VIKTOR LENAC SHIPYARD GROUP
Consolidated Annual Financial Statements and Audit Report for 2009

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STATEMENT ON RESPONSIBILITY FOR FINANCIAL STATEMENTS

This representation letter is provided in connection with your audit of the consolidated financial statements of Shipyard Viktor Lenac d.d. Rijeka for the year ended December 31, 2009 for the purpose of expressing an opinion as to whether the consolidated financial statements give a true and fair view of the consolidated financial position of Shipyard Viktor Lenac d.d. Rijeka and its subsidiary company (Group) as at December 31, 2009 and of the results of its operations and position on capital and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations.

We have made consolidated financial statements under the assumption that the Group shall continue doing its business for an indefinite period as reasonably expected, based on research conducted for, to have adequate funds to continue with its business in the foreseeable future.

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

- We acknowledge our responsibility for the implementation and consistent application of the appropriate accounting policies.

- We acknowledge our responsibility for giving reasonable and conservative estimates.

- We acknowledge our responsibility for the fair presentation of the financial statements in accordance with International Financial Reporting Standards and Republic of Croatia legal regulations, disclosure and interpretation of any significant deviation in the consolidated financial statements.

- We have produced the consolidated financial statements under the assumption of the continuity of business for an indefinite period of time, unless it is inappropriate to assume that the Group shall continue running its business activities.

We acknowledge our responsibility for keeping proper and accurate accounting records, which shall at any time reflect the financial status and business results of the Group with acceptable accuracy and precision as well as their compliance with the International Financial Reporting Standards and Republic of Croatia Law on Accounting.

We, also, acknowledge our responsibility for taking care of the Group's assets and for undertaking reasonable measures for preventing and revealing embezzlements and other irregularities.

VIKTOR LENAC SHIPYARD GROUP
Martinšćica bb
51000 Rijeka (Croatia)

In Rijeka, 15 April 2010

Signed for and on behalf of Group:

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Robert Škifić, Chairman of the Board

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Sandra Uzelac, Member of the Board

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Davor Lukeš, Member of the Board

Adresa: Brodogradilište VIKTOR LENAC d.d.
Martinšćica bb P.O.Box 210
Address 51000 RIJEKA – HRVATSKA

Telefon: 385/51/405 555
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Exchange

E-mail: viktor.lenac@lenac.hr
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Društvo je upisano u sudski registar Trgovačkog suda u Rijeci pod brojem Tt-08/927-2, MBS: 040000358. Temeljni kapital društva iznosi 138.444.470,00 HRK, podijeljen na 13.844.447 dionica po 10,00 HRK svaka, u cijelosti je uplaćen. Matični broj:3333710.
Predsjednik Uprave: Robert Škifić. Članovi Uprave: Sandra Uzelac, Davor Lukeš.
Predsjednik Nadzornog odbora: Karlo Radolović. Zamjenik predsjednika Nadzornog odbora: Ive Mustać.
Članovi Nadzornog odbora: Anton Brajković, Lenko Milin, Damir Bačinović.

Žiro račun: 2488001-1100112844, kod BKS Bank d.d., Rijeka.

Inženjerski biro-revizija d.o.o. Zadar

za reviziju financijskih izvještaja i pružanje usluga s područja računovodstva, poreznog savjetovanja, financijskih analiza i kontrola

23000 ZADAR, Poljana Plankit 1

Tel./Fax: 023/250-869

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE VIKTOR LENAC SHIPYARD GROUP

In the period from 26 October 2009 to 15 April 2010 we have audited the accompanying consolidated financial statements of the Viktor Lenac Shipyard Group (hereinafter "Group"), which comprise of the Consolidated Balance Sheet as at December 31, 2009, Consolidated Profit and Loss Account for the year 2009, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity for the year then ended as well as supporting significant accounting policies and other explanatory notes to the consolidated financial statements. The consolidated financial statements are set out on pages 7 to 38.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the law frame of the financial reporting applicable in Republic of Croatia to large entrepreneurs and those whose shares or corporate debts have been listed, or preparatory activities are being carried out for their listings on the stock exchange. This responsibility includes: designing, implementing and maintaining of internal control relevant for preparation and fair presentation of financial statements that are free from material misstatements, whether due to error or fraud; selecting and applying of appropriate accounting policies as well as making of accounting estimates that are reasonable in the existing circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Qualifications influencing auditor's opinion

1. Being appointed the auditors for the year 2009, we were not able to implement auditing procedures required for ensuring reasonable certainty as to the balance sheet as at 31 December 2008. We, therefore, disown any effect of the initial status that might have influenced the profit and loss statement for 2009.

2. As stated in the note no. 7 – Depreciation, the mother company used its right, in accordance with the tax l regulations of the Republic of Croatia, to accelerated depreciation of its fixed tangible assets for the year 2009. Such method is opposed to the International Financial Reporting Standards which obligate to the application of the linear method that is based on the estimated lifetime of fixed tangible assets subjected to depreciation. If, according to the International Financial Reporting Standards, were applied the linear method, the fixed tangible assets in the balance sheet as at 31 December 2009 would have been increased by approximately 4,200,000 Croatian Kuna, thereby resulting in an increase for approximately the same amount in the profit and loss statement.

3. As stated in the note no. 17 – Inventories, we are not able to confirm the value of inventories in its entirety considering that during the bankruptcy period the value adjustment of inventories was not recorded analytically resulting in non-conformance between the analytical and synthetic records. In 2009 the value of inventories was adjusted on the account of changing over from planned to average prices in stock statements without being recorded in the profit and loss statement.

Opinion

In our opinion, the accompanying consolidated financial statements of the VIKTOR LENAC SHIPYARD GROUP which were the subject of our audit, exclusive of the effects from the item 1 to 3 (Qualifications) and other effects which could affect the consolidated financial statements, present fairly, in all material respects, the consolidated financial position as at December 31, 2009, consolidated financial performance, consolidated changes of equity and consolidated cash flows for the year 2009 in accordance with the International Financial Reporting Standards applicable in Republic of Croatia.

Issues not affecting auditor's opinion

1. Without any influence on our opinion we note to the note no.2 to the consolidated financial statements - Important accounting policies, detailing in the Statement of Compliance the basics of the law frame of the financial reporting as applied to large entrepreneurs, which, until the integration of the Republic of Croatia into the European Union, shall be based on the International Financial Reporting Standards, including amendments and associated interpretations and International Accounting Standards, including amendments and associated interpretations as established by the Financial Reporting Standards Board and published in the Croatian Official Gazette.
2. Without any influence on our opinion we note to the note no. 31 – Disputes, to the effect that their final outcome may not be established at the moment of drawing up this report either liabilities which might arise therefrom and which might be recorded in the financial statements.
3. Without any influence on our opinion we note the note no. 6 – Employee expenses.

Report on legal and regulatory requirements

In accordance with the Regulations on the Structure and Content of the Annual Financial Statements as of 28 March 2008 (O.G. 38/08), the Management of the mother company prepared the consolidated annual financial statements in a standard form (for purpose of public disclosure named as „Standard Annual Financial Statements"), which consist of a non-standard presentation form of the Balance Sheet as at 31 December 2009, Profit and Loss Statement, Statement on Changes in Equity and Cash Flow Statement for the year 2009 as well as an adjustment („Adjustment") of the Standard Annual Financial Statements to the annual financial statements presented from the page 36 to 38 (for purpose of public disclosure named „Non-standard Annual Financial Statements"). The Management of the mother company acknowledges its responsibility for the Standard Annual Financial Statements and Adjustment. Financial information in the Standard Annual Financial Statements derived from the Non-standard Annual Financial Statements of the Group to which we gave our opinion as described under the „Opinion".

