ULJANIK d.d., Pula

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2015

Contents

Responsibility for the consolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia in force for the reporting periods ending 31 December 2015, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS) and as published by the International Accounting Standards Board, which present fairly the financial position and results of ULJANIK d.d. and its subsidiaries (hereinafter: the "Group").

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

ULJANIK d.d.
Flaciusova 1
Pula
Republic of Croatia

Pula, 27 April 2016

Independent Auditor's Report

To the Shareholders and Board of Directors of Uljanik d.d.

We have audited the accompanying consolidated financial statements of Uljanik d.d. and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 qualified audit opinion.

Basis for Qualified Opinion

Government grants

As described in notes 6 and 23, the Group recognised receivables in relation to government grants amounting to HRK (Croatian kuna) 170 million (2014: HRK 232 million) at the balance sheet date and income from government grants amounting to HRK 136 million for the year ended 31 December 2015 and to HRK 254 million for the year ended 31 December 2014. In accordance with IAS 20 "Accounting for government grants and disclosure of government assistance", government grants shall not be recognised until there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. In the absence of the required information (including the final agreement with the Government, as described in note 35) to enable us to assess the amount of government grants to be recognised, we were unable to satisfy ourselves as to the carrying amount of government grants receivable recognised as at 31 December 2015 and 31 December 2014, and government grants income for the years then ended.

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Recoverable amount of trade and other receivables

Included in Trade and other receivables as at 31 December 2015 are receivables due from Government ministries and other customers amounting to HRK 73 million (2014: HRK 47 million) which are overdue for more than 120 days; and amounts due from customers in the amount of HRK 199.8 million (2014: HRK 170 million) related to costs incurred in the construction of a ship. Management has carried out an impairment review of these assets as at the balance sheet date to determine whether any impairment write down should be applied and has assessed these assets as recoverable. However, based on our audit procedures performed and due to existing uncertainties regarding the timely collection and expected cash flows related to these assets, we were unable to satisfy ourselves as to whether these assets are impaired, and therefore their carrying amounts as at 31 December 2015 and 31 December 2014.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters referred to in the „Basis for qualified opinion“ section, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers d.o.o.
Zagreb, April 27, 2016

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Consolidated statement of comprehensive income

For the year ended 31 December 2015

(all amounts expressed in thousands of HRK)

	Note	2015	2014
Sales	5	1,328,176	1,098,952
Change in provisions for expected losses on new buildings and warranties	30	181,060	(289,516)
Government grants	6	137,198	253,875
Other income	7	51,799	25,237
Change in value of work in progress		6,182	(1,195)
Cost of materials and services	8	(977,312)	(844,201)
Staff costs	9	(526,174)	(529,824)
Amortisation and depreciation	14, 15, 16	(61,062)	(55,046)
Other operating expenses	10	(121,940)	(86,017)
Other gains – net	11	18,840	13,429
Operating profit/(loss)		**36,767**	**(414,306)**
Finance income		49,503	47,758
Finance costs		(153,438)	(127,498)
Finance costs - net	12	**(103,935)**	**(79,740)**
Share in profit/(loss) of associates		**96**	**(4,833)**
Loss before tax		**(67,072)**	**(498,879)**
Income tax	13	(3,509)	(1,231)
Loss for the year		**(70,581)**	**(500,110)**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		11,123	29,206
Total comprehensive loss		**(59,458)**	**(470,904)**
Net loss attributable to:			
The Company's owners		(91,501)	(466,534)
The non-controlling interest		20,920	(33,576)
Comprehensive loss attributable to:			
The Company's owners		(80,378)	(437,328)
The non-controlling interest		20,920	(33,576)
Loss per share (in HRK) – basic and diluted	33	**(28.14)**	**(143.46)**

ULJANIK d.d.

Consolidated statement of financial position

As at 31 December 2015

(all amounts expressed in thousands of HRK)

	Note	31/12/2015	31/12/2014
ASSETS			
Non-current assets			
Intangible assets	14	188,623	197,045
Property, plant and equipment	15	430,576	452,368
Investment property	16	89,664	90,609
Investments in subsidiaries	16	29	2,892
Investments in associates	18	246,094	243,627
Other non-current receivables	19	33,747	26,457
Deposits and loans receivable	20	191,437	94,857
Other financial assets		322	288
Financial assets at fair value through profit or loss	21	1,113	1,356
		1,181,605	**1,109,499**
Current assets			
Inventories	22	292,640	287,962
Trade and other receivables	23	1,094,462	983,840
Deposits and loans receivable	20	122,693	92,703
Cash and cash equivalents	24	281,678	110,681
		1,791,473	**1,475,186**
Total assets		**2,973,078**	**2,584,685**
EQUITY			
Share capital	25	100,688	302,063
Capital reserves	25	216,566	15,191
Treasury shares	25	(4,697)	(4,697)
Reserves for treasury shares		4,700	4,700
Other reserves		10,342	5
Currency translation reserves		39,637	28,514
Accumulated losses		(371,037)	(286,470)
		(3,801)	59,306
Non-controlling interest	26	124,759	109,920
Total equity		**120,958**	**169,226**
LIABILITIES			
Non-current liabilities			
Borrowings	27	651,220	147,929
Provisions	28	58,853	233,929
		710,073	381,858
Current liabilities			
Trade and other payables	29	433,844	432,441
Advances received	30	873,494	405,499
Borrowings	27	660,495	975,088
Provisions	28	174,214	220,573
		2,142,047	2,033,601
Total liabilities		**2,852,120**	**2,415,459**
Total equity and liabilities		**2,973,078**	**2,584,685**

ULJANIK d.d.

Consolidated statement of changes in equity

For the year ended 31 December 2015

(all amounts expressed in thousands of HRK)

	Share capital	Capital reserves	Res. for treasury shares	Other reserves	Currency trans. res.	Treasury shares	Accumulated losses	Owners' equity	Non-controlling interest	Total
Balance as at 1 January 2014	**302,063**	**15,191**	**3,200**	**5**	**(692)**	**(4,697)**	**41,120**	**356,190**	**108,207**	**464,397**
Transactions with owners										
Transfer to reserves	-	-	1,500	-	-	-	(1,500)	-	-	-
Transactions with non-controlling interest	-	-	-	-	-	-	(8,395)	(8,395)	7,757	**(638)**
Government grants for loss coverage (note 6)	-	-	-	-	-	-	148,839	148,839	27,532	**176,371**
	-	*-*	*1,500*	*-*	*-*	*-*	*138,944*	*140,444*	*35,289*	*175,733*
Profit for the year	-	-	-	-	-	-	*(466,534)*	*(466,534)*	*(33,576)*	***(500,110)***
Other comprehensive income:										
Currency translation differences	-	-	-	-	29,206	-	-	29,206	-	**29,206**
Total comprehensive income	-	-	-	-	29,206	-	(466,534)	(437,328)	(33,576)	(470,904)
Balance as at 31 December 2014	**302,063**	**15,191**	**4,700**	**5**	**28,514**	**(4,697)**	**(286,470)**	**59,306**	**109,920**	**169,226**
Transactions with owners										
Decrease in share capital (note 25)	(201,375)	201,375	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	10,337	-	-	(10,337)	-	-	-
Correction of error (note 2.28)	-	-	-	-	-	-	16,026	16,026	-	**16,026**
Merger	-	-	-	-	-	-	(3,698)	(3,698)	-	**(3,698)**
Transactions with non-controlling interests	-	-	-	-	-	-	4,943	4,943	(6,081)	**(1,138)**
	(201,375)	*201,375*	*-*	*10,337*	*-*	*-*	*6,934*	*17,271*	*(6,081)*	*11,190*
Loss for the year	-	-	-	-	-	-	*(91,501)*	*(91,501)*	*20,920*	***(70,581)***
Other comprehensive income:										
Currency translation differences	-	-	-	-	11,123	-	-	11,123	-	**11,123**
Total comprehensive income	-	-	-	-	11,123	-	(91,501)	(80,378)	20,920	(59,458)
Balance as at 31 December 2015	**100,688**	**216,566**	**4,700**	**10,342**	**39,637**	**(4,697)**	**(371,037)**	**(3,801)**	**124,759**	**120,958**

ULJANIK d.d.

