**ULJANIK d.d., Pula**

# INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS 31 DECEMBER 2015

## Contents

# Responsibility for the separate financial statements

Pursuant to the Accounting Act of the Republic of Croatia in force for the reporting periods for the year ended 31 December 2015, the Management Board is responsible for ensuring that separate 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. (hereinafter: the "Company") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company 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 standalone financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company 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 Company 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 Company 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

Zagreb, 27 April 2016

## *Independent Auditor's Report*

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

We have audited the accompanying separate financial statements of Uljanik d.d. (the "Company"), which comprise the statement of financial position as at 31 December 2015 and the 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

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

*Recoverable amount of the related companies receivables*

The Company recognizes overdue receivables from related companies in the amount of HRK (Croatian kuna) 35 million which are older than 120 days at the balance sheet date (2014: HRK 16 million). Management has carried out an impairment review on these receivables as at the balance sheet date to determine whether any impairment write down should be applied and has assessed the receivables 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 receivables, we were unable to satisfy ourselves as to whether the receivables are impaired, and therefore their carrying amounts as at the balance sheet date.

### Qualified Opinion

In our opinion, except for the possible effects of the matter referred to in the "Basis for qualified opinion" paragraph, the separate financial statements present fairly, in all material respects, the financial position of the Company 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.

**Emphasis of matter - Investments in subsidiaries**

We draw attention to note 4 to these separate financial statements which describes investments in the subsidiaries which face financial difficulties and have incurred losses in 2015, as well as in the previous years in the total amount of HRK 330 million. The assessment of recoverability of these investments is highly dependent on expected cash flows arising from future projects and assumptions made by the Company's management. Our opinion is not qualified in respect of this matter.

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

ULJANIK d.d.

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2015

*(all amounts expressed in thousands of HRK)*

| | Note | 2015 | 2014 |
|---|---|---|---|
| Sales | 5 | 232,371 | 62,889 |
| Other income | | 133 | 160 |
| Change in value of work in progress | | 4,465 | 291 |
| Cost of materials and services | 6 | (68,606) | (3,747) |
| Staff costs | 7 | (82,540) | (42,300) |
| Amortisation and depreciation | | (2,428) | (322) |
| Other operating expenses | 8 | (60,751) | (5,588) |
| Other gains – net | 9 | 1,489 | 724 |
| **Operating profit** | | **24,133** | **12,107** |
| Finance income | | 13,726 | 4,435 |
| Finance costs | | (21,304) | (11,087) |
| **Finance costs – net** | 10 | **(7,578)** | **(6,652)** |
| **Profit before taxation** | | **16,555** | **5,455** |
| Income tax | 11 | (3,421) | (1,128) |
| **Profit for the year** | | **13,134** | **4,327** |
| Other comprehensive income | | - | - |
| **Total comprehensive income** | | **13,134** | **4,327** |
| Earnings per share (in HRK) – basic and diluted | 29 | **4.04** | **1.33** |

ULJANIK d.d.

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 | 12 | 292 | 351 |
| Property, plant and equipment | 13 | 9,087 | 11,352 |
| Investments in subsidiaries | 15 | 401,536 | 391,536 |
| Investments in associates | 15 | 69,599 | 69,599 |
| Deposits and loans receivable | 20 | 306,792 | - |
| Financial assets at fair value through profit or loss | 16 | 638 | 792 |
| | | **787,944** | **473,630** |
| **Current assets** | | | |
| Inventories | 17 | 52,963 | 291 |
| Trade and other receivables | 18 | 623,001 | 34,838 |
| Deposits and loans receivable | 19 | 206,480 | 123,010 |
| Cash and cash equivalents | 20 | 97,269 | 455 |
| | | **979,713** | **158,594** |
| **Total assets** | | **1,767,657** | **632,224** |
| **EQUITY** | | | |
| Share capital | | 100,688 | 302,063 |
| Reserves | | 216,566 | 15,191 |
| Treasury shares | | (4,697) | (4,697) |
| Other reserves | | 15,042 | 4,705 |
| Retained earnings | | 13,134 | 10,337 |
| **Total equity** | 21 | **340,733** | **327,599** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 22 | 347,936 | 5,667 |
| | | **347,936** | **5,667** |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 154,286 | 129,964 |
| Liabilities for advances received | 24 | 690,506 | - |
| Income tax liability | 11 | 2,162 | - |
| Borrowings | 22 | 232,034 | 168,994 |
| | | **1,078,988** | **298,958** |
| **Total liabilities** | | **1,426,924** | **304,625** |
| **Total equity and liabilities** | | **1,767,657** | **632,224** |

