



ANNUAL REPORT 2017



SHIPYARD

1896

VIKTOR LENAC

Delivering Top Quality, In a Safe Way, On Time

April 2018

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FOREWORD

The Management Board of the joint stock company Viktor Lenac Shipyard presents its Annual Report for 2017 to all its shareholders, clients, employees, business partners and the entire public. Annual Report 2017 is the review of the Company's business and financial performance for the year. It includes Consolidated and Non-Consolidated Annual Financial Statements, Auditor's Report and Non-Financial Report. In a separate enclosure to the Report, the Corporate Governance rules applied by the Company are described.

Annual Report in Croatian and English

Viktor Lenac Shipyard's Annual Report 2017 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 Article 250.b, the annual financial statements and report on the Company's business performance for 2017 shall be submitted to the General Assembly as an integral part of Annual Report 2017, whereas the Supervisory Board's Report shall be submitted to the General Assembly as a separate document.

Annual financial statements, both consolidated and non-consolidated, 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.

Annual Report 2017 has been made in accordance with the Law on Accounting, Article 21 and Companies Act, Article 250.a and Article 250.b to give an objective assessment of the Company's business and financial performance and development plan, as well as other crucial information for the Company.

Annual Report 2017 includes Non-Financial Reporting – Sustainability Report, made in accordance with the fourth generation of the GRI Sustainability Guidelines (GRI G4) and provisions of Article 21a of the Law on Accounting.

Subsidiary Company, Consolidated Financial Statements

Viktor Lenac Shipyard is a joint stock company with two subsidiary companies: a limited liability company *Viktor Servisi, Rijeka* that is a wholly owned subsidiary of the Viktor Lenac Shipyard, and a limited liability company *VL Steel, Rijeka*, a 75% subsidiary of the Company, founded in October 2017.

Consolidated and Non-Consolidated Financial Statements form an integral part of the Annual Report. The difference between the consolidated and non-consolidated financial statements is not significant in material terms, as the revenues and assets of both subsidiaries participate with less than 1% in the Group's revenues respectively assets. The annual report focuses on business result of the parent company - Viktor Lenac Shipyard.

Abbreviations

In the Annual Report, Viktor Lenac Shipyard j.s.c. is referred to as the "Shipyard" or "Viktor Lenac" or "Company". Viktor Lenac Shipyard j.s.c. together with its subsidiary companies hereinafter are referred to as the "Group".

Foreign Exchange Rates

Assets, liabilities and equity amounts have been converted to foreign currency (EUR) at the midpoint exchange rate of the Croatian National Bank as at 31 December of the reference year. The items from the income statement have been converted at the average of midpoint exchange rates of the Croatian National Bank determined on the last day of the month for the reference year.

For year	Exchange Rate as of 31 Dec	Average Exchange Rate
2017	7,5136	7,4605
2016	7,5578	7,5271
2015	7,6350	7,6173
2014	7,6615	7,6344

PRESIDENT'S ADDRESS TO SHAREHOLDERS



Dear Shareholders, Colleagues, Clients, Business Partners and everyone who wishes to learn more about our Shipyard,

2017 was a good year for us. We worked a lot, but more importantly, we worked a bit smarter.

By that, I mean primarily that we better managed the expenses and improved work discipline, which directly affected the net profits that have reached 37 million Croatian Kuna, with a profit margin of 7.2%. This is even more important knowing that, despite an increase in subcontractor prices by almost 25% on average as compared to 2015, we managed to decrease the total expense by almost 2% in relative terms. This means we have raised the efficiency and improved control of our production process. This "fixing the basics" is the first step in our journey to Viktor Lenac's transformation into a modern and dynamic shipyard offering our clients shorter off-hires and new services on top of our well-known quality and reliability. The foundations on which we lay our reinvention are the expertise and commitment of our people, work discipline, and lean processes supported by modern technology.

Reorganization of sales and marketing operations, completed in the beginning of 2017, resulted in deeper penetration on our existing markets and controlled expansion to some new ones. Our mission is to be at disposal whenever our clients need us, which requires proactive presence and better understanding of their challenges, needs and expectations. We have further

developed cooperation with our traditional clients from Italy, Germany, Denmark, Greece and we have acquired some new ones, having two of them in our Shipyard just now. US Navy and Russia's Sovcomflot Group confirmed their status of our strategic clients and we continue to invest in those relationships.

Employee training and education has been intensified at all levels. In addition to a professional education, emphasis is put on management skills, cost management and interpersonal relationships. Education is the cornerstone of our strategy for the future. Number and age structure of employees requires us to make certain adjustments in the next 2-3 years to remain competitive, in line with the dynamics of market development. I emphasize continuously that the challenge is not in the number of workers, but in their quality and capabilities, which directly determines our productivity. By increasing productivity, we will be able to markedly shorten project redelivery times, which will, besides creating a clear advantage for our clients, increase our overall production capacity. New collective agreement with workers union, signed in July, further improved employees' material rights. Total salary stock has been increased 4%, but the key advantage of the agreement is a redefinition of variable part of the salary to reward real performance and results. I always emphasize that employer's interest is the same as the worker's interest - a motivated and productive worker. Disagreements come largely from different perception of the proper balance between motivation and productivity, but I strongly believe that we have achieved an elevated level of mutual understanding.

Reorganization of the Technology and Production Division encompassed both organizational and personnel elements and has resulted in better management of the production process as well as in improvement in work discipline. However, we still have plenty of room for further improvement. We must eliminate residual shortcomings as soon as possible and start achieving more with less. Changing our mindset, in that sense, is the ultimate task and we work intensively on it.

Due to boom-and-bust cycles in the workforce quality on the labor market, we founded our own limited liability company, VL Steel, to better manage our needs regarding workforce productivity and reduce operating costs, in other words, to increase profits. The intention is to enable gradual return of highly qualified, younger workers from abroad and thereby support our transformation strategy.

Flexible approach to every project is a trademark of ship repair business. However, being a top quality shipyard, delivering on its promises, in a safe way, and on time, requires a systematic and structured approach to business. We do not compromise on that. Aiming for more effective management of Shipyard's end-to-end business process, we have established a Key Performance Indicator system that has been implemented in the beginning of 2018. The Shipyard has been recertified according to ISO 9001:2015 and we acquired ISO 50001 certification for the first time. Certification processes for ISO 14001 and ISO 27001 are underway.


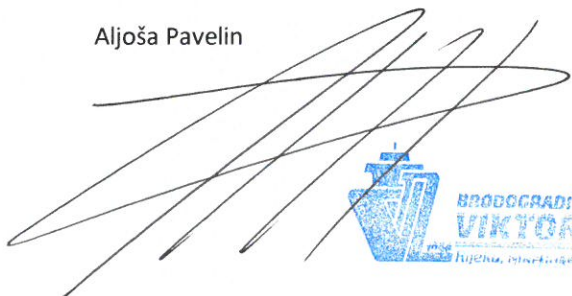
Modern technology as the final cornerstone of our strategy requires continuous, yet smart investments. A total of 36.8 million Croatian Kuna have been invested in the advanced robotic UHPW technology as well as new transportation machinery and special tools. Renovation of the existing machinery and floating docks was continued as well.

As we look forward, 2018 is expected to be a tough year. A cut-throat competition in the Mediterranean maintains and, with usual shipping market oscillations, challenges increase. However, business opportunities are all around us and I expect that we will demonstrate our preparedness to master the rough seas. We continue to look for projects in near-core business areas, where, with minor adjustments and investments, we could utilize our existing capabilities and therefore stabilize our revenue flow. I am convinced that, despite all the challenges, we will finish 2018 successfully, which in my dictionary means – a positive net result.

Stay with us.

President of the Management Board & CEO

Aljoša Pavelin



KEY FINANCIAL FIGURES

Consolidated Financial Figures

	thousand HRK			thousand EUR *		
	2017	2016	Index	2017	2016	Index
Total Revenues	514.803	303.613	1,70	69.004	40.336	1,71
Total Expenses	469.505	301.498	1,56	62.932	40.055	1,57
Operating Revenues	514.560	303.257	1,70	68.972	40.289	1,71
Operating Expenses	461.249	296.503	1,56	61.826	39.391	1,57
Operating Profit (or Loss)	53.311	6.754	7,89	7.146	897	7,96
Profit and Loss before Tax	45.298	2.115	21,42	6.072	281	21,61
Net Profit and Loss	36.766	1.473	24,96	4.928	196	25,19
Total Assets	404.550	423.466	0,96	53.842	56.030	0,96
Equity	247.165	212.124	1,17	32.895	28.067	1,17

Non-Consolidated Financial Figures

	thousand HRK			thousands EUR *		
	2017	2016	Index	2017	2016	Index
Total Revenues	514.243	302.991	1,70	68.929	40.253	1,71
Total Expenses	468.646	300.908	1,56	62.817	39.977	1,57
Operating Revenues	514.006	302.648	1,70	68.897	40.208	1,71
Operating Expenses	460.399	295.924	1,56	61.712	39.315	1,57
Operating Profit (or Loss)	53.607	6.724	7,97	7.186	893	8,04
Profit and Loss before Tax	45.596	2.083	21,89	6.112	277	22,09
Net Profit and Loss	37.027	1.453	25,48	4.963	193	25,71
Total Assets	402.495	421.558	0,95	53.569	55.778	0,96
Equity	244.262	208.955	1,17	32.509	27.648	1,18

* 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 2017 respectively 2016. Assets, share capital and reserves have been converted into euros according to the midpoint exchange rate by the Croatian National Bank on 31 December 2017 respectively 31 December 2016 as listed on page 3 of the Report.

The consolidated profit and loss statement and other financial statements include Viktor Lenac's wholly owned subsidiary company Viktor Servisi Ltd. Rijeka, which, during 2017, generated revenues from its normal business activity consisting in providing specialized and licensed services in shipbuilding, and VL Steel Ltd., a 75% subsidiary of the Company, founded in October 2017 for providing services in shipbuilding and related metallurgical branches.

In 2017, the Group generated total revenues in the amount of 514.8 million Croatian Kuna and total expenses in the amount of 469.5 million Croatian Kuna, after annulment of their reciprocal transactions and after balancing positive and negative exchange rate differences.

Comparing consolidated financial statements with non-consolidated ones, it can be concluded that the influence of subsidiaries is irrelevant. Viktor Servisi Ltd. generated a net loss in the amount of 149,700 Croatian Kuna, whereas VL Steel Ltd. generated a net loss in the amount of 148,500 Croatian Kuna, of which 75% is associated to the Group, while 25% refers to minority interest of a third party), with the Group's profit being only 0.7% lower than the profit realized by the Parent Company. Revenues and expenses of the Parent Company make more than 99% of revenues respectively expenses of the Group. Likewise, the assets of the Parent Company make 99% of the Group's assets.

Annual Report 2017, therefore, reports on the financial result and balance sheet of the Parent Company.

BUSINESS ENVIRONMENT

The shipping market has been under recession that lasts a few years and continued so in 2017, but it did not have any significant negative effect on Viktor Lenac's business last year. The market continues to offer a greater supply than the demand for ship space, along with an additional increase in the global fleet. On the other hand, no significant ship demolition can be expected, which means that the demand for ship space will not exceed the current supply. Shipping companies will continue to cut down on fleet costs and only take the necessary repair and maintenance works to meet the requirements of the classification societies. Global trends in the shipping market, therefore, are not likely to change significantly in 2018.

Dry-bulk market demonstrated noticeable recovery compared to 2016, but freight rates are still extremely low. The key reasons for recovery is the slowdown in fleet growth and the growth in demand due to maritime trade growth in coal and iron ore. Product tanker market demonstrated a slight recovery, primarily due to the slowdown in fleet growth and the expected growth in oil trade. Crude oil tanker market will continue to show drop in freight rates on the account of greater supply than the demand for ship space.