Consolidated cash flow statement

For the year ended 31 December 2015

(all amounts expressed in thousands of HRK)

	Note	2015	2014
Cash flow from operating activities			
Loss before tax		(67,072)	(498,879)
Adjustments for:			
Amortisation and depreciation	14,15,16	61,062	55,046
(Gain) on sale of tangible assets		-	(150)
Write-off of tangible and intangible assets		233	204
Impairment of receivables and loans		371	6,887
Net movement in provisions	28	(221,435)	266,705
Fair value adjustments - receivables		(5,968)	(9,595)
Fair value adjustments - shares		243	3,879
Dividend income		(58)	(27)
Interest income		(2,438)	(4,267)
Interest expense		78,161	64,132
Government grant for reimbursement of capital	6	-	176,372
Other adjustments		5,534	(9,918)
Operating result before changes in working capital		*(151,367)*	*50,389*
Increase in trade receivables, other receivables and construction contracts		(112,315)	(72,858)
Increase in inventories		(4,678)	(13,609)
Decrease in trade payables, advances payable and other liabilities		469,398	158,297
Cash generated from operations		201,038	122,219
Interest paid		(78,161)	(64,132)
Income tax paid		(3,509)	(1,231)
Net cash from operating activities		*119,368*	*56,856*
Cash flow from investing activities			
Purchase of property, plant and equipment	15	(7,406)	(19,487)
Purchase of intangible assets	14	(4,601)	(22,718)
Dividend received		58	27
Net movement in investments		150	578
Loans granted		(15,585)	(214)
Repayment of loans granted		4,125	-
Repayment of deposit		407,086	256,269
Term deposits		(522,196)	(216,567)
Interest received		2,438	4,267
Net cash used in investing activities		(135,931)	2,155
Cash flow from financing activities			
Transactions with non-controlling interests		(1,138)	(638)
Proceeds from borrowings		755,154	362,216
Repayments of borrowings		(566,456)	(561,624)
Cash generated from financing activities		187,560	(200,046)
Net increase/(decrease) in cash and cash equivalents		**170,997**	**(141,035)**
Cash and cash equivalents at beginning of year		110,681	251,716
Cash and cash equivalents at end of year	24	**281,678**	**110,681**

(all amounts expressed in thousands of HRK)

NOTE 1 – GENERAL INFORMATION

The company ULJANIK d.d. was established in 1992 and is registered at the Commercial Court in Rijeka. The Company's registered office is in Pula, Flaciusova 1, Croatia. The Company's principal activities are related party management and the provision of procurement, sales, project design and financial services to subsidiaries. The Group's principal activities are building ships of a high degree of complexity and marine engines, as well as manufacturing other metal structures.

The ULJANIK Group comprises the parent company ULJANIK d.d., Pula and 10 subsidiaries. In June 2015 the parent Company purchased 230,823 ordinary shares of the company 3. MAJ Motori i dizalice d.d. representing 100% share for the consideration of 1 kuna. The Group is currently in the process of establishing fair value of identifiable assets and liabilities of this company and intends to dispose the company within next twelve months based on most favourable option, therefore these accounts are not included in the consolidated financial statements as of 31 December 2015 (the Management assessed that the financial data of this subsidiary will not have material impact on the consolidated financial statements).

Supervisory and Management Board

Supervisory Board:

Renata Kašnjar-Putar, President
Đino Šverko, Deputy president
Andrija Hren, Member
Rajko Kutlača, Member
Marko Pokrajac, Member

Management Board:

Gianni Rossanda, President of the Management Board
Veljko Grbac, Member of the Management Board
Marinko Brgić, Member of the Management Board

The Company is the parent company of the Uljanik Group (the Group) which consists of the following entities (consolidated subsidiaries):

	Ownership %	
Name of subsidiary	**2015**	**2014**
ULJANIK Brodogradilište d.d., Pula	100%	100%
3.MAJ Brodogradilište d.d., Rijeka	85.39%	84.39%
ULJANIK Strojogradnja d.d., Pula	100%	100%
ULJANIK Proizvodnja opreme d.d., Vodnjan	100%	100%
ULJANIK Poslovno informacijski sustavi d.o.o., Pula	100%	100%
ULJAIK Brodograđevni projekti d.o.o., Pula	100%	100%
ULJANIK Financije d.o.o., Pula	100%	100%
ULJANIK Standard d.o.o., Pula	100%	100%
USCS d.o.o., Pula	100%	100%
MARITIME TRANSPORT PULA THREE INC, Liberia	100%	100%

(all amounts expressed in thousands of HRK)

NOTE 1 – GENERAL INFORMATION (CONTINUED)

The following subsidiaries are immaterial and are not consolidated at the Group level:

	Ownership %	
Name of subsidiary	**2015**	**2014**
BRODO OPUS d.o.o., Pula	100%	100%
AKS d.o.o., Pula	-	60%
Maritime Transport Pula One Inc., Liberia	100%	100%
Maritime Transport Pula Two Inc., Liberia	100%	100%
United Shipping Services Sixteen Inc., Liberia	100%	100%
3. MAJ Motori i dizalice d.d., Rijeka	100%	100%

The company ULJANIK AKS d.o.o. has been merged into the company ULJANIK Brodogradilište d.d. in accordance with the Resolution of Commercial court in Pazin as of 24 September 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which are carried at fair value, as disclosed in the accounting policies.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted in the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

These financial statements have been prepared under the assumption that the Group will be able to continue as a going concern.

The global shipbuilding industry crisis, which has been lasting for years, is coming to an end, and 2015 and 2014 saw an increased contracting of work with particular focus on specialised sectors of the new constructions where the ULJANIK Group sees its future. The strategic orientation of the ULJANIK Group is directed towards offshore markets and the special-purpose ship markets where considerably higher revenues would be achieved, while optimising costs and achieving full employment in both shipyards which will ensure better business results from 2016 onwards.

(a) New and amended standards, amendments and interpretations adopted by the Group

The Group has adopted new and amended standards for their annual reporting period commencing 1 January 2015 which were endorsed by the European Union and which are relevant for the Group's financial statements:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 28 and IAS 24).*
- *Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40).*

The adoption of the improvements did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) Standards, amendments and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. None of these is expected to have significant effect on the Group's financial statements, except for the following standards:

IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal)
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa
- There are new specific rules on licenses, warranties, non- refundable upfront fees and, consignment arrangements, to name a few; and
- As with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:

- The point of revenue recognition in the case of contracting projects without margin
- Extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements, it will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on o rafter 1 January 2018)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now compete.

Following the changes approved by the IASB in July 2014, the Group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities. The Group assessed that the debt instruments currently classified as available-for-sale financial assets would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.

The Management plans to adopt the standard on its effective date and when endorsed by the European Union.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

2.2 Business combinations and goodwill

Subsidiaries are all entities controlled by the Group. The Group controls the entity when the Group is exposed or is entitle to variable returns from its association with the entity and has the ability to influence those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either as income or expense or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the difference between the consideration transferred and the amount of non-controlling interest in the acquiree in relation to the fair value of identified net assets acquired. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the statement of comprehensive income.

Intercompany transactions, balances, income and expenses from transactions with Group entities are eliminated. Gains and losses from intercompany transactions recognised in assets are also eliminated. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Investments in associates

In the Group's financial statements, investments in an associate (generally a shareholding of between 20% and 50% of voting rights) where significant influence is exercised by the Group, is accounted for using the equity method less any impairment in assets. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased by the share in profit or loss after the date of acquisition. An assessment of the investment in an associate is performed when there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless there is a legal or constructive obligation or it made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management/Supervisory Board that makes strategic decisions.

When identifying operating segments, Management primarily monitors sales of goods or the provision of services in accordance with the particular Group activities, and has identified the following operating segments: shipbuilding, engineering, manufacturing of equipment and other. Each of these operating segments are separately managed since they are determined on the basis of specific market needs. Policies of valuation/measurement used by the Group for segment reporting are the same as those used during the preparation of the financial statements. Furthermore, assets which cannot be directly attributable to certain business segments remain unallocated.

There were no changes in the valuation methods used when determining the profit/loss of an operating segment compared to the previous periods.

(all amounts expressed in thousands of HRK)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (‘the functional currency’). The financial statements are presented in Croatian kuna (HRK), which is the Group’s functional currency and presentation currency. At 31 December 2015, the exchange rate for USD 1 and EUR 1 was 6.99 HRK and 7.635 HRK, respectively (31 December 2014: HRK 6.30 and HRK 7.661 respectively). Foreign exchange gains and losses from borrowings and cash equivalents are presented within in finance costs, while all other exchange differences are recorded within Other gains/(losses) - net.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and impairment losses, where required. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of replacement of larger items of property, plant and equipment is capitalised, and the carrying amount of the replaced part is written off.

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Buildings	10 - 40 years
Machinery and equipment	4 - 20 years
Furniture, tools and other equipment	4 - 10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'Other gains – net' in the statement of comprehensive income.