In Rijeka, 15 April 2010

"Inženjerski biro-revizija" d.o.o. Zadar

Certified auditor:

Branimir Grgić

President:

Irena Dobrović, certified auditor

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

CONSOLIDATED BALANCE SHEET

(As at 31 December 2009)

	Description	Note	2008	2009	in HRK 09/08 +/-%
1	2	3	4	5	6=5/4%
	ASSETS				
A.	***FIXED ASSETS***	***14***	***119.077.145***	***127.398.853***	***107***
I	*INTANGIBLE ASSETS*	***14***	*149.476*	*2.817.227*	*1885*
II	*BUILDINGS, PLANTS AND EQUIPMENT*	***14***	*118.834.056*	*124.511.988*	*105*
III	*SHARES IN DEPENDENTS AND ASSOCIATES*	***15***	*38.018*	*38.018*	*100*
IV	*FINANCIAL ASSETS*		*55.595*	*31.620*	
V	*RECEIVABLES*		-	-	
VI	*DEFERRED TAX ASSETS*		-	-	
B.	***SHORT-TERM ASSETS***		***148.753.167***	***161.213.531***	***108***
I	*INVENTORIES*	***17***	*24.025.171*	*26.932.459*	*112*
II	*FINANCIAL ASSETS*	***16***	-	*580.000*	-
	TRADE AND OTHER RECEIVABLES	***18***	*55.873.433*	*44.837.995*	*80*
IV	*MONEY IN BANK AND CASH IN REGISTER*	***19***	*68.854.563*	*88.863.077*	*129*
V	*ASSETS HELD FOR SALE*		-	-	
C.	***TOTAL ASSETS***		***267.830.312***	***288.612.384***	***108***
D.	***OFF BALANCE SHEET ITEMS, EQUITY AND LIABILITIES***		**-**	**-**	
A.	**EQUITY**	**20**	***172.613.458***	***192.136.361***	***111***
I	SHARE CAPITAL	**20**	*124.078.130*	*138.444.470*	*112*
II	CAPITAL RESERVES		-	-	
III	RESERVES		-	45.825.198	-
IV	RETAINED PROFIT	**20**	48.535.328	7.866.693	*16*
B.	**MINORITY INTEREST**		-	-	
C.	**LONG-TERM LIABILITIES**	**21**	**26.781.860**	**25.785.976**	***96***
I	DEBENTURES WITH INTEREST CHARGE		-	1.798.285	-
II	EMPLOYEE INCOME		-	-	
III	*PROVISIONS*	***24***	*9.424.483*	*6.686.459*	*71*
IV	*OTHER LONG-TERM LIABILITIES*	***25***	*17.357.377*	*17.301.232*	*100*
D.	***SHORT-TERM LIABILITIES***		***68.434.994***	***70.690.047***	***103***
I	DEBENTURES WITH INTEREST CHARGE		*13.500.000*	*461.779*	-
II	*PROFIT TAX LIABILITY*	***22***	*9.418.992*	*1.276.773*	*14*
	TRADE AND OTHER PAYABLES	***22***	*45.516.002*	*61.645.296*	*135*
IV	*FINANCIAL LIABILITIES*				
V	EMPLOYEE INCOME				
VI	*PROVISIONS*	***24***		*7.306.199*	-
E.	***TOTAL LIABILITIES***		***95.216.854***	***96.476.023***	***101***
F.	***TOTAL EQUITY AND LIABILITIES***		***267.830.312***	***288.612.384***	***108***

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(As at 31 December 2009)

in HRK

	Description	*Notes*	*2008*	*2009*	09/08 +/-%
1	2	3	4	5	6=5/4
1.	***OPERATING REVENUES***		***417.500.974***	***327.612.533***	78
1.1.	*Revenues from sales*	**3**	*312.338.924*	*284.640.405*	91
1.2.	*Revenues from use of own products, goods and services*	**4**	*683.296*	*9.578.051*	1402
1.3.	*Other operating revenues*	**4**	*104.478.754*	*33.394.077*	32
2.	***OPERATING EXPENSES***		***314.821.548***	***322.990.178***	103
2.1.	*Changes in value of unfinished production*		*(9.299.871)*	*(4.538.878)*	49
2.2.	*Material expenses*	**5**	***216.277.815***	***210.290.367***	97
2.3.	*Employee expenses*	**6**	***63.370.585***	***72.602.914***	115
2.4.	*Depreciation*	**7**	*22.063.992*	*21.100.079*	96
2.5.	*Value adjustment*	**8**	*946.393*	*5.897.157*	623
2.6.	*Provisions*	**9**	*9.424.483*	*4.568.175*	48
2.7.	*Other expenses*	**10**	*10.674.428*	*11.869.921*	111
2.8.	*Other operating expenses*		*1.363.723*	*1.200.443*	88
3.	***EBIT***		***102.679.426***	***4.622.355***	5
4.	***NET FINANCIAL (EXPENSES/REVENUES)***	**11**	***952.534***	***2.530.942***	266
4.1.	*Financial revenues*	**11**	*2.883.795*	*3.697.714*	128
4.2.	*Financial expenses*	**11**	*1.931.261*	*1.166.772*	60
5.	***PROFIT / (LOSS) BEFORE TAX***		***103.631.960***	***7.153.297***	7
6.	***PROFIT TAX***	**12**	***9.418.992***	***1.863.134***	**20**
7.	***NET PROFIT / (LOSS)***		***94.212.968***	***5.290.163***	**6**
	Earnings per share (HRK)	**13**	*7,59*	*0,38*	

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED CASH FLOW STATEMENT

(As at 31 December 2009)

	Description	Note	2008	2009	in HRK 09/08 +/-%
1	2	3	4	5	6=5/4%
I	**CASH FLOW FROM OPERATING ACTIVITIES**				
1.	*Profit/loss before taxation*	**33**	*103.631.960*	*7.153.297*	*7*
	Adjustment for:				
2.	*Profit tax*		*(9.418.992)*	*(1.863.134)*	*20*
3.	*Depreciation of buildings, plants and equipment*		*22.063.992*	*21.100.079*	*96*
4.	*Expenses/revenues from interests (net)*		*(1.703.997)*	*(2.953.881)*	*173*
5.	*Decrease of trade receivables*		*946.393*	*5.897.157*	*623*
	Profit from operating activities before changes in current capital		*115.519.356*	*29.333.518*	*25*
6.	*Increase / decrease of inventories*		*(10.447.499)*	*(2.907.288)*	*28*
7.	*Increase / decrease of short-term receivables*		*9.932.000*	*6.403.882*	*64*
8.	*Increase / decrease of liabilities*		*(102.901.334)*	*18.410.162*	-
9.	*Profit tax paid*		*(51.218)*	*(9.491.375)*	-
10.	*Interest paid*		*(28.362)*	*(963.882)*	-
11.	*Interest received*		*64.111*	*1.688.280*	-
12.	*Other*		*9.424.483*	*4.568.175*	*48*
	CASH FLOW FROM OPERATING ACTIVITIES		***21.511.537***	***47.041.472***	*219*
II	***INVESTING ACTIVITIES***				
1.	*Acquisition of buildings, plants, equipment and intangible assets*		*(7.207.741)*	*(29.772.645)*	*413*
2.	*Revenues from sale of fixed assets*		*1.939.157*	*326.883*	*17*
3.	*Granted loans*		-	*(630.000)*	-
4.	*Inflows of loans*		-	*50.000*	-
5.	*Cash outflows from investing activities*		*(138.110.444)*		-
	CASH FLOW FROM INVESTING ACTIVITIES		*(143.379.028)*	*(30.025.762)*	*21*
III	**FINANCIAL ACTIVITIES**				
	Revenues from equity and debt securities		124.078.130	14.366.340	*12*
2.	Revenues from debentures with interest charge		*13.500.000*	*3.180.236*	-
3.	Debenture payments		-	*(14.420.172)*	-
4.	Acquisition cost of own shares		-	*(133.600)*	-
IV	***CASH FLOW FROM FINANCIAL ACTIVITIES***		**137.578.130**	**2.992.804**	*2*
	TOTAL INCREASE / DECREASE OF CASH FLOW (I+II+III)		15.710.639	20.008.514	*127*
V	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		53.143.924	68.854.563	*130*
VI	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**	**19**	**68.854.563**	**88.863.077**	*129*