Reducing operating costs and fleet maintenance costs will still be of critical importance for shipping companies, which means continuing pressure on shiprepair prices. Competition between shipyards in the Mediterranean and Black Sea areas tends to increase in intensity and put pressure on prices. Shipyards must continually seek new ways of achieving operational excellence, by increasing productivity and efficiency to be able, through innovation, to maintain their competitiveness.

Lack of qualified workers in basic shipbuilding jobs such as welders, pipe workers or outfitters is still the main challenge, but this will not change without structural changes in society. Viktor Lenac has solved the problem by employing foreign workers strictly adhering to principles of effective cost management. It should be emphasized here that the problem is not in the number of workers but in their quality or productivity. This is the key to unlocking our overall production capacity; bearing in mind that the average shiprepair project value has decreased, it is necessary to shorten deadlines and execute a larger number of contracts per year. In order to respond more effectively to this challenge, in the fourth quarter of last year, the Shipyard founded a limited liability company *VL Steel* with the aim of allowing a gradual return of qualified workers from abroad. The objective is to better manage the quality of the workforce and increase productivity, which should ultimately result in lower operating costs, or increase in net profits.

The expected first wave of Ballast Water Treatment System installation projects still didn't happen, as shipping companies use their advantage of a 5-year postponement, so a considerable number of such installation projects is expected in 2019. Until then, BWTS projects will be sporadic. On the other hand, IMO's 2020 Global Sulfur Cap will initiate scrubber installation projects. Viktor Lenac plans to make 3 to 4 BWTS installation projects and 2 to 3 scrubber installation projects this year.

We are looking forward to a continued good cooperation with the US Navy. In 2017, the Shipyard carried out docking and repair works onboard the US Navy's 6th Fleet Flagship *USS Mount Whitney* and *USNS Trenton*. Cooperation continues with *USNS Trenton* and *USNS Carson City* undergoing repairs in the first half of 2018. Also, the Shipyard will compete for two more projects by the end of the year.



Most conversion projects currently involve construction of offshore wind farms in the North Sea, which puts Viktor Lenac in an unfavourable position due to its geographic position. Sales activities are intensified through direct, proactive sales approach. New organisation change will lead to a more assertive sales approach, especially towards potential new customers. Conversion projects are still in their early stages, but the Shipyard is actively involved in their preparation and it is likely to expect that some of them will be realized, but not earlier than the third quarter of 2018.

Offshore industry is not likely to recover in 2018. However, there are some business opportunities out there and the Shipyard continues to seek for projects to reactivate its resources in offshore activity.

Successfully completed special projects such as Liebherr STS crane construction project and final testing under the Subsea Well Response Project strengthened our reference list. This practice will continue until recovery of the offshore market or choosing other strategic options, with the aim of reducing negative impact of shiprepair revenue oscillations and ensuring stable occupancy of both own and sub-contracting capacities, which is extremely important for an effective cost management.

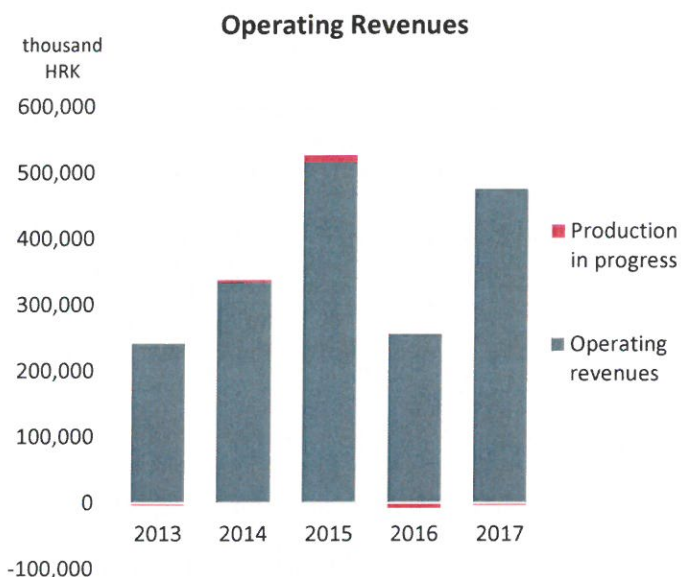
BUSINESS ACTIVITIES

SALES

Realized Revenues

In 2017, Viktor Lenac generated a total of EUR 63.5 million of revenues from its core activity, or 475.4 million Croatian Kuna. Positive revenue trend continues with high value and special projects, that were left out in the year 2016.

The most significant project was an extensive overhaul and modernization of the US Navy's 6th fleet flagship *USS Mount Whitney* that generated high revenues and high occupancy rate. The project started in December 2016 and due to a large scope of additional works it was extended by October 2017. As the largest dock was occupied with the US Navy's ship for most of the year, the total number of projects realized in 2017 was lower than in previous years, however, the average project value was significantly higher. In total, 67 different projects were realized, unlike the previous year, when there were 84 or even 88 in 2015.



In 2017, Viktor Lenac carried out several projects each worth more than EUR 1 million. Major projects involved BWTS installation for Russia's SCF Group and extensive repairs of a tanker owned by a renowned company from Kuwait, which marked the beginning of a good cooperation. The Shipyard carried out two specific projects such as Liebherr STS crane construction and final testing of an integrated subsea well incident response system under the World Subsea Well Response Project (SWRP) launched by the 9 largest oil companies. In May 2017, a conversion of *Antarctic Navigator* was successfully completed. Ten shiprepair contracts each worth between half to 1 million euros were completed.

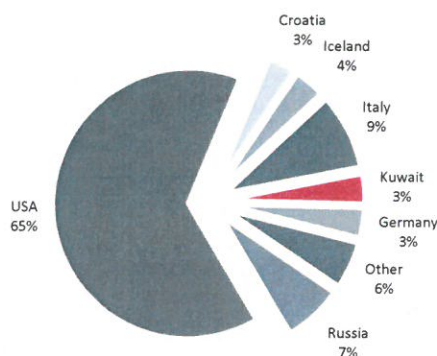
Market Analysis

Put in perspective of market structure, revenues generated from core activities derived from foreign markets involving 14 different countries. In domestic market, the Shipyard completed a few small scope projects for docking of newbuilding for domestic shipyards as well as other ships for domestic shipping companies, which made just 3% of the market revenue structure.

A share of 65% of total revenue was generated from the US market involving major repairs of *USS Mount Whitney* and six smaller scope projects.

A share of 9% of total revenue was generated from the Italian market involving 13 projects and a share of 7% of total revenue was generated from the Russian market involving 4 projects.

Operating Revenues per Market



Sales

2017 was characterized by intensification of marketing activities. In addition to sales through our agents, the Shipyard intensified its direct sales activities including more frequent visits to major and potential clients and participation in international shipping exhibitions, and launched completely new, redesigned promotional materials. Reorganization of sales and marketing operations has been successfully completed and involved hiring new key account managers aimed at building and maintaining successful client relationships.

During 2017, the Shipyard received about 350 inquiries from shipowners for various shiprepair works, of which about 30 inquiries were not processed due to unavailability of dry dock / repair facilities in the requested period. A large number of inquiries was the result of intense market competition and the fact that shipowners have been increasingly looking for new shipyards to find cheaper shiprepair services, which also contributes to a sharpened competition in the Mediterranean.

The Shipyard's selective sales approach is aimed at focusing on deals that are more certain to be realized and increasing the effectiveness of the inquiry response process, which should result in the growing trend of contracting rate and achieving the target revenue with reduced number of projects. Unfortunately, this is less likely to happen in near future because the shipping market is still under recession which is reflected in a decreased scope of ship repair works and the reduction of sales prices at global level.

A total of 67 contracts resulted out of 320 quotations. Compared to previous years, this represents a drop in the contracting rate. Some deals for which the offer has already been made, were not realized in the end due to unavailability of production facilities in the relevant period. Also, more inquiries were processed to consider and ultimately select more important projects.

According to customer feedback, the main reason for not accepting a repair offer involved deviation from the voyage due to the Shipyard's geographic location that implies additional costs and a longer period time, whereas in some cases the reason was the price mainly when put in relation to Turkish competitors.

Contracts concluded to quotations issued

	2012	2013	2014	2015	2016	2017
Number of inquiries received	330	312	347	401	350	350
Number of quotations created	308	295	317	317	310	320
Number of contracts concluded	58	62	77	86	85	67
Contracting rate	19%	21%	24%	27%	27%	20%

Viktor Lenac implements two basic sales strategies: direct and indirect. Recently it has been increasingly using its own sales force (direct selling) especially on the markets where it does not use agent services. Of total projects completed, 25 were contracted through agents that made about 17% of revenues generated from core activities in 2017, down compared to 2016 when a total of 32 projects were contracted through agents and made a share of 60% in operating revenues. This decline is a result of a decreased total number of projects completed and US Navy projects which made the biggest share and are not contracted through agents.

PRODUCTION

Production Activity

During 2017 Viktor Lenac completed 67 various projects including 3 projects that were under progress at the end of the year. A total of 60 projects involved standard shiprepair and special projects, berth services for two vessels, including minor maintenance works, and voyage repairs carried out onboard three vessels. Special projects involved Liebherr STS crane construction works and final testing under the Subsea Well Response Project.

The projects included the following types of vessel:

- ✓ 17 tankers of various purpose
- ✓ 12 ferries or RO-RO and RO-PAX ships
- ✓ 10 general cargo ships
- ✓ 5 bulk carriers
- ✓ 5 military ships
- ✓ 3 passenger ships
- ✓ container ships, tug vessels, fishing vessel, cement carrier, barge, reefer ship and other

The major project was extensive repairs and modernization of *USS Mount Whitney* which involved a total of 185 tons of steel, anti-corrosion treatment and coating of all tanks, extensive works on the sternshaft, tailshaft and rudder, renewal of boilers and turbines. New ship's systems and equipment have been installed such as water heating system, IT system. New lifeboats and davits have been installed and accommodations renovated. Most of the works were carried out while the ship was docked in the Floating dock no. 11.

Three BWTS installation projects were successfully completed for Russia's SCF Group involving the following ships of their fleet: SCF Amur, SCF Pechora and Tavrishesky Bridge, including large scope of steel works and anti-corrosion treatment and coating works.



Production works carried out in other projects were mainly of standard type involving mostly steel renewal works, anti-corrosion treatment and coating, scaffolding, mechanical and electrical works.

A total of 1,000 tonnes of steel was renewed in total ship repair projects, up by 50% compared to the previous year. Anti-corrosion works refer to different technologies of ship surface treatment for coating including high water pressure jet, degreasing, brushing and sandblasting. During the last couple of years Viktor Lenac has been introducing modern, ecologically friendly technologies such as UHPW using water as an alternative to traditional sandblasting. New, clean technology has been currently used in Dock 11. A total of 600,000 sqm of ship surface was treated and coated in 2017. A total of 150,000 cum of scaffold was erected during the year, of which more than 60,000 cum implied quick-assembly scaffold.

Slow periods were used to renew steel structure onboard the Shipyard's Floating docks 5 and 11. In September 2017, Dock 5 was docked in Dock 11 for repair and renewal of its underwater part, pontoons and cranes to extend dock life for up to 8 years. A total of 200 tons of steel was renewed and the dock surface was treated and coated.

Apart from investment in own production assets to extend their service life and increase value, the Shipyard's regular production activities include scheduled maintenance works, especially referring to horizontal and vertical transport means. The 2017 maintenance program included all coastal cranes, heavy machinery and vehicles.

Labour Capacity and Production Cost

The annual production capacity is measured in the number of effective hours in core activity, maintenance segment and own investment activity aimed at extending the lifetime of own property and meeting the requirements of the Croatian Register of Shipping.

Apart from its own permanent production workers, depending on needs, Viktor Lenac uses subcontractors for all its production activities, which is a general global practice. Subcontractors are mainly contracted on turn-key base, and in lesser scope per hour, noticeably during periods of oscillations where own labour is not sufficient.