Statement of changes in equity

For the year ended 31 December 2015

*(all amounts expressed in thousands of HRK)*

| | Share capital | Capital reserves | Reserves for treasury shares | Other reserves | Treasury shares | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2014** | **302,063** | **15,191** | **3,200** | **5** | **(4,697)** | **7,510** | **323,272** |
| Total comprehensive income for the year | - | - | - | - | - | 4,327 | 4,327 |
| Transfer to reserves | - | - | 1,500 | - | - | (1,500) | - |
| **At 31 December 2014** | **302,063** | **15,191** | **4,700** | **5** | **(4,697)** | **10,337** | **327,599** |
| Total comprehensive income for the year | - | - | - | - | - | 13,134 | 13,134 |
| Decrease in share capital (note 21) | (201,375) | 201,375 | - | - | - | - | - |
| Transfer to reserves | - | - | - | 10,337 | - | (10,337) | - |
| **At 31 December 2015** | **100,688** | **216,566** | **4,700** | **10,342** | **(4,697)** | **13,134** | **340,733** |

*(all amounts expressed in thousands of HRK)*

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before taxation | | 16,555 | 5,455 |
| *Adjustments for:* | | | |
| Amortisation, depreciation and impairment losses | | 2,428 | 322 |
| Gain/(loss) from sale of tangible assets | | - | (113) |
| Gain on sale of 3. Maj shares | | - | (74) |
| Fair value adjustments - shares | 16 | 154 | (621) |
| Dividend income | | (3) | (2) |
| Interest income | | (8,301) | (2,823) |
| Interest expense | | 11,354 | 8,893 |
| *Operating result before changes in working capital* | | *22,187* | *11,037* |
| Increase in trade and other receivables | | (588,163) | (13,506) |
| Increase in inventories | | (52,672) | (291) |
| Increase in advances received | | 690,506 | - |
| Increase in trade and other payables | | 26,484 | 93,469 |
| *Cash generated from operations* | | *98,342* | *90,709* |
| Interest paid | | (11,354) | (8,893) |
| Income tax paid | | (3,421) | (1,128) |
| *Net cash from operating activities* | | *83,567* | *80,688* |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 13 | (87) | (11,540) |
| Proceeds on sale of tangible assets | | - | 113 |
| Purchase of intangible assets | 12 | (17) | (376) |
| Proceeds from sale of shares | | - | 74 |
| Dividend received | | 3 | 2 |
| Investments in subsidiaries | 15 | (10,000) | (10,074) |
| Placements of short-term deposits and loans | | (683,270) | (101,760) |
| Collection of non-current receivables, deposits and loans | | 293,008 | - |
| Interest received | | 8,301 | 3,209 |
| Net cash used in investing activities | | (392,062) | (120,352) |
| **Cash flow from financing activities** | | | |
| Repayment of borrowings | | (247,757) | - |
| Proceeds from borrowings | | 653,066 | 40,005 |
| Cash generated from financing activities | | 405,309 | 40,005 |
| **Net increase in cash and cash equivalents** | | **96,814** | **341** |
| Cash and cash equivalents at beginning of year | | 455 | 114 |
| **Cash and cash equivalents at end of year** | 20 | **97,269** | **455** |

## 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.

In previous years the company's principal activities were holding activities, however in 2015 the Company started with the activities of contracting and building ships and related activities (recognition of revenues for construction contracts is presented I note 2.21).

**The Company's principal activities are**:

- production of machinery for production and usage of mechanical power
- production of other general purpose machinery
- production of tool machines
- production of other specific purpose machinery
- production of electric motors, generators and transformers
- production of electric lamps
- manufacture of electrical equipment
- building and repairing of ships and boats
- sale of motor vehicles
- maintenance and repair of motor vehicles
- sale of spare parts and equipment for motor vehicles
- management of holding companies

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's shares are listed on the public joint stock company listing on the Zagreb Stock Exchange.

The Company is the parent company of the Uljanik Group which comprises 10 subsidiaries and 2 associates (presented in detail in Note 15).

**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 Company’s 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 other than financial assets at fair value through profit or loss.

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.

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 27 April 2016. In the consolidated financial statements, subsidiary undertakings (listed in Note 15) - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2015 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole. The consolidated financial statements as at and for the year ended 31 December 2015 are available together with these separate financial statements directly at the Zagreb Stock Exchange web pages.

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

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

The Company 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 Company's financial statements:

- *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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation

*(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 Company. None of these is expected to have significant effect on the Company'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 Company is not able to estimate the impact of the new rules on the Company'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 Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities. The Company 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 Company is currently assessing the impact of the amendments on its financial statements.

**2.2 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.

The Management board considers operations at the level of these separate financial statements as one operating segment. Segment reporting is presented within the consolidated financial statements on the basis of operating segments determined at Uljanik group level.

*(all amounts expressed in thousands of HRK)*

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### 2.3 Foreign currencies

*(a) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Company'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.

### 2.4 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 Company 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 Company 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 Company 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)**

**2.4 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.

**2.5 Concession on maritime domain**

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

**2.6 Intangible assets**

If the concessionaire has built any new objects on the maritime domain based on the concession, he 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 into its previous condition. Buildings on the maritime domain are depreciated in line with the concession period (32 years). The Company is obliged to pay an annual fee to the concession grantor, namely the Croatian Government. The fee is charged to the income statement 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.

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.

**2.7 Impairment of non-financial assets**

At each balance sheet date, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Impairment of non-financial assets (continued)

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.

