



ANNUAL REPORT 2010

April, 2011

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Foreword

The Management Board of the Viktor Lenac Shipyard j.s.c. is pleased to present its Annual Report for 2010 to all its shareholders, clients, employees, business partners and the entire public.

The Annual Report 2010 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 2010 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 and 250.b, 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 7.385173, representing the midpoint exchange rate by the Croatian National Bank on the 31st day of December 2010 (HRK 7.306199 on 31st December 2009), applied for calculating amounts of assets, liabilities and equity;

1 EUR = HRK 7.292379, representing the annual average of midpoint exchange rates by the Croatian National Bank (HRK 7.339664 for 2009), applied for calculating amounts in the profit and loss statement.

Chairman's Address to Shareholders

Dear Shareholders,



It is my pleasure to point out that Viktor Lenac shipyard has achieved positive financial results for three years in a row.

The business process reengineering and intensive efforts aimed at increasing productivity and decreasing costs have been rewarded with profits this year as well, in spite of the somewhat slow recovery of the global economy, lower sales prices and lower employment of capacity during the first months of the year 2010.

The operating revenues amounted to 322 million Croatian Kuna or 44.2 million EUR, while operating expenses totalled 315.6 million Croatian Kuna or 43.3 million EUR.

The operating revenues and expenses yield a profit before tax in the amount of 6.4 million Croatian Kuna, increased by 15% compared to the previous year. Due to lower financial incomes, however, the Shipyard realized a net profit in the amount of 6.1 million Croatian Kuna, down by 3% compared to the previous year.

The 2010 production activity was marked by the Seminole project, for the Italian client, which included extensive repairs and building of a completely new superstructure for 250 crew members. The conversion, worth 15.9 million EUR, was completed and delivered in March 2011.

In December last year, the Shipyard's Floating Drydock No.5 was docked in the other Shipyard's Floating Drydock No.11 to undergo extensive refurbishment. It was renewed over 230 tons of steel, of which 170 tons on the pontoons. The dock was put back into operation in January this year and finishing works were carried out parallel with repair works executed on the docked vessels.

The organization development and business process restructuring continued to focus on the management system at all levels, including intensive upgrade of the IT environment.

In the end of the year, the Company started preparatory activities for the ISO 9001:2008 Quality Management System Certification, which is expected to be granted in September 2011.

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 growth and development, knowledge, quality and productivity are an imperative of Viktor Lenac and its relationships with clients, employees, shipowners and other parties, and will remain a pillar of the Company's development strategy for the following years.



The main goal for 2011 is keeping positive financial results despite unfavourable market conditions. A new phase of the investment cycle has been started in 2011, aimed at enlargement of the capacity and technology improvements, for the purpose of further development and growth for the benefit of our shareholders, clients, employees, suppliers and the entire community.

Robert Škifić

Chairman of the Management Board

A handwritten signature in black ink, appearing to be 'R. Škifić', written over a light blue background.

Business Environment

Shiprepair and Conversion Market

2010

Abatement of the global economic crisis has brought on a relief on the pressures on freight rates for the most important ship types that make the majority of the world shipping market, particularly container ships. The container shipping market has been consolidated and leading companies are making profit again, resulting in new orders, especially record-large ships.

On the other hand, the bulk carrier market dropped again, to the lowest level in the end of the year. Due to a big number of newbuildings that came out from the Far East shipyards, whose construction started when demand for such kinds of ships was growing, the market is now expectedly characterized by a disproportion between supply and demand.



During 2010, the volume of deliveries produced by world shipyards reached its maximum of over 50 million cGT. A gradual decrease in newbuilding deliveries is expected in the following years, as a consequence of a sudden cessation of contracting activities that started in 2008 and continued through 2009. The actual output, however, still largely exceeds the world trade needs. It is

expected that overcapacity in shipbuilding, on account of new shipyards that are quickly opening in China, will keep prices of newbuildings low and will negatively affect shiprepair capacity.

It is encouraging that the world industrial production has reached its annual growth rate of the pre-crisis period. Similar situation happens with the world steel production, slightly slower than the oil production. These parameters show that demand for cargo space will grow. There are, however, still too many new ships, causing pressures on freight rates.

Such situation on the shipping market is unfavourable for the conversion market. Demand for ship conversions has significantly decreased and relatively small number of projects are under realization, mostly related to very specialized market niches.

2011

No significant changes in the shipping market are expected in 2011. It is estimated that the market will be stable, but at relatively low level. On one hand, such situation will be under positive influence of the world shipping trade growth, and, on the other hand, under negative influence of excessive world shipping capacity, especially newbuildings.



Political changes in the Middle East and Northern Africa in the beginning of 2011, affect maritime traffic particularly in the Mediterranean. Actually, the civil war in Libya, an important oil and gas exporter, has the biggest negative impact felt as well in Viktor Lenac having in mind many disturbances in ship arrivals.

Political instability in some countries of the region that is likely to be of long-term duration, will certainly have a negative impact to those countries' economies and countries in the surrounding region.

When speaking of the shipyard's shiprepair capacity, during 2011, bigger oscillation is expected, but also bigger demand, mainly on account of established presence of the Floating dock 11 on the market.

Dry-docking intervals up to five-year will bring long-term shiprepair demand decrease.

Competition

Compared to the last year situation on the Mediterranean shiprepair market, there have been some changes in competition, having bigger or smaller influence to the shipyard:

- The Malta shipyard relaunched, now managed by the Italy's Palumbo. Owing to its good position and large facilities, the shipyard is a respectable competitor to Viktor Lenac.
- The Marseille shipyard, managed by Genoa's San Giorgio, relaunched, however, for now the shipyard does not represent a serious threat to Viktor Lenac as it is mainly oriented towards cruisers and LNG ships.
- The Hellenic Shipyard is generally closed.
- After completing the new building projects and due to lack of new orders, many shipyards in Turkey and Black Sea have re-oriented their activities towards shiprepair, so the competition got tougher, though they are completely differently structured from the organizational point of view.

In 2011, shiprepair activity is likely to intensify, compared to the 2010, as a result of re-activation of fleets that were on lay-up and postponed dockings during the last couple of years. The pressure on the prices will continue but in the lower extent than before.

No significant change is expected on the ship conversion market during 2011, but this market is likely to revive in the following years to come, as a consequence of new environmental regulations.

Offshore Projects

2010

The major effect on the offshore market comes from oil and gas price trends, therefore, the increase in oil prices expectedly launched new projects. The most valuable oil fields in the Mediterranean are those by the Northern African coast, an area that has suddenly become a global point of political instability. Despite the fact, offshore projects have not been significantly disturbed so far, at least not those tendered by Viktor Lenac.



2011

Increase in oil and natural gas prices will impact conversion and offshore projects related to activities of oil and gas exploitation. Owners of such vessels have been re-launching the projects, which have been put on hold for longer time, mainly on account of an increase in their capacities and development of their fleet.

On the other hand, important projects related to gas fields in the Northern Adriatic, which during the years generated many projects in which Viktor Lenac successfully participated, can be expected in 2012.

Renewable energy market

During 2010, significant activities related to wind farm support vessels have been started. These vessels are designed to install offshore wind turbines. A series of new building projects have been on order, and projects of conversion into such type of vessel came forward. Value of such ships, however, significantly exceed the company's capacities,

therefore, possibility of contracting such kinds of jobs is small. It is expected in the next period that more orders for such vessels will be placed, so the market which is now very active might become oversupplied.

On the other hand, this industry is relatively new and its development could lead to significant changes in technology of installation of offshore wind turbines, which might bring on higher demand and initiate new conversion projects.

Offshore wind farms are expected to spread to fields that get more and more distant from the shore, with increasing water depth. It is likely that such development will raise demand for wind farm support vessels, particularly cable laying vessels used to connect wind turbines to the shore. In this area, Viktor Lenac can expect many interesting projects that could represent an important market where Viktor Lenac can be a significant competitor.