Normal annual production capacity, depending on occupancy and work structure, is about 1.5 million hours worked by own workers and permanent subcontractors in standard shipbuilding professions. In special projects and specific works, it can reach up to 2.5 million hours, where part of works can be executed outside the Shipyard, in other shipyards nearby. When speaking of ship repair activity, due to oscillations of the capacity utilisation rate, the Shipyard is often faced with a challenge of shortage or surplus in shipbuilding crafts.



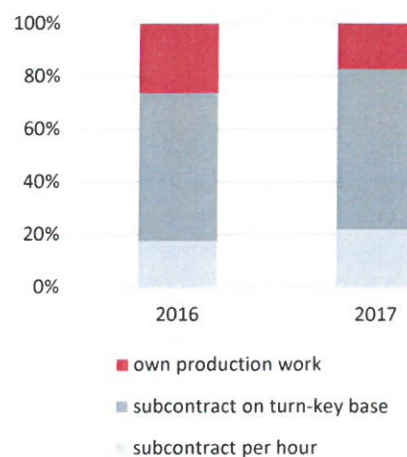
Due to increased occupancy rates in 2017 compared to the previous year, Viktor Lenac needed to recruit more workers involving almost all shipbuilding crafts. The problem of shortage was solved by hiring foreign workers mainly from Ukraine.

During 2017, the emphasis was put on better planning, monitoring and analyzing the flows of production processes, aimed at reducing costs. Improvement of planning activities despite the unpredictability of shiprepair processes resulted in better utilization of working hours and increased efficiency of everyone, both of own and subcontractor workers.

Own production workers as fixed production capacity provide an average of about 420,000 effective hours. In 2017, the Shipyard's workers produced 6.7% less effective hours compared to 2016, due to a decrease in overtime hours and oscillations of the occupancy rate. Overall, the year 2017 was significantly more intensive in production compared to the previous year, resulting in an increase in the number of direct production hours by approximately 40% compared to the previous year. Due to its fixed production capacity, this resulted in bigger share of subcontractor workers in total production activity.

Put in the perspective of production activity structure, steel works made the biggest share. The USS Mount Whitney project, similar as in 2015, generated a high share of electrical works, which are usually more used in conversions and special projects, mainly carried out by subcontractors.

Effective hours per source



	share 2015	share 2016	share 2017
Steel works	13,2%	24,2%	15,1%
Electrical works	14,3%	6,8%	14,4%
Anti-corrosion works	16,0%	16,5%	11,8%
Piping works	8,7%	9,0%	9,2%
Transportation works	8,3%	8,9%	7,5%
Mechanical works	9,3%	8,9%	7,0%
Insulation works	2,5%	1,8%	6,7%
Outfitting	8,1%	6,0%	5,8%
Other works	19,6%	17,9%	22,5%
	100,0%	100,0%	100,0%

Apart from own production, Viktor Lenac also uses external services such as sub-licensing involving manufacture and provision of services in core activity but are mainly carried out outside the location of the Shipyard or using subcontractors' means of work, and may involve provision of materials for manufacture of products intended to be installed onboard a vessel. Examples of such services are custom made manufacture, finishing, processing, tug and port services as well as waste disposal. In specific types of works, such as licensed service and electrical works, subcontract works may also involve purchasing of specific materials and using subcontractors' own equipment, especially in contracts stipulated on turn-key base.

In figures, the total cost of production work incorporated in working orders relating to core activity and own investment amounted to 170.5 million Croatian Kuna, up by almost 70 million Croatian Kuna compared to the previous year. Direct external services amounted to 83.2 million Croatian, kuna up by 45.9 million Croatian kuna compared to 2016.

Dock and Berth Utilisation Rate

Viktor Lenac disposes of three floating docks (Dock 5, Dock 11 and Dock RI-38) allowing for flexibility required in shiprepair industry.

Comparing results of the last two years, in 2017, Viktor Lenac achieved a significantly higher occupancy rate than in 2016, but with a smaller number of projects. This is primarily due to the fact that Dock 11 was occupied by USS Mount Whitney for a total of 194 days. Due to unavailability of production facilities at certain periods, the Shipyard was forced to withdraw from already offered deals or even reject inquiries, which resulted in a lower dock utilisation rate compared to 2016. A slow period that characterised September 2017 was used for renewal of Dock 5, which was docked in Dock 11, therefore, actual utilisation rate of the docks was somewhat higher.

Dock	Dock utilisation rate	
	2016	2017
Dock 5	79,7%	63,90%
Dock 11	87,9%	83,80%
Dock RI 38	78,1%	62,70%

The Shipyard's main operative berths - 1, 2 and 3 are located in the immediate vicinity of the workshops, plants and warehouses. The operative berths 8 and 9 are of special purpose and are used when main operative berths are not sufficient to fulfil operating needs. During the last few years the operative berths 4, 5 and 6 have been accommodating vessels for mooring only; however, these berths have been increasingly used for core ship repair activities due to an increase in the number of ships undergoing repairs, and the necessity to execute works on several ships at the same time.



Dock and berth utilisation rate is a measure of utilisation of the Shipyard's shiprepair facilities, or its occupancy rate. A decrease in number of shiprepair contracts that characterised 2017 compared to 2016, resulted in a decrease in the average utilisation rate of the main operational berths and recorded only 48%, down by 14% compared to 2106.

Raw Material and Energy

The cost of raw material and energy in the Shipyard's core activity generally participates with 20-30%, depending on structure of works, put in relation to total operating revenues. In general, the share of raw material and built-in equipment is larger in conversion and offshore projects with respect to standard ship repair projects. Share of materials and equipment in the revenue structure also depends on whether clients required Viktor Lenac to procure materials and equipment intended for installation onboard a vessel or they procure and have these delivered by themselves.

Cost of materials in 2017 was significantly higher than in previous year due to an increase in production and other business activities. During the year, Viktor Lenac spent various materials and installed various equipment in production work order projects amounting to more than 60 million Croatian kuna, which, as compared to the previous 2016, when approximately 40 million Croatian kuna was spent, equals to a 50% increase.

Material structure depends on work structure, where most relevant groups of material normally installed onboard vessels undergoing repairs or used in technological process are ferrous metallurgy materials (plates, profiles and pipes), grit or sand used in anti-corrosion treatment, technical gases and fuel.

In 2017, the highest material cost, amounting to almost 12 million Croatian kuna referred to ferrous metallurgy materials that were consumed in all projects during entire year and that, as compared to the previous year, were 30% higher. Costs for dedicated materials and equipment, multiple higher than in previous year, in 2017 amounted to 14,6 million Croatian kuna, mostly on account of the USS Mount Whitney project. In comparison to the previous year, a considerable increase in 2017 showed material in valves and fittings group, where cost equaled to 8,8 million Croatian kuna, or as much as three times more than the last year.

Put in the perspective of quantity, in 2017, a total of 1,300 tons of plates, 325 tons of profiles and 133 tons of pipes was used in steel, steel carpentry and piping works referring to core work orders, investments and maintenance. A total of 4,100 tons of grit was consumed in anti-corrosion treatment.

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

Part of electric energy and fresh water represent fixed costs, while part is calculated as variable production cost that depends 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.

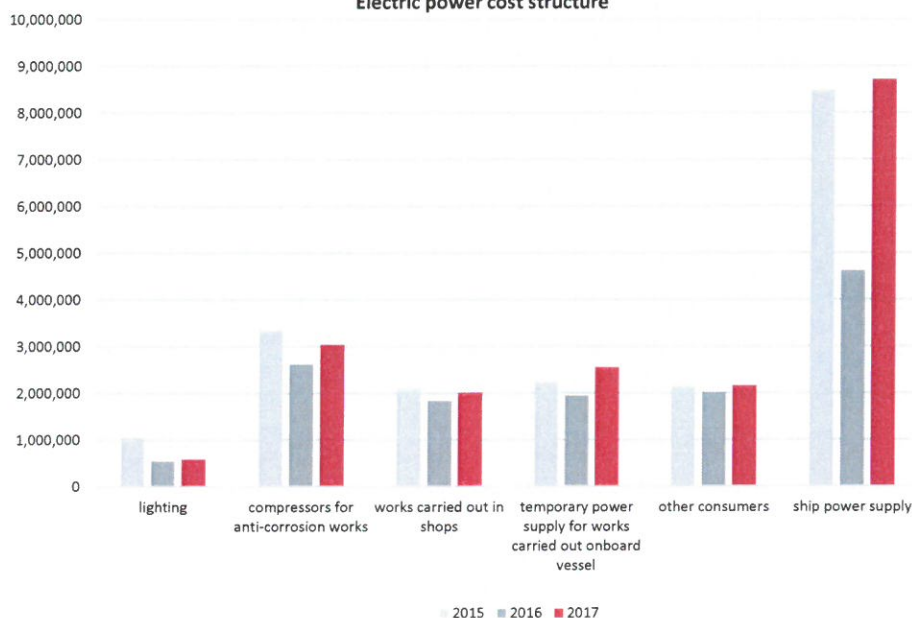
Technological water is used in washing and high pressure jetting, steel cutting and assembly. Liquid oxygen and acetylene are used in steel cutting and machining.

Structure and number of projects completed in 2017 was consistent with consumption of main energy products. As compared with the last year, electric power cost was increased, which was expected due to an increase in total production scope, but also on the account of some specific works and ships' needs for shore power supply. An increased number of contractors and presence of a larger number of the *USS Mount Whitney* crew during the entire works period also resulted in increased consumption of fresh water. On the other hand, lesser number of projects in standard repairs resulted in reduced cost of technological water, oxygen and acetylene.

Considerable savings have also been achieved in consumption of medium and extra light fuel (fixed cost) used for space and water heating. Such substantial savings have been achieved because of the new hot-water heating system using compressor heat that was installed in 2016 in cooperation with HEP ESCO Ltd.

Energy consumption	Unit of measurement	2014	2015	2016	2017	2017/2016
Electric power	1000 kWh	11.806	19.339	13.560	19.031	140,3%
Fresh water	1000 m ³	65	93	63	77	122,5%
Technological water	1000 m ³	199	265	262	201	76,8%
Oxygen & acetylene	t	590	672	558	476	85,4%
Light fuel	t	450	485	331	168	50,9%

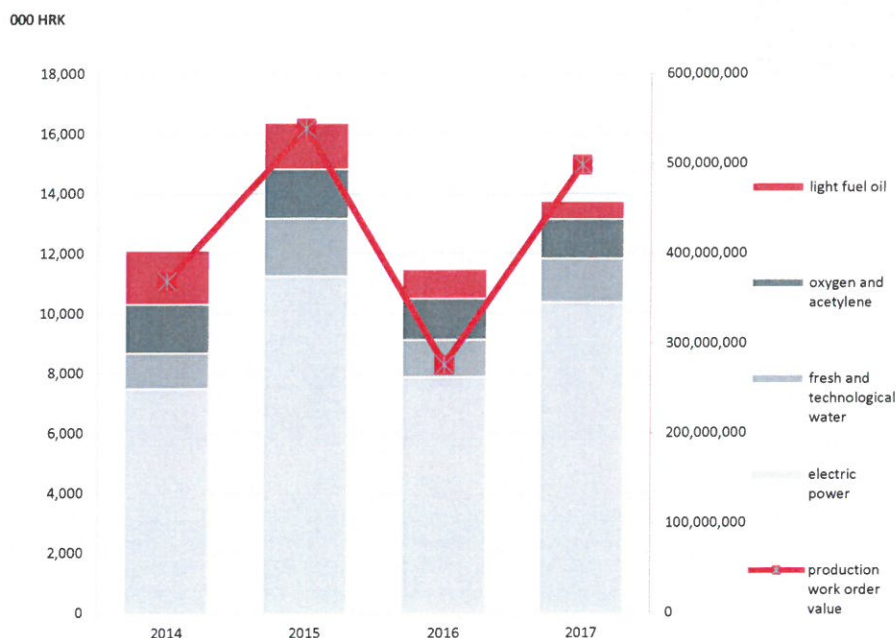
Electric power cost structure



A large amount of electricity is used for ship power supply, which was particularly pronounced in 2015 and 2017 due to an extended period of power supply on board the vessel *USS Mount Whitney*. An increase in ship repair activity in 2017 resulted in an increase in electricity consumption, except for lighting where consumption was cut for almost half because of implementation of an energy efficient lighting in 2015.