At each balance sheet date, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

### 2.8 Investments in subsidiaries and associates

Subsidiaries are companies in which the Company has the control, i.e. when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries and associates are presented using the cost method. If there are indicators of impairment, the recoverable amount of the investment is estimated. The difference between the investment and the recoverable amount is recognised in the statement of comprehensive income as a loss or gain (reversal of the previously recorded loss).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 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.

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 Company 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.

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

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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Financial assets (continued)

*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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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)

### 2.10 Leases

Leases where the significant portion of risks and rewards of ownership are not retained by the Company 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.

### 2.11 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 Company 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'.

### 2.12 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.

### 2.13 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.

### 2.14 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)**

### 2.15 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.

### 2.16 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 Company 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.17 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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 Current and deferred income tax (continued)

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.

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 Company 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.

### 2.18 Employee benefits

*(a) Pension obligations and post-employment benefits*

In the normal course of business through salary deductions, the Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Employee benefits (continued)

*(b) Long-term employee benefits*

The Company has post-employment benefits to be paid to the employees at the end of their employment with the Company (either upon retirement, termination or voluntary departure). The Company 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 Company recognises a liability for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Company recognises a liability for accumulated compensated absences based on unused vacation days at the balance sheet date.

### 2.19 Provisions

Provisions are recognised when the Company 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.

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 reflects the passage of time. This increase is stated under "other operating expenses".

### 2.20 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 Company 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 Company's activities as described below.

*(a) Sales of products and services*

*Sales of goods/products*

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.20 Revenue recognition (continued)**

*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.

The Company provides management services as well as sales, purchasing, financial and project design services to subsidiaries. These services are provided as a fixed/variable-price contract with contract terms for a period of 12 months. This revenue is recognised in the period the services are provided, using a straight-line basis over the terms of the contract.

*(b) Interest income*

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

**2.21 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 Company accounts for such expected losses within "Provisions".

The Company 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 Company 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 Company 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”).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### 2.22 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.

### 2.23 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.

### 2.24 Earnings per share

The Company presents basic and diluted earnings 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.

## NOTE 3 – FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Company'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 Company does not have a written risk management programme, but overall risk management in respect of these risks is carried out by the Company's Management/Finance department.

*(a) Market risk*

*(i) Foreign exchange risk*

The Company 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 taking into account the imbalance of its foreign currency position.

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 for the reporting period would have been HRK 3,603 thousand (2014: HRK 1,763 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of borrowings, recoverable amount of construction contracts, trade and other payables and cash in EUR currency.

**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors (continued)**

At 31 December 2015, if the USD had weakened/strengthened by 1% against the HRK, with all other variables held constant, the profit for the reporting period would have been HRK 6,637 thousand (2014: HRK 0 thousand) lower/(higher), mainly as a result of foreign exchange gains/(losses) on translation of recoverable amount of construction contracts, trade and other payables and cash in USD currency.

(ii) Cash flow and fair value interest rate risk

The Company has interest-bearing assets (loans given to related parties), but such income and the cash flow from operating activities are not significantly dependent on changes in market interest rates as they are granted at a fixed interest rate. Assets with fixed rates expose the Company to fair value interest rate risk.

The Company's interest rate risk arises from long-term borrowings (Note 22). Borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company 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, with all other variables held constant, the result for the year would have been HRK 2,284 thousand (2014: HRK 1,360 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable-rate borrowings.

(iii) Price risk

Starting from 2015, the Company is exposed to the risk of changes in steel prices in the global market since as the holder of such operations it will be directly involved in the construction of ships. If the price of steel had increased/decreased by 5% (2014: 5%), the loss for the period would have been higher/lower by HRK 894 thousand.

*(b) Credit risk*

The Company's assets, which subjects it to concentrations of credit risk, primarily include loans granted to subsidiaries and other companies, cash, trade and other receivables. The Company 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 relating to loans receivable is under the direct control of the Company, since related parties are involved and different adjustments/compensations are possible.

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 Company 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 14b. Furthermore, estimates and assumptions related to credit risk and impairment of loans and receivables are set out in detail in Note 4.

*(all amounts expressed in thousands of HRK)*

**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors (continued)**

*(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** | | | | | |
| Borrowings | 258,422 | 365,447 | 2,940 | - | 626,809 |
| Trade and other payables | 120,215 | - | - | - | 120,215 |
| **At 31 December 2014** | | | | | |
| Borrowings | 174,656 | 1,651 | 4,715 | - | 181,022 |
| Trade and other payables | 116,504 | - | - | - | 116,504 |

**3.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 | 31 December 2014 |
|---|---|---|
| Borrowings | 579,970 | 174,661 |
| Less: cash and cash equivalents (deposits) | (97,269) | (455) |
| Net debt | **482,701** | **174,206** |
| Equity | 340,733 | 327,599 |
| Capital and net debt | 823,434 | 501,805 |
| **Gearing ratio** | **58.6%** | **34.7%** |

**3.3 Fair value estimation**

The carrying value less impairment provision of loan and 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).