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

in HRK

Description	Note	*31.12.2008*	*Changes in 2009*	*31.12.2009*
1	2	3	4	5
Subscribed capital	*20*	*124.078.130*	*14.366.340*	*138.444.470*
Capital reserves	*20*	*0*	*45.958.798*	*45.958.798*
Retained profit or transferred loss	*20*	*48.535.328*	*(40.668.635)*	*7.866.693*
Acquision of own shares	*20*	*0*	*(133.600)*	*(133.600)*
Total equity	***20***	***172.613.458***	***19.522.903***	***192.136.361***

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board

Notes to Consolidated Financial Statements as at 31 December 2009
(making an integral part of the consolidated financial statements)

1. GENERAL INFORMATION

The joint-stock company VIKTOR LENAC shipyard, Martinšćica bb, Rijeka (hereinafter referred to as „Mother company“) has been registered under the company's registration number 040000358 in the register of the Commercial Court of Rijeka.

By the Rijeka Commercial Court's decision no. St-183/03 as of 8 December 2003, the mother company was under bankruptcy proceedings, which terminated on 9 April 2008 by the decision of the Commercial Court of Rijeka after the implementation of the legally valid Bankruptcy plan.

The share capital of the mother company amounts to 138,444,470 Croatian Kuna and is divided in:

- *13.831.087 non-materialized ordinary shares in name, each having a nominal value of 10 Croatian Kuna*
- *13.360 own shares, each having a nominal value of 10 Croatian Kuna*

According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb, the mother company has been classified under the subclass number 3011 – building of ships and floating vessels, having its tax number 03333710 and identification number 27531244647.

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

On the day of 31 December 2009 the mother company employed 580 employees.

The limited liability company VIKTOR - SERVISI Rijeka, Martinšćica bb, company's registration number 40040360 is an entity owned by the joint-stock company VIKTOR LENAC shipyard Rijeka, and shall, therefore, be included into the consolidation.
According to the Notice on classification of legal entities by National classification of economic activities of the Central Bureau of Statistics in Zagreb as of 13 February 2008, the subsidiary company has been classified under the subclass number 2811– production of engines and turbines exclusive of engines for aircrafts and motor vehicles, having its tax number 03767248 and identification number 06081251984.
The main activity of the subsidiary company is repair and maintenance of machines and devices. The share capital amounts to 254,000 Croatian Kuna.
On the day of 31 December 2009 the subsidiary company employed 15 employees.

The Viktor Lenac shipyard owns shares of minority interest in another company, which are not included into the consolidation.

Likewise, its subsidiary company also owns shares of minority interest in another company, which are not included into the consolidation.

The members of the Supervisory Board of the mother company during 2009 and up to the moment of drawing up this report were:

Karlo Radolović	*Chairman*
Ive Mustać	*Member*
Anton Brajković	*Member*
Lenko Milin	*Member*
Damir Bačinović	*Member*

The mother company's Management Board is composed of three members:

Robert Škifić	*Chairman of the Board*
Sandra Uzelac	*Member of the Board*
Davor Lukeš	*Member of the Board*

The mother company had the following ownership structure as at 31 December 2009 :

	Number of shares	%
Tankerska Plovidba j.s.c. Zadar	*5.169.660*	*37,34*
Uljanik Shipyard j.s.c. Pula	*3.904.063*	*28,20*
Croatian Privatization Fund from Zagreb	*1.724.298*	*12,45*
Croatian Bank for Reconstruction and Development from Zagreb	*1.367.268*	*9,88*
Konstruktor Inženjering j.s.c. Split	*272.201*	*1,97*
Privredna Bank j.s.c. Zagreb	*258.751*	*1,87*
R.L.E. Ltd. Drniš	*105.211*	*0,76*
Negotium Ltd. Novalja	*52.139*	*0,38*
List Gmbh Austria	*45.992*	*0,33*
Jadranski Pomorski Servis j.s.c. Rijeka	*35.874*	*0,26*
Other	*908.990*	*6,56*
Total	***13.844.447***	***100,00***

On the day of 15 April 2010, the Management Board of the mother company approved the Consolidated Financial Statements for their submitting to the Supervisory Board.

2. BASIS FOR CONSOLIDATION, STATEMENT ON COMPLIANCE AND BASICS OF REPORTING SUMMARY OF BASIC ACCOUNTING POLICIES

2.1. Basis for consolidation, statement on compliance and basics of reporting

a) *The Consolidated Financial Statements for 2009 have been prepared in accordance with the Republic of Croatia regulations and entrepreneurs' accounting policies.*

The Consolidated Financial Statements have been prepared in accordance with the law frame of the financial reporting applicable in the Republic of Croatia to large entrepreneurs and those whose shares or corporate debts have been listed, or preparatory activities are being carried out for their listings on the stock exchange, based, until the integration of the Republic of Croatia into the European Union, on the International Financial Reporting Standards ("IFRS"), including amendments and associated interpretations and International Accounting Standards ("IAS"), including amendments and associated interpretations as established by the Financial Reporting Standards Board ("Board") and published in the Croatian Official Gazette.

Up to the date of the balance sheet, the Board established and published in the Croatian Official Gazette the International Financial Reporting Standards as adopted by the European Commission and published in the European Union's Official Gazette no. 1126/2008, without publishing the International Financial Reporting Standards established by the European Commission, published in the official gazettes of the European Union no. 1293/09, 1171/09, 1165/09, 1164/09, 1142/09, 1136/09, 839/09, 824/09, 636/09, 495/09, 494/09, 460/09, 254/09, 70/09, 69/09, 53/09, 1274/08, 1263/08, 1262/08, 1261/08, 1260/08, which confirm changes, modifications and amendments to the standards based on the project of the International Accounting Standards Board from May 2008. These changes have been published and are in force in the Republic of Croatia since 1st January 2010 and shall be applied to the preparation of financial statements for the periods starting from 1 January 2010. Accordingly, the main differences between the frame of financial reporting applied to large entrepreneurs and IFRS established by the European Commission for the year 2009 are as follows:

Changes in standards:

- *IFRS 1 (2008), First application of International Accounting Standards (in force since 1st July 2009)*
- *IFRS 3 (2008), Business combinations (in force since 1st July 2009)*
- *IAS 1 (2007), Presentation of financial statements (in force since 1st January 2009)*
- *IAS 23 (2007), Borrowing costs (in force since 1st January 2009)*
- *IAS* 27 (2007), *Consolidated and separate financial statements (in force since 1st July 2009)*

Modifications and amendments to standards:

- *IFRS 1, First application of International Accounting Standards and IAS 27 Consolidated and separate financial statements (in force since 1st January 2009)*
- *IFRS 2 Share-based payments (in force since 1st January 2009)*
- *IFRS 5 Fixed assets held for sale and discontinued operations (plus addition to IFRS 1, First application) (in force since 1st July 2009)*
- *IFRS 7 Financial instruments: Disclosures*