2.7 Concession on maritime domain

For the purpose of its operations, on its location in Pula the Group uses land (326,471m2) and sea (340,400m2) areas for which it has obtained a concession from the Republic of Croatia for a period of 30 years starting from 18 January 2011.

For the purpose of its operations, on its location in Rijeka the Group uses land (303,649m2) and sea (209,165m2) areas for which it has obtained a concession from the Republic of Croatia for a period of 32 years starting from 16 September 1999.

The concessions on maritime domain are governed by the following regulations: the Maritime Code, the Seaports Act, the Decisions of the Croatian Government on the concession on maritime domain for the purpose of commercial use of special-purpose ports and the Agreement concluded between the concession grantor and the concessionaire. Under the Maritime Code, after the expiry of the concession, the concessionaire is not entitled to indemnity.

If the concessionaire has built any new objects on the maritime domain based on the concession, the concessionaire is entitled to retain any new facilities and buildings that he has built, if possible, by the nature of things and without significant damage to the maritime domain. If this is not possible, any facilities and buildings will be considered part of the maritime domain; however, the grantor may request from the concessionaire to remove any such facilities and buildings at his cost in part or in full and to restore the maritime domain to its previous condition. Buildings on the maritime domain are depreciated in line with the concession period. The Group is obliged to pay an annual fee to the concession grantor, namely the Croatian Government. The fee is charged to the statement of comprehensive income in the accounting period to which it relates. The annual fee payable by the concessionaire consists of two elements:

- a fixed element set at HRK 3.00 / m2
- a variable element set at 1% of the total revenue.

2.8 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of up to 5 years. Intangible assets comprise leasehold improvements and are carried at cost. These costs are amortised over their estimated useful lives from 5 to 20 years.

2.9 Investment property

Investment property includes property held either to earn rental income or for capital appreciation or both. Investment property is initially carried at cost. The cost of investment property includes the purchase cost and all other direct costs. Investment property under construction is classified as property, plant and equipment until the construction is complete, except for land which is immediately recognised as investment property. After initial recognition, investment property is measured at cost (determined at fair value at the time of acquisition) less depreciation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income in the statement of comprehensive income.

2.11 Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets ‘at fair value through profit or loss’, financial assets ‘available for sale’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is the method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts, including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

a) Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 3.3.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "deposits" and "cash and cash equivalents" in the balance sheet.

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating expenses'.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Leases

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Assets leased out under operating leases are included in the balance sheet under 'investment property'. Lease income is recognised in the statement of comprehensive income on a straight-line basis over the period of the lease.

2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision less subsequent recoveries of amounts previously written off is recorded in the statement of comprehensive income within 'other operating expenses'.

2.14 Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and term deposits with original maturities up to three months.

2.15 Inventories

Inventories of materials and spare parts are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average cost method. Small inventory and tools are stated at cost less impairment. Slow-moving stock is expensed on the basis of the Management's estimate.

The cost of finished goods and work in progress comprises raw materials, direct labour, subcontracting, other cost of material and those attributable to manufacturing, borrowing costs and the corresponding production overheads. Borrowing costs that are directly attributable to the construction or production of an asset are included in the cost of that asset. Borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are stated net of transaction costs incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to the statement of comprehensive income. The Group capitalises interest costs in inventory.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Current and deferred income tax

Current tax

The current tax liability is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Current and deferred income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the amount at which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

2.20 Employee benefits

(a) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions.

(b) Long-term employee benefits

The Group has post-employment benefits to be paid to the employees at the end of their employment in the Group (either upon retirement, termination or voluntary departure). The Group recognises a liability for these long-term employee benefits evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(c) Short-term employee benefits

The Group recognises a liability for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Group recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. This increase is stated under "other operating expenses".

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(a) Sales of products and services

Sales of goods/products

Sales of goods/products are recognised when the Group has delivered the products to the end customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The stage of completion is measured on the basis of realised costs until the end of the reporting period as a percentage of total estimated costs separately for each contract, i.e. project. The typical duration of services provision is up to one month.

If circumstances arise that may change the original estimate of revenues, costs or extent of progress toward completion estimates are revised. These revisions may result in an increase or decrease in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to revision become known to management.

Revenue recognition for long-term ship and engine construction contracts is discussed in accounting policy 2.21 – Ship construction contracts.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Ship construction contracts

Ship construction contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The Group accounts for such expected losses within "Provisions".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Ship construction contracts (continued)

The Group uses the percentage of completion method to determine the appropriate amount of revenues and costs to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories (as work in progress), prepayments or other assets, depending on their nature. Contract work in progress is stated at actual cost. Actual cost includes both direct and indirect costs of production. Indirect costs of production, such as depreciation, maintenance cost, energy and administrative costs of production lines are allocated to contract work in progress in proportion to actual labour hours.

The Group presents as an asset (amounts due from customer for contract work) the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses, but excluding provisions for expected losses which are accounted for within "Provisions") exceed progress billings.

The Group presents as a liability (amounts due to customer for contract work) the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses, but excluding provisions for expected losses which are accounted for within "Provisions").

2.24 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The Group recognises revenue from government grants for restructuring in the period in which the grant was received and which can be demonstrated to have appropriately implemented the restructuring measures for which the grant was given.

2.25 Mutual cancellations and other non-cash settlements

A portion of receivables and liabilities are settled by mutual cancellations and other non-cash settlements including debt instruments such as promissory notes and bills of exchange. Sales and purchases that are expected to be settled as stated are performed at fair value.

2.26 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Earnings/(loss) per share

The Group presents basic and diluted earnings/(loss) per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares. Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period decreased by treasury shares and potential shares arising from realised options.

2.28 Reclassification and restatements

In 2015, the Group included amounts due from customers of HRK 370,318 thousand into the Trade and other receivables line (2014: amounts due from customers – HRK 237,091 thousand).

In 2015 the Group corrected an error related to understated receivables for apartments sold which were not reconciled with the receivables sub-ledger. The restatement resulted in increased receivables for apartments sold and retained earnings in the total amount of HRK 16,026 thousand.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose them to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Group's Management/Finance department.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (USD) and the Euro (EUR) and due to its foreign currency balance sheet gap. About 24% of assets (2014: 20%) and 45% of liabilities (2014: 64%) are denominated in foreign currencies (2014: 20% of assets and 64% of liabilities). Movements in exchange rates between the US dollar, EUR and Croatian kuna (HKR), therefore, have an impact on operating results. The Group does not actively hedge its exposure to foreign exchange risk.

At 31 December 2015, if the EURO had weakened/strengthened by 1% against the HRK (2014: 1%), with all other variables held constant, the profit/loss for the reporting period would have been HRK 6,674 thousand (2014: HRK 8,393 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of EURO-denominated borrowings, trade receivables, amounts due from customers for construction contracts, trade and other payables and foreign cash funds.

At 31 December 2015, if the USD had weakened/strengthened by 5% (2014: 5%) against the HRK, with all other variables held constant, the profit/(loss) for the reporting period would have been HRK 4,809 thousand (2014: HRK 7,720 thousand) higher/(lower), mainly as a result of foreign exchange gains/(losses) on translation of USD-denominated borrowings, trade receivables, amounts due from customers for construction contracts, trade and other payables and foreign cash funds.

(all amounts expressed in thousands of HRK)

NOTE 3 – FINANCIAL RISK MANAGEMENT

(ii) Cash flow and fair value interest rate risk

The Group’s interest rate risk arises from long-term borrowings (Note 27). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

At 31 December 2015, if interest rates on currency-denominated borrowings had been 1% higher/lower (2014: 1%), with all other variables held constant, the result for the year would have been HRK 11,379 thousand (2014: HRK 11,161 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

(iii) Commodity price risk

The Group is exposed to the risk of changes in steel prices on the global market because it uses various steel profiles and steel products in the construction of ships.

At 31 December 2015 and 2014, if the steel prices would have increased/decreased by 5% (2014: 5%), with all other variables held constant, the result for the year would have been HRK 7,872 thousand (2014: HRK 7,144 thousand) lower/higher as a result of increased/decreased costs of materials in ferrous metallurgy.

(b) Credit risk

The Group’s assets subject to credit risk, primarily include cash, trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. Credit risk with respect to loan receivables is limited due to the fact that most loans are granted to employees. Provisions for impairment of trade and other receivables have been made based on credit risk assessment. Management monitors the collectability of receivables through monthly reports on individual balances of receivables. The amount of all trade and other receivables has been written down to their recoverable amount. Credit risk with respect to loan receivables is minimal. The Group has policies that limit the amount of credit exposure to any financial institution. A detailed analysis and maximum exposure to credit risk are shown in Note 17. Furthermore, estimates and assumptions related to credit risk and impairment of loans and receivables are set out in detail in Note 4.

