

ANNUAL REPORT 2009



April 2010

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FINANCIAL STATEMENTS



Foreword

The Management Board of the Viktor Lenac Shipyard j.s.c. is pleased to present its Annual Report for 2009 to all its shareholders, clients, employees, business partners and the entire public.

The Annual Report 2009 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 2009 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 7.306199, representing the midpoint exchange rate by the Croatian National Bank on the 31st day of December 2009 (HRK 7.324425 on 31st December 2008), applied for calculating amounts of assets, liabilities and equity;

1 EUR = HRK 7.339664, representing the annual average of midpoint exchange rates by the Croatian National Bank (HRK 7. 221109 for 2008), applied for calculating amounts in the profit and loss statement.

Chairman's Address to Shareholders

Dear Shareholders,



The year 2009 was for Viktor Lenac a year of changes, a year of coping with the global financial crisis, with lower occupancy of docks in the first quarter and at the end of the second quarter resulting in a decrease of employment of our shiprepair capacity.

The biggest impact of the crisis was felt in conversions, where none contract was signed during 2009.

In addition, due to severe competition, sales prices have been decreased and collection has been burdened by clients' requests for longer payment terms and a higher risk of collection having in mind that shipowners have been facing financial difficulties. With a smaller budget for repairs, individual value of works was decreased in most part of the shiprepair contracts executed during the last year. Due to lack of bank finance, not a single contract in the conversion field was signed, which activities brought almost a half of the 2008 revenues.

Similar situation was in the offshore activities. During 2009 Viktor Lenac was finishing works on the construction of two gas platforms „Annamaria A“ and „Izabela North“, which were contracted in 2008.

The second half of 2009 was marked by the repairs of the Saipem's „Scarabeo 4“ drilling rig. The works, originally agreed to a value of 6.7 million Euros, were finally worth almost 11 million Euros. The works were executed in a short period of 88 days, even 2 days before the redelivery date.

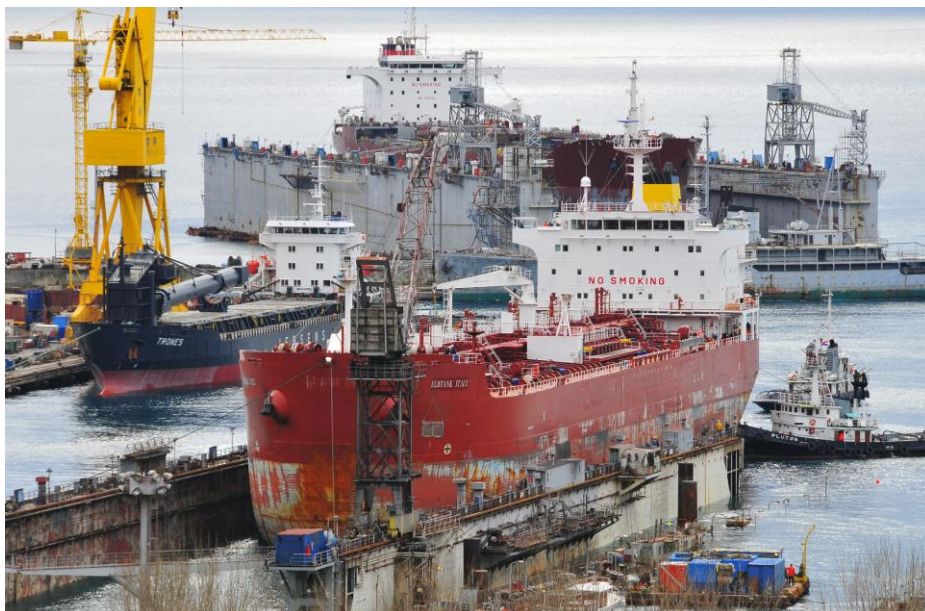
In 2009, the Floating Dock no.11 was put in full operation, allowing repair of vessels of Aframax size having a length of up to 260 meters and width of over 40 meters, which earlier Viktor Lenac could not accommodate. The first such vessels were successfully repaired for the local client, Tankerska plovdba company.

At the end of 2008, Viktor Lenac commenced with investment in technological and production facilities that were pushed in the background during the few last years. The investment continued in 2009 where Viktor Lenac purchased some new production and transportation equipment, completed refurbishment of the Floating Dock no.11 and invested in modernization of the Shipyard's power supply systems. I would like to make particular emphasis on investment made into the development of the information system, where we have purchased new hardware and software aiming to increase efficiency in management and implement a system of supervision and control in all business segments.

Another important investment for Viktor Lenac was deepening of the bottom at the Berth 8, allowing accommodation of vessels of Aframax and Suezmax size having draughts of up to 9.5 meters.

The total investment in 2008 and 2009 was worth more than 36 million Croatian Kuna, of which the most part was spent in 2009.

Besides investment into the long-term material and non-material assets, in 2008 and particularly in 2009 Viktor Lenac intensified investment into the maintenance of its production assets that was insufficient during the last years. The maintenance programme worth about 28 million Croatian Kuna covered our Floating Docks no.5 and no.11, all workshops and plants, cranes and other production equipment.



In the business year 2009, Viktor Lenac realised revenues in the amount of 327.4 million Croatian Kuna or 44.6 million Euros, down by 3.4% compared with 2008 when Viktor Lenac's revenues had amounted to 339 million Croatian Kuna.

In Viktor Lenac's sales 2009 the value of production in progress in the amount of 4.5 million Croatian Kuna must also be counted, meaning that in 2009 Viktor Lenac realized total revenues in the amount of 331.5 million Croatian Kuna.

The expenses in 2009 amounted to 321.8 million Croatian Kuna or 43.8 million Euros, resulting in a profit of 5.6 million Croatian Kuna or 0.8 million Euros.

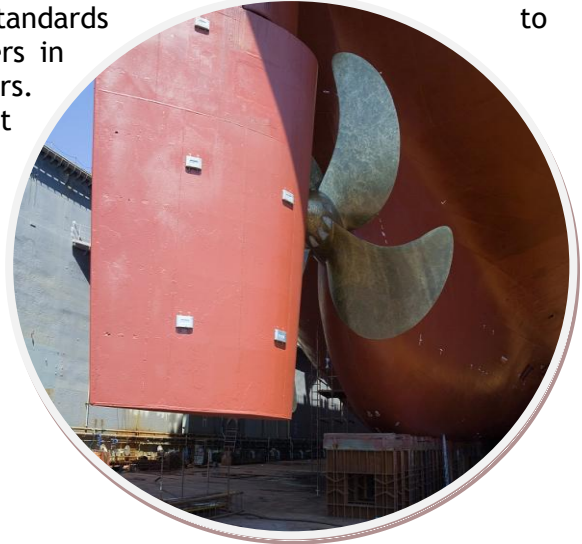
A positive balance of financial incomes and expenses in the amount of 2.5 million Croatian Kuna must be added to the operating revenues and expenses, making a total profit before tax in the amount of 8.1 million Croatian Kuna or 1.1 million Euros. After deduction of tax, Viktor Lenac ended the year with a net profit of 6.3 million Croatian Kuna.

Although in 2009 Viktor Lenac achieved more modest results compared with 2008, we cannot be dissatisfied especially having in mind the situation on the global shipping market.

The world crisis brought increased competition from shipyards with cheaper labour, which are catching up in quality and are becoming strong rivals to Viktor Lenac. This is particularly manifested today when the scope of demand for shiprepair services has been drastically reduced. Viktor Lenac has so obtained new rivals from Turkey, Bulgaria, Romania and Ukraine.

Viktor Lenac's strategy for the next years will, therefore, be based on education, increase of quality and productivity and decrease of costs.

This will require changes in all organizational segments and continuance of reengineering of all processes. Viktor Lenac must work on increasing its management know-how, its expertness and quality of services, developing an e-organization, restructuring all crafts, reducing the number of managers and administrative staff, implementing aggressive marketing, adjusting standards to new processes, changing the structure of workers in favour of young engineers and qualified workers. The development of Viktor Lenac is aimed at shortening works completion periods, quick and efficient adjusting to market needs and clients' requests, prompt organising of three-shift work when required and decreasing costs to remain competitive on the market.



The main goal for 2010 is keeping positive financial results despite unfavourable market conditions aiming at having a firm basis for its further development and growth for the benefit of its shareholders, clients, employees, suppliers and the entire community.

Robert Škifić

Chairman of the Management Board

Handwritten signature of Robert Škifić.

Business Environment

Shiprepair and Conversion Market in 2009

The shiprepair and conversion market in 2009 was influenced by a plunge in the global trade that started in 2008 and in the second half of 2009 caused the collapse of the main segments in the maritime transport (particularly bulk carriers, container ships and tankers). When the crisis broke out, shipowners still had sufficient funds accumulated in the times of favourable market situation and the impact to the shiprepair market was postponed for a while. The first serious consequences of these trends were felt at the end of 2008 and beginning of 2009 where drastic changes on the shiprepair market resulted in reduced budgets for repairs, more ships on lay-up and putting on hold scheduled repairs or cancelling unnecessary works.

