The effect of these factors is not of major importance for Viktor Lenac's competitiveness for the reason that their impact is evenly spread across all Viktor Lenac's competitors.

Seeking to reduce consequences of the increase in energy prices, Viktor Lenac has recently started investments in an integrated energy consumption management, supervision and control system for fresh water, technological water, power supply and technical gases.

Risks connected with changes in prices of raw material and other materials used in



shipbuilding industry, such as steel, have no significant impact on Viktor Lenac. Specifically, Viktor Lenac's activities in terms of contracting and production process, particularly concerning ship repair activity, are characterized by short cycles, therefore, Viktor Lenac is not exposed to risk of firm fixed price contracts. Moreover, material cost participates in revenues with less than 20%.

Personnel Risk and Risk of Price of Labour

After Croatia's entrance into the EU, an increase in the price of labour can be expected, though the price of labour in Croatia is already higher than that in some EU members. Considerable skilled labour migration to countries of the Western Europe such as Germany, Italy and Netherlands, where Croatian workers are already present, can also be expected. Consequently, more pressure will be felt that price of labour is increased in order to be able to acquire and maintain skilled workers.

Lack of skilled workers is a problem that has been present in the shipbuilding industry for a long time. Generally, during the last few years, there has been a lack of interest for shipbuilding trades. Seeking to avoid risk of skilled labour migration, reduce consequences of employee fluctuation and provide skilled labour, Viktor Lenac has already started implementing various measures, planning their intensification in the next period, such as awarding scholarships to pupils and students in shipbuilding education, additional training, retraining and other various internal training. In such circumstances, an increase of the price of labour is inevitable. Viktor Lenac is trying to compensate it through introduction of new technologies, aimed at the rationalization of production, more effective production management system and stimulating increased performance.

Currency Risk

Most of its revenues, Viktor Lenac realizes on the foreign market. That part of the revenues is mostly denominated in Euro (less in USD), following that Viktor Lenac mostly receives payments in Euro, less in USD. Revenues from sales on the domestic market is denominated in Croatian Kuna with Euro currency clause.

Only about 10% of costs are denominated in Euro. Foreign currency time deposits may also be exposed to currency risk, particularly if they are specified-purpose funds and on long-term, such as collateral values to support guarantees issued in favour of client.

Oscillations and drop in the Euro exchange rate against domestic currency resulted in 2.7 million Croatian Kuna of negative exchange rate differences and 2 million Croatian Kuna of positive exchange rate differences.

Although Euro-HRK and USD-HRK exchange rate trends have impact on business figures, because of a fast turnover of receivables from customers and production in progress, currency risk is not significant in material terms, therefore, Viktor Lenac does not implement any special active measures against currency risk.



Credit Risk

Financial assets which may represent credit risk includes receivables from customers and conversion and offshore works. However, having in mind a fast turnover of receivables from customers and dispersion of receivables to more customers, concentration of credit risk is not significant in material terms. On 31st December 2008 receivables from customers amounted to 42 million Croatian Kuna, of which 80% were collected in the first quarter of the current year.

On the other hand, the decrease in freight prices and crisis on the maritime market, which caused weaker financial situation of Viktor Lenac's clients, bring greater credit risk.

In order to avoid risk of non-collection, particularly when speaking about new and potential clients, Viktor Lenac is checking their creditworthiness and is seeking to conclude contracts that stipulate payment of total value of carried out works before redelivery of vessel. According to the Maritime Law, in case of problems with collections, Viktor Lenac is entitled to withhold the vessel in the shipyard or stop the vessel during sailing.

Interest Risk

Actually, Viktor Lenac has no important assets neither liabilities, which could produce interests, therefore, no particular active measures against interest risk are being implemented.

A part of free funds is being deposited on a short-term in order to obtain bigger flexibility with respect to changes in interest rates.

Solvency Risk and Cash Flow Risk

Viktor Lenac is regularly settling its obligations toward its suppliers, employees and the state. The obligations stated in the balance sheet at the end of 2008, were settled during the first quarter of the current year. Short-term obligations are covered in whole by short-term assets. The solvency coefficient is higher than 2. On the day of 31st December 2008 money in current accounts participated with 10%, time deposits with 35% and short-term receivables with 35% in the total short-term assets. Encashment of Viktor Lenac's bankruptcy assets, which was not necessary for its normal business operations, also contributed to its higher solvency.