*(all amounts expressed in thousands of HRK)*

**NOTE 3 – FINANCIAL RISK MANAGEMENT**

**3.3 Fair value estimation (continued)**

- 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).

The table below present the Company'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 | 638 | - | - | 638 |
| **Total** | **638** | **-** | **-** | **638** |
| | | | | |
| **At 31 December 2014** | | | | |
| Listed companies | 792 | - | - | 792 |
| **Total** | **792** | **-** | **-** | **792** |

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 Company 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) Investments in subsidiaries and associates*

At each reporting date the Company assesses whether impairment indicators exist, which indicate that the investment in subsidiaries could be impaired and estimates the recoverable amount of those investments.

**NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (CONTINUED)**

The Company's Management performed an analysis of investments in subsidiaries which face financial difficulties and have incurred losses in 2015 as well as in previous years, in the total amount of HRK 330 million. Based on the business plans approved by the Supervisory Board and current Orderbook which evidences contracted new buildings in the amount of HRK 9.3 billion (2014: HRK 8 billion) at Group level, the Company assessed that the Orderbook will enable adequate capacity utilisation and realisation of positive results for the whole Group, including these companies currently facing difficulties. Further, the Group is significantly supported by the State through subsidies during the restructuring process and guarantees issued.

*b) Impairment of receivables and loans*

The Company 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 Company 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.

*c) Expected losses on new projects*

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 the Company assessed there are no additional expected losses for all unfinished contracts, started on not stated yet.

*(all amounts expressed in thousands of HRK)*

## NOTE 5 – SALES

| | 2015 | 2014 |
|---|---|---|
| Revenues from construction contracts | 156,261 | - |
| Fees and services to related parties | 74,352 | 62,866 |
| Sales abroad | 604 | - |
| Domestic sales | 1,154 | 23 |
| | **232,371** | **62,889** |

Foreign sales revenues by the customers' origin can be determined as follows:

| **Foreign sales** | 2015 | % |
|---|---|---|
| Luxembourg | 62,939 | 40.12 |
| Cayman islands | 83,220 | 53.05 |
| Singapore | 4,322 | 2.76 |
| Kuwait | 443 | 0.28 |
| Canada | 5,929 | 3.78 |
| Malta | 12 | 0.01 |
| | **156,865** | **100.00** |

## NOTE 6 – COST OF MATERIALS AND SERVICES

| | 2015 | 2014 |
|---|---|---|
| **Raw materials and supplies** | | |
| Raw materials and supplies used | 25,154 | 254 |
| Energy and water used | 340 | 157 |
| | ***25,494*** | ***411*** |
| **External services** | | |
| Subcontractors | 5,596 | - |
| Other production services | 24,115 | - |
| Intellectual services | 3,442 | 810 |
| Rentals | 3,948 | 278 |
| Royalties | 2,289 | - |
| Licences | 2,795 | - |
| Utility services | 117 | 71 |
| Transportation services | 472 | 161 |
| Maintenance services | 176 | 1,080 |
| Other | 162 | 936 |
| | ***43,112*** | ***3,336*** |
| | **68,606** | **3,747** |

*(all amounts expressed in thousands of HRK)*

**NOTE 7 – STAFF COSTS**

| | **2015** | **2014** |
|---|---|---|
| Net salaries | 44,477 | 21,975 |
| Taxes and contributions from and on salaries | 32,724 | 17,528 |
| | ***77,201*** | 39,503 |
| Other employee benefits | 5,339 | 2,797 |
| | **82,540** | **42,300** |
| Number of employees | **466** | **407** |

In 2015, pension fund contributions amounted to HRK 12,768 thousand (2014: HRK 6,371 thousand).

**NOTE 8 – OTHER OPERATING EXPENSES**

| | **2015** | **2014** |
|---|---|---|
| Services from related parties | 3,499 | 1,521 |
| Bank charges (commissions and fees) | 42,428 | 315 |
| Insurance | 113 | 470 |
| Entertainment expenses | 454 | 284 |
| Supervisory Board expenses | 315 | 332 |
| Concession expenses | 3,009 | 2,370 |
| Taxes non-dependable on results | 8,796 | - |
| Other | 2,137 | 296 |
| | **60,751** | **5,588** |

**NOTE 9 – OTHER GAINS – NET**

| | **2015** | **2014** |
|---|---|---|
| Net gain on assets sold | - | 113 |
| (Losses)/Gains on change in fair value of financial assets | (158) | 620 |
| Foreign exchange gains from operations | 10,323 | 42 |
| Foreign exchange losses from operations | (8,676) | (51) |
| | **1,489** | **724** |

*(all amounts expressed in thousands of HRK)*

**NOTE 10 – FINANCE COSTS AND INCOME**

| | 2015 | 2014 |
|---|---|---|
| **Finance costs** | | |
| Interest from borrowings | (11,354) | (7,673) |
| Foreign exchange losses | (9,265) | (2,194) |
| Other | (685) | (1,220) |
| | (21,304) | (11,087) |
| **Finance income** | | |
| Foreign exchange gains | 5,418 | 1,535 |
| Interest income | 8,301 | 2,823 |
| Other | 7 | 77 |
| | 13,726 | 4,435 |
| **Finance costs - net** | **(7,578)** | **(6,652)** |