Consequently, such situation brought the oscillating periods in employment of the Shipyard's capacity and the price war between the shipyards in the region. After a good period, Viktor Lenac was faced with poor employment of its docks in January and then again in the period from June to mid August.

The key parameters of the world economy, which are the moving forces of the trade and maritime transport, suggested a turnabout in 2009. At the beginning of 2009, changes were already noted in the industrial production, while changes in oil prices were seen in the mid 2009. Such breakthroughs have a positive influence to the volume of the maritime transport and shipping rates. On the other hand, as the crisis had a postponed effect on the shipping market, likewise the positive influence to the freight rates will be reflected with a delay of several months.

From the viewpoint of the ship types that make the biggest part of the world shipping market (tankers, bulk carriers and container ships), the positive trend was above all noted in the spot market freight rates, while the long-term charter freight rates were still influenced by the negative trend.

As for the conversion activities, the projects involving shipping market were suspended or cancelled. Usually these are projects of enlargement of capacity of a vessel by lengthening. Likewise, none new project was initiated.



The main characteristic of the year 2009 was the drastic plunge in the shiprepair and conversion market. The situation was stabilized by the end of the year, but in a far lower degree than it was in the earlier year.

Offshore Projects in 2009

The major effect on the offshore market, where Viktor Lenac has been traditionally present for many years, comes from oil and gas price trends. The most valuable oil fields in the Mediterranean are those by the Northern African coast.

Due to the drastic drop in oil prices in 2008, investments into new projects have been considerably reduced. Despite of it, there is still a number of projects in progress, which mostly had started earlier, and are now in completion stage. More stable oil price trends in 2009 re-launched the market, but due to complexness and large scope of such projects, requiring long and detailed preparatory activities, their operative realization could not be expected before the mid 2010.

The projects of gas exploitation in the Northern Adriatic Sea fields, which kept the Shipyard constantly busy in the previous years, have been stopped or postponed at very best.



Market Expectations for 2010

There are two major factors that could have a negative impact to the year 2010 in spite of the positive trends. Firstly, there is still a big number of ships on lay-up around the world. Moreover, it has been noticed that the number has increased during the last few months. Secondly, the book of orders, in spite of many cancellations, is still considerably big in terms of the global situation, to the extent that new deliveries could jeopardize the stability of the market. In other words, at the end of 2009 the total orders for bulk carriers represented more than 60% of the total world fleet of bulk carriers or more than 30% for tankers and more than 40% for container ships.

Notwithstanding that a big part of newbuildings has been cancelled or their deliveries have been slowed down, the volume of ships to be delivered during 2010 is likely to keep freight rates low and old ships on lay-up and there might also be an increase in number of ships for scrap. These negative trends were already felt in the last part of the year 2009. In 2010, therefore, the shipping market and so the shiprepair market could fall victim to excessive orders from the previous years and deliveries of newbuildings coming up in 2010.

Regarding Viktor Lenac's position on the Mediterranean market, comparing to the situation in 2009, it is likely to expect the following changes, which could have influence to our Shipyard:

- Palumbo from Napoli might take over and re-open the docks on Malta
- San Giorgio from Genoa has took over two docks in Marseille
- Hellenic Shipyard, part of Thyssen group, is now for sale after the dispute between Thyssen and Greek Government because of the submarines, which were built but never delivered, having a negative influence to the contracting capability
- Probability that one more Suezmax dock (drydock or floating) might be built in Genoa

- After the collapse on the newbuilding market, the Daewoo Constanza shipyard again free for repairs

From above, it can be concluded that in 2010 the trend of severe competition and price decrease would continue, resulting in a low profitability and last minute cancellations.

Nonetheless, the positive factor for the repair yards is the big number of scheduled dockings for 2010. Many of shipowners might try to postpone docking either because their ships are on lay-up or they have a very good charter contract. In any case, the most serious consequence that the repair yards could expect is a decrease in budgets for repairs and dockings.

Concerning the offshore projects, having in mind the economical and political circumstances surrounding INA, MOL, gas business sales in Croatia and availability of financing, it is not likely to expect new construction projects for clients neighbouring our Shipyard, at least not before the second half of the year.

On the other hand, there is still a number of projects close to conclusion, and which involve other markets. These are long-term projects, however, and their realization could be expected after 2010. Viktor Lenac is intensively focused on such projects taking into consideration that they ensure a long-term stability and employment of capacity. In addition, in terms of worthiness, such projects participate with a considerable part in total revenues.

Thus, in 2009 Viktor Lenac realized considerable revenues from the repairs of the „Scarabeo 4“ drilling rig and is going to realize revenues in 2010 from the repairs and conversion of the „Seminole“ derrick barge.



Business Activities 2009

Sales

Realized revenues

In 2009 Viktor Lenac realized total 282.8 million Croatian Kuna from its main activities - shiprepair, conversions and offshore, which is a decrease of 7.1% with respect to 2008.

Contrary to the year 2008, where one half of the revenues from the main activities were generated from the conversion projects, in 2009 no revenues were earned from the conversion activity. On the other hand, the repairs participated with almost 80% in the total revenues from main activities, which is almost a double with respect to 2008.

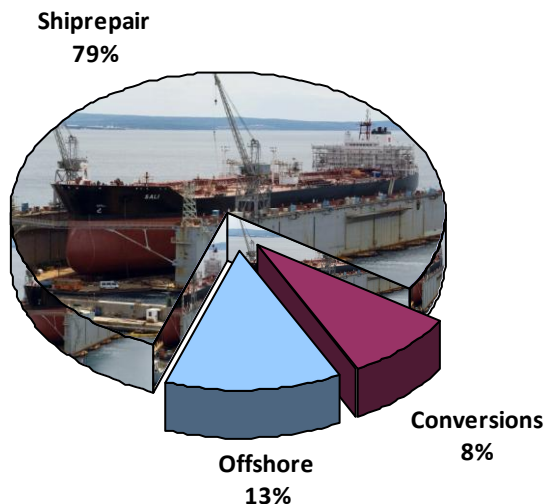
It must be pointed out that the revenues generated from the works carried out on the „Scarabeo 4“ drilling rig for the Italian client, SAIPEM were also counted as shiprepair revenues, which is 36% of the total shiprepair figures. This job was formally realized through Saipem's company headquartered in Portugal. The Scarabeo 4 project worth almost 11 million Euros was quite demanding and it was the biggest project in 2009. Other shiprepair revenues were generated from repair of 56 ships of different type, which is an increase of 10 ships with respect to 2008.

After excluding the high revenues earned from the Scarabeo 4 rig repairs, the average repair value per ship amounted to 346,000 Euros, somewhat higher than the average shiprepair value in 2008.

It should be emphasised that the higher average repair value per ship with respect to the previous year arose from a few more valuable shiprepair projects specifically „Trones“ (3.0 mil. Euros), „Athara“ (2.1 mil. Euros), „Onda Blue“ (1.3 mil. Euros) and „Austria“ (1.0 mil. Euros). Although primarily repair works, these projects had some elements characteristic for construction. If these works were excluded from the total shiprepair revenues, than the average value per ship in 2009 would have been significantly lower than in 2008.

In addition to the realized and invoiced works, at the end of December 2009 Viktor Lenac recorded a few repair works in progress on additional 6 ships. Among them, it should be noted the „Seminole“ derrick-barge repairs for an Italian client. It is estimated that a value of 4.5 million Euros could be earned from this repair project plus another 5 million Euros coming from building and outfitting of completely new superstructure on this vessel as concluded by a contract signed between Viktor Lenac and the Italian client in March of the current year.

The revenues from the conversion activity were very modest and included two small projects. The offshore revenues were at approximately the same level as in 2008 and



included the completion of construction of two gas platforms „Annamaria A“ and „Izabela North“ and also „Annamaria A“ hook-up.

Of the total 282.8 million Croatian Kuna earned from the main activities, 73.7 million Croatian Kuna or 10 million Euros were generated from the local market, representing 26% of the revenues from main activities. These revenues included offshore revenues generated from the construction of the gas platforms „Annamaria A“ and „Izabela North“, newbuildings dockings for local clients and repair of three ships („Sali“, „Petar Zrinski“ and „Kornati“) for Tankerska plovdba company. These were the first vessels of Aframax size successfully repaired in the Floating Dock no.11 that was put in full operation in 2009.



The Italian clients traditionally make the biggest piece of the shiprepair pie, participating with the total amount of 15.5 million Euros (including the value of works earned from the „Scrabeo 4“ rig repairs).

In terms of value of works and number of realized projects, ranking second was the German market, participating with 6.9 million Euros generated from 15 projects. The remaining projects

were realized for clients from Norway, Cyprus, France and other countries mostly from the close region.

Sales

Calm on the conversion and offshore market, increasingly severe competition and struggle for every single job, have intensified marketing and sales activities on the shiprepair market.

During 2009 the Shipyard's Marketing and Sales Department covered 260 inquiries, of which 228 quotations were elaborated for the foreign market and 33 quotations for the local clients. The number of quotations was almost doubled comparing to the previous year, where 140 quotations were covered.

Of the total number of quotations for shiprepair and conversion works elaborated during 2009, only 58 projects were contracted.