Large investments into assets will be financed through recapitalization and/or from other long-term resources, thereby not putting any significant burden on the working capital.



Litigation Risk

Viktor Lenac is not participating in any litigation of major importance in material terms, either as defendant or distrainee.

Litigations in which Viktor Lenac participates as defendant mostly refer to disputes that have arisen over the unacknowledged claims of bankruptcy creditors. In accordance with the Bankruptcy Plan, Viktor Lenac has already made reservations in its accounting books for such claims, therefore, no negative material consequences to Viktor Lenac's assets are expected on completion of those litigations.

Viktor Lenac in its capacity of defendant has also entered several disputes over indemnity obligations related to accident at work or occupational disease. Except for one of them worth 500,000 Croatian Kuna, other disputes have no significance in material terms. Viktor Lenac has already made reservations in its accounting books for such costs, therefore, no significant consequences to Viktor Lenac's assets are expected on completion of those dispute settlement processes.



Important Business Events after 2008

The most important event for Viktor Lenac that has happened up to the time of drawing up this Annual Report, was successful removal of the ruin of Dock No.7. After an unsuccessful attempt in 2008, Viktor Lenac contracted the Multraship Salvage B.V. Company from Netherlands.

Dock No.7, weighing about 7.000 tons, located immediately near Dock No.5, was removed by cutting sections under the sea and getting them out.

The removal cost is entirely covered by insurance. It is estimated that Viktor Lenac will earn about 3.5 to 4 million Croatian Kuna from selling scrap iron.

After completion of such hazardous operation of removal of the sunken drydock, conditions are ready for purchasing new drydock. In other words, due to a high degree of uncertainty in completion time of the removal project, conditioned by demanding technological requirements and changing weather circumstances, Viktor Lenac could not proceed with purchasing new drydock until now. Final decision about purchasing new drydock, which would replace Dock No.7, will be made after a thorough analysis of the actual situation on the ship repair market.

Another important event for Viktor Lenac after 2008 concerns sales of 'Galeb', which has been berthed at the Shipyard since 2001. By selling 'Galeb', the berth that was used all this time by this vessel will be free for other vessels.



Ownership Structure

The existing Viktor Lenac's issued share capital has been acquired upon the closing of the bankruptcy, through converting monetary claims into company shares of those creditors who, in accordance with the Bankruptcy Plan, had accepted such modality of settlement.

The total company issued share capital amounting to 124,078,130 Croatian Kuna is divided in 12.407.813 registered ordinary shares, with the ticker symbol VLEN-R-B, registered in the depository of the Central Depository & Clearing Company.

In September 2008 all shares were included in quotation of public joint-stock companies on the Zagreb Stock Exchange. Up to the point of drawing up this Annual Report, Viktor Lenac's shares have not been traded on the stock market.

As on the day of drawing up this Annual Report, ten largest shareholders of Viktor Lenac participate with 92.67% in the company issued share capital as follows:

	Shareholder	Number of shares	%
1.	Uljanik Shipyard j.s.c. Pula	3.904.063	31,46
2.	Tankerska Plovidba j.s.c. Zadar	3.732.783	30,08
3.	Croatian Privatization Fund from Zagreb	1.724.298	13,90
4.	Croatian Bank for Reconstruction and Development from Zagreb ⁶	1.367.268	11,02
5.	Konstruktor Inženjering j.s.c. Split	272.201	2,19
6.	Privredna Bank j.s.c. Zagreb	258.751	2,09
7.	R.L.E. Ltd. Drniš	105.211	0,85
8.	Negotium Ltd. Novalja	52.139	0,42
9.	List Gmbh Austria	45.992	0,37
10.	Jadranski Pomorski Servis j.s.c. Rijeka	35.874	0,29
	Other	909.233	7,33
	Total	12.407.813	100,00

As on the day of this Report, Viktor Lenac does not possess any own shares.

⁶ According to data obtained from the Central Depository & Clearing Company, shares registered on the Croatian Bank for Reconstruction and Development are kept on custody account held by the Zagrebačka Bank



Corporate Governance

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

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

After the termination of the bankruptcy in April 2008, Viktor Lenac has obtained the status of the joint-stock company. On 12 September 2008, Viktor Lenac's shares were included in quotation of public joint-stock companies on the Zagreb Stock Exchange, preceded by issuance of the Short Prospectus approved by the Croatian Agency for Supervision of Financial Services.