**NOTE 11 – 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 |
|---|---|---|
| Profit before taxation | 16,555 | 5,455 |
| Income tax at 20% | 3,311 | 1,091 |
| Tax effects from: | | |
| Income not subject to tax | (11) | (17) |
| Expenses not deductible for tax purposes | 121 | 54 |
| **Income tax** | **3,421** | **1,128** |
| Effective tax rate | 20.7% | 20.7 |

To date, the Tax Authority did not perform a review of the Company's income tax return. In accordance with local regulations, the Tax Authority may at any time inspect the Company's 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 Company's Management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

*(all amounts expressed in thousands of HRK)*

## NOTE 12 – INTANGIBLE ASSETS

| | Concessions, patents, licences, software and other rights | Total |
|---|---|---|
| **Cost** | | |
| **At 1 January 2014** | **254** | **254** |
| Additions | 376 | **376** |
| **At 31 December 2014** | **630** | **630** |
| Additions | 17 | 17 |
| **At 31 December 2015** | **647** | **647** |
| **Accumulated amortisation** | | |
| **At 1 January 2014** | **254** | **254** |
| Amortisation charge for the year | 25 | **25** |
| **At 31 December 2014** | **279** | **279** |
| Amortisation charge for the year | 76 | 76 |
| **At 31 December 2015** | **355** | **355** |
| **Net book amount** | | |
| 31 December 2014 | 351 | 351 |
| **31 December 2015** | **292** | **292** |

*(all amounts expressed in thousands of HRK)*

**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT**

| | Tools, plant inventory and transport vehicles | Other | Total |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2014** | **1,544** | **38** | **1,582** |
| Additions | 11,540 | - | 11,540 |
| Disposals and write-offs | (873) | - | (873) |
| Donation | (8) | - | (8) |
| **At 31 December 2014** | **12,203** | **38** | **12,241** |
| Additions | 87 | - | 87 |
| **At 31 December 2015** | **12.290** | **38** | **12,328** |
| | | | |
| **Accumulated depreciation** | | | |
| **At 1 January 2014** | **1,473** | **-** | **1,473** |
| Depreciation charge for the year | 297 | - | 297 |
| Disposals and write-offs | (873) | - | (873) |
| Donation | (8) | - | (8) |
| **At 31 December 2014** | **889** | **-** | **889** |
| Depreciation charge for the year | 2,352 | - | 2,352 |
| **At 31 December 2015** | **3,241** | **-** | **3,241** |
| | | | |
| **Net book amount** | | | |
| 31 December 2014 | 11,314 | 38 | 11,352 |
| **31 December 2015** | **9,049** | **38** | **9,087** |

*(all amounts expressed in thousands of HRK)*

**NOTE 14a – 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** | | |
| Trade and other receivables (note 18) | 60,533 | 26,995 |
| Deposits and loans receivable (note 19) | 513,272 | 123,010 |
| Financial assets at fair value through profit or loss (note 16) | 638 | 792 |
| Cash and cash equivalents (note 20) | 97,269 | 455 |
| | **671,712** | **151,252** |

Trade and other receivables do not include receivables from employees, from the state 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 | 64,677 | 37,666 |
| Borrowings | 579,970 | 174,661 |
| | **644,647** | **212,327** |

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

**NOTE 14b – CREDIT QUALITY OF FINANCIAL ASSETS**

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

| | **2015** | **2014** |
|---|---|---|
| **Trade and other receivables** | | |
| Customers – related parties | 368.783 | 5,109 |
| Customers – unrelated parties | 766 | **-** |
| | **369.549** | **5,109** |

| | **2015** | **2014** |
|---|---|---|
| **Deposits and loans receivable** | | |
| Customers – unrelated parties | 187,428 | - |
| Customers – related parties | 325,844 | 123,010 |
| | **513,272** | **123,010** |

*(all amounts expressed in thousands of HRK)*

**NOTE 14b – CREDIT QUALITY OF FINANCIAL ASSETS (continued)**

| | 2015 | 2014 |
|---|---|---|
| **Cash at bank** | | |
| BBB+ | 4,558 | - |
| BBB- | 39,635 | 455 |
| BB | 22,702 | - |
| Without credit rating | 217,166 | - |
| | **284,061** | **455** |