Viktor Lenac's geographical position might be considered as an aggravating circumstance as its distance from the main maritime routes could mean a loss of several days comparing to the main competitors on the Mediterranean market. In fact, this was the main reason for rejecting Viktor Lenac and moreover Viktor Lenac was forced in many cases to adjust its offer in terms of price and redelivery term, in order to be more competitive.

Unfortunately, in many cases Viktor Lenac wasn't even shortlisted, because at the time of scheduled docking the ships in question were at a great distance from the Shipyard. In fact, Viktor Lenac also responded to the inquiries of those shipowners who, due to their own uncertainty as to when and where they would contract transport of cargo, addressed their inquiries to wide-spread shipyards.

Other major reasons for non-realization of works made in offer were higher prices or longer redelivery terms comparing to other competitors, and frequent reasons were also postponement or withdrawal from scheduled docking, sale of a vessel or sending a vessel to a scrap yard.

The first signs of market recovery in 2010 have directed the Company's marketing and sales activities to a systematic observation of the shiprepair market, undertaking targeted activities on the basis of the actual market situation and a more elaborated approach to inquiries with more favourable prospects.

The main steps to increase the Company's competitiveness boil down to two key parameters: price and delivery term. This suggests better cooperation with the existing and potential clients aiming to be able to prepare more elaborated offers allowing the Shipyard to have a better preparatory basis for its production processes, a higher degree of planning and efficiency leading in the end to a stronger competitiveness in terms of price and delivery term.



Production

Production Activities and Structure of Carried out Works

During 2009 Viktor Lenac realized 69 various projects, of which 6 were in progress at the end of the year.

Repairs were successfully carried out on 63 vessels, of which the most important, the biggest and the most demanding was the repair project of the semi-submersible drilling rig „Scarabeo 4“ owned by the Italian company Saipem. In a short period of 88 days was

renewed 200 tons of steel including 60 tons of steel outfitting, and 60 tons of pipes. Also, accommodations have been restored with a complete renewal of sanitary pipelines in total length of 1.5 kilometre. The HP mud line working at pressure of 350 bar has been completely renewed and tested at 500 bar. During the repairs period, the rig was covered with 26 000 cubic meters of suspended scaffolding. This project was particularly significant because of the scope and value of works and the giant dimensions of the rig. Specifically, the rig was anchored at almost 30 meters from the shore and the workers were working on the main deck at 40 meters above sea level.

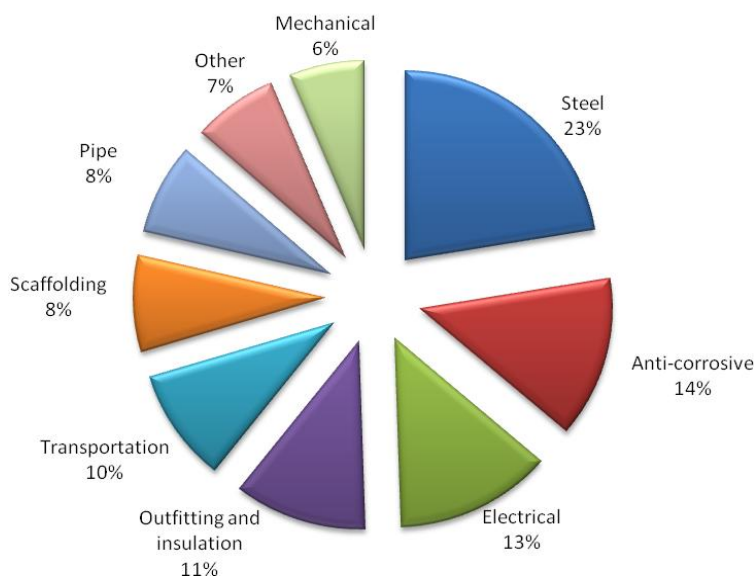
Other repair projects consisted of typical works mainly steel renewal, surface preparation and coating and mechanical works.

The offshore site was busy with completing the construction works on two gas platforms „Annamaria A“ and „Izabela North“. In addition, our workers have been contracted for „Annamaria A“ hook-up.



During 2009 the Shipyard's production capacity was also used for ordinary or planned maintenance of the production assets, primarily maintenance of the Dock 5 and Dock 11, and operative improvements. Last year was completed repair of the Dock 11 cranes and a cathodic protection system was installed and also its power supply system was upgraded.

Structure of works in production



During 2009 Viktor Lenac produced the total number of 1.68 million effective working hours in the main activities and services, and operative improvements. The additional 135,000 hours were produced in ordinary or planned maintenance.

Taking into consideration the shiprepair activity, each group of works (steel works, surface preparation and coating, mechanical works and pipe works) participated

with 20 to 28% in the total repair works with only small oscillations.

It can be concluded that the total structure of works primarily depends on participation of projects of larger scope, mostly conversions and offshore, in the total production activity, calling for more or less needs for particular type of work or craft.

Accordingly, the major effect to the structure of production works in 2009 had the Scarabeo 4 project, considering that it participated with almost 28% in the total revenues. The steel works took the biggest share, followed by surface preparation and coating, electrical works and outfitting works. The mechanical works, which otherwise participated in 2009 in a larger scope, made only 6% of the total figures.

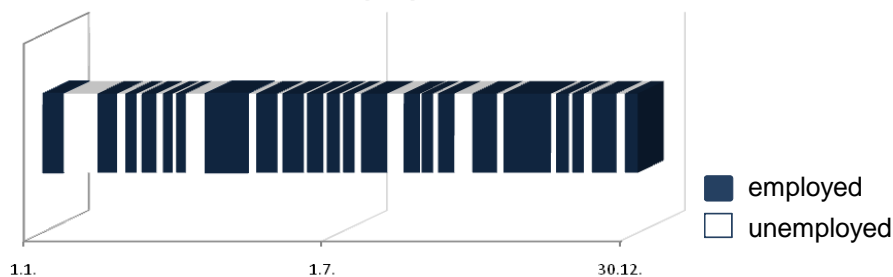
Employment of Docks and Berths

Viktor Lenac disposes of two floating drydocks: Dock 5 and Dock 11.

The total number of 31 dockings were completed in Dock 5 during 2009. The total employment of the dock was 298 days, making an occupancy rate of 82%. In Dock 11 were completed 23 dockings employing the dock during 246 days, which makes an occupancy rate of 67%.

The main reason for the lower occupancy rates were oscillations in contracting and realization, therefore, lower employment of the Shipyard's capacity at the beginning and in the middle of 2009 reflected into a lower occupancy rate of both docks during that period.

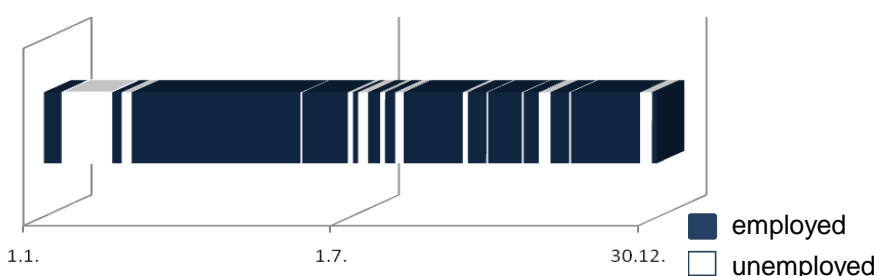
Dock 11 employment



As the Dock 11 cranes were not in full operation until September 2009, there was lower capability for contracting larger vessels of Aframax size, so Dock 11 was mostly used for repair

of those vessels that could have been served by auto cranes. Dock 11 is characterised by more frequent periods of unemployment lasting for several days, as a result of complex activities of decommissioning and preparation for next docking.

Dock 5 employment



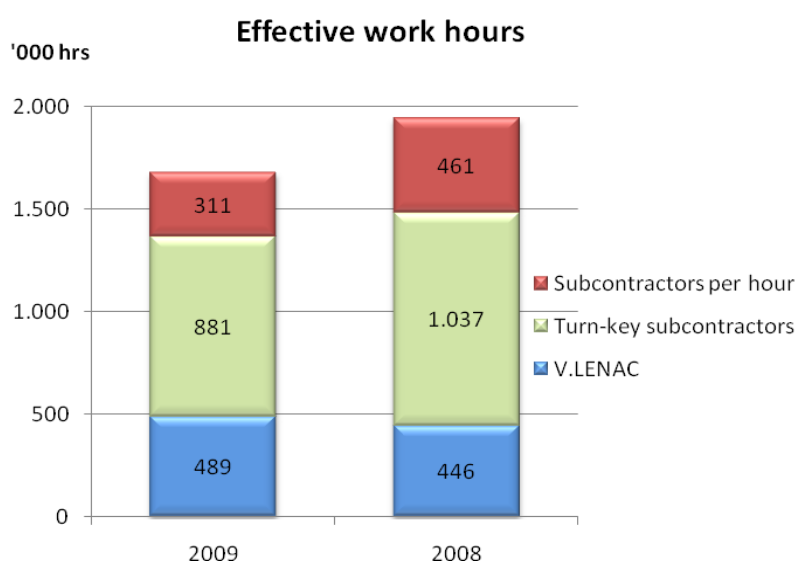
Seeking to realize a job growth and free up docking facilities for new, potential jobs, and also making every effort to fulfil agreed delivery terms, it happened in 2009 two times that there were two ships in one dock, two times in Dock 5 and once in Dock 11.