Since inclusion of its shares in quotation of public joint-stock companies on the Zagreb Stock Exchange, Viktor Lenac has been voluntarily applying the Corporate Governance Code made by the Croatian Agency for Supervision of Financial Services and Zagreb Stock Exchange. Viktor Lenac has been applying recommendations of the Code, by publishing all information which is in the interest of its shareholders and as stipulated by regulations.

Information is published on the Zagreb Stock Exchange's website. Moreover, from now on information on Viktor Lenac's business activities and results is going to be more transparent and available to the public as they will be published on Viktor Lenac's website more comprehensive in scope.

From April 2008 till the end of the year, Viktor Lenac's Supervisory Board held six meetings, of which the first one was constitutional, while at the remaining meetings its members discussed Viktor Lenac's financial results, its position on the market, business plans and key projects.

The members of the Supervisory Board regularly receive detailed information on the Company's management and business to be allowed to efficiently supervise the Company.

The Company's shareholders execute their rights at the General Assembly, where they decide on profit allocation, amendments to the company statute and appointment and revocation of members of the Supervisory Board. Furthermore, the General Assembly makes decisions over the Management and Supervisory Board performance, appointment of financial auditor and other important issues stipulated by law and company statute.

By implementing the principles of the Corporate Governance Code, Viktor Lenac is seeking to create a quality and long-term relationship with the entire investors' community.



Supervisory Board and Management Board

Supervisory Board

As of April 7, 2008, members of the Supervisory Board of the Viktor Lenac Shipyard are: Mr. Karlo Radolović, Chairman of the Supervisory Board, Mr. Ive Mustać, Vice-Chairman of the Supervisory Board, Messrs. Anton Brajković, Lenko Milin and Damir Bačinović, members of the Supervisory Board.

The members of the Supervisory Board have been appointed by the General Assembly Decision of April 7, 2008, the day of the closing of the bankruptcy proceedings, for a term of office of four years.

Biographies of Members of Supervisory Board

Mr. **Karlo Radolović**, was born in Marčana (Croatia) in 1943. After finishing the Secondary School of Economics in Pula, he continued his education at the Faculty of Economics in Rijeka and graduated in 1966. Following graduation he was employed in the Uljanik Shipyard. After the trial period was expired, he was engaged as economist in the Uljanik Shipyard's Purchasing Department. In 1969 he was appointed Branch Office Manager. In 1973 he became Assistant Purchasing Manager. In 1974 he became Assistant General Manager. In 1980 he was elected Chairman of the Uljanik Shipyard Executive Board. On December 21, 1992 he became Chairman of the Uljanik Shipyard Management Board for the first time and held this position until February 1, 2006. Thereafter, he retained the position of the member of the Management Board.

Mr. **Ive Mustać**, was born in Privlaka near Zadar (Croatia) in 1945. After finishing primary education in Privlaka and Secondary Maritime School of Zadar, he graduated at the Two-Year Maritime College of Rijeka in 1970, becoming master.

After secondary school, in 1964 he was employed in the Tankerska Plovidba Company as cadet, thereafter as Third, Second and First Officer and finally as master, which position he retained until 1978 when he quit navigation and continued his work in various departments of the Tankerska Plovidba Company. From 1978 to 1979 he was Purchasing Officer in the Commercial Department, thereafter, from 1979 to 1980 he was assigned Manager of Purchasing Office. From 1980 to 1981 he was Purchasing Manager in the Tankerkomerc Company, while from 1981 to 1983 he was Purchasing Manager in the Tankerska Plovidba Company. From 1983 to 1989 he was appointed General Manager of the Zadar Shipyard, then until 1995 he retained the position of Newbuilding Superintendent in the Technical Department of the Tankerska Plovidba Company. From 1995 to 2004 he held the position of Technical Director. In 2004 he was promoted to Chairman of the Management Board of the Tankerska Plovidba Company, which position he has been holding ever since.



Mr. **Anton Brajković**, was born in Lovište (Croatia) in 1946. After finishing primary and secondary education in Pula, in 1969 he graduated at the Faculty of Economics in Rijeka. He has been employed in the Uljanik Shipyard since January 1970. In October 1991 he was appointed Vice-Chairman of the Management Board, thereafter, in February 2006 he was promoted to Chairman of the Management Board.