(c) Liquidity risk

The table below analyses the Company's financial liabilities at the reporting date according to contracted maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
At 31 December 2015					
Trade and other payables	236,638	-	-	-	236,638
Borrowings	722,283	667,692	7,256	-	1,397,231
At 31 December 2014					
Trade and other payables	248,553	-	-	-	248,553
Borrowings	1,048,953	83,457	69,810	-	1,202,220

(all amounts expressed in thousands of HRK)

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

The calculation of the gearing ratio at the reporting date is shown in the table below:

	31 December 2015
Borrowings	1,311,715
Less: Cash and cash equivalents	(281,678)
Net debt	**1,030,037**
Equity	(3,801)
Capital and net debt	1,026,236
Gearing ratio	**100.37**

	31 December 2014
Borrowings	1,123,017
Less: Cash and cash equivalents	(110,681)
Net debt	**1,012,336**
Equity	59,306
Capital and net debt	1,071,642
Gearing ratio	**94.47%**

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. Quoted market prices for similar instruments are used for long-term debt. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The disclosure of fair value measurements was performed by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

(all amounts expressed in thousands of HRK)

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The table below present the Group's assets at fair value as at 31 December 2015 and 2014:

	Level 1	Level 2	Level 3	Total
At 31 December 2015				
Listed companies	1,113	-	-	1,113
Total	**1,113**	**-**	**-**	**1,113**
At 31 December 2014				
Listed companies	1,356	-	-	1,356
Total	**1,356**	**-**	**-**	**1,356**

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment of receivables and loans

The Group reviews on a yearly basis its loans and receivables portfolio to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable impairment in the estimated future cash flows from a portfolio of loans and receivables before the impairment can be identified with an individual loan or receivable in that portfolio.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

b) Recognition of revenue from construction

The Group uses the percentage-of-completion method to determine the appropriate amount of income from construction contracts for a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. If the stage of completion had increased by 10%, the Group's revenues for 2015 would have increased by HRK 50,692 thousand (2014: HRK 45,563 thousand), whereas if the stage of completion would have decreased by 10%, the Group's revenues would have decreased by HRK 70,269 thousand (2014: HRK 57,862 thousand).

c) Expected losses on new-buildings

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Expected losses represent the difference between the estimated expected cost of each contract and the selling price. In 2015, Management estimated expected losses both for contracts on which work has started and those on which it has not. If the level of planned expenses had increased by 10%, the Group's expected losses for 2015 would have increased by HRK 111,698 thousand (2014: HRK 158,924 thousand), whereas if planned expenses had decreased by 10%, the Group's expected losses would have decreased by HRK 111,698 thousand (2014: HRK 158,924 thousand).

d) Legal claims and disputes

Provisions for legal claims and disputes are recorded based on Management's best estimate of probable losses after consultation with legal counsel.

(all amounts expressed in thousands of HRK)

NOTE 5 – SEGMENT INFORMATION AND SALES

The segment information for the year ended 31 December 2015 is as follows:

	Shipbuilding	Engineering	Manufacturing of equipment	Other	Intra-group transactions	Total Group
Sales	1,447,200	52,524	36,678	60,720	(268,946)	1,328,176
Operating loss	39,851	(17,654)	(1,470)	(15,081)	31,121	36,767
Net finance income/(costs)	(126,616)	(532)	(345)	(5,292)	28,850	(103,935)
Losses of associates - net	-	-	-	-	96	96
Result before taxation	(86,765)	(18,186)	(1,815)	(20,373)	60,067	(67,072)
Income tax	(3,421)	-	-	(88)	-	(3,509)
Net loss	(90,186)	(18,186)	(1,815)	(20,461)	60,067	(70,581)

The segment information for the year ended 31 December 2014 is as follows:

	Shipbuilding	Engineering	Manufacturing of equipment	Other	Intra-group transactions	Total Group
Sales	1,162,752	30,989	27,508	164,684	(286,981)	1,098,952
Operating loss	(402,821)	(21,681)	(10,363)	5,322	15,237	(414,306)
Net finance income/(costs)	(65,511)	(3,129)	77	(11,069)	(108)	(79,740)
Losses of associates	-	-	-	-	(4,833)	(4,833)
Result before taxation	(468,332)	(24,810)	(10,286)	(5,747)	10,296	(498,879)
Income tax	-	-	-	(1,231)	-	(1,231)
Net loss	(468,332)	(24,810)	(10,286)	(6,978)	10,296	(500,110)

The balance of assets and liabilities at 31 December 2015 by business segments is as follows:

	Shipbuilding	Engineering	Manufacturing of equipment	Other	Intra-group transactions	**Total Group**
Total assets	4,254,246	72,166	106,885	380,859	(1,841,078)	2,973,078
Total liabilities	3,829,968	127,528	16,905	263,996	(1,386,277)	2,852,120

(all amounts expressed in thousands of HRK)

The balance of assets and liabilities at 31 December 2014 by business segments is as follows:

	Shipbuilding	Engineering	Manufacturing of equipment	Other	Intra-group transactions	**Total Group**
Total assets	2,622,546	67,947	109,472	1,037,268	(1,252,548)	2,584,685
Total liabilities	2,441,983	105,123	17,676	595,987	(745,310)	2,415,459

An overview of revenue realised with external customers on the domestic and foreign markets is presented below:

	2015	**2014**
Foreign sales	1,289,536	870,554
Domestic sales	38,640	228,398
	1,328,176	**1,098,952**

Sales mostly relates to contraction contract revenues recognized in accordance with stage of completion, in 2015 these revenues amounted to HRK 1,246,916 thousand (2014: HRK 996,244 thousand).

Service revenues in 2015 amounted to HRK 41,768 thousand (2014: HRK 51,301 thousand.

NOTE 6 – GOVERNMENT GRANTS

	2015	**2014**
Recognised grants from the Croatian Ministry of Economy for restructuring	136,192	253,647
Other subsidies	1,006	228
	137,198	**253,875**

Recognised grants in the amount of HRK 136,192 thousand (2014: HRK 253,647 thousand) refer to recognition of adequate proportion for grants for restructuring costs pursuant to the Agreement on the sale and transfer of shares of Brodograđevna industrija 3. Maj d.d., Rijeka (hereinafter: the "Agreement") and the Restructuring programme of Brodograđevna industrija 3. Maj d.d., Rijeka (hereinafter: the "Restructuring programme"). Based on fulfilling the conditions stipulated in the Agreement for the receipt of grants, and in accordance with the intended use of support in line with the Restructuring programme and investment dynamics, the Group recognized the stated amount of income relating to the contribution of the Republic of Croatia in restructuring the Group. In 2014, the Group recorded a correction of retained earnings in the amount of HRK 176,372 thousand on the basis of state subsidies aimed at covering losses from 2010 and 2011. In 2015, HRK 198,557 thousand was collected, of which HRK 62,365 thousand relates to coverage of losses decreasing the receivable from the State, and the remaining HRK 136,192 thousand was recognized in profit and loss.

(all amounts expressed in thousands of HRK)

NOTE 7 – OTHER INCOME

	2015	**2014**
Release of provisions - net (Note 28)	40,219	18,708
Insurance claims recovered	1,305	1,449
Collected receivables written off	122	344
Surpluses	246	223
Other	9,907	4,513
	51,799	**25,237**

NOTE 8 – COST OF MATERIALS AND SERVICES

	2015	**2014**
Raw materials and supplies		
Raw materials and supplies used	747,800	622,197
Energy and water used	25,322	25,207
Cost of goods sold	729	2,983
	773,851	650,387
External services		
Product development services	120,142	118,589
Intellectual services	19,101	18,584
Rentals	5,685	2,053
Utility services	12,190	11,975
Transportation services	2,235	1,879
Maintenance services	5,691	7,258
Other	38,417	33,476
	203,461	193,814
	977,312	**844,201**

NOTE 9 – STAFF COSTS

	2015	**2014**
Net salaries	296,279	288,594
Taxes and contributions from and on salaries	191,740	190,133
	488,019	478,727
Other employee benefits	38,991	56,218
Release of provisions – net (Note 28)	(836)	(5,121)
	526,174	**529,824**
Number of employees	**4,011**	**3,842**

In 2015, pension fund contributions amounted to HRK 80,031 thousand (2014: HRK 83,009 thousand).