In 2017, Viktor Lenac implemented an energy management system according to ISO 50001, which was certified in early 2018. This made the energy management system a permanent process aiming to raise awareness on efficient exploitation and saving power products in order to generate savings in product costs.

Energy cost structure



Overall, energy costs in 2017 increased by 2.2 million Croatian kuna, up by 20% compared to previous year, which is understandable considering that the value obtained in production work orders (core business and investments) increased by as much as 80% as compared to the last year. Out of total of 13.7 million Croatian kuna of energy cost, electric power accounts for 75%.

An adequate water resource management involves prompt elimination of any leaks and water consumption monitoring. The existing technological water distribution system enables the use of technological water instead of more expensive

water from the public water supply. More reduction will be achieved by installing additional technological water pipelines aimed at using technological water at larger scope.

Compared to the previous year, total consumption of technical gases (oxygen and acetylene) was also reduced, however, the cost was almost the same due to acetylene price increase.

TECHNOLOGICAL DEVELOPMENT AND INVESTMENT

Technological development and investments in capital and other production and business assets of Viktor Lenac continued in 2017, where total investments in fixed assets amounted to 36.8 million Croatian kuna.

The most important amount of 26.5 million Croatian kuna was invested in renewal of Dock 5 and Dock 11, which increased their value. There were no other significant investments in existing assets.

The remaining amount of to 10.3 million Croatian kuna involved procurement of new production and other equipment, of which the following should be pointed out:

- 2 advanced Aquablast Magnet Spiders and 2 HP 2,900 bar pumps for ultra-high-pressure water surface treatment as an alternative to blasting, having a considerably lower adverse impact on environment, increasing efficiency and productivity, and reducing electric power costs
- SFC 2 x 625 kVA static frequency converter for 440V 60 Hz ship power supply, which is more environmentally friendly in terms of air and noise protection with respect to Diesel power supply
- cargo vehicle and side and front-loading fork lifters
- new elements for existing quick-assembly scaffold



During the year, there were numerous other investments in production, measuring and other equipment, computers and telecommunication equipment. In alignment with the Shipyard's energy management system, one of criteria for procurement of production equipment is energy efficiency. Such equipment is environmentally friendly, reduces energy costs and increases productivity and efficiency. In this way, the Shipyard opted for REL welding machines and ventilation equipment characterized with approximately 50% higher energy efficiency.

After having completed energy efficiency projects in cooperation with HEP ESCO Ltd. during 2015 and 2016 involving internal, external and temporary lighting and fuel energy recovery from compressor heat, new projects have been incorporated into the 2018 Investment Plan involving energy efficient lighting for docks and anti-explosive lighting for ships under repairs.

QUALITY MANAGEMENT SYSTEM, INFORMATION AND COMMUNICATION, ORGANISATION

The Company's Business Process Management System involves continuous analysis and revision of the Company's operations aimed at increasing productivity and decreasing non-value added activities and accelerating every single business process.

The Company is committed to a continuous process of revising and improving its organization, eliminating misunderstanding and conflicts of interests which may arise between line and project/production management, defining and delegating authority and responsibility. Complex organization is reflected in linking functional and project organization into a matrix organization where resources are allocated to several projects in repairs, conversions and offshore activities that are carried out parallelly.

Continuous monitoring of business process performance through internal auditing is reflected in constant improvement of the Shipyard's QMS documentation involving modifications and amendments to procedures and work instructions and changes in organizational roles aimed at accelerating and optimizing Shipyard's operations.

The Company's managerial staff is required to be more proactive in revising and optimizing business processes aimed at decreasing labour cost and increasing project success and customer satisfaction in a challenging market environment. Key business indicators for all business processes have been defined, aimed to raise awareness and responsibility of operations management for individual business results.

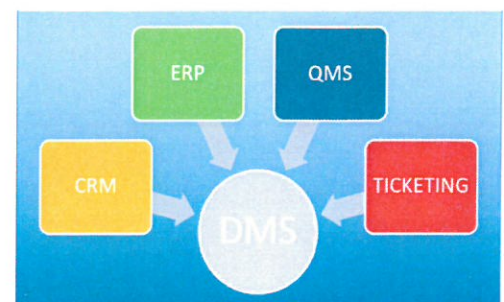
2017 was marked by reorganization of production processes involving the following segments:

- Technical and technological project preparation as a support to sales processes
- Planning and managing production capacities and realization of production processes
- Project management
- Managing maintenance of fixed assets and tools in production processes
- Managing production services - energy, docking, land and maritime transport, scaffolding works

Changes in business processes have caused changes in organizational structure of the Technical and Production Division and production job descriptions. Accordingly, the organizational structure became flat, fast and efficient in communication and decision making, deprived of unnecessary hierarchical management structures. Organizational changes became effective in the beginning of 2018.

Organizational development is closely related to the development of IT system, as a tool for the automation of business process activities. In 2017, the focus of IT support was on mobile apps and solutions, B2B portal, information security, data protection and electronic data interchange among various physical devices made of electronic assemblies, sensors and software for monitoring energy management system (IOT – Internet of things).

Customer Relationship Management (CRM) has been improved through integration with a completely new module for Document Management (DMS) based on the Alfresco platform. CRM functionality has been upgraded in systematic monitoring and aggregation of all information and documentation related to contracting and project realization.



In line with DMS development, Quality Management System has been developed to process clients' claims and incompliances discovered in business processes.

In cooperation with our business partners, we have developed other mobile solutions for recording subcontractors' working hours and approving requisition forms for material, labour or services as well as receiving requests for maintenance and repair of ICT equipment.

First steps have been made in development of B2B portal intended for subcontractors to enable them access to relevant information and documents such as worksheets, incompliance documentation, assessment of subcontractor performance etc.

Information security and data protection is exceptionally important. Certain steps have already been made during the last few years to raise information security by virtualization of all servers creating a base for fast system recovery as well as consolidation and optimized exploitation of hardware resources. During 2017, information security has been reinforced by collocation of server resources on a separate disaster recovery site outside Viktor Lenac headquarters. The Company abides by the legal frameworks and guidelines relating to information security. A newly-formed team has almost completed analysis of personal and sensitive data processing by using method of assessment of impact on privacy from multiple aspects such as business

processes, business applications, information infrastructure and legislation. Action plans have been developed for implementation of management, logic and physical control of business processes.

In September 2017, the Shipyard's Quality Management System was recertified by Bureau Veritas according to ISO 9001:2015. No incompliances were found. Also, during the year, the Shipyard underwent several audits conducted by their business partners. Internal Audit Plan involved all business processes and organizational units.

ISO50001:2011 certification process was started in 2017. A total of 12 internal audits of business processes that are relevant to energy consumption have been carried out in the last quarter of 2017 by a newly-formed team for energy efficiency and internal auditors.

ISO50001:2011 Energy Management System certification process was successfully completed on 24 January 2018 by Bureau Veritas. During the audit, representatives of the certification society commended Management's commitment as well as competences and approach of the Shipyard's energy management team regarding analysis and possibilities of improvement of energy efficiency. No incompliances were found and the Shipyard was recommended for awarding the ISO50001:2011 certificate.



SAFE WORK, HEALTH AND SAFETY AT WORK, FIRE PROTECTION

Committed to by the Company, occupational health and safety aims have been incorporated in the Company's organizational and business management system. HSE activities involve execution of HSE tasks and duties in accordance with the Company's HSE rules and procedures, complied with the law, which make an integral part of the Company's Quality Management System.

In 2017, the Company carried out various standard activities in implementation of occupational safety and health system such as training workers for safe work, testing machinery and devices characterized by increased hazard, monitoring implementation of occupational safety regulations, inspections at work place and activities in specific hazardous conditions, issuing permits for entry and work in enclosed and confined spaces and similar.

In order to improve safety, border areas within Shipyard have been illuminated with additional lighting fixtures. Additional surveillance cameras have been installed onboard Dock 11, waste disposal area and other areas in accordance with the Port Safety Plan.

Distribution of personal protective equipment was carried out according to established timelines and needs. Proper use of PPE is strongly monitored, involving both Shipyard's own workers and subcontractors.

Shipyard's workers employed at posts characterized with special work conditions pass obligatory medical examination at the Institute of Occupational Medicine. During 2017, a total of 298 workers underwent such examination. Aware of the importance of preventive healthcare, Viktor Lenac has continued cooperation with a reputable medical establishment for annual preventive medical exams and other medical services for the benefit of its employees.

Total funds spend in healthcare and safety at work:

	2013	2014	2015	2016	2017
Annual preventive medical exams	376.875	618.546	655.688	675.861	570.298
PPE	653.745	783.165	680.286	654.411	1.053.274
	1.030.620	1.401.711	1.335.974	1.330.271	1.623.572

The implementation of HSE measures in recent years have led to a reduction in the number of injuries, evaluated both in the absolute number of injuries and relative to the number of workers. Looking at the index of severity of injury, usually it comes to minor injuries mostly involving concussions, wounds and sprains.

In 2017, the Company focused on occupational safety, housekeeping and safety in the workplace, raising individual awareness on safe work procedures. All workers, regardless of their workplace, along with mandatory usage of hard hats in production activities areas, must permanently use eyes and hands protection, or goggles respectively gloves. Occupational safety and health measures resulted in a considerable decrease in number of injuries at work last year. Reducing the number, frequency and severity of injuries at work and raising awareness and responsibilities of workers for occupational safety and health remains Viktor Lenac's goal for the future.



A total of 10 injuries were recorded with a total of 424 lost working days. Decrease in number of injuries at unchanged number of workers and similar effective hour rates, has resulted in a significant decrease in frequency index and proportion of injured workers in total number of workers. Considering the number of lost working

days has not changed put into relation with total number of working days and that the effective hour rates remained almost unchanged, the severity index is the same as last year's.

Of the total 10 work-related injuries incurred during 2016, half of them were severe and all involved fracture of the finger. Other injuries involved sprain and surface injuries. There were no fatalities because of accidents at work.

Injury indicators:

	2013	2014	2015	2016	2017
Number of effective hours	925.669	957.147	937.020	864.292	883.716
Number of injuries	23	18	17	18	10
Total number of days lost due to sick leave	738	556	354	416	424
Frequency index	24,85	18,81	18,14	20,83	11,32
Number of injuries / Effective hours					
Severity index					
Total lost days due to sick leave / Total effective hours	79,73	58,10	37,78	48,13	47,98
Number of injuries / Number of workers	4,44	3,58	3,45	3,64	2,04

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 firefighting equipment and practicing periodic firefighting drills and simulations.

Hot works such as welding and cutting can be carried out only after a preventive inspection has been performed and a hot work permit has been issued. In 2017, a total of 17,833 hot work permits were issued, up by 65% compared to the previous year. Also, more than 200 gas-free certificates were issued for works in tanks on board tankers.

During 2017, the Shipyard's fire brigade has been equipped with new firefighting hoses and fittings and fire extinguishers for initial firefighting. Also, a thermal imaging camera was purchased for discovering fire sources in smoky spaces and locating persons in smoky spaces and other areas at risk. A breathing apparatus HP 330 bar compressor was purchased.