Business Activities 2010

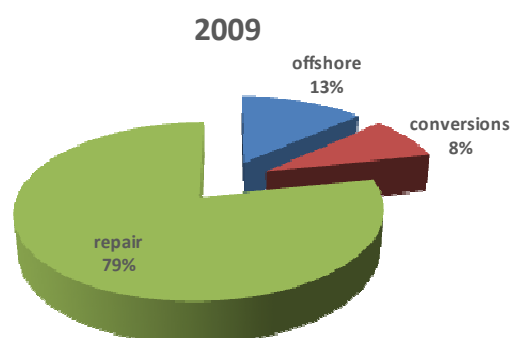
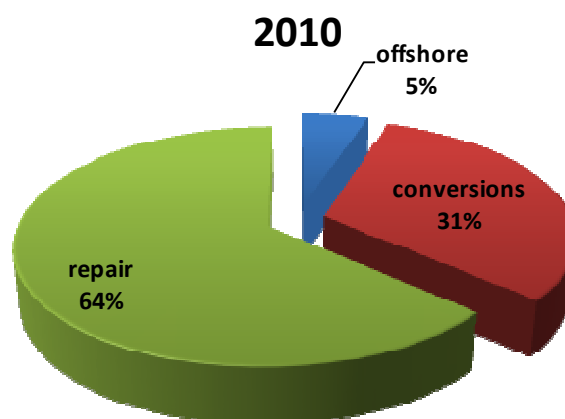
Sales

Realized revenues

In 2010 Viktor Lenac realized total 299.3 million Croatian Kuna from its main activities - shiprepair, conversions and offshore, which is an increase of 5.8% with respect to 2009.

ACTIVITY	HRK		EUR	
	2010	2009	2010	2009
shiprepair	190.191.866	222.002.665	26.080.908	30.246.979
conversions	93.754.850	23.557.569	12.856.552	3.209.625
offshore	15.328.107	37.217.637	2.101.935	5.070.755
Realized revenues	299.276.833	282.779.880	41.041.405	38.529.368
Production in progress	-10.385.475	4.538.878	-1.424.155	618.404
Realized scope of works	288.889.347	287.316.750	39.615.240	39.145.763

Put in the perspective of the total structure of revenues from main activities, revenues from conversion works have increased compared with the previous year. Revenues from shiprepair works include Seminole project where, besides extensive repairs, a completely new superstructure was built and outfitted. The total value of the job, completed in March 2011, amounted to 15.9 million EUR, of which revenues accounted at the end of 2010 included, based on completion milestones, totalled 12.5 million EUR, of which 7.2 million EUR as revenues from shiprepair activity and 5.3 million EUR as revenues from conversion activity.



Although revenues from shiprepair activity were lower than in the previous year, the revenues derived from 63 repair projects, compared to 57 ships that were repaired in 2009. This shows a decrease in average value of contract, which is a consequence of the global economic crisis and decisions made by shipowners to execute necessary works only. If shiprepair works carried out on the crane-pipe laying vessel Seminole are excluded, the average value of shiprepair activity in 2010 amounted to 300,000 EUR only.

Important shiprepair works in 2010:

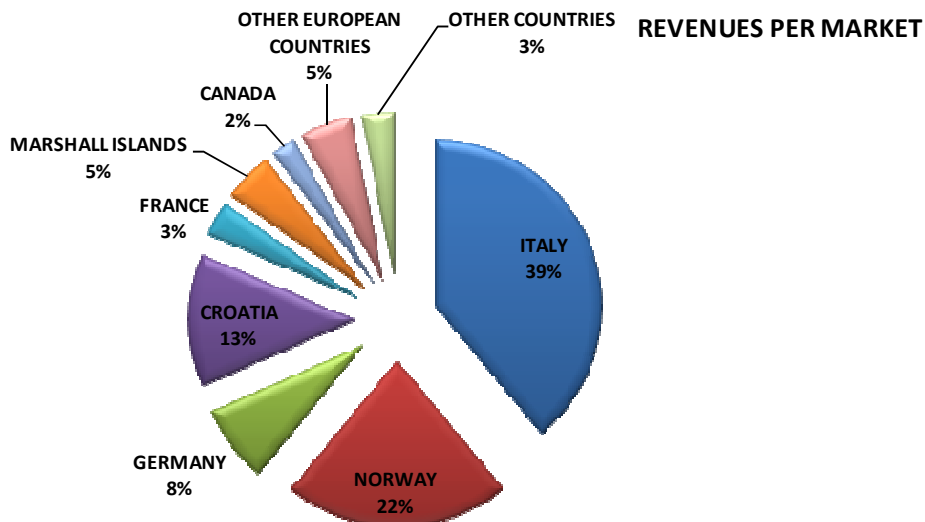
	Value of job in EUR		Value of job in EUR
Foreign market:		Local market:	
MICOPERI 30	1.304.004	FRANKOPAN	821.140
INVIKEN	883.000	HRVATSKA	521.860
OLIVIA	875.138	DIKLO	487.567
UTVIKEN	827.000		

Except for revenues derived from the new-built superstructure on the crane-pipe laying vessel Seminole, revenues from conversion activity realized during 2010 derived from the Navigator project worth 6 million EUR.

Revenues from offshore activities amounted to 2 million EUR only and derived from Annamaria A, Izabela North and Izabela South gas platforms hook-up on their locations in the Northern Adriatic sea.

Of total 299 million Croatia Kuna realized from main activities, only 37.6 million Croatian Kuna or 5.3 million EUR derived from the local market, representing only 13% of the revenues from main activities. The biggest revenues from the local market were generated from

repairs of the Aframax tankers Frankopan and Diklo, and Suezmax tanker Hrvatska for the local client Tankerska plovidba company, as well as from offshore gas platform hook-up works. The remaining revenues related to dry-dockings of newbuildings for local shipyards and other repair jobs of minor value.



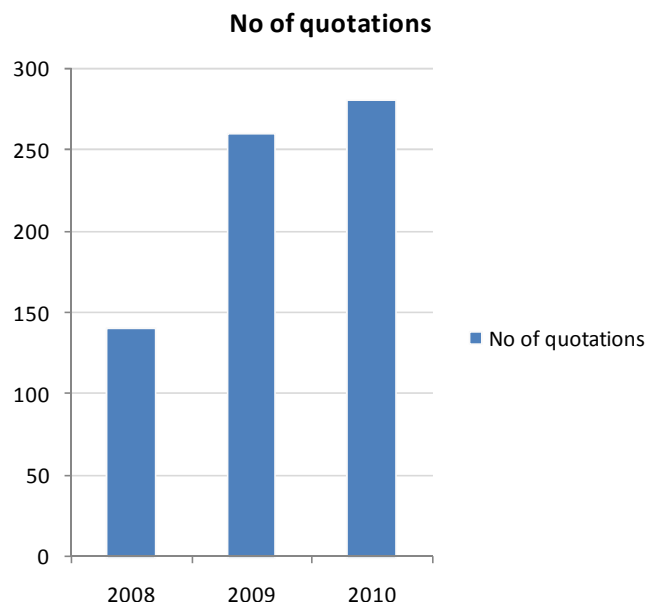
The Italian clients traditionally make the biggest piece of the shiprepair pie, participating with the total amount of 17.9 million Euros.

In terms of value of works and number of realized projects, the Norway and German markets were also very important.

In the end of the year, the production in progress amounted to 3.95 million Croatian Kuna, mainly deriving from the conversion of the ferry „Marko Polo“ for „Jadrolinija“, the Croatia’s largest liner shipping company.

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 2010 the Shipyard's Marketing and Sales Department covered 280 inquiries and produced 20 quotations more than in the previous year or even double than in 2008.

Of the total number of quotations for shiprepair and conversion works produced during 2010, 63 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.

Not rarely, owners postpone repairs or cancel scheduled docking, also scheduled arrivals often change, which causes problems in planning docking capacity. It happened, therefore, that the shipyard had to refuse a job because of inavailability of capacity at the requested period.

For the same reason, the shipyard did not issue quotation to about 20 inquiries during the year because of inavailability of capacity at the requested period.

Production

Production Activities

During 2010 Viktor Lenac realized 72 various projects, of which 3 have continued through the current year.

Repairs were successfully carried out on 64 vessels, of which 63 completed and one in progress. The major conversion projects were “Seminole” and “Navigator”.

The offshore site was busy with the „Izabela North“, “Izabela South” and “Annamaria A“ gas platforms hook-up on operative location in the Northern Adriatic sea.