- *IAS 1/IFRS 7 Reclassification of financial assets (in force for 2008 conclusively with 31st December 2008)*
- *IAS 1 Presentation of financial statements (in force since 1st January 2009)*
- *IAS 8 Accounting policies, changes in accounting estimates and errors*
- *IAS 10 Events after the balance sheet date*
- *IAS 16 Buildings, plants and equipment (plus addition to IAS 7 Cash flow statement) (in force since 1st January 2009)*
- *IAS 18 Revenues*
- *IAS 19 Employee income (in force since 1st January 2009)*
- *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (in force since 1st January 2009)*
- *IAS 28 Investment in associates (plus additions to IAS 32 Financial instruments: Presentation and IFRS 7 Financial instruments: Disclosures) (in force since 1st January 2009)*
- *IAS 29 Financial reporting in hyperinflationary economies (in force since 1st January 2009)*
- *IAS 31 Shares in joint-ventures (plus additions to IAS 32 and IFRS 7) (in force since 1st January 2009)*
- *IAS 32 Financial instruments: Presentation and IAS 1 Presentation of financial statements – Puttable instruments and obligations (in force since 1st January 2009)*
- *IAS 34: Interim financial reporting*
- *IAS 36 Impairment of assets (in force since 1st January 2009)*
- *IAS 38 Intangible assets (in force since 1st January 2009)*
- *IAS 39 Financial instruments: Recognition and measurement (in force since 1st January 2009)*
- *IAS 40 Investment property (plus additions to IAS 16) (in force since 1st January 2009)*
- *IAS 41 Agriculture (in force since 1st January 2009)*

Interpretations:

- *IFRIC 11 IFRS 2 Group and Treasury Share Transactions (in force since 1st January 2008 – never translated in Croatian)*
- *IFRIC 12 Service Concession Arrangements (in EU in force for 2009 or 2010)*
- *IFRIC 13 Customer Loyalty Programmes (1st July 2008)*
- *IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (in force since 1st January 2008)*
- *IFRIC 15 Agreements for the Construction of Real Estate (1st January 2009, in EU since 1st January 2010)*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1st October 2008)*
- *IFRIC 17 Distributions of Non-cash Assets to Owners (1st July 2009)*
- *IFRIC 18 Transfers of Assets from Customers (as of or after 1st July 2009)*

The consolidated financial statements have been prepared under the assumption of the continuity of business for an indefinite period of time.

The preparation of the consolidated financial statements in accordance with the IFRS requires from the mother company's Management Board to make estimates, judgements and assumptions which have influence to the application of policies and amounts as disclosed for the assets, liabilities, revenues and expenses. The estimates with associated assumptions are based on the historical experience and other various factors as considered reasonable in given circumstances, resulting in a starting point for making estimates on the value of assets and liabilities that otherwise could not be obtained from other sources. Actual results may differ from such estimates.

The estimates and associated assumptions suggest regular review. The effect of correction of an estimate is recognized in the period where such estimate was corrected to the extent that such correction influences only the period in which it was made, or in the period in which the correction was made and future periods if the correction affects both the current and future periods.

Certain amounts of revenues and expenses and balance sheet items have been corrected with respect to the previous year for adjusting to the presentation of the current year. The data in the consolidated financial statements have been presented in Croatian Kuna (HRK) as reporting currency in the Republic of Croatia.

According to the IFRS, all foreign currency receivables and liabilities as well as receivables and liabilities with foreign currency clause have been adjusted to the midpoint exchange rates of the Croatian National Bank as at 31st December 2009 as follows:

1 EUR = 7,306199 HRK (31.12. 2008 1 EUR = 7,324425 HRK)
1 USD = 5,089300 HRK (31.12.2008 1 USD = 5,155504 HRK)
1 NOK = 0,877021 HRK (31.12.2008 1 NOK = 0,741286 HRK)
1 GBP = 8,074040 HRK (31.12.2008 1 GBP = 7,484595 HRK)

According to the Law on Accounting, the subsidiary company applies Croatian Financial Reporting Standards, but this had no influence to the preparation of the consolidated financial statements of the Group.

The consolidated financial statements have been prepared in accordance with the Law on Accounting and IFRS published in the Croatian Official Gazette.

The consolidated financial statements of the Viktor Lenac Shipyard Group (hereinafter referred to as "Group") are the consolidation of the data from the annual financial statements of the joint-stock company Brodogradilište Viktor Lenac (hereinafter referred to as "Mother company") and limited liability company Viktor-Servisi (hereinafter referred to as the "Subsidiary company").

***b)** Transactions between the mother company and its subsidiary have been annulled in the consolidation. All amounts representing revenues, expenses and profit, assets, liabilities and equity represent external business changes only.*

2.2. Summary of basic accounting policies applied in 2009

The basic accounting policies applied in the preparation of the consolidated financial statements for the year 2009 were as follows:

a) Revenues

***Revenues** are recorded in accordance with the provisions of the following IASs:*

- *IAS 18 – Revenues;*
- *IAS 11 – Construction Contracts;*
- *IAS 17 – Leases;*
- *IAS 21 – Foreign Exchange Rates, and*
- *IAS 39 – Financial instruments*

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

*/i/ **Revenues from sales of goods and services** are recognized pursuant to IAS 18, if:*

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

*/ii/ **Revenues from rendered services** whose outcome of a transaction can be estimated reliably, shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenues from rendered services are recognized pursuant to Article 20 of IAS 18, if:*

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

*When determining **revenues from rendered services based on stage of completion** of contracted activities at the end of the reporting period, the Company applies IAS 11.*
Revenues are recognized per specific contract, pursuant to stage of contract completion method, when it is highly possible to determine the percentage of completeness, clearly identify the occurred expenses and determine:

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

When the outcome of a construction contract cannot be estimated reliably, revenues shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable, and the contract costs shall be recognized as an expense in the period in which they are incurred (article 36 of IAS 11 and article 26 of IAS 18).

Contract stage of completion is determined by total costs of material, work and other expenses that relate directly to the specific contract and occurred by the end of the reporting period, related to total evaluated expenses for each construction contract.
When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.

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

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

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

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

b) Expenses

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

The recognition of expenses occurs if:

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

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

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

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

c) Financial result and profit tax

Profit/loss before taxation is determined in such way that the total accounting expenses are subtracted from total accounting revenues.
Profit tax liability (current tax) is determined pursuant to valid regulations of Law on Profit Tax.

d) Fixed intangible assets

Fixed intangible assets are shown pursuant to IAS 38 – Intangible Assets, and comprises of non-monetary assets that are identifiable without physical substance. Fixed intangible assets are recognized if they met the conditions from article 21 of IAS 38 – Intangible Assets, respectively:

a) *it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,*
b) *the cost of the asset can be measured reliably, and*
c) *its single acquisition value exceeds 2,000 Croatian Kuna.*

If the criteria are not met, the costs are recorded as current period expenses.
After initial recognition, intangible asset is recorded based on its acquisition cost decreased for value adjustment (accumulated depreciation) and for accumulated losses from decrease.

Intangible assets are excluded from the Balance Sheet in case of disposal or if there are no expected future economic benefits from it. Gains or losses (difference between revenues from disposal and

book value) arising from disposal or withdrawal of intangible assets are recognized as revenues or expenses of the current period.
Intangible assets are depreciated as every single item by linear method against the rate of 25% annually.

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

e) Fixed tangible assets

Fixed tangible assets comprise of property, plants and equipment pursuant to IAS 16 – Property, Plant and Equipment, and to IAS 40 – Investment Property which the Group:

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

Fixed tangible assets are recognized as assets if article 7 of IAS 16 is fulfilled:

- *it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity,*
- *the cost of the asset can be measured reliably,*
- *its single acquisition value exceeds 2,000 Croatian Kuna and useful period of life exceeds one year (article 12 of Profit Tax Law).*

Except, if the single value of the asset does not exceed 2,000 Croatian Kuna and it is undoubtedly evaluated that its useful period of life exceeds one year, it is considered as fixed tangible asset and is completely written-off as expense of the current period. Fixed tangible assets that do not exceed value of 2,000 Croatian Kuna nor its useful period of life exceeds one year are recorded as inventory and therefore are completely written-off upon activation.
Upon acquisition, fixed tangible assets are recorded in the business books at acquisition value.
Goods and services made internally and included in use as fixed tangible assets are recorded at their production value, under condition that the production value does not exceed net market value. Production value does not include internal profits, unusual values of waste material, work and other assets.
The production cost is determined pursuant to IAS 2 – Inventories. Additional costs are included in the book value of the assets or, if needed, are recognized as separate assets only if the Company expects to have future economic benefits of that assets, or if their expense can be reliably measured.
After initial recognition, property, plant and equipment are recorded based on their acquisition cost decreased for accumulated depreciation and accumulated losses from decrease. Basis for depreciation is acquisition value (gross book value) of the single asset.
Plants and equipment are withdrawn from use and are disposed when there are no expected economic benefits from them or market values.