The periods of lower occupancy of the Shipyard's docking facilities, especially when speaking of Dock 5, were used for maintenance works of a larger scope. Thus, during 2009 was renewed about 100 tons of steel on Dock 5 and it is planned that the dock would be restored in a more considerable scope in 2010.

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 self-investment. Apart from its own permanent production workers, depending on needs, Viktor Lenac uses subcontractors for all its production activities.

The total number of effective work hours derived from the Shipyard's main, auxiliary and investment activities in 2009 was 1.68 million, or 13.5% less than in the previous year. Viktor Lenac's own permanent production workers, 260 in average, participated with 489 thousands of hours or 29%.



The subcontractors workers, contracted per hour, produced 311 thousands of hours. The remaining 881,000 effective work hours (derived from production costs) were produced from turn-key contracts. Comparing to 2008, there was a significant change in 2009 in the distribution of hours between the Shipyard's own production workers and subcontractors contracted per hour.

Viktor Lenac's own production workers participated with 6% more, while the share of subcontractors contracted per hour decreased by 5% respectively turn-key contracts were reduced by 1%.

Viktor Lenac uses subcontractors workers as additional work force in lack of its own production workers, considering oscillations in production both in total scope and in structure of works. Thus, subcontractors are not fixed costs; additional work force is contracted when own labour capacity is not sufficient.

In figures, the total cost of production work incorporated in working orders from main, auxiliary and investment activities in 2009 amounted to 110.4 million Croatian Kuna, which is a decrease of 14.6% with respect to 2008, of which Viktor Lenac's own production workers' salaries made only 17.2% or 17.2 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 or ordinary maintenance of the Shipyard's production and auxiliary equipment, Viktor Lenac's workers produced 96000 effective work hours, while subcontractors workers produced 39000 hours.

Technological Development and Investment

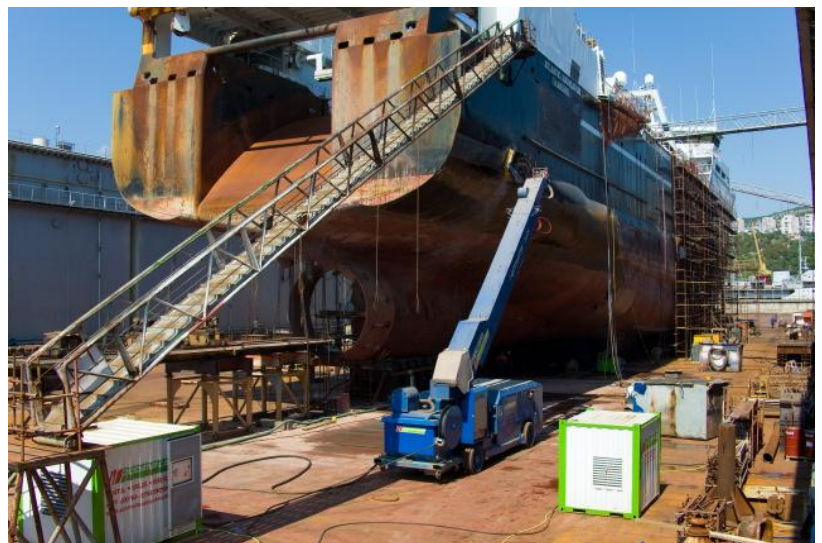
Ship repair is an activity characterised by production of single products and utilisation of traditional technologies. The major technological development activities have been related to anti-corrosion protective treatment and coating of steel elements, replacing sand-blasting by new technologies using 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 competitiveness of the Shipyard and its share of the shiprepair market primarily depends on its docking capacity for accommodation of vessels that are growing in size. Providing prompt service and short delivery terms has become increasingly important for the following two main reasons:

- In the periods of full employment and high freight rates, shipowners give the preference to shipyards that are able to offer the shortest possible works completion terms
- In the periods of oscillations on the shiprepair market, the prompt availability of docking and production facilities brings more flexibility in a tough struggle on the market

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 renewal of production tools and refurbishment of Dock 11 were suspended.



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. Before all has been completed investment into the refurbishment and upgrading of Dock 11 and last year the dock was put into full operation. The investment activities have continued and have indeed been intensified.

The investment into the refurbishment and upgrading of the Dock 11 consisted of the repair and modification of two dock cranes and installation of a cathodic protection system. Aiming to improve execution of the anti-corrosive treatment works, the Shipyard has also purchased some new equipment for horizontal and vertical transportation such as hydraulic shear lifting platforms with 25 m working height, cherry pickers, bobcats and high pressure pumps.

The dock has also been equipped with 10 bar air compressors, which can supply 20 blasters simultaneously.

For the accommodation and mooring of large vessels of Aframax size, in 2009 the Company also invested in enlargement of capacity of the Berth 8. A submerged rock was dugged out in a total volume of 1560 cu.m. and the berth can now accommodate vessels having a draught of up to 9.5 meters.



The increase of the productivity in the shipbuilding works is a basis for an increase of the Shipyard's competitiveness. Seeking to improve its productivity in the steel works, Viktor Lenac has purchased a new gas cutting pantograph, which was commissioned in April 2009. This allowed reconstruction of the Shipyard's plasma cutting machine, which was put back into exploitation in August last year after being completely reconstructed and renewed. In addition to it, general repairs of the press and rollers used for cold roll forming was carried out. Also, the lighting system in the shipbuilding plant has been completely renewed. With these improvements, the Shipyard's cutting capacity has been increased by 50% and has been enabled a continuous three shift work.

Seeking to reduce idling periods in its production processes, the Shipyard has invested in purchasing of additional means of horizontal and vertical transportation such as trucks, fork lifts and auto cranes. By the end of the year new crane trucks were purchased, and the rest of the investment will be realized during 2010.

Besides investing in the production facilities, Viktor Lenac has intensified investments in the information and communication technology aiming at introducing information systems in all the company processes and creating a higher level of the management information system. The investments into hardware and software were started in 2009, but the brunt of the work is expected to be realized in 2010.

The total investment in the long-term material and non-material assets in 2009 amounted to 29.8 million Croatian Kuna.

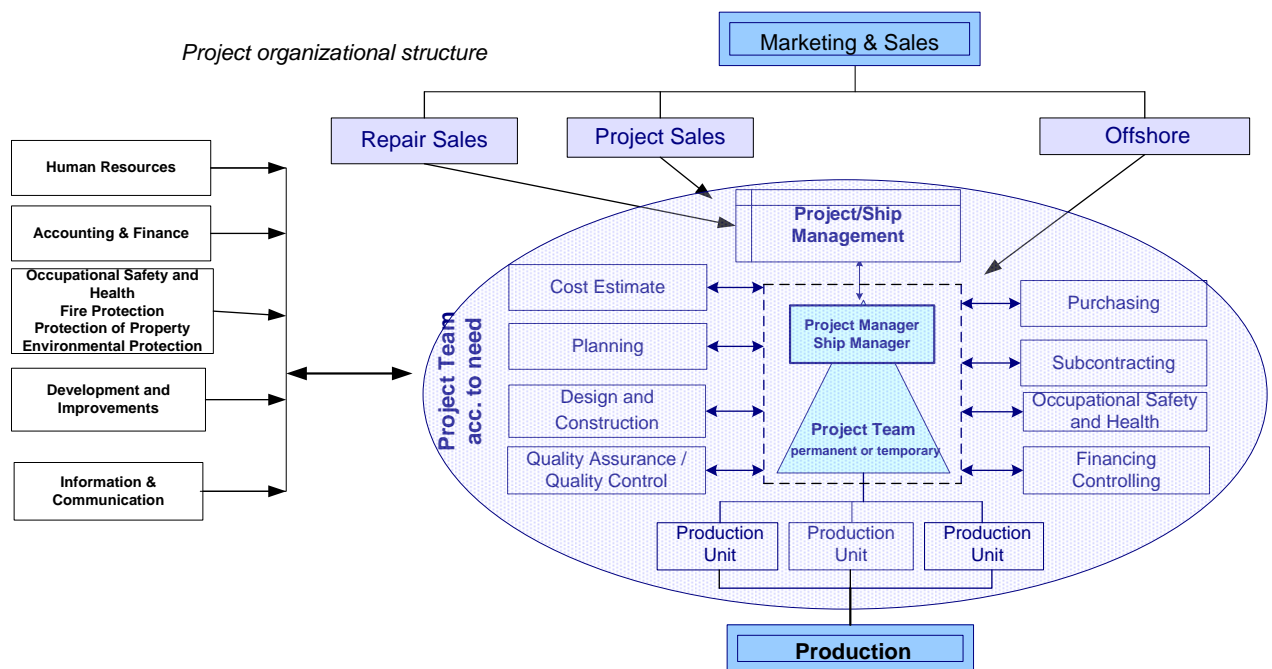
Organisational Development

Restructuring the Organisation

Diversification of Viktor Lenac's production activities requires that its shiprepair, 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. The need to increase the productivity level requires accurate planning and rational utilization of resources, particularly considering that Viktor Lenac's activities are project-oriented, often working on multiple simultaneous projects.