**NOTE 15 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES**

| | 31/12/2015 | | 31/12/2014 | |
|---|---|---|---|---|
| | **Share** | **Amount** | **Share** | **Amount** |
| **Investments in subsidiaries:** | | | | |
| ULJANIK Brodogradilište d.d. | 100% | 571,702 | 100% | 571,702 |
| 3.Maj Brodogradilište d.d., Rijeka | 84.39% | 20,075 | 83.15% | 10,075 |
| ULJANIK Strojogradnja d.d., Pula | 100% | 142,636 | 100% | 142,636 |
| ULJANIK Proizvodnja opreme d.d., Pula | 100% | 93,000 | 100% | 93,000 |
| ULJANIK Poslovno informacijski sustavi d.o.o., Pula | 100% | 4,278 | 100% | 4,278 |
| ULJANIK Brodograđevni projekti d.o.o., Pula | 100% | 5,530 | 100% | 5,530 |
| ULJANIK Financije d.o.o., Pula | 100% | 800 | 100% | 800 |
| ULJANIK Standard d.o.o., Pula | 100% | 59,046 | 100% | 59,046 |
| 3. MAJ Motori i dizalice d.d., Rijeka /i/ | 100% | - | - | - |
| Impairment of investments | | (495,531) | | (495,531) |
| **Total** | | **401,536** | | **391,536** |
| **Investments in associates:** | | | | |
| Adriadiesel d.d. | 28.15% | 15,487 | 28.15% | 15,487 |
| Viktor Lenac d.d. | 34.67% | 54,112 | 34.67% | 54,112 |
| **Total** | | **69,599** | | **69,599** |

**NOTE 16 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

| | 31 December 2015 | 2014 |
|---|---|---|
| Listed shares (PBZ and Croatia osiguranje) | 638 | 792 |
| | **638** | **792** |

*(all amounts expressed in thousands of HRK)*

**NOTE 17 – INVENTORIES**

| | **2015** | **2014** |
|---|---|---|
| Raw materials | 48,207 | - |
| Work in progress | 4,756 | 291 |
| | **52,963** | **291** |

Cost of goods sold in 2015 amounted HRK 168,234 thousand (2014: HRK 0 thousand).

**NOTE 18 – TRADE AND OTHER RECEIVABLES**

| | **2015** | **2014** |
|---|---|---|
| Amounts due from customers for construction work /i/ | 443 | - |
| Domestic customers | 1,414 | 39 |
| Receivables from related parties (Note 25) | 59,141 | 26,978 |
| Receivables from related parties for advances received (Note 25) | 359,677 | - |
| Provision for impairment of trade receivables | (22) | (22) |
| Trade receivables – net | 420,210 | 26,995 |
| VAT receivable | 13,955 | 865 |
| Advances | 183,924 | 2,110 |
| Other receivables | 4,469 | 4,868 |
| Trade receivables – net | 202,348 | 7.843 |
| | **623,001** | **34,838** |

**/i/ Amounts due from customers for construction work**

| | **2015** | **2014** |
|---|---|---|
| **At beginning of year** | **-** | **-** |
| Contract costs incurred during the year plus recognised gains, minus recognised losses for the year | 156,261 | - |
| Invoiced amounts | (155,818) | - |
| **Amounts due from customers for construction work** | **443** | **-** |

Advances received for construction contracts amount to HRK 691 million (2014: HRK 0 million) are presented in note 24.

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

| | **2015** | **2014** |
|---|---|---|
| USD | 443 | - |
| | **443** | **-** |

*(all amounts expressed in thousands of HRK)*

**NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)**

**Domestic customers**

| | Not past due | Past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | < than 30 days | 30-60 days | 60-90 days | 90-120 days | > than 120 days | |
| 31 December 2015 | 766 | 182 | 75 | 142 | 220 | 7 | **1,392** |
| 31 December 2014 | - | - | - | - | | 17 | **17** |

**Receivables from related parties**

| | Not past due | Past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | < than 30 days | 30-60 days | 60-90 days | 90-120 days | > than 120 days | |
| 31 December 2015 | 368,783 | 4,371 | 2,722 | 4,768 | 3,500 | 34,674 | **418,818** |
| 31 December 2014 | 5,109 | 4,411 | 1,673 | 1,892 | 4,710 | 9,183 | **26,978** |

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

| | **2015** | **2014** |
|---|---|---|
| USD | 49,831 | - |
| EUR | 129,008 | - |
| HRK | 443,719 | 34,838 |
| | **622,558** | **34,838** |

**Movements in the allowance for bad debts are as follows:**

| | **2015** | **2014** |
|---|---|---|
| At 1 January | 22 | 22 |
| Write-off | - | - |
| At 31 December | **22** | **22** |

| | **2015** | **2014** |
|---|---|---|
| Neither past due nor impaired | 369,549 | 5,109 |
| Past due, but not impaired | 50,661 | 21,886 |
| Past due and impaired | 22 | 22 |
| | **420,232** | **27,017** |

*(all amounts expressed in thousands of HRK)*

## NOTE 19 – DEPOSITS AND LOANS RECEIVABLE

***Long-term Deposits and loans receivable***

| | **2015** | **2014** |
|---|---|---|
| Loans granted to related parties | 120,000 | - |
| | 120,000 | - |
| Deposits | 186,792 | - |
| | 186,792 | - |
| **Total long-term Deposits and loans receivable** | **306,792** | **-** |

***Short-term Deposits and loans receivable***

| | **2015** | **2014** |
|---|---|---|
| Loans granted to unrelated parties | 636 | - |
| Loans granted to related parties | 205,844 | 123,010 |
| **Total short-term Deposits and loans receivable** | **206,480** | **123,010** |

Related parties were granted loans in the amount of HRK 205,844 thousand (2014: HRK 123,010 thousand) at an interest rate prescribed for tax purposes on loans between related parties. from that date until the balance sheet date. Final maturity is in 2017 and the loans is secured by a blank bill of exchange.