(all amounts expressed in thousands of HRK)

NOTE 10 – OTHER OPERATING EXPENSES

	2015	2014
Bank charges (commissions and fees)	62,926	18,206
Insurance	9,631	11,486
Donations	988	1,344
Taxes, contributions and other charges irrespective of business result	10,038	894
Entertainment expenses	731	762
Supervisory Board fees	782	798
Concession	10,847	8,680
Impairment of receivables	371	6,887
Fines, penalties and compensation for damages	3,019	13,904
Cost of materials sold	460	4,329
Other	22,147	18,727
	121,940	**86,017**

NOTE 11 – OTHER GAINS – NET

	2015	2014
Gains on change in fair value of financial assets	(114)	975
Foreign exchange gains from operations	119,635	51,792
Foreign exchange losses from operations	(100,681)	(39,338)
	18,840	**13,429**

NOTE 12 – FINANCE COSTS AND INCOME

	2015	2014
Finance costs		
Interest	(78,161)	(64,132)
Net foreign exchange losses	(65,476)	(51,562)
Other	(9,801)	(11,804)
	(153,438)	(127,498)
Finance income		
Net foreign exchange gains	41,019	33,786
Interest income	2,438	4,267
Fair valuation of receivables	5,968	9,595
Other	78	110
	49,503	47,758
Finance costs - net	**(103,935)**	**(79,740)**

(all amounts expressed in thousands of HRK)

NOTE 13 – INCOME TAX

The following table presents the reconciliation of income tax expense from the statement of comprehensive income and the amount of income tax calculated at the statutory income tax rate:

	2015	**2014**
Loss before tax	(67,072)	(498,879)
Income tax at 20%	(13,414)	(99,776)
Tax effects from:		
Consolidation adjustments	(8,357)	(13,159)
Income not subject to tax and deductions	(37,304)	(12,129)
Expenses not deductible for tax purposes	3,722	107,096
Utilisation of previously unrecognized tax losses	(2)	(12,651)
Write-off of liabilities in accordance with the Act on Governing the Rights and Obligations of Shipyards in the Process of Restructuring	-	(41,716)
Tax losses for which no deferred income tax asset was recognized	58,864	73,566
Income tax	**3,509**	**1,231**

In 2014, the Group did not recorded an income tax liability based on the Act on Governing the Rights and Obligations of Shipyards in the Process of Restructuring (Official Gazette 66/2011) and in accordance with Article 11 of the Agreement on the sale and transfer of shares of Brodograđevna industrija 3. MAJ d.d. Rijeka. The established tax debt incurred due to implementing the shipyard restructuring process is offset against the tax loss, and the remaining debt is written off.

To date, the Tax Authority did not perform a review of the income tax return of the parent company and its subsidiaries. In accordance with local regulations, the Tax Authority may at any time inspect the individual Group companies' books and records within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Group companies' Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

The total tax loss carry forward on the Group level is as follows:

Year	**2015**	**2014**
2015	-	3,949
2016	129,104	131,156
2017	107,142	107,557
2018	449,854	454,243
2019	301,575	304,575
2020	308,132	-
	1,295,807	**1,001,480**

Deferred tax assets arising from tax losses are recognised only to the extent that it is likely that the related tax relief will be realised. Tax losses have not been recognised in the Group's financial statements due to the uncertainty of their utilisation in the future. As at 31 December 2015, deferred tax assets not recognised in these financial statements amounted to HRK 259,161 thousand (2014: HRK 200,296 thousand).

(all amounts expressed in thousands of HRK)

NOTE 14 – INTANGIBLE ASSETS

	Development expenditure	Concessions, patents, licences, software and other rights	Assets under construction	Total
Cost				
1 January 2014	**320**	**321,753**	**956**	**323,029**
Merger effect	-	515	-	**515**
Additions	-	-	22,718	**22,718**
Transfer from tangible assets	-	993	345	**1,338**
Transfer to tangible assets	-	(79)	-	**(79)**
Transfer	18,237	4,647	(22,884)	**-**
31 December 2014	**18,557**	**327,829**	**1,135**	**347,521**
Additions	-	-	4,601	**4,601**
Transfer from tangible assets	-	-	402	**402**
Transfer	3,696	976	(4,672)	**-**
Disposals	-	(8)	-	**(8)**
31 December 2015	**22,253**	**328,797**	**1,466**	**352,516**
Accumulated amortisation				
1 January 2014	**320**	**139,996**	**-**	**140,316**
Merger effect	-	219	**-**	**219**
Reclassification	-	175	**-**	**175**
Amortisation charge for the year	-	8,855	**-**	**8,855**
Transfer to tangible assets	-	(79)	**-**	**(79)**
Transfer from tangible assets	-	990	**-**	**990**
31 December 2014	**320**	**150,156**	**-**	**150,476**
Amortisation charge for the year	4,050	9,375	**-**	**13,425**
Transfer to tangible assets	-	-	**-**	**-**
Disposals	-	(8)	**-**	**(8)**
31 December 2015	**4,370**	**159,523**	**-**	**163,893**
Net book amount				
31 December 2014	18,237	177,673	1,135	197,045
31 December 2015	**17,883**	**169,274**	**1,466**	**188,623**

(all amounts expressed in thousands of HRK)

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Tools, plant inventory and transport vehicles	Assets under construction and advances	Other	Total
Cost						
1 January 2014	**192,404**	**1,251,680**	**387,127**	**35,297**	**782**	**1,867,290**
Additions	-	-	-	19,487	-	19,487
Exchange differences	-	-	19,476	-	-	19,476
Reclassification	-	(24,271)	24,271	87	-	87
Transfer to intangible assets	-	(993)	-	(345)	-	(1,338)
Transfer to use	12	12,048	6,937	(18,997)	-	-
Transfer of flat	59	-	-	-	-	59
Transfer from intangible assets	-	-	79	-	-	79
Disposals	(211)	(5,960)	(5,905)	(916)	-	(12,992)
Other	-	-	703	-	-	703
31 December 2014	**192,264**	**1,232,504**	**432,688**	**34,613**	**782**	**1,892,851**
Additions	-	-	-	7,060	-	**7,060**
Exchange differences	-	-	19,452	-	-	19,452
Transfer to use	1,011	1,729	4,329	(7,069)	-	-
Transfer from intangibles	-	-	-	(402)	-	(402)
Disposals	(8)	(3,496)	(3,399)	-	-	(6,903)
Merger effect	3,228	1,239	-	(103)	-	4,364
31 December 2015	**196,495**	**1,231,976**	**453,070**	**34,099**	**782**	**1,916,422**
Accumulated depreciation						
1 January 2014	**117,801**	**1,077,722**	**212,593**	**-**	**-**	**1,408,116**
Reclassification	-	(22,642)	22,467			(175)
Depreciation charge	2,411	27,657	15,178	-	-	45,246
Disposals	(207)	(5,875)	(5,766)	-	-	(11,848)
Transfer to intangible assets	-	(990)	-	-	-	(990)
Transfer from intangible assets	-	-	79	-	-	79
Transfer of flat	55	-	-	-	-	55
31 December 2014	**120,060**	**1,075,872**	**244,551**	**-**	**-**	**1,440,483**
Merger effect	2,779	1,239	-	-	-	**4,018**
Exchange differences	-	-	1,323			**1,323**
Depreciation charge	2,397	27,837	16,458	-	-	**46,692**
Disposals	(8)	(3,453)	(3,209)	-	-	**(6,670)**
31 December 2015	**125,228**	**1,101,495**	**259,123**	**-**	**-**	**1,485,846**
Net book amount						
31 December 2014	72,204	156,632	188,137	34,613	782	452,368
31 December 2015	**71,267**	**130,481**	**193,947**	**34,099**	**782**	**430,576**

(all amounts expressed in thousands of HRK)

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

For the purpose of its operations, the Group uses land (303,649 m2) and sea (209,165 m2) areas for which it has obtained a concession from the Republic of Croatia over a period of 32 years starting from 16 September 1999.

The carrying value of pledged property and equipment as at 31 December 2015 amounted to HRK 48,262 thousand (31 December 2014: HRK 93,201 thousand) (Note 27).

NOTE 16 – INVESTMENT PROPERTY

	Land	Buildings	Total
Cost/fair value			
At 1 January 2014	55,333	57,988	113,321
Additions/(disposals)	-	-	-
At 31 December 2014	**55,333**	**57,988**	**113,321**
Additions/(disposals)	-	-	-
At 31 December 2015	**55,333**	**57,988**	**113,321**
Accumulated depreciation			
At 1 January 2014	-	21,767	21,767
Depreciation charge for the year	-	945	945
At 31 December 2014	**-**	**22,712**	**22,712**
Depreciation charge for the year	-	945	945
At 31 December 2015		**23,657**	**23,657**
Net book amount			
31 December 2014	55,333	35,276	90,609
31 December 2015	**55,333**	**34,331**	**89,664**

Fair value of land and buildings

The following table analyses non-financial assets carried at fair value, in accordance with the valuation method. Different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Fair value measurement as at 31 December 2015		
	Level 2	**Level 3**	**Total**
Land	-	55,333	**55,333**
Buildings	-	34,331	**34,331**

The fair value of land and buildings at level 3 was determined by internal assessment of the Management Board that approximates its carrying value.