The biggest productivity in such project-oriented activities can be achieved in 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 managing levels, this type of organisation enables transparent measurement of productivity of each individual project and each functional unit.



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. The changeover from the functional to the matrix organizational structure is not that easy. The improvement of the matrix organizational structure and the removal of the non-comprehension impediment between the line and project management requires business process reengineering, redefining job descriptions and precise defining of obligations and responsibilities, particularly for management functions.

The development of the organization requires more engagement and high capability of all level management, therefore, during 2009 the Company continued extensive training activities involving managers at all levels for adjustment to new and demanding conditions.

The emphasis has been put on the marketing and production functions as the central units of the organisation, as well as shiprepair project management, characterised with the lowest degree of planning and the biggest number of changes occurring in the course of project realization.

The major changes in the development of the Company organization are as follows:

- Introducing an integral and detailed project planning system, change control and information system as parts of the overall resource planning process;
- Establishing an efficient control system of project realization by delivery terms, costs and quality as well as stages of business processes;
- Establishing Project Management as an independent organizational unit directly subordinated to the Company's Management Board, thus avoiding its dependence of the functional structure;
- Developing functional management and establishing the basis for supervising integral cost and profit units;
- Releasing line managers in the production from administrative burden by delegating administrative and clerical works to administrative units or by introducing new information and communication solutions in order to provide more time for planning leading in the end to more efficient management;
- Organizing logistics in the production processes by introducing dispatch service, primarily for horizontal transportation and material distribution.

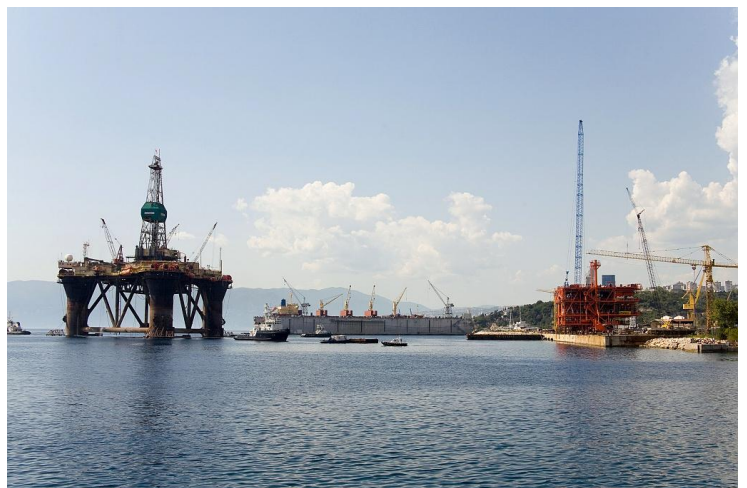
The matrix organisation with an adequate information system is a basis for development of the controlling and internal benchmarking, breaking down overall results of company performance by individual organisational units following the company's functional organisational structure. On the other hand, 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. By an efficient planning system and planned versus realized strategy, new organization will enable the implementation of the performance measurement system, measured either individually or as part of a group, against overall business objectives or specific job or tasks.

Development of Information System

The year 2009 was characterised by extensive modernisation and reorganisation of the entire information system, seeking to increase efficiency in planning, management and evaluation based on the matrix organizational structure both project and functional.

Viktor Lenac has set up a very ambitious plan to implement computerized business process planning & management, cost controlling and decision-making support systems.

Introducing information systems that really support decision-making requires creating numerous separate subsystems and their interrelating into the whole. This system is aimed at business process management in all company aspects by automated information and data exchange at all stages from bidding, contracting and realization to accounting and analysis.



The new information system has as its goals:

- Increasing efficiency in planning and controlling the realization of tasks;
- Assuring prompt cost control;
- Assuring prompt and effective analysis of cost trends;
- Providing feedback aimed at adjusting inputs and redefining goals;
- Assuring single inputs and additional data upgrade through automatic data transfer to end users;
- Reducing administrative burden in favour of more effective management aspect;
- Enabling performance measurement system;
- Improving accounting and business and financial reporting.

The most important activities in developing an integrated information and communication system and upgrading computer support systems involved:

- Purchasing Oracle Database 11g and Oracle Business Intelligence System as tools for implementation of information systems that support the decision-making process;
- Purchasing and installing Tivoli Storage Manager for System Backup and Recovery;
- Developing software application solutions for improvement of production planning and controlling aimed at introducing an automated process for ordering additional labour and services based on resource requirements;
- Upgrading financial support systems for detailed cost monitoring based on various criteria, as a basis for cost controlling and implementation of business intelligence system;
- Significant improvement in cost estimation and quotation elaboration for sales and planning;
- Introducing new security entry/exit registration system and access control according to the Law on Special Purpose Ports and installing video surveillance system;
- Replacing old purchasing and warehouse management system with new, upgraded system aimed at its integration with the accounting system and other subsystems that receive input from purchasing and warehouse;
- Exchanging information through Intranet and Internet, which have been modernized and upgraded, and building an e-documentation architecture aimed at improving information and communication.

The amount of 1.16 million Croatian Kuna was spent last year for renewal and upgrading of hardware and software, which is almost triple comparing to 2008.

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. 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.

The recertification planned for the second half of 2009 has still not been applied considering that the organisational and business restructuring, involving redefining all functions, procedures, authorizations and responsibilities, has still not been completed.

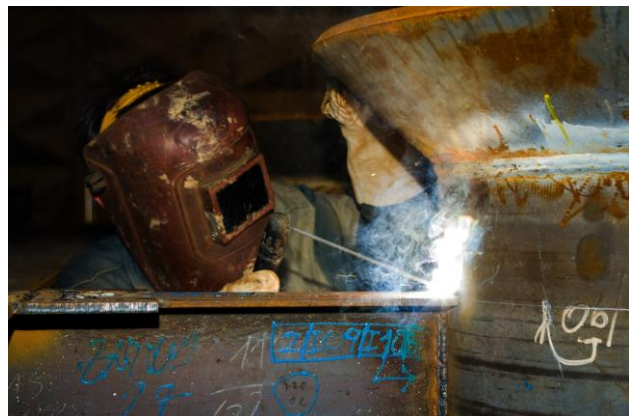
The recertification project will continue after the completion of the reengineering of the key company processes and will involve a continuous training of the Shipyard's employees as well as subcontractors workers. The application for the ISO 9001/2008 recertification is likely to be submitted by the end of 2010 or beginning of 2011.

Safe Work, Health and Safety at Work and Fire Protection

Occupational health and safety and protection of property both for own workers and subcontractors is the Company's highest priority. The health and safety policy is implemented through the areas of safe work, fire protection and protection of property.

The Company's Safety Policy includes corrective and preventive actions and permanent monitoring activities in compliance with laws and regulations.

In order to assure safe work, during last year were carried out ordinary inspections and testing of potentially hazardous machines and devices, examination of work environment, testing of workers' capabilities and education of workers for safe work.



Permanent education and training of authorized employee representatives in charge of health and safety at work ensures daily supervision over implementation of HSE procedures in all aspects, primarily in production process.

Regular activities of the HSE Board and meetings with authorized employee representatives assure exchange of information necessary for planning and implementation of actions in the next period. In addition, by participating in the Board of the Croatian Shipbuilding - Jadranbrod for Safe Work and Fire Protection, the Company contributes in elaboration of acts in the health and safety field.

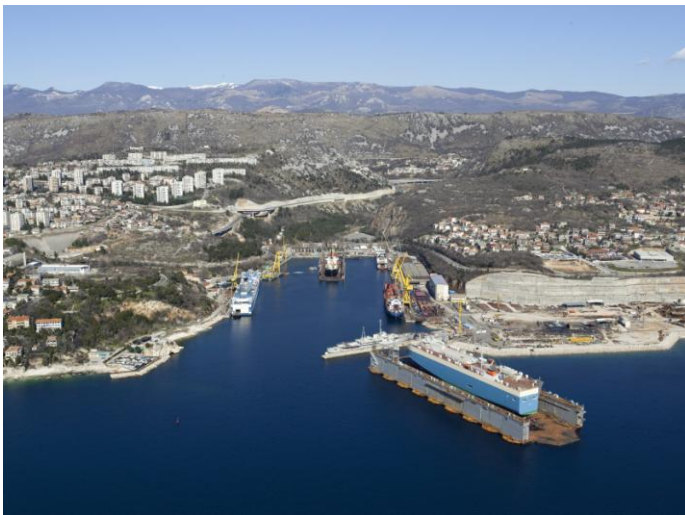
Viktor Lenac thinks about employee health and preventive care and has an agreement with a reputable medical establishment for preventive medical exams and other medical services for the benefit of its employees. Last year all the Company's employees underwent preventive health examination and the agreement has been renewed for the year 2010.