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

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

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

The mother company evaluates useful life of fixed tangible assets on a regular basis and based on the Management's decisions uses legally recognized accelerated depreciation rates.
Depreciation and recognition of expense starts from the first day of the month followed by activation of the fixed tangible asset.
Depreciation for sold, given, or in any other way disposed or destroyed fixed tangible assets is recognized as expense up to the end of month when the assets were still in use.
Fixed assets are recorded in the Balance Sheet even if they are completely written-off, up to sale, gift, or disposal of any kind.
When the fixed tangible assets are withdrawn from use for means of sale, those assets are still being depreciated pursuant to IAS 16 – Property, Plant and Equipment.

f) Long-term financial assets

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

Accounting policy and procedures differ depending whether the investments occurred from:
- *Investments in participation at others up to 20% of voting power;*
- *Investment into associated companies (portion 20% - 50%);*
- *Investments through business relations with partners in market.*

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

g) Inventories

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

Reduction of inventory value is performed by charging expenses of the current period based on evaluation made by professional services on damage, deterioration of inventory and in case when recoverable value (value that can be realized by sale or use of those inventories) is lower than acquisition cost.
If the professional services evaluate that use of certain inventories in future contracts is doubtful, respectively that some products on stock are not spendable, the company performs write-off of inventories, which is recorded as expense of the current period. When and if there are no circumstances that caused the prior reduction of value, respectively write-off of inventories, the value

of inventories should be increased up to the acquisition cost, meaning up to value that can be realized and expended in regular production.

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

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

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

The value of production in progress is recorded at actual costs that can be related to a specific contract, applying the articles of IAS 2 – Inventories.

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

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

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

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

h) Receivables

Trade receivables, receivables from state, employees and other legal and private persons are recorded in the business books based on valid documentation of their occurrence and data on their value.
Trade receivables from customers in abroad shown in foreign exchange currencies are recorded in Croatian currency, calculated based on mean exchange rate of Croatian National Bank as of the date of recording the receivable, pursuant to articles of IAS 21.
Upon collection of receivable, the differences that occur due to exchange rate are recorded as revenues or expenses of the Group.
Open balances of trade receivables from customers in abroad as of the Balance Sheet date are set at mean exchange rate of Croatian National Bank and the exchange rate differences are recorded as revenues or expenses.
Increase of receivables for interests is based on the contract and calculations of the legal interest rates as prescribed by law.

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

i) Short-term financial assets

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

Short-term financial investments within one year are recorded in the business books at investment cost. The value is determined for each investment.
Value adjustment of short-term assets is performed based on evaluation that the investment is high risk or it is claimed on court. The Decision is made by the Management.

j) Cash and cash equivalents

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

Exchange rate differences arising from setting foreign exchange funds to mean exchange rate of Croatian National Bank are recorded as revenues / expenses of the current period pursuant to articles of IAS 21 – The Effects of Changes in Foreign Exchange Rates.

k) Deferred costs and accrued revenues

Outflows that covered expenses referring to future periods are recorded according to the amounts specified in valid documentation supporting the business event.
Discrepancy of the calculation period of deferred costs at the end of the year creates a balance which is transferred into the following period as a Balance Sheet position.
Realized revenues that do not meet the criteria to be recorded as receivables, are recorded in the calculated amount specified in the valid documentation supporting the business event, and are being transferred as a Balance Sheet position to the following period in which they are carried over to the receivables once they meet the criteria.

l) Equity

Equity is own source for financing assets and is expressed pursuant to articles of International Financial Reporting Standards as remaining of the assets after deduction of all liabilities. Subscribed capital is recorded in the amount that is subscribed in the court registry upon establishment, i.e. change of subscribed value of capital in the commercial registry.

Policy of recording reserves depends on their shape and policy of the Group (legal, statutory and similar).

m) Provisions

Provisions are liabilities of uncertain timing or amount pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.
Provisions should be recognized when:

- *(a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- *(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and*
- *(c) a reliable estimate can be made of the amount of the obligation.*

If the above mentioned criteria are not met, the provision cannot be recognized.
Provisions arising from contracts, such as provisions for severance wages, provisions for expenses in guaranty periods, and provisions for expenses arising from initiated court claims are also recognized as an expense of the period for risk provisions based on legal and other regulations.

n) Long-term liabilities

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

o) Short-term liabilities

Short-term liabilities are recorded in the business books in the amount specified in valid documentation or contract supporting the event. Short-term liabilities refer to liabilities with maturity less than 12 months. Classification of the long-term and short-term liabilities is performed on each day of the Balance Sheet.
Short-term liabilities recorded in foreign exchange funds and those with currency clause are being set at mean exchange rate of the Croatian National Bank in Croatian currency, pursuant to articles of IAS 21.
Upon settlement of these liabilities, the differences that occur as exchange rate differences are recorded as revenues or expenses of the Company.
Open balances of liabilities shown in the foreign exchange currencies are being set at mean exchange rate of Croatian National Bank as of the Balance Sheet Date and exchange rate differences that occurred are recorded as revenues or expenses of the Company.
Rental costs are recorded as expense of the period when they occurred.

p) Accrued costs and deferred revenues

Expenses that occurred in the current period for which the Group did not receive invoices or has incomplete documentation for their booking, but it is possible to determine their amount (for example rental costs, audit fees based on contract) are recorded in the Balance Sheet as accrued costs, since the liability will be recorded in the future period.
Realized expenses which do not meet the criteria to be recorded as liabilities, are recorded at the amount specified in the documentation which anticipated the business event and are transferred as a Balance Sheet position in the following period in which they are carried over to liabilities once they meet the criteria.
Collected revenues that do not meet the criteria to be recognized in the current period are deferred for future periods.

3. REVENUES FROM SALES

	In HRK	
	2009	**2008**
Revenues from rendered services on domestic market	66.869.620	48.562.338
Revenues from rendered services on foreign market	217.770.785	263.776.586
TOTAL	**284.640.405**	**312.338.924**

Revenues from rendered services classified by type of service rendered:

	Domestic market	Foreign market	Total
Shiprepair	27.965.436	194.091.951	222.057.387
Offshore activity	37.217.637	-	37.217.637
Conversions	-	23.557.569	23.557.569
Other	1.686.547	121.265	1.807.812
Total	**66.869.620**	**217.770.785**	**284.640.405**

4. OTHER REVENUES

	In HRK	
	2009	**2008**
Revenues from sales of material	5.969.031	5.274.248
Rentals (non-associates)	951.411	1.076.738
Revenues of written-off liabilities	1.018.855	-
Revenues from Government grants	15.000	13.500.000
Written-off liabilities against bankruptcy plan	-	77.043.770
Collection of damage claims from insurance	18.681.003	5.391.862
Revenues from sales of buildings, plants and equipment	279.440	666.995
Other revenues	6.479.337	1.525.141
TOTAL	**33.394.077**	**104.478.754**

The revenues from collection of damage claims from insurance amount to 18.681.003 Croatian Kuna and almost entirely refer to revenues from reimbursement of costs borne by the mother company for removal of the Dock 7. On the account of use of own products, goods and services the mother company realized revenues in the amount of 9.578.051 Croatian Kuna. Other revenues in the amount of 6.479.337 Croatian Kuna refer to subsequently recognized revenues from the previous years, inventory surplus, written-off liabilities and similar.