The conversion and repair of the crane-pipe laying vessel “Seminole”, owned by Italy’s Subsea Oil Services (part of Micoperi Srl from Ravenna), was the most important project. The shipyard built and outfitted a complete new superstructure weighing some 450 tons, including accommodations for 250 crew members,

based on design and workshop drawings produced by the shipyard’s design team. The conversion project included extensive repairs and hull renewal reaching a total value of 16 million euros.

The old superstructure was completely removed and scrapped and a complete new superstructure module was built and outfitted for 250 crew members based on design and workshop drawings produced by the shipyard’s design team. Service spaces below main deck aft were modified and outfitted, new tunnel for the REMACUT equipment on main deck was fabricated, installed and outfitted and complete navigation and communication equipment was installed.

The total new built-in steel on hull was 1,500 t (main deck, shell plating and tanks). The shipyard carried out overhaul of a 750 t Clyde crane (carpentry part). New anchor racks were fabricated and installed and mooring elements rearranged. New wood fenders and main deck lining were fabricated and installed, ballast pipeline was renewed, provisions cranes (2 units) were installed as well as mechanical part of the REMACUT pipe lay system. New foundations for the REMACUT equipment were fabricated and installed. The shipyard also carried out carpentry works on the helideck. The extensive repairs also included docking, complete overhaul of tailshaft, propeller and steering nozzles, complete repair of

cold provision stores, complete anti-corrosion treatment of shell plating, main deck, superstructure, ballast tanks and fresh water tanks and afloat installation of speed log transducer.

In the beginning of the year, Viktor Lenac and Navigator Marine AS (part of AKER group) have continued with the contract for completion of lengthening and conversion of the stern trawler *Atlantic Navigator*. In the first stage of the conversion the trawler was lengthened by 25 meters. All ship's systems have been installed and commissioned under the supervision of Det Norske Veritas and the ship has been classified as distant-water fishing vessel.



The completion stage of the conversion is scheduled for the end of 2011 when the trawler will be outfitted as an advanced factory for harvesting and processing health-promoting ingredients from krill for use in the Antarctic waters.



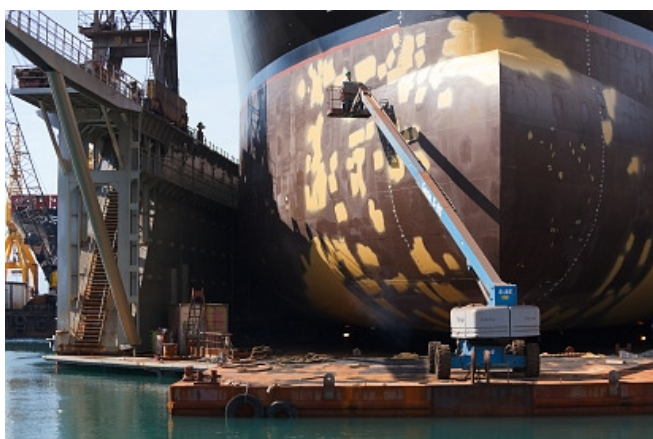
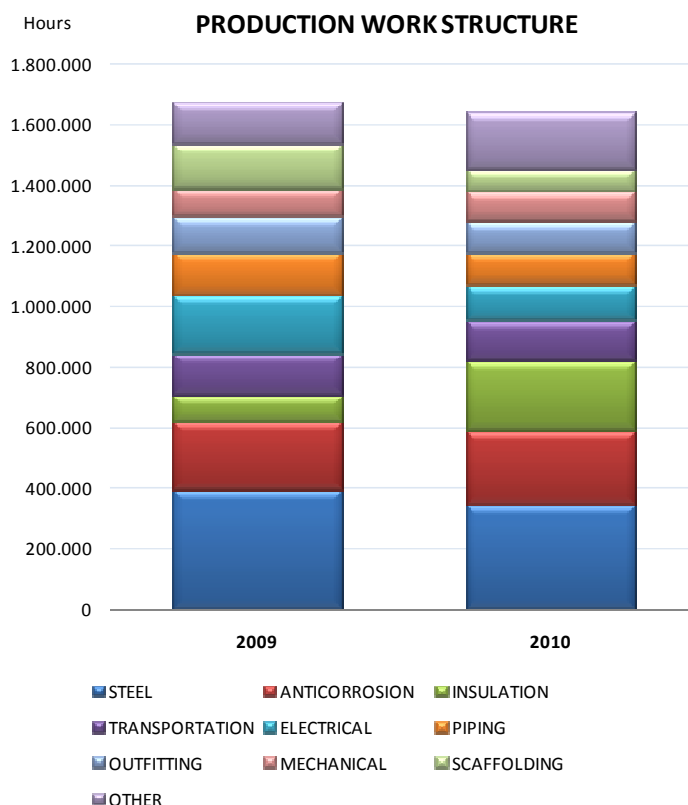
Other repair projects consisted of typical works mainly steel renewal, surface preparation and coating and mechanical works.

During 2010 the Shipyard's production capacity was also used for ordinary or planned maintenance of the production assets. The most important was refurbishment of Dock 5, which was accommodated in other shipyard's floating dock number 11. The scope of work included steel renewal and anti-corrosion coating of the underwater hull and dock service towers, dock crane control system upgrade, anodic protection, fire pump service and maintenance, all valve repair and lighting installation repair and maintenance. Also, the dock's accommodation bridge was repaired including underwater hull anti-corrosion coating, all pipeline renewal and outside plating renewal. Most part of works were finished in December 2010, and the refurbishment was completed in the beginning of the current year.

Structure of Carried out Works

During 2010 Viktor Lenac produced the total number of 1.64 million effective working hours in the main activities and services, and operative improvements, slightly lower than the previous year.

	2010	%
STEEL WORKS	344.585	20,98%
ANTI-CORROSION TREATMENT	245.310	14,93%
INSULATION WORKS	230.195	14,01%
TRANSPORTATION WORKS (crane operator, driver, auxiliary worker)	133.229	8,11%
ELECTRICAL WORKS	117.467	7,15%
PIPE WORKS	108.110	6,58%
OUTFITTING	102.679	6,25%
MECHANICAL WORKS	100.036	6,09%
SCAFFOLDING	73.718	4,49%
OTHER WORKS	187.262	11,40%
Total	1.642.592	100,00%



produced in ordinary or planned maintenance, significantly below previous year where a total of 217,000 hours were produced.

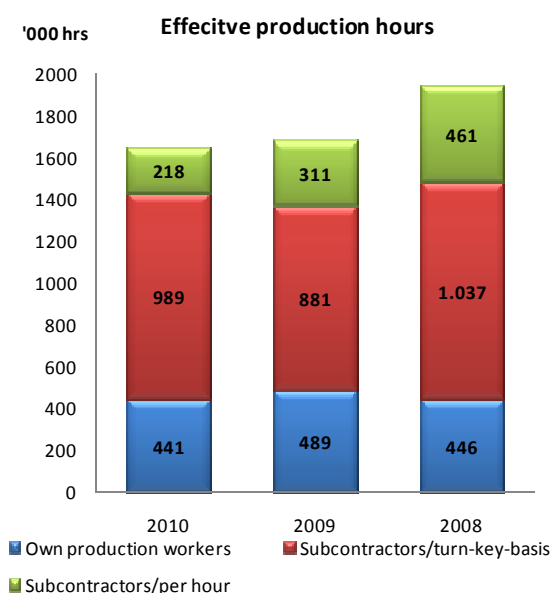
Total structure of works in shiprepair activity primarily depends on participation of projects of larger scope, mostly conversions and offshore, in the total production activity, calling for more or less needs for particular type of work or craft. Accordingly, the major effect to the structure of production works in 2010 had the Seminole project, with large scope of insulation works required for outfitting of the new-built superstructure.

The additional 123,000 hours were produced in ordinary or planned maintenance, significantly below previous year where a total of 217,000 hours were produced.

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. Subcontractors workers are mainly contracted on turn-key base, and in lesser scope per hour, noticeably during periods of oscillations where own labour is not sufficient.

Of 1.64 million effective hours, own production workers, 260 in average, participated with 441 thousands of hours or 27%.



By analysing the structure of resources in production of effective hours, a decreasing trend in subcontracts per hour is noticed, as well as in total number of effective hours produced.

This can be related to the structure of contracted works, as well as with an increased efficacy in production work.