Firefighting equipment has been arranged at various locations aimed at increasing availability of equipment and improving operational efficiency of the internal fire brigade unit. Fire drills and simulations are conducted regularly in accordance with the Internal Fire Protection Plan and may be carried out at shipowner's request such as a total of 48 fire and evacuation drills were carried out at the request of the Master of USS Mount Whitney.

During the year, 5 initial fires and 1 technical intervention were recorded but did not cause any significant material damage, which can be considered extremely low having in mind potential dangers and threats that may arise from a fire incident.

ENVIRONMENTAL PROTECTION

The Company's Environmental Management System has been incorporated in the Quality Management System certified according to ISO 9001:2008 and is one of the most important building blocks in the Company's sustainable business model. The Environmental Management System is based on the principles of social responsibility aimed at ensuring quality coexistence with the local community through integration of technological processes, technological advances, professional rules and legal regulation.

To determine the impact on the environment, Viktor Lenac uses its own measuring equipment to continuously monitor the quality of the components of the environment, especially water, sea and air. Based on the findings, as interpreted by certified laboratories, Viktor Lenac is taking necessary actions aimed at eliminating or reducing emissions.



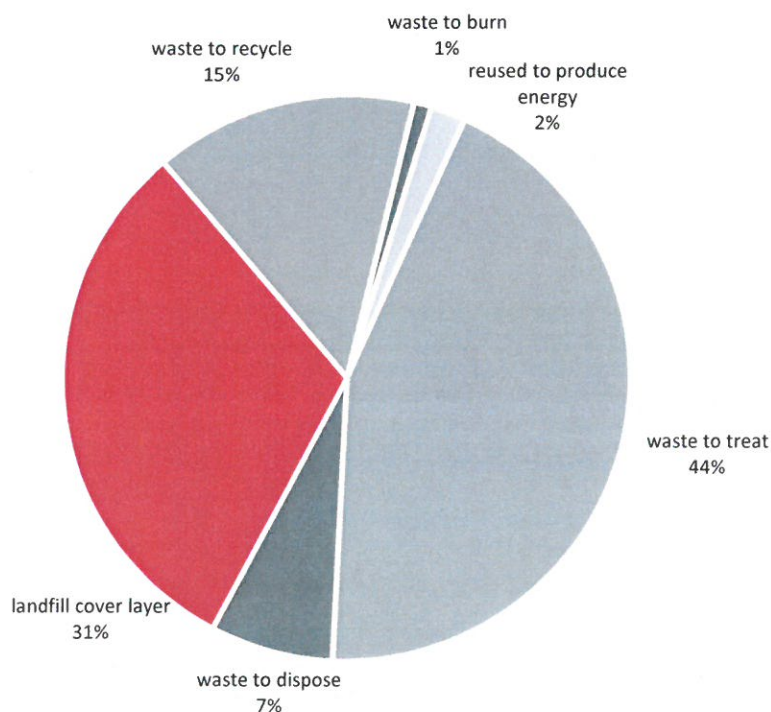
The Company's Waste Management System implements the 4R basic principles of good waste management (Reduce, Reuse, Recycle, Replace) with a tendency for continuous improvement of waste utilisation, especially after the closure of the landfill sites in July 2015. The Shipyard has introduced clean, ecologically friendly UHPW technology as an alternative to traditional grit blasting for ship surface treatment. The UHPW equipment has

already been used in Dock 11 and in 2017 it is planned to purchase a new set of the equipment to be used in Dock 5.

During 2017, the Shipyard generated a total of 14,768 tons of various waste, of which 54% of non-hazardous waste and 46% of hazardous waste.

Of the total amount of waste generated in 2017, 44% referred to waste intended for reuse, 31% involved abrasive sand which is mainly used as an intermediate layer to cover waste at landfill, about 15% of waste referred to waste metals, plastic and rubber that can be recycled, and only 8% of waste was burnt or permanently disposed at landfill. Of total waste, 2% was used to produce energy.

Waste Disposal Management 2017



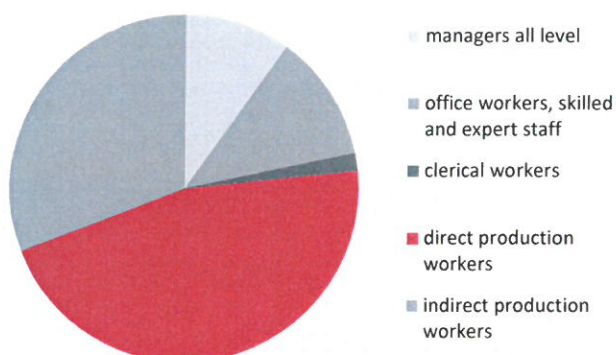
HUMAN RESOURCES

Number and Structure of Employees

On 31 December 2017, Viktor Lenac had 488 employees, the same number as that of last year. The average number of employees during 2017 was 490 workers, or 9 workers more than the average in 2016. During the year, 50 employees left, of which 17 retired and 4 finished their contracts of employment of definite term, while one worker died. The remaining 28 employees terminated their contracts by agreement, which means dysfunctional turnover that is mainly a consequence of a higher demand for shipbuilding workers, not only in Croatia but also in other European Union countries.

On 31 December 2017, of the total number of employees, 445 workers or 91.2% had employment contracts of indefinite term, up by 4.7% compared to 2016.

Organisational structure



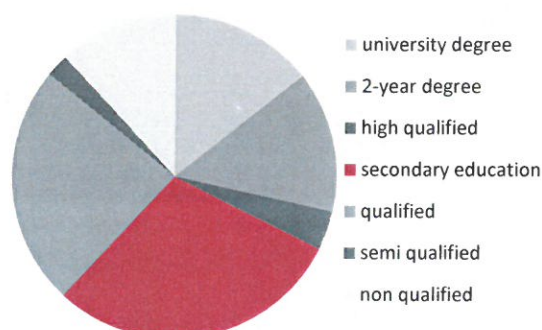
The Company's Employment Policy is aimed at keeping the number of employees at current level. In particular, Viktor Lenac relies in large part on subcontractors' services in its production activities. New workers are employed depending on need to increase the number of workers for timely execution of works in those activities in which it is not possible or not efficient to employ external labour. Qualification structure has not significantly changed during the last few years.

Compared to the previous year, Viktor Lenac's subsidiary company *Viktor Servisi Ltd.* had one employee less and on 31 December 2017 had a total of 17 employees, of which 14 maintenance and repair technicians. On 31 December 2017,

the subsidiary company *VL Steel Ltd.*, founded in October 2017, had a total of 10 employees, of which 8 direct production workers. Total consolidated number of employees on 31 December 31 2017 was 515, up by 9 compared to 2016.

Put in the perspective of the total organisational structure of employees, there are 223 direct production workers and 151 indirect production workers that involve safety and environmental protection, maintenance, quality control, foremen and other production overhead. The remaining number of employees involve technical-commercial and other highly qualified and expert staff (58 employees), clerical staff (8 employees), and project managers, heads of departments and managers of organizational units of all levels (total 48 employees).

Qualification structure

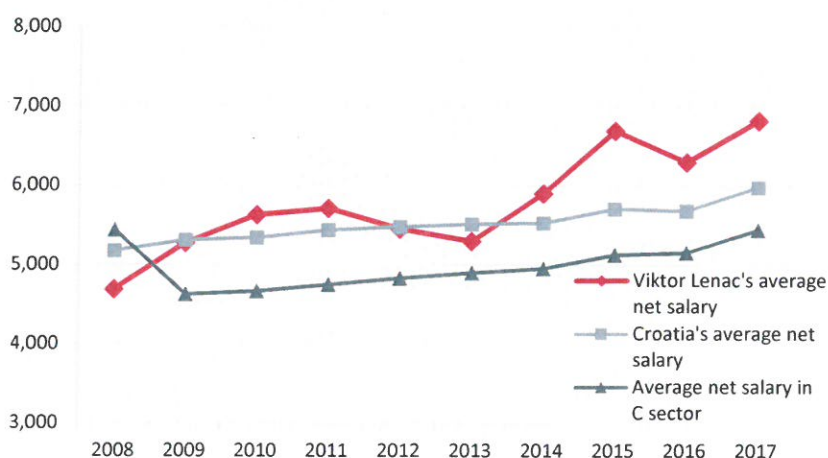


Viktor Lenac's employee structure in terms of qualification and profession is satisfactory. A small number of employees refer to non-qualified workers and those are mostly workers occupied with cleaning works and simple manufacturing jobs which require internal training. The average age of the Shipyard's employees is 45.8 years. The Company's goal in the coming years remains rejuvenating the age structure of employees.

Structure of Effective Work Hours and Salaries

In 2017, Viktor Lenac's employees produced a total 1,018,296 work hours in normal working hours, of which 81% or 826,000 were effective work hours, up by 2% compared to the previous year due to increased occupancy rates. Non-effective hours were related to vacation (8%), sick leave (7%), national holidays (3%) and paid or non-paid non-effective work hours (1%).

Average net monthly salary trend



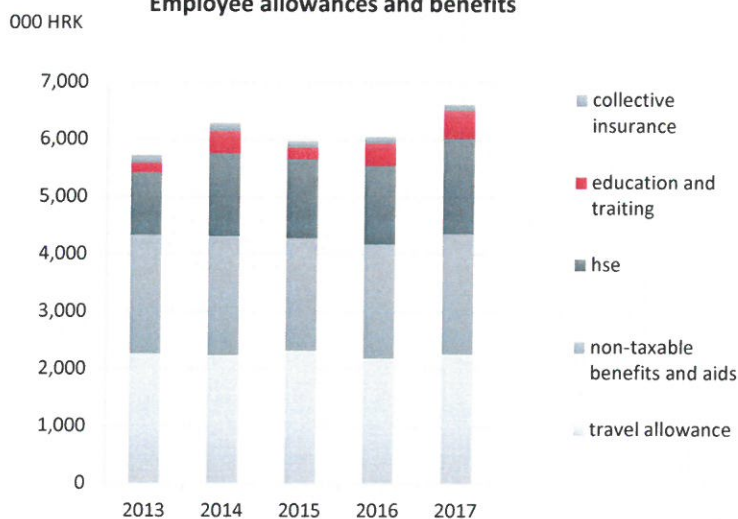
During 2017, a total of 40,000 overtime hours was produced, which is 26,000 hours, or almost 40% less compared to the previous year. The decrease in overtime is the result of stable capacity utilisation rates, with less oscillations. During the last few years, overtime work has been showing a downward trend. However, overtime work is still required due to the oscillations of the capacity utilisation rate that are partly managed through a system of redistribution of working hours, as agreed with trade union organizations, primarily

with the aim of better utilization of working time and to decrease negative effects of frequent changes in capacity utilisation rate.

In 2017, Viktor Lenac paid a total of 70 million Croatian Kuna on the account of employee salaries, allowances and benefits, of which 65.2 million Croatian Kuna referred to salaries, while 4.8 million Croatian Kuna referred to allowances and benefits to which employees are entitled based on the Collective Agreement and Labour. Compared to the previous year, the amount of salaries, allowances and benefits recorded an increase of 4.8% as a result on the new Collective Agreement signed in June 2017, whereas the number of effective hours was the same as in 2016.

Calculated in accordance with the State Statistics Institute's calculation methods, the average net salary per month in 2017

Employee allowances and benefits



amounted to HRK 6,824.00, higher by 14% compared to the average net salary in Croatia or up by 25% compared to the average net salary for the 'C' sector (manufacturing industry). The salary is composed of a fixed part and a variable part allowing increase or decrease depending on operating results and capacity utilisation rate. The Company's average net salary, therefore, varies with respect to Croatia's average particularly if you look a few years back. It was in 2015 and 2017 that Viktor Lenac achieved the highest occupancy rates and revenues, and, therefore, salaries were the highest, as a direct result of an increase in variable part of the salary. The basic salary hadn't change over years until the new Collective Agreement was concluded and became effective in July 2017.