(all amounts expressed in thousands of HRK)

NOTE 17a – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	2015	2014
Assets at the reporting date		
Recoverable amount of contraction contracts	370,318	237,091
Trade receivables	69,796	63,926
Interest receivable	933	1,242
Due from state	362,764	583,928
Deposits and loans receivable	314,130	187,560
Financial assets at fair value through profit or loss	1,113	1,356
Cash and cash equivalents	281,678	110,681
	1,400,732	**1,185,784**

Trade and other receivables do not include receivables from employees, receivables for taxes and similar charges and advances receivable.

The above amounts of loans and receivables represents the maximum exposure to credit risk at the reporting date. The carrying amounts of loans and receivables approximate their fair values.

	2015	2014
Liabilities at the balance sheet date – *at amortised cost*		
Trade and other payables	296,136	304,709
Borrowings	1,311,715	1,123,017
	1,607,851	**1,427,726**

Trade and other payables do not include tax liabilities, liabilities to employees, taxes and contributions and advances.

NOTE 17b – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that is neither past due nor impaired:

	2015	2014
Trade and other receivables		
Key customers	40,099	33,949
Other customers	903	1,126
	41,002	**35,075**

The key customers group consists of customers with an amount exceeding HRK 100 thousand.

(all amounts expressed in thousands of HRK)

NOTE 17b – CREDIT QUALITY OF FINANCIAL ASSETS

	2015	2014
Cash at bank		
BB	3,662	-
BBB-	171,547	11,892
BBB +	355	34,401
B+	10	-
A-	-	2,362
Without credit rating	106,104	62,026
	281,678	**110,681**

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2015		2014	
	Share	**Amount**	**Share**	**Amount**
Investments in subsidiaries:				
ULJANIK AKS d.o.o.	60%	-	60%	2,863
BRODO OPUS d.o.o.	100%	20	100%	20
United Shipping Services Sixteen Inc., Liberia	100%	1	100%	1
Maritime Transport Pula One Inc. Liberia	100%	4	100%	4
Maritime Transport Pula Two Inc. Liberia	100%	4	100%	4
Total		**29**		**2,892**
Investments in associates:				
United Shipping Services Twelve Inc., Liberia	45.00%	80,743	45.00%	82,973
United Shipping Services Thirteen Inc., Liberia	45.00%	78,620	45.00%	83,066
Fratarski d.o.o.	49.00%	157	49.00%	157
Adriadiesel d.d., Karlovac	28.15%	10,422	28.15%	10,364
Viktor Lenac d.d., Rijeka	34.67%	76,152	34.67%	67,067
Total		**246,094**		**243,627**
		246,123		**246,519**

a) Investments in subsidiaries

Summary of subsidiaries which are part of the Group and included in the consolidated financial statements is presented in note 1. The subsidiary that has material non-controlling interest is solely 3. MAJ Brodogradilište d.d.

The summary information of the this subsidiary is as follows:

(all amounts expressed in thousands of HRK)

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

	2015	2014
Statement of comprehensive income		
Income	955,794	778,203
Expenses	(811,912)	(993,300)
Loss before tax	143,882	(215,097)
Income tax	-	-
Loss after tax	**143,882**	**(215,097)**
Statement of financial position		
Non-current assets	248,761	230,183
Current assets	1,298,233	1,263,607
Total assets	**1,546,994**	**1,493,790**
Total liabilities	**688,951**	**789,629**
Cash flow		
Cash flow from operating activities	155,544	(123,167)
Cash flow from investing activities	(164,396)	(9,685)
Cash flows from financing activities	144,418	26,196

b) Investments in associates

The companies United Shipping Services Twelve and Thirteen Inc. are engaged in international maritime transport (the Group's share: 45%). In accordance with the signed agreement, majority ownership guarantees for the repayment of loan liabilities for each of the associate and all the financial costs are born exclusively by the majority owner.

The company Adriadiesel is engaged in the production of diesel engines and spare parts for diesel engines, other power plants and providing repair services, machining and heat treatment (the Group's share: 28.15%). Shipyard Viktor Lenac provides services of overhaul and modification of ships and the construction and repair of offshore platforms (the Group's share: 34,67%).

	2015	2014
At 1 January	**243,627**	**228,813**
Share in profit/(loss) of associates (Profit or loss)	96	(4,833)
Foreign exchange differences and other adjustments (Other comprehensive income)	2,371	19,647
At 31 December	**246,094**	**243,627**

The summary information of associates is presented in the table below:

	Assets	Liabilities	Income	Result
2015				
Viktor Lenac d.d.	396,695	177,029	535,709	26,201
Adriadiesel d.d.	108,233	71,232	38,794	539
United Shipping Services Twelve Inc., Liberia	187,469	130,590	13,716	(15,434)
United Shipping Services Thirteen Inc., Liberia	192,774	147,475	14,760	(17,410)

(all amounts expressed in thousands of HRK)

NOTE 18 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

	Assets	Liabilities	Income	Result
2014				
Viktor Lenac d.d.	414,158	220,733	364,914	428
Adriadiesel d.d.	100,393	63,973	26,763	(12,832)
United Shipping Services Twelve Inc., Liberia	172,722	107,539	18,116	(4,979)
United Shipping Services Thirteen Inc., Liberia	184,463	131,147	18,294	(8,043)

NOTE 19 – NON-CURRENT RECEIVABLES

	2015	2014
Receivables for apartments sold /i/	31,445	20,407
Provision for receivables for sold apartments	(6,275)	(3,131)
Other	9,718	9,371
Provision for other receivables	(1,141)	(190)
	33,747	**26,457**

/i/ Loans for the purchase of apartments were given to former employees for a period up to 32 years, with an interest rate of 1% p.a. These flats were sold under the provisions of the Act on the Sale of Flats with Tenancy Rights.

The carrying value of non-current receivables approximates their fair value.

NOTE 20 –DEPOSITS AND LOANS RECEIVABLE

	2015	2014
Short-term		
Loans receivable	63,374	51,804
Provision for impairment of loans	(10,836)	(10,836)
Loans receivable - net	52,538	40,968
Deposits	74,799	56,379
Less: current portion	(4,644)	(4,644)
Total short-term loans	**122,693**	**92,703**
Long-term		
Loans receivable	4,644	4,754
Deposits	186,793	90,103
Total long-term loans	**191,437**	**94,857**

(all amounts expressed in thousands of HRK)

NOTE 20 –DEPOSITS AND LOANS RECEIVABLE (continued)

Loans bear interest rate of 3% to 7% per annum, and are secured by pledge over the movables or debentures and blank bills of exchange. Long-term portion matures within next two years.

The carrying amount of deposits and loans receivable is denominated in the following currencies:

	2015	2014
EUR	245,199	22,410
USD	16,403	124,082
HRK	52,528	41,068
	314,130	**187,560**

NOTE 21 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
Listed shares (PBZ, Croatia osiguranje, ULJANIK Plovidba d.d.)	1,113	1,356
	1,113	**1,356**

NOTE 22 – INVENTORIES

	2015	2014
Raw materials and supplies	226,225	229,787
Work in progress	43,642	37,460
Trade goods and finished products	33	2
Advances for inventories	42,909	42,731
Non-current assets held for sale	643	643
Impairment of slow-moving inventories	(20,812)	(22,661)
	292,640	**287,962**

In 2015, the cost of goods sold amounted to HRK 1,613,258 thousand (2013: HRK 1,341,095 thousand).