In figures, the total cost of production work incorporated in working orders from main, auxiliary and investment activities in 2010 amounted to 97.9 million Croatian Kuna, of which Viktor Lenac's own production workers' salaries made

17.4 million Croatian Kuna. When considering working orders for main activities, the total cost of production work amounted to 94.1 million Croatian kuna, which represents 31% in revenues from main activities.

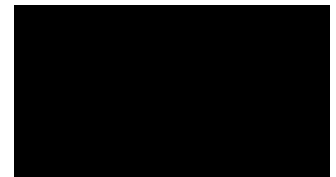
	2009	2010
Revenues from main activities	282.778	299.275
Total production work cost	98.340	94.109
Labour cost as percentage of revenues	35%	31%

Employment of Docks and Berths

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

The total number of 36 dockings were completed in Dock 5 during 2010. The total employment of the dock was 327 days, making an occupancy rate of 89.6%. In Dock 11 were completed 27 dockings employing the dock during 311 days, which makes an occupancy rate of 85.2%.

Dock No 5



Dock No 11



Shiprepair activity is characterised by oscillation in capacity utilization, and, therefore, employment of docks varied during the year. During periods of high employment, when docking capacity represented a limiting factor, it happened that there were two ships of smaller size in one dock, five times in Dock 5 and six in Dock 11.

Raw material and energy source cost

The total cost of material and energy source in main activities participated with 20% in the total operating revenues.

The most important material used in production process or built-in on vessel under repairs or alteration during the year were the following:

in HRK	
Material group	2010
IRON, STEEL PLATES, PIPES	24.419.906
ELECTRICAL MATERIAL	10.182.370
CHEMICAL PRODUCTS - PAINTS, COATINGS, GAS, PUTTY	6.208.297
EQUIPMENT AND MATERIAL FOR A SPECIFIED PURPOSE	5.877.878
CONSTRUCTION MATERIAL - GRIT	5.273.900



The structure of material costs depends on structure of works carried out for clients.

Viktor Lenac uses significant amounts of energy such as electric power, fresh water, technological water and gas.

A part of electric energy and fresh water represent fixed costs, while part is calculated as variable production costs that depend on scope of production activity. Technological water which is not used for drinking and technological gas such as liquid oxygen and acetylene are variable costs, which depend in whole on scope of production activity.

Technological water is used in washing and high pressure jetting, steel cutting and assembly. Liquid oxygen and acetylene are used in steel cutting and machining.

in HRK			
Energy source	Unit	Qty 2010	Cost in HRK 2010
Acetylene	kg	47.100	1.101.536
Electric power	kWh	11.188.560	7.111.756
Light fuel oil	kg	965.750	2.844.412
Technological water	m3	153.328	81.202
Liquid oxygen	kg	605.012	775.411
Fresh water	m3	389.616	5.313.189

Aimed at decreasing cost of water, the shipyard took severe measures to control and monitor oscillation in consumption and detect leaking. In addition, during 2011 the shipyard will invest in improvement of its technological water system in order to increase utilization of technological water and reduce expensive water from municipality water supply.

Fixed costs of electric power and heating oil will be decreased by increasing energy efficiency, which is planned during the following two years. The project will include renewal of boilers, gas system installation and utilization of waste heat recovered from compressors, and is expected to bring significant reduction in electric power and heating oil.

Technological Development and Investment



etc.

The most significant change in production technology in shiprepair activity has been replacing sand-blasting by new environmentally friendly technologies using ultra-high pressure water blasting. Also, traditional coatings have been replaced with long-lasting silicone-based coatings. These changes imply alterations in production equipment. Viktor Lenac will continue to invest in new eco-technologies in order to remain competitive and improve environmental protection.

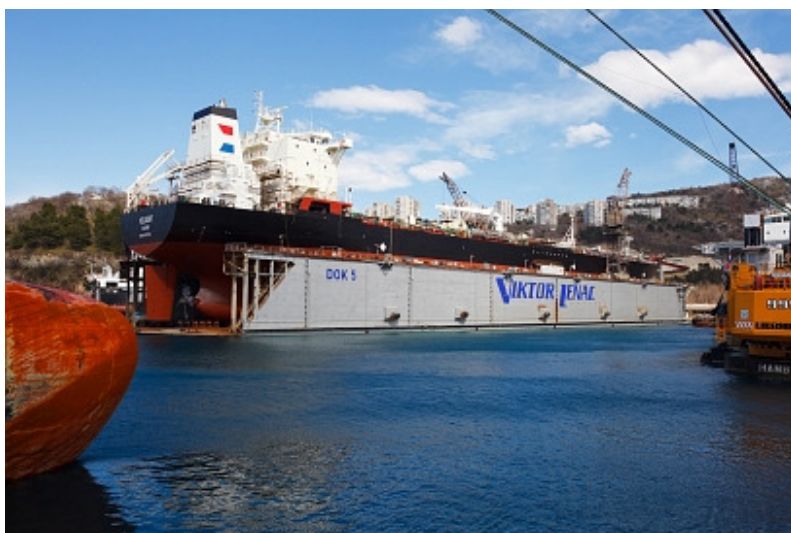
In steel cutting, machines that can enable easy manipulation and efficient prefabrication and preassembly are of essence, which is particularly noticeable in newbuildings, conversions or offshore projects of large scope. In 2010, Viktor Lenac invested in refurbishment of existing equipment and purchasing of new steel cutting machines.

During the year, the shipyard continued investment in renewal and improvement of various production equipment and tools, transport vehicles, IT equipment

The total investment in long-term material and non-material assets in 2010 amounted to 21 million Croatian Kuna, with the following structure of investment:

Type of equipment	amount in HRK
Realized investment in course of construction as of 31 December 2010	
Refurbishment of Dock 5	14.604.834
Portal crane	1.222.391
Investment in infrastructure and workspace	878.714
Investment in production equipment and tools	333.195
	17.039.134
Realized investment activated in 2010	
Production equipment and tools	1.949.407
Means of transportation	818.914
Measuring equipment	509.974
IT hardware and software	769.710
Other equipment	264.323
	4.312.328
Total	21.351.462

The most important investment in 2010 was an extensive refurbishment of Dock 5, which is a capital facility. It was renewed over 230 tons of steel on dock towers and pontoons and dock cranes and systems were completely repaired and restored. The investment in 2010 amounted to 2 million of EUR and has continued through the beginning of the current year.



In addition, in 2010 the shipyard started with preparatory activities for building of an open storage space that will comprise of grit, steel and scaffolding warehouse aimed at easier and quicker cargo manipulation. The project also includes purchasing of a new portal crane.

The shipyard also purchased equipment for tailshaft dismounting worth 617 thousands of Croatian Kuna.

The shipyard also purchased equipment for tailshaft dismounting worth 617 thousands of Croatian Kuna.

For the following year, the shipyard has planned an intensified phase of development and improvement, mainly of its shiprepair facilities. The investment plan is worth about 23 million of EUR and will include:

- Purchasing of a new 8500 tlc floating dock aimed at increasing shiprepair and conversion capacity,
- Purchasing and installation of 2 new cranes of larger capacity for Dock 11 aimed at speeding up and improving production activities on the dock and enabling manipulation of large cargo,
- Restoration of Berth 3 and enlarging of Berth 8, in order to provide safe work on operative berths and accommodation of ships of larger size to disengage Dock 11 when possible,
- Implementation of energy efficiency increase project,
- Investment in horizontal and vertical means of transport aimed at more effective cargo and material manipulation in daily production activities (autocrane, transport and tow vessel),
- Video surveillance,
- Improvement of technological water system,
- Building of a blasting and painting hall,
- Other investment in production equipment, improvement and modernization of halls and areas, and
- Continued development of IT environment and control.

Planned investment will be realized partly by use of credit funds and partly by use of own funds, having in mind an increase of the share capital in an amount of about 4 million EUR as expected from the company's owners.