Salaries are paid regularly with all appropriate taxes and contributions, including all employee allowances and benefits, to which they are entitled pursuant to the Collective Agreement and the Labour Regulations. Increase in employee benefits and allowances compared to the previous year was the results of increase in PPE and education costs.

Employee Education

Viktor Lenac has been continuously investing in education and professional training of their employees at all levels of business activity and continued so during 2017.

Last year, much emphasis was placed on leadership education and training at all levels to improve and develop in business management and managerial skills aimed at increasing efficiency, reducing costs and raising

individual responsibility. These education activities were organized as in-house training in cooperation with an external educational institution for quality development. Cooperation with other educational institutions continued during the year. Employees were provided a variety of training courses and seminars such as recertification in radiography and other testing methods in quality control, navigation and safety on ships, using UHPW Spider, working with special equipment, working in power plants, driving horizontal transport vehicles, occupational health and safety, IT, financial and customs, personal data protection, human resources management and foreign language courses. Major educational activities involved improvement of negotiating skills in sales and project management and implementation and development of energy management system.

Direct costs of education and training activities in 2017 amounted to 495,000 Croatian Kuna, up by 100,000 Croatian kuna compared to the previous year, including the cost of travel-related educational activities and associated allowances.

Social Dialogue

The year 2017 was traditionally marked with a social dialogue of mutual 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 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. During 2017, the Workers' Council held five sessions, of which all workers have



been informed through their representatives and by the minutes of these sessions. One Workers' Assembly was held where the President of the Board addressed the workers and directly informed them on business operations, development plans and other issues relevant to the workers position.

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, allowances and benefits. In February 2017, at Unions' initiative, started collective bargaining renegotiation between the Unions and the employer. New Collective Agreement, signed in June 2017, will provide an increase in statutory minimum wage rates and an increase in basic salary, hot meal allowances and an increase in longevity allowances. Other benefits and allowances have remained unchanged, some of them increased, such as severance pay.

During last year, all provisions as adopted by the Collective Agreement were applied to mutual satisfaction of all interested parties.

In addition, on the Company's Intranet site and notice boards employees can find all valuable information about Viktor Lenac, new projects and other news and actualities.

Workers' representative is the fifth member of the Supervisory Board, being elected for the period of three years.

FINANCIAL RESULT

Revenues and Expenses

In 2017, Viktor Lenac generated a total of HRK 514.0 million of operating revenues, while the Group's operating revenues were HRK 0.6 million higher and amounted to HRK 514.6 million. Compared to the previous year, the higher occupancy rate resulted in an increase in operating revenues by 84%, deriving from sales revenues, or an increase in total revenues by almost 70%. Revenues from the core activity (sales revenues) accounted for 93.5% of total operating revenues, both for Viktor Lenac and the Group. Other operating revenues made only one third of other revenues generated in 2016 and included revenues from withdrawal of long-term reserves (HRK 1.2 million), rental income (HRK 0.9 million) and other extraordinary revenue such as surplus, reimbursement etc.

thousand HRK

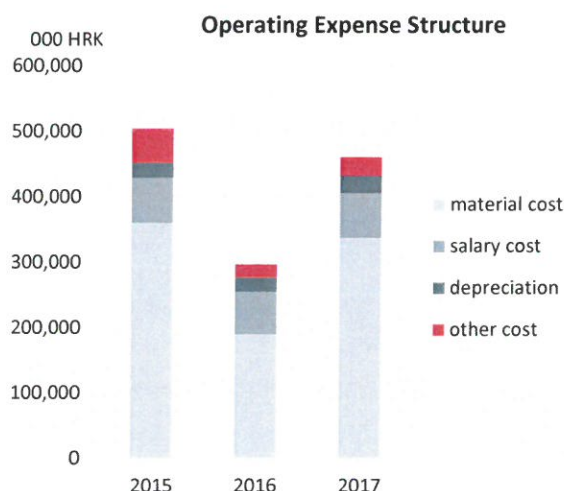
	Parent Company			Group			Influence of the subsidiaries on the Group's result in 2017
	2016	2017	2017/2016	2016	2017	2017/2016	
Sales	261.560	480.495	183,7%	262.136	481.247	183,6%	0,2%
Revenues from using own products	28.754	26.686	92,8%	28.754	26.686	92,8%	0,0%
Sale of material and waste	2.995	3.751	125,2%	3.054	3.751	122,8%	0,0%
Other operating revenues	9.339	3.074	32,9%	9.313	2.894	31,1%	6,2%
Total operating revenue	302.648	514.006	169,8%	303.257	514.560	169,7%	0,1%
Financial income	342	237	69,3%	355	243	68,5%	2,5%
Total revenues	302.991	514.243	169,7%	303.612	514.803	169,6%	0,1%
Material cost*	192.511	340.147	176,7%	190.291	337.906	177,6%	0,7%
Salaries*	62.752	65.791	104,8%	65.005	68.258	105,0%	3,6%
Depreciation	21.832	26.501	121,4%	21.993	26.652	121,2%	0,6%
Other cost	18.830	27.959	148,5%	19.213	28.433	148,0%	1,7%
Total operating expense	295.925	460.398	155,6%	296.502	461.249	155,6%	0,2%
Financial expense	4.983	8.248	165,5%	4.995	8.256	165,3%	0,1%
Total expenses	300.908	468.646	155,7%	301.497	469.505	155,7%	0,2%
Profit before tax	2.083	45.596	2189,0%	2.115	45.298	2141,7%	0,7%
Profit tax	630	8.569	1360,2%	642	8.569	1334,7%	0,0%
Loss attributed to minority interest					-37		
Net profit	1.453	37.027	2548,3%	1.473	36.766	2496,0%	0,7%

* Adjusted for increase or decrease of work in progress

High occupancy rate achieved in 2017 resulted in higher revenues from core activity almost on the same level as in 2015. Other revenues are constant every year. Compared to 2015, revenues from self-directed investing generated in 2016 and 2017 were slightly higher.

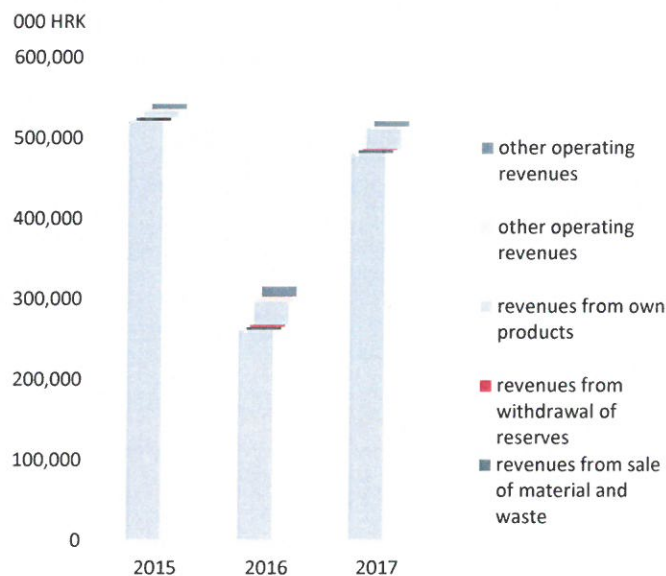
The growth of operating revenues in 2017 compared to the previous year was followed by the growth of operating expenses, both by Viktor Lenac and the Group as a whole. Based on important efforts that have been made to better manage costs and increase efficiency and productivity, operating expenses grew at a significantly lower rate than operating revenues, compared to the previous year. In 2017, Viktor Lenac's operating expenses amounted to HRK 460.4 million, while the Group's operating expenses were higher by HRK 0.8 million.

Put in the perspective of the total structure of operating expenses, the material costs were the most important and included raw material and equipment cost (23% compared to 26% in 2016) and external tangible services (77%) mostly involving subcontractor cost. Salary cost is fixed cost of approximately the same absolute amount but a different relative ratio depending on the capacity utilisation level where in periods of high capacity utilisation rate more subcontractors are engaged. Thus, the salary cost in 2017 accounted for about 15% of total operating expenses, similar as in 2015, down by 7% compared to 2016. Other costs related to various operating costs, mainly administrative costs that are relatively independent of the volume of operating revenues, such as various non-taxable



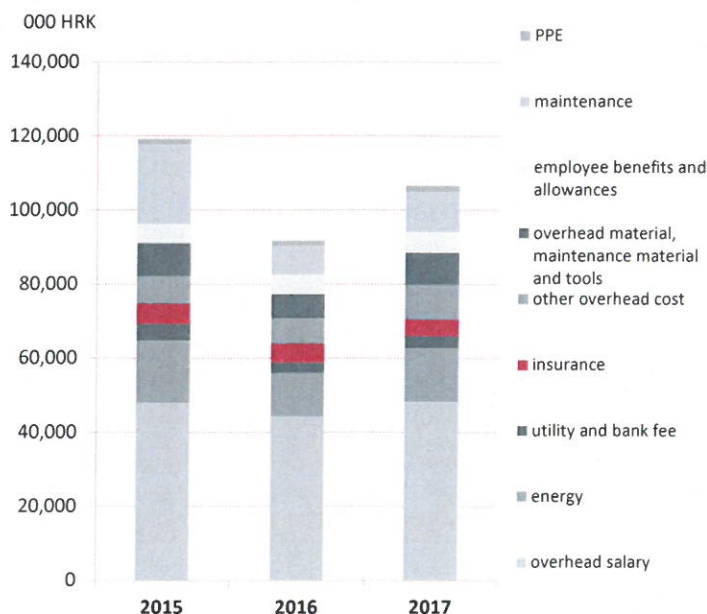
carriers of generation of revenue or creation of new assets. Of the total operating expenses (excluding depreciation), about 30% referred to overheads, which are mostly of a fixed nature. Their share in total expenses therefore varies, and in periods of high capacity utilisation rate their share is lower, whereas in periods of low capacity utilisation rate or oscillations of the capacity utilisation rate the share of such costs in total costs is higher. Given the trend in revenue in the observed years, in 2017, overheads accounted for only 23%, while the share in 2016 was 31%. The most significant overheads are the costs of salaries of overhead workers and direct production workers for ineffective work and work that is not directly related to generation of revenue or creation of new assets, then energy costs, property maintenance costs, overhead material in plants and organizational units, non-taxable allowances and personal protective equipment, as well as insurance premiums, utility and bank fees.

Operating Revenue Structure



employee benefits, insurance premiums, bank and utility fees. In the graph, other expenses include expenditures for unused annual vacations, court disputes, receivables and other operating expenses. Costs are allocated to direct working orders that are the

Overhead Cost Structure



By implementation of constant control and rationalization of all non-value added costs, the overhead cost tends to have a downward trend, both for Viktor Lenac and the Group, especially in absolute amount. Reducing non-productive cost burden remains a permanent task for future periods, which is especially felt in periods of the oscillations of the capacity utilisation rate.

The difference between operating revenues and expenses in 2017 resulted in an operating profit before depreciation in a total amount of HRK 80.1 million (Group: HRK 80.0 million), representing a 15% rate in relation to operating revenues.

Depreciation cost amounted to HRK 26.5 million (Group: HRK 26.7 million), up by HRK 4.7 million compared to the previous year due to investment in fixed assets.

After calculating the cost of depreciation and net financial expense, Viktor Lenac achieved a profit before tax in the amount of HRK 45.6 million and the consolidated profit before tax amounted to HRK 45.3 million.

The difference between financial income and expense generated a total negative balance of HRK 8 million, of which net interest expenses amounted to HRK 3.1 million, while the net negative exchange rate difference was HRK 4.9 million, almost at entirely referred to the Parent company.

The major interest expense related to the investment loan for financing investments in fixed assets, and the rest referred to short-term interest expense on bank loans and financial leasing.