(all amounts expressed in thousands of HRK)

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2015	**2014**
Amounts due from customers for construction work /i/	**370,318**	**237,091**
Domestic trade receivables	29,518	54,836
Foreign trade receivables	55,225	39,866
Provision for impairment of trade receivables	(14,947)	(30,776)
Trade receivables – net	69,796	63,926
Interest receivable	933	1,242
	70,729	65,168
VAT receivable	43,431	35,129
Government grants receivable (Note 6)	169,977	232,342
Receivables from the Ministry of Maritime Affairs, Transport and Infrastructure	21,961	21,961
Receivables from the Ministry of Economy /ii/	144,365	305,774
Receivables from the Ministry of Finance /iii/	26,461	23,851
Advances	227,826	46,016
Other receivables	19,394	16,508
	653,415	681,581
	724,144	**746,749**

/i/ Amounts due from customers for construction work

	2015	**2014**
At beginning of year	237,091	327,390
Contract costs incurred during the year plus recognised gains, minus recognised losses	1,369,798	1,150,755
Invoiced amounts	(1,236,571)	(1,241,054)
Amounts due from customers for construction work	**370,318**	**237,091**

The carrying value of the amounts due from customers for construction work is denominated as follows:

	2015	**2014**
USD	340,226	215,984
HRK	30,092	21,107
	370,318	**237,091**

(all amounts expressed in thousands of HRK)

NOTE 23 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ On 26 June 2013, the Company and the Republic of Croatian entered into an Agreement on the settlement of mutual relations according to which the Ministry of Economy committed to pay an amount of HRK 313,728 thousand in 2015. As at 31 December 2015, the receivable amounts to HRK 144,365 thousand. This receivable represents to a receivable for the difference between the contracted and market price of the ships that were built under the Programme for the construction of ships for Croatian shipping companies until 2011 and the Agreement on cooperation on the joint implementation of the Project for the construction of 4 ships concluded on 21 January 2009 and Annex 1 of 11 February 2009.

/iii/ Receivables from the Ministry of Finance in the amount of HRK 26,461 thousand relates to receivables from the amounts paid as a result of the Arbitration proceeding regarding terminated construction contract.

Trade receivables

	Not past due	Past due					Total
		< than 30 days	30-60 days	60-90 days	90-120 days	> than 120 days	
31 December 2015	**41,002**	**12,112**	**954**	**842**	**1,467**	**13,419**	**69,796**
31 December 2014	35,075	1,637	2,966	508	579	23,161	63,926

Movements in the provision for impairment of trade receivables are as follows:

	2015	**2014**
At 1 January	30,776	24,738
Provision for impairment during the year	542	6,857
Release of provisions	(16,371)	(819)
At 31 December	**14,947**	**30,776**

	2015	**2014**
Neither past due nor impaired	41,002	35,075
Past due, but not impaired	28,794	28,851
Past due and impaired	14,947	30,776
	84,743	**94,702**

(all amounts expressed in thousands of HRK)

NOTE 24 – CASH AND CASH EQUIVALENTS

	2015	**2014**
Giro account and cash in hand	180,634	27,025
Foreign currency account	98,042	42,269
Time deposits up to 90 days	17	21
Foreign currency letters of credit	2,985	40,978
Other	-	388
	281,678	**110,681**

The Group has giro accounts with Privredna banka d.d., Zagreb, Zagrebačka banka d.d., Zagreb , Erste &Steiermärkische Bank d.d., Rijeka , Veneto banka d.d., Zagreb, OTP banka Hrvatska d.d., Zadar, Istarska kreditna banka Umag d.d., Umag, Hrvatska poštanska banka d.d.,Zagreb, Primorska banka d.d., Rijeka, HYPO Alpe - Adria bank d.d., Zagreb, Imex banka d.d., Split, Sberbank d.d., Zagreb.

The carrying amount of the Group's cash and cash equivalents is denominated in the following currencies:

	2015	**2014**
HRK	180,651	27,046
EUR	47,866	73,741
USD	53,159	9,671
NOK	-	33
Other	2	190
	281,678	**110,681**

NOTE 25 – EQUITY

The authorised and registered share capital of the parent company consists of 3,356,250 shares (2014: 3,356,250 shares). The nominal value per share is HRK 30 (2014: HRK 90 per share). The shareholders are entitled to dividend and one vote per share at the annual and extraordinary meetings. The latest change in the share capital of the Company was registered at the Commercial Court in Rijeka on 23 October 2015 by which the share capital was decreased (by the simplified decrease procedure) from the amount of HRK 302,063 thousand by the amount of HRK 201,375 thousand to HRK 100,688 thousand (nominal value per share decreased from HRK 90 per share to HRK 30 per share).

Reserves include capital reserves formed in accordance with the provisions of Company’s Act in the amount of HRK 216,566 thousand (2014: HRK 15,191 thousand) formed during the share capital decrease as described above (non-distributable).

In previous periods, the parent company purchased treasury shares and as at 31 December 2015 it owned 104,375 treasury shares or 3.1099% of the share capital.

By the General Assembly’s Decision from 28 August 2015 the income of the parent earned in 2014 of HRK 4,326 thousand and retained earnings from 2013 of HRK 6,011 thousand has been transferred to other reserves.

(all amounts expressed in thousands of HRK)

NOTE 25 – EQUITY (continued)

The ownership structure as at 31 December was as follows:

Shareholder	2015 %	2014 %
Croatia osiguranje d.d.	9.93	9.93
CERP/ HZMO - Croatian Pension Insurance Institute	7.74	7.74
Hrvatska poštanska banka d.d. / Kapitalni fond d.d.	6.62	6.62
Hrvatska poštanska banka d.d. / Fund for Financing the Decommissioning of the Krško Nuclear Power Plant	4.97	4.97
Hypo Alpe - Adria - Bank d.d. / PBZ Croatia osiguranje obvezni mirovinski fond	3.97	3.97
HZZO - Croatian Health Insurance Fund	3.88	3.88
Societe generale - Splitska banka d.d. / Erste plavi obvezni mirovinski fond	3.31	3.31
Treasury shares	3.11	3.11
Adris grupa d.d.	2.47	2.47
CERP / State Agency for Deposit Insurance and Bank Resolution	2.38	2.38
Domestic private individuals	46.21	46.21
Foreign private individuals	0.10	0.10
Other shareholders	5.31	5.31
Total	**100.00**	**100.00**

NOTE 26 – NON-CONTROLLING INTEREST

The non-controlling interest in the amount of HRK 124,759 thousand (2014: HRK 109,920 thousand) entirely relates to the non-controlling interest in the company 3. MAJ Brodogradilište d.d. acquired in 2013 (summarised financial information of this subsidiary is presented in note 18).

NOTE 27 – BORROWINGS

	2015	**2014**
Long-term		
Long-term bank borrowings	1,099,889	617,247
Finance lease liabilities	5,791	7,086
Current portion of long-term borrowings	(454,460)	(521,530)
	651,220	102,803
Liabilities for issued bills of exchange	44,971	201,449
(Current portions)	(44,971)	(156,323)
Total non-current portions	**651,220**	**147,929**
Short-term		
Short-term bank borrowings	161,064	297,235
Current portion of long-term bank borrowings	454,460	521,530
	615,524	818,765
Current portion of issued bills of exchange	44,971	156,323
Total current portions	**660,495**	**975,088**
TOTAL BORROWINGS	**1,311,715**	**1,322,425**

(all amounts expressed in thousands of HRK)

NOTE 27 – BORROWINGS (continued)

Finance lease liabilities as at 31 December 2015 relate to the liability for financing purchase of equipment for the welding and pre-assembly of sections and for a sheet metal folder. Finance lease liabilities are primarily secured by debentures.

Borrowings from commercial banks are primarily secured by a state guarantee in the amount of 80% of loan amount. Borrowings from foreign bank are contacted with the significant number of covenants.

Finance liabilities towards commercial banks are mostly used for financing current production. Primary collateral for these liabilities is state guarantee or pledge over the real estates or equipment or mortgage on ship under construction and debentures.

In 2015, the average effective interest rate on the above stated borrowings ranged from 4 – 8.93% (2014: 4 – 7.2%).

Maturities of long-term borrowings (current portions included) are as follows:

	2015	2014
1 - 2 years	644,113	33,889
2 - 5 years	7,107	68,914
	651,220	**102,803**

The carrying amounts of short-term borrowings approximate their fair value.

(all amounts expressed in thousands of HRK)

NOTE 28 – PROVISIONS

	Provisions for expected losses on contracts /i/	Unused vacation days /ii/	Warranty provisions /iii/	Legal disputes /iv/	Termination benefits and jubilee awards /v/	Contingent liabilities (acquisition) /vi/	Total
At 1 January 2014	**59,416**	**3,268**	**4,374**	**26,775**	**10,964**	**83,000**	**187,797**
Additional provisions	347,504	2,926	2,142	2,482	2,064	-	357,118
Released	(29,953)	(3,268)	(1,626)	(824)	-	(15,129)	(50,800)
Used during the year	(28,551)	-	-	(4,220)	(6,842)	-	(39,613)
At 31 December 2014	**348,416**	**2,926**	**4,890**	**24,213**	**6,186**	**67,871**	**454,502**
Additional provisions	-	1,875	69	2,952	381	-	5,277
Released	(100,719)	(2,926)	(4,201)	(9,194)	(166)	(31,109)	(148,315)
Foreign currency differences	-	-		680			680
Used during the year	(76,209)	-		(2,868)	-	-	(79,077)
At 31 December 2015	**171,488**	**1,875**	**758**	**15,783**	**6,401**	**36,762**	**233,067**
Up to 12 months	171,488	1,875	758	-	93	-	**174,214**
After 12 months	-	-	-	15,783	6,308	36,762	**58,853**

/i/ Provisions for expected losses comprise losses calculated under IAS 11, chargeable to new projects until their final delivery. Expected losses represent the difference between the estimated expected cost of each contract and the selling price. Expected losses have been estimated both for the contracts on which work has started and those on which it has not been started yet.