Long-term loans is granted to the subsidiary 3. MAJ Brodogradilište d.d., while the short-term loans are granted to the following subsidiaries:

| | **2015** | **2014** |
|---|---|---|
| ULJANIK Brodogradilište d.d. | 205,134 | 115,150 |
| ULJANIK Strojogradnja d.d. | - | 7,150 |
| ULJANIK Proizvodnja opreme d.d. | 710 | 710 |
| | **205,844** | **123,010** |

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

| | **2015** | **2014** |
|---|---|---|
| USD | 178,201 | - |
| EUR | 8,591 | - |
| HRK | 326,480 | 123,010 |
| | **513,272** | **123,010** |

*(all amounts expressed in thousands of HRK)*

**NOTE 20 – CASH AND CASH EQUIVALENTS**

| | 31 December 2015 | 2014 |
|---|---|---|
| Giro account and cash in hand | 850 | 446 |
| Foreign currency account | 96,419 | 9 |
| | **97,269** | **455** |

The Company has giro accounts with Privredna banka d.d., Zagreb, Zagrebačka banka d.d., Zagreb, Erste & Steiermärkische Bank d.d., Rijeka, OTP banka Hrvatska d.d., Zadar, Istarska kreditna banka Umag d.d., Hrvatska poštanska banka d.d., Zagreb, Hypo-Alpe-Adria bank d.d., Zagreb and Sberbank d.d., Zagreb.

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

| | 2015 | 2014 |
|---|---|---|
| HRK | 850 | 446 |
| EUR | 43,541 | 1 |
| USD | 52,878 | 6 |
| NOK | - | 2 |
| | **97,269** | **455** |

**NOTE 21 – EQUITY**

The authorised and registered share capital 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 in the amount of HRK 216,566 thousand (2014: HRK 15,191 thousand) formed during the share capital decrease as described above (the reserves are un-distributable).

In previous periods, the Company purchased treasury shares and as of 31 December 2015 it owns 104,375 treasury shares or 3.1099% of the share capital.

Based on the decision of the General Assembly of 28 August 2015, the Company's profit earned in 2014 in the amount of HRK 4,326 thousand as well as the amount of HRK 6,011 thousand of retained earnings was allocated to other reserves.

*(all amounts expressed in thousands of HRK)*

**NOTE 21 – 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 |
| Uljanik d.d. (1/1) | 3.11 | 3.11 |
| Adris grupa d.d. (1/1) | 2.47 | 2.47 |
| CERP (0/1) / State Agency for Deposit Insurance and Bank Resolution (1/1) | 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 22 – BORROWINGS**

| | 2015 | 2014 |
|---|---|---|
| **Long-term** | | |
| Due to banks | | |
| Bank borrowings – long-term | 572,220 | 114,103 |
| Liabilities for finance lease and issued bills of exchange | | |
| Finance lease liabilities | 5,750 | 7,019 |
| Liabilities for issued bills of exchange | - | 20,973 |
| **Total long-term borrowings** | **577,970** | **142,095** |
| Current portion of long-term borrowings | (230,034) | (136,428) |
| **Non-current portion** | **347,936** | **5,667** |
| **Short-term** | | |
| Bank borrowings – short-term | 2,000 | 32,566 |
| Current portion of long-term borrowings | 230,034 | 136,428 |
| **Total short-term borrowings and current portion of long-term borrowings** | **232,034** | **168,994** |
| **TOTAL BORROWINGS** | **579,970** | **174,661** |

*(all amounts expressed in thousands of HRK)*

**NOTE 22 – BORROWINGS (continued)**

The repayment of borrowings form banks is primarily secured by debentures and state guarantee amounting to 80% of loan amount. Bank borrowings are contracted at average interest rate of 5.35%, and include significant number of covenants.

Finance lease liabilities are contracted bearing the average interest rate of 6.31%. The stated liabilities are primarily secured by debentures.

Effective interest rate approximates contracted interest rates, interest re-pricing dates are not determined.