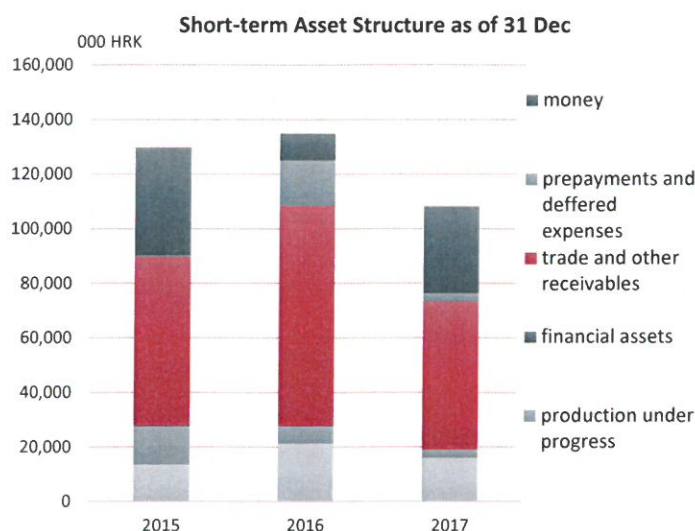
As US Dollar had weakened against the national currency and due to a significant share of revenues and receivables generated during the past year in the USD, the Company recorded a significantly higher amount of negative exchange rate differences compared to the previous year. At the same time, most of the costs and liabilities were in the national currency, so the positive exchange rate differences were significantly lower than the negative. The negative foreign exchange differences in 2017 amounted to HRK 4.9 million, unlike the year before, when it amounted to HRK 1.9 million. However, with respect to sales revenue, the foreign exchange difference represented only 1%, which is why Viktor Lenac did not use hedging instruments, judging that their benefit would not be higher than the realized negative exchange rate differences.

The profit tax liability for 2017 amounts to HRK 8.6 million for the Parent company resulting in a net profit (after tax) in the amount of HRK 37.0 million, and the consolidated net profit amounted to HRK 36.7 million.

Assets and Liabilities

As of 31 December
Thousand HRK

	Parent company			Group			Influence of the subsidiaries on the Group's result in 2017
	2016	2017	2017/2016	2016	2017	2017/2016	
Long-term assets	286.752	294.255	102,6%	287.134	294.563	102,6%	0,1%
Short-term assets	134.806	108.240	80,3%	136.332	109.987	80,7%	1,6%
Long-term liabilities	72.524	65.375	90,1%	72.543	65.401	90,2%	0,0%
Short-term liabilities	140.079	92.858	66,3%	138.799	91.984	66,3%	1,0%
Equity and reserves	208.955	244.262	116,9%	212.124	247.165	116,5%	1,2%
Total assets/resources	421.558	402.495	95,5%	423.466	404.550	95,5%	0,5%



The total value of Viktor Lenac's assets on 31 December 2017 amounted to HRK 402 million, of which HRK 294 million or 73% of fixed assets. The fixed assets of the subsidiary companies amounted to only about HRK 300,000. During 2017, long-term assets were increased by investments in existing assets and new assets. Total investment amount exceeded the depreciation cost by approximately HRK 10 million.

Tangible assets accounted for 94% of total long-term assets, with the most significant value being floating docks. The value of land and buildings is not significant, as production and business activities take place on a maritime good,

based on a concession contract.

Compared to 2016, short-term assets decreased during 2017. The completion of major projects resulted in a reduction in inventory, receivables for advances and receivables from customers, though still high on account of payment dynamics of the *USS Mount Whitney* project. The high profit achieved also resulted in the growth of available cash at the end of 2017.

Money and other bankable assets, including the value of production under progress, accounted for almost 85% of short-term assets. Inventories amounted to HRK 16 million, down by HRK 5.3 million compared to the end of 2016.

Decrease in short-term assets was followed by a decrease in short-term liabilities, primarily liabilities to suppliers and for short-term loans, which were granted at the end of the previous year for preparation of the afore-mentioned project. Liabilities to employees were at a common level as they are mainly fixed expenses. At the end of 2017, due to accrued income tax, a significant increase in liabilities to the state was recorded.

In total, consolidated short-term liabilities (accruals included) as well as short-term liabilities of Viktor Lenac decreased by HRK 47 million compared to the end of 2016. Liabilities to suppliers decreased by HRK 20 million and amounted to HRK 49.7 million at the end of 2017, whereas short-term liabilities to banks and financial institutions amounted to HRK 15.5 million at the end of 2017.

At the end of 2017, Viktor Lenac recorded a working capital of HRK 15.5 million, while the working capital of the Group was HRK 2.6 million higher.

Total equity and reserves of Viktor Lenac on 31 December 2017 amounted to HRK 244.3 million, or HRK 247.2 million for the Group, which in both cases exceeds the amount of total liabilities by over 50%.



MAIN RISKS AND EXPOSURES

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, labour market liberalization and labour mobility across the EU countries, in relation to the development of maritime market may pose significant challenges to further development of Viktor Lenac. Hence it follows that Viktor Lenac is mostly exposed to high labour cost risk, while it is believed that its exposure to financial risks is of minor importance. However, so far, no significant negative impact of labour market liberalization on the Company's labour costs has been observed given the relatively even impact spread across competition, except for Turkish competitors. At the same time, the Croatia's membership in the European Union did not affect the Company's revenues, considering that for many years the Shipyard earns more than 80% of its revenues from foreign market, where EU countries make the biggest piece of the pie.

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. It is unpredictable when the global economy and the world shipping trade will recover significantly over time. However, experience suggests that on the long-term it is likely to expect that enough vessels sailing within range of Viktor Lenac will need repair services. Issues of market risk and competitive risk with respect to Viktor Lenac's activities primarily have influence on changes in Viktor Lenac's prices arising therefrom, as well as capacity utilisation rates. Global influences such as oscillating oil prices have also been felt by Viktor Lenac over the last few years, however, without significantly affecting the Company's competitiveness given the relatively even impact spread across competition.

Price Risk

On 1st July 2013, Croatia became the 28th member of the European Union. Compliance with the European laws has been completed in environmental protection, health and safety at work, fire protection and safety, causing an increase of overhead workers as well as overhead expenses deriving from fulfilment of such requirements.

Viktor Lenac can expect further cost increase, which will unavoidably lead to the necessity of increasing productivity and identifying internal resources. In other words, it is not likely to expect that increased costs could be compensated by raising prices, having in mind that shipyards are under intense pressure to reduce prices if they want to remain competitive.

Risks associated with changes in cost of raw material and other materials used in shipbuilding industry, such as steel, have no significant impact on Viktor Lenac. In particular, ship repair activities and production processes are characterized by short cycles, therefore, Viktor Lenac is not exposed to risk of loss due to firm fixed price contracts. Moreover, material cost participates in revenues with less than 20% and has relatively even impact spread across competition.

Personnel Risk and Risk of Labour Cost

EU membership brings a risk of increasing cost of labour, though the cost of labour in Croatia is already higher than in some other EU members. Significant proportions of skilled labour migration to countries of the Western Europe can also be expected. Consequently, more pressure will be felt on labour price increase to acquire and maintain skilled workers.

Shortage in 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 labour mobility 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 modern technologies, aimed at the rationalization of production, and better performance in production and other business activities. During 2017, Viktor Lenac solved the problem of shortage by hiring foreign workers from Ukraine.

Currency Risk

Most of the revenues from sales have been generated on foreign markets, mainly in EUR. Changes in exchange rates (EUR/HRK) may therefore have an impact on operating results. However, due to a high receivable turnover ratio, currency risk is not significant, which means that Viktor Lenac does not require an active hedging strategy in foreign currency transactions. On the other hand, the Company's liabilities are not exposed to significant currency risk, since most of these liabilities are denominated in local currency. The USS Mount Whitney Repair Contract stipulated in US dollars resulted in higher negative exchange rate differences because US Dollar had weakened against the euro in the year. The exchange rate differences accounted for less than 1% of operating revenue. Given the expected currency fluctuations, and depending on future USD/EUR currency movements and forecasts, Viktor Lenac will, if necessary, use hedging instruments.

Default Risk

Default risk implies non-fulfilment of contractual obligations of other counterparties that could produce a monetary loss, primarily referring to trade receivables. Viktor Lenac uses different payment terms depending on client's financial capability assessment. The objective is to do business with steady customers, whose credibility can be assessed more safely having in mind long-term cooperation. In case there is a higher payment risk, the objective is to agree payment in full before redelivery. Guarantees and other payment security instruments are not common in ship repair; the Company, however, has the right to arrest a ship at any port in accordance with the maritime regulations. Customer receivables may involve many customers, so the risk of non-payment is dispersed. Trade receivables are discounted for doubtful receivables that generally make less than 1% of total turnover, which makes default risk low. There is no other significant default risk focus.

Liquidity Risk

Liquidity risk or funding liquidity risk (aka cash-flow risk) is related to market risk which involves oscillations of the capacity utilisation rate. Viktor Lenac manages liquidity risk through continuous monitoring of forecasted and realized cash flows. For larger projects that may have a significant impact on outflows, especially in the preparatory phase of project when there is no inflow, Viktor Lenac uses short-term loans.

OWNERSHIP STRUCTURE

On the day of 31 December 2017, the total share capital of the Company amounted to 168,132,470 Croatian Kuna, divided in 16.813.247 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. The total of shares has been included in quotation of public joint-stock companies on the Zagreb Stock Exchange. During 2017, the Zagreb Stock Exchange recorded 2780 transactions in trading of Viktor Lenac's stocks having a trade transaction value of 11,807,273 HRK from 950,789 shares, with the average cost of HRK 12.42 per share, which is twice as high as in 2016, when 767 transactions generated a value of HRK 4,598,456 from 717,312 shares.

On the day of 31 December 2017, ten largest shareholders of Viktor Lenac participated with more than 90% in the company share capital as follows:

	Shareholder	Number of Shares	Percentage of Equity
1	Tankerska plovidba JSC, Zadar	6.212.738	36,95
2	Shipyards Uljanik JSC, Pula	5.829.785	34,67
3	Privredna Bank JSC, Zagreb/Collective Custody Account	1.367.268	8,13
4	Shipyards Viktor Lenac JSC, Rijeka	825.187	4,91
5	Jadroagent JSC, Rijeka	324.766	1,93
6	Croatian Restructuring and Sale Centre	310.636	1,85
7	R.L.E. Ltd., Drniš	105.211	0,63
8	Weiss Branka Maria	77.308	0,46
9	Biliš Marko	49.155	0,29
10	List GmbH Austria	45.992	0,27
	Other	1.665.201	9,90
	Total:	16.813.247	100,00

Until 2011, in accordance with decisions made by the General Assembly, the Company acquired a total of 825,187 own shares, representing 4.91% of the company share capital.

CORPORATE GOVERNANCE

Corporate Governance can be defined as a framework for planning, organizing, directing and controlling of 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.

An adequate implementation of 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 the Zagreb Stock Exchange, the Company 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, additional information is announced through the Croatian News Agency OTS service.

In 2017, Viktor Lenac's Supervisory Board held five sessions to evaluate the Company's financial performance, its position on the market, business plans and key projects. The members of the Supervisory Board receive detailed information on the Company's management and business performance enabling them to exercise supervision over the Company. The Committee for Audit held four sessions.

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 critical issues stipulated by law and company statute. The General Assembly's regular session was held in August 2017.

By implementing the principles of the Corporate Governance Code, Viktor Lenac seeks to create a high-quality and long-term relationship with the entire investment community.

SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Supervisory Board of the Viktor Lenac Shipyard is composed of five members, of whom four members are representatives of the two largest individual shareholders and the fifth member is a representative of the Shipyard's workers.

The members of the Supervisory Board, except for the workers' representative, are appointed by the General Assembly for a term of office of four years. The Supervisory Board is currently composed of the following members: John Karavanić (Chairman), Elvis Pahljina (Vice-Chairman), and Hrvoje Markulinčić and Luka Kolanović as members of the Supervisory Board.