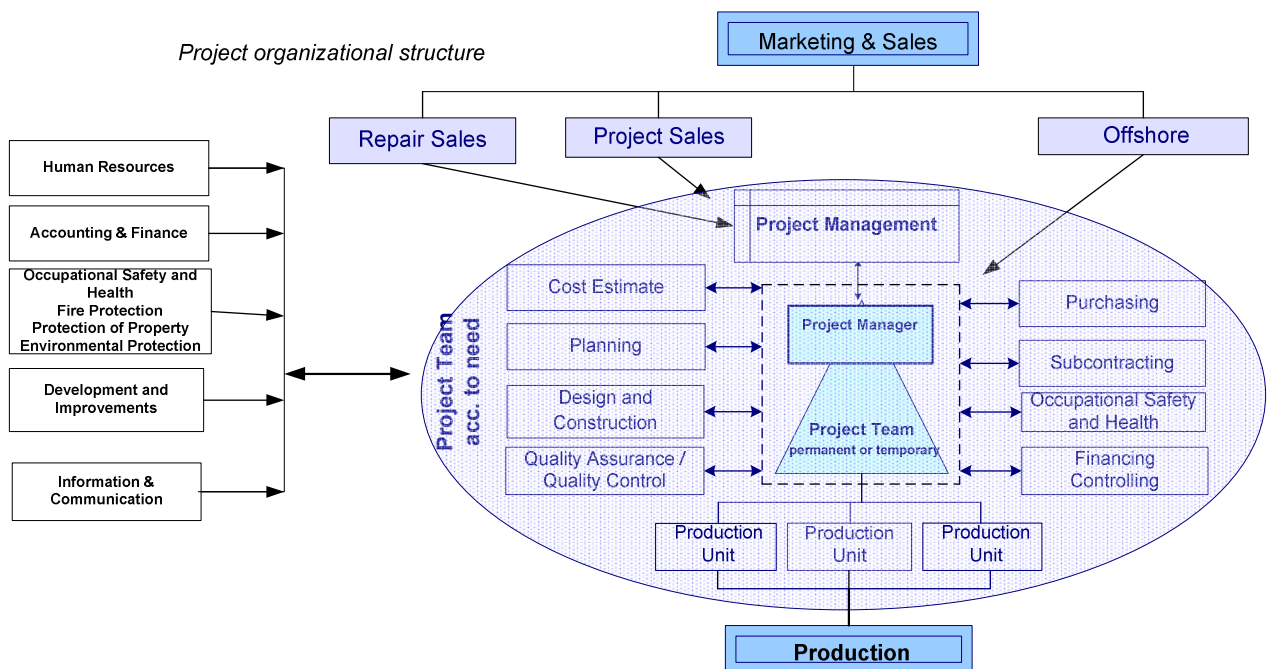
Organisational Development

Restructuring the Organisation

During 2010 continued extensive re-engineering of the shipyard's process with an emphasis on production activities, aimed at an increase in productivity, reduction in overhead staff, and decrease or progress in activities that do not generate additional value.

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, and 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 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;
- 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.

In 2010, a comprehensive analytical evaluation of working posts was started, aimed at an objective systematization of working posts and defining of roles, responsibilities, authorities and tasks.

Development of Information System

Comprehensive modernisation and reorganisation of the entire information and communication system, seeking to increase efficiency in planning, management and evaluation based on the matrix organizational structure both project and functional, also continued during 2010.



The object is to implement computerized business process planning & management, cost controlling and decision-making support systems. 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 year 2010 was characterized by continued development of software application solutions for improvement of production planning and controlling, based on resource requirements, Renewed Steel Specification, Subcontract Management, automation in accounting data processing and other IT solutions.

The amount of 770 thousands of Croatian Kuna was spent last year for renewal and upgrading of hardware and software.

The following is planned for the next period: purchasing of 3 new servers, disk sub-system for back-up, new equipment for data transfer to server wired/wireless, renewal and upgrading of hardware and software, particularly laptops and notebooks, Business Intelligence System, Enterprise Resources Planning, including CRM, mailing and documentation management, as well as quality control management.

Quality Management System

The company restructuring process includes 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.

On completion of re-engineering of the key company processes and redefining of most part of roles, responsibilities, authorizations and instructions, all conditions for certification, which is planned for the end of the first semester of 2011, will be achieved.

The Quality Management System will also include Safety and Environmental Protection. After ISO 9001 Certification, the company will apply for certification of the sub-systems to ISO 14001 and OSHAS 18000.

Safe Work, Health and Safety at Work and Fire Protection

Occupational health and safety and protection of property both for own workers and subcontractors, as well as clients, 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 through 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.

Daily supervision over implementation of HSE procedures in all aspects, primarily in production process is assured through authorized employee representatives in charge of health and safety at work.

Aware of the importance of preventive healthcare, Viktor Lenac has renewed its agreement with a reputable medical establishment for the year 2011 for annual preventive medical exams and other medical services for the benefit of its employees.

Constant efforts in implementing safety procedures during the last several years, have led to a decrease in number of injuries, compared in absolute numbers of injures, or when compared with respect to number of workers.

	2007	2008	2009	2010
Effective hours	1.124.347	1.116.833	1.095.324	1.077.765
Number of injuries	34	26	25	25
Number of serious injuries	8	9	9	10
Total lost days due to sick leave	751	822	1024	892
Frequency index	30,24	23,28	22,82	23,20
Work-injury index	66,79	73,60	93,49	89,26
Number of injures per 1000 workers	60,61	45,53	42,81	42,30

Although the number of serious injuries in 2010 was higher than in the previous year, the work-injury index calculated against number of lost working days due to work-related injury, was lower than in 2009, particularly when considering that in the previous years injuries were classified as more serious from 42 lost days up, and, in addition, the limit for the year 2010 was lowered to 30 days.

The most frequent cause of injury is not respecting safety rules and irregular working areas.

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.

Aimed at preventive protection, authorized employee representatives in charge of health and safety at work, as well as every employee, were stimulated to notice and notify responsible persons on potential risks in order to enable prompt implementation of corrective actions and avoid unwanted consequences on health and property. Also, the shipyard intensified supervision over production activities on vessels in accordance with HSE procedures.

Viktor Lenac invested during 2010 a total amount of 1.49 million of Croatian Kuna for personal protective equipment, preventive healthcare and other HSE activities, or 2,500.00

Croatian Kuna in average per employee, which corresponds to an increase of 4% compared to the previous year.

In 2010, in order to improve safety conditions the shipyard started with improving of workshop area, particularly when speaking of illumination and evacuation and transport routes. This project will continue during the current year.

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. The shipyard's plan for the following year includes purchase of a new, modern fire-fighting vehicle and special suits.

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.

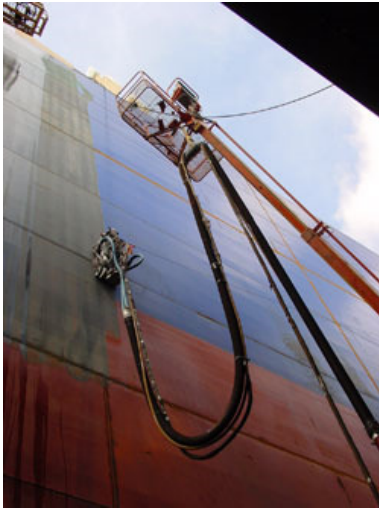
Air samples are continuously taken at locations of the nearby village Vrh Martinščica and Bay of Žurkovo. Based on the results of PM10 sampling and measurements of sediment concentration of heavy metals, air quality has been given 1st category (clean or insignificantly polluted). Actual data from the monitoring station are available on the web pages of the Public Health of the Littoral and Mountain County <http://www.zzjzpgz.hr/zrak>



PM10 Measurement Station

On 1st January 2010, a noise monitoring station was commissioned in the nearby village Vrh Martinščica, as part of the Shipyard's Noise Management System. The system is an integral model of identification and correction of excessive noise. Noise monitoring data are submitted monthly to local community authorities and available to public.

In 2010, Viktor Lenac completed repair works on its in-house sewage system, where CIPP (cured-in-place-pipe) method was applied, which is a sophisticated method of repair without digging, enabling undisturbed operations during the repair works and reducing waste. In 2010, the shipyard spent 793 thousands of Croatian Kuna in the repair, while a total of 839 thousands of Croatian Kuna was spent from 2007 to 2010. The improvement of the sewage system will be continued during the following years, primarily by the planned reconstruction of the rainfall flow.