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

| | **2015** | **2014** |
|---|---|---|
| Up to 1 year | 232,034 | 168,994 |
| 1 - 2 years | 345,018 | 1,346 |
| 2 - 5 years | 2,918 | 4,321 |
| | **579,970** | **174,661** |

The carrying amounts of short-term borrowings approximate their fair value. The carrying amounts of borrowings are denominated in the following currencies:

| | **2015** | **2014** |
|---|---|---|
| EUR | 577,970 | 174,661 |
| HRK | 2,000 | - |
| | **579,970** | **174,661** |

*(all amounts expressed in thousands of HRK)*

**NOTE 23 – TRADE AND OTHER PAYABLES**

| | **2015** | **2014** |
|---|---:|---:|
| Domestic trade payables | 12,861 | 1,451 |
| Foreign trade payables | 4,599 | 1,667 |
| Liabilities to related parties (Note 25) | 46,224 | 33,897 |
| Liabilities to related parties for advances received | 55,713 | 78,838 |
| Interest and fees payable | 818 | 651 |
| | 120,215 | 116,504 |
| Due to employees and members of the Supervisory Board | 4,446 | 3,676 |
| Taxes and contributions payable | 12,788 | 9,756 |
| Other liabilities | 510 | 28 |
| Deferred revenue | 16,327 | - |
| | 34,071 | 13,460 |
| | **154,286** | **129,964** |

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

| | **31 December 2015** | **2014** |
|---|---:|---:|
| HRK | 115,616 | 114,837 |
| EUR | 4,110 | 1,666 |
| USD | 819 | - |
| GBP | 4 | 1 |
| | **120,215** | **116,504** |

**NOTE 24 – ADVANCES RECEIVED**

| | **2015** | **2014** |
|---|---:|---:|
| At 1 January | - | - |
| Advances received for new construction work during the year | 846,324 | - |
| Decrease in advances for performed construction contracts at year end | (155,818) | - |
| | **690,506** | **-** |

*(all amounts expressed in thousands of HRK)*

**NOTE 24 – ADVANCES RECEIVED (notes)**

| | 2015 | 2014 |
|---|---|---|
| USD | 194,946 | - |
| EUR | 495,560 | - |
| | **690,506** | **-** |

**NOTE 25 – RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party, is under common control or exercises significant influence over the other party in making financial or operational decisions.
The Company is the parent company in the Uljanik Group and the related parties comprise subsidiaries and associates in the Uljanik Group. The Company's principal activity includes performing related party activities, including the purchase and sale of goods and services and credit transactions. The nature of services with related parties is based on usual commercial terms. In addition to companies within the Uljanik Group, related parties of the Company are the Company's Management and Supervisory Board.

During the year, related party transactions included in the Company's statement of financial position and statement of comprehensive income are as follows:

| | Note | 2015 | 2014 |
|---|---|---|---|
| **(i) Subsidiaries** | | | |
| **Operating income** | | | |
| Sales | 5 | 74,352 | 62,866 |
| | | **74,352** | **62,866** |
| **Operating expenses** | | | |
| Raw materials and supplies | 6 | 11,982 | 14 |
| External services costs | 6, 8 | 612 | 1,710 |
| | | **12,594** | **1,724** |
| **Finance income** | | | |
| Interest income | 10 | 8,273 | 2,822 |
| | | **8,273** | **2,822** |
| **Finance costs** | | | |
| Interest expense | 10 | 1,316 | 14 |
| | | **1,316** | **14** |
| **Loans, trade and other receivables** | | | |
| Loans given | 15 | 325,844 | 123,010 |
| Trade receivables | 18 | 59,141 | 26,978 |
| Other receivables | 18 | 359,677 | - |
| | | **744,662** | **149,988** |

*(all amounts expressed in thousands of HRK)*

**NOTE 25 – RELATED PARTY TRANSACTIONS (continued)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Liabilities** | | | |
| Trade payables | 23 | 9,560 | 897 |
| Advances received | 23 | 55,713 | 78,838 |
| Other liabilities | 23 | 36,664 | 33,000 |
| | | **101,937** | **112,735** |
| **(ii) Associates** | | | |
| Receivables from advances given | | | |
| Adriadiesel d.d., Karlovac | | 3,506 | 2,350 |
| | | **3,506** | **2,350** |

**Key management compensation**

During 2015, total gross salaries paid to the Company's Management Board as well as Supervisory Board compensation amounted to HRK 10,038 thousand (2014: HRK 9,001 thousand). Key personnel comprises 19 Company’s employees (2014: 18 employees).

**NOTE 26 – CONTINGENCIES AND COMMITMENTS**

**Legal disputes.** Based on existing knowledge, the Company does not have any legal disputes and no claims have been initiated against the Company.

**Commitments.** As of 2014, in the ordinary course of business, the Company enters into contracts on the construction of ships and special facilities under which costs are necessarily incurred. As at 31 December 2015, the Company had concluded contracts under which works have not yet started in the total value of HRK 6.6 billion (2014: HRK 3 billion).

**NOTE 27 – EVENTS AFTER THE REPORTING PERIOD**

As at 14 March 2016, the 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.

**NOTE 28 – EARNINGS PER SHARE**

**Basic earnings per share**

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

**NOTE 28 – EARNINGS PER SHARE (continued)**

| | **2015** | **2014** |
|---|---|---|
| Profit for the year *(in thousands of HRK)* | 13,134 | 4,327 |
| Weighted average number of shares (basic) | 3,251,875 | 3,251,875 |
| **Earnings per share (basic)** *(in HRK)* | **4.04** | **1.33** |

**Diluted earnings per share**

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

**NOTE 29 – APPROVAL OF THE FINANCIAL STATEMENTS**

The 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*