5. MATERIAL EXPENSES AND EXPENSES OF PRODUCTS SOLD

In HRK

	2009	2008
Raw and other material		
Used raw and other material	39.228.352	52.606.762
Used energy	14.662.083	13.793.404
Small inventory and spare parts	919.692	1.886.713
Total raw and other material	**54.810.127**	**68.286.879**
Other external expenses		
Transportation, phone, post and similar services	1.249.096	1.099.875
Production services	85.572.369	100.561.264
Subsupplier services	22.369.993	23.125.636
Maintenance services	11.540.732	7.016.075
Rental expenses	12.524.748	7.680.262
Advertising and propaganda	569.408	66.069
Intellectual services	2.660.317	1.970.521
Other services	18.993.577	6.471.234
Total other external expenses	**155.480.240**	**147.990.936**
TOTAL MATERIAL EXPENSES	**210.290.367**	**216.277.815**

6. EMPLOYEE EXPENSES

In HRK

	2009	2008
Net salaries and wages	39.219.653	34.585.725
Taxes and contributions from the salaries	16.815.748	13.971.776
Contributions on the salaries	10.505.231	9.200.182
Terminal pays	104.000	48.000
Compensations for travelling costs, daily allowances, annual bonuses	5.958.282	5.564.902
TOTAL	**72.602.914**	**63.370.585**

In 2009 the Group paid to the employees the annual bonuses in accordance with the Collective Agreement signed with the Unions, where those employees who are members of the Union received larger bonuses than the non-members.

7. DEPRECIATION

In HRK

	2009	2008
Buildings, facilities and equipment	21.100.079	22.063.992
TOTAL	**21.100.079**	**22.063.992**

The Management of the mother company made decision to apply accelerated depreciation rates for the year 2009. Accordingly, the depreciation expenses in 2009 were increased by approximately 4.200.000 Croatian Kuna.

8. VALUE ADJUSTMENT

In accordance with its accounting policy, the mother company made an adjustment of the value of receivables from customers recorded during the year 2009 in the amount of 5.897.157 Croatian Kuna, for which collection appears uncertain and legal proceedings have been instituted.

9. PROVISIONS

The mother company's provisions in the amount of 4.568.175 Croatian Kuna include provisions for warranty repairs for the works carried out during 2009 and for which a bank guarantee in the amount of 3.997.875 Croatian Kuna was issued plus provisions for legal proceedings in the amount of 570.300 Croatian Kuna, which started in 2009.

10. OTHER EXPENSES

In HRK

	2009	2008
Entertainment and aids	1.432.877	1.448.079
Insurance premiums	4.348.345	2.296.244
Bank services and fees	492.620	534.301
Taxes and contributions not dependant on the result	2.772.665	3.843.493
Other expenses	2.823.414	2.552.311
TOTAL	**11.869.921**	**10.674.428**

11. NET FINANCIAL (EXPENSES)/INCOME

In HRK

	2009	2008
Financial income		
Interests	3.697.714	2.883.795
Total financial income	**3.697.714**	**2.883.795**
Financial expenses		
Interests	743.842	1.179.798
Negative exchange rate differences	422.930	751.463
Total financial expenses	**1.166.772**	**1.931.261**
NET FINANCIAL (EXPENSES)/INCOME	**2.530.942**	**952.534**

12. PROFIT TAX

From the difference between revenues and expenses in the period from 1 January to 31 December 2009 the Group realized a profit in the amount of 7.153.297 Croatian Kuna. After deduction of the tax in the amount of 1.863.134 Croatian Kuna, the Group ended the year with a net profit in the amount of 5.290.163 Croatian Kuna.

13. EARNINGS PER SHARE

	2009	2008
Net profit	5.290.163	94.212.968
Shares exclusive of own shares	13.831.087	12.407.813
Earnings per share (Croatian Kuna)	**0,38**	**7,59**

14. BUILDINGS, FACILITIES AND EQUIPMENT

FIXED TANGIBLE AND INTANGIBLE ASSETS

in HRK

No	DESCRIPTION	Land	TANGIBLE ASSETS Buildings	Plants and equipment	Tools, inventory and transportation vehicles	Investments in progress	Advances for tangible assets	Total tangible assets	INTANGIBLE ASSETS Intangible assets	Investments in progress	TOTAL FIXED ASSETS
1	2	3	4	5	6	7	8				9
A	**ACQUISITION VALUE**										
1.	Balance 1 January 2009	9.210.011	68.197.401	365.999.831	64.775.467	8.777.271	253.489	517.213.470	2.689.201	-	519.902.671
2.	Transfer from investments in progress	-	173.157	24.671.814	5.867.171	(33.291.480)		(2.579.338)	2.845.506	(266.168)	-
2.	Acquistion during 2009	-	-	-	-	29.552.738	(46.260)	29.506.478	-	266.168	29.772.646
3.	Sale, disposal	-	-	(2.782.901)	(2.542.115)	-	-	(5.325.016)	-	-	(5.325.016)
4.	**BALANCE 31 DECEMBER 2009**	**9.210.011**	**68.370.558**	**387.888.744**	**68.100.523**	**5.038.529**	**207.229**	**538.815.594**	**5.534.707**	**-**	**544.350.301**
B	**VALUE ADJUSTMENT**										
6.	Balance 1 January 2009	6.958.527	64.875.621	264.520.499	62.024.768	-	-	398.379.415	2.539.725	-	400.919.140
7.	Depreciation	-	188.603	18.483.442	2.250.280	-	-	20.922.325	177.755		21.100.080
8.	Sale, disposal			(2.529.104)	(2.469.030)	-	-	(4.998.134)	-	-	(4.998.134)
9.	**BALANCE 31 DECEMBER 2009**	**6.958.527**	**65.064.224**	**280.474.837**	**61.806.018**	**-**	**-**	**414.303.606**	**2.717.480**	**-**	**417.021.086**
C	**BOOK VALUE 1 JANUARY 2009**	**2.251.484**	**3.321.780**	**101.479.332**	**2.750.699**	**8.777.271**	**253.489**	**118.834.055**	**149.476**	**-**	**118.983.531**
D	**BOOK VALUE 31 DECEMBER 2009**	**2.251.484**	**3.306.334**	**107.413.907**	**6.294.505**	**5.038.529**	**207.229**	**124.511.988**	**2.817.227**	**-**	**127.329.215**

15. INVESTMENT IN ASSOCIATES

Net accounting value of investment in associates includes:

		31 December 2009		31 December 2008	
		In HRK	Share (%)	In HRK	Share (%)
1.	North Adriatic Offshore Ravenna	38.018	49%	38.018	49%

The mother company has no power of control over the associate's management and operations.

16. SHORT-TERM FINANCIAL ASSETS

The short-term financial assets in the amount of 580.000 Croatian Kuna include loans to companies abroad.

17. INVENTORIES

In HRK

	2009	2008
Raw and other material	12.594.484	14.228.429
Production in progress	14.335.621	*9.796.742*
Small inventory	5.939.543	5.579.053
Small inventory value adjustment	(5.937.189)	(5.579.053)
TOTAL	**26.932.459**	**24.025.171**

In the year 2009, the mother company performed a value adjustment of the inventories, on the account of changing over from planned to average prices in stock statements, in the amount of 2.567.136 Croatian Kuna. The inventories value adjustment was performed upon the opening of the bankruptcy proceedings when the mother company evaluated the assets recorded in the books on the day of the opening of the bankruptcy proceedings taking into consideration the complexity of inventories issue, for purpose of the analytical evaluation, based on the then assumption that the mother company was not continuing its business, but the assets would be sold for settling the bankruptcy debts. An estimate of inventories encashment according to the liquidation value was made which produced a book item for adjustment of value as per estimate.
The mother company continued with its business that ultimately resulted in the termination of the bankruptcy proceedings, and the stock was used in the normal production activities, noting that during the entire period of bankruptcy the stock was equally supplied and used.