Mr. **Lenko Milin**, was born in Zadar (Croatia) in 1950. After finishing primary and secondary education in Zadar, he was employed in the Tankerska Plovidba Company where he took apprenticeship for mechanical engineer. He graduated at the Maritime Faculty of Split as First Rank Maritime Engineer and was employed in the Tankerska Plovidba Company as Chief Engineer.

After several years of navigation, he was employed as Technical Superintendent in the Technical Department, holding that position during many years. In February 2004 he was appointed Technical Director of the Tankerska Plovidba Company, which position he has been holding ever since.

Mr. **Damir Bačinović**, was born in Suho Polje (Bosnia and Herzegovina) in 1957, where he spent his childhood and completed primary education. In Rijeka, he finished his Secondary Mechanical Engineering School and thereafter completed two-year education in mechanical engineering while employed. In September 1998 he finished the Trade Union School for Social Dialogue (it was the first generation of students).

He has been employed in the Viktor Lenac Shipyard since 1986. In 1990 he joined the leadership of the Union. In early 1992 he initiated and founded a new union organization. He was elected chief leader of the Viktor Lenac Union Branch, acting as part of the Metalworkers' Trade Union of Croatia, during four consequent terms from 1992 to 2006 and again in 2006 in the fifth term. During the same periods, he was also elected President of the Croatian Shipbuilding Industry Board. In May 1998 he was elected member of the Statutory Commission of the Croatian Metal Workers Union, and from 1998 to 2002 he held the position of the President of the Commission. During the same term he was President of the Statutory Commission of the Association of the Independent Trade Unions of Croatia. From 2002 till nowadays he has been member of the Council of the Association of the Independent Trade Unions of Croatia. During the bankruptcy period, he was member of the Creditors Board. Upon termination of the bankruptcy, he was elected President of the Workers' Council of the Viktor Lenac Shipyard as well as workers' representative in the Company's Supervisory Board.

Income and Ownership Interest of the Members of the Supervisory Board

Each member of the Supervisory Board receives monthly compensation established in accordance with the rules applicable to establishing compensation for Supervisory Board members in the state-owned Croatian shipyards. Such method has been also applied to Viktor Lenac considering the State's share in Viktor Lenac deriving from the shares of the



Croatian Privatization Fund, Croatian Bank for Reconstruction and Development and Uljanik Shipyard.

In accordance with data obtained from the State Statistics Institute, the compensation of the Chairman of the Supervisory Board is established in a net amount equalling one average monthly net salary, while the compensation of the Vice-Chairman of the Supervisory Board is established in a net amount equalling 3/4 of the average monthly net salary in the Republic of Croatia. In 2008 total compensation in gross amount of 307,979.00 Croatian Kuna was paid to the members of the Supervisory Board.

As on the day of this Report, Mr. Damir Bačinović, member of the Supervisory Board, owns 931 company shares, which he, as former bankruptcy creditor, acquired by converting his monetary claims into the company issued share capital.

Other members of the Supervisory Board are not shareholders of the Company.

Management Board

The members of the Viktor Lenac's Management Board are: Mr. Robert Škifić, Chairman of the Board, Mrs. Sandra Uzelac and Mr. Davor Lukeš, members of the Board. The Management Board has been appointed by decision of the Supervisory Board dated April 7, 2008 for a term of office of five years.

Biographies of Members of Management Board

Mr. Robert Škifić, B.Sc. in Mechanical Engineering, was born in Zadar (Croatia) in 1956. After finishing primary and secondary education in Zadar, in 1981 he graduated at the Faculty of Mechanical Engineering and Naval Architecture of Zadar.

Upon graduation, in 1982 he was employed in the Rade Končar Institute, working in development of home electrical appliances, where he remained until 1984. From 1984 to 2000 he worked at SAS, a factory for special machine tools in Zadar, where he held various positions of Technologist, Operative Planning Manager, Production Manager and finally became Technical Director. In 1995 he was appointed General Manager of the SAS - Zadar Company and from 2000 to 2006 he held the position of General Manager of the SAS Strojogradnja Company. From 2006 to 2008 he held the position of General Manager of the Crosi Company, a consulting company. In 2008, he was elected Chairman of the Management Board of the Viktor Lenac Shipyard.

In 2008 he passed exam at the Faculty of Economics of Zagreb for corporate governance for members of supervisory and management boards. He speaks fluently English and Italian.