In 2009, total 25 accidents at work were recorded or 4.28% injured workers against the average total number of employees, which is less compared with the previous year, where 26 accidents were recorded or 4.52% injured workers against the average total number of employees. This indicates a high level of safety at work, particularly compared to the Croatian shipbuilding average of 9%.

The injury frequency index in 2009 was 22.82 (number of injuries per 1 million of effective work hours), representing a decrease by 0.46 compared with the previous year. On the other hand, the average number of lost working days per injury increased from 28 days in 2008 to 37.7 days in 2009.

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 always pointing out that it is the duty of every employee to take reasonable care for safe work.

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, making emergency evacuation plan for each vessel, educating and training new employees, inspecting, maintaining and renewing fire fighting equipment and practicing periodic fire fighting exercises.



Also, after being commissioned and put into full operation the Dock 11 was evaluated in terms of fire and explosion hazards during operation and maintenance.

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. The 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.

At the end of 2009 new noise monitoring device was commissioned aimed at reducing harmful influence of noise on the environment, especially the nearby villages Vrh Martinšćice and Žurkovo.

Other environmental protection activities during 2009 involved:

- Repair of the Shipyard's waste water sewage system;
- Waste Disposal Management;
- Participation in the activities of the Environmental Protection Board of the Municipality of Kostrena and Local Board of Pećine;

- Investment in new equipment for environmental protection such as inflatable boom and pollution response boat.

In 2009 no serious pollution incident was recorded nor there was any need for intervention of Inspection Authority.



Human Resources

Viktor Lenac recognizes the importance and value of human resources as one of fundamentals of development and growth. The Company values high professional standards and expects of its employees professionalism, overtness, responsibility and efficient team work.

Human resources are planned within the frame of advancement of the organization, keeping costs under control. Thus, the year 2009 was not marked with an increase in number of employees, other than personnel replacement requirements or employing on the real need to complete project on time. The employment policy during 2009 was, therefore, based on temporary needs. The same applied to engaging subcontractors services. This is also a result of big oscillations in employment of capacity, where own workers become the only fixed costs in periods of low occupancy rate.

Seeking to run its business profitably in the long term, the Company must establish a real proportion of production workers over indirect and overhead workers. The long-term employment policy will therefore be redefined after the completion of the reengineering process which is still in progress and according to the Company's development plans.

The human resource policy was in 2009 focused to keeping qualified personnel with specific technical and commercial knowledge being particularly important for the Company and characterised with good skills such as sales engineers, project managers, cost estimators, planners, designers and other technical experts.

Number and Structure of Employees

On the day of 31st December 2009 Viktor Lenac had 580 employees, down by 3 with respect to the previous year. During 2009 were employed 33 new workers, while 36 employees terminated their contracts, of which the most part were retired or their contracts for a definite period expired.

Of total number of employees, production workers participated with only 45.3% or 263 employees. In spite of the Company's plan to employ more direct workers, there was no significant change in the number of production workers at the end of 2009, due to the fact that their salaries are still low and generally due to 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.

Viktor Lenac concluded 2009 with 187 indirect workers, representing 32.2% of the total number of employees, related to overhead costs and involving HSE department, Maintenance, QC, foremen in production and other overhead workers.

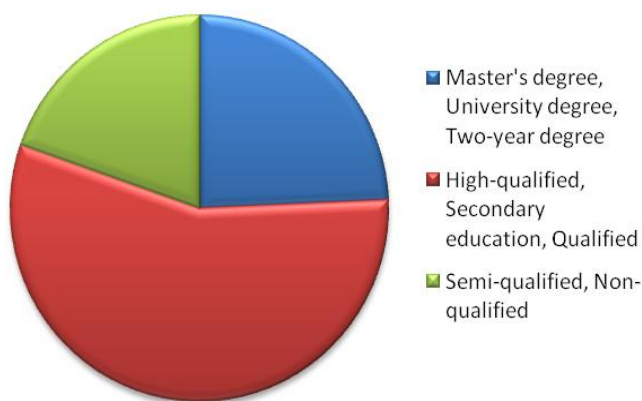
The remaining number of employees included technical and commercial staff and other experts (59 employees or 10.2%), administrative staff (13 employees or 2.2%) and project managers and managers of organisational units of all level (56 employees or 9.7%). At the end of the year, two employees were unassigned.

On 31st December 2009, Viktor Lenac's subsidiary company (Viktor Servisi d.o.o.) had total 14 employees, of which 11 maintenance and repair workers.

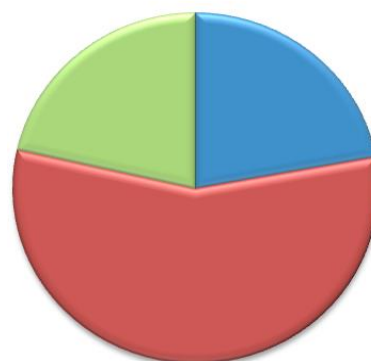
Viktor Lenac's personnel structure in terms of qualification and profession is satisfactory. A very small number of employees refer to non-qualified workers and those are mostly workers occupied with cleaning works.

On 31st December 2009, Viktor Lenac employed 63 employees with a university degree, 78 employees with a two-year degree, 142 employees with secondary education, 37 high-qualified workers, 146 qualified workers, 23 semi-qualified workers and 91 non-qualified workers.

2009



2008



The present Company's qualification structure conforms to the existing technological level of the Shipyard. It is to be expected that future development in technological and production capacity will certainly have influence to the development of the qualification structure.

In spite of the Company's rejuvenation policy in all organizational segments, the age structure in 2009 with the average age of 44, was no different than in 2008. The present age structure is not favourable, considering the type of activities, though there is a high level of knowledge. Such old age structure is also a consequence of the bankruptcy, where many young employees had left Viktor Lenac because of uncertain situation and poor status.

It is, therefore, necessary to rejuvenate the Shipyard's personnel structure not only by employing young people, but also through their education.

Structure of Effective Work Hours and Salaries

In 2009, Viktor Lenac's employees produced total 1.2 million of work hours in normal working hours, of which 78% or 0.95 million were effective work hours, while 22% referred to vacation (9%), sick leave (6%) and national holidays, paid leave and other non-working hours (7%). Also, during 2009 Viktor Lenac's employees produced total 143 thousands of overtime work hours, down by 19% with respect to the previous year.

In 2009, Viktor Lenac paid total 69.8 million Croatian Kuna on the account of salaries and other employee material rights, of which 65 million Croatian Kuna referred to salaries, while 4.8 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, 38.3 million Croatian Kuna was paid on the account of net salaries, 21.1 million Croatian Kuna was paid on the account of obligatory contributions and the remaining 5.6 million Croatian Kuna was paid on the account of tax obligations.

The total salary cost in 2009 increased by 15,8% as compared to 2008, where it amounted to 56.1 million Croatian Kuna. This increase was primarily the result of the increase in salaries and allowances after the Company had signed the Collective Agreement with the Unions in December 2008.

Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2009, after deduction of contributions and taxes, amounted to HRK 5,273.00, down by 0.7% compared with the average net salary in Croatia, or up by 14% compared with the average net salary in the shipbuilding industry.

Employee Education

The Company's education policy consists in providing its employees with continuous and permanent education and training aimed at following up rapid advancements in technology and scientific achievements in all fields.

The Company stimulates acquiring varied knowledge and skills and supports multi-skilling education.

The year 2009 was characterised with an extensive education and training program, which was realized both internally and in cooperation with external education institutions. Employees participated at numerous courses and seminars such as recertification seminars (magnetic, ultrasound or radiographic test), various courses for nautical crafts, purchasing, law, marketing, finance, information etc.

Aimed at increasing the level of productivity, the Company's education and training program includes various occupations and crafts. Among the training courses completed during 2009, it should be noted those for overhead crane operator, cargo handler, cherry picker operator, compressor service engineer, loader operator, hydraulic platform operator, auto and truck crane operator and training for safe work with crude oil



derivates and hazardous substances. In addition, some workers were trained for anti-explosion protection and a few became holders of C or D licence.

The Company also provided a number of its employees with specific education of doctor's, masters or first-degree in quality assurance, controlling, maritime traffic, information and communication, shipbuilding, health and safety at work, welding technology or human resources.

The total amount of 604,128 Croatian Kuna was spent for education activities in 2009, with an average of 1,042 Croatian Kuna per employee.

Social Dialogue

The year 2009 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.

Cooperation between the Workers' Council and the Management Board started immediately upon termination of the bankruptcy and is maintained at monthly meetings, where the Workers' Council is informed about actual situation and perspectives. The Workers' Council is regularly informed on all issues significant for employee economic and social status. In co-deciding processes, the Workers' Council participates in decision making in accordance with the provisions of the Labour Act.



In addition, the Management has made a step forward by rising the level of exchange of information by issuing temporary publications and primarily through the Company's Intranet site where the employees can find all important information about Viktor Lenac, new projects and other news and actualities.

At the Employee Meeting in December 2009, the Chairman of the Board informed employees on the Company's development plans.

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. In December 2009 the Management and the Unions concluded the Collective Agreement. 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. During last year all provisions as adopted by the Collective Agreement were applied to mutual satisfaction of all interested parties.