/ii/ Provisions for works within the warranty period have been made for any additional costs expected to be incurred on delivered ships.

/iii/ Provisions for unused vacation days have been made based on the number of unused vacation days for 2015, while at the same time provisions made in the previous period were reversed.

/iv/ As at 31 December 2015, these are provisions for pending legal disputes initiated against the Group by legal entities, present and former employees, as confirmed by the legal department. According to the estimates of the legal department, it is likely that the Group will be obliged to pay indemnity for these claims (Note 32).

(all amounts expressed in thousands of HRK)

/v/ Provisions for termination benefits and jubilee awards relate to the estimated amount of termination benefits and jubilee awards for certain Group companies to which the employees are entitled when retiring. The provision amounts are discounted to the present value using a discount rate of 4.85% (2014: 5.65%).

/vi/ Provisions in the amount of HRK 36,762 thousand (2014: 67,871 thousand) relate to contingent liabilities arising under the Agreement on the sale and transfer of shares of Brodograđevna industrija 3. Maj d.d., Rijeka and the Restructuring programme of Brodograđevna industrija 3. Maj d.d. Rijeka, which have been recorded in the consolidated financial statements when determining the fair value of assets and liabilities of the company 3. Maj Brodogradilište d.d.

NOTE 29 – TRADE AND OTHER PAYABLES

	2015	**2014**
Domestic trade payables	191,147	156,412
Foreign trade payables	41,030	66,253
Liabilities towards SCAC Delmas (SDV) /i/	59,498	56,156
Interest and fees payable	4,461	25,888
Liabilities for prepaid subsidies	-	16,546
	296,136	321,255
Due to employees and members of the Supervisory Board	27,704	31,945
Taxes and contributions payable	45,371	30,929
Other liabilities	64,633	48,312
	433,844	**432,441**

/i/ The liability to the company Bollore Delmas from France, a buyer who withdrew from the construction of 2 ships, are based on a lost court/arbitration proceedings which has been in progress for several years. In 2008, the Commercial Court in Rijeka issued a decision on approving the arbitration decision, and the company's Management adopted the Decision on recording and disclosing liabilities in line with the aforementioned decision, which as at 31 December 2014 comprise the principal in the amount of HRK **13,423** thousand (2014: HRK 13,470 thousand), interest calculated at a rate of 8% and amounting to HRK **35,077** thousand (2014: HRK 32,300 thousand) and arbitration costs of HRK **10,998** thousand (2014: HRK 10,386 thousand).

The carrying amounts of trade and other payables are denominated in the following currencies:

	2015	**2014**
HRK	126,857	118,647
USD	16,449	23,255
EUR	65,052	80,633
GBP	27,984	25,529
NOK	262	443
Other	34	46
	236,638	**248,553**

(all amounts expressed in thousands of HRK)

NOTE 30 – ADVANCES RECEIVED

	2015	**2014**
Liabilities from construction contracts	872,411	403,617
Other advances received	1,083	1,882
	873,494	**405,499**

NOTE 31 – RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

Associates	**2015**	**2014**
Operating income		
Sales	6,063	11,062
	6,063	11,062
Operating expenses		
External services costs	299	1,672
	299	1,672
Finance income		
Interest income	8	5
	8	5
Finance costs		
Interest charge	5	-
	5	-
Loans, trade and other receivables		
Loans receivable	358	130
Trade receivables	841	8,996
Advances	3,506	2,350
	4,705	11,476
Liabilities		
Trade payables	224	674
Advances received	-	1,480
	224	2,154

Key management compensation

During 2015, total gross salaries paid to the Company's Management Board as well as Supervisory Board compensation amounted to HRK 25,740 thousand (2014: HRK 25,536 thousand). Key personnel comprises 62 Company’s employees (2014: 67 employees).

NOTE 32 – CONTINGENCIES AND COMMITMENTS

Legal disputes

Legal disputes in which the Group is the defendant are mostly labour related, i.e. compensations of damages to workers due to work-related injuries, and disputes of compensations of damages caused by fatalities, consequences arising from asbestosis or injuries at work.

As at 31 December 2015, the Group made a provision for contingencies from legal disputes and the stated arbitration in the amount of HRK 15,783 thousand (2014: 24,213 thousand) (see Note 28).

Commitments. As of 2014, in the ordinary course of business, the company ULJANIK d.d. entered into contracts for the construction of ships and special facilities under which costs are necessarily incurred. As at 31 December 2015, the parent company had concluded contracts under which works have not yet started in the total value of HRK 6.6 billion, while the value of concluded contracts for the Group amounted to HRK 9.3 billion. Also, the Group committed to fulfil all restructuring measures in accordance with an Agreement on the sale and transfer of shares of Brodograđevna industrija 3. Maj d.d., Rijeka and adopted Restructuring programme.

NOTE 33 – LOSS PER SHARE

Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to shareholders of the parent Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the parent company and held as treasury shares.

	2015	2014
Loss attributable to owners of the parent *(in thousands of HRK)*	(91,501)	(466,534)
Weighted average number of ordinary shares (basic)	3,251,875	3,251,875
Loss per share *(in HRK)*	**(28.14)**	**(143.46)**

Diluted loss per share

Diluted loss per share for 2015 and 2014 is equal to basic loss per share, since the Group did not have any convertible instruments or share options outstanding during either 2014 or 2015.

NOTE 34 – GOING CONCERN

The Group realised operating profit in 2015 of HRK 36 million (2014: loss of HRK 414 million) and current liabilities exceed current assets by the amount of HRK 350 million (2014: HRK 558 million) which indicate the existence of uncertainties regarding going concern.

Due to the new contracted work and the status of the Order book which currently includes orders in the amount of HRK 9 billion at the Uljanik Group level, the primary restructuring objective of the entire Uljanik Group has been achieved including re-launching of the production process. Consequently, commencing from 2016, adequate utilisation of the production capacity will be secured as well as realising a positive operating result on the Group level. With the support of the Government and its grants and guarantees, the Group plans to provide adequate funds for the timely repayment of short-term borrowings and the normal functioning of the production process at the Group level.

Given all of the above, Management is of opinion that the use of the going concern assumption in the preparation of these consolidated financial statements is adequate.

NOTE 35 – POST-BALANCE-SHEET EVENTS

As at 14 March 2016, the parent Company has signed two contracts for shipbulidings for Luxembourg clients CLdN roro S.A (Cobelfret). The contracts are for Ro+Ro ships with the capacity of 5,500 Lm for carrying trucks, cars and containers on trailers. Delivery date is in 2018.

On 28 January 2016, the Central Depository & and Clearing Company Inc. recorded the registration of the increase in the share capital of 3. MAJ Brodogradilište d.d.

Furthermore, the parent Company Uljanik d.d. has started procedures over the early realisation of the contractual obligations arising from the Restructuring programme of the company 3. MAJ Brodogradilište d.d. For this purpose, ULJANIK d.d. has submitted to the Ministry of Economy proposal of the Agreement for the completion of obligations arising from the Agreement on the sale and transfer of shares of Brodograđevna industrija 3. Maj d.d., Rijeka and Annex I to the Agreement, and in accordance with this proposal all contractual obligations arising from the Restructuring programme would be fulfilled until 30 June 2016. Namely, Restructuring programme of the company 3. MAJ Brodogradilište d.d. has been carried out starting from 28 June 2013 when the Agreement on the sale and transfer of shares of Brodograđevna industrija 3. Maj d.d., Rijeka was concluded, between ULJANIK d.d. as a Buyer and Croatian Government, as a Seller's representative. As of 26 June 2014 Annex I to the Agreement has been signed.

It is in Group's interest to complete earlier the restructuring obligations in order to focus on undisturbed positioning on markets for highly sophisticated ships and contracting ships with added value which will guarantee long-term sustainability for the Shipyard.

Except for the above stated, after the balance sheet date, there were no events that could significantly affect the consolidated financial statements of the Group as of 31 December 2015 or for the year then ended, which should be disclosed.

NOTE 36 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on the previous pages were prepared and approved by the Company's Management Board on 27 April 2016.

Signed on behalf of the Management Board:

Gianni Rossanda,
President of the Board