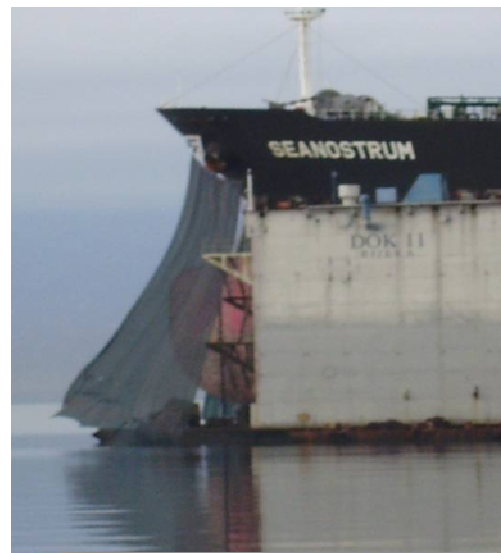


A total of 326 thousands of Croatian Kuna was spent last year for monitoring purposes, up by 11.4% compared to the previous year, as well as additional 75 thousand of Croatian Kuna for renting eco-equipment, which the Company does not hold.

Aiming at realizing the environmental goals, additional activities intended for protection of air and sea against pollution from sand-blasting have been undertaken. A presentation of application of so called clean technology of surface preparation and anti-corrosion treatment by high pressure water jet was performed.

Environmental Management System shall be included as sub-system in the Quality Management System to ISO 9001. After the certification, the Company shall also apply for certification to ISO 14000.

In 2010 no serious pollution incident was recorded.



Human Resources

Human resources are planned within the frame of advancement of the organization, keeping costs under control.

Thus, the year 2010 was not marked with a significant 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 2010 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 2010 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 2010 Viktor Lenac had 596 employees, up by 16 with respect to the previous year.

Of total number of employees, production workers participated with only 46% or 274 employees, plus 196 indirect workers involving HSE department, Maintenance, QC, foremen in production and other overhead workers, representing an increase by 20 production workers compared with the previous year.

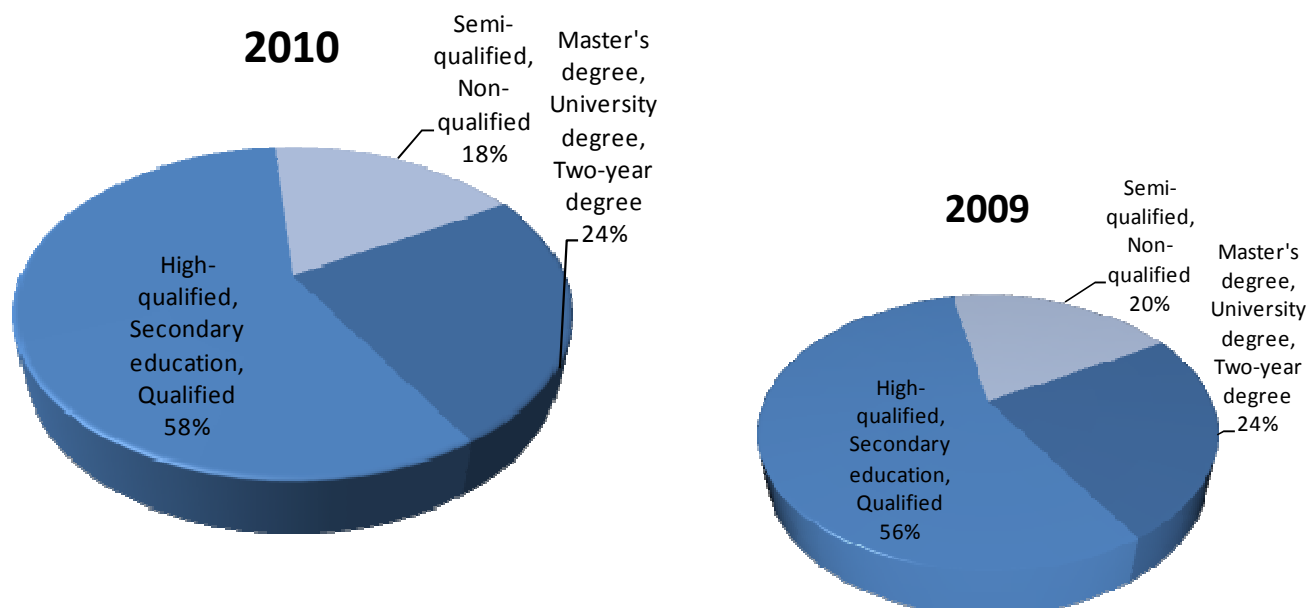
The remaining number of employees included technical and commercial staff and other experts (58 employees or 9.7%), administrative staff (13 employees or 2.2%) and project managers and managers of organisational units of all level (53 employees or 8.9%). At the end of the year, two employees were unassigned.



On 31st December 2010, Viktor Lenac's subsidiary company (Viktor Servisi d.o.o.) had total 13 employees, of which 10 maintenance and repair workers.

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

Qualification degree	Master's degree	University degree	Two-year degree	High-qualified	Secondary education	Qualified	Semi-qualified	Non-qualified	TOTAL
Number of men	1	50	74	31	163	133	21	78	551
Number of women	0	16	5	0	14	2	0	8	45
Total	1	66	79	31	177	135	21	86	596



In spite of the Company's rejuvenation policy in all organizational segments, the age structure where 216 of employees are older than 50, is not favourable for all concentration of knowledge. It is, therefore, necessary to rejuvenate the Shipyard's personnel structure not only by employing young people, but also through their education, which is one of the Company's strategic goals.

Structure of Effective Work Hours and Salaries

In 2010, Viktor Lenac's employees produced total 1,234,568 work hours in normal working hours, of which 76% or 935,530 were effective work hours, while the remaining hours referred to vacation (8%), sick leave (6%) and national holidays, paid leave and other non-working hours (10%). Also, during 2010 Viktor Lenac's employees produced total 68,992 thousands of overtime work hours, down by more than double with respect to the previous year. Such decrease in overtime hours resulted from new company policy on compensation hours as agreed between the Management and Unions in February 2010 in order to obtain bigger flexibility and better utilization of working hours considering oscillation in employment of capacity. Compensation hours and collective vacation in periods of lower employment of capacity have contributed to more flexible utilization of resources. Of the total number of vacation hours used during the year, 45% were used in July and August, while 24% during January and December.

In 2010, Viktor Lenac paid total 71.4 million Croatian Kuna on the account of salaries and other employee material rights, of which 66.2 million Croatian Kuna referred to salaries, while 5.2 million Croatian Kuna referred to other material rights to which employees are entitled based on the Collective Agreement and Works Regulations.

	2010	2009	2010 /2009
Employee expenses	66.213.571	65.012.259	1,02
Net salaries and wages	39.258.625	38.314.774	
Taxes and contributions from the salaries	26.954.946	26.697.485	
Other Employee Expenses	5.177.355	4.952.861	1,05
Travelling costs	2.606.894	2.641.394	0,99
Untaxable occasional compensations	1.433.500	1.399.750	1,02
Field allowances	268.311	164.987	1,63
Annual bonuses	190.500	166.000	1,15
Untaxable workers' benefits (child support payments)	65.200	58.400	1,12
Untaxable aids (death, illness)	219.000	225.500	0,97
Terminal pays	184.000	96.000	1,92
Gifts	209.950	200.830	1,05
	71.390.926	69.965.120	1,02

Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2010, after deduction of contributions and taxes, amounted to HRK 5,634.00, up by 5.4% compared with the average net salary in Croatia, or up by 20.7% 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 2010 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 in various fields such as mechanical engineering, shipbuilding, purchasing, law, marketing, finance, information, human resources 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 2010, it should be noted the following:

- contract management in designing, shipbuilding and shiprepair,
- welding and shipbuilding,
- safe work with dangerous chemicals,
- maintenance of dock machine systems,
- production planning,
- non-destructive testing
- environmental protection
- protection of documents; procedures and standards in filing documents
- protection of personal data and identity
- crane operator, cargo handler
- compressor service engineer, steam boiler service engineer
- power plant operator
- safety on ship
- maritime professional certificates
- pipe worker, gas cutting worker
- utilization of thermovision camera
- operating with circular saw
- loading crude oil derivatives

- surface coating
- law, cost controlling, currency transactions
- public relations
- ECLD etc.

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 818 thousands of Croatian Kuna was spent for education activities in 2010, with an average of 1,380 Croatian Kuna per employee.