Finance

Key Financial Figures

Consolidated Financial Figures:

	In thousands of HRK			In thousands of EUR ¹		
	2009	2008	Index	2009	2008	Index
Total Revenues	334.276	422.471	79,1	45.544	58.488	77,9
Total Expenses	327.123	318.839	102,6	44.569	44.141	101,0
Operating Revenues	327.613	417.501	78,5	44.636	57.800	77,2
Operating Revenues (write-off of pre-bankruptcy liabilities not included)	327.613	340.457	96,2	44.636	47.134	94,7
Operating Expenses	322.990	314.821	102,6	44.006	43.585	101,0
EBIT	4.623	102.680	4,5	630	14.215	4,4
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities)	4.623	25.636	18,0	630	3.549	17,7
Profit and Loss Before Tax	7.153	103.632	6,9	975	14.347	6,8
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities)	7.153	26.588	26,9	975	3.681	26,5
Net Profit and Loss	5.290	94.224	5,6	721	13.045	5,5
Total Assets	288.612	267.841	107,8	39.502	36.568	108,0
Equity	192.136	172.624	111,3	26.298	23.568	111,6

The consolidated profit and loss statement and other financial statements include Viktor Lenac's subsidiary company Viktor Servisi d.o.o. Rijeka, which, during 2009, realized revenues from its normal business activities consisting in providing specialized services in shipbuilding.

In 2009 Viktor Lenac and Viktor Servisi realized together total revenues in the amount of 334.3 million Croatian Kuna and total expenses in the amount of 327.1 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.

¹ All amounts expressed in Croatian Kuna, except for assets, share capital and reserves, have been converted into Euros according to the average midpoint exchange rate by the Croatian National Bank for 2009 (HRK 7.33) respectively 2008 (HRK 7.22). Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31st December 2009 (HRK 7.31) respectively 31st December 2008 (HRK 7.32).

A more significant difference between the consolidated and non-consolidated financial figures is noted in the profit, considering that the loss produced by the subsidiary company in the amount of 0.97 million Croatian Kuna reflected in a decrease of the profit realized by the mother company.

The loss produced by the subsidiary company, however, mainly arises from a client's claim for repair works on a vessel contracted by the mother company, where Viktor Servisi participated in a quality of subcontractor exactly for those works claimed by the client. If the mother company took the burden of the claim alone, instead of re-invoicing the claim to its subsidiary company, such record would not have had any impact to the total consolidated results of the Group.

In total revenues and expenses of the Group for 2009, 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, equity and liabilities of the mother company.

Non-consolidated Financial Figures:

	In thousands of HRK			In thousands of EUR		
	2009	2008	Index	2009	2008	Index
Total Revenues	333.883	420.951	79,3	45.550	58.278	78,2
Total Expenses	325.761	317.161	102,7	44.442	43.909	101,2
Operating Revenues	327.357	416.076	78,7	44.660	57.603	77,5
Operating Revenues (write-off of pre-bankruptcy liabilities not included)	327.357	339.032	96,6	44.660	46.937	95,1
Operating Expenses	321.779	313.227	102,7	43.899	43.364	101,2
EBIT	5.578	102.849	5,4	761	14.239	5,3
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities)	5.578	25.805	21,6	761	3.573	21,3
Profit and Loss Before Tax	8.122	103.790	7,8	1.108	14.369	7,7
Profit and loss from business activities (no influence of write-off of pre-bankruptcy liabilities)	8.122	26.746	30,4	1.108	3.703	29,9
Net Profit and Loss	6.259	94.382	6,6	854	13.067	6,5
Total Assets	286.839	265.374	108,1	39.260	36.232	108,4
Equity	190.529	170.037	112,1	26.078	23.215	112,3

Financial Results

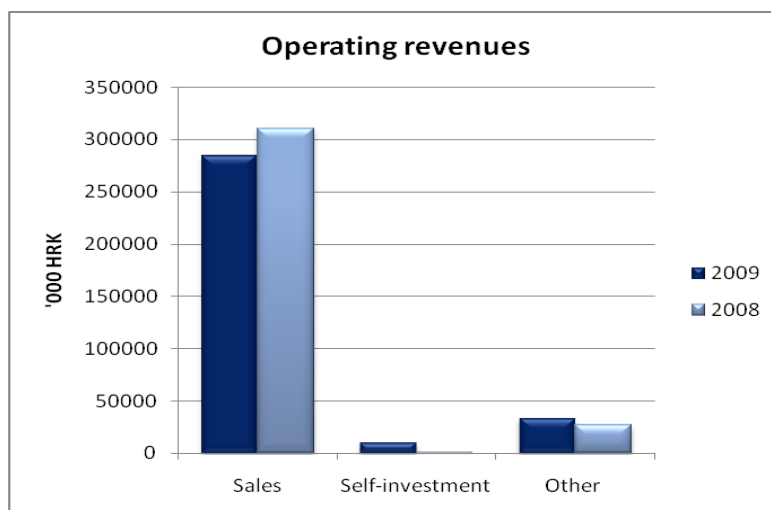
Realized Revenues and Expenses

In 2009 Viktor Lenac realized total revenues of 333.9 million Croatian Kuna with total expenses in the amount of 325.8 million Croatian Kuna, thereby making a profit before tax in the amount of 8.1 million Croatian Kuna.

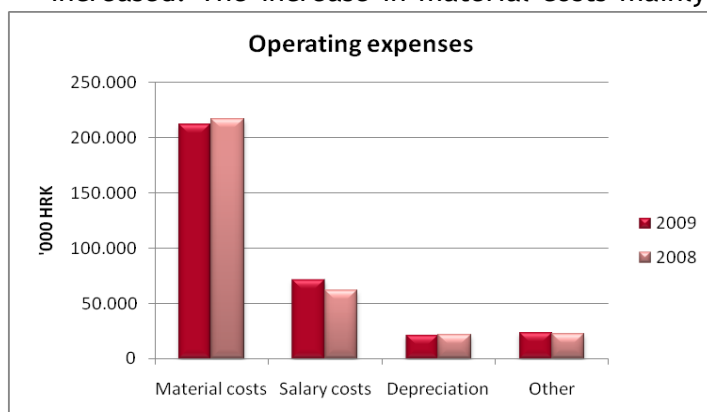
The operating revenues realized in 2009 amounted to 327.4 million Croatian Kuna, down by 3.4% with respect to the previous year where they amounted to 339 million Croatian Kuna, compared after deduction of the write-off of pre-bankruptcy liabilities in the amount of 77 million Croatia Kuna (effected in 2008 upon termination of the bankruptcy).

The decrease in operating revenues by 12.4 million Croatian Kuna as compared with the previous year mainly arose from a decrease in revenues from sales (8.5%) primarily resulting from lack of new conversion projects. On the other hand, in 2009 the Company realized 9.5 million Croatian Kuna of revenues from self-investment.

The remaining operating revenues were made of revenues from insurance, rent, sale of material and long-term assets, withdrawal of long-term reservations, surplus etc.



The operating expenses generated in 2009 amounted to 321.8 million Croatian Kuna, up by 8.6 million Croatian Kuna or 2.7% compared with 2008. Put in the perspective of the total structure of operating expenses, the material costs decreased by 5.8 million Croatian Kuna or 2.7%, where, following a change in the structure of operating revenues, the raw material and semi-product costs were lower comparing to the previous year, while the service costs increased. The increase in material costs mainly resulted from intensified maintenance of production equipment in 2009.



Compared with the year 2008, an increase in costs was recorded in salary costs including employee allowances and benefits. The salary cost increased by 8.9 million Croatian Kuna or 15.8% as compared with the previous year.

The salary cost increase entailed from the Collective Agreement signed between the Company and Unions, thus closing the gap between the average

salary in Viktor Lenac and the average monthly net salary in Croatia. In 2008 the average salary in Viktor Lenac was lower almost 9% with respect to the Croatian average.

For 2009 Viktor Lenac recorded and calculated a depreciation cost of its tangible fixed assets and intangible assets in the amount of 21.06 million Croatian Kuna, down by 1 million compared with the previous year. In addition, considering the age of its assets and a need for further investment, the Company used its legal right to accelerated depreciation.

The remaining operating expenses included value adjustment on customer claims, reservations for risks and costs deriving from guarantees issued to clients for works under warranty and reservations provided for litigations, insurance premiums, bank fees and various utility rates and contributions etc.

The difference between realized operating revenues and generated expenses in 2009 produced a profit of 5.6 million Croatian Kuna.

The total profit increased by 2.5 million Croatian Kuna due to net financial income. The financial expenses consisted of negative exchange rate differences in the amount of 0.4 million Croatian Kuna and interests in the amount of 0.7 million Croatian Kuna.

As to financial incomes, an amount of 3,7 million Croatian Kuna was realized on the account of an income deriving from interests earned on time deposits.

After calculating net financial income, the total profit before tax amounted to 8.1 million Croatian Kuna, or 6.3 million Croatian Kuna after tax.