Mrs. Sandra Uzelac, B.Sc. in Economics, was born in Rijeka (Croatia) in 1969. After finishing primary and secondary education in Rijeka, in 1994 she graduated at the Faculty of Economics in Rijeka. She has been employed in the Viktor Lenac Shipyard since 1994 at various positions: Office Worker in Salary & Economics of Work Department from 1994 to



1997, Financial Officer and Assistant Accounting Manager in Financial Department from 1997 to 2001 and Manager of Planning and Analysis Department from 2001 to 2004. From 2004 to 2008 she held the position of Manager of Financial Division. After termination of the bankruptcy, she has been appointed member of the Management Board.

During the period from 1997 to 2006, she attended several specialized seminars and upgrading programmes. Since end 2007, she has been studying postgraduate economics (controlling course) at the Faculty of Economics of Rijeka. She speaks fluently English.

Mr. **Davor Lukeš**, B.Sc. in Naval Architecture, was born in Rijeka (Croatia) in 1956. After finishing primary and secondary education in Rijeka, in 1985 he graduated at the Faculty of Engineering of Rijeka. After completing his graduate studies, he was employed in the Brodoprojekt Company, working as Ship Equipment Designer and Project Manager. In 1989 he was employed in the Viktor Lenac Shipyard and until 1991 worked as Conversion and Offshore Sales Specialist. From 1991 to 2001 he held the position of Manager of Project Sales Department, while from 2001 to 2002 he held the position of Manager of Conversion Department. From 2002 to 2004 he worked as Assistant Manager of Commercial and Technical Division. Thereafter, he was Senior Market Advisor in the Commercial and Technical Division until 2007. From 2007 until being appointed member of the Management Board in 2008, he held the position of Deputy General Manager.

He speaks fluently Italian and English and basics of German.

Income and Ownership Interest of the Members of the Management Board

Each member of the Management Board receives income, which is stipulated by employment contract concluded with each member and approved by the Supervisory Board. Incomes of the members of the Management Board are related to the average income of the Shipyard's employees. Accordingly, the Chairman of the Management Board receives income, which equals five average incomes of the Shipyard's employees, while members of the Management Board each receive income, which equals four and a half average incomes of the Shipyard's employees. Furthermore, the Chairman of the Management Board is entitled to a monthly net amount of 5,000.00 Croatian Kuna for covering his living costs in Rijeka, where the Company's headquarters is located. In 2008 total income in gross amount of 1,347,548 Croatian Kuna was paid to the members of the Management Board, making 2.4% of total employee cost.

The Chairman and members of the Management Board have not received any bonus or other income, either in money or in company shares, on the account of good performance results achieved by the Company in 2008, as the Company's Stimulation policy has not yet been developed.

As on the day of this Report, members of the Management Board, Mrs. Sandra Uzelac and Mr. Davor Lukeš, own 1038 respectively 2410 company shares, which they, as former bankruptcy creditors, acquired by converting their monetary claims into the company issued share capital.

The Chairman of the Management Board, Mr. Robert Škifić, does not own any shares of the Company.



For Information

Management

Marko Domijan, Marketing and Sales Director

Dubravko Mataja, Production Manager

Borja Kružić, Manager of Project Management Department

Jožica Miholjević, Safety and Environmental Protection Manager

Dolores Kuzmić, Purchasing Manager

Anton Dujmović, Subcontractors Manager

Marina Weltrusky, Organisation Manager

Ljubica Linardić, Human Resources Manager

Auditor

IRIS NOVA d.o.o. Rijeka

Contact

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On the basis of Article 272.p and with reference to Article 250.a of the Companies Act (Official Gazette No. 113/93, 34/99, 52/00, 118/03, 107/07 and 148/08, hereinafter referred to as 'CA'), the Management Board of the Viktor Lenac Shipyard (hereinafter referred to as 'Company'), on this April 17, 2009, makes the following

STATEMENT

on Implementation of the Corporate Governance Code

1. The Company closed bankruptcy proceedings in April 2008, following which, in accordance with regulations, became the public joint-stock company. After issuance of the Short Prospectus approved by the Croatian Agency for Supervision of Financial Services, on September 12, 2008 the Company's shares were included in quotation of public joint-stock companies.

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

3. Since the closure of the bankruptcy proceedings and inclusion of shares in the last quarter of the last year, the Company has been applying recommendations of the Code, by publishing all information which is in the interest of its shareholders and as stipulated by regulations.