Social Dialogue

The year 2010 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, on the Company's Intranet site the employees can find all important information about Viktor Lenac, new projects and other news and actualities.

At the Employee Meeting in December 2010, the Chairman of the Board informed employees on the Company's development plans.

President of the Workers' Council is also member of the company's Supervisory board, which post was filled in 2010 by Mr. Damir Bačinović.



Generally, social dialogue between the Management Board and the Unions is made over collective issues. In December 2008 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.

In the beginning of the year, the Management and Unions reached agreement on compensation hours for extra hours worked by employees that are not paid, aimed at

obtaining bigger flexibility and better utilization of working hours considering oscillation in employment of capacity. Compensation hours are regulated by Collective Agreement and Work Regulations.

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 *		
	2010	2009	Index	2010	2009	Index
Total Revenues	325.291	334.276	0,97	44.607	45.544	0,98
Total Expenses	317.315	327.123	0,97	43.513	44.569	0,98
Operating Revenues	322.445	327.613	0,98	44.217	44.636	0,99
Operating Expenses	316.006	322.990	0,98	43.334	44.006	0,98
EBIT	6.439	4.623	1,39	883	630	1,40
Profit and Loss Before Tax	7.976	7.153	1,12	1.094	975	1,12
Net Profit and Loss	6.173	5.290	1,17	847	721	1,17
Total Assets	276.606	288.612	0,96	37.454	39.502	0,95
Equity	195.828	192.136	1,02	26.516	26.298	1,01

Non-Consolidated Financial Figures

	in thousands of HRK			in thousands of EUR *		
	2010	2009	Index	2010	2009	Index
Total Revenues	324.762	333.883	0,97	44.534	45.550	0,98
Total Expenses	316.890	325.761	0,97	43.455	44.442	0,98
Operating Revenues	321.955	327.357	0,98	44.150	44.660	0,99
Operating Expenses	315.550	321.779	0,98	43.271	43.899	0,99
EBIT	6.405	5.578	1,15	878	761	1,15
Profit and Loss Before Tax	7.872	8.122	0,97	1.079	1.108	0,97
Net Profit and Loss	6.069	6.259	0,97	832	854	0,97
Total Assets	275.012	286.839	0,96	37.238	39.260	0,95
Equity	194.117	190.529	1,02	26.285	26.078	1,01

* 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 2010 (HRK 7.29) respectively 2009 (HRK 7.33). Assets, share capital and reserves have been converted into Euros according to the midpoint exchange rate by the Croatian National Bank on 31st December 2010 (HRK 7.39) respectively 31st December 2009 (HRK 7.31).

The consolidated profit and loss statement and other financial statements include Viktor Lenac's subsidiary company Viktor Servisi d.o.o. Rijeka, which, during 2010, realized revenues from its normal business activities consisting in providing specialized services in shipbuilding.

In 2010 Viktor Lenac and Viktor Servisi realized together total revenues in the amount of 325.3 million Croatian Kuna and total expenses in the amount of 317.3 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.

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.

Financial Results

Realized Revenues and Expenses

In 2010 Viktor Lenac realized total revenues of 324.8 million Croatian Kuna with total expenses in the amount of 316.9 million Croatian Kuna, thereby making a profit before tax in the amount of 7.9 million Croatian Kuna.

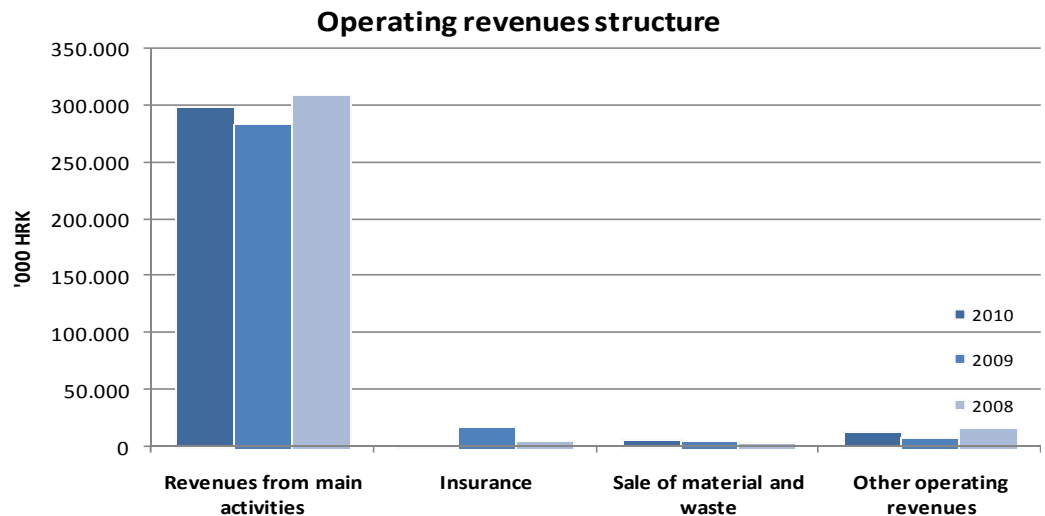
The operating revenues realized in 2010 amounted to 322.0 million Croatian Kuna, down by 2% with respect to the previous year, and represent 99% of the total revenues.

	2010	2009	2008
Sales	300.423	284.298	310.911
Insurance	151	18.681	5.392
Sale of Material and Waste	6.982	5.880	5.033
Other Operating Revenues	14.399	8.921	17.013
Total Operating Revenues *	321.955	317.780	338.349
Material Costs	206.955	198.169	208.349
Salaries	66.656	63.825	54.708
Depreciation	22.460	21.060	22.004
Other Expenses	19.479	29.147	27.483
Total Operating Expenses *	315.550	312.201	312.544

* For purpose of comparison, revenues and expenses related to self-investment and production in progress are excluded.

Put in the perspective of the total structure of operating revenues, revenues from sales made over 93%.

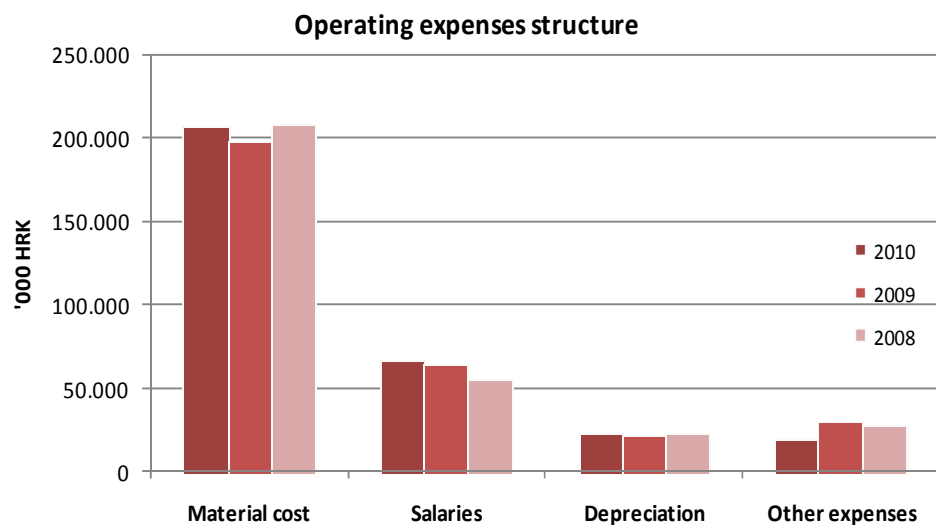
The remaining operating revenues were made of revenues from rent, sale of material and waste, withdrawal of long-term reservations etc.



The operating expenses generated in 2010 amounted to 315.6 million Croatian Kuna, down by 2% compared with 2009.

Put in the perspective of the total structure of operating expenses, the material costs were the most important with an average proportion of material costs and outside services of 35:65, depending on structure of contracted jobs.

The increase of material costs, of which the most important were the direct variable costs, resulted directly from the increase of operating revenues or revenues from sales.



For 2010 Viktor Lenac recorded and calculated a depreciation cost of its tangible fixed assets and intangible assets in the amount of 22.5 million Croatian Kuna, up by 1.4 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 2010 produced a profit of 6.4 million Croatian Kuna, increased by 15% compared with the 2009.