In fact, the inventories value adjustment as per estimate refers to a decrease in material on stock, representing a collective adjustment of inventories not recorded analytically, and, therefore, does not reflect the analytical structure of the material on stock.

18. TRADE AND OTHER RECEIVABLES

In HRK

	2009	2008
Receivables from customers	34.345.734	41.892.814
Receivables from employees	49.102	72.562
Receivables from state	7.093.724	6.820.574
Prepaid expenses	77.145	75.621
Accrued revenues	-	-
Other receivables	3.272.290	7.011.862
TOTAL	**44.837.995**	**55.873.433**

Age structure of matured receivables from customers:

In HRK

	2009	2008
1 -90 days	30.258.893	38.409.669
91 -180 days	2.949.752	1.106.505
181 - 365 days	1.033.741	454.598
Over 365 days	103.348	1.922.042
TOTAL	**34.345.734**	**41.892.814**

Structure of receivables from customers as per currency:

In HRK

	2009	2008
HRK	10.075.795	12.221.078
EUR	24.199.405	28.634.602
USD	70.534	1.037.134
Other currency	-	-
TOTAL	**34.345.734**	**41.892.814**

19. CASH AND CASH EQUIVALENTS

In HRK

	2009	2008
Money in bank	26.567.338	17.515.109
Cash in register	7.574	152.717
Time deposits	62.288.165	51.186.737
TOTAL	**88.863.077**	**68.854.563**

20. EQUITY

(i) *On the day of 31 December 2009 the issued share capital, fully paid, amounted to 138,444,470 Croatian Kuna and was divided in 13.844.447 ordinary shares each having a nominal value of 10 Croatian Kuna.*

The owners of ordinary shares are entitled to dividends and one vote per share. The mother company did not pay out dividends for the year 2008. In 2009, by the General Assembly's decision, the share capital was increased by 14,366,340 Croatian Kuna.

(ii) *On the day of 31 December 2009 the mother company owned 13.360 own shares (31 December 2008: 0), making 0.1% of the share capital.*

(iii) *On the day of 31 December 2009 the statutory reserve within the frame of the statutory and other reserves, amounted to 6.203.907 Croatian Kuna (2008: 0 Croatian Kuna). The statutory reserve was formed in accordance with the Croatian law stipulating that 5% of the profit for the year is transferred to the statutory reserve until it grows to 5% of the issued share capital. The statutory reserve in the amount of 5% of the issued share capital may be used for covering losses from the current and previous years.*

The statutory and other reserves for own shares include 8.203.906 Croatian Kuna (2008:0 Croatian Kuna) of reserves for own shares which cannot be distributed to shareholders.

21. DEBENTURES WITH INTEREST CHARGE

The total debentures with interest charge for the year 2009 amounted to 1.798.285 Croatian Kuna of long-term debentures and 461.779 Croatian Kuna for short-term debentures and included finance lease liabilities to the BKS Bank BKS leasing Croatia.

The debenture payment terms on 31 December 2009:

In HRK

	Total	**1 year of less**	**2 -5 years**	**More than 5 years**
Finance lease On 31 December 2009	2.260.064	461.779	1.798.285	-

22. TRADE AND OTHER LIABILITIES

In HRK

	2009	2008
Trade payables	42.082.080	30.418.656
Employee payables	3.610.097	3.315.928
Taxes and contributions	4.253.794	12.447.033
Advance payments	6.898.538	490
Accrued costs	3.847.043	6.088.778
Other liabilities	2.230.517	2.664.109
TOTAL	**62.922.069**	**54.934.994**

Trade payables structure as per currency:

In HRK

	2009	2008
HRK	39.199.805	29.589.551
EUR	2.771.079	826.336
USD	111.196	-
Other currency	-	2.769
TOTAL	**42.082.080**	**30.418.656**

23. RELATIONSHIP WITH RELATED ENTERPRISES

In HRK

Related enterprises and key shareholders	2009	2008
Sale to related enterprises		
Sale to associates	-	7.674.822
Sale to key shareholders	19.082.518	8.898.973
Purchase from related enterprises		
Purchase from associates	-	186.920
Purchase from key shareholders	-	-
Receivables from related enterprises		
Receivables from associates	844.736	4.790.054
Receivables from key shareholders	-	-
Liabilities to related enterprises		
Liabilities to associates	-	-
Liabilities to key shareholders	-	-

Transactions between related enterprises are realized under normal market conditions.

Key Management

The Management Board of the mother company is composed of the Chairman of the Board and two members of the Board.
The total compensation (gross) for the members of the Management Board for the year 2009 amounted to 1.979.280 Croatian Kuna.
The total compensation (gross) for the members of the Supervisory Board for the year 2009 amounted to 496.827 Croatian Kuna.
The mother company has not granted any loans to the members of the Supervisory Board.

24. PROVISIONS

The provisions of the mother company amounted to 13.992.658 Croatian Kuna and include long-term provisions in the amount of 6.686.459 Croatian Kuna and short-term provisions in the amount of 7.306.199 Croatian Kuna.
The long-term provisions include provisions for warranty repairs in the amount of 4.943.959 Croatian Kuna and provisions for opened legal proceedings in the amount of 1.742.500 Croatian Kuna.
The short-term liabilities in the amount of 7.306.199 Croatian Kuna include warranty repairs expiring in 2010.

25. OTHER LONG-TERM LIABILITIES

Of the total liabilities as at 31 December 2009 in the amount of 17.301.232 Croatian Kuna, the liability to creditors in bankruptcy makes 6.717.295 Croatian Kuna, while potential liabilities for disputed creditors' claims, securities and legal fees in accordance with the bankruptcy plan make 10.583.937 Croatian Kuna.

26. FINANCIAL INSTRUMENTS

The operations of the Group bear various financial risks: market risk (including currency, interest rate and price risk), credit risk and liquidity risk. The Group is exposed to currency, interest rate and credit risk while performing its regular business operations.
The policy of risk management related to the financial management is as follows:

Financial risk factors

The operations of the Group bear various financial risks including the effects of market price changes, changes of foreign exchange rates and interest rates. The Group does not use derivative financial instruments as an active security from exposure to financial risks.

Currency risk

All revenues from rendering services of the Group on the foreign market is denominated generally in

EUR (smaller amount in USD) as well as the payments. Revenues from rendering services in domestic market are denominated in Croatian kuna with EUR currency clause.
Approximately merely 5-10% of expenses are denominated in EUR. The currency risk also affects foreign exchange deposits which the Group can have, if those deposits are dedicated and set at a longer period, i.e. as collateral to bank guarantees in favour of the client.
Therefore, changes in currencies between EUR and HRK, and USD and HRK have an effect on the operation result, however due to high turnover ratio of receivables and low levels of production in progress, the currency risk is not materially significant so for that reason the Group does not perform active security for exposure to foreign currency operations.

Credit risk

Financial assets that can potential bring the Group to a credit risk includes trade receivables, value of works on construction of offshore projects and ship modifications. Trade receivables are shown decreased for doubtful and uncertain receivables. The Group does not have any other concentration of credit risk.

Interest rate risk

The Group does not have any significant assets or significant liabilities with interest rates except for deposits, and hence does not perform active security from exposure to interest rate risk.

Liquidity risk

Liquidity risk, also called financing risk, is a risk of coping with difficulties in procurement of funds for settlement of liabilities against financial instruments.
Short-term liabilities are completely covered by short-term assets.