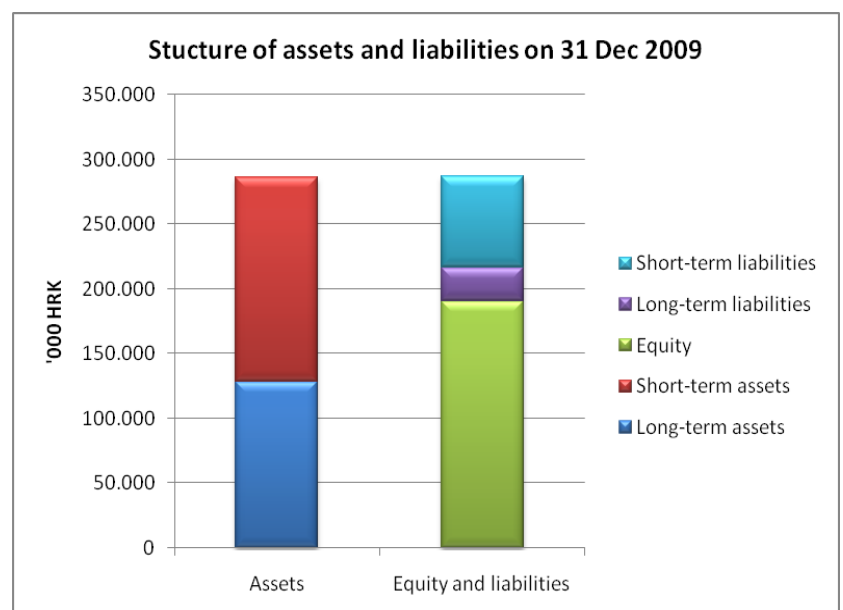
Inclusive of the loss of the subsidiary company amounting to almost 1 million Croatian Kuna, the consolidated profit before tax amounted to 7.1 million Croatian Kuna, or 5.3 million Croatian Kuna after tax.

Assets and Liabilities

The total value of Viktor Lenac's assets on 31st December 2009 amounted to 286.8 million Croatian Kuna, of which 128.1 million Croatian Kuna of long-term assets. Of total long-term assets, tangible fixed assets made 97%, among which the most important being the Shipyard's Floating Drydock No.11.

The short-term assets amounted to 158.8 million Croatian Kuna, mainly structured of liquid assets, of which more than a half or 86.7 million of

Croatian Kuna consisted of money or its equivalents with 60.8 million Croatian Kuna of deposits or time deposits. The short-term receivables in the amount of 44.5 million Croatian Kuna participated with 28% in the total short-term assets. On the day of 31st December 2009, production in progress totalled 14.3 million Croatian Kuna, and the



remaining amount of 12.6 million Croatian Kuna or only 8% of the total short-term assets consisted of supplies.

The total Shipyard's liabilities on 31st December 2009 amounted to 96.3 million Croatian Kuna, of which 25.8 million Croatian Kuna of long-term liabilities and reservations and 70.5 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. The total long-term assets have been covered in whole by the Company's equity.

According to the consolidated financial reports, the Group's assets totalled 288.6 million Croatian Kuna, of which 192.1 million Croatian Kuna of share capital and reserves and 96.5 million Croatian Kuna of liabilities, with an almost the same structure as the mother company alone.

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 Inženjerski biro - revizija company from Zadar).

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 2010*.

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 increasing productivity and identifying internal resources. In other words, it is not likely to expect that raising prices could compensate for increased costs, having in mind that shipyards are under big pressure to decrease prices if they want to remain competitive.

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 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 Euros (less in USD), following that Viktor Lenac mostly receives payments in Euros, less in USD. Revenues from sales on the domestic market is denominated in Croatian Kuna with Euros currency clause.

Only about 10% of costs are denominated in Euros. 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 Euros exchange rate against domestic currency resulted in 3.2 million Croatian Kuna of negative exchange rate differences and 2.8 million Croatian Kuna of positive exchange rate differences.

Although Euros-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 2009 receivables from customers amounted to 34 million Croatian Kuna, of which most part was 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 2009, 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 2009 money in current accounts, time deposits and short-term receivables participated with more than 80% 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 by designated funds, 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. The total value of disputes that could affect negatively the Shipyard amount to about 1.5 million Croatian Kuna. 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 regardless of their outcome.

Important Business Events after 2009

The two most important events for Viktor Lenac that have happened up to the time of drawing up this Annual Report, were signing of the contract for completion of lengthening and conversion of the stern trawler "Atlantic Navigator" for a Norwegian client, worth 5.4 million Euros and the contract for building and outfitting of new superstructure on the derrick barge vessel „Seminole“ for an Italian client, worth 5 million Euros.

There were no other events of major impact to the business or financial status of the Shipyard.

Ownership Structure

The existing Viktor Lenac's share capital has been acquired upon the closing of the bankruptcy in April 2008, through converting monetary claims into company shares of those creditors who, in accordance with the Bankruptcy Plan, had accepted such modality of settlement.

According to the Decision on increase of the share capital as adopted by the Company's General Assembly in June 2009, the total initial company share capital amounting to 124,078,130 Croatian Kuna was increased by 14,366,340 Croatian Kuna, by registering Tankerska plovodba company, coming to the total amount of 138,444,470 Croatian Kuna.

The total share capital of the Company is divided in 13.844.447 registered ordinary shares, with the ticker symbol VLEN-R-B, having a nominal value of 10.00 Croatian Kuna each, registered in the depository of the Central Depository & Clearing Company and included in quotation of public joint-stock companies on the Zagreb Stock Exchange. During 2009, Viktor Lenac's shares were rarely traded resulting in low transactions of 6.637 shares only with average price of 10.28 Croatian Kuna per share. Likewise, share trading outside of the stock market had no relevance in a material aspect. Consequently, the ownership structure has not changed significantly except for the increase of the share capital.

On the day of 31 December 2009, ten largest shareholders of Viktor Lenac participated with 93.43% in the company share capital as follows:

	Shareholder	Number of shares	%
1.	Tankerska Plovodba j.s.c. Zadar	5.169.660	37,34
2.	Uljanik Shipyard j.s.c. Pula	3.904.063	28,20
3.	Croatian Privatization Fund from Zagreb	1.724.298	12,45
4.	Croatian Bank for Reconstruction and Development from Zagreb	1.367.268	9,88
5.	Konstruktor Inženjering j.s.c. Split	272.201	1,97
6.	Privredna Bank j.s.c. Zagreb	258.751	1,87
7.	R.L.E. Ltd. Drniš	105.211	0,76
8.	Negotium Ltd. Novalja	52.139	0,38
9.	List Gmbh Austria	45.992	0,33
10.	Jadranski Pomorski Servis j.s.c. Rijeka	35.874	0,26
	Other	908.990	6,57
	Total	13.844.447	100,00

On the Company's General Assembly in June 2009 was made a decision entitling the Company to acquiring of up to 200.000 own shares. Following the decision, in 2009, Viktor enac acquired total 13.360 own shares at nominal value representing less than 0.1% of the company share capital.

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.

In accordance with the Capital Market Act, obligatory information is displayed to the Croatian Agency for Supervision of Financial Services through the Zagreb Stock Exchange's website and Company's website (www.lenac.hr). In addition, new information is announced through the Croatian News Agency OTS service.

In 2009, Viktor Lenac's Supervisory Board held five meetings, where 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 five consequent terms from 1992 to 2010 and again in 2010 in the sixth 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

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 2009 total compensation in gross amount of 496,827.00 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 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 2009 total income in gross amount of 1,979,280 Croatian Kuna was paid to the members of the Management Board, making 2.8% 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 2009, 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 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 Director

Borja Kružić, Manager of Project Management Department

Dražen Bevanda, Safety, Health and Environmental Protection Manager

Dolores Kuzmić, Purchasing Manager

Anton Dujmović, Subcontractors Manager

Alen Karnjuš, Information & Communication Manager

Ljubica Linardić, Human Resources Manager

Auditor

INŽENJERSKI BIRO - REVIZIJA d.o.o. Zadar

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Rijeka, April 2010

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 9, 2010, 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. During 2009, the Company was 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 Company's website and on the Zagreb Stock Exchange's website, and informed the public on information availability through Croatian News Agency OTS service.

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, 2009, ten largest shareholders are the following ones:

	Shareholder	Number of shares	%
1.	Tankerska Plovidba j.s.c. Zadar	5.169.660	37,34
2.	Uljanik Shipyard j.s.c. Pula	3.904.063	28,20
3.	Croatian Privatization Fund from Zagreb	1.724.298	12,45
4.	Croatian Bank for Reconstruction and Development from Zagreb	1.367.268	9,88
5.	Konstruktor Inženjering j.s.c. Split	272.201	1,97
6.	Privredna Bank j.s.c. Zagreb	258.751	1,87
7.	R.L.E. Ltd. Drniš	105.211	0,76
8.	Negotium Ltd. Novalja	52.139	0,38
9.	List Gmbh Austria	45.992	0,33
10.	Jadranski Pomorski Servis j.s.c. Rijeka	35.874	0,26
	Other	908.990	6,57
	Total	13.844.447	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 2009.

Robert Škifić

Chairman of the Management Board