A workers' representative in the Supervisory Board is elected by the Workers' Council for the period of three years. In April 2017, a new Workers' Council was elected for a new three-year term with Zoran Košuta in quality of a new representative of workers in the Supervisory Board, replacing Božo Balen.

A Committee for Audit was established by the Supervisory Board in December 2014, composed of Elvis Pahljina, Genarij Sutlović and Ines Mirković.

Biographies of Members of the Supervisory Board

John Karavanić was born in New York in 1967. He attended St Thomas the Apostles Primary School in Queens where he grew up. He returned to Croatia and finished secondary education in Zadar. He continued education at the Faculty of Economics in Zagreb and in 1992 he acquired master's degree in economics. In the same year, he was employed as an intern in the marketing sector of the Tankerska plovidba Company. In 1993, he became

full-time employed in the commercial sector as Assistant Manager in the Department for Transport of Petroleum Products and Chemicals. From 1997 to mid-1999, he held the position of Deputy Manager of the department. In 1999, he started his four-year term of office in London's affiliate of Tankerska plovdba, where he worked as a broker until 2004. Upon his return from London's Alan Shipping he continued to work in the commercial sector as Chartering Manager in the Crude Oil Tanker Department. Two years later, he became Head of Tanker Project Management Department and Deputy Commercial Director. Since August 2014, he is the sole member of the Management Board of Tankerska Next Generation.

Elvis Pahljina was born in Pula in 1971 where he finished his secondary education. After his graduation in economics and business in 1996 he begun to work as an intern in the Uljanik Shipyard at the Common Affairs Department. His career in finance quickly brought him to a place where in 1998 he became Manager of Foreign Currency Loans. From 2001 to 2013 he held positions of Assistant Financial Director, Assistant Director for Foreign Exchange Operations and Assistant General Director. In June 2013, he was appointed Director of Finance and then Financial Director of the Uljanik Group. He has been constantly upgrading his expert knowledge by participating in various seminars and training courses studying modern trends in financial operations, so in 2013 he participated in Project Finance Academy and obtained a certificate of Project Financing Advisor. He has also been developing other skills such as team and project management.

Hrvoje Markulinčić was born in Pula in 1975. After graduating from high school, in 1994 he entered the Faculty of Law in Rijeka, where he gained a law degree. After a few different jobs, in 2001 he was employed in the Uljanik Shipyard as PR Manager working in all major communications projects and promoting Uljanik as a modern group, oriented to building sophisticated ships. In 2007, he became Head of General Affairs, and then Director of Common Affairs. Along with the reorganisation of the Uljanik Shipyard, the Common Affairs Department was transformed into the Business Information Systems Department, consolidating all supporting functions of the group. He holds the same position today.

Luka Kolanović graduated from the Faculty of Electrical Engineering, University of Zagreb in 1997, and in 2015, he received a master's degree in Business Administration (MBA) from IEDC Business School in Bled. He became an employee of Tankerska plovdba in 1998 as a trainee in the Technical Department. He was then briefly employed by Tehnotrade limited liability company in 1999 as system engineer, and afterwards at the Zadar University from 1999-2001 as a CARNET system engineer. He returned to Tankerska plovdba in 2001 to a position of a System programmer in the Electronic Data Processing Department, advancing to a position of Head of the Electronic Data Processing Department in Tankerska plovdba in 2008. As of 2014, he is Head of Corporate Services in Tankerska plovdba. In 2011, he became a member of the Supervisory Board of Tankerska plovdba d.d. and as of 2013, he holds the position of the President of the Supervisory Board of Tankerska plovdba JSC. Since 2013, he is also a member of the Supervisory Board of Zadar Basketball Club.

Božo Balen, was born in Gospić in 1958. After finishing elementary school, he obtained a scholarship from the Viktor Lenac Shipyard and continued his secondary education in the Shipbuilding and industrial school in Rijeka, where he graduated in 1979. He was employed at the Viktor Lenac Shipyard, where he has been spending his entire working life. He acquired the fifth qualification degree as a specialist in labour, and since 1993 he has been holding the position of foreman in shipbuilding.

Zoran Košuta, was born in Rijeka in 1975. He finished the Electrical Engineering School and was employed by Viktor Lenac in 1999 as ship electrician. From 2003 to 2005 he performed the duties of dock electrician, whereas from 2005 to 2015 he was examiner, when he was appointed to Electrician Foreman. He holds the same position today.

Income and Ownership Interest of Members of the Supervisory Board

The total remuneration for the members of the Supervisory Board and Committee for Audit for 2017 amounted to HRK 501,984.11, including all taxes and contributions.

MANAGEMENT BOARD

The Company's Management Board is composed of the following members: Aljoša Pavelin, President of the Board & CEO and Sandra Uzelac, Member of the Board. The Supervisory Board appointed Aljoša Pavelin as the new President of the Board on their session held on 28th April 2016 for a five-year mandate, starting on 1st May 2016. Sandra Uzelac was appointed to the position of Member of the Board in April 2013 for a term of five years.

Biographies of Members of the Management Board

Aljoša Pavelin was born in 1970 in Split. He graduated from the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split and obtained the title of a graduate electrical engineer. He started his career in telecommunications and ICT, holding various technical and managerial positions in *Hrvatski Telekom* and *Metronet telekomunikacije* during a period of ten years. From 2009 to 2013, he held the position of Chief Executive Officer in Marketing and Sales in renowned Croatian ICT companies - *Verso* and *Recro-net Group*, during which period, he was responsible for developing business with key clients in the markets of Croatia, Bosnia and Herzegovina, Kosovo, Albania, Turkey and the United Arab Emirates. In 2013, he returned to Hrvatski Telekom to the position of Operational Director of the ICT Sector. In next two years, under his leadership, the ICT Sector achieved a significant growth in revenues. In May 2016, he assumed the position of President of the Management Board and Chief Executive Officer of the Viktor Lenac Shipyard with the task of increasing the Company's value. He completed the EMBA program at the IEDC Business School in Bled and attended numerous trainings and education on strategy, strategic management and leadership within the management training program of Deutsche Telekom. He believes that knowledge, hard work and personal integrity are the only guarantee of success.

Sandra Uzelac was born in Rijeka in 1969. After finishing primary and secondary education in Rijeka, she graduated from the Faculty of Economics Rijeka in 1994. She has been employed in the Viktor Lenac Shipyard since 1994 at various positions: Office Worker in Salary & Economics of Labour Department from 1994 to 1997, Financial Officer and Assistant Accounting Manager in the 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 Head of Financial Division. After termination of the bankruptcy procedure, she has been appointed Member of the Management Board, and has also been holding the position of Financial Director. During the period from 1997 to 2006, she attended several specialized seminars and upgrading programmes. In 2013, she finished postgraduate economics in controlling) at the Faculty of Economics of Rijeka. She speaks fluently English.

Income and Ownership Interest of Members of the Management Board

Every member of the Management Board receives income, which is stipulated by employment contract concluded with each member and approved by the Supervisory Board.

The total amount of salaries, severance pay, and bonuses paid to the members of the Management Board for the year 2017 was 1,809,324,33 Croatian Kuna, including all taxes and contributions.

Sandra Uzelac, Member of the Management Board owns 1038 company shares, which she, as former bankruptcy creditor, acquired by converting her monetary claims into the company share capital.

Aljoša Pavelin, President of the Management Board does not own any company shares.

FOR INFORMATION

Management

Bojan Kavazović, Director of Marketing and Sales Division

Zlatko Marović, Director of Technical and Production Division

Dražen Bevanda, Head of HSE

Aleksandra Masar, Head of Quality Control

Dolores Kuzmić, Head of Procurement

Alen Karnjuš, Head of ICT, QA and Organisation

Aleksandar Jurčević, Head of Human Resources

Auditor

INŽENJERSKI BIRO – REVIZIJA d.o.o. Zadar

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Pursuant to 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'), and pursuant to Article 22 of the Law on Accounting (Official Gazette No. 78/15, 134/15, 120/16, hereinafter referred to as 'LOA'), the Management Board of Viktor Lenac Shipyard (hereinafter referred to as 'Company'), on this April 20, 2018, makes the following

STATEMENT

on Implementation of the Corporate Governance Code

1. Company's shares have been included in quotation of the Zagreb Stock Exchange since September 2008.
2. Since inclusion of its shares in quotation of the Zagreb Stock Exchange, 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 2017, 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 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 established a Committee for Audit, composed of three members, which was working throughout the year.

The Supervisory Board has not established Committee for Appointment or Committee for Rewarding.

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.

The Company has established and applies the rules and procedures for receiving, recording, approving and flow of financial and business-related documentation, ensuring multiple model of supervision and transparency in revenue and expense recognition.

6. As of 31 December 2017, ten largest shareholders were the following ones:

	Shareholder	Number of Shares	Percentage of Equity
1	Tankerska plovdba JSC, Zadar	6.212.738	36,95
2	Shipyard Uljanik JSC, Pula	5.829.785	34,67
3	Privredna Bank JSC, Zagreb/Collective Custody Account	1.367.268	8,13
4	Shipyard Viktor Lenac JSC, Rijeka	825.187	4,91
5	Jadroagent JSC, Rijeka	324.766	1,93
6	Croatian Restructuring and Sale Centre	310.636	1,85
7	R.L.E. Ltd., Drniš	105.211	0,63
8	Weiss Branka Maria	77.308	0,46
9	Biliš Marko	49.155	0,29
10	List Gmbh Austria	45.992	0,27
	Other	1.665.201	9,90
	Total:	16.813.247	100,00

The General Assembly meets in regular sessions in accordance with the Company's Articles of Association and legal regulations. Shareholders may participate either personally or through a person granted by a power of attorney. Decisions of the General Assembly are made by a majority of the members present and voting, or by a two-thirds majority on statutory issues. The General Assembly is chaired by the Chairman of the General Assembly, appointed by the Supervisory Board of the Company. The General Assembly has the authority to make decisions in accordance with the provisions of the Companies Act and the Company's Articles of Association.

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 pursuant to General Assembly's powers 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 two members, Aljoša Pavelin holding the position of the President of the Board and Sandra Uzelac performing the duties of the Member of the Board. The members of the 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 (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. The General Assembly elects and relieves of their office four members of the Supervisory Board, while one member is elected, appointed and revoked by the Company's employees in accordance with positive regulations of the Republic of Croatia. The Supervisory Board is currently composed of the following members: John Karavanić (Chairman), Elvis Pahljina (Vice-Chairman), and Hrvoje Markulinčić and Luka Kolanović as members of the Supervisory Board. In April 2017, Zoran

Košuta replaced Božo Balen in his position of the workers' representative as the fifth member of the Supervisory Board.

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. In 2017, five sessions of the Supervisory Board were held.

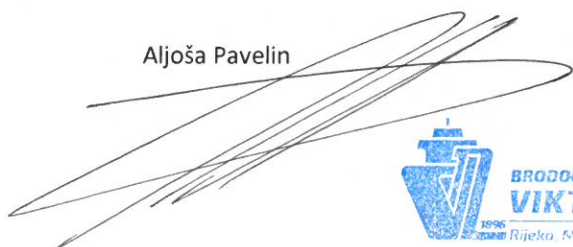
The Committee for Audit was established in December 2014 with the aim of providing support to the Company's Management Board and Supervisory Board in effectively executing their obligations in corporate governance, financial reporting and control. In 2017, the Committee held four sessions to evaluate Company's financial performance. The Committee for Audit is currently composed of the following members: Elvis Pahljina, Genari Sutlović and Ines Mirković.

8. The Diversity Policy sets out the Company's commitment to diversity and inclusion of members of different age, gender, education and profession in its executive, management and supervisory bodies.

9. 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 2017.

President of the Board

Aljoša Pavelin



Member of the Board

Sandra Uzelac