During the last year, the Company published all information foreseen by regulations on the Zagreb Stock Exchange's website considering the fact that its own website was in process of redesigning and modernization.

In 2009 the Company plans to make its business operations and results achieved even more transparent and available to the public by publishing the information on the Company's website.

4. Supervision of the Company's business operations has been executed by the Supervisory Board in accordance with the Companies Act. The role of the Supervisory Board is defined by the Company's Statute. Members of the Supervisory Board are provided with detailed information on the Company's management and business operations in order to efficiently fulfil their supervisory role.



Supervisory Board's report makes an integral part of the Annual Report submitted to the General Assembly.

The Supervisory Board has not established Committee for Appointment, Committee for Rewarding and Committee for Audit, because the members of the Supervisory Board themselves carry out tasks otherwise being obligation of the mentioned committees.

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

6. As on the day of December 31, 2008, ten largest shareholders are the following ones:

	Shareholder	Number of shares	%
1.	Uljanik Shipyard j.s.c. Pula	3.904.063	31,46
2.	Tankerska Plovidba j.s.c. Zadar	3.732.783	30,08
3.	Croatian Privatization Fund from Zagreb	1.724.298	13,90
4.	Croatian Bank for Reconstruction and Development from Zagreb	1.367.268	11,02
5.	Konstruktor Inženjering j.s.c. Split	272.201	2,19
6.	Privredna Bank j.s.c. Zagreb	258.751	2,09
7.	R.L.E. Ltd. Drniš	105.211	0,85
8.	Negotium Ltd. Novalja	52.139	0,42
9.	List Gmbh Austria	45.992	0,37
10.	Jadranski Pomorski Servis j.s.c. Rijeka	35.874	0,29
	Other	909.233	7,33
	Total	12.407.813	100,00

The right of the Company's shareholders to vote is not limited to a certain percentage or number of votes. The right to vote is recognized by number of shares registered on shareholder's account at the Central Depository & Clearing Company. Each ordinary share gives the right for one vote at the General Assembly. The Company is entitled to issue registered ordinary shares in accordance with positive legal regulations of the Republic of Croatia and Statute of the Company. In accordance with Article 172 of the Companies Act and Company's Statute, decision on share issue is made by the General Assembly. The Company's rights and obligations originating from acquisition of own shares are realized in accordance



with the provisions of the Companies Act, hence it follows that the Company can acquire own shares on the basis of the General Assembly's authority for their acquisition.

Amendments to the Statute of the Company are made in accordance with the Companies Act.

7. The Company's Management Board is consisted of three members, Chairman of the Board and two members of the Board. Mr. Robert Škifić has been elected Chairman of the Board, while Mrs. Sandra Uzelac and Mr. Davor Lukeš hold positions of the members of the Board. The members of the Management Board represent the Company independently and individually and run Company's business jointly or individually, in accordance with the Statute of the Company and Management Rules of Procedure made by the Supervisory Board. Specific tasks defined by Article 15 of the Company's Statute (acquisition, abalienation or encumbrance to real estate; issuing, abalienation or acquisition of shares; issuing guarantees except for obligations of subsidiary company; taking loans and credits beyond normal business operations of the Company etc.) and in other cases, when required by law, can be undertaken by the Management Board, authorized by the Company's Statute or Supervisory Board's decision, only with previous consent of the Supervisory Board. The Management Board is appointed and revoked by the Supervisory Board for a term of office of five years.

The Supervisory Board of the Company is consisted of five members: Mr. Karlo Radolović has been appointed Chairman of the Supervisory Board, Mr. Ive Mustać is Vice-Chairman of the Supervisory Board and Messrs. Anton Brajković, Lenko Milin and Damir Bačinović are members of the Supervisory Board.

The General Assembly elects and relieves of their office four members of the Supervisory Board, while one member is elected, appointed and revoked by the Company's employees in accordance with positive regulations of the Republic of Croatia. The Supervisory Board acts as collegial body at sessions, which take place at least once quarterly, where all issues within its competence, as required by the Companies Act and Statute of the Company, are discussed and decided upon. Decisions of the Supervisory Board are made by majority of votes of present members.

8. In accordance with Article 250.a, item 4, and Article 272.p of the Companies Act, this Statement represents a separate section and makes an integral part of the Company's Annual Report 2008.

Robert Škifić

Chairman of the Management Board