As to financial incomes, an amount of 2.8 million Croatian Kuna was realized on the account of an income deriving from interests earned on time deposits (2.4 million Croatian Kuna) and sale of financial instruments (0.4 million Croatian Kuna).

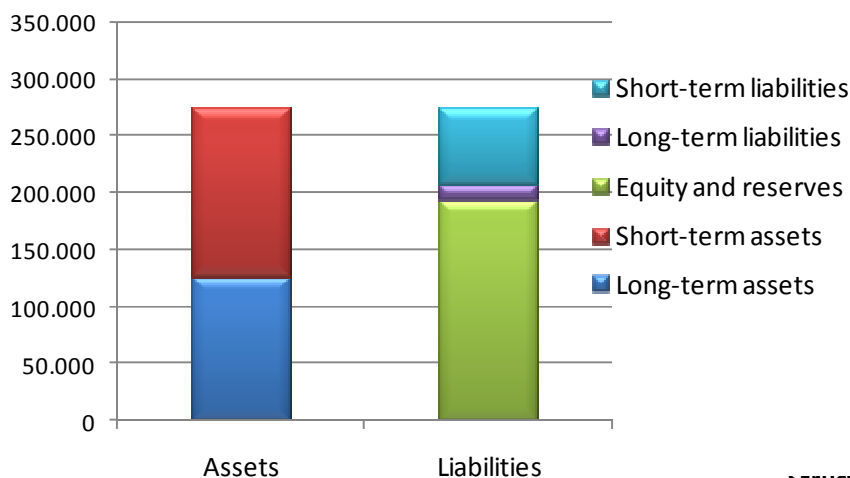
The financial expenses amounted to 1.3 million Croatian Kuna and consisted of negative exchange rate differences (0.9 million Croatian Kuna) and interests (0.4 million Croatian Kuna).

After calculating net financial income, the total profit before tax amounted to 7.9 million Croatian Kuna, or 6.1 million Croatian Kuna after tax.

The consolidated profit after tax was slightly higher and amounted to 6.2 million Croatian Kuna.

Assets and Liabilities

Structure of assets and liabilities on 31 December 2010

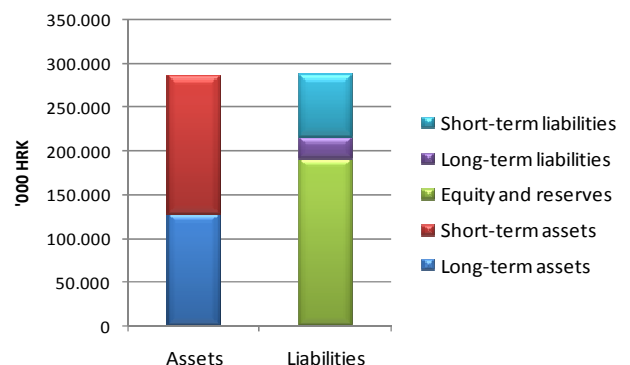


The short-term assets amounted to 148.8 million Croatian Kuna, mainly structured of liquid assets, of which 43% or 63.9 million of Croatian Kuna consisted of money or its equivalents, while the short-term receivables including not due receivables, made another 63.9 million Croatian Kuna or 43%.

On the day of 31st December 2010, the total inventories amounted to 20.9 million Croatian Kuna or 14% of the short-term assets, of which the production in progress totalled 3.95 million Croatian Kuna, and the remaining amount of 16.96 million Croatian Kuna consisted of raw and other material.

The total value of Viktor Lenac's assets on 31st December 2010 amounted to 275.0 million Croatian Kuna, of which 126.2 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.

Structure of assets and liabilities on 31 December 2009



The total Shipyard's liabilities on 31st December 2010 amounted to 80.9 million Croatian Kuna, of which 14.0 million Croatian Kuna of long-term liabilities and reservations and 66.9 million Croatian Kuna of short-term liabilities. In the last quarter of the year, the Company settled a major part of the remaining bankruptcy liabilities, while the remaining long-term liabilities related to potential liabilities deriving from bankruptcy creditors claims and reservations in accordance with the bankruptcy plan, as well as long-term financial leasing.

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, on 31st December 2010 the Group's assets totalled 276.6 million Croatian Kuna, of which 195.8 million Croatian Kuna of share capital and reserves and 80.8 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 recovery of the global economy and world shipping trade, it is expected on the long-term that Viktor Lenac will get a sufficient number of vessels sailing within range of Viktor Lenac for ship repair. On the short-term, unfavourable political situation in the Middle East and Northern Africa might negatively affect volumes of shipping trade, which 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 2011*.

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 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 is continuously investing in education and training of human resources. 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, and better performance in production and other business activities.

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 in the Euros exchange rate against domestic currency resulted in 0.9 million Croatian Kuna of negative exchange rate differences.

Although Euros-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 2010 receivables from customers amounted to 30.3 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 or invested in funds in order to realize new financial revenues and obtain bigger flexibility with respect to changes in interest rates as well as to provide protection against the risk of loss.

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 2010, 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 2010 money in current accounts, time deposits and short-term receivables participated with more than 80% in the total short-term assets.

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 in which Viktor Lenac is defendant and which do not refer to the pre-bankruptcy period amounts to about 2.5 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.

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 2010, Viktor Lenac's shares were rarely traded resulting in low transactions of 325.625 shares only with average price of 9.33 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.

On the day of 31 December 2010, ten largest shareholders of Viktor Lenac participated with 93.25% in the company share capital as follows:

	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.	Privredna Bank j.s.c. Zagreb / collective custody account	1.367.268	9,88
4.	Croatian Privatization Fund from Zagreb	1.243.702	8,98
5.	Societe Generale - Splitska Bank j.s.c. Rijeka / custody account	480.596	3,47
6.	Shipyard Viktor Lenac j.s.c. Rijeka	282.308	2,04
	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.	Other	934.757	6,57
	Total	13.844.447	100,00

On the Company's General Assembly in June 2010 was made a decision entitling the Company to acquiring of up to 554.000 own shares. Following the decision, on 30th September 2010 Viktor Lenac acquired total 268.948 own shares, representing 1.94% of the company share capital, resulting in a total of 282.308 own shares or 2.04% of the company share capital.

Up to the day of this Report, on 31st March 2011 Viktor Lenac acquired additional 487.415 own shares, resulting in an increase in company share capital by up to 5.56%.

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 2010, Viktor Lenac's Supervisory Board held four 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 Mustačić, 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.

Mr. Damir Bačinović filled his post of member of the Supervisory Board in his quality of workers' representative until 13th of April 2011, when the responsibility was assumed by Mr. Goran Zemljić, in his first term of office as president of the Workers' Council and member of the Supervisory Board for the period of three 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 Mustačić**, 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 2010 total compensation in gross amount of 560,616.00 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 2010 total income in gross amount of 2,060,447 Croatian Kuna was paid to the members of the Management Board.

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 2010, 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 owns 23586 company shares acquired during the year.

For Information

Management

Marko Domijan, Marketing and Sales Director

Dubravko Mataja, Production Director

Ljubomir Markulin, Manager of Project Management Department

Dražen Bevanda, Safety, Health and Environmental Protection Manager

Davor Badurina, Quality Control Manager

Dolores Kuzmić, Purchasing Manager

Anton Dujmović, Subcontractors Manager

Alen Karnjuš, Information & Communication and Quality Assurance Manager

Ljubica Linardić, Human Resources Manager

Auditor

INŽENJERSKI BIRO - REVIZIJA d.o.o. Zadar

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Rijeka, April 2011

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 15, 2011, 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 2010, 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, 2010, 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.	Privredna Bank j.s.c. Zagreb / collective custody account	1.367.268	9,88
4.	Croatian Privatization Fund from Zagreb	1.243.702	8,98
5.	Societe Generale - Splitska Bank j.s.c. Rijeka / custody account	480.596	3,47
6.	Shipyard Viktor Lenac j.s.c. Rijeka	282.308	2,04
	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.	Other	934.757	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.

Mr. Damir Bačinović filled his post of workers' representative in the Supervisory Board until 13th of April 2011, when the responsibility was assumed by Mr. Goran Zemljić, in his first term of office as president of the Workers' Council and member of the Supervisory Board for the period of three years.

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 2010.

Robert Škifić

Chairman of the Management Board