Fair value

The Management's estimate on the fair value of financial assets and liabilities and accounting value as shown in the balance sheet are set forth below:

In HRK

	---2009---	
	Accounting value	**Fair value**
Financial assets available for sale	-	-
Investment in dependents and associates	38.018	38.018
Receivables from customers and other receivables	44.837.995	44.837.995
Liabilities from debentures with interest charge	2.260.064	2.260.064
Other long-term liabilities	17.301.232	17.301.232
Trade and other payables	62.922.069	62.922.069

The fair value of the financial assets and liabilities is based on the quoted market price as at the balance sheet date, if available. Where the market price is not available, the Group makes an estimate of the fair value on the basis of the publicly disclosed information from external sources or on the basis of the discounted cash flow method if applicable.

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

Equity management

The main goal of the equity management is to ensure support to business and maximize shareholder value. The Group adjusts its equity policy in accordance with economic changes. With purpose to maintain or adjust the equity structure, the Group may re-adjust dividends payouts or return on capital or place a new emission of shares. There were no changes in the goals, policies or processes during the years 2008 and 2009.

27. POTENTIAL LIABILITIES

Potential liabilities and court disputes

As of 31 December 2009, the mother company was involved in several disputes which have arisen from its business and a few disputes over indemnity obligations deriving from employment relationships. The mother company already made provisions in its books for such claims in case of unfavourable outcomes.

28. IMPORTANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of accounting policies, the Management made following judgements, independently of those which include estimates, and which have the most important influence to the amounts shown in the consolidated financial statements.

Recognition of revenues

Revenue is recognized when the goods have been delivered or services have been rendered, or when the risks and rewards of ownership of goods have been substantively transferred to the customer. The estimate of the expected return of goods and other discounts is deducted from the revenues from sales and is recorded as included liabilities or provisions. Such estimates were made on the basis of the analysis of the existing contractual or legal obligations, historical trends and experience of the Group.

Profit tax

The profit tax was calculated on the basis of the interpretation of rules and laws in force.

Decrease in value of receivables

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

Provisions for potential liabilities

The Group recognizes provisions which result from court disputes in which the Group is defendant most likely to have unfavourable outcomes and where the outflows may be reliably estimated. In estimating such provisions, the Group regularly consults with legal professionals.

29. EVENTS AFTER BALANCE SHEET DATE

Except for signing the contract for conversion of the trawler Atlantic Navigator worth 5.4 million Euros for a Norwegian client, and contract for building of completely new superstructure on the derrick barge Seminole worth 5.0 million Euros for an Italian Client, there were no other significant events after the balance sheet date.

30. INFORMATION ON KEY ASSUMPTIONS REGARDING FUTURE BUSINESS OPERATIONS AND EVALUATION OF UNCERTAINTY AS AT BALANCE SHEET DATE

There are no significant information nor uncertainty which might influence the Group's business.

31. COURT DISPUTES

On the day of 31 December 2009 the mother company participated in 40 disputes, worth about 33,000,000 Croatian Kuna in principal, as defendant and 10 disputes, worth about 63,500,000 Croatian Kuna in principal, as distrainee. Besides that, the Company is in dispute with the state over maritime property.
The disputes in which the mother company is involved as defendant mostly refer to disputes that have arisen over the unacknowledged claims of bankruptcy creditors. In accordance with the Bankruptcy Plan, Viktor Lenac has already made provisions in its accounting books for such claims, therefore, no negative material consequences to Viktor Lenac's assets are expected on completion of those litigations.

32. MORTGAGE

The Group is free of any mortgage or other burden.

33. CONSOLIDATED CASH FLOW STATEMENT

The Consolidated Cash Flow Statement 2009 was made by use of the indirect method.

34. AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

The audit of the consolidated financial statements for the year 2009 was made by the certified auditor "Inženjerski biro – revizija" d.o.o. Zadar, Poljana Plankit 1, for a compensation in the amount of 10,000 Croatian Kuna.

35. PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared and approved by the Management Board of the mother company on 15 April 2010.

36. ADJUSTMENT OF NON-STANDARD ANNUAL CONSOLIDATED FINANCIAL STATEMENTS TO STANDARD ANNUAL FINANCIAL STATEMENTS

In accordance with the Regulations on the Structure and Content of Annual Financial Statements (OG 38/08), entrepreneurs preparing their financial statements in accordance with IFRS are obligated for purpose of public disclosure to submit to the Financial agency statements prepared according to the regulated structure and content ("Standard Annual Financial Statements"). Standard annual financial statement is an alternative presentation of consolidate annual financial statement in accordance with IFRS (for purpose of public disclosure named "Non-standard Annual Financial Statements"), as IFRS require minimum positions dependant on the significance of particular items for consolidated financial statements as a whole. Consequently, the structure and content of the standard annual financial statements and non-standard annual financial statements in accordance with IFRS may differ.

Hereafter are the differences between the items in the standard and non-standard annual financial statements.

Adjustment of Consolidated Profit and Loss Account for 2009

	Standard annual consolidated financial statements in accordance with Regulations on the structure and content of annual financial statements		Non-standard annual consolidated financial statements in accordance with IFRS		Difference
	ITEM DESCRIPTION	HRK	HRK	ITEM DESCRIPTION	HRK
	PROFIT AND LOSS ACCOUNT				
I	OPERATING REVENUES				
1.	Revenues from sales				
2.	Revenues from use of own products, goods and services				
3.	Other operating revenues				
II	OPERATING EXPENSES				
1.	Changes to value of unfinished production and finished product stock				
2.	Material expenses				
3.	Employee expenses	66.540.632	72.602.914		6.062.282
4.	Depreciation				
5.	Other expenses	17.932.203	11.869.921		6.062.282
6.	Value adjustment				
7.	Provisions				
8.	Other operating expenses				
III	FINANCIAL INCOME	6.664.212	3.697.714		2.966.498
IV	FINANCIAL EXPENSES	4.133.270	1.166.772		2.966.498
V	EXTRAORDINARY – OTHER REVENUES				
VI	EXTRAORDINARY – OTHER EXPENSES				
VII	TOTAL REVENUES				
VIII	TOTAL EXPENSES				
IX	PROFIT OR LOSS BEFORE TAXATION				
X	PROFIT TAX				
XI	NET PROFIT OR LOSS				

Adjustment of consolidated profit and loss account

In the non-standard consolidated financial statement prepared in accordance with IFRS the employee expenses include terminal pays, travelling expenses and other employee allowances and benefits in the amount of 6.062.282 Croatian Kuna, which in the standard consolidated statements are included in other expenses.

In the non-standard consolidated profit and loss account the financial income amounts to 3.697.714 Croatian Kuna and financial expenses amount to 1.166.772 Croatian Kuna, while in the standard consolidated financial statements the financial income amounts to 6.664.212 Croatian Kuna and financial expenses amount to 4.133.270 Croatian Kuna, because exchange rate differences in the non-standard consolidated financial statements are presented based on the net principle according to IFRS.

Adjustment of consolidated balance sheet

In the non-standard consolidated balance sheet **the** *cash equivalents – time deposits are stated under the item of money in bank and cash in register in the amount of 62.288.165 Croatian Kuna, while in the standard consolidated statement are stated under the item of short-term financial assets. In the non-standard consolidated balance sheet the trade and other receivables include deferred expenses in the amount of 77.145 Croatian Kuna. The trade and other payables include accruals and deferred income in the amount of 3.847.043 Croatian Kuna.*

In the non-standard consolidated balance sheet the current year profit is also included as retained profit.

Adjustment of consolidated cash flow statement

In the non-standard consolidated cash flow statement are separately stated expenses/revenues from interests (net), decreased value of receivables from customers, paid profit tax, paid interests and received interests, while the same is not separately shown in the standard consolidated cash flow statement – indirect method.

Robert Škifić, Chairman of the Board

Sandra Uzelac, Member of the Board

Davor Lukeš, Member